PICTET
1805
Asset Management

<table>
<tr><th colspan="2">UNDERWEIGHT
–</th><th colspan="2">NEUTRAL
○</th><th colspan="2">OVERWEIGHT
+</th><th colspan="2">MONTHLY CHANGE
Maximum change
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GLOBAL ASSET CLASSES

We reduce our equity allocation to neutral and raise exposure to cash as our liquidity readings suggest riskier asset classes could come under pressure.

<table>
<tr><td></td><td></td><td colspan="2">Equities</td><td></td><td></td><td>◄</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Bonds</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Cash</td><td></td><td></td><td></td><td>▷</td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Gold</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Oil</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">USD</td><td></td><td></td><td></td><td></td></tr>
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EQUITY REGIONS AND STYLES

We raise our exposure to European stocks as monetary conditions in the region remain stimulative; we cut Pacific to underweight.

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<tr><td></td><td></td><td></td><td colspan="2">Japan</td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">US</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="2">Europe</td><td></td><td>▷</td></tr>
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<tr><td></td><td colspan="2">Emerging</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Mid & Small Cap</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Value</td><td></td><td></td><td></td><td></td></tr>
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EQUITY SECTORS

Amid signs that industrial output worldwide is weak, we have reduced our exposure to industrials and remain neutral energy and materials; we raise our exposure to telecoms on valuation grounds.

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<tr><td></td><td></td><td colspan="2">Energy</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Materials</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Industrials</td><td></td><td></td><td>◄</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Consumer Disc</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Consumer Staples</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Healthcare</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Financials</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="2">IT</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Telecoms</td><td></td><td></td><td></td><td>▷</td></tr>
<tr><td></td><td colspan="2">Utilities</td><td></td><td></td><td></td><td></td><td></td></tr>
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FIXED INCOME

We cut back our exposure to government bonds following the recent decline in yields; we raise EUR high yield to neutral and remain overweight EMD USD debt.

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<tr><td></td><td></td><td colspan="2">EUR Government</td><td></td><td></td><td>◄</td><td></td></tr>
<tr><td></td><td colspan="2">EUR Investment Grade</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">EUR High Yield</td><td></td><td></td><td></td><td>▷</td></tr>
<tr><td></td><td></td><td></td><td colspan="2">EMD Hard (USD)</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">EMD Local</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">EM Corporate</td><td></td><td></td><td></td><td></td></tr>
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Fed and China to weigh on stocks

Pictet Asset Management Strategy Unit

Monthly euro investor outlook on a 3 month view

Barometer

August 2015

Monthly outlook

Pictet Asset Management
Strategy Unit

Issued 3 August 2015

Global market overview

Emerging markets slide

A positive move in developed world equity markets in July – in part a reflection of improving US economic data – contrasted with persistent weakness in developing world stocks, with the MSCI World index delivering modest gains but its emerging market counterpart ending in negative territory. The month also saw wild swings in mainland Chinese shares, amplified by heavy-handed interventions by Beijing that failed to stem what ultimately proved to be a sharp slide.

Amid rising concerns over the health of China's economy, emerging market stocks, bonds and currencies fell, with those of commodity-exporting countries bearing the brunt of the sell-off. The Colombian peso, Brazilian real and the Russian rouble were among the hardest-hit currencies, falling sharply against the US dollar.

Worries over Chinese growth also contributed to a commodity price rout. Oil prices retreated to USD50 a barrel while the Bloomberg Commodity Index lost 10 per cent on the month, its biggest monthly decline in nearly four years. Commodity price falls had a major bearing on the returns of individual sectors in the MSCI World index. Material, energy and industrial stocks lagged the more defensive areas such as consumer staples and utilities by a wide margin, reinforcing a trend that has been in place over much of 2015. Year to date, the only industry sectors sporting losses in local currency terms are energy, utility, material and industrial sectors.

