

# Weekly Investment Notes

## Switzerland

# 28/09

28 September 2017

### Also featured - Highlights on

- Fixed income, where the market is focussed on recently-announced US tax reforms. [p.04](#)
- Equities, where we believe the upside potential still prevails. [p.07](#)
- The euro against the dollar, where our Investment Committee has decided to increase dollar hedges in euro-denominated profiles, following the euro's latest retracement and in line with our long-term view of a stronger single currency. [p.10](#)

### Key/New investment ideas

#### • Fixed Income

We like the good story and potential for further improvement in **Portuguese sovereign debt**, denominated in both euros and dollars.

We are more cautious on two corporate names: Canadian aerospace group **Bombardier** and food company **Aryzta**.

#### • Equities

Following stronger second quarter figures, the Alstom-Siemens merger brings fresh support to our buy case on **Bouygues**.

We believe the recent pullback in **Facebook** shares offers a good entry point and suggest investors reinforce their positions.

**Nestlé's** long awaited capital markets day has confirmed our constructive view on the company's investment case.

Flavour and fragrance manufacturer **Givaudan** has had a good run and we believe the short-term share price upside now looks limited. We propose investors switch to **Nestlé**, **Mondelez** or **Dufry**.

#### • Currencies

We would take advantage of the latest retracement in the euro against the Swiss franc to implement the sale of a 'strangle option' as we are now trading at the mid-point of a range.

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US tax reforms and European politics take centre stage, but we highlight Portugal's strengthening fundamentals, technology and food stocks, and two ways to trade the euro.

# Market Update

## This past week

### US tax reforms finally underway?

US President Donald Trump finally announced a framework for his long-promised tax reforms. He proposes cutting the corporate tax rate to 20% (from 35%) and the new individual tax rate to 12%, 25% and 35% (from 39.6%), leaving the door open for a higher tax rate for high income earners. This will be a starting point for negotiations, while finding a consensus in Congress will be challenging. We believe the timeframe for implementation will probably be at best next year.

### Choppy US macro data

US markets started the week with disappointing August new home sales figures (-3.4% versus an expected 2.5% rise). It is important to note that the Houston area accounts for around 5% of new home sales, thus providing an indication of the after-effects of Hurricane Harvey. The recent hurricane events were felt across the board, as the consumer confidence index also fell to 119.8 in September, with confidence in Texas and Florida showing the greatest decrease. Needless to say, the damage inflicted to southern States will likely make for choppy macroeconomic data readings in the months to come. Durable goods orders are to be reported later today (28 September) and second quarter US gross domestic product (GDP) growth on 29 September.

### European political uncertainties, strong economic data

Germany went to the polls on Sunday 24 September. Unsurprisingly, Angela Merkel will remain Chancellor, but the task of building a new government will be complicated, as both large parties (CDU/SPD) lost substantial ground, and far-right party the AfD gained considerable

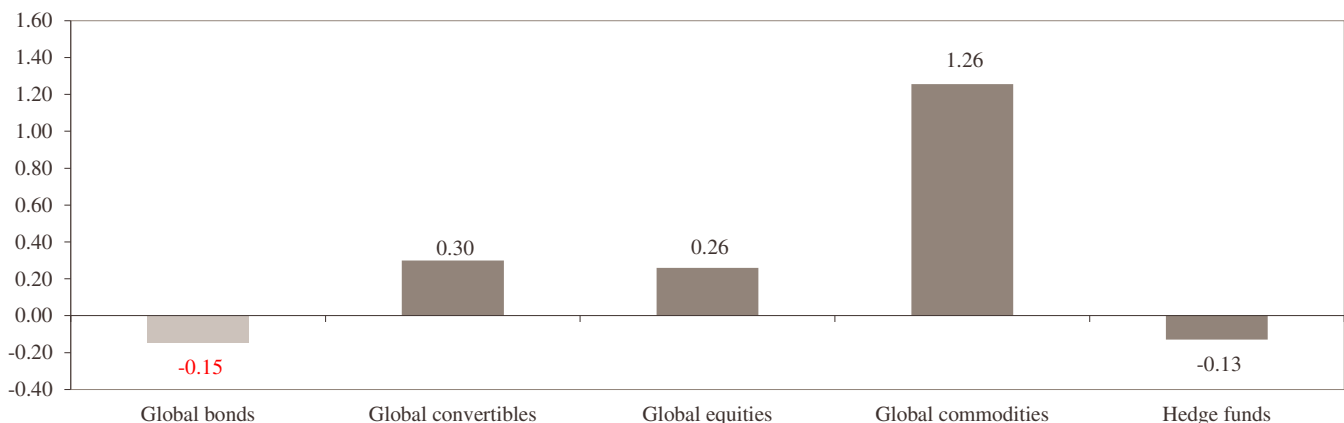
support. The SPD wants to move into opposition, leaving only the 'Jamaica' option of an alliance between the CDU (black), the green party and the liberal FDP party (yellow). This seems likely to take some time and involve tough negotiations, with many compromises needed.

