The early stage of a synchronised global slowdown

Volatility is here to stay
And should be faced with more selectivity

The US and China are in a truce
A gentlemen's agreement is the solution for the trade war

***Quantitative easing* is over**, but economic slowdown deeply limits monetary normalisation path

***Soft Brexit*, *Hard Brexit* or *No Brexit*: All options on the table**
When uncertainty fades, we expect a significant economic rebound

Positive developments in China
Last round of fiscal and monetary stimulus should drive-up consumption and investment.

Selectiveness in EM
Asia: Valuation and robust macro fundamentals enhance relative value
Brazil: Market pricing is very optimistic

Government Bonds

- US Treasuries more attractive
- Opportunity in Italian debt

Corporate Bonds

- Avoid exposure to High Yield
- US IG corporate Bonds valuation is rich and unappealing on a risk basis over Treasuries

Equities

- Overweight Autos, Utilities and Banking in Europe
- Asia region is set to benefit from the Chinese recovery
- Volatility levels should remain relatively high in all geographies

Commodities

- Market with excess supply and worldwide economic deceleration limit crude upside
- As USD and interest rates retreat, gold should recover its safe-haven profile

Currencies

- The end of ECB's QE coupled with economic and monetary slowdown in the US should allow moderate room for EUR appreciation
- Brexit outcomes should dictate extreme GBP movements in either direction

Analysts:
João Lampreia
Diana Oliveira, CFA
João Sàágua
João Calado, CFA

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1. Asset Allocation Map

Asset Classes	Index	Defensive	Moderate	Dynamic	Change*	Macro View
Equities		**30%**	**44%**	**59%**		
Europe	MSCI Europe Value	8%	9%	10%	↑	Overweight
Peripheral	FTSE MIB	0%	0%	0%		Underweight
Utilities	STOXX Europe 600 Utilities	3%	4%	5%	↑	Slight Overweight
Banks	STOXX Europe 600 Banks	3%	4%	5%	↑	Slight Overweight
Autos	STOXX Europe 600 Auto & Parts	3%	4%	5%	↑	Overweight
Media	STOXX Europe 600 Media	0%	0%	0%		Underweight
UK (Small Cap)	FTSE Small Capitalisation	0%	0%	0%	↑	Neutral
USA (quality)	MSCI USA Quality	8%	10%	14%	↑	Slight Overweight
Japan	Nikkei 225 JPY	0%	3%	6%		Overweight
Emerging Markets Asia	MSCI Asia Ex-Japan Local Curr	5%	10%	14%	↑	Slight Overweight
Government Bonds		**23%**	**19%**	**11%**		
Government Core Europe	Germany 10-Year	0%	0%	0%		Underweight
Government Peripheral Europe	Italy 10-Year	6%	5%	4%	↓	Slight Overweight
Government US	US 10-Year	0%	0%	0%		Neutral
Government UK	UK 10-Year	2%	3%	3%	↑	Neutral
Government Japan	Japan 10-Year	0%	0%	0%		Underweight
Emerging Markets (Argentina)	Argentina Generic 10-Year EUR	0%	2%	2%	↓	Neutral
Emerging Markets (Mexico)	Mexico Generic 10-Year USD	0%	0%	0%	↓	Underweight
Low duration	BBG Barclays Global Agg. Low Duration	10%	4%	2%	↓	Slight Overweight
Inflation-linked	US Govt 10Y Inflation Linked Bonds	5%	5%	0%		Overweight
Corporate Bonds		**15%**	**13%**	**10%**		
Investment Grade - Europe	BBG Barclays Pan European Corporate	0%	0%	0%		Slight Underweight
Investment Grade - US	BBG Barclays US Corporate	0%	0%	0%	↓	Underweight
Investment Grade - US Floaters	BBG Barclays Glb Agg US Corp FLoaters	5%	3%	0%	↓	Neutral
High Yield - Europe	BBG Barclays Pan-European HY	0%	0%	0%		Underweight
High Yield - US	BBG Barclays US Corporate HY	0%	0%	0%		Underweight
Convertibles	Exane European Convertible Bonds	10%	10%	10%		Overweight
Cash		**12%**	**9%**	**7%**		
EUR	EURO	7%	2%	2%	↑	Slight Overweight
USD	US DOLLAR/EURO	2%	2%	2%		Neutral
GBP	BRITISH POUND/EURO	0%	2%	3%		Neutral
JPY	JAPANESE YEN/EURO	3%	3%	0%	↓	Slight Underweight
Commodities		**20%**	**15%**	**13%**		
Gold	UBS BBG Gold Euro Hedged	14%	7%	3%	↓	Neutral
Commodities	Bloomberg Commodity	3%	3%	4%		Neutral
WTI Crude	WTI Cushing Crude Oil Spot Price	3%	5%	6%	↑	Slight Overweight
Total		**100%**	**100%**	**100%**		