Bond markets saw yields on US Treasuries and Bunds fall as investors raised their exposure to safer assets in response to the turmoil enveloping Greece, China and other emerging markets. US Treasuries were on course to record their biggest monthly gain of 2015 while 10-year Bund yields broke below 0.7 per cent. Italian bonds were also on course to register their biggest monthly rise in some two years as the Italian Treasury cancelled scheduled debt auctions, saying it did not require the additional funding.

EM CURRENCIES ON THE SLIDE

JP Morgan emerging market currency index

Source: JP Morgan

Asset allocation

Cutting equities to neutral

The economic recovery in the developed world remains on track though we now believe it may be time to scale back our exposure to equities, which we have downgraded to neutral. Future monetary tightening in the US, even if it proves to be gradual, could have a negative impact on global liquidity and put a cap on stocks. We also raise our exposure to cash, and keep our neutral stance in fixed income, where a recent rally in government bonds appears likely to fade.

Business cycle readings show the global economy picked up modestly in June, marking a second consecutive month of expansion. This largely reflects a stronger performance in the US, where an underlying trend of solid job growth remains in place. The housing sector also showed strength.

However, industrial production contracted in the second quarter – reflecting a trend currently afflicting many economies. While consumer confidence is building and wages are rising, industrial production is either weak or contracting. This may suggest manufacturers' inventories are being wound down to meet demand and that, once exhausted, production could start to accelerate.

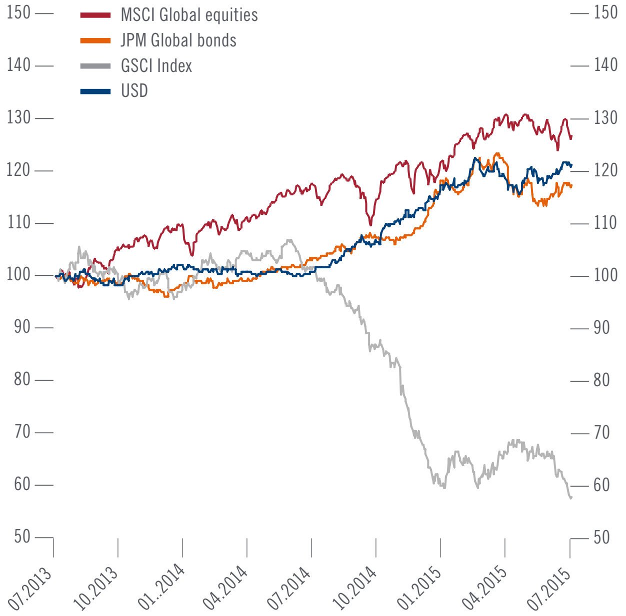
In Europe, the economic recovery remains intact even though activity is slower than in previous months, largely reflecting uncertainty over Greece. Momentum peaked in February and since then has been held back by weaker activity in Germany. Still, key economies on the European periphery such as Spain are providing some compensation. But while consumption is strong across the board in Europe, investment has so far failed to stage a more meaningful pickup.

In Japan, consumer spending is robust, underpinned by rising wages but anaemic industrial production, hampered by weak demand for the

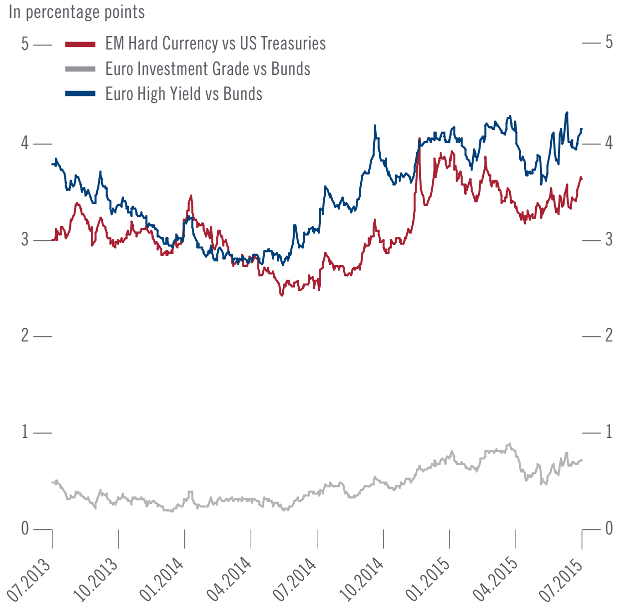
Source: Pictet Asset Management, Thomson Reuters Datastream / JPM and BoA Merrill Lynch