In Spain, a referendum vote on Catalonia's independence is scheduled for 1 October. The Spanish government forbids the vote and is imposing serious fines and arresting officials in Barcelona, which seems to be increasing the protests. Tensions are weighing on the Spanish equity market, which missed the general September rebound. The effect on Spanish government bonds has been limited as the European Central Bank (ECB) continues its asset purchasing programme, supporting bond prices.

French President Emmanuel Macron announced a number of ideas to transform the European Union in a recent speech. His proposals include the need for a common EU budget and finance minister, common EU policies on defence, asylum and corporate tax rates, as well as the formation of European universities, a digital protection agency, border police, civil protection force, and a common military intervention force. Many of these proposals are controversial and would need the support of Ms Merkel, which will be difficult to obtain in her new weakened position.

European Purchasing Manager Index (PMI) figures for September came in at slightly higher levels than expected (56.7 versus an expected 55.6), and very close to May's multi-year high of 56.8. Germany's business sentiment indicator (IFO) disappointed slightly, but remained at a very high level. In Italy, manufacturing and consumer confidence increased considerably, reaching multi-year highs.

## Weekly performance (in USD)



Source: Bloomberg, 5 rolling days, as of 21 September 2017.

Past performance is not a reliable indicator of future performance.

## Perspectives

After a brief rise in August, volatility is back near all-time lows. Unconventional central bank policies and the shift from active to passive funds are often given as reasons behind this move, but we believe they are not the full story. In our view, it is the fact that we are experiencing a ‘goldilocks’ scenario marked by stable growth, benign inflation, robust corporate earnings and accommodative monetary policies globally. Moreover, global growth is currently at its most synchronised level for years, with all major regions picking up together. In view of this, our Investment Committee confirmed their ‘risk-on’ stance in our asset allocation last week.

In fixed income, the impact of reduced quantitative easing (principally in the US) – and in particular its effect on long-term interest rates – has been a major topic. Currently, 10-year US Treasury bonds are trading at our year-end target and we continue to believe that the upward pressure on long-term rates will remain modest. In this edition, we focus on Portugal, recently upgraded by Standard & Poor’s (S&P) to investment grade and which – despite the recent stellar performance of Portuguese bonds – we believe still offers an attractive carry over core European holdings. We also provide an update on transportation group Bombardier and food company Aryzta ([page 5-6](#)).

Equity markets in general bounced back after geopolitical tensions in North Korea softened. In Europe, markets were very resilient despite the uncertainty following the outcome of the German elections. The current run in global equities is near the strongest seen in history and many investors are concerned and fear a correction. While we acknowledge these concerns, it is important to note that current valuations are in line with other periods of stable growth and low inflation, nor do they fully price in the potential earnings ‘catch up’ of certain regions, in particular Europe and emerging markets. This week, we focus on Nestlé, Bouygues, Givaudan and Facebook. ([page 8-9](#)).

The main focus this week is on currencies. Faithful readers will know that we are positive on the euro (EUR) against other developed currencies. We stick to this view and continue to expect further EUR appreciation, even though the German election outcome and the upcoming Catalan referendum in Spain have increased political uncertainty. While the latest comments from the US Federal Reserve’s rate-setting committee took some market participants by surprise, they did not affect the EUR rate against the US dollar (USD). However, an announcement on a proposed US tax overhaul gave USD some renewed dynamism and **provides** in our view a good entry point to further reduce USD in favour of EUR in our EUR balanced and growth profiles ([page 10](#)). We also note some increased volatility on the euro against the Swiss franc (CHF), which we believe provides some attractive pricing for a EURCHF ‘strangle’ option (a neutral strategy that involves the simultaneous buying of put and call options on the same expiration date) ([page 11](#)).

