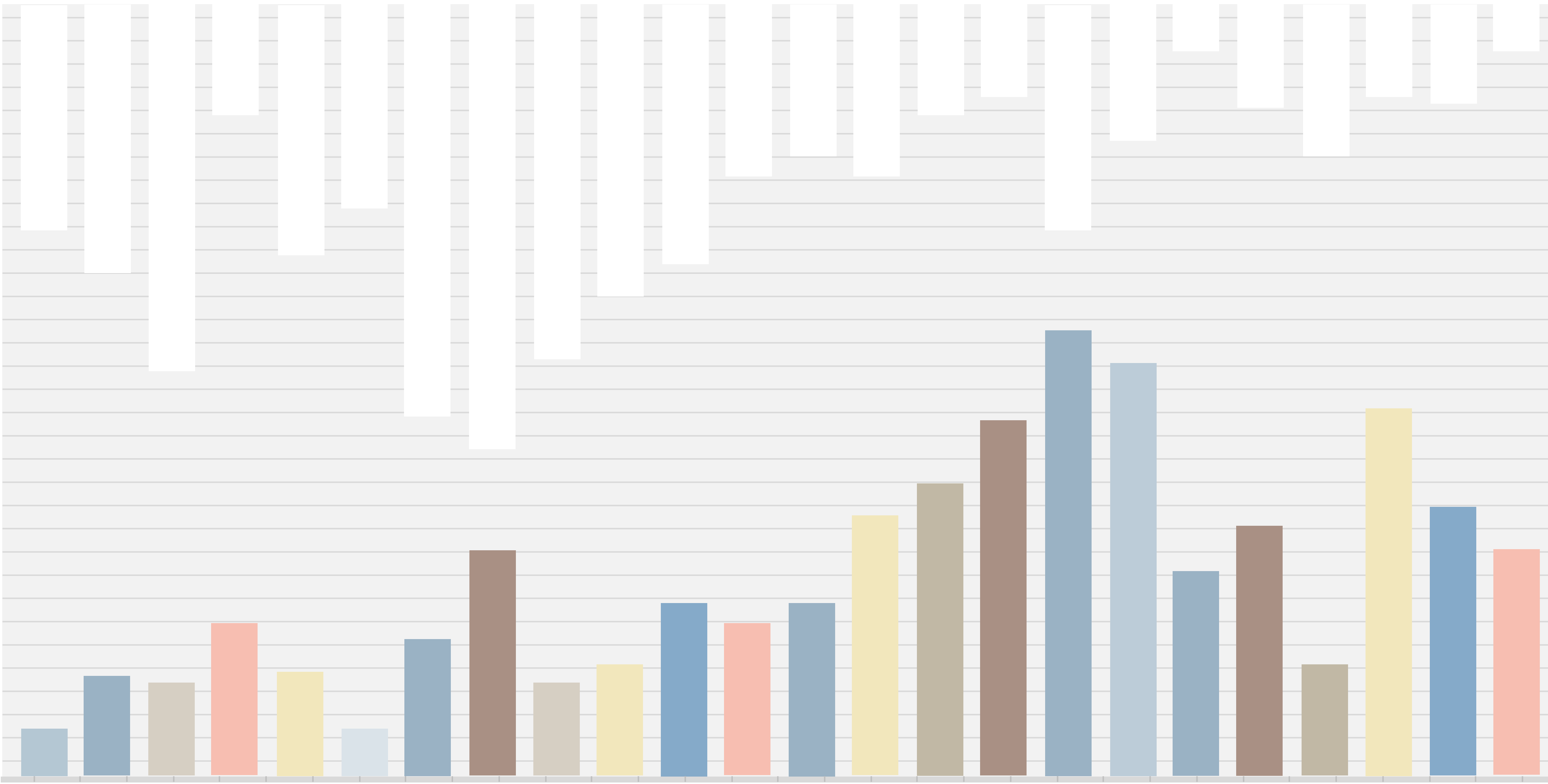
VALLBANC



Welcome,
we're here to help you

If you're reading these lines, it's because you're interested in the world of investment and finances. This document will allow you to spot the indicators that help us establish our corporate opinion on the markets and the perspectives for the coming quarter.