MAJOR ASSET CLASSES

PERFORMANCE: ASSET CLASSES

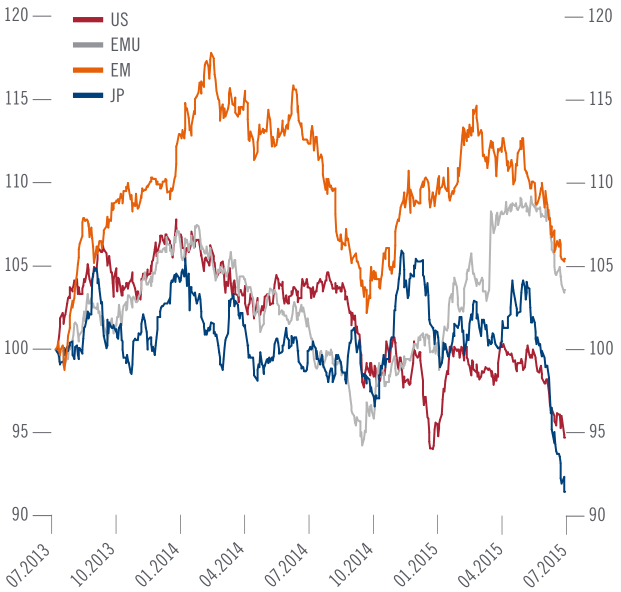


BONDS: ASSET CLASS SPREADS

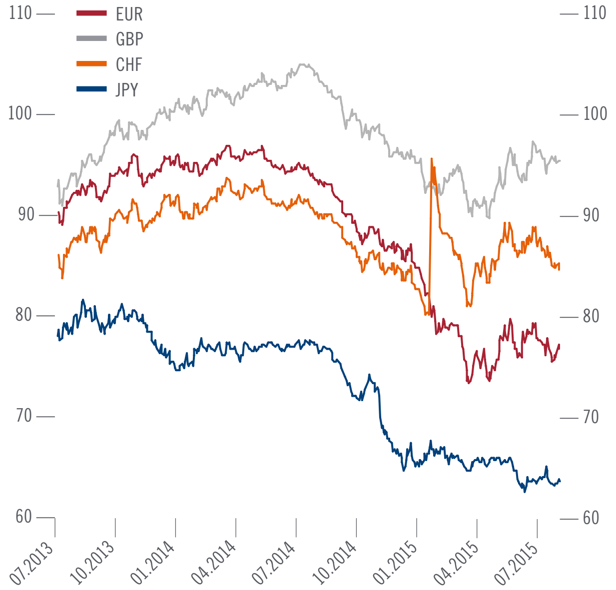


EQUITY SECTOR ROTATION AND CURRENCY PERFORMANCE

GLOBAL EQUITY SECTOR ROTATION:
PERFORMANCE OF CYCLICAL VS DEFENSIVE STOCKS



PERFORMANCE: CURRENCIES VS USD



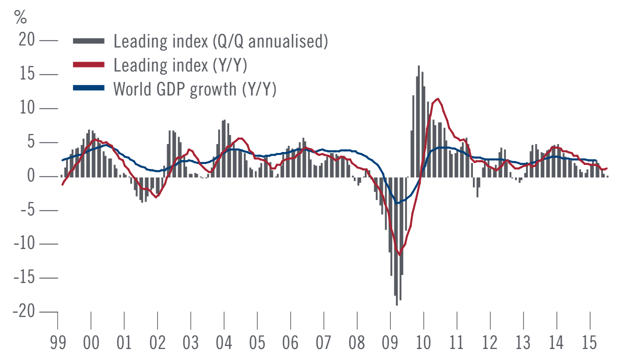
Source: Pictet Asset Management, Thomson Reuters Datastream