Currency Exposure	Defensive	Moderate	Dynamic
EUR	56%	48%	46%
USD	33%	31%	27%
GBP	3%	5%	6%
JPY	3%	6%	6%
Emerging Markets - Local Currency	5%	10%	14%

* Change relative to our previous quarterly asset allocation map.

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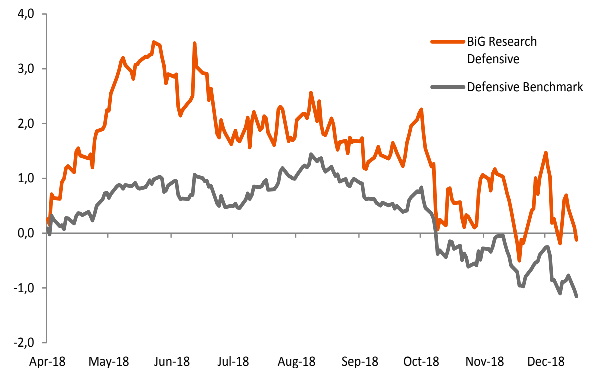
1.2. Multi-Asset Performance

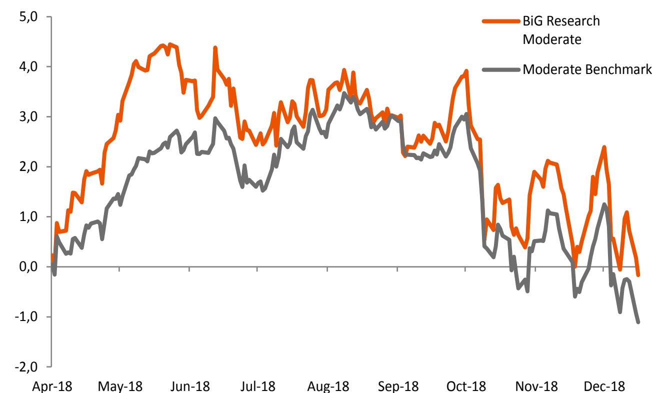
	4th Quarter 2018		Since Inception (02-04-2018)	
	BiG Research	Benchmark	BiG Research	Benchmark
Defensive	-2.33%	-1.97%	-0.12%	-1.15%
Moderate	-3.93%	-4.04%	-0.17%	-1.11%
Dynamic	-6.18%	-5.13%	-1.27%	-0.18%

Source: Bloomberg, BiG Research
Performance until 18-12-2018



Source: Bloomberg, BiG Research; Defensive Benchmark: Fund Portfolio with equal weights. CaixagestSelecção Global Defensivo, Santander Select Defensivo, JPMorgan Global Income Conservative Fund, BlackRock Global Multi-Asset Income Fund and Fidelity Global Multi Asset Tactical Defensive.