## Economic calendar

2017	US	Europe	Asia
9/29/2017	Personal Income/Spending, Michigan Sentiment	CPI (EC, IT, FR), Unemployment (GE)	Jobless Rate (JN), CPI (JN)
10/2/2017	Manufacturing PMI, ISM	Manufacturing PMI (EC, UK, GE, FR, IT)	Tankan Indices (JN)
10/3/2017			
10/4/2017			PMI (JN)
10/5/2017	Jobless Claims, Trade Balance	CPI (SZ)	
10/6/2017		Foreign Reserves (SZ)	

Source: Bloomberg, as of 21 September 2017.

# Fixed Income Outlook

## Portfolio Considerations

### All eyes on the US now, Trump is back

The Republican leadership in the US released a long-awaited proposal for tax reform on 27 September. Expectations of this event have been the focus of the past week, taking attention away from geopolitical developments with North Korea. The fixed income market mood reacted immediately with a 'risk-on' move to the market-friendly proposals: the US 10-year Treasury yield jumped 10 basis points (bps) to 2.34%. Europe followed suit, with the German 10-year government bond yield reaching 0.50%, and spreads with 'peripheral' European countries including Italy and Portugal widening a few basis points.

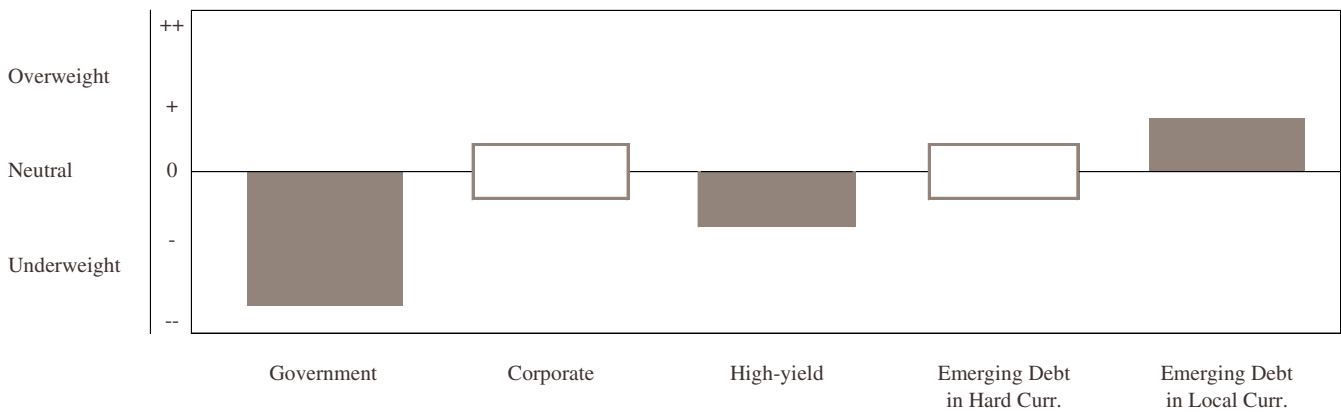
In the credit markets, the announcement was also taken well. Spreads are tightening as a result of the substantial proposed cut

in US corporate tax rates (to 20% from the current 35%, and 25% for so-called 'pass through' businesses including partnerships and limited liability companies).

In terms of primary activity, levels were more subdued than last week, with mainly activity in Asia before China's 'Golden Week' - a semi-annual seven-day national holiday - next week.