RISK BIAS INDICATORS

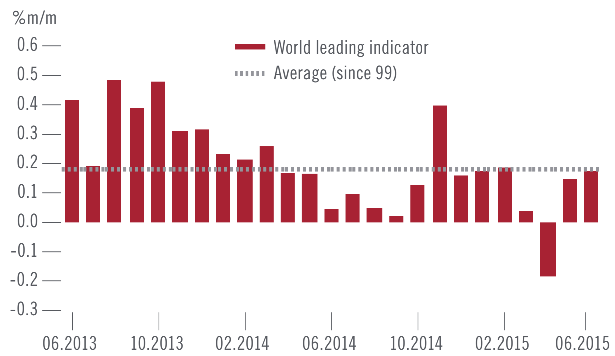
MONTHLY CHANGE (Maximum change ◄◄◄◄ / ▷▷▷▷)		RISK-OFF –		NEUTRAL ○		RISK-ON +	
	▷				Business cycle	Business cycle	
◄				Liquidity	Liquidity		
				Valuation	Valuation		
				Sentiment	Sentiment		
◄				PAM strategy	PAM strategy		

BUSINESS CYCLE: WORLD ECONOMIC MOMENTUM POSITIVE

WORLD LEADING ACTIVITY INDEX & REAL GDP GROWTH

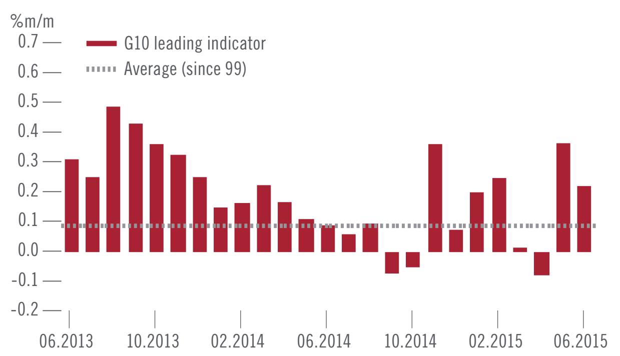


WORLD LEADING ACTIVITY SEQUENTIAL GROWTH (M/M)

