Global growth with risks in the horizon

Solid Macroeconomic data in US

Rise in inflation, which is already within Fed's objective

Trade wars risk rises

Harsher rethoric from US, China and Europe

Signs of slowdown in Europe

ECB´s base scenario is a slowdown in growth until 2020

Hawkish Fed in the last meeting

Selectiveness in EM

Argentina: opportunity after recent instability in Argentinean Peso

Turkey: Political and economic risks still present

Government Bonds

- Inflation linked bonds attractive in US
- Opportunity in Italian debt

Corporate Bonds

- Avoid exposure to High Yield
- US corporates attractive as Treasuries reach 3% yield

Equities

- Overweight Industrials, HealthCare and Consumption in Europe
- Rotation from small caps to momentum in US
- European periphery relatively less attractive

Commodities

- Oil price is capped
- Gold failed to protect portfolios in trade wars risk off sentiment

Currencies

- EURUSD should stay around 1.15 levels
- USDGBP to end the quarter between 1.28 and 1.33

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1. Multi Asset Allocation Views

Asset Classes	Index	Defensive	Moderate	Dynamic	Change*	Macro View
Equities		**29%**	**41%**	**58%**		
Europe	MSCI Europe Value	5%	5%	7%		Slight Overweight
Peripheral	FTSE MIB	0%	0%	0%	↓	Underweight
HealthCare	STOXX Europe 600 Health Care	3%	5%	7%		Overweight
Consumption	STOXX Europe 600 Food & Beverages	3%	5%	7%	↑	Overweight
Technology	STOXX Europe 600 Technology	0%	0%	0%		Underweight
Media	STOXX Europe 600 Media	0%	0%	0%	↓	Underweight
UK (Small Cap)	FTSE Small Capitalisation	5%	6%	8%		Slight Overweight
USA (momentum)	MSCI USA Momentum USD TR	8%	10%	14%	↑	Slight Overweight
Japan	Nikkei 225 JPY	3%	5%	7%		Overweight
Emerging Markets	MSCI Emerging Markets TR Local	2%	5%	8%		Neutral
Government Bonds		**27%**	**27%**	**18%**		
Government Core Europe	Germany 10 Year	0%	0%	0%		Underweight
Government Peripheral Europe	Italy 10 Year	8%	5%	5%		Overweight
Government US	US 10 Year	0%	0%	0%		Neutral
Government UK	UK 10 Year	0%	0%	0%		Underweight
Government Japan	Japan 10 Year	0%	0%	0%		Underweight
Emerging Markets (Argentina)	Argentina Generic 10 Year EUR	0%	2%	3%	↑	Overweight
Emerging Markets (Mexico)	Mexico Generic 10 Year USD	4%	5%	6%		Overweight
Low-duration	BBG Barclays Global Agg. Low Duration	10%	10%	4%		Overweight
Inflation Linked	US Govt 10Y Inflation Linked Bonds	5%	5%	0%	↑	Overweight
Corporate Bonds		**16%**	**13%**	**11%**		
Investment Grade - Europe	BBG Barclays Pan European Corporate	0%	0%	0%		Slight Underweight
Investment Grade - US	BBG Barclays US Corporate	8%	5%	3%		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	8%	8%	8%		Overweight
Cash		**9%**	**5%**	**2%**		
EUR	EURO/US DOLLAR	3%	0%	0%		Neutral
USD	US DOLLAR/EURO	0%	0%	0%		Neutral
GBP	BRITISH POUND/EURO	3%	2%	1%		Neutral
JPY	JAPANESE YEN/EURO	3%	3%	1%		Slight Overweight
Commodities		**19%**	**14%**	**11%**		
Gold	UBS BBG Gold Euro Hedged	16%	10%	6%		Overweight
Commodities	Bloomberg Commodity	3%	4%	5%		Neutral
WTI Crude	WTI Cushing Crude Oil Spot Price	0%	0%	0%	↓	Slight Underweight
Total		**100%**	**100%**	**100%**		

Currency Exposure	Defensive	Moderate	Dynamic
EUR	48%	42%	44%
USD	35%	36%	31%
GBP	9%	9%	9%
JPY	6%	8%	8%
Emerging Markets - Local Currency	2%	5%	8%

*The change is relatively to our last quarter Multi Asset Views.