- The last quarter of the year was darker for financial markets, with all portfolios negative in the period, as well as their benchmarks (which include a management fee unlike BiG Research portfolios). The dynamic portfolio had the worst performance (-6.18%), while the defensive portfolio recorded the lowest drop (-2.33%). Both portfolios attained performances that are more negative than the respective benchmark. The moderate portfolio, with a loss of 3.93% in the quarter, slightly outperformed its respective benchmark (-4.04%).

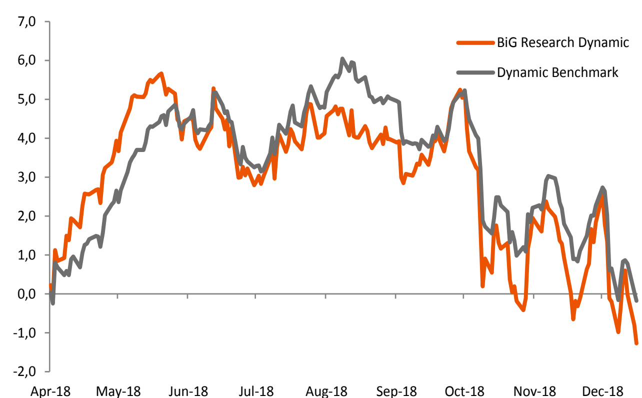


Source: Bloomberg, BiG Research; Moderate Benchmark: Fund Portfolio with equal weights. CaixagestSelecção Global Moderado, Santander Select Moderado, JPMorgan Global Balanced Fund, BlackRock Flexible Multi-Asset Fund and Fidelity Global Multi Asset Tactical Moderate.

Top 4th Quarter Returns	
Italy 10 Year	3.94%
Gold Euro Hedged	3.52%
JPY/EUR	2.88%
Bottom 4th Quarter Returns	
STXE 600 Industrials	-15.43%
MSCI USA Momentum	-14.06%
MSCI Europe Value	-10.16%

Source: Bloomberg, BiG Research
Performance from 03-10-2018 to 18-12-2018

- The resolution of the budget negotiations between Italy and the E.U. led the Italian sovereign bonds to accumulate gains of around 4% in the quarter. The higher volatility of the stock market benefited our holding of gold euro hedged, also contributing positively to the performance of portfolios.



Source: Bloomberg, BiG Research; Dynamic Benchmark: Fund Portfolio with equal weights. CaixagestSelecção Global Dinâmico, Santander Select Dinâmico, BlackRock Global Allocation Fund and Fidelity Global Multi Asset Income.

- However the higher market volatility penalised our more cyclical positions, with the European industrial sector (-15.43%) and the momentum index in the US (-14%) reporting the higher losses in the quarter.

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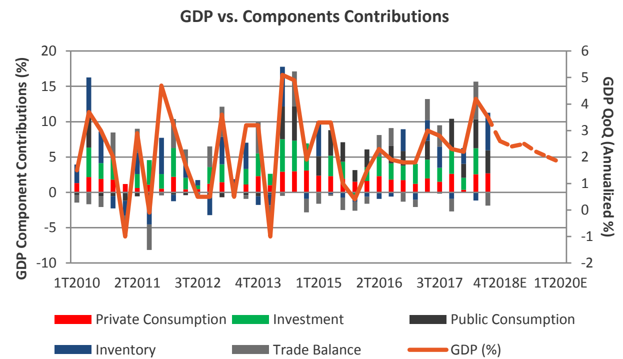
2. Global Macro Picture – Summary

- **United States of America**

- The softening of the Trump fiscal reform effects in 2019 should lead to a moderation of the economic growth rate in comparison with the high paces of 2018.

- Most leading indicators do not currently show the typical deceleration pattern that anticipates recessions. The risk of recession is, in our view, skewed to mid-2020, with the stock market pricing the recession at the end of 2019.

- One of the main risks for the US economy in 2019 is that the Fed increases rates too much, too fast, accelerating the entry into recession.



