

MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – MAY 2019



FOCUS

SUSTAINABLE AND RESPONSIBLE
INVESTMENTS – ESG INTEGRATION

EQUITIES

UNATTRACTIVE RISK/REWARD
AT THESE LEVELS

This is an excerpt of our Monthly House View. Should you wish to receive the full version, please [contact us](#).

EDITORIAL



DR PAUL WETTERWALD

Chief Economist,
Indosuez Wealth Management

ALL QUIET ON THE WESTERN FRONT

Dear Reader,

This title may ring a bell with you. It refers to a war story/movie released after the first world war in which everything was going as usual (as described by the “all quiet” sentence), which actually meant that a lot was happening behind the scene.

According to us, it describes quite well the current environment. Whereas the volatility has dramatically fallen, be it on the equity market, or on the forex one, trade negotiations are still ongoing. While we are getting closer to a deal between China and the USA, it has already resulted in a new agreement (the EPA) between Japan and the Euro Zone. The focus is now on renewed tensions between the latter and the USA.

In Europe, the Brexit saga is in a somewhat constructive phase as confirmed by the agreement on a new deadline set on 31 October 2019.

So, it is certainly not quiet in the West, but also less worrying than one could have feared.

That being said, we emphasise action in the East. Given how close the Chinese economy is to its official target growth rate, the Chinese authorities have embarked on a powerful stimulus program.

Thus, the improvement of the Chinese economy does not come as a surprise to us, but it did exceed the consensus forecast related to various data releases. Economic surprises are positive in China, but still negative in the USA and the Euro Zone. It bodes well for the remainder of the year, as China contributes one third of the world’s GDP growth.

FOCUS

SUSTAINABLE AND RESPONSIBLE INVESTMENTS – ESG INTEGRATION

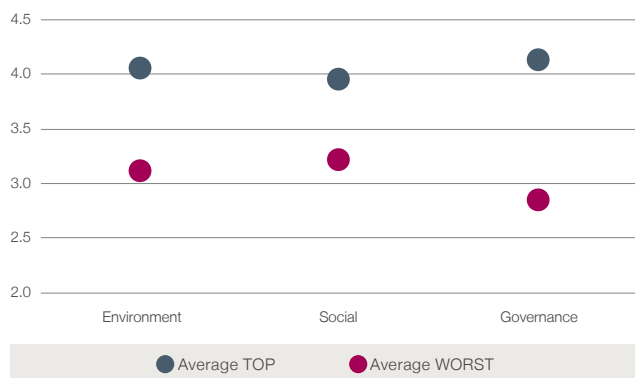
ESG AND PERFORMANCE

Sustainable and responsible investments (SRI) have had undeniable success, surging by more than a third worldwide since 2016 and reaching assets under management of more than USD 30 trillion at the start of 2018, according to the latest report of the Global Sustainable Investment Alliance. Among all investment strategies, Environmental, Social and Governance (ESG) integration saw the largest absolute increase in assets under management, with an additional USD 7 trillion, to USD 17.5 trillion. This segment is now approaching the size of the strategy of exclusion which involves removing assets that are judged negative from an ESG standpoint from the investment universe (USD 19.7 trillion).

As the name suggests, ESG integration incorporates ESG elements alongside traditional financial analysis in the asset selection process. In order to assess the links between ESG factors and companies' profitability metrics, dividends, leverage, and performance, we analyse the E, S, and G ratings for the Stoxx Europe 600 and the S&P 500 indices and the respective performances.

The following charts show the average results for the companies with the best E, S and G ratings in green, and those of the firms with the worst E, S, and G ratings can be seen in red.

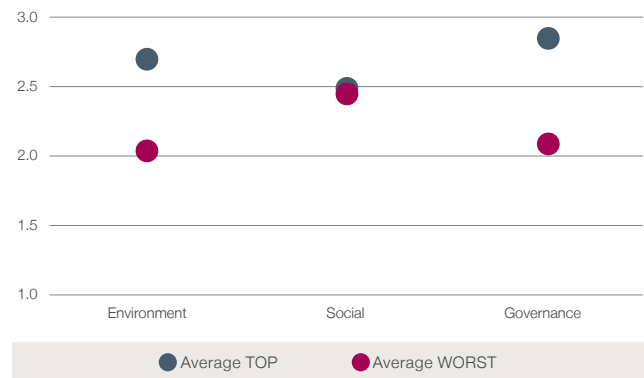
DIVIDEND YIELD, STOXX EUROPE 600, %



Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

Regarding ESG performance and dividend yields, we find that companies with better ratings tend to show higher dividend yields, both in Europe and in the US.