At Vall Banc, we're convinced that good service comes from knowledge and experience. On our team, you'll find the best combination of this formula, with a diverse set of profiles, cross-cutting visions of the market, international experience and multidisciplinary expertise.

We'd like to use this opportunity to let you know that our market vision is based on the information that reaches us from different sources, ranging from the extremely well-known Bloomberg to the most recent reports from central banks, plus daily information and constant monitoring of the market.

As you must already know, Vall Bank also has an agreement with BlackRock that allows us to use their asset management model to create four innovative portfolio profiles. All of this knowledge is also at your disposal.

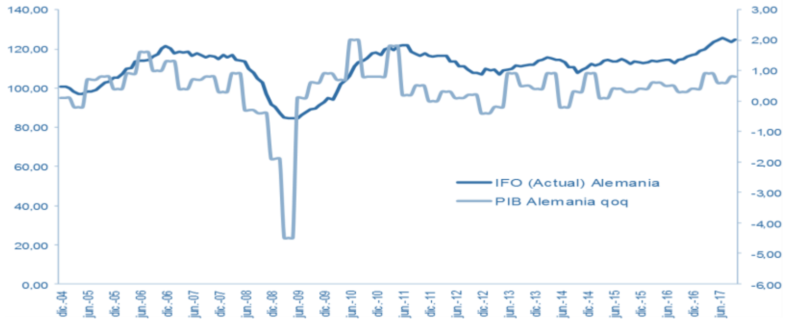
If you don't find the answer to your questions in these pages, don't hesitate to call us. We'd love to help you out.

Contents

2018
at cruising speed

2017 was a good year for the consolidation of economic recovery on a global level, in spite of the different obstacles that arose, especially in the political arena. In 2018, we expect growth rates quite similar to what we saw in 2017. In the Eurozone, GDP should be around 2.2%, driven by internal demand and exports. Business investment could also help to accelerate this growth.

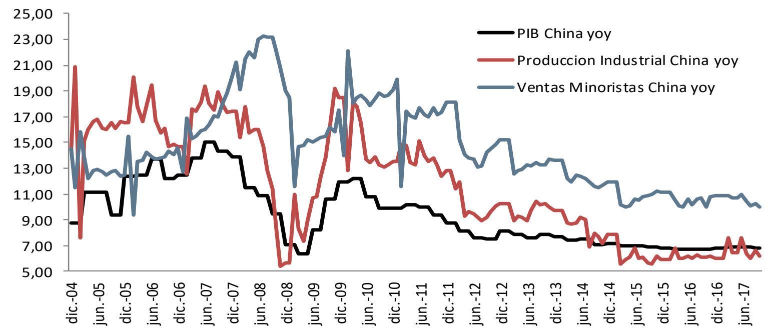
If we look at the evolution of the German IFO index, which evaluates the economic climate through 2,000 companies, we will find that this indicator is at historically high levels. It has a high correlation with the use of industrial capacity, which is also near maximum levels. These factors lead us to believe that business investment can provide a new boost to German economic development, and by extension the development of the Eurozone. The structural reforms that have been carried out since the 2008 economic recession have enabled potential growth to build up, but they have also made economies more resistant to external shocks. The most significant impact of these reforms has been in the labour market.



Labour reform in Spain has allowed labour costs to fall and has made the Spanish economy competitive once again. In Portugal, unemployment has been cut in half, and is now at around 8.5%. All the economies in this region are currently creating jobs, and this has driven unemployment below 9% (8.9% in September 2017). This is the lowest it has been since 2009, after having reached 12.1% in April 2013.

