Investment Outlook 2018

OPPORTUNITIES & RISKS LATE IN THE ECONOMIC CYCLE

UBP

UNION BANCAIRE PRIVÉE

Expect More Modest Returns in 2018

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Entering 2017, investors worried that the forces that led to the election of US President Donald Trump would spill over into Europe and signal a continued rise in populism across Western economies. However, at UBP we chose instead to focus on the continued economic and earnings recovery around the world as the key driver for our asset allocation decisions throughout the year.

This focus created opportunities to add to our European equity exposure in the midst of the contentious French elections and to our emerging market and Japan allocation in spite of rumblings from the new US administration about the prospect of trade wars and armed conflict in Asia.

Government bonds, though having traded in a wide range throughout the year, have seen their yields largely unchanged as we approach year-end after early fears of a US slowdown gave way to economic strength across the world's major regions. This drove credit spreads to multi-decade lows and has underpinned our exposure to corporate credit, our preferred segment in fixed income, throughout the year.

As we enter 2018, we remain optimistic about the global economy as any signs of recession are few and far between. However, investors will have to factor in the policy transition among the world's central banks as they step up their tightening. The Federal Reserve will move up a gear in the normalisation of its post-2008 crisis policies by shrinking its balance sheet and continuing to raise interest rates. This will be complemented by the European Central Bank which will begin to slow its bond-buying program, the eurozone economy being at its strongest since its own crisis in 2011–2012.

With not only inflation expectations and long-term real interest rates but also credit spreads near historical lows, we have begun paring back our credit exposure across portfolios in these last months of 2017 as the risk–reward profile for 2018 warrants caution on the part of fixed income investors.

Equities, having rallied strongly in 2017, should see more modest returns in 2018 though with higher volatility. With the recoveries in the eurozone and key emerging economies entering mid-cycle whereas the US economy is nearing the end of its cycle, we believe investors will benefit from taking a non-US approach to equities in 2018.

Risk management will remain an anchor for UBP in 2018. Recession always tends to be the main threat to portfolios, resulting in losses in equities and drawdowns in credit. However, the reliance on economic reform to sustain growth and the US 'America First' policies are posing new risks for investors in the year ahead. To help mitigate them and reaffirm our commitment to risk management for UBP clients, we have introduced the UBP Risk Framework, incorporating political reform and geopolitical risks into our existing economic risk framework.

We examine all of these issues and more in the pages that follow. As ever, we look forward to working alongside you to develop an investment portfolio that meets your needs.

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The Economic Boom Carries On

This year and next, world growth will be the fastest in ten years, likely to average 3.6% in 2017 and 3.5% in 2018 as growth is less dependent on central bank support, and has become more synchronised around the world.

Less need for stimulus

Over the past few quarters growth has started to need less support from monetary and budget stimulus, boosted by brisk consumer spending in developed countries and an increase in both public and private capex around the globe.

Consumption is now rising steadily in China and the US, while in the eurozone it is well on the way back to its pre-crisis level. The first consumers to gain confidence from falling unemployment were in the US, where this positive trend is set to continue. Meanwhile a pick-up in job creation in Europe should also contribute to improving fundamentals and sentiment.

Wage growth should also be stronger in 2018. While the lack of skilled labour is a recurring setback in the US and could become one in Germany, wages should be kept in check by the developments in the job market. Past reforms in Germany and Japan, those under way in other European countries, and the traditional flexibility of the US job market have curbed collective bargaining. In addition, new kinds of work are emerging in the sharing economy that could contain wage growth.

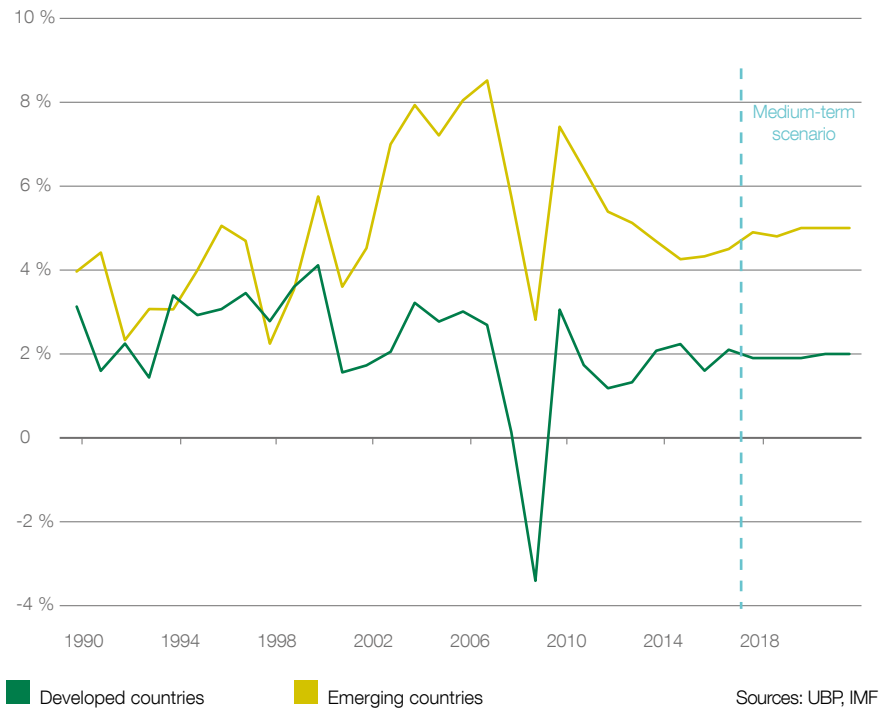
"Domestic demand should mature and make the cycle more resistant."

Consumer confidence and spending are further being supported by the consolidation of wealth as the real estate market picks up. Unlike in 2007, household debt is generally moderate and debt-servicing costs modest, creating more wealth to support consumer spending.

Corporate investment should be another factor driving self-sufficient growth. With sentiment indicators generally high in manufacturing, capacity-utilisation rates rising in several countries, capital still cheap, and corporate profits strong, the outlook for capital spending is promising.

The capex cycle should gain momentum in the US and mature in continental Europe. The dominant areas of investment are likely to be productivity, research and development rather than production capacity. The shift in consumer habits and in distribution and production chains could generate substantial investment in

WORLD GDP GROWTH



the coming decade. This renewed capex could cease to be merely cyclical and in fact extend the economic cycle by reviving potential growth.

We therefore believe that the growth in domestic demand should mature and make the cycle more resistant to potential external shocks such as terror attacks, geopolitical tension, and natural disasters.

Synchronised growth

All the major regions have picked up in unison this year and we expect this synchronised growth to carry on in 2018.

In emerging countries, growth picked up in 2016 and 2017 (near 5% in aggregate), boosted by stabilisation in China (around 6.5% in 2017) and the strong momentum in India despite the cost of reissuing its banknotes. The trend should remain positive in 2018 and benefit from Russia's and Brazil's recoveries. Those two economies have taken a very long time to break out of recession, but they are now getting back on track.

The geopolitical risks surrounding North Korea, the Middle-East and US trade policies could influence emerging countries' growth. However, a stabilisation of growth across the emerging world is important in building resilience against such potential shocks.

Synchronised world growth does not mean that all countries and regions will keep the same pace. China and some other Asian economies may see their growth ease back in 2018 compared with 2017, but only by a small margin (0.2 to 0.3 points) and the basic trend should remain positive.

"Three pillars for economic policy: tax cuts, structural reforms and long-term projects."

Likewise, in developed countries, the US is further ahead in its cycle than its peers. We therefore expect US GDP growth to dip to about 2%, down from 2.3% in 2017, which shows maturity but does not yet signal a trend reversal. The other developed countries should achieve stronger growth, especially Japan (1.5%) and the eurozone (1.9%), with economies that have been lagging behind, such as France and Italy, staging the biggest rebounds. Restoring sustained growth has been hard in developed countries because of the crisis in the eurozone but the trend is positive at last. Overall, growth in developed countries has the capacity, in our view, to hold up at 2% in aggregate in 2018.

Policy focus shifts towards fiscal

What will be noteworthy in 2018, more than GDP growth by country, will be the length of the economic cycle. With economic growth finally self-sustaining and synchronised, the main purpose of economic policy will be to keep the process going. As a result monetary and fiscal policy will most likely have to be rebalanced, which should see central banks take a step back, shifting the limelight onto public spending, tax measures and structural reform, whose role will be more important in supporting growth over the long term.