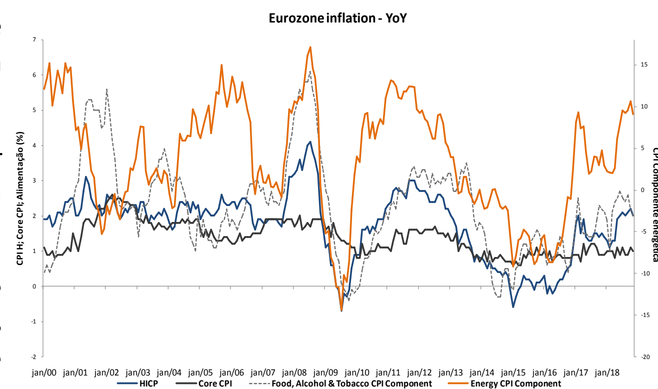
Source: Thomson Reuters Eikon; BiG Research;

- **Europe**

- The drop in exports, the anemic credit concession and the significant slowdown of economic activity represent the main factors responsible for the deceleration witnessed in 2018.

- Under such economic circumstances, internal demand – supported by a consistent wage growth and lower energy inflation – should remain a structural pillar of the European economy.

- Despite the end of quantitative easing, truly contained core inflation provides ECB with a very limited room to act as far as monetary policy normalisation is concerned. We forecast only one rate hike (depo and perhaps also refi) in the last quarter of 2019.



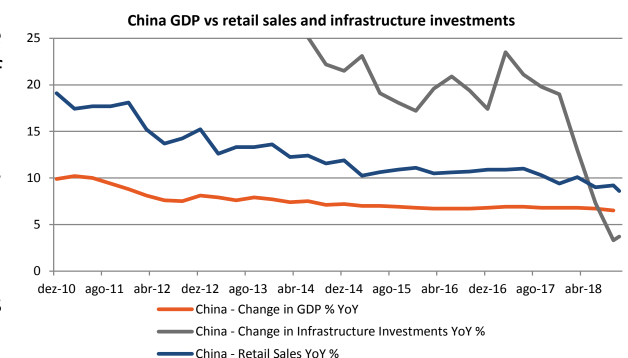
Source: Eurostat; Bloomberg; BiG Research;

- **China**

- Both consumption and investment should recover as the government implements fiscal stimulus and the People's Bank of China monetary policy becomes looser.

- The risk of a debt bubble is still present. In the short term, however, we do not expect it to worsen as GDP growth should remain stable around current levels.

- The major risk China now faces is an increase in trade tensions with the US.



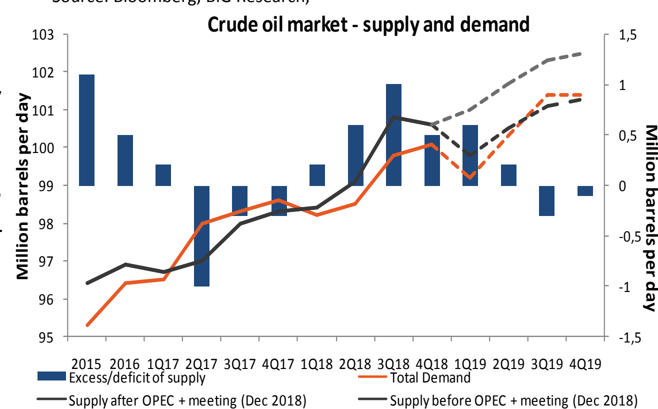
Source: Bloomberg; BiG Research;

- **Crude oil – one of the main inflation engines**

- The existing supply glut in the market and the prospect of a generalised economic slowdown worldwide, in 2019, substantially caps the upside potential of crude oil.

- The decision to a new output cut made by OPEC+ – whose size positively surprised the market (1.2 million barrels per day) – should only provide a fleeting boost, leveraged by the technical oversold conditions at which crude currently trades

- At a global level, inflation, widely anchored by energy costs, should keep restraining inflation.