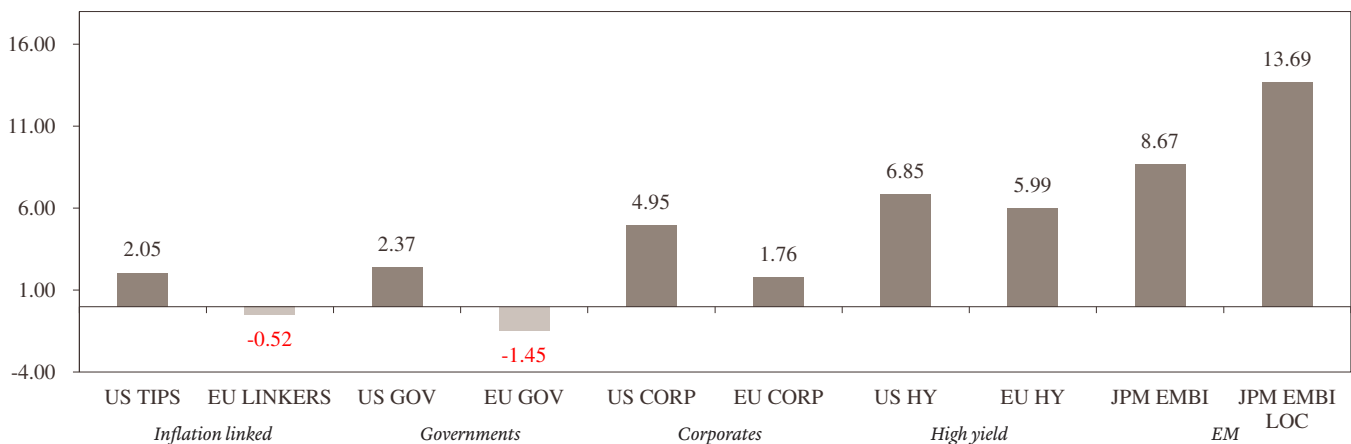
Turning to investment ideas, we like the carry and potential improvement of **Portuguese debt in EUR and USD**. We are more cautious on two corporate names: Canadian aerospace group **Bombardier**, where the news-flow has been fairly negative this week, and food company **Aryzta**, which has announced a coupon deferral for all its hybrid bonds.

## Credit preferences



Source: Fixed Income Monthly, as of 28 September 2017.

## Total return of bond indices YTD



Source: Lombard Odier, as of 28 September 2017.

Past performance is not a reliable indicator of future performance.

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# Fixed Income

## Investment Ideas

### Still some way to go on Portugal

On 15 September, ratings agency Standard & Poor's (S&P) upgraded Portuguese sovereign debt back to investment grade, underlying the country's return to growth, and its improving fiscal health. Portugal still holds the third largest European sovereign debt levels, after Greece and Italy, but it has managed to get out of the International Monetary Fund (IMF) supervision programme and implement the necessary structural reforms to regain some competitiveness and financial stability. The upgrade had a positive impact on the government yield, with the spread of the 10-year bond versus the

German 10-year Bund tightening by 40bps. The spread now stands at 197bps with the high of 2017 being 398bps in February.

We believe there is still some way to go for Portugal's full 'recovery'. Portugal is on positive outlook at Moody's. If it is upgraded to investment grade by Moody's as well, then it could get into the major indices, giving an additional push to the bonds. We don't expect this move to happen soon, but in the meantime we believe the country's debt provides good 'carry' over core European bonds.

### Portugal

Please contact your relationship manager to find out about the risks and characteristics of these investments.

ISIN	NAME	CPN	MATURITY	CURRENCY	Call Date	MIN PIECE	SP	MDY	SECTOR	CNTRY	ASK	YTM
XS1085735899	REPUBLIC OF PORTUGAL	5.125	15.10.2024	USD		1000	N.A.	Ba1	Government	PT	106.215	4.10
PTOTEKOE0011	OBRIGACOES DO TESOURO	2.875	15.10.2025	EUR		0.01	N.A.	Ba1	Government	PT	105.93	2.07
PTOTETOE0012	OBRIGACOES DO TESOURO	2.875	21.07.2026	EUR		0.01	N.A.	Ba1	Government	PT	105.133	2.23
PTOTEUOE0019	OBRIGACOES DO TESOURO	4.125	14.04.2027	EUR		0.01	N.A.	Ba1	Government	PT	114.241	2.43

Source : Bloomberg, as of 28 September 2017.