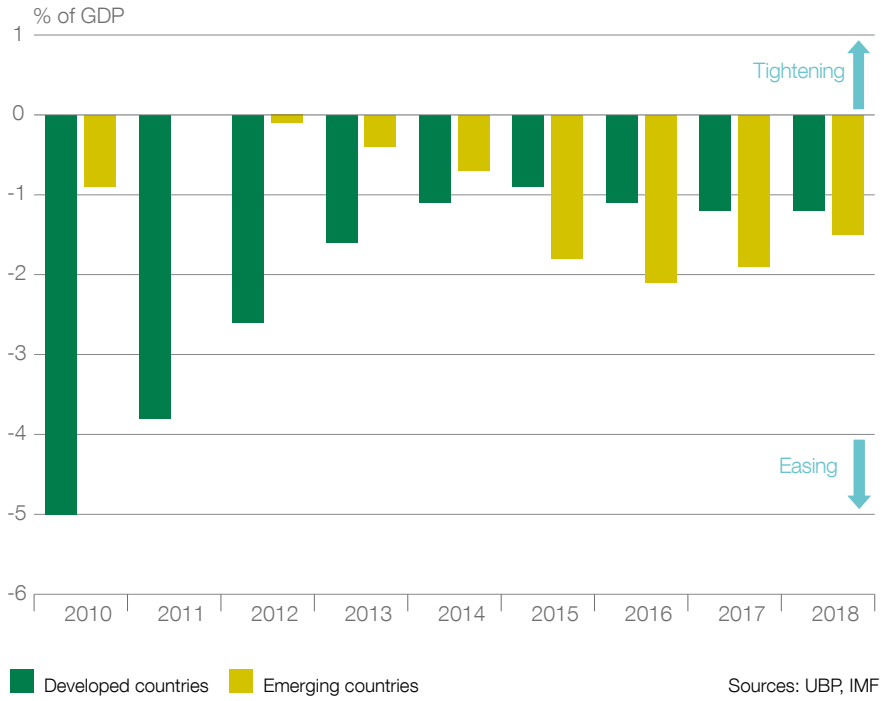
Fiscal policy is likely to revolve around three major measures in 2018: tax cuts in the US, tax cuts combined with political and structural reform in the eurozone, and the roll-out of China's long-term plans for its 'new Silk Road' in Asia. These three projects seem to us to be the most significant, but this does not mean that other countries will not be busy too. In any case, the success of the fiscal policies

and how effective they are in sustaining growth will not depend on the amount of funding they receive but rather on how well targeted they are.

Since 2016 fiscal policy has gradually become more flexible, especially in Europe. With public debt still very high, the key will not be a pro-cyclical deficit policy but rather a strategy focusing on certain sectors and themes. The expected measures in the US and Europe should therefore only have a modest impact on GDP (around 0.5 additional percentage points in growth per year), but could bring lasting benefits without upsetting the fiscal balance.

In the US, targeted tax cuts for companies and households (a forecast total of USD 8 bn) are likely to be offset by lower spending on healthcare and the removal of specific tax breaks. Additional spending is in the pipeline too though – in defence and infrastructure – and if the plans pass through Congress, fiscal policy will become more expansionist.

DEVELOPED MARKET FISCAL POLICY EASING



Sources: UBP, IMF

In Europe, similar tax cuts are expected in Germany and also in France, where they will be counterbalanced by pension and labour reform, as well as by additional government spending. Both the European Commission and the member States that make up the eurozone are expected to implement measures to boost research and new industries.

Furthermore, the new French president's proposals for EU reform are being given due consideration by the European Commission as well as the German Chancellor. Such reform would revitalise the eurozone's fiscal policy, especially if Germany decides to loosen its grip on the purse strings, and free the area from its dependence on other countries, redistributing roles by skill between its constituent states and institutions.

The corporate sector in developed countries may well benefit from the budget adjustments as tax rates on earnings are likely to be reduced significantly in many countries in 2018 (to 20% or even less in some countries).

All in all, world growth seems to be extending over a long, strong cycle which is being supported by economic policy and the emergence of new technologies. Even though risks have not faded entirely, it would take a major shock to derail the current trend.

Entering a New Monetary Regime

In 2018, a strategic shift should be seen in monetary policies as central banks gradually withdraw the support they have been providing to the economy since 2008. Growth has recovered but interest rates remain low, and central-bank balance sheets and the amount of liquidity made available to the markets and the economy have increased fourfold since 2007. Global growth is now firm, and so the role of monetary policy needs to be redefined.

Monetary policy to boost growth and avoid deflation

Central-bank efforts since the financial crisis have been supportive, resulting in solid global growth trends. Deflation has been avoided, but central banks have not yet fulfilled their mandates as inflation in developed countries remains below their 2% target. Economic indicators suggest that inflation will rise towards that level gradually in 2018, although secular factors relating to competition, the Internet and the structure of the labour market will keep a lid on prices and wages.

Central-bank policies no longer need to be as aggressive and pro-cyclical as before, and a return to more normal policy settings seems justified. Low inflation means that rate hikes are being delayed, but the medium-term strategy of central banks is to reduce the support they have been providing through quantitative easing.

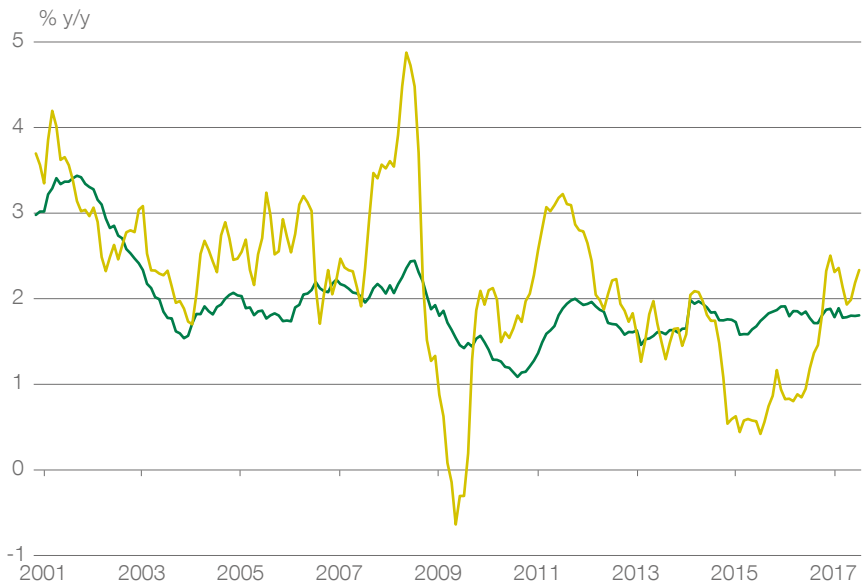
Back to more neutral monetary policies

Central-bank exit strategies are likely to focus on the quantitative aspects of their policies, i.e. the size of their balance sheets and asset purchases, limiting the liquidity available to economies.

The Fed, which has already raised rates, is further along the monetary policy cycle than other central banks. Although it has stopped asset purchases, it has maintained the size of its balance sheet

"Central banks are set to withdraw their support."

OECD INFLATION



Core inflation Headline inflation

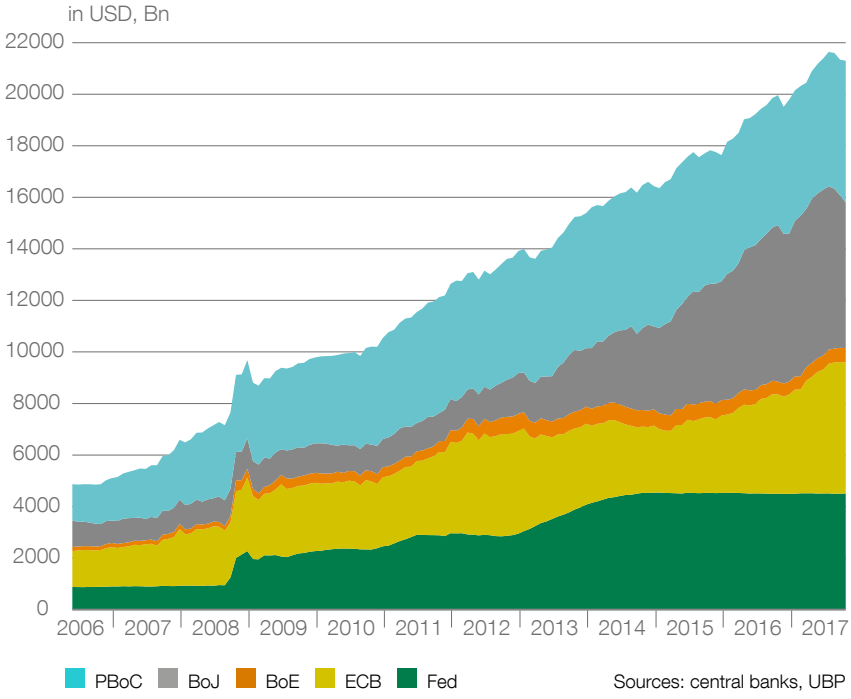
Source: OECD

at around USD 4.5 trillion by reinvesting coupons from existing bond holdings. However, that figure is likely to fall in 2018 and should be around USD 2.5 trillion in 2021 as the Fed gradually puts an end to reinvestments.

In Europe, the ECB is set to stop buying bonds in 2018 and its balance sheet will stabilise at just under EUR 5 trillion, equal to more than 40% of eurozone GDP. Like the Fed, the ECB will probably maintain the size of its balance sheet by reinvesting coupons, and so liquidity should continue to flow incrementally into the markets. Stopping those reinvestments will be more problematic, but that seems unlikely to happen in 2018.

The Bank of Japan has a medium-term inflation target of 2% and an objective of keeping 10-year bond yields close to zero. As a result, it is also buying bonds, and the strategy is not expected to change next year.

