

Equity Management

PROJECTED RESULTS AND VALUATIONS

Earnings forecasts: Further downward revisions

- The eurozone, now in recession, is leading the pack on negative EPS revisions.
- Accordingly, for 2012 we are now forecasting a 9% drop in profits in the eurozone and zero growth in the U.S.

The under-valued equity markets must be viewed in context

- The equity markets still have upside potential but in a context of lowered guidance and likely weaker long-term growth.

OTHER FACTORS

Cash and banks: Withdrawals from European equity funds are moderate, but picking up steam in U.S. equity funds

- Another major slowdown in financial transactions: predators are losing their appetite. Conversely, capital increases are planned for some banks.

Chart analysis: Markets are resilient, but worries persist for 2012

- The trend is fairly bullish for the year-end, and the rally could last several months.
- But the deterioration of long-term charts is stoking fears of bearish turn in 2012.

OUTLOOK

Outlook: From summit to summit, a narrow ridgeline, still not far from the precipice

- Each European summit brings a (small) step more towards the resolution of the debt crisis. But the time horizon of investors is more pressing than that of politicians and has little tolerance for the hesitations, countervailing pressures and electoral risks inherent to the world of politics. In addition, while Europe is edging slowly towards fiscal integration and the eventual repair of public finances, the issue of a "firewall" for sovereign debt remains sensitive. Lastly, there's still the matter of growth to contend with, conspicuously absent from discussions.

- The ridgeline is therefore especially tricky, and the chaotic news flows expected in the coming months portend renewed high volatility.
- Meanwhile, the macroeconomic environment remains problematic: Austerity policies and tighter credit conditions are going to weigh on corporate profits. We've thus lowered our 2012 growth forecasts for the eurozone by 9%, far below those of the analysts' consensus, reflecting a substantial risk of negative surprises.
- We've slightly corrected our 1-year expectations, which remain moderately positive, with a continued emphasis on Asia. These forecasts, and our expectations of a zero change at 3 months, still obscure the anticipation of numerous volatility shocks in 2012.

A WORD ABOUT THE INVESTMENT STRATEGY

- We've maintained our exposure to financial shares (banks and insurance), even as systemic risk is subsiding thanks to the ECB. We continue to prefer technology as well as shares exposed to consumption in emerging markets, but we have nevertheless reduced our exposure to the automobile sector.

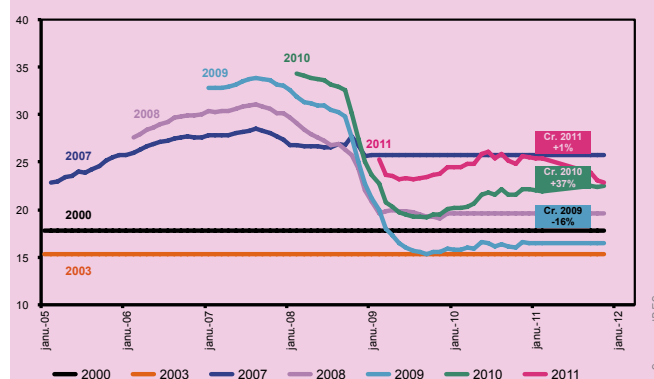
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Performance of the main indices since the start of the year

	14/12/11	Var. 2011 en euros
DJ Euro Stoxx 50	2206	-21,01 %
SBF 250	2207	-21,19 %
CAC 40	2976	-21,78 %
FTSE 100 (UK)	5367	-7,24 %
S&P 500	1212	-0,19 %
Nasdaq	2539	-0,85 %
Topix (Japan)	737	-11,81 %

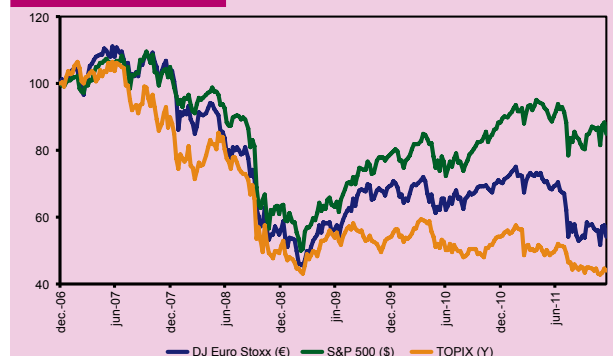
Source: Datastream

Profits forecast by the consensus on Euro Stoxx



Source: IBES

Performances of international stock market indices in local currency



Source: Datastream