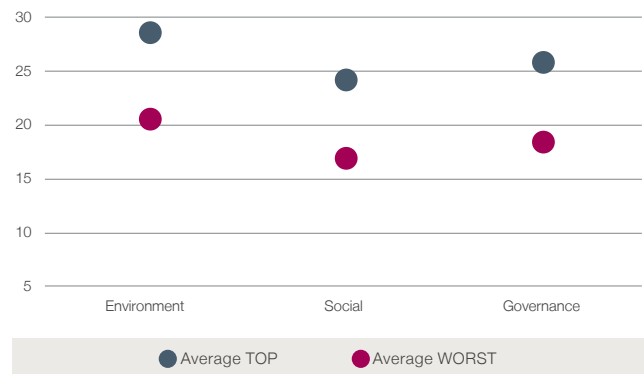
DIVIDEND YIELD, S&P 500, %



Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

Turning to profitability, US companies with better E, S and G ratings generally record higher returns on equity, while in Europe only companies with better E ratings show higher return on equity.

RETURN ON EQUITY, S&P 500, %

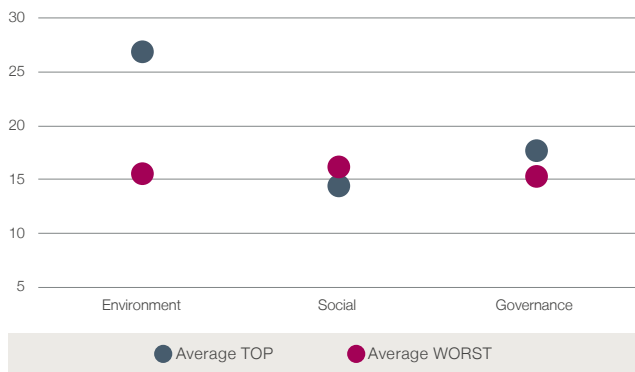


Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

FOCUS

SUSTAINABLE AND RESPONSIBLE INVESTMENTS – ESG INTEGRATION

RETURN ON EQUITY, STOXX EUROPE 600, %

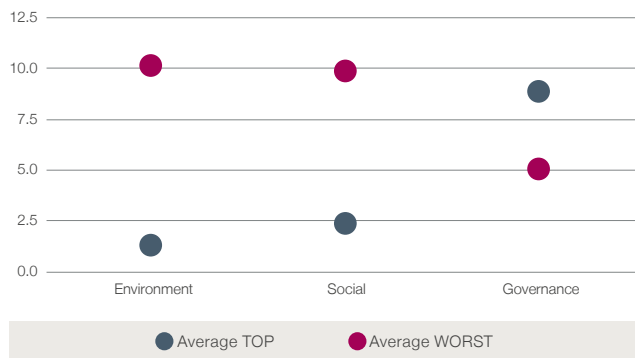


Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

Leverage, on the other hand, appears to be higher when the ESG ratings are also elevated.

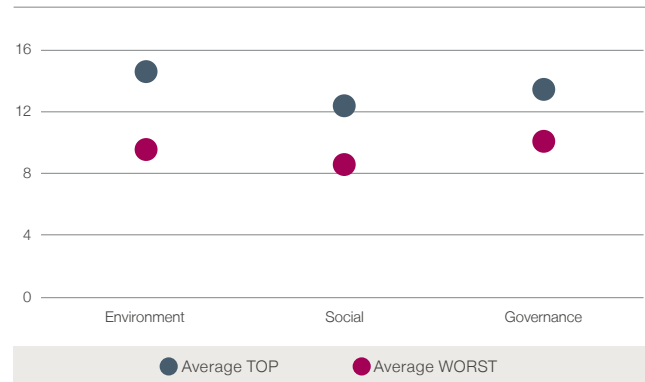
On the issue of total return performance, the outcome differs between the US and Europe. In the US, the companies ranked best on E, S, and G ratings outperformed companies ranked worst, over the past year. The opposite is true in Europe, where firms with the poorer ESG ratings outperformed those with higher scores, with the exception of the governance criterion where top rated firms outperformed those with lower governance scores.

STOXX EUROPE 600 TOTAL RETURN PERFORMANCE, 1 YEAR, %



Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

S&P 500 TOTAL RETURN PERFORMANCE, 1 YEAR, %



Source: Bloomberg, Indosuez Wealth Management
Past performance does not guarantee future performance.