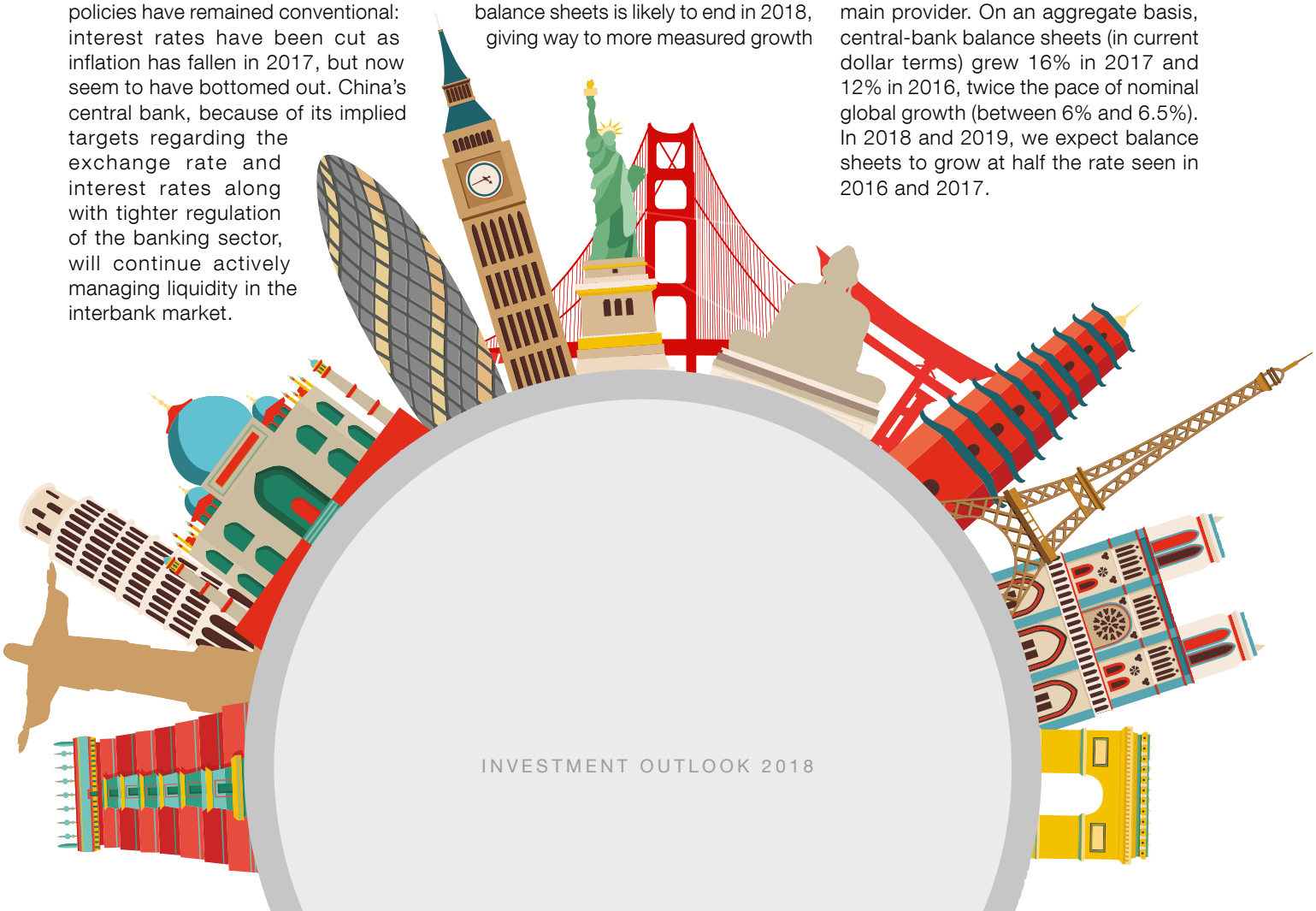
GROWTH IN CENTRAL BANK BALANCE SHEETS SET TO END IN 2018



Sources: central banks, UBP

In emerging countries, monetary policies have remained conventional: interest rates have been cut as inflation has fallen in 2017, but now seem to have bottomed out. China's central bank, because of its implied targets regarding the exchange rate and interest rates along with tighter regulation of the banking sector, will continue actively managing liquidity in the interbank market.

Overall, the expansion in central-bank balance sheets is likely to end in 2018, giving way to more measured growth in liquidity, with the Bank of Japan the main provider. On an aggregate basis, central-bank balance sheets (in current dollar terms) grew 16% in 2017 and 12% in 2016, twice the pace of nominal global growth (between 6% and 6.5%). In 2018 and 2019, we expect balance sheets to grow at half the rate seen in 2016 and 2017.



How the New Monetary Regime will affect Assets

Slower growth in liquidity could affect the major asset classes – especially equities – and long-term bond yields, the yield curve, and the supply of credit.

Bond markets are likely to see more of a liquidity effect. If the Fed stops reinvesting coupons (USD 200 billion in the last few years) in the bond market and if its balance sheet shrinks at an annual rate of USD 450 billion between 2019 and 2021, that could change the balance of supply and demand in the government bond market. It would also reduce the amount of liquidity available for assets like mortgage-backed securities (MBSs), putting upward pressure on yields.

Past studies show that central-bank purchases of government bonds have reduced 10-year yields by 50–70 basis points in the US and the eurozone. In the US, the reduction in the Fed's balance sheet combined with a more expansionary fiscal policy would push long yields higher and cause the US yield curve to steepen again. In the eurozone, if the ECB is to stabilise its balance sheet, that potentially means reinvesting EUR 150–200 billion annually in the bond market even after it stops direct purchases (EUR 700 billion in 2017 and EUR 900 billion in 2016). However, bonds that have benefited from scarcity effects could still come under pressure, such as German Bunds, whose yields have fallen despite the German economy's strong performance.

The ECB's policy has caused corporate bond prices to rise and risk premiums to fall, particularly for issuers with the lowest ratings, causing spreads to tighten and volatility to slump. Ending asset purchases could increase both the cost of capital and volatility as investors become more discerning.

Equity markets have risen in tandem with bank balance sheets, but weaker liquidity growth is unlikely to put excessive downward pressure on indices. Rising valuations will likely cease to be a source of equity returns, as is typical in the middle stages of economic expansion. However, earnings growth should take over as the primary driver in US and European equity markets in 2018 (see pages 16 and 18). We believe a sharp rise in long yields triggered by an acceleration in liquidity withdrawal or a surprise pick-up in inflation are more of a threat to equity markets.

New strategies adopted by the Fed and ECB will reduce the surplus liquidity of banks in the US and stop it growing in the eurozone. The credit supply could shrink, causing financing problems for small companies, the real-estate market and some categories of consumer credit.

Central banks will still support growth, but they are likely to withdraw that help gradually, ending the recent flood of liquidity. The resulting pressure on financial assets could be more pronounced for government bonds and some categories of corporate bonds.

Focus on Domestic Policies and Reforms Late in the Cycle

The coming year should prove pivotal for policy-makers and investors alike as central-bank support is withdrawn and private sector-led demand takes on the mantle of growth driver for economies around the world.

Fortunately, as highlighted in our economic outlook section (page 6), the private sector looks strong across major regions of the world, mitigating the prospect of a prolonged and sustained downturn in equities and other risky assets for 2018.

Admittedly the current risk backdrop is different than in past cycles. However, we expect the coming year to mimic the 2016–2017 period in terms of risk. Those two years were marred by persistent geopolitical surprises but investors who focused on underlying economic growth and earnings trends were rewarded with strong returns. Thus, though a larger number of risks need to be on the radar than in past cycles, investors should place an optimistic economic and earnings outlook for 2018 at the core of their investment frameworks.

Much like 2017, we enter 2018 with a preference for equities despite the elevated valuations seen in particular in the US. While valuations are a concern for the world's largest equity market (page 16), significant declines in price-to-earnings ratios, which could weigh on returns, have historically been most prevalent during recessions in the US. During periods of economic expansion, like we are experiencing now, price-to-earnings ratios have generally been stable – although elevated – allowing earnings growth to drive returns for investors. With double-digit earnings expected in the US in 2018, this should be sufficient to generate more modest though still attractive gains in the coming year.

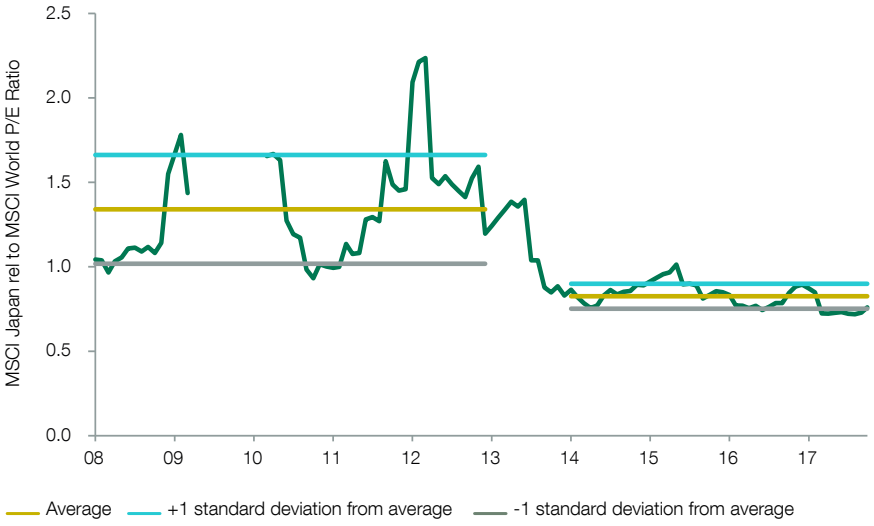
"Economics and earnings should remain investors' focus."