### Aryzta announces coupon deferrals on hybrids

Swiss food business Aryzta announced the deferral of interest payments on all three of its outstanding junior perpetual bonds on 25 September, sending their prices well below 'par' or face value (the coupons are cumulative though). This decision was triggered by the company's sluggish operating performance so far in 2017. Aryzta has also announced that it does not intend to redeem the 400 mn in Swiss franc (CHF) bonds at their first-call date in April 2018. While this decision is exceptional and signals financial stress, it should give new management time to focus on stabilising the business and

delivering the target deleveraging of EUR 1bn - which includes cash generation and asset disposals - by 2020.

On the positive side, the company is still generating cash and has an adequate equity buffer. It could also dispose of its 49% share of French food retailer Picard, which is performing well.

We recommend investors reduce any exposure to Aryzta and not add to positions on price weakness until there is more clarity on management progress with their business turnaround and disposal of Picard.

### Aryzta

Please contact your relationship manager to find out about the risks and characteristics of these investments.

ISIN	NAME	CPN	MATURITY	CURRENCY	CALL DATE	MIN PIECE	SP	MDY	SECTOR	CNTRY	ASK	YTM	YTC
XS1134780557	ARYZTA EURO FINANCE DAC	4.5	Perp	EUR	28.03.2019	100000	N.A.	N.A.	Consumer, Non-cyclical	CH	93.25	8.43	9.55
CH0200044813	ARYZTA AG	4	Perp	CHF	25.04.2018	5000	N.A.	N.A.	Consumer, Non-cyclical	CH	90.7	7.43	26.00
CH0253592783	ARYZTA AG	3.5	Perp	CHF	28.04.2020	5000	N.A.	N.A.	Consumer, Non-cyclical	CH	88.5	5.52	9.40

Source : Bloomberg, as of 28 September 2017.

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# Fixed Income

## Investment Ideas

### Negative news-flow hitting prices of Bombardier

News-flow in recent days has been rather negative regarding Canadian transportation group Bombardier. Its European rival Siemens has announced a merger of its rail operations with Alstom (Bombardier was also in talks with Siemens) increasing competition in Europe. Meanwhile, the US Commerce Department Agency has released a preliminary statement saying they are considering an import tax of about 220% on the latest Bombardier plane, the C-series. This new

tax has raised uncertainties over a major order from US airline Delta, which accounts for 22% of Bombardier's backlog. Nevertheless, the company has already received support declarations from the Canadian and UK governments as well as from the chief executive of Delta.

For those holding the bonds, we recommend maintaining positions and selling high duration instruments opportunistically on strength, while remaining long at the shorter end of the curve.

### Bombardier

Please contact your relationship manager to find out about the risks and characteristics of these investments.

ISIN	NAME	CPN	MATURITY	CURRENCY	Call Date	MIN PIECE	SP	MDY	SECTOR	CNTRY	BID	YTM
XS0552915943	BOMBARDIER INC	6.125	15.05.2021	EUR		100000	B-	B3	Industrial	CA	103.75	5.04
USC10602AX52	BOMBARDIER INC	4.75	15.04.2019	USD		2000	B-	B3	Industrial	CA	100.25	4.58
USC10602AP29	BOMBARDIER INC	7.75	15.03.2020	USD		2000	B-	B3	Industrial	CA	105	5.54
USC10602BB24	BOMBARDIER INC	8.75	01.12.2021	USD		2000	B-	B3	Industrial	CA	105.5	7.19
USC10602AR84	BOMBARDIER INC	5.75	15.03.2022	USD		2000	B-	B3	Industrial	CA	95.25	7.01
USC10602AY36	BOMBARDIER INC	6	15.10.2022	USD		2000	B-	B3	Industrial	CA	95	7.20
USC10602AW79	BOMBARDIER INC	6.125	15.01.2023	USD		2000	B-	B3	Industrial	CA	95.5	7.16
USC10602BA41	BOMBARDIER INC	7.5	15.03.2025	USD		2000	B-	B3	Industrial	CA	98.5	7.77
USC10602AJ68	BOMBARDIER INC	7.45	01.05.2034	USD		100000	B-	B3	Industrial	CA	96.25	7.86

Source : Bloomberg, as of 28 September 2017.