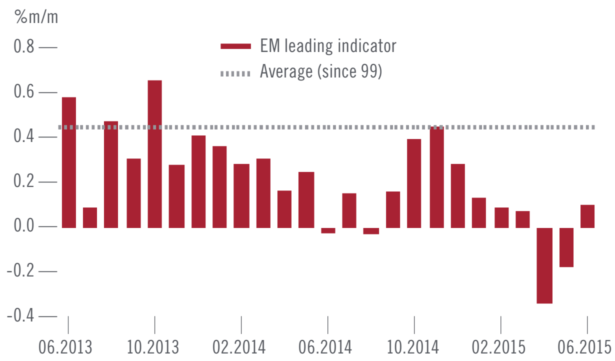


ECONOMIC MOMENTUM PICKS ACROSS DEVELOPED WORLD, OUTPACING EMERGING MARKETS

G10 LEADING INDICATOR M/M GROWTH



EM LEADING INDICATOR M/M GROWTH



Source: Pictet Asset Management, Thomson Reuters Datastream

VALUATION: EQUITY MARKETS AND SECTORS

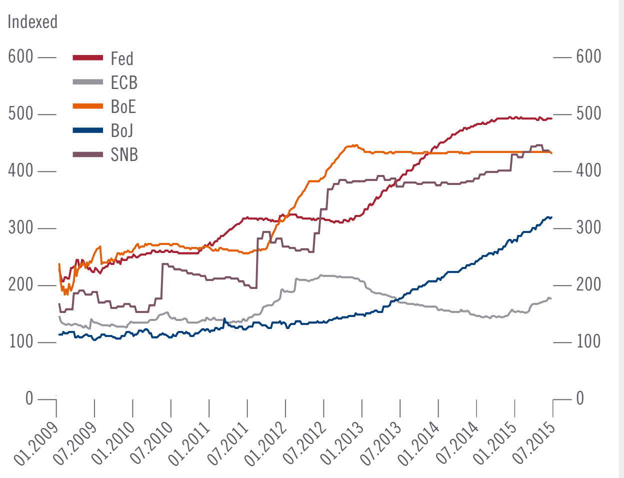
COUNTRIES AND SECTORS

MSCI REGIONS	EPS GROWTH 2015	EPS GROWTH 2016	SALES GROWTH 2015	SALES GROWTH 2016	PE 2015	PE 2016	PB 2015E	P/SALES 2015E	DY 2015E
US	1%	11%	-3%	6%	17.8	16.7	2.7	1.9	2.1%
Europe	1%	11%	-1%	5%	16.4	15.4	1.8	1.3	3.4%
EMU	13%	12%	4%	4%	16.0	14.9	1.6	1.0	3.1%
Switzerland	-4%	8%	-1%	4%	18.5	17.7	2.6	2.5	3.0%
UK	-12%	11%	-9%	6%	15.8	14.9	1.8	1.2	4.1%
Japan	18%	9%	3%	3%	15.6	15.1	1.4	0.9	1.9%
EM	3%	13%	0%	8%	11.6	10.9	1.3	0.7	3.0%
NJA	8%	10%	1%	8%	12.1	11.4	1.4	0.7	2.9%
Global	**2%**	**12%**	**-1%**	**6%**	**16.6**	**15.5**	**2.0**	**1.4**	**2.5%**

MSCI GLOBAL SECTORS	EPS GROWTH 2015	EPS GROWTH 2016	SALES GROWTH 2015	SALES GROWTH 2016	PE 2015	PE 2016	PB 2015E	P/SALES 2015E	DY 2015E
Materials	-8%	17%	-4%	4%	16.2	14.8	1.6	0.9	3.0%
Industrials	6%	11%	3%	4%	16.7	15.7	2.4	1.0	2.4%
Consumer Discretionary	15%	15%	5%	6%	18.0	16.7	2.9	1.2	1.9%
Consumer Staples	1%	9%	3%	5%	21.2	20.1	3.8	1.3	2.6%
Health care	8%	13%	8%	7%	20.3	18.9	4.1	2.2	1.7%
Financials	11%	9%	6%	5%	13.1	12.4	1.2	1.8	3.0%
IT	7%	11%	5%	5%	16.6	15.5	3.2	2.2	1.6%
Telecoms	7%	9%	3%	3%	16.6	15.9	2.2	1.4	4.0%
Utilities	6%	0%	0%	2%	14.6	14.5	1.5	0.9	3.9%
Market	2%	12%	-1%	6%	16.6	15.5	2.0	1.4	2.5%

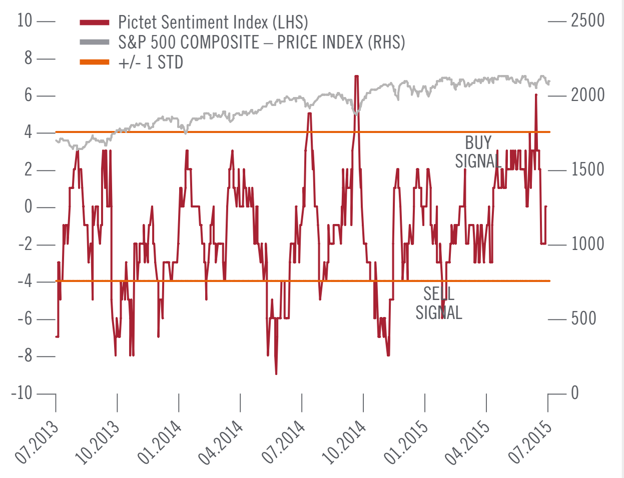
LIQUIDITY: FED ENDS QE BUT MONETARY STIMULUS CONTINUES ELSEWHERE

SIZE OF CENTRAL BANKS' BALANCE SHEETS



SENTIMENT INDICATOR IN NEUTRAL GEAR

PICTET SENTIMENT CYCLE INDEX



country's exports from slowing Asian economies, particularly China, has caused some leading indicators to contract. We are not yet concerned about Japan's economic growth trajectory, as this is still supported by private domestic demand. Evidence of this can be seen in retail sales and a strengthening housing sector.