In contrast, we believe non-US equities hold more promise for investors. Japanese equities (page 20) in particular should benefit from the new mandate given to Prime Minister Shinzo Abe to accelerate domestic reform. Policies encouraging women to enter the workforce have been very successful, injecting additional income into Japanese households. Moreover, the growth of Japan as a destination for the burgeoning Chinese tourist market is also acting as a new catalyst for domestic demand.

This, combined with near record-low valuations relative to global equities and, like in 2017, conservative earnings growth forecasts for the coming year, means that both expanding valuations and accelerating earnings expectations should keep equity investments attractive in 2018, having made Japan the best-performing region through October, 2017.

Emerging markets (page 22), similarly, should benefit from being in the early stages of their economic recoveries

DESPITE ITS 2017 RALLY, JAPAN TRADES AT NEAR RECORD LOW VALUATIONS VS. GLOBAL EQUITIES



Sources: UBP, Bloomberg Finance L.P.

following sharp slowdowns between 2012 and 2015, but also from increasing domestic reform momentum in key economies. Though absolute valuations have risen in both equity and credit, relative to their developed-market peers they remain cyclically low, suggesting that investors are being 'well paid' for assuming the increased risks generally associated with emerging markets.

In continental Europe, though the end of 2017 has been marred by the uncertainty surrounding Spain and Catalonia, we believe the strength of the eurozone economies should remain the focus for investors. Progress on reform efforts in France is encouraging. However, the renewed electoral momentum of populists on the continent is a headwind to accelerating the timetable for strengthening the foundations of the EU and the eurozone. Early in 2018, growth and earnings should remain investors' priorities. However, as Italian elections, the Brexit deadline in 2019 and ECB tapering come into focus, these political concerns could re-emerge to the detriment of European risk assets.

While equity investments remain attractive, especially those outside the US, opportunities in the fixed income space are increasingly scarce. Even assuming expectations for economic growth and inflation are met, both credit and government bond investors can have little hope of much better than coupon-like returns in 2018.

Historically low inflation expectations and real government bond yields (yields after inflation) are inconsistent with the strengthening growth and low unemployment spreading across the world. Like in 2017, this will force risk-averse investors to look beyond low-risk government bonds.

However, unlike early 2017, when credit spreads were quite wide, reflecting a more modest economic outlook around the world, the current tight credit spreads are more accurately pricing in the economic environment. Indeed, looking back to previous cycles, history suggests that both absolute and relative return prospects for credit investors are unattractive from current levels (page 15).

We do see pockets of opportunity in emerging market credit and specialised fixed income areas such as catastrophe bonds, asset-backed securities and inflation-linked bonds. While not cheap in absolute terms compared to other, expensive government and credit markets, these areas provide diversification as well as relative value for investors. Admittedly, given the size of these markets compared to broader credit markets, we believe that more active management of interest rate and credit risks will be required in 2018.

Though our base case continues to focus on the favourable economic growth and earnings outlook as drivers for our asset allocation, the new geopolitical backdrop requires investors to shape a new risk framework to properly manage the increasing number of threats facing markets. To do so, we have developed the UBP Risk Framework (page 25) incorporating not only economic risks, but also building in risks surrounding reform efforts in the European Union and other economies around the world, as well as the changing nature of the political economy following the election of Donald Trump as president of the United States.

Economic risks appear to be fading, especially with the dovish policy stances adopted by the ECB and Bank of England in late 2017. Political and reform-related risks have begun to rise once again with the first indictments handed down in the Russia investigation into US President Donald Trump, while the progress towards EU reform looks likely to be slow in the aftermath of the German elections. More broadly, while many investors focus on the prospect of war with North Korea, the danger of trade conflict could re-emerge as a more concerning risk for 2018.

Unfortunately for investors, traditional hedges against such uncertainty – gold, long-term government bonds, the Swiss franc or the Japanese yen – are themselves expensive in absolute terms, leaving investors' capital at risk. While we continue to use these hedges tactically, we believe the low volatility environment offers the alternative of adding protection via options and other long volatility strategies.

Getting Ready for Normal Rates

Both US and German yields have traded in a sideways range throughout most of 2017, allowing narrowing credit spreads to do the bulk of the hard work of driving fixed income returns, as we surmised in our 2017 Outlook.

With 2017 characterised by an end to rate-cutting by central banks, 2018 should see a move into the final step of the policy transition begun one year ago – a decisive shift away from aggressively accommodative monetary policy and towards more expansionary fiscal action and reform in key economies around the world.

In 2017, this transition allowed investors to lean more heavily on credit spreads, which were still relatively wide, to drive fixed income returns. However, looking forward to 2018, the starting point of both yields and spreads matters as the historically low yields combined with the extremes in both investment-grade and high-yield credit spreads across USD and EUR markets mean that the shifting risk–reward balance calls increasingly for protection against risk. As a result fixed income investors, in managing these threats, should deepen their focus on risk and absolute return in 2018.

US government bonds' performance since the Federal Reserve began its tapering in 2013 should be instrumental in anticipating ECB action and the outlook for euro government bonds. We expect the ECB to draw on the US experience and be careful not to repeat the Fed's mistakes during its own tapering exercise which begins in 2018. In particular, the ECB will likely seek to avoid the rapid repricing seen during the 2013 'Taper Tantrum' in the US where real yields shot up from negative to, at its peak in mid-2013, a positive 150 basis points. That repricing led to an unwanted strengthening in the US dollar, and slowing US economic growth throughout 2015.

Though the 9% strengthening in trade-weighted euro at its 2017 peak lags behind the near 25% trade-weighted strengthening in the US dollar following the Taper Tantrum, recent ECB communications have taken pains to highlight plans of a very gradual policy tapering. As a result, while upward pressure on eurozone long-term bond yields could emerge if growth and inflation in the area continue to surprise, we do not expect a repeat of the US Taper Tantrum, which could inflict heavy mark-to-market losses on euro bond holders.

Looking to US risk-free yields, we believe the start of the Fed's balance-sheet trimming should give additional impetus to the upward trend in real yields that has been in place since mid-2016. With third-quarter growth reaching 3% despite hurricane-related setbacks and unemployment nearing 4%, we believe risk–reward in the government bond market remains tilted towards higher rather than lower yields in 2018. US fiscal

stimulus and a widening US budget deficit could spark continued rises in yields, should tax cuts be passed early in the new year.

With credit spreads historically tight, both in the investment-grade and high-yield space in both USD and EUR, the case for managing risk more actively in long-held credit exposure has strengthened. Though the economic growth we expect in the coming year could keep spreads tight, the starting point of spreads as well as deteriorating covenant protection, especially in the high-yield and leveraged loans arena, suggest that the risk–reward ratio is tilting towards risk for investors.

Indeed, looking at previous cycles, when spreads have been near current levels, the prospect of investment-grade bond investors outperforming government bond investors declines markedly (Table 1). Moreover, from spreads similar to current levels, high-yield investors have historically seen negative total returns in the year ahead (Table 2).

With emerging market economies (see page 22) in an earlier stage of the economic cycle, spreads still not at their tightest, and other fixed income investments expensive, we believe emerging market sovereign debt and credit provide better risk–reward opportunities for bond investors. However, investors should note that emerging market debt has seen a lengthening in duration in recent years, leaving investors with more interest-rate risk in the asset class than has been the case in previous cycles.

In addition, following the devastating hurricane season in the Gulf of Mexico in the autumn of 2017, catastrophe ("CAT") bonds are providing an opportunity for investors to diversify spread exposure away from tight corporate credit spreads and away from the prospect of interest rate volatility in USD markets.

Recognising that both emerging market debt and CAT bonds are relatively small markets compared to the government bond and investment-grade credit markets, we continue to believe that relative-value fixed income strategies, either in the alternatives arena or in non-directional long-only strategies, are becoming important anchors for fixed income portfolios. Such assets are attractive less for their return-generating capabilities than for their preservation qualities during periods of interest-rate and credit-spread volatility.

In these circumstances, our fixed income allocations are increasingly focused on risk management in an environment where yields and spreads are already pricing in a favourable outcome on the balance between growth and inflation, not only in the US economy but worldwide.