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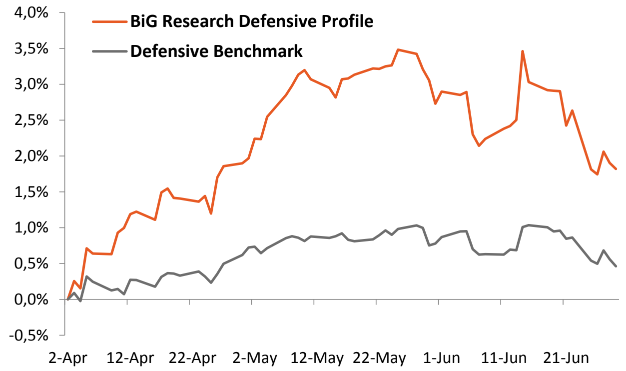
1.2. Multi Asset Performance

	2nd Quarter 2018	
Performance	BiG Research Profiles	Benchmark
Defensive	1,82%	0,46%
Moderate	2,72%	1,72%
Dynamic	3,18%	3,37%

Source: Bloomberg, BiG Research
*Performance from 02-04-2018 to 29-06-2018

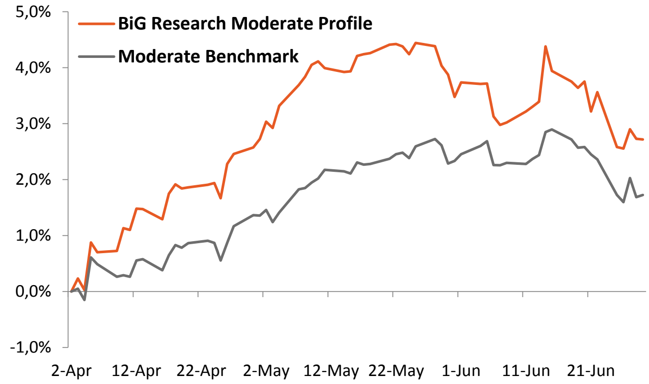
- Since the beginning of the quarter the 3 profiles reached returns between 1.8% and 3.2%. When compared with their benchmarks (which include management fee), both the defensive and moderate profiles reached higher returns (without management fee), however the dynamic profile was below its benchmark.



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

Top 2nd Quarter Returns	
WTI Cushing Crude Oil Spot Price	24,13%
Russell 2000	16,46%
STOXX Europe 600 Health Care	6,49%
Bottom 2nd Quarter Returns	
Italy 10 Year	-6,91%
UBS BBG Gold Euro Hedged	-6,10%
MSCI Emerging Markets	-2,75%

Source: Bloomberg, BiG Research
*Performance from 02-04-2018 to 29-06-2018

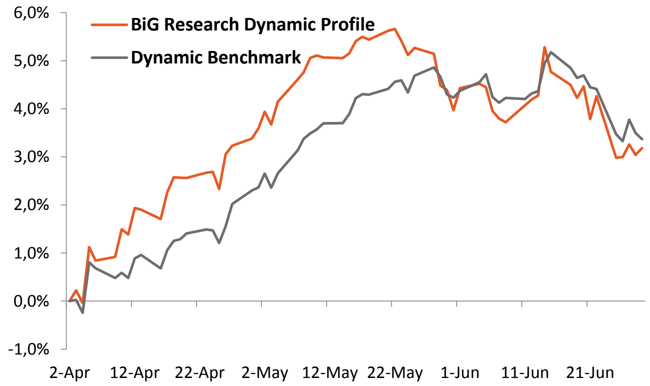


Source: Bloomberg, BiG Research; Moderate Benchmark: Fund Portfolio with equal weights. Caixagest Selecção Global Moderado, Santander Select Moderado, JPMorgan Global Balanced Fund, BlackRock Flexible Multi-Asset Fund and Fidelity Global Multi Asset Tactical Moderate.

