

Equity Management

PROJECTED RESULTS AND VALUATIONS

■ **Profit warnings are multiplying** on the eve of earnings reports, particularly for firms exposed to consumption and construction, and those unable to quickly pass on higher costs to their customers.

■ The consensus has revised its 2011 profit estimates downward for all regions, even the U.S., which previously had seen only upward adjustments.

■ Earnings-revision momentum is now negative for the United States.

■ The recent trend in the equity markets is stabilising valuations at an intermediate level.

■ Europe is pulling away from the U.S. and offers more attractive valuations.

OTHER FACTORS

■ **Flows: Resumption of withdrawals from U.S. equity funds...**

- ... and modest subscriptions in Europe
- Reduced appetite for financial transactions: delays of some IPOs, slower M&A activity.

Graphic analysis: European markets testing support levels.

• The S&P 500 continues to trend within a broad corridor and remains blocked by the upper bound; the European indices are weaker, as illustrated by the CAC, which has breached short-term support levels.

• No weakening of medium-term configurations which, for now, remain positive and offer key support between 5% and 10% below current levels.

OUTLOOK

Will corporate earnings measure up?

• For almost two years, in a challenging macroeconomic climate, corporate earnings have provided continuously solid support to equity markets.

• However, for several months we've been underlining the excessive optimism of the consensus, with corporate margins at an all-time high and struggling to improve.

• We haven't altered our earnings growth expectations, which are still below those of the consensus. But we are keeping a close watch on second-quarter earnings reports, which could disappoint under the combined pressure of higher commodity costs and weak demand.

• On the macroeconomics side, the eurozone is experiencing a new peak in the crisis, as European authorities take more time than expected to put a lasting solution in place. This crisis is driving a fresh bout of undue risk aversion and rising volatility.

• Despite these concerns, and in light of the challenges, we believe that the crisis will ultimately be resolved, and have therefore not changed our level targets, which reflect positive expectations at 3 months, as well as at 12 months (Europe). However, these expectations are highly dependent on corporate earnings, and we would have to revise them in the event of significant disappointments in the coming days.

A WORD ABOUT THE INVESTMENT STRATEGY

■ **The sectoral strategy emphasises the protective pricing power of results.** As such, we are maintaining our exposure to the automobile sector and increasing that to consumer goods, with a focus in both cases on luxury shares. In respect of financial shares, we are closing our short bet on diversified financials, though we remain cautious on banks.

Completed on July 18th 2011

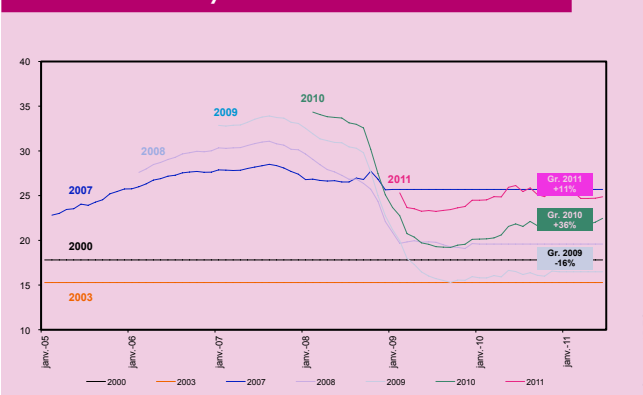
C.CO

Performance of the main indices since the start of the year

	13/07/11	Var. 2011 in euros
DJ Euro Stoxx 50	2715	-2,78 %
SBF 250	2815	0,52 %
CAC 40	3793	-0,30 %
FTSE 100 (UK)	5906	-2,58 %
S&P 500	1318	-0,74 %
Nasdaq	2797	-0,12 %
Topix (Japan)	861	-6,92 %

Source: Datastream

Profits forecast by the consensus on Euro Stoxx



Source: IBES

Performances of international stock market indices in local currency



Source: Datastream