USD INVESTMENT-GRADE CREDIT UNDERPERFORMS US GOVERNMENT BONDS WHEN SPREADS ARE TIGHT

	Out-/Underperf. vs. UST	%	When underperf.
IG spread (bps)	**Avg 1-yr fwd**	**Outperforming**	**% return**
50–99	-0.9%	48.3%	-2.6%
100–146	-0.4%	51.7%	-3.1%
147–180	1.5%	74.6%	-3.2%
180–600	4.7%	80.0%	-10.0%

USD HIGH-YIELD CREDIT RETURN PROSPECTS DETERIORATE SHARPLY WHEN SPREADS NEAR CYCLICAL EXTREMES

	Avg 1-yr	% of time	When unprofitable
HY spread (bps)	**Fwd rtn**	**Profitable**	**% return**
246–349	-7.1%	22.7%	-10.8%
350–539	5.3%	79.2%	-3.8%
540–699	8.8%	87.0%	-8.6%
700–2000	11.1%	88.7%	-8.4%

Sources: UBP, Bank of America Merrill Lynch

Focus on Earnings Growth in US Equities

Despite the hurdle of elevated valuations, US equities have delivered, even by historical standards, a strong +17% return in 2017 (as at the end of October). Driving this has been the 11% earnings growth among American corporates and, to the surprise of many, relatively stable though historically high price-to-earnings ratios.

Putting this into the context of economic cycles going back to 1950, 2017 is characteristic of the performance of US equities in the midst of an economic expansion. History has shown that it is only during recessions that price-to-earnings ratios contract markedly. In contrast, after the first year of economic recovery, the ratios remain relatively stable, with most returns on investment coming from growth in corporate earnings (see table), and this continues right up until the onset of the next recession.

Thus, with few signs that a US recession is imminent in 2018 (see page 6), we can similarly look to the past late-cycle performances of US equities for guidance about what 2018 portends for investors, even in spite of high valuations. Earnings are expected to continue to grow, albeit more modestly, at 9–11% in 2018, suggesting that high single-digit, late-cycle, earnings-driven returns should be expected for the S&P 500.

"Positive returns in 2018 remain in store despite historically high valuations."

HIGH VALUATIONS CAN SUSTAIN IN THE MIDDLE OF AN ECONOMIC EXPANSION

	S&P 500 Return Driver		
Position in economic cycle	**Capital gains**	**P/E expansion**	**EPS growth**
Recession	-13.1%	-10.4%	-1.7%
1st year of recovery	17.9%	30.3%	-8.0%
Mid-cycle	11.1%	0.2%	12.3%
Final year of recovery	8.1%	-1.2%	10.1%

Sources: UBP, Bloomberg Finance L.P.

While this is comforting for investors, especially in light of strong 2017 returns and high valuations, caution is still warranted in 2018, given the fact that market volatility is near its all-time low.

Judging by statistics going back to 1986, while investors fare consistently better when volatility is low than when it is high irrespective of starting point, when volatility begins to rise from a level lower than average (as it is today) the probability of loss in the year ahead shoots up from 4% to 25%.

In addition, the size of losses incurred historically tends to be greater in rising volatility environments than in falling ones. Over the past thirty years, when volatility has been low and begun to rise, investors have experienced losses of 9% within the year ahead compared to only 2–3% when volatility has been low and falling.

Thus, the late-cycle stage of the US expansion that lies ahead in 2018 suggests that positive returns remain in store for US investors, driven by the 9–11% earnings growth expected. However, unlike in 2017, where buy-and-hold was the mantra as US equities rose persistently throughout the year, with volatility beginning to rise as it typically does in the final stage of economic expansion, investors should expect more substantial corrections over the course of 2018, even if some of the non-economic risks facing markets fail to materialise (see section on risk, page 25).

Style and sector selection should also be helpful in the environment we see ahead. Value strategies in the US have underperformed growth strategies by

nearly 17% in 2017, bringing back memories of the 28% underperformance of value compared to growth at the height of the tech bubble in March 2000.

While the 2017 outperformance of growth stocks has indeed been impressive, in the context of the growth versus value debate, 2017's growth outperformance has more meaningful fundamental support than that of the late-nineties tech boom period. Through much of 2017, investors were given a 20–30% discount on a price-to-book value basis to buy value over growth, the historical average discount being 26%. In contrast, by mid-1999, value investors were rewarded with a 50% discount which expanded to 70% just before the collapse of the dot-com bubble in 2000 (see chart).

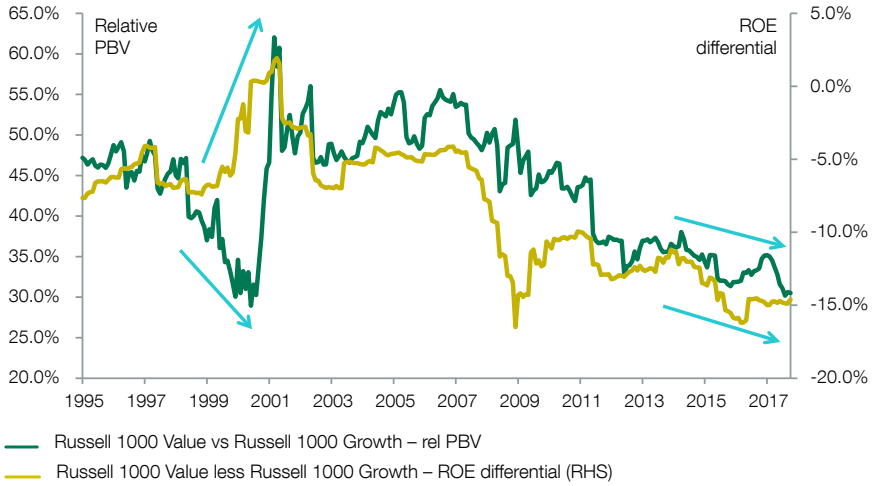
In this context, compared to 1999–2000, investors were not being offered as much 'value' to invest in value strategies in 2017. Driving this has been the deterioration in corporate returns in value strategies: since the 2008–2009 global financial crisis, value companies have seen their returns on equity rise by 3% – from 8% to nearly 11% – while for growth companies the rise over the same period has been twice as fast, at 6% – from 19% to over 25% (see chart).

Compare this to the tech bubble period: in 1998–1999, value companies' returns remained relatively stable at 14–15% while growth companies saw theirs fall from nearly 22% to 20% over the same period.

Thus, while in performance terms the parallels being drawn between growth and value this past year and during the tech boom are understandable, the fundamentals underlying the periods are quite different. Nine months ahead of the collapse of the tech bubble, value investors were being rewarded with a historically large valuation discount compared to growth, whereas this is not evident today. Fundamentally, in the years leading up to the bursting of the dot-com bubble, growth stocks saw a sharp deterioration in corporate returns while value companies stayed relatively stable. In 2017, in contrast, it has been value companies that have been seeing a relatively weak improvement in corporate returns compared to their growth counterparts.

With our focus on earnings growth as our return driver in US equities in 2018, a growth bias continues to have merit, at least until a wider discount gap appears for value stocks as it did in 1999, or until the corporate return picture shifts more markedly between value and growth opportunities.

VALUE STOCK PERFORMANCE WEIGHED DOWN BY POOR CORPORATE RETURNS



Sources: UBP, Bloomberg Finance L.P.

Cyclical Recovery Meets Structural Headwinds in Europe

Despite strong economic growth and the enthusiasm following the election of Emmanuel Macron in France, European equities have lagged behind both developed-market and global equities in 2017, posting a comparatively modest 13% rise by the end of October. Returns have been weighed down by underperforming UK equities as well as broader declines in price-to-earnings multiples across Europe, although this was mitigated by robust earnings growth amongst European corporates.

Such performance is typical of a recovery in Europe. As European economies head into the middle of their recovery cycles, price-to-earnings multiples generally compress modestly in favour of a rebound in earnings (see table). Indeed, it is only in the first year of economic recovery in Europe that those multiples rise sharply, with modest expansion in the last year of the economic cycle.

Having emerged from its recovery phase after the 2011–2012 recession, we believe the European economy has entered the 'mid-cycle' phase. This means that investors should focus on earnings growth, which is expected to reach 10–12% in 2018, as the return driver.

"In 2018 Europe investors should focus on earnings growth as the primary equity return driver."

With current expectations more modest, at 9%, investors still appear to underestimate the positive momentum not only of global but also, and equally importantly, of European growth as we enter 2018. Much like the US in 2013–2014, there is little wage pressure on European corporates while rising capacity utilisation suggests that the benefits of top-line growth should flow directly to bottom-line earnings, for companies on the continent in particular. Moreover, with the European Central Bank taking a cautious approach to unwinding its support for eurozone economies, the headwind of a strong euro looks unlikely in the coming year.

With Europe growing at its fastest pace since 2011–2012, we believe the cyclical benefits for domestically focused corporates across the continent should be considerable. European mid and small caps in particular should benefit the most, even absent the prospect of reform-driven catalysts for smaller, domestically-oriented companies on the continent.

Since the eurozone crisis, this category of companies has seen corporate returns rise from 6–7% to in excess of 11%. In contrast, large-cap European companies have seen theirs stagnate near 9%. In spite of this improvement in corporate earning power among smaller companies, investors are still offered a 10% 'discount' in price-to-earnings terms to buy them. Interestingly, despite the progress in improving returns for investors in the past two years, in 2015 investors would have had to pay as much as a 15% price-to-earnings ratio premium. In that sense, small- and mid-cap European companies present better value today than they did two years ago in spite of their 16% rise year-to-date.