Source: International Energy Agency; BiG Research;

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3. Key Calls

1. US - Rotation from Momentum to Quality

Volatility has returned to the markets in 2018 due to the impact of the interest rate hikes, increasingly tightening of monetary policy by the Federal Reserve and trade wars. This trend should continue in 2019, with the market increasingly incorporating the expectations of a recession – our view is that the stock market may price the recession at the end of 2019. Consequently the positioning in the market should be more selective, overweighting defensive and fairly valued sectors.

- Overweight quality stocks in the US

2. Italy – Mitigation of political risks enhances value of Italian debt

We do not expect a rise in Italian yields going forward as the major uncertainty regarding the rejection by EU of the Italian budget has been confirmed. The approval of the budget in the Italian parliament will allow the coalition to try to prove that their reforms may stimulate consumption and growth in Italy.

- Overweight 10y sovereign Italian debt

3. **Japan – Counter cyclical Expansionary monetary policy (QQE) should continue to pressure JPY**

The Japanese economy should decelerate in 2019 to the lower bound of potential GDP growth interval (between 0.7% and 1%), mainly reflecting a gradual drop in consumption and investment. With inflation levels deeply anchored at 0.9% - quite distant to the BoJ target of 2%, the Quantitative and Qualitative Monetary Easing program (Asset purchases capped at JPY 80 tri/year and active yield curve management) should prevail in the medium term, which might inflict further pressure over the Japanese currency. The negative correlation between the JPY and the Nikkei 225, coupled with attractive fundamentals and increased corporate profitability, should translate into an outperformance of Japanese Equities among the developed world equity indexes, especially against the US indexes.

- Underweight JPY relative to the Euro;

4. Asian Market is best in class among smoothening China and Emerging market risks

The Emerging Markets were severely punished throughout 2018, as a reaction to higher US interest rates and the strengthening US dollar, which restricted global liquidity and led to capital outflows from the emerging world. Although the steep depreciation of most of the emerging currencies is a cause of concern, most of the emerging countries reveal a fundamental and financial robust position. The aggregate inflation and current account balance in the Emerging world has shown a positive trend in recent years. Although the hardest hit economies, such as Argentina and Turkey, should still bear the burden of managing their structural imbalances, we think of this as mostly idiosyncratic risk, thus containing the exacerbation of spill over global drama. Considering the sustainability of China economic momentum and the attractiveness of many Asian countries, we see Equities in the Emerging Asian Market as the best in class opportunity on valuation and macroeconomic fundamentals

- Overweight Emerging Market Asian Equities

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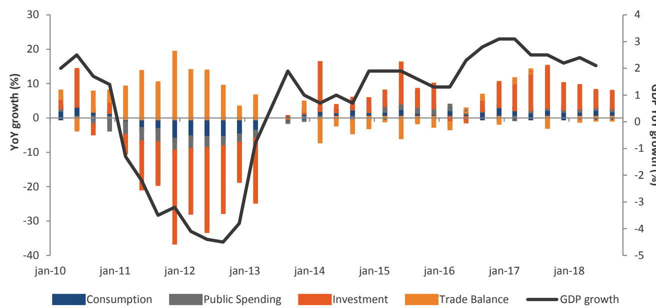
4. In-depth Analysis