- The top contributors for the performance were Oil which rose 24.1%, followed by Russell 2000 (+16.5%) and the healthcare sector in Europe (+6.5%).

- The political crisis in Italy impacted directly our exposure to sovereign Italian debt. The harsh rethoric and tougher measures related with trade, imposed by President Donald Trump, had a negative impact in our exposure to Mexico Debt and Emerging Markets Equity.

- Finally, the exposure to USD had a positive impact in performance. Both the defensive and moderate profile had an USD exposure of 35%, while the dynamic profile had an exposure of 28%.



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

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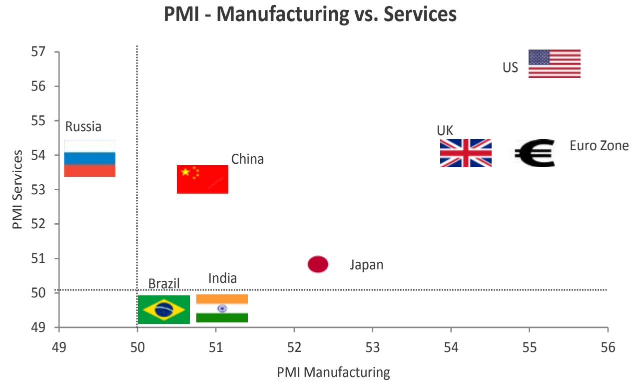
2. Global Macro Picture - Summary

- **Global**

- The risks to our annual Goldilocks base case have intensified during the 1st half of the year. Higher interest rates in the US, escalating trade tensions and the emergence of geopolitical risks (Italy, LatAm and Middle East).

- The main activity indicators (PMI´s) suggest a deceleration in growth throughout 2018. This has been particularly the case in Europe and in the Emerging Economies.

- The inflation overshoot risk is still a possibility, mainly in the US and China. The worsening of trade tensions would exacerbate this scenario.



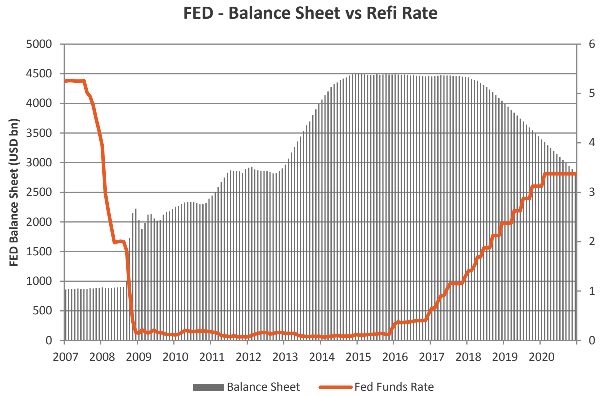
Source: Bloomberg; BiG Research;

- **United States of America**

- The long term US growth cycle remains robust, benefiting from expansionary fiscal policies from Trump administration.

- There is nearly no slack in the labour market, which should enhance inflation risks channeling from faster wage growth.

- The more hawkish FED stance has provided room for a flattening of the US yield curve in the 1st half/18. We believe the FED will embrace a more gradual monetary tightening effort through a slower rythim of refi hikes or balance sheet reduction in order to not compromise the current expansionary cycle.



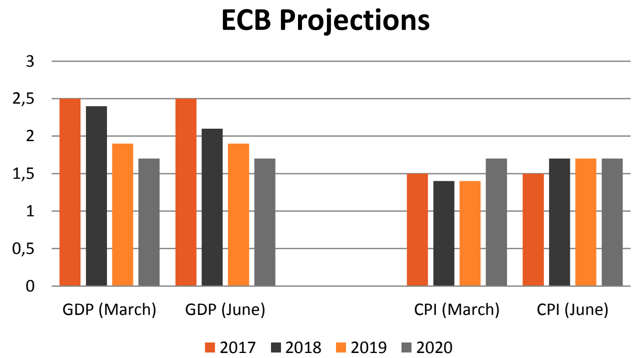
Source: Bloomberg; BiG Research;

- **Europe**

- The ECB has revised downwards the growth path of the European Economy until 2020, both by internal (consumption reduction) and external reasons (slower exports).

