

## European equity markets consolidating

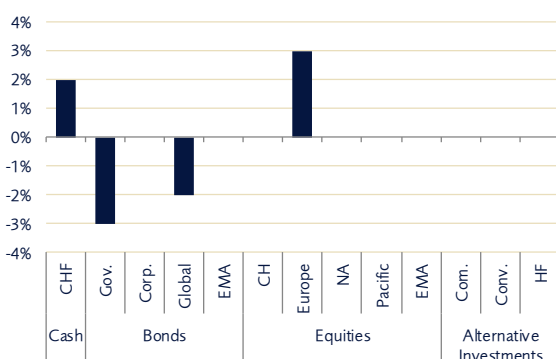
The upward momentum of European equity markets has been halted, due mainly to the strong appreciation of the euro. Looking at the fundamentals, however, we expect the euro to weaken against the US dollar in the coming weeks and are therefore maintaining our overweight position in European equities.

The strong performance of the euro in recent weeks has been remarkable. Receding political risks and better than expected leading indicators have inspired resurgent confidence among investors. The euro has climbed by more than 12% against the dollar since the start of the year, and speculative investors have amassed sizeable long positions in euros. We regard this, in combination with various fundamental factors, as an indication of over-optimism and therefore believe that the EUR/USD rate will ease in the short term.

European equities should be able to profit from this. Companies are being helped by the buoyant global economy and solid domestic demand, and this is bolstering earnings expectations in Europe. The eurozone also benefits from a relatively low valuation level compared with the USA, while the comparatively high dividend yield versus the bond markets provides additional support. Emerging markets are also underpinned by ongoing earnings growth.

We are sticking to our current allocation, with an overweight position in equities. In the fixed income markets we expect a further gentle rise in yields. European bonds are likely to take their cue from the USA.

### Tactical positioning



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#### Asset allocation

- Equities overweight; bonds underweight
- Alternative investments neutral

#### Bonds

- Government bonds underweight
- Global bonds underweight

Duration is being kept below benchmark in all reference currencies.

We are underweight in government bonds and global bonds and neutrally weighted in corporate bonds.

We hold a position in inflation-linked bonds.

#### Equities

- Eurozone equities overweight

In our view, the positive drivers predominate. Robust macro data and positive earnings revisions indicate further upside potential for equities. We are therefore overweighting the eurozone.

#### Alternative investments

- Commodities neutral
- Convertible bonds and hedge funds neutral

#### Currencies

We remain strategically hedged in developed country currencies in order to minimise risk. The USD is partly unhedged in EUR-based portfolios.

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