Weaker momentum in China is a worry, however, given it is an important motor for global economic activity and accounted for 35 per cent of global growth over the last five years. But there are signs the slowdown may have bottomed out. Recent economic data was better than expected and there are encouraging signs that gathering strength China's services industries is partly offsetting the poor performance of its manufacturing sector.

The recent volatility in the stock market, meanwhile, introduces an element of political risk. Authorities' repeated interventions have failed to reverse the slide in domestic equities, raising questions over their decision-making and commitment to market reform. Many other emerging markets continue to look relatively weak in comparison to developed economies with notable exceptions such as India.

In terms of **liquidity**, our indicators show that money growth peaked in the first quarter of the year with the subsequent slowdown likely to reflect tightening money supply in the US ahead of the US Federal Reserve's first interest hike, which is expected by the end of the year.

This could herald a bout of volatility as our models show that market corrections unfold about one to two quarters after liquidity readings plateau. Meanwhile, our credit impulse readings, which use changes in the flow of credit to predict shifts in levels of loan-making activity, are down in the US and Japan, presenting a potential risk to growth.

Much will be determined by when and by how much the Fed raises rates. In our view, the first hike will almost certainly come before the end of the year but with the global economic recovery still fragile and deflationary pressures building thanks to low energy and commodity prices, the pace of tightening is likely to be much slower than in previous cycles.

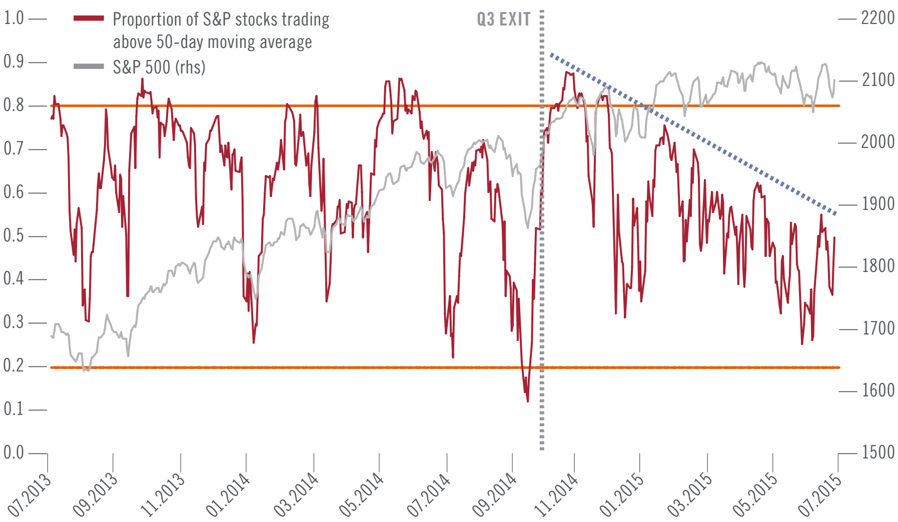
In terms of **sentiment**, the trend for an ever shallower rally in S&P 500 has continued into the second half with the percentage of stocks closing above their 50-day high declining steadily (see chart).

This is reminiscent of the conditions that prevailed in the lead-up to the stock market bubble of the late 1990s. Our other sentiment signals are broadly neutral although flows suggest investors remain under-invested in stocks. Retail investment flows into equities have amounted to USD40 billion this year, compared with USD 110 billion into bonds.

Looking at the relative **valuation** of asset classes, we believe the equities rally may be due a pause. Price-earnings ratios remain well above the long-term norm, especially in the US where equities trade close to 18 times 2015 earnings.

Low bond yields have supported equity valuations but for stocks to rise from here, earnings growth needs to improve and we have yet to see signs of that. The second quarter earnings season has seen mixed results. While companies have on aggregate beaten consensus estimates in both US and Europe for the quarter, the guidance they gave for future earnings has been disappointing on the whole.