- The end of QE already announced by the end of this year and the trajectory of rising interest rates to begin in 2019 will be taken smoothly, due to the absence of inflationary pressures.

- The exporting profile of some of the main European countries might harm economic growth if trade tensions do escalate, no matter the recent trend of a weaker Euro.



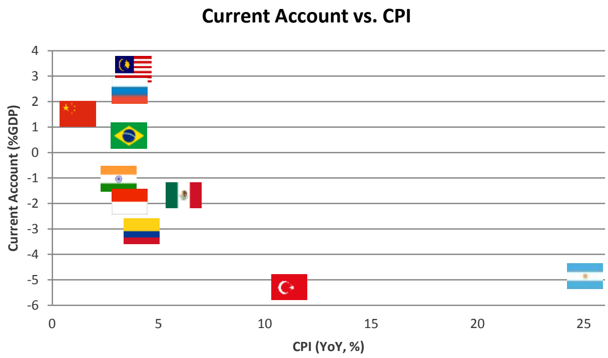
Source: Bloomberg; BiG Research;

- **Emerging Markets**

- Higher interest rates in the US and strengthening of the USD have proven costly so far to most emerging market economies.

- The Argentinian Peso and Turkish Lira depreciation were significant, reinforcing inflationary pressures because these countries have the highest current account deficits of the bloc.

- We believe in the smoothening of risks over emerging economies until 2018YE. The reversal of USD strength and the benign growth stage of some countries are the main catalysts.



Source: Bloomberg; BiG Research;

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3. Key Calls

1. **The return of inflation**

   After an extended period of almost no inflation, crude prices and higher wages have begun to take effect in the price levels of the US economy. While the FED's mandate sets a target inflation rate of 2%, with the increases in interest rates as the main tool to manage inflation, the central bank may choose to allow higher inflation rates temporarily, so to not asphyxiate economic growth, thus creating a framework of higher than expected inflation.

   - Overweight US 10Y inflation-linked bonds

2. **Taking Profit of Crude Gains**

   Geopolitical tensions, namely the spat between the US and Iran, with the first threatening to end the nuclear deal established in 2015, led crude oil to rally in the 2nd quarter, reaching a high of USD 74.15 (WTI). However, the partial removal of the production cuts of OPEC + (OPEC plus the 11 countries that agreed to curb output in 2016) has removed some of the potential triggers to a continuation of the upside. Thus we foresee a much more difficult upcoming quarter for crude.

   - Underweight crude oil

3. **Italy's negative surprise**

   Italy's government, composed by the populist parties 5 Star Movement and North League, introduced a new level of political uncertainty in Europe. The parties Euroscepticism is a roadblock to a more united Euro Zone and the Macron Plan, in a time where European economic growth revival is losing steam. Nonetheless, the stock market indexes (FTSE MIB and PSI-20) have one of the best performances YTD, which contrasts with the asymmetric performance of the Italian sovereign debt in the same period. We expect a normalization of the correlation of these assets in the medium-run.

   - Underweight periphery stock markets
   - Overweight Italian sovereign debt

4. **Opportunities in Emerging Markets driven by idiosyncratic events**

   After a steep devaluation of Argentinean Peso (~40%) and the hike in rates made by the Central Bank (from 27% to 40%), we believe the bottom has been reached. The government has requested an IMF Stand-by Arrangement and made with success the rollover of close to USD 26bn in local currency debt, which helped restore confidence in the country. We see an opportunity in the 10Y yield in Argentina debt denominated in EUR which is currently at 7.7%, a premium vs other EM like Brazil (5.6%).