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# Equities Outlook

## Markets trending upwards

The S&P500 is still trading in a 2488-2505 range. We believe the uptrend is intact, with a potential rise to 2520-2532 in sight. We expect resistance levels to be broken with a push coming from the technology sector, which has lagged behind recently. Meanwhile, the Russell 2000 of US small cap stocks performed better than expected and hit a new all-time high on 27 September, by taking advantage of investors' rotation out of large caps into small caps.

On the Stoxx Europe 600, we believe the short term uptrend is still in place, though it will face important resistance at 387-393 levels.

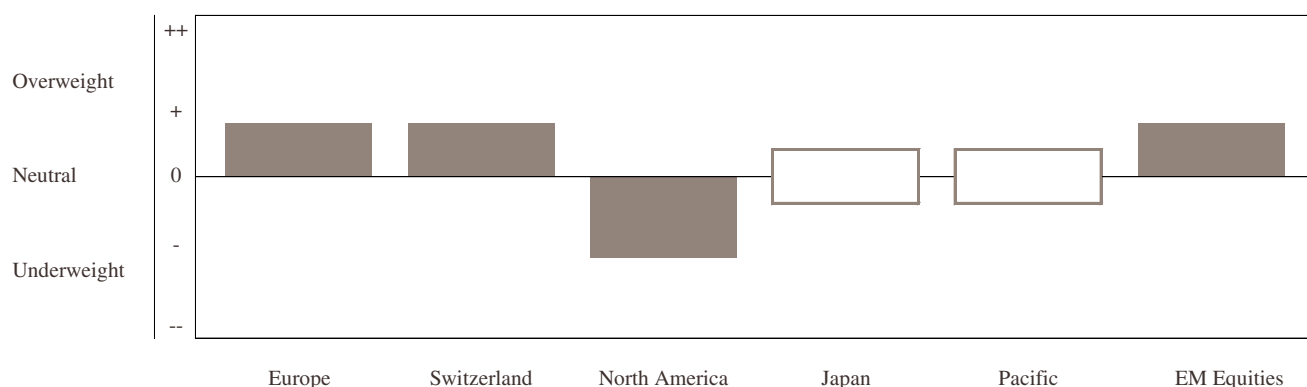
Trends in digital advertising are still the positive drivers underpinning our preference for the internet segments. We advise taking

advantage of the recent small correction to buy **Facebook (RF - PT USD 195)** (see [page 08](#)) and **Alphabet (RF - PT USD 1200)** at these levels.

In Europe, we recommend buying **Bouygues (Advisory - PT EUR 44)** even if the shares are rising above their 52-week high, as we expect upgrades to consensus market earnings forecasts. ([page 08](#)).

In Switzerland, we **remain confident on our conviction on Nestlé (RF - PF CHF 95)** given its medium term potential to increase margins. We see limited upside on **Givaudan (R - PT CHF 2,090)** and we suggest taking some profits in the short term.

## Regional preferences



Source: Lombard Odier, as of 28 September 2017.

## Major market performances

Index	Value	5 days	1 month	3 months	YTD
S&P 500	2,507.04	-0.05	2.57	2.72	11.98
Euro Stoxx 50	3,558.62	0.54	4.02	0.65	8.15
SMI	9,081.53	-0.58	2.45	0.05	10.48
CAC 40	5,282.00	0.28	3.98	0.55	8.63
FTSE 100	7,297.98	0.47	-1.40	-1.22	2.17
Nikkei 225	20,363.11	0.08	4.70	1.16	6.53
Shanghai SE Comp.	3,339.64	-0.54	-0.68	5.25	7.60
MSCI Em Ma BRIC	314.57	-3.29	1.02	12.18	30.05
Hang Seng	27,463.89	-2.30	-1.43	6.93	24.83
Bovespa	73,796.71	-2.90	3.91	18.99	22.53
Sensex	31,164.16	-3.73	-1.85	1.07	17.04
Russia	2,076.49	0.79	4.50	9.75	-7.00

Source: Lombard Odier, as of 28 September 2017.