How best to articulate a sustainable investment strategy remains an open question as the field offers many alternative methods which rely on metrics that do not yet benefit from a high degree of standardisation. Using ESG scores has its limitations, providers of such data use different methods and sources which make comparisons rather difficult. Relationships between ESG ratings and other metrics are likely to change over time. Nevertheless, integrating ESG ratings in the analysis of asset alternatives is at least taking a step towards investing sustainably and responsibly.

DISCLAIMER

CA Indosuez Wealth (Group) ("Indosuez Group"), incorporated under French law, the holding company for the Crédit Agricole group's Wealth Management business, and its related subsidiaries or Entities, namely CA Indosuez Wealth (France), CA Indosuez (Switzerland) SA, CA Indosuez Wealth (Europe), CFM Indosuez Wealth, their respective subsidiaries, branches and representative offices, whatever their location, CA Indosuez Wealth (Miami), CA Indosuez Wealth (Brazil) SA DTVM and CA Indosuez Wealth (Uruguay) Servicios & Representaciones SA operate under the single brand Indosuez Wealth Management. Each of the subsidiaries, its own subsidiaries, branches and representative offices as well as each of the other Indosuez Wealth Management Entities are referred to individually as the "Entity" and collectively the "Entities".

Banca Leonardo S.p.A, subsidiary of CA Indosuez Wealth (Europe), as well as its Swiss subsidiary Leonardo Swiss SA, are also included in those references individually and collectively.

This document entitled "Monthly House View" (the "Brochure") is issued for information purposes only.

Generally, the Brochure is not intended for any particular reader.

The Brochure has been prepared by the Markets, Investment and Structuring Department of CA Indosuez (Switzerland) SA (the "Bank"). It is not considered being a financial analysis pursuant to the Swiss Bankers Association's directives aiming to guarantee the financial analysis independence. Thus, these directives do not apply to the Brochure.

The information contained in the Brochure is based on sources believed to be reliable, but it has not been independently verified. The Bank does not represent or warrant (expressly or implicitly) that such information is current, accurate or complete. The Bank does neither represent nor warrant (expressly or implicitly) any projection, estimation, objective or opinion contained herein and no one should rely on it. The relevant date for the information contained in this document is, unless otherwise specified, the one indicated on the first page. Any references to prices or performances are subject to change at any time. Past prices and performances are not necessarily a guide to future prices and performances. Foreign currency rates of exchange may adversely affect the value, price or income of the financial instruments mentioned in this document if the reference currency of one of these financial instruments is different than the investor's.

The Bank may have issued or may issue in the future other documents that are inconsistent with, and reach different conclusions than those presented in this document. The Bank is under no obligation to ensure that such other documents are brought to your attention. The Bank may at any time stop producing or updating this document.

The Brochure does not, in any way, constitute an offer or an invitation of any nature with a view to any transaction or a mandate. Similarly, it does not, in any way, constitute a strategy, personalised or general investment or disinvestment recommendation or advice, legal or tax advice, audit advice, or any other advice of a professional nature. The information published in the Brochure has not been reviewed and is not subject to the approval or authorisation of any regulatory or market authority whatsoever, in whatever jurisdiction.

The Brochure contains general information on the products and services that are described therein, which may generate some risk depending on the products and services. The risks include, amongst others, political risks, credit risks, foreign exchange risks, economic risks and market risks. For a comprehensive description of the products and services mentioned in the Brochure, it is important to refer to the related documents and brochures. You are advised to contact your usual advisers in order to make your decisions independently, in light of your particular financial situation and your financial knowledge and experience.

The Entities or their shareholders as well as its shareholders, subsidiaries, and more generally companies in the Crédit Agricole SA group (the "Group") and respectively their corporate officers, senior management or employees may, on a personal basis or in the name and on behalf of third parties, undertake transactions in the financial instruments described in the Brochure, hold other financial instruments in respect of the issuer or the guarantor of those financial instruments, or may provide or seek to provide securities services, financial services or any other type of service for or from these Entities. Where an Entity and/or a Crédit Agricole Group Entity acts as an investment adviser and/or manager, administrator, distributor or placement agent for certain products or services mentioned in the Brochure, or carries out other services in which an Entity or the Crédit Agricole Group has or is likely to have a direct or indirect interest, your Entity shall give priority to the investor's interest.

The products and services mentioned in the Brochure may be provided by the Entities under its contractual conditions and prices, in accordance with applicable laws and regulations and subject to the licences they have obtained. They may, however, not be available from all Entities. They may be modified or withdrawn at any time without any notification.