With an attractive cyclical backdrop, French reforms promise to be an added catalyst to growth and potentially corporate returns. Though many may doubt the durability of the Macron-led reforms, those being proposed look very similar to measures already successfully implemented in Germany in the early 2000s and Spain in 2012. Indeed, both nations saw steady declines in unemployment after implementing the reforms, reversing two years of persistent rise. Interestingly for France, unemployment had already been falling when the reforms

EARNINGS GROWTH OFFSETS VALUATION DECLINES IN THE MIDST OF ECONOMIC EXPANSIONS

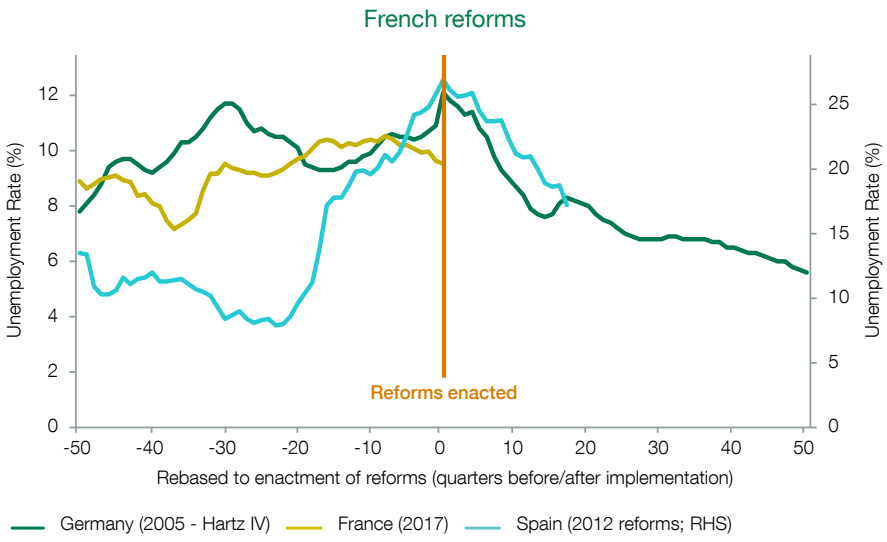
		MSCI Europe Return Driver	
	Capital gains	**P/E expansion**	**EPS growth**
Recession	-13.4%	12.4%	-12.5%
1st year of recovery	7.0%	81.9%	-8.8%
Mid-cycle	15.2%	-6.7%	44.1%
Last year of recovery	12.9%	7.2%	8.2%

Sources: UBP, Bloomberg Finance L.P.

kicked off recently. This should provide a tailwind for reform momentum in 2018.

Complicating the picture for Europe will be the transition phase that the UK economy is in as it enters its final calendar year ahead of its March 2019 exit from the European Union. Though the transition phase and the immediate aftermath of Brexit should both contribute to significant headwinds for domestic growth, the promising outlook for the global as well as European economies should support the overseas earnings of large UK companies. Moreover, we expect the late-2017 strength in sterling to ease in 2018, as the base effects of the weak currency-driven inflation begin to abate, likewise providing support for UK corporate earnings.

FRANCE HAS A TAILWIND OF FALLING UNEMPLOYMENT AS IT IMPLEMENTS REFORMS



Sources: UBP, Bloomberg Finance L.P.

Flagging EU Integration Momentum

After the victory of Emmanuel Macron in France's presidential elections in the spring of 2017, optimism across the eurozone grew with the belief that centrists were gaining enough support to turn back the tide of populism. Indeed, in the early days of the Macron presidency, progress on labour reform has been impressive.

However, Macron's victory, while necessary, was only the first stage of a two-step process that was needed to begin to take ground back from populists. The second stage, thought by many to be a foregone conclusion, was not just a victory by German Chancellor Angela Merkel's ruling Christian Democratic Union (CDU) party in the September elections, but a sizeable enough victory to allow for a Macron–Merkel partnership to push the European Union towards more extensive reforms across the continent.

While Merkel's conservative party did indeed secure a majority of votes, the relatively weak showing by its previous coalition partners raises questions as to the ability of a new coalition government (still being formed at the time of writing) to move forward on deepening EU integration and solidifying the eurozone's financial system ahead of the next cyclical downturn.

Failing these changes, the European Union and the eurozone will remain susceptible to a cyclical downturn that could expose not only the continued vulnerability of the eurozone's banking system, but also weaknesses in the structural integrity of the Union itself.

Absent such political momentum, we view the rally in European equities as cyclical in nature, supported by the current growth surge that should last into 2018. However, without structural improvements in Europe's banks and in the European Union itself, European equities will likely remain a high-beta play on cyclical recovery in global growth rather than a secular reform story.

Reform and Restructuring Takes Hold in Japan

Although Japan's economy outperformed expectations in 2017, concerns about North Korea and a domestic corruption scandal weighed on sentiment throughout much of the year. This left distracted investors largely on the sidelines until late in the year despite Japan's impressive corporate earnings and improving fundamentals.

However, amid excitement about possible reform and restructuring in Europe, some investors may have missed the fact that Japan is actually putting the theory into practice while fiscal and monetary policy-makers are lending continued cyclical support to reform efforts. This contrasts with the European Central Bank's tapering and the fiscally conservative stance across the European Union. Moreover, while it remains to be seen whether the Macron–Merkel partnership (see page 19) can engineer the next stage of economic development in the EU, Abenomics is beginning to have an impact both on Japan's economy and on its corporate earnings.

Against this backdrop, Japan's near record-low valuations (chart) compared to global equity markets should finally attract the attention of international investors as unequalled earnings growth as well as continued reform momentum, spurred on by a renewed electoral mandate, combine to put the Japanese market back in the spotlight.

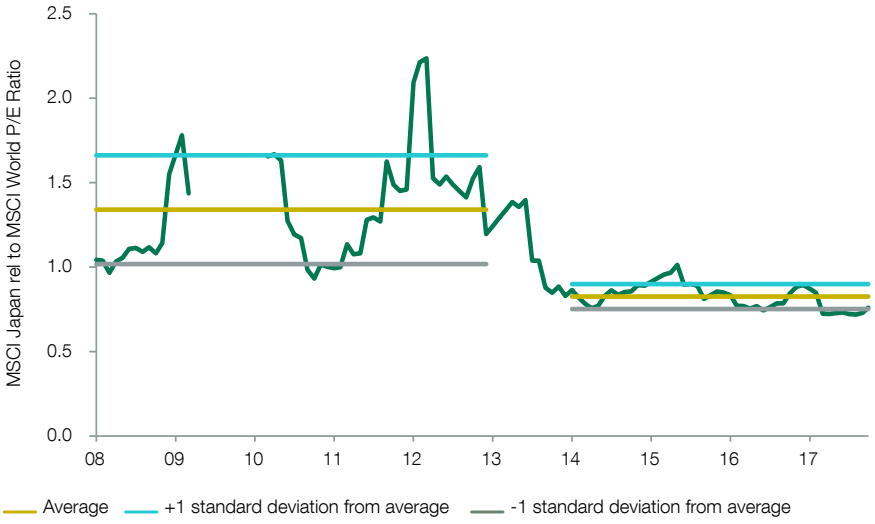
The long-suffering Japanese economy, much like Europe, should perk up at last and deliver 1.7% growth in 2017 as the benefits of global growth, domestic reforms and stimulus take hold. While still gaining from the higher global growth, Japan is now also a primary beneficiary of wealth creation across the Asian continent with tourist arrivals from Asia alone reaching 23 million in 2017, up from a modest 6 million over the past decade.

The strong and increasingly diversified economic backdrop should allow Prime Minister Abe to refocus and bolster economic reform momentum. His government should be driven by a more effective opposition and a desire to reshape Japan's constitution, to adopt bold policies, and to keep reforms focused on growing domestic demand and restructuring to support the transformation of the Japanese economy.

In contrast to the US, where elevated valuations constrain returns late in the economic cycle, in Japan the valuations set a strong starting point for both absolute and relative returns for investors, being near historical lows compared to global and US equities.

With current earnings expectations for 2018 modest, at 6%, investors appear still to underestimate the positive momentum not only of global but, just as importantly, also of domestic Japanese growth. Much like the US in 2013–2014, Japan corporates face few wage pressures while rising capacity utilisation suggests that the benefits of top-line growth should flow directly to bottom-line earnings for companies.

DESPITE ITS 2017 RALLY, JAPAN TRADES AT NEAR RECORD LOW VALUATIONS VS. GLOBAL EQUITIES



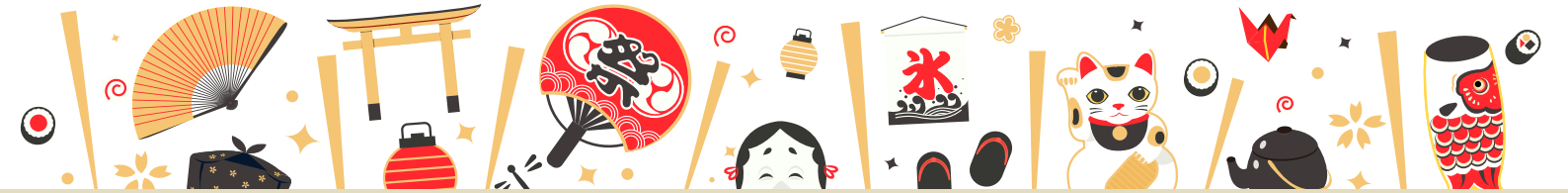
Sources: UBP, Bloomberg Finance L.P.