   - Overweight Argentina Sovereign Debt in EUR

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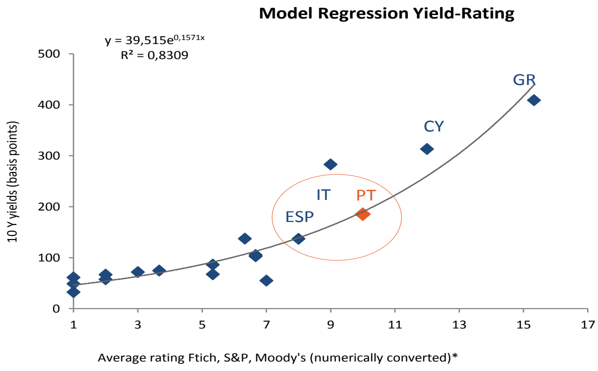
4. Key Analysis

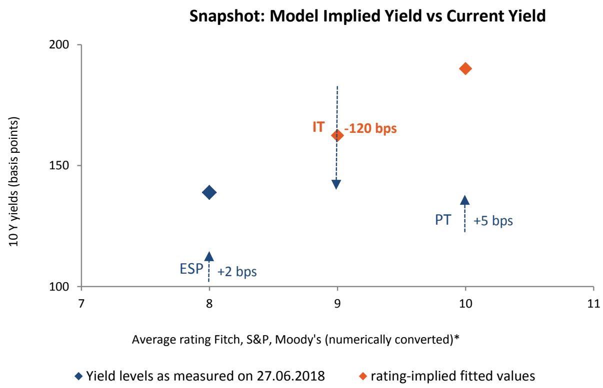
A. ITALY – Opportunity or threat?

The structural weakness of the Italian economy is not new for anyone, although we have witnessed a recovery of some relevant indicators – the Budget Deficit has contracted from 4.2% in 2010 to 1.8% in 2018E and the Current Account deficit of 3.5% in 2010 turned to a surplus of 2.7% in 2018E. While Public Debt remains historically high (~130% GDP), the main question is to realize if the newly formed Government (5 Star Movement and the North League) pose a significant policy risk that could derail the gradual recovery path of the Italian Economy taken in this decade and highlight doubts over the sustainability of Italian Public Accounts in the long term.

The price-action of Italian bonds during the peak of the recent political crisis (May 29th) was extreme, mainly on the short-end of the curve. Two year interest rates had an historical intraday spike due to liquidity constraints, while the 10 Yr had a moderate pick-up (50 b.p.). Below, we estabilish a model defined by the regression between the 10 Yr yield and the alphanumeric weighted rating, from which we conclude that the Italian funding costs are clearly misaligned with the current credit rating metrics of the country. Accordding to the model, 10 Yr yields may drop until 120 b.p., but mostly two distinct conclusions are obvious: 1) price adjustment (increase) of the Bond; 2) rating downgrade of Italian debt;



Source: BiG Research; Bloomberg



Source: BiG Research; Bloomberg

Although we cannot disregard a possible rating downgrade from Moody´s (the sole with rating outlook under review) within the next 6 months, we believe the risk-reward to Italian debtholders is favourable at current levels. The improved macro-structural trajectory of the country, the recovery of the financial sector and the lower funding costs on record (weighted average primary yield auctions is 0.62% vs 3.12% of weighted average cost of debt) are sufficient reasons to mitigate political risks.

Rating Agencies Comments on Italy Newsflow - Summary table

	Current		Pre-crisis	Post-Crisis	Recent Comments	Rating Agency Views
	Rating	Outlook	Max	Low		
Moody´s	Baa2	Under review	Aa2	Baa2	Escalating political crisis. October elections are likely	Downgrade to rating may occur if Government is unwilling to keep budgetary plan and stresses out debt trajectory
S&P	BBB	Stable	AA-	BBB-	New Government does not imply changes to current rating	If Government abandons consolidation policy or reverses important structural reforms, rating assesment will surely worsen
Fitch	BBB	Stable	AA-	BBB	New Government poses a higher risk to ongoing fiscal policy	New Government deteriorates confidence and increases risk profile. Impact over credit metrics is still uncertain
DBRS	BBB-H	Stable	AA-L	BBB-H	Emphasises stability role provided by the President Mattarella	Political instability should be prolonged, but checks & balances system provides some degree of stability to contain extreme political risks

Source: BiG Research; Rating Agencies

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B. Inflation Linked Bonds - Introduction

Inflation linked bonds, as the name indicates, link the principal and interest payments of a bond to a nationally recognized inflation measure. The objective is to enable an investor to minimize inflation's negative impact in his portfolio's real return. As an example, if assets in an investor portfolio rise by 5% (nominal return) but inflation is 2%, the real return the portfolio will achieve is only 3%.