In the United States, we expect economic growth to accelerate as compared to 2017. Nevertheless, a great uncertainty hangs over this economy: tax reform. So far, President Donald Trump has not generated enough consensus to carry out many of his campaign promises or planned reforms. The greatest example of this political failure is his inability to reform ObamaCare, which is an essential factor in carrying out a long-awaited tax reform. In early November, a proposal for tax reform was sent to Congress, where Republicans hold a majority. However, how the Senate will vote has yet to be seen. This tax reform includes a reduction in corporate tax from 35% to 20%. For natural persons, the plan is to reduce income tax, reducing the number of brackets from 7 to 4, with a tax burden that ranges from 12% to 39.5%. This last bracket will not experience any changes so as not to provide ammunition to those who accuse Trump of favouring the biggest earners. Another key measure is the 10% tax for American companies with international subsidiaries who want to repatriate profits obtained outside of US jurisdiction. Currently, the evaluations of American indexes are quite demanding, with the S&P500 listing an estimated PER of 19.45x. If this tax reform is finally carried out, multiples will experience a notable fall, since the bottom lines of their income statements will get a significant boost. It is estimated that the impact of this tax reform could cause the S&P500 to grow about 8%, and part of this growth may already be visible.

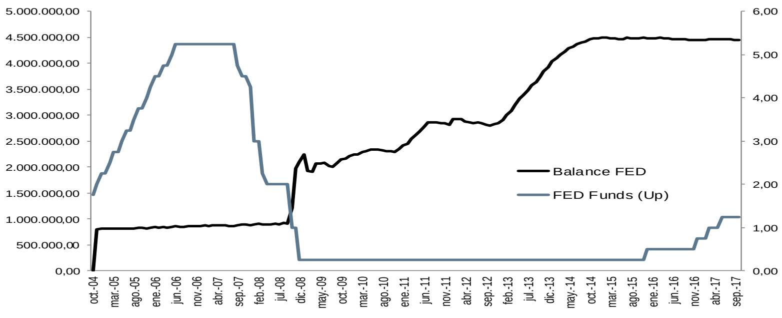
Among the emerging economies, China continues with its economic



transition, which means a more moderate growth rate that will still be above 6% in 2018. At the end of 2017, the services sector represented about 51% of the Chinese GDP, while the manufacturing sector continues to lose importance and is just slightly over 40%. The problem with the Chinese economy continues to be high debt and overcapacity in its heavy industry.

Russia and Brazil are benefiting from a rise in the price of raw materials. The recovery of different currencies from the lows seen in January/February 2016 have kept inflation at bay, and as a result central banks have been able to continue with their policy of lowering interest rates. Structural reforms are bearing fruit, increasing potential growth while making economies more shock-resistant.

As regards the central banks, the European Central Bank (ECB) will



continue to increase its balance, since the program for purchasing assets will be extended to the end of September 2018. However, the amount will be cut in half, to 30 billion euros monthly. This reduction represents an implicit hardening of financial conditions. The United States economy is a few steps ahead of the European economy in the cycle. The FED will continue with its gradual increase of interest rates. In 2018, three new interest rate rises of 25 basic points each will be discounted, which would leave the cost of money in the United States at around 2%/2.25% if the rate increase on December 13 is confirmed.

The Bank of England (BoE) increased the price of money at its November meeting by 25 basic points, to 0.50%. Interest rates should be maintained at this level throughout 2018. Nevertheless, inflationary pressures and the poor economic expectations for the United Kingdom could put the BoE in a delicate situation. In Japan, meanwhile, the BoJ will continue with its accommodating policies with the goal of keeping inflation at 2%.