Monetary support for the economy remains in place as well, with the Bank of Japan now the only major central bank not to have begun to unwind its support for its local economy. Whereas US interest rates are rising and the European Central Bank is preparing to withdraw its quantitative easing, we expect the Japanese yen to emerge as an additional catalyst for earnings in 2018.

With growth solid and corporates expected to upgrade their guidance to analysts, a number of sectors should fare well. Synchronised global growth should underpin the Japanese industrial sector. Likewise, Japanese technology companies are a key part of the sector's global overweight. Banks have been laggards in 2017, despite having benefited from attractive valuations and central bank buying, and Japanese banks are cheap: they are trading at a price-to-book ratio of 0.6x, versus 1.2x for other developed market banks. Meanwhile increased household spending is a boon for consumer discretionary companies and should be reflected in higher equity prices.

"Both earnings and valuations can expand to drive returns in Japan in 2018."

Though geopolitical concerns about North Korea will continue to overshadow Japan's politics and economy, this is the case for the world economy as a whole. Should the tension escalate into conflict, global equities as a whole will be impacted. On the other hand if the threats, as they have over the past two decades, once again turn out to be bluster, Japan will be ready to recapture investors' attention in 2018.



Japan Reform Set to Accelerate

The October 2017 general election yielded ideal conditions for Prime Minister Shinzo Abe to accelerate economic reforms. Abenomics, the three-pronged economic strategy introduced in 2012, incorporates monetary easing, fiscal stimulus and structural reforms. Though its reputation is mixed, there are signs of success which suggest that the country is finally starting to respond to change.

Growth for this calendar year is expected to be close to 2%. This is partly down to monetary stimulus (quantitative easing) reducing the attractiveness of holding cash and thus encouraging households to spend rather than save.

It is against this backdrop that Prime Minister Abe emerges from the election with two opportunities. First, because the opposition has been severely weakened after an early strong showing, Abe has a two-thirds majority in both the lower and the upper houses of parliament. Abe can now pursue reform of Article 9 of Japan's pacifist constitution. Defence, industrials, technology and services would all be beneficiaries of a beefed-up military.

The second opportunity is in structural reform. Corporates have reported record profitability and yet the labour share of income has been falling steadily since the 1990s. PM Abe's opportunity is to arrest that decline.

It is here that reform of the Labour Standards Act is important. Abolishing the large difference in employment protection and benefits that exist between regular and non-regular employees is essential. Existing laws encourage demand for low-paid employees and shield salaried employees from job competition and termination. Smaller services companies with relatively low productivity have little incentive to raise wages and benefits. They choose to increase employment or enforce very long overtime hours. The system is geared towards wage stagnation – hence the signing of the action plan in March 2017 setting limits on enforced overtime.

More recently, Shinzo Abe called for a 3% increase in wages and salaries. With inflation currently at 0.7% a rise of 3% would significantly improve real wages and household spending power.

Other initiatives are also under way. Reform of corporate standards for listed companies should lead to eventual increases in return on equity (it has already risen somewhat this year). Raising indirect taxes is a necessary measure to make Japan's long-term finances less susceptible to downgrade and loss of confidence.

As with all reform programs, the opportunities lie in the execution. Having made good progress through the first two arrows of Abenomics, with his October 2017 election victory Prime Minister Abe has the platform to pursue the final arrow to secure a more durable recovery in Japan.

Domestic Reform Supports Cyclical Recovery in Emerging Markets

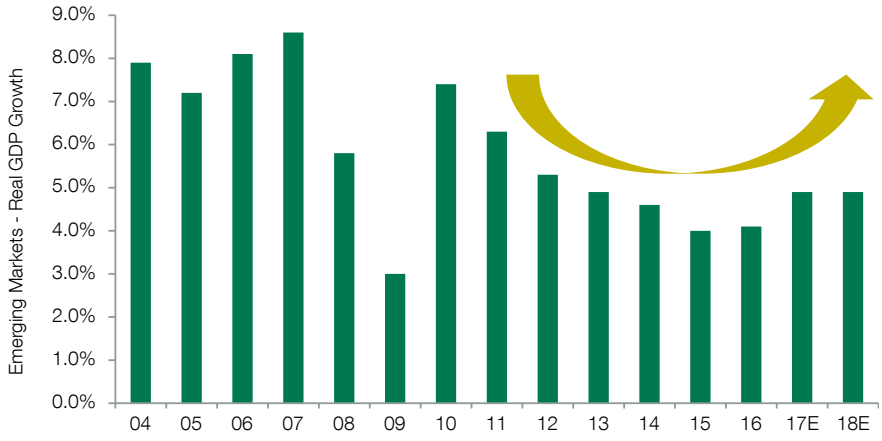
Emerging market assets have been among the strongest performers globally in 2017, with equities rising by 32% between January and October while spreads between hard-currency bonds and their US counterparts narrowed sharply despite fears stoked by geopolitical tension and US policy.

In contrast to the late-cycle US economy, emerging economies are in the early stages of recovery after five years of deceleration (chart). Following China's 2010–2016 slowdown, Chinese growth has rebounded in 2017, while Brazil has just returned to growth after its own deep recession in 2015 and 2016. Russia, though still hampered by Western sanctions, is similarly in its first post-recession year.

Indeed, following this prolonged slowdown, the emerging market consumer has returned, with retail sales across emerging markets beginning to stabilise, while corporates have ceased their deleveraging and loan growth is beginning to rebound.

Though economic re-acceleration will be modest, waning inflationary pressures locally, dynamic global growth and firm commodity prices should provide a tailwind for emerging market economies.

EMERGING MARKETS GROWTH IN THE EARLY STAGES OF RECOVERY



Sources: IMF, UBP

While JPMorgan EMBI+ sovereign spreads have narrowed from almost 500 basis points in January 2016 to 285 basis points currently, unlike other credit markets, emerging markets' spreads remain wider than previous cyclical lows, presenting investors with a relatively attractive opportunity in an increasingly expensive credit universe.

In equities, the MSCI Emerging Markets index has seen the extreme valuation discounts relative to developed markets narrow over the course of 2017. As a result, like in the developed world, emerging markets will increasingly rely on earnings to drive total returns in 2018.

Following strong earnings growth in 2017, earnings expectations for emerging market corporates appear modest. While there are

some prospects for upside surprises in light of rebounding commodity prices in the last weeks of this year, the resurgence of the US dollar in this last quarter presents a new headwind for emerging market returns in 2018.

On balance, we expect policy reforms to be positive for emerging market investors. However, the expected roll-out of reforms in China may initially prove to be an obstacle for investors in old-economy China early in the new year. In contrast, privatisations in Brazil and new policies designed to streamline the Indian economy (see section below), should provide opportunities across the broader emerging market universe.

Global trade policy remains a key risk to emerging markets generally, especially for 2018 in light of US Congressional elections where US trade policy will likely be a key issue (see section on risks, page 25).

Executing Reform Agendas

"Next year should see significant political change across key emerging countries and should reveal maturing economies which will allow domestic policy changes to boost returns for investors."

China

China's One Belt One Road (OBOR) scheme reflects that country's drive to extend its geopolitical influence with its push for infrastructure, trade, and renminbi banking into Asia, Africa and Europe. Companies will work with the Asian Infrastructure Investment Bank to raise capital for projects, much as US corporates did with the World Bank and the IMF, creating opportunities amongst OBOR-sensitive stocks.

Expanded privatisation of state-owned enterprises will continue to transfer risk from the state into private hands but, just as importantly, will entice liquidity from the shadow banking system in China into more regulated financial markets. The deepening of the Chinese bond market should be a natural benefit, including the potential for the development of a Chinese municipal bond market.

Brazil

Four years of chronic recession and political intrigue appear close to an end. The central bank has reduced interest rates from 14% to 8% while inflation has fallen to its lowest in 19 years. Having imposed limits on federal spending, liberalised labour markets and removed subsidies on long-term interest rates, Brasilia now has the opportunity to pursue more challenging reforms.

Brazil's fiscal burden is a growing reform driver with social security (including pensions) eating up 60% of government spending. As a result, we expect privatisation and public–private partnership infrastructure projects to top the reform agenda in 2018. A total of 57 state-owned businesses, including the national mint and high-profile utilities, are already on the government's privatisation agenda.

India

Since May 2014, India's Prime Minister, Narendra Modi, has improved financial accountability, widened the tax net, and broadened welfare eligibility. Facing the end of his term, PM Modi may choose to call early elections in order to secure a mandate to reorganise agricultural markets, accelerate bank restructuring, and clean up India's infrastructure roll-out to improve efficiency and long-term growth prospects.