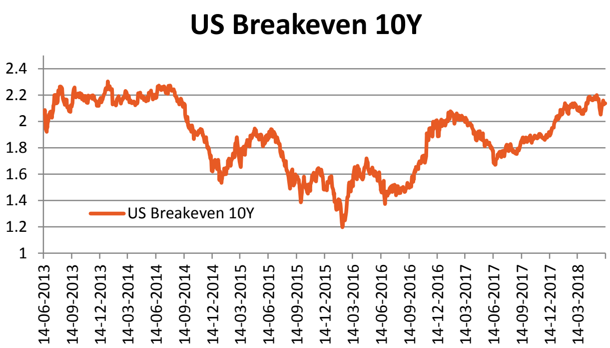
How do they work?

Let's consider a EUR 100 10 year German inflation linked bond with a 2.5% coupon (1.25% semiannualy) and a inflation rate of 3%. The bond principal will adjust on a daily basis to incorporate inflation. This way when the first semiannual interest of 1,25% is paid, it will be paid on EUR 101.5 (which was adjusted by the inflation rate of 3% on a semianual basis) and so will be around EUR 1,27. At the 1st year end, the principal will be at EUR 103 and the interest received will be close to EUR 1,29.

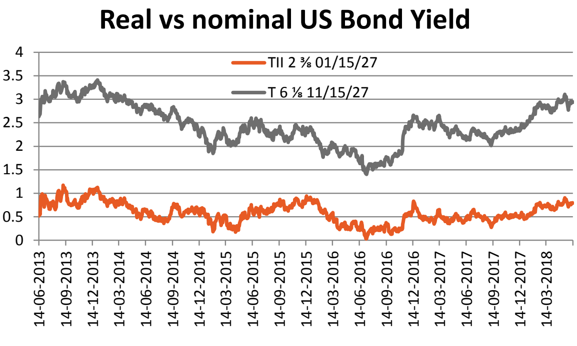
At maturity the investor will receive the greater between the principal adjusted by inflation or the original principal value (due to a deflation floor). Throughout the years invested in the bond the investor will also be receiving the coupons adjusted by inflation.

Other factors to consider:

To understand which inflation rate is implicit in the bond, investors should look to the breakeven inflation rate, which is the difference between nominal yields and real yields. If the investor believes future inflation will be higher than what is implicit in the breakeven inflation rate, he should prefer a inflation linked bond over a nominal bond. As an example, US nominal 10y bonds are yielding close to 3% and 10y inflation linked US bonds are yielding 0.8%, so the breakeven inflation rate is 2.2%. If the investor believes inflation will surpass 2.2% he should buy the inflation linked bond over the nominal one.



Source: Bloomberg, BiG Research



Source: Bloomberg, BiG Research

Inflation linked bond's price will also move accordingly to movements in real yields. If the bond is held until maturity this effect is not relevant, however through the life of the bond, volatility may be present and the bond may fall below its par value. This happens in deflation scenarios, which by impacting the price of the bond, will impact interest received. However if there is a deflation floor, at maturity the investor will always receive at least the par value. In a different scenario where real yields rise due to higher inflation but nominal yields remain constant, the market value of the inflation linked bonds will fall.