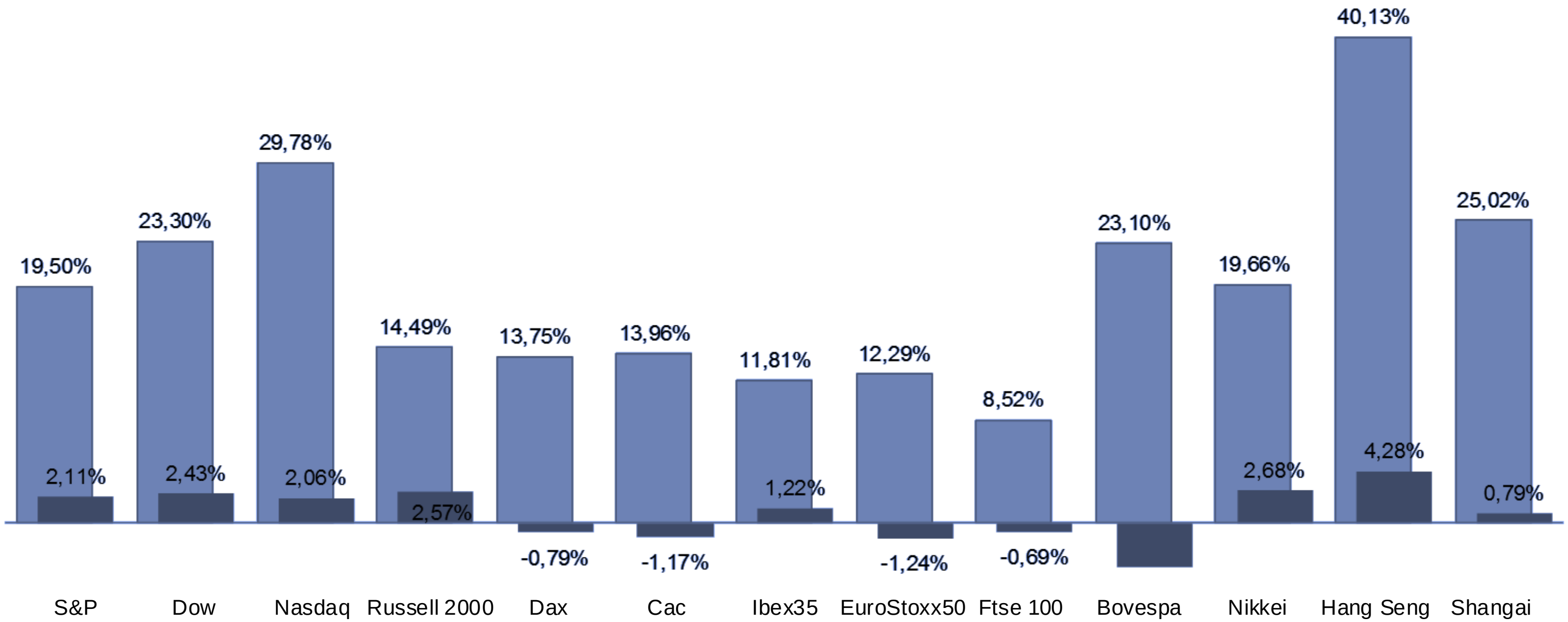
The prices of raw materials will continue to be supported by global growth. The same goes for oil. In addition to an increase in demand, a reduction in production by the Organization of Petroleum Exporting Countries (OPEC) and Russia will be extended. At its ordinary meeting in Vienna on November 30, OPEC decided to extend cutbacks in oil production to late 2018. As a result, these cutbacks will be extended nine more months. Libya and Nigeria will also be participating, even though they were exempted from reducing their production by the 2016 agreement as a result of their internal conflicts. Brent may continue to climb, but it will do so in a limited fashion. We will most likely not see levels like $70/barrel of Brent. This agreement does establish a minimum base for Brent. The support would be at about $57.5.

In the exchange market, we expect a EUR/USD exchange rate of around 1.15/1.20 in the coming months. With its forward guidance, the Federal Reserve hopes that the market will not be surprised by any decisions it makes. In terms of increases in interest rates discounted in the coming years, there will be three in 2018 and three more in 2019. Only a strong increase in inflation could turn this scenario around, accelerating increases in interest rates. The terminal level of FED funds in this cycle will be at around 2.75%, which is far below the average of the last 50 years (5.31%). The weakness of the dollar as compared to the euro can be explained by the strength of the European economy, but we've also seen political risk in Europe reduced (2018 Italian elections). We also can't overlook the change in the presidency of the FED, where new incumbent Jerome Powell can be classified as dovish. In spite of this moderate weakness of the dollar as compared to the euro, we can see it appreciating against the yen, as the BoJ will continue its super-accommodating monetary policies until it reaches its inflation target. As compared with the Canadian dollar, the USD will need to win back some of the ground lost since the BoC increased the cost of money. This rise in the Canadian dollar will make the Canadian economy less competitive, while also forcing a halt to the recent cycle of increasing rates.