The Brochure is not intended for or aimed at the persons of any country in particular. The languages in which it is drafted form part of the working languages of Indosuez Wealth Management. The Brochure is not intended for persons who are citizens, domiciled or resident in a country or jurisdiction in which its distribution, publication, availability or use would contravene applicable laws or regulations. The products and services may be subject to restrictions with regard to certain persons or in some countries. In particular, the products or services featured in the Brochure are not suitable for residents of the United States of America or Canada.

The Brochure is published by CA Indosuez (Switzerland) SA on behalf of Entities in the Indosuez Wealth Management Group, whose employees, experts in their respective field, contributing to the writing of the articles contained in the Brochure. The Brochure is published by CA Indosuez (Switzerland) SA on behalf of Banca Leonardo S.p.A. and its Swiss subsidiary. Each of the Entities makes the Brochure available to its own clients in accordance with applicable regulations. We would draw your attention to the following specific points:

- in France: this Brochure is distributed by CA Indosuez Wealth (France), a public limited company with a capital of 82,949,490 euros, a credit institution and an insurance brokerage company registered with the French Register of Insurance Intermediaries under number 07 004 759 and with the Paris Trade and Companies Register under number 572 171 635, whose registered office is located at 17, rue du Docteur Lancereaux - 75008 Paris, and whose supervisory authorities are the Prudential Control and Resolution Authority and the Autorité des Marchés Financiers. The information in this Brochure does not constitute (i) investment research within the meaning of Article 36 of Commission Delegated Regulation (EU) 2017-565 of 25 April 2016 and Article 3, paragraph 1, points 34 and 35 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, nor (ii) a personalized recommendation as referred to in Article D. 321-1 of the Monetary and Financial Code. Readers are advised to implement the information contained in this Brochure only after having exchanged with their usual contacts within CA Indosuez Wealth (France) and gathered, where appropriate, the opinion of their own specialised accounting, legal and tax advisers;