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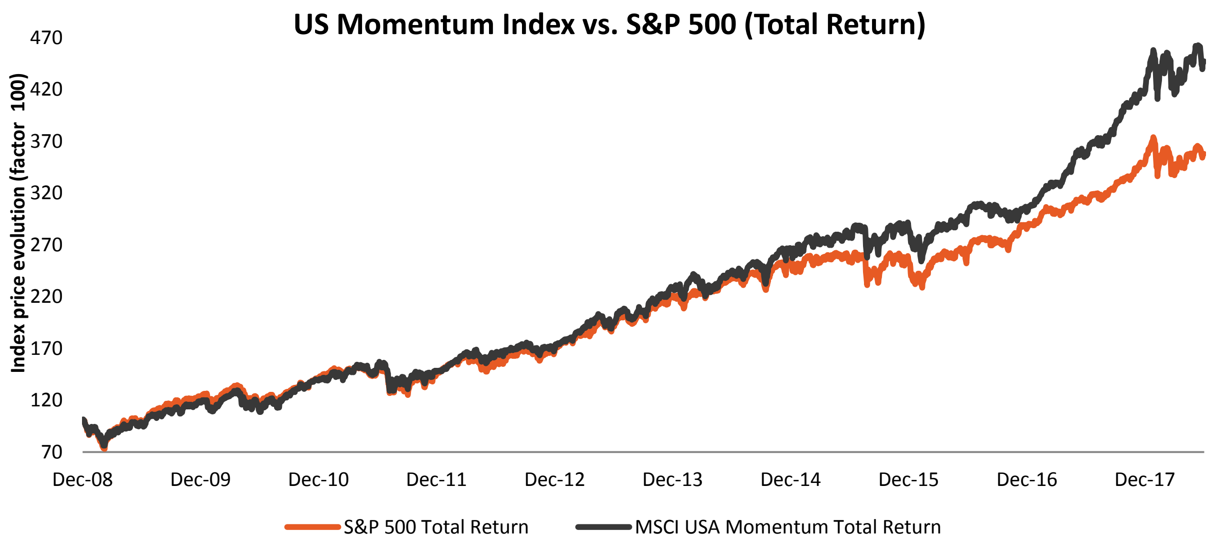
C. Momentum – End of business cycle might exacerbate performance

Empirical evidence supports the existence of momentum in various asset classes – with superior consistency in stocks – and in different geographical markets. In the stock market, this anomaly essentially refers to persistency of risk-adjusted returns, provided that stocks posting the best performance over a specific time horizon (typically, three to 12 months) continue to exhibit a positive performance, possibly outperforming the market, in the following period. For the worst performs, the analogous rationale applies.

What makes this anomaly so peculiar is the fact that it challenges market efficiency hypothesis. As matter of fact, the occurrence of momentum anomaly attempts to dispute the old finance statement that "past performance is not indicative of future results".

Possible explanations for the existence and prevalence of momentum anomaly lie in the field of behavioural finance. Primarily, investor herding leads market participants to mimic each other's actions, acting as a self-feeding group that augments unidirectional pressure and loses focus on company fundamentals. Cognitive dissonance, known as confirmation bias in the context of investment, creates another conceivable explanation. Investors suffering from this psychological predisposition tend to ignore or undervalue announcements that play against their investment foundation and focus on the ones that rather reinforce their thesis, even if the former outnumber and are stronger than the latter. A third possible cause can be found in the simple overreaction and underreaction that investors experience to news and other aspects that influence stock price movements.

Historically, momentum anomaly receives a boost as the economy comes closer to the end of an expansionary business cycle, when the stock market tends to accelerate the upswing, before strong corrections. Believing in this proximity, mainly in the US, and notwithstanding the increasing volatility shocks, we deem momentum style investing an interesting approach to equity at this stage. The conclusions drawn from our sector momentum analysis covering the period of the current bull market, presented on our 3rd quarter Outlook, indeed corroborate this view: cyclical sectors (ex-financials) not yet harmed by the escalating trade tensions reached new highs relative to the market, whereas defensive sectors are renewing lows vs. their market.