Synchronized growth, key to keeping the pace

One of the questions we have most frequently been asked lately has been if the results we have seen in stock markets are sustainable. They will be sustainable if this rate of synchronized growth on a global level continues, but also if the levels of interest rates do not take off as a result of an increase in inflation. In Europe PER is at 15x, around its historic average, and below the evaluations of other markets on a global level. The consolidation of economic recovery throughout 2017 has allowed European companies to improve their sales figures, which has had a positive impact on the growth of profits after years of gains resulting from an aggressive cost control policy. As we have already stated, the European economy will continue to expand at a rhythm of above 2%, which should benefit the most cyclical sectors. In addition, the lack of investments in recent years makes some companies unable to respond to the demand, forcing them to increase investment in order to face rising demand. We opt for sectors related to raw materials, energy, gas and oil, since growth will continue to drive demand. The financial sector will most likely benefit from a rise in returns, but also from lowered allocations and provisions. The probable increase in business investment should benefit the industrial sector as well as infrastructures. Companies in the technology sector should also have positive results, as they did throughout 2017.

In the United States, stock exchanges have behaved very positively so far, with an increase of more than 15% in the Dow Jones and the S&P 500, and of nearly 28% for the technological Nasdaq. This will probably not happen again in 2018, but in any case, the foundations for growth are solid. If the Trump administration manages to complete its tax reform, stock markets may be given a new boost. Increases in interest rates by the FED will be gradual, and interest rates will be above historical averages. This should have a marginal effect on stock values. Even though we are seeing a flattening of the dollar curve, banks will be able to compensate for this situation by increasing credit investment for private individuals and companies. If Trump fulfils his electoral promises, infrastructures and construction materials should behave positively. As we have already stated, we do not expect a strong rebound in interest rates,



which would result in a toughening of financing conditions, and would penalize the construction industry. In a cycle of economic expansion like the one we are currently experiencing, the companies in the automotive, media and transport sectors should behave positively. As for the technological sector, in spite of the levels reached in 2017, there is still plenty of room for earnings to continue to grow.

In Japan, the Nikkei index has accumulated growth of more than 17% since the start of 2017. The Index is marking 19x benefits for 2018, and the market consensus expects a growth in benefits of around 8%. The BoJ will continue with its ultra-accommodating monetary policy, which will keep returns low and should impact the yen, favouring exporting companies. Another element to consider is the improvement of the corporate governance of Japanese conglomerates. For the emerging markets, 2018 will be a positive year, since the economy on a global level will continue to grow at a significant rate. International commerce and the demand for raw materials will benefit these economies. We opt for the energy, financial, industrial and consumer discretionary sectors. All are significantly cyclical sectors.

The emerging economies, the last holdout with options

The global economy is growing in a synchronized manner at a significant rate, and this will encourage monetary authorities to standardize their monetary policies.

The United States is ahead in the economic cycle, and the FED will continue to normalize its monetary policy with three new rate increases in 2018 that should help to flatten the Treasuries curve even more.

The long section of the dollar curve may experience a notable rebound if the tax reform the Trump administration would like to apply becomes a reality. The sharp fall in tax revenue might result in an increase in the risk premium. Another factor to consider is the reduction of the FED balance. The decline in reinvestments will eliminate part of the Treasuries demand, which may result in more pressure on returns. Inflation continues to be under control, in spite of the increase in the price of oil. The 5-year forward view for inflation sees it at 2.25% Personal Consumer Expenditure is at 1.4% (October reading). If we look at inflation figures for 2017, prices became more moderate as the year went on. In any case, we expect to see a slight increase in inflation, especially in the second half of 2018. We expect a rise in yields, with the Treasury at 10 years reaching levels of around 2.80%, almost 50 basic points more than the current levels of 2.32%. We would not feel comfortable with long-term investment, so we would not invest in Treasuries. TIPS could be an alternative if inflation increases above what the market currently expects. One of the factors that could accelerate inflation would be an increase in salaries. Currently, unemployment in the United States is at 4.1% (October reading). It could be said that the economy is experiencing full employment, and salaries by the hour are increasing at a rate of 2.4%, which is lower than the 2.8% we saw in September. Considering that there are over 6 million job positions to fill, this shortage of labour should accelerate the rate of growth of salaries, as well as inflation. In spite of the constriction of credit, there are still opportunities to be found. Companies in the exploration and production sector benefit from the prices at which oil is negotiated. In the financial sector, we would favour entities more oriented towards retail.