A. Portugal Macro Assessment – Framework and forward view

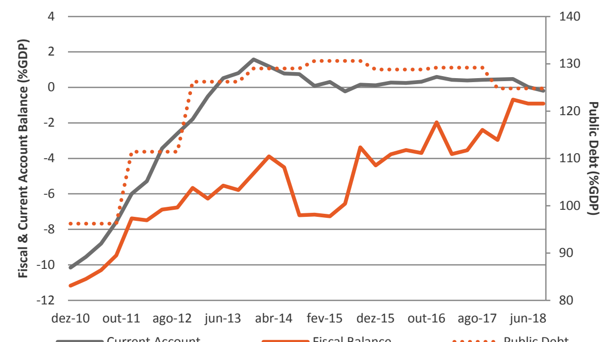
The end of the Troika adjustment period marked a significant recovery of the macro aggregates of the Portuguese Economy, noticeably on the positive evolution of the fiscal policy and the remarkable development of the trade balance, resulting from a very significant adjustment from the private sector and a gradual *shift* of the country growth paradigm – less reliant on domestic consumption to a more export driven model. Exports increased from 29% to 46% of GDP since 2010, while consumption retracted from 66% to 57% in the same timeframe. The higher flexibility of the corporate sector and the Tourism Boom were the main drivers of exports growth.

Graph 1. Development of GDP Aggregates



Source: BiG Research; Bloomberg

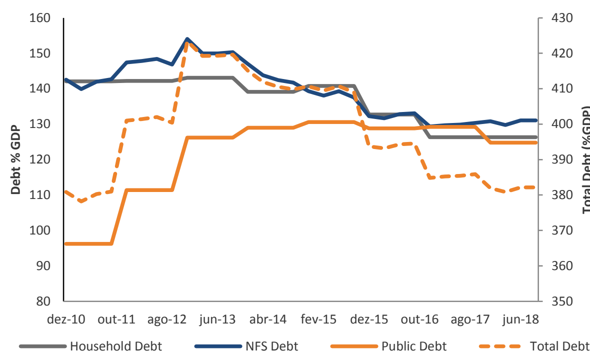
Graph 2. Fiscal Budget & Current Account



Source: BiG Research; Bloomberg

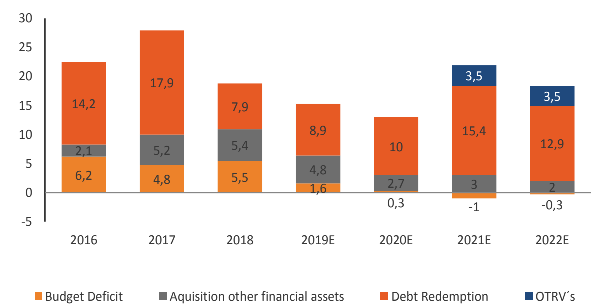
The worldwide success recognition of the Special Fiscal Regimes – Non-Usual Residents (NUR) and Golden Visas – translated into a very positive effect, both direct and indirect, of Foreign Direct Investment that has already amounted to more than EUR 15 mil mn (8% of GDP) since the inception of these two fiscal regimes, despite the clear overheating of the real estate market. The relative success on the deleveraging process of the country and the restructuring of the financial sector make the country more resilient to external financial shocks or to the much expected rise of financing costs.

Graph 3. Deleveraging of the Portuguese Economy



Source: BiG Research; Bloomberg

Graph 4. State refinancing needs



Source: BiG Research; IGCP

The state refinancing needs in 2019 are relatively moderate (~EUR 15 mil mn), while the average cost of debt has retracted to historical low levels (2,9%). In 2019, we consider that the Portuguese economy growth should decelerate to around 1,8% (close to potential GDP), after the country witnessed a very significant positive output gap in the last two years. The less favorable external environment, the stagnation of domestic consumption and investment are the main factors that should contribute to a deceleration of the Portuguese economy in the upcoming year.

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B. Brexit – a lose-lose situation full of uncertainty until the very last day

In June 2016, the British population – presumably quite poorly informed – tightly voted in favour of exiting the European Union (51.9% vs. 48.1%). The "Leave" campaign was based on predominantly fallacious arguments and with a rather demagogic and populist nature, namely that the strong control over European immigration would return jobs to the British; that the end of the European budget contributions would imply larger public spending with citizens, particularly in the national health system; and that abandoning the European Union would not force the United Kingdom out of the single market; among others.