MARKET RALLY SHOWING SIGNS OF FATIGUE



Source: Thomson Reuters Datastream, Pictet Asset Management

Equity region and sector allocation

Raising exposure to Europe

We keep our preference for Japanese and European stocks, but we upgrade the latter to a full overweight. The Pacific ex-Japan region is downgraded on account of the slowdown in China, which could become a drag on its Asian trading partners.

The allure of European stocks has increased now that Greece and its creditors are progressing towards a new bailout deal that should keep the country in the euro zone. As the uncertainty surrounding Athens has lifted, a more positive light is shining on the region while valuations have become more reasonable following the correction of the past few months.

Economic growth is resilient, led by a recovery in debt-laden countries such as Spain and Italy, which has made up for economic weakness in Germany. This is supporting corporate earnings in the euro zone. Earnings are expected to grow 7.7 per cent this year but our models suggest they could accelerate even further. Much of the recovery has been attributable to strong household spending, reflecting improved consumer confidence. Business spending growth remains muted but the European Central Bank's latest bank lending survey is encouraging with reports that credit standards on loans to companies have continued to ease, and that a net 13 per cent of banks reported an increase in demand for corporate loans up from 1 per cent in the previous quarter. Our proprietary monetary conditions indicator shows that credit conditions in the euro zone are at their most stimulative in at least 20 years (see chart). These improvements suggest the ECB's monetary easing policies are succeeding.

Signals have become more mixed for the short-term trajectory of Japanese stocks. The impact of the Bank of Japan's liquidity injections seems to be fading, and exports are losing momentum. However, favourable structural trends continue to paint a positive long-term outlook for Japanese corporate earnings. The reform policies of Prime Minister Shinzo Abe, aimed at improving corporate governance and encouraging shareholder-friendly behaviour, have the potential to raise the country's return on equity.

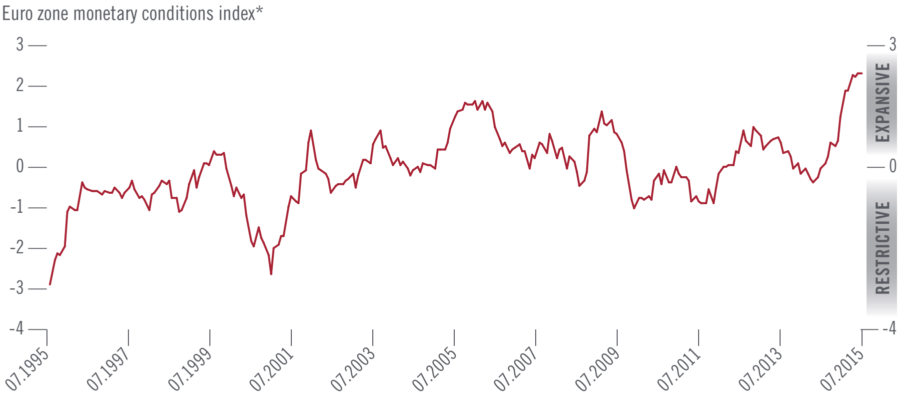
Stocks in the Pacific ex-Japan region are cut to underweight as Asia's export hubs are being negatively affected by China's slowdown.

Elsewhere, emerging markets valuations are attractive but the deterioration in earnings growth - the trigger for last month's downgrade of the asset class to underweight - remains a concern. A likely rate hike in September or October from the US also raises the prospect of heightened volatility for emerging stocks.

Meanwhile, economic momentum continues to improve in the US and offers a solid backdrop for US firms. Over 70 per cent of companies that have reported second-quarter results so far have beaten estimates. However, earnings guidance has been more muted. Consensus forecasts for earnings growth for the full year remain unchanged at 1 per cent for this year and 17 per cent for 2016. This acceleration seems to already have been discounted and valuations of 17.9 times 12-month earnings - or a price-to-book ratio of 2.7 - make US equities the most expensive region on our scorecard. What is more, the combination of historically high profit margins and a strong US dollar suggests that US companies will find it difficult to boost earnings over the medium term. As a result, we remain underweight the US.