Source: BiG Research; Bloomberg

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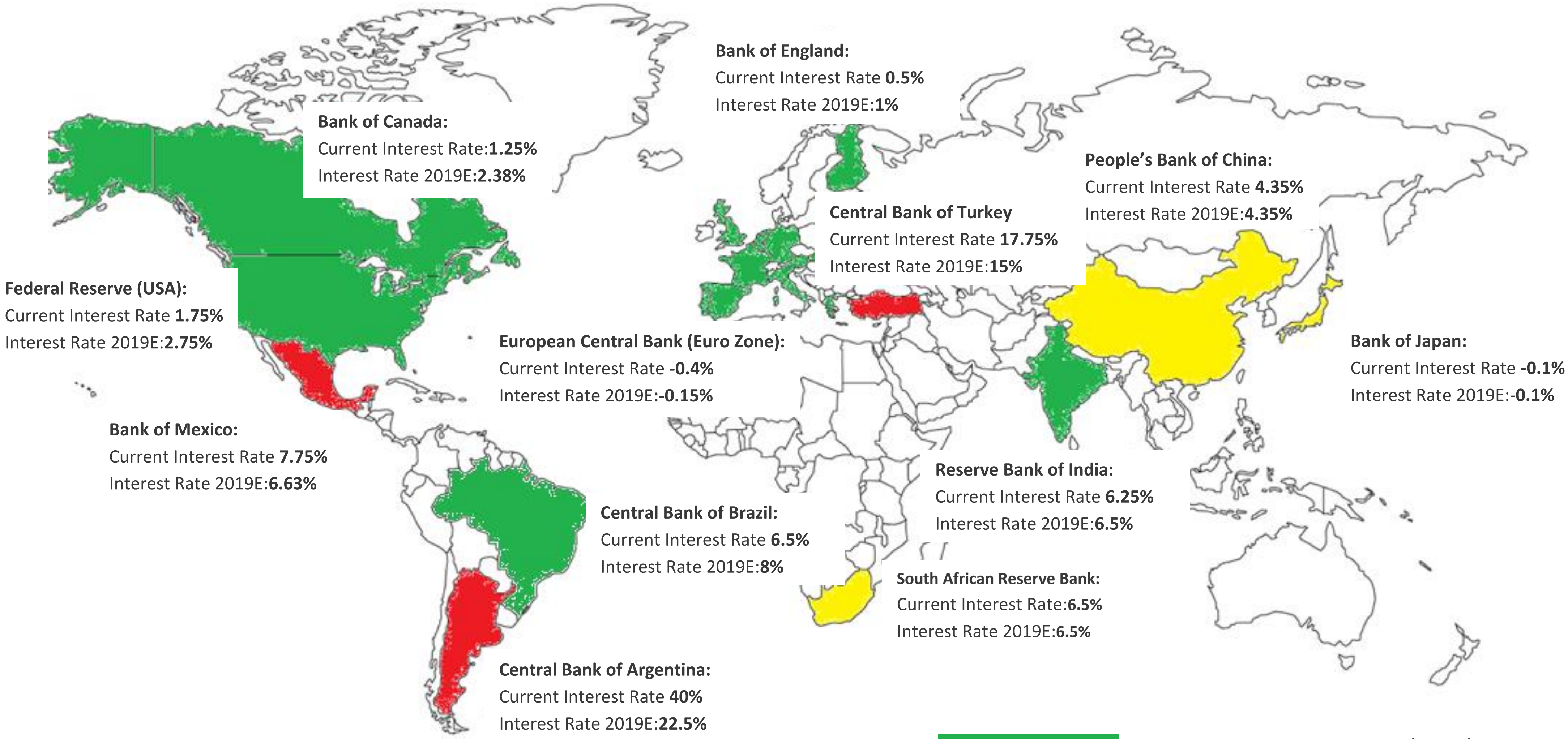
D. Central Banks



Increase in Interest Rates. Overweight: Banks; Insurance

Stable Interest Rates. Overweight: Utilities;Industrial;

Decrease in Interest Rates. Overweight: Utilities;Real Estate;

Source: BiG Research; Bloomberg

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- Clarification of the qualitative terms implied in the recommendations:
    - Buy, expected absolute return above 15%;
    - 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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- The update of the investment recommendations models and respective price-targets will occur, usually, in a period of 6 to 12 months.
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PSI20 Notes in the last 12 months as of 30th of June 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 June of 2018:

	Number of Recomendations	%
Profit Taking	11	78,6%
Stop Loss	1	7,1%
In Place	2	14,3%
Total	14	100,0%

Pair Trades in the last 12 months as of 30th of June 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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