Almost two and a half years on from the referendum, the UK finds itself plunged into the biggest political crisis of the century, at times of peace and also ranks as a developed country that recorded one of the lowest average growth rates over the last two years (+1.6% YoY vs. +2.4% YoY of the OECD's bloc of developed countries). After several changes in the government composition; a no-confidence vote on Theresa May prompted by her own Conservative Party; and a very strong rebuke, from every UK party, of the insufficient Brexit package agreed by May and the EU after almost 20 months of negotiations; May decided to postpone the "Meaningful Vote" (initially due on December 11th) to the third week of January – a period of less than three months until the Brexit effectively takes place. We do not anticipate that May will be granted the materially relevant concessions or reassurances from the EU that would secure the parliamentary approval of the Brexit deal, supported by her minority government – the only government ever held in contempt of parliament in the whole UK history. Thus, there will, almost certainly, be a binary alternative: Hard Brexit (abrupt cut with the EU) or a second referendum, the so-called People's Vote. The first option, to which we attribute a probability of 15%, appears as a highly likely catastrophic outcome for the UK, in all dimensions: social, political, economic, and financial. A second referendum, which we price at 59% probability, should, in our opinion, yield a different result from the first, given that the voting population, with its youngest base now reinforced, currently enjoys public access to true information on the real negative impact of abandoning the EU. Nevertheless, until this new plebiscite – which should take, at least, 24 weeks to come to the actual vote – the high levels of uncertainty should prevail, maintaining pressure on sentiment, risk assets and the pound.

From an economic standpoint, a Soft Brexit – allowing for a transition period, in which most of EU's features are kept in place – or, above all, staying in the EU should unleash a substantial growth potential. The economy should recover on the back of a triple engine: consumption (supported by the appreciation of sterling and the consistent rise in wages, both of them driving purchasing power up), business investment (the macro aggregate that suffered the most due to the heavy uncertainty imposed by Brexit) and public expenditure (which should benefit from the end of austerity and the fairly expansionary budget measures already set for 2019). Key industries that add the most value to the UK GDP, such as tourism, aviation and transportation; commerce; production and construction; real estate activities; and the financial sector should also be invigorated, following last years' strong slump. Monetary policy should be gradually normalised, providing another pillar for the pound recovery. (In the context of a Hard Brexit, we also anticipate higher interest rates, although in a more erratic path: initial hikes, perhaps steeper than usual, to try to hold up the pound and then cuts in order to stimulate the economy.) British Sovereign debt, which has exhibited a clear safe-haven profile, should see a climb in yields, converging to its US peers and narrowing the respective spread, currently at historical highs. We also expect a recovery in the UK stock market, especially for companies mostly focused on the domestic economy (typically, components of the FTSE 250), the financial sector, REITs focused on UK real estate, airline companies and other tourism-linked firms.

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C. Best Equity sectors in Europe

Below we present a table with several fundamental metrics of the sectors of the European stock indexStoxx 600.In blue are the best values while in red are the worse.