In our sector allocation, we trim our long-established overweight bias towards the sectors most exposed to the economic cycle, to reflect the recent weakness in manufacturing globally. Industrials, which were the second-most expensive sector on our scorecard, are cut to neutral. This is offset by an upgrade of telecoms, where stock valuations are attractive and investor positioning is light, in our view. Longer term we are confident that cyclical stocks offer greater potential.

MONETARY CONDITIONS REMAIN STIMULATIVE IN EURO ZONE



*Based on standard deviation of current interest rate, money supply growth and EUR/USD exchange rate from long-term average

Source: Pictet Asset Management

PICTET
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Fixed Income

Favouring EM US dollar debt over government bonds

With worries about the future of the Chinese and Greek economies having inspired a rally in government bonds in recent weeks, we have decided to scale back our exposure to European sovereign debt from overweight to neutral on valuation grounds. The move has been accompanied by an upgrade of European high-yield bonds to neutral. We also retain our overweight position in US dollar emerging market debt.

As 10-year Bund yields have broken below 0.7 per cent, the scope for a further gain in government bonds is limited, particularly as the US Federal Reserve appears to be laying the groundwork for an interest rate rise some time before the end of this year.

And if the market does indeed begin to buy into the notion of a tightening of the US monetary reins in the coming months – as we suspect it will – we believe lower-duration securities would fare better. This partly explains our rationale for shifting in favour of high yield bonds at the expense of their government counterparts. At just three and a half years, the average duration of high yield debt is not only less than half that of Bunds but lower than almost any other mainstream fixed income asset class.

But the appeal of high yield bonds extends beyond the technical aspects of the asset class. The credit profile of the companies that make up the market remains strong in aggregate, with many firms having bolstered their balance sheets by extending the maturity of their liabilities. According to gauges such as Moody's Liquidity Stress Index, which measures the liquidity of lower-grade issuers, the number of companies considered to be under stress remains low by historic standards. Seen in this light, European high-yield bonds' yield spread of just over 400 basis points offers more than sufficient compensation against the risk of default which is running at an annual rate of just 2.4 per cent.

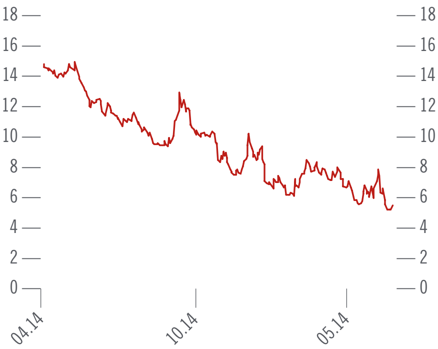
Elsewhere, we stick to our overweight stance on US dollar emerging market debt. The asset class has proved resilient even as worries over the outlook for emerging market growth have intensified. This, we believe, is in part a reflection of favourable supply and demand dynamics. The net supply of US dollar emerging market debt over the remainder of 2015 is expected to be below USD1 billion while net investment inflows into the asset class have remained in positive territory. We expect these favourable technical trends to remain in place over the short to medium term. We don't expect the US dollar to appreciate much further from here against key developed currencies.

Olivier Ginguené, Chairman
Pictet Asset Management Strategy Unit

Luca Paolini, Chief strategist
Pictet Asset Management

MARKET BRACED FOR US RATE HIKE

Number of months until first US interest rate rise, as implied by US futures



Source: Thomson Reuters Datastream

ABOUT THE PSU

The Pictet Asset Management Strategy Unit (PSU) is the investment group responsible for providing asset allocation guidance across stocks, bonds, cash and commodities.

Each month, the PSU sets a broad policy stance based on its analysis of:

- **business cycle:** proprietary leading indicators, inflation
- **liquidity:** monetary policy, credit/money variables
- **valuation:** equity risk premium, yield gap, historical earnings multiples
- **sentiment:** Pictet sentiment index (investors' surveys, tactical indicators)