Mexico

Negotiations with the United States over the North America Free Trade Agreement (NAFTA) present the most significant risk for Mexico, and emerging markets in general in the year ahead, we believe. With elections scheduled for 2018 in Mexico, the dissolution of NAFTA and the resulting economic uncertainty could bring a socialist candidate into office. This would undermine the country's fiscal finances and introduce new risk into its debt and equity markets, both of which carry their weight in the emerging market universe.

A Long-Cycle Turn in Commodities

Though any talk of commodities in recent years invariably turns to a discussion on gold, such a focus may distract investors from the long-cycle extremes being seen outside the precious metals space. Indeed, global commodities are approaching their late-1990s bear-market lows on an inflation-adjusted basis (see chart).

Driving the absolute and inflation-adjusted declines in commodities has been the bursting of the China commodity-demand bubble as the Chinese economy has seen its real growth rates slow from 10–15% per annum to a more modest 6–7% in recent years.

The immediate consequence for industries which typically invest over 5–10-year cycles was a prolonged period of oversupply forcing firms to deleverage their balance sheets or pare down capacity, or in the case of some weaker players, shut down.

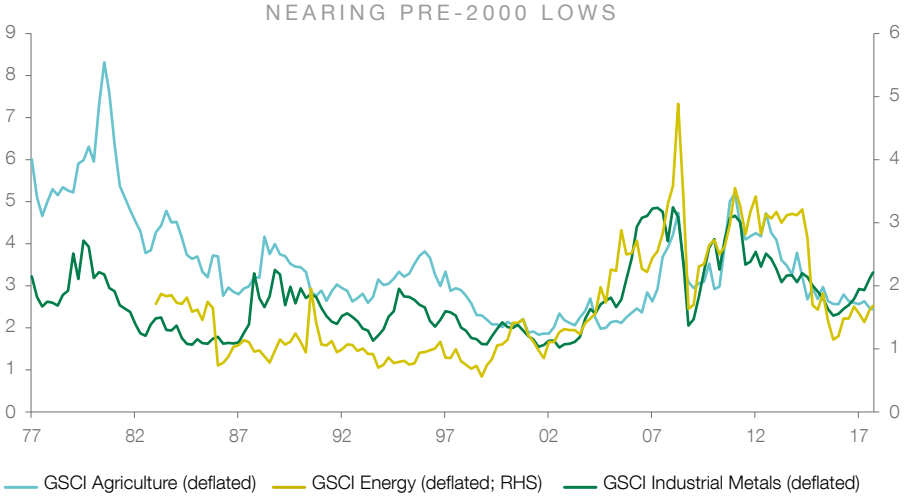
Following a 5–6-year bear market, the foundations for more durable commodity price performance are being laid as capital spending has been cut aggressively and inventories are beginning to be run down, restraining new supply growth. On the demand side, the first period of synchronised global growth since the financial crisis of 2008–2009 is providing broad-based demand support for commodities. As a result, fundamentals in many commodity complexes have ceased to be a constraint on prices and, for equity and credit investors, on profitability.

With agriculture susceptible to the vagaries of weather, the better long-term supply visibility in the industrial commodities and the metals & mining segment, combined with the balance sheet improvements among industry leaders, provides a long-cycle opportunity for investors. High-quality iron ore, aluminium, and copper producers look well positioned to capitalise.

In the energy sector, while the flexibility of US shale production remains a near-term concern, the retrenchment of long-cycle capital spending in recent years means that the end of the current decade has the potential to see a more acute supply–demand imbalance for long-term investors. In the short term, increasing capital discipline among US exploration and production companies suggests that, even in a sideways market for energy prices and with medium-term production being capped, rising return catalysts may appear for equity and credit investors.

Although the increasingly uncertain geopolitical backdrop (see page 25) certainly makes a case for owning gold, we fear the main headwind preventing a sustained rally in gold is the prospect of a continued rise in real interest rates, not only in the United States but also in the euro area as the European Central Bank seeks to taper its bond-buying program in 2018.

INFLATION-ADJUSTED COMMODITY PRICES NEARING PRE-2000 LOWS



*deflated by US GDP deflator. Sources: UBP, Bloomberg Finance L.P.

Identifying and Managing Multipolar Risks

Historically, the key risk facing investors has centred on the prospect of recession and the associated drawdown across global equities and corporate credit.

In the current era of growing populism and efforts towards political reform, an expanded framework for assessing risks facing investors is required taking into account these new axes of risk. Cyclical recession risk is now compounded by the threat of stalling political reform momentum, which could both hold back economic growth and exacerbate the populist leanings that have been growing in key countries. Moreover, increasingly frequent geopolitical threats are emerging that have the capability to derail reform agendas and still fragile recoveries in parts of the global economy.

UBP RISK FRAMEWORK

Risk momentum	LOW	MODERATE	HIGH
RISING	German–EU reforms PBoC tightens overly aggressively US president removed from office Saudi Arabia–Iran	US–North Korea EU fragmentation – Spain/Catalonia-led Hard Brexit	
STABLE	China reforms – banking crisis/devaluation US/eurozone inflation surprise French reforms US recession	US Fed tightens overly aggressively China reforms EU fragmentation – Italy-led US-led trade war	BoE tightens overly aggressively
FALLING	ECB tightens overly aggressively		

Probability of occurring

Source: UBP

To take into account this multipolar risk environment, we have codified these growth threats in the UBP Risk Framework (see chart), which currently actively assesses 17 potential risk catalysts.

Throughout 2016–2017, risks related to populism and reform in Europe were perceived as key threats. Looking into 2018, these risks have transformed, now focused on French reform momentum and the ability for the European Union to accelerate measures to transform its governance framework and solidify its foundations. Progress on French reforms is encouraging. However, the September 2017 German elections have increased the likelihood that a Franco–German effort to reform the EU may progress more slowly than it should, especially with the approach of key Italian elections in 2018. Failure to press ahead with reform would raise the risk that populists, emboldened by recent election triumphs in Austria and Germany, would see their support grow rapidly and potentially stall Europe's recovery.

Beyond Europe, the US shift to an 'America First' agenda creates a plethora of new risks – trade disputes, military conflict in North Korea, and unrest due to a realignment of regional balances of power in Asia and the Middle East. Many focus on the simmering confrontation between North Korea and the US, but investors should also pay attention to the lack of progress on the US renegotiation of the North American Free Trade Agreement where 2018 could see Donald Trump's protectionist trade policies become the centrepiece of the Republican campaign for control of the US Congress in the autumn. Moreover, while largely viewed as a local issue, the diplomatic crisis between Saudi Arabia and Qatar is another in a series of surrogate conflicts between Saudi Arabia and Iran, where risks have been rising throughout 2017.

Historically, investors have been able to retreat to the shelter of long-duration government bonds, gold or even the Swiss franc or Japanese yen. Though we will continue to use these tactically as protection for portfolios, given the overvalued nature of these typical 'risk-off' havens, alternative strategies are required in the face of these new multipolar risks. In the current low-volatility environment in equities and interest rates, we have introduced long-volatility strategies such as options to provide an additional tool for investors to protect their portfolios in the face of evolving risks.

MICHAËL LOK

Group CIO and Co-CEO Asset Management

Michaël Lok, who has over twenty years of experience in wealth and asset management, joined UBP in 2015 as Head of Investment Management. Previously, he was Global Head of Asset Management with Indosuez Wealth Management (Crédit Agricole Group), where he developed a range of UCITS funds for Private Banking and a set of UHNWI mandates and dedicated investment solutions with a focus on Asia and Latin America. This followed his roles as Head of Investment and Head of Risk and Quantitative Portfolio Management. Before that, he was Portfolio Manager at Banque Martin Maurel and HSBC France (ex-CCF). Michaël Lok holds two Master's degrees, one in Finance (DESS) and one in Banking and Finance (DEA), from the University of Aix-en-Provence (France).

NORMAN VILLAMIN

Chief Investment Officer (CIO) Private Banking

Norman Villamin joined UBP in November 2015 as Head of Investment Services and Treasury & Trading of UBP Zurich. He was appointed Chief Investment Officer (CIO) Private Banking in 2016. With over twenty years of experience managing wealth both on an advisory and discretionary basis, Norman Villamin has been Chief Investment Officer for Coutts International, Head of Investment Analysis & Advice for Citi Private Bank in Asia-Pacific as well as the Head of Asia-Pacific Research for HSBC and the Head of Asia-Pacific Strategy for Morgan Stanley based in Hong Kong and Singapore. Norman Villamin holds a Bachelor's degree in Business Administration from the University of Michigan and a Master's in Business Administration from the University of Chicago.

PATRICE GAUTRY

Chief Economist

Patrice Gautry joined UBP in Geneva in February 2000 and heads the Bank's Economic and Thematic Research department. Prior to that, from 1991 to 1999, he worked in the Institutional Asset Management department of HSBC Group in Paris as head of economics and investment strategy. From 1988 to 1991, he was a manager of European diversified SICAV and mutual fund portfolios for the Ecofi-Finance Group. Patrice Gautry holds a Research Master's degree (Diplôme d'Etudes Approfondies) in economics from the HEC-CESA Paris and the University of Orléans, with specialisations in currency, finance and banking.

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