Name	P/E trailing 12m	P/E 2019E	EBITDA Margin	Profit margin	Div. Yield	D/E	Net Debt / EBITDA	FCF yield	EPS growth estimate	Change in EPS growth estimates 4 weeks	YTD	1 Yr. Price Δ
STXE 600 Oil&Gas	13,7	11,8	15,6%	5,4%	4,9%	0,5	1,0	5,4	9,6	-21,9	1,4%	3,3%
STXE 600 HealthCare	20,7	16,7	26,0%	15,1%	2,9%	0,7	1,9	5,0	6,1	-4,3	0,1%	-0,6%
STXE 600 Media	15,6	15,9	20,9%	12,0%	3,5%	0,7	1,8	7,3	-29,7	64,2	-0,4%	1,3%
STXE 600 Utilities	16,3	14,0	15,9%	4,4%	5,2%	1,2	3,1	4,7	1,6	-7,3	-2,4%	-4,5%
STXE 600 Retail	24,7	17,6	6,2%	2,4%	2,9%	0,5	1,0	5,3	-16,7	7,6	-3,3%	-0,7%
STXE 600 Food&Bevrg	24,4	21,0	21,4%	10,5%	2,8%	0,9	2,7	4,3	8,8	9,3	-4,2%	-4,4%
STXE 600 Insurance	12,0	10,6	n.a.	5,4%	5,0%	0,6	n.a.	-1,4	-0,8	-18,7	-5,6%	-5,1%
STXE 600 RealEstate	8,5	16,6	137,2%	101,4%	4,3%	0,8	5,0	-2,4	n.a.	0,0	-7,8%	-3,6%
STXE 600 Technology	31,4	19,9	17,0%	7,9%	1,7%	0,4	0,6	3,2	14,0	0,7	-8,5%	-12,4%
STXE 600 FinanServc	13,2	15,8	21,7%	9,9%	4,1%	0,8	-0,7	9,6	7,6	-12,5	-9,6%	-8,1%
STXE 600 InduGd&Ser	18,5	16,1	11,5%	6,5%	2,9%	0,8	1,4	4,3	10,7	7,4	-11,0%	-10,5%
STXE 600 Trav&Leisr	17,6	13,4	12,9%	6,7%	2,8%	0,8	1,3	5,3	7,3	-9,6	-11,0%	-6,2%
STXE 600 Per&HouGds	17,1	16,3	22,2%	29,0%	3,4%	0,7	1,8	5,4	7,2	25,2	-11,9%	-12,7%
STXE 600 Telcomm	23,7	14,2	29,3%	2,3%	5,7%	1,2	2,6	9,0	19,9	6,1	-12,1%	-11,1%
STXE 600 Chemicals	15,2	16,2	15,3%	8,0%	2,7%	0,6	1,7	4,3	6,8	-3,0	-12,3%	-13,2%
STXE 600 BasicResou	10,1	9,2	16,6%	7,2%	4,9%	0,4	0,9	7,8	-17,3	-921,8	-13,9%	-8,8%
STXE 600 Constr&Mtr	21,6	15,0	9,9%	4,0%	3,2%	0,9	3,1	4,8	7,1	-4,4	-14,4%	-15,0%
STXE 600 Auto&Parts	6,5	6,7	12,6%	5,8%	4,1%	1,3	0,0	-1,0	1,4	-93,4	-21,6%	-20,9%
STXE 600 Banks	12,3	9,4	n.a.	15,7%	5,2%	4,4	n.a.	20,7	5,6	-7,5	-22,6%	-21,1%

Source: Bloomberg; BiG Research

Following the analysis of the valuation metrics we can conclude that:

- The utilities sector, with a defensive profile, has cheap multiples (P/E 19E 14x) and an attractive dividend yield of 5.2%.
- The recent fall in auto's and bank's sector (around 22% YTD) may present an attractive buy opportunity at cheap fundamentals: P/E 19E of 6.7x in autos and 5.2% dividend yield in banks.

Analysts:
João Lampreia
Diana Oliveira, CFA
João Sàágua
João Calado, CFA

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    - Accumulate, expected absolute return between +5% and +15%;
    - Keep/Neutral, expected absolute return between -5% and +5%;
    - Reduce, expected absolute return between -5% and -15%;
    - Sell, expected absolute return below -15%;

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PSI20 Notes in the last 12 months as of 30th of September of 2018:

	Number of Recomendations	%
Accumulate/Buy	3	75.0%
Keep/Neutral	0	0.0%
Reduce/Sell	1	25.0%
Total	4	100.0%

Trading Ideas in the last 12 months as of 30th of September of 2018:

	Number of Recomendations	%
Profit Taking	11	61.1%
Stop Loss	6	33.3%
In Place	1	5.6%
Total	18	100.0%

Pair Trades in the last 12 months as of 30th of September of 2018:

	Number of Recomendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

Source: BiG Research

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