- in Luxembourg: the Brochure is distributed by CA Indosuez Wealth (Europe), a credit institution, 39 allée Scheffer L - 2520 Luxembourg, BP1104, L - 1011 Luxembourg, registered in the Luxembourg Trade and Companies Register under number B9198;
- in Belgium: the Brochure is distributed by CA Indosuez Wealth (Europe), Belgium Branch, Chaussée de la Hulpe 120 Terhulpesteenweg, Bruxelles B-1000, Belgium, registered in the Trade Register BE 0534.752.288;
- in Spain: the Brochure is distributed by CA Indosuez Wealth (Europe), Spain Branch, Paseo de la Castellana 1, 28046 Madrid, Spain, registered in the Trade Register CIF W-0182904 C;
- in Italy: the Brochure is distributed by CA Indosuez Wealth (Europe) Italy Branch, Piazza Cavour 2, I-20121 Milan, Italy, registered in the Trade Register REA MI under number 97468780156 and by Banca Leonardo S.p.A., Via Broletto n. 46, I-20121 Milan, Italy, registered in the Trade Register, both under number 09535880158;
- within the European Union: the Brochure may be distributed by Indosuez Wealth Management Entities authorised to do so under the Free Provision of Services;
- in Monaco: the Brochure is distributed by CFM Indosuez Wealth, 11, Boulevard Albert 1^{er} - 98000 Monaco registered in the Monaco Trade and Industry Register under number 56S00341;
- in Switzerland: the Brochure is distributed by CA Indosuez (Switzerland) SA, Quai Général-Guisan 4, 1204 Geneva, by CA Indosuez Finanziaria SA, Via F. Pelli 3, 6900 Lugano, and by Leonardo Swiss SA, Palazzo Gargantini, Via Guglielmo Marconi 2, 6900 Lugano. The Brochure does not constitute the product of a financial analysis within the meaning of the directives of the Swiss Bankers Association (SBA) relating to the independence of financial analysis within the meaning of Swiss law. Consequently, these directives are not applicable to the Brochure;
- in Hong Kong: the Brochure is distributed by CA Indosuez (Switzerland) SA, Hong Kong Branch, 29th floor Pacific Place, 88 Queensway. No information contained in the Brochure constitutes an investment recommendation. The Brochure has not been referred to the Securities and Futures Commission (SFC) or any other regulatory authority in Hong Kong. The Brochure and products it may mention have not been authorised by the SFC within the meaning of sections 103, 104, 104A or 105 of the Securities and Futures Ordinance (Cap. 571) (SFO). The Brochure may only be distributed to Professional Investors (as defined by the SFO and Securities and Futures (Professional Investor) Rules (Cap. 571D));
- in Singapore: the Brochure is distributed by CA Indosuez (Switzerland) SA, Singapore Branch 168 Robinson Road #23-03 Capital Tower, Singapore 068912. In Singapore, the Brochure is only intended for persons considered to be high net worth individuals in accordance with the Monetary Authority of Singapore's Guideline No. FAA-G07, or accredited investors, institutional investors or expert investors as defined by the Securities and Futures Act, Chapter 289 of Singapore. For any questions concerning the Brochure, recipients in Singapore can contact CA Indosuez (Switzerland) SA, Singapore Branch;
- in Lebanon: the Brochure is distributed by CA Indosuez Switzerland (Lebanon) SAL, Borj Al Nahar bldg., 2nd floor, Martyrs' Square, 1107-2070 Beirut, Lebanon. The Brochure does not constitute an offer and does not represent marketing material within the meaning of applicable Lebanese regulations;
- in Dubai: the Brochure is distributed by CA Indosuez (Switzerland) SA, Dubai Representative Office, The Maze Tower - Level 13 Sheikh Zayed Road, P.O. Box 9423 United Arab Emirates. CA Indosuez (Switzerland) SA operates in the United Arab Emirates (UAE) via its representative office which comes under the supervisory authority of the UAE Central Bank. In accordance with the rules and regulations applicable in the UAE, CA Indosuez (Switzerland) SA representation office may not carry out any banking activity. The representative office may only market and promote CA Indosuez (Switzerland) SA's activities and products. The Brochure does not constitute an offer to a particular person or the general public, or an invitation to submit an offer. It is distributed on a private basis and has not been reviewed or approved by the UAE Central Bank or by another UAE regulatory authority;
- in Abu Dhabi: the Brochure is distributed by CA Indosuez (Switzerland) SA, Abu Dhabi Representative Office, Zayed - The 1st Street- Al Muhairi Center, Office Tower, 4th Floor, P.O. Box 44836 Abu Dhabi, United Arab Emirates. CA Indosuez (Switzerland) SA operates in the United Arab Emirates (UAE) via its representative office which comes under the supervisory authority of the UAE Central Bank. In accordance with the rules and regulations applicable in the UAE, CA Indosuez (Switzerland) SA representation office may not carry out any banking activity. The representative office may only market and promote CA Indosuez (Switzerland) SA's activities and products. The Brochure does not constitute an offer to a particular person or the general public, or an invitation to submit an offer. It is distributed on a private basis and has not been reviewed or approved by the UAE Central Bank or by another UAE regulatory authority;
- in Miami: the Brochure is distributed by CA Indosuez Wealth (Miami) - 600 Brickell Avenue, 37th Floor, Miami, FL 33131, USA. The Brochure is provided on a confidential basis to a limited number of persons for information purposes only. It does not constitute an offer of securities in the United States of America (or in any jurisdiction where this offer would be illegal). The offer of certain securities which may be mentioned in the Brochure may not have been subject to registration in accordance with the Securities Act of 1933. Some securities may not be freely transferable in the United States of America;
- in Brazil: the Brochure is distributed by CA Indosuez Wealth (Brazil) SA DTVM, Alameda Itu, 852, 16th floor, São Paulo, SP, registered in the CNPJ/MF under number n. 01.638.542/0001-57;
- in Uruguay: the Brochure is distributed by CA Indosuez Wealth (Uruguay) Servicios & Representaciones SA, Av. Luis A. de Herrera 1248 - World Trade Center Torre III - Piso 15 - Of. 1576, 11300 Montevideo, Uruguay. The Brochure does not constitute an offer to a particular person or the general public or an invitation to submit an offer. It is distributed on a private basis. The Brochure and the products it may mention have not been reviewed or approved by or registered with the Central Bank of Uruguay or any other Uruguayan regulatory authority.

We draw your attention to the fact that access to certain products and services presented in the Brochure may be restricted or forbidden by the law of your country of origin, your country of residence or any other country with which you may have ties.

Please contact your banker and/or your usual advisors for further information.

The Brochure may not be photocopied or reproduced or distributed, in full or in part, in any form without the prior agreement of your Bank.

© 2019, CA Indosuez (Switzerland) SA / All rights reserved.

Photo credits: iStock.

Edited as per 17.04.2019.