# Equity Management

## PROJECTED RESULTS AND VALUATIONS

### Projected earnings: more adjustments to come?

• The analysts' consensus revised its outlook sharply downward for earnings growth in the eurozone in 2011, from 9 % in July to 5 % currently. For our part, we've revised our expectations to 4 %.

• The consensus expects double-digit growth for 2012, which seems highly uncertain.

### Valuations: Collapse in valuations

• The extreme levels of the crisis have again been reached, even taking into account a downward trend in earnings revisions which has just begun.

## OTHER FACTORS

### Flows: Significant withdrawals from equity funds

• In June and July withdrawals in the U.S. reached their highest level since October 2008.

• But low prices are attracting predators and leading to a spate of M&A activity and share buybacks.

### Chart analysis: The bear market is still with us

• The main markets are following a negative trend which could quicken into a sell-off in the very short term. For a sustainable rally to occur, the markets will first have to be stabilised.

• Deterioration in the medium and long term remains troubling and confirms that we are still in a bear market.

## OUTLOOK

### Levels at point of entry, despite all else…

• Since last summer, the equity markets have had to choose between the plague (risk of recession in the U.S., without a budgetary escape hatch) and cholera (eurozone sinking deeper into the sovereign crisis with diminishing clarity on the possible outcome).

• Of course, we have no visibility in either case. While the economic indicators are for now pointing more to a slowdown than a recession, the panic of last summer could be self-fulfilling, with businesses adopting a "wait and see" attitude and consumers one of worry. The bond situation in the eurozone holds even more uncertainty.

• That said… Some elements should play their role of restoring equilibrium. Valuations are incredibly attractive, even with our assumptions on earnings growth, which are very conservative and well below the consensus. Indicators of sentiment are in the panic zone, a usually contrarian signal.

• The markets' current levels therefore represent a point of entry under a long-term perspective, even if the timing is uncertain: our 3-month targets, slightly higher than current prices, do not rule out new periods of stress. Our 1-year targets for the euro zone imply multiples of 10.8x on 2012 profits, down 7 % from 2011, which seems a very conservative assumption.

• In this context, we are focusing on Asian markets whose potential for economic growth—and therefore earnings growth—is higher than that of developed countries, as well as the Japanese market which is expected to continue its post-tsunami catch-up.

## A WORD ABOUT THE INVESTMENT STRATEGY

**We continue to avoid financial shares and are taking profits** on the automotive and food processing sectors. We are maintaining our bias for shares related to emerging consumption.

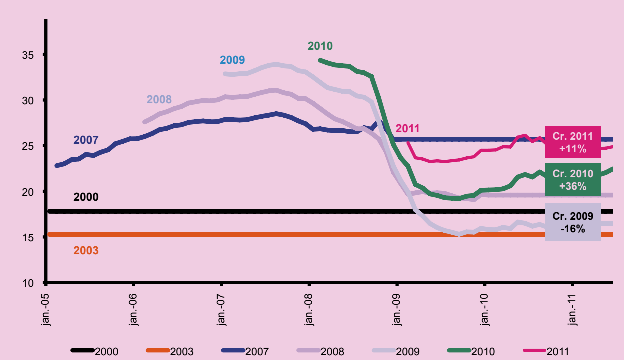
C.CO

### Performance of the main indices since the start of the year

| | 13/09/11 | Var. 2011 in euros |
|---|---|---|
| DJ Euro Stoxx 50 | 2037 | -27,08 % |
| SBF 250 | 2180 | -22,15 % |
| CAC 40 | 2895 | -23,91 % |
| FTSE 100 (UK) | 5174 | -13,25 % |
| S&P 500 | 1173 | -8,53 % |
| Nasdaq | 2535 | -6,38 % |
| Topix (Japan) | 750 | -13,68 % |

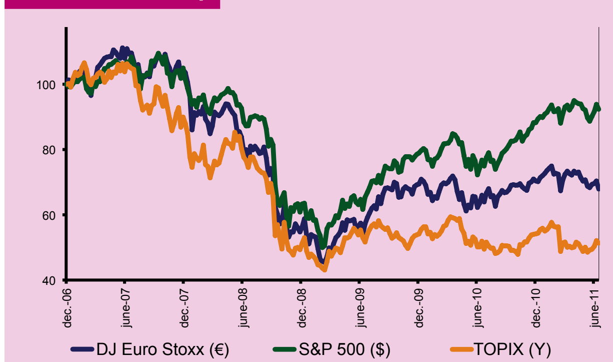
Source: Datastream

### Profits forecast by the consensus on Euro Stoxx




Source: IBES

### Performances of international stock market indices in local currency




Source: Datastream

Groupama Asset Management