In Europe, the BCE will take the first steps towards standardizing monetary policy with the reduction of its monthly Asset Purchase

Program (APP) from 60 billion euros to 30 billion. Economic recovery is solid enough to withstand the gradual reduction in stimuli, and this recovery shows that interest rates are not coherent at their current level. As a result, we expect to experience a rise in yields in 2018. The scenario we are currently facing is clearly asymmetrical. The risk of deflation has disappeared, while inflationary pressure should reappear when the labour market gains traction, resulting in salary growth.

In this growth scenario, we see no value in holding government debt. Even in the periphery, the constriction we experienced means it is not an alternative. If we look at Portuguese government debt, 10-year yield is below 2% (1.91%). In terms of credit, the acceleration of growth has allowed for very positive corporate results as seen in stock prices, but also in the evolution of spreads. In addition, expecting a future rise in returns, many companies have taken advantage of the opportunity to issue new debt that abundantly covers the maturities of 2017, so that they are in a comfortable position regarding liquidity. In this scenario of low returns we might invest in titles in the financial sector, which stands to benefit from the rise in returns. However, we shouldn't forget that the sector has undergone significant changes since the start of the 2008 recession. In the telecommunications sector, we would be selective. We expect an increase in CAPEX for new fibre infrastructures, which would divert resources to investment instead of balancing the books. In Spain, there has been strong investment in networks, which will reduce the volume of future investments as has happened in Portugal and, to a lesser degree, in France. We would avoid sectors that, in spite of economic expansion might suffer from the technological changes they face, like the automotive or retail industries. In terms of the debt of emerging countries, economies exporting raw materials could suffer from the slowdown in China's economic growth. However, this impact must necessarily be limited, since China's GDP must be above 6% in 2018, as we stated before. Another risk factor to consider would be a faster rise in interest rates in the United States, a possibility that would not be in line with expectations. Countries like Russia or Brazil should behave well, since the cost of oil is stable, with Brent above 60 dollars per barrel. With inflation under control, the different central banks will continue with the progressive reduction of the cost of money. In these counties, we would opt for companies involved in the energy and oil sectors.

Variable income		Sept.	2018.
United States	Change in mood and improved growth. Nevertheless, many doubts remain about the policies of President Donald Trump. Evaluations remain high.	-	-
Europe	Improvements in profit margins and capital investment. Low interest rates and easy access to credit. We would opt for cyclical sectors. Inflows seem likely to continue, supporting the stock market.	+	+
Spain	Growth will increase above average. Growth is set to continue, but political risks result in negative momentum. The poor performance of the stock market could result in very selective opportunities.	=	=
Emerging economies	The increase in rates and the rising dollar do not favour emerging markets. An improvement in global consumption and commodities could soften its effects. We favour Brazil, Russia and India.	=	+

Fixed income		Sept.	2018.
US Government	The debt limit and its growth, tax reform and the reduction of the FED balance result in a flattening of the curve.	-	-
Corporate USA	Energy, industry and mining will be the sectors with the best opportunities for 2018. In IG, we would also opt for the financial and energy sectors.	=	=
European Government	We may continue to see a change in the differentials of peripherals, but the effects will be neutralized by a rebound in the benchmark. As stimuli are removed, we will witness a steepening. As in the US, bonds tied to inflation will lose interest. Possible entry for mid-term or long-term.	-	-
Corporate Europe	Financial iTraxx continue at minimum levels without providing opportunities for entrance (we would wait for a rebound). With controlled inflation and the European Central Bank giving support to HY sectors in the short term, there are still options for profits, although it is important to be selective.	+	=
Emerging debt	YTW continues to go down. We may see entry points with the rise of rates in the US. We would favour EM with a lowered capacity of interest rates (India, Brazil, Argentina, Russia).	=	+

Others		Sept.	2018.
Commodities	Reduced production by OPEC and its collaborators and a rise in consumption on a global level may bring black gold to levels seen in mid-2015, above $60 bl. Diversifying asset, possible entrance. The stabilization of the dollar could benefit commodities.	=	+

Currencies	We modify our estimation of EUR/USD from 1.15 to 1.20. We expect volatility.	-	+

Legal warning

Date of publication: December 14, 2017