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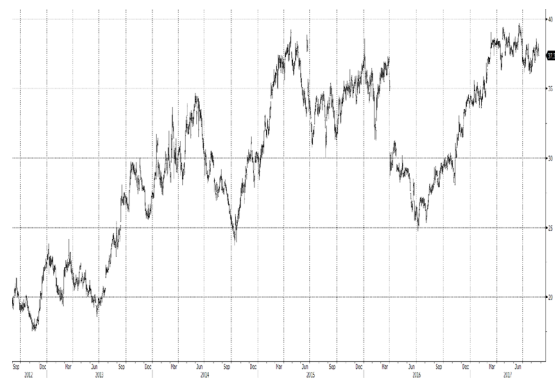
# Equities

## Investment ideas

### Bouygues (Advisory – PT Eur 44) – All stars aligned

- Second quarter (Q2) 2017 results largely beat market expectations, with earnings before interest and tax (EBIT) up 31% versus a 12% expected rise. The beat came from its telecom and construction businesses. **Our investment case relies on upgrades to consensus earnings forecasts, as margins in the construction business keep improving and we believe analysts remain too conservative on margin development over time.**
- Meanwhile, Bouygues' telecoms business remains well oriented, with 110,000 new mobile customers and 45,000 new broadband customers added over the quarter. Although this was the slowest pace since the beginning of the growth strategy in 2015, it did not come as a surprise. The group is now aiming for margins slightly above its previous 25% target for the year.
- The cherry on the cake comes from the **merger announcement between Alstom and Siemens**. According to some brokers, the new group could unlock up to EUR13 per share value for Alstom through 1) synergies, 2) expansion of its valuation multiple due to improved scale, stability and margins and 3) a special dividend. **Bouygues owns 28.3% of Alstom on a standalone basis (and will own around 14% of the new Siemens Alstom group) and we believe the new entity could add 6-7% on to Bouygues' valuation.**
- **Conclusion:** Bouygues is ticking all the boxes. The news on Alstom-Siemens is an additional support to our buy case as we believe it will have a positive impact on the valuation of the group, and Bouygues may cash in circa EUR500mn through special dividends to be paid by Alstom. We continue to suggest buying Bouygues at current levels.

Bouygues

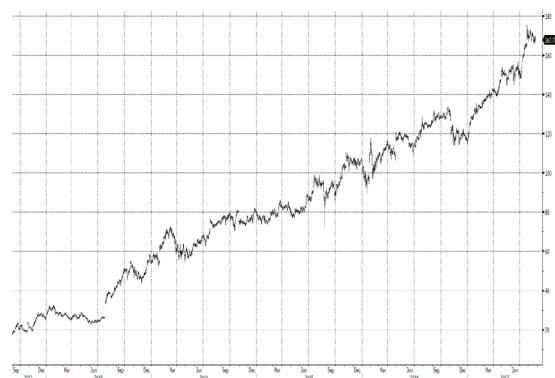


Source : Lombard Odier, as of 27 September 2017.

### Facebook (RF – PT USD 195)

- **On 25 September, the technology sector was under selling pressure**, driven by some sector rotation. Facebook (FB) was among the hardest hit stocks, falling more than 4% on the day. Year-to-date (ytd), it is still up a nice 41%, though.
- **What was the main reason for the sell-off?** FB abandoned a plan to change its stock structure that would have given chief executive officer (CEO) Mark Zuckerberg the ability to retain control of the company via the issuance of no-vote Class C stock, while donating a portion of his fortune to a charitable foundation. In order to finance this philanthropy fund, Mr Zuckerberg decided to change the speed at which he does this: he now plans to sell 35-75 million shares over 18 months or 18% of his shares valued at around USD 6-13bn, versus an earlier plan to sell or gift no more than USD 1bn of stock each year for the next three years.
- **Our take:** Even though the share ownership reduction may put some downward pressure on FB in the short term, we would use this weakness as a buying opportunity as the company's fundamentals have not changed. The shares are trading below their two-year price to earnings (P/E) ratio average (26x) and enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA) average (15x), which we find compelling versus the expected sales and earnings per share (EPS) three-year forecast compound annual growth rate (CAGR) of 34% and 39%, respectively.

Facebook



Source : Lombard Odier, as of 27 September 2017.

- **As a quick reminder, we like FB for two simple reasons:**
  1. We believe FB is the best way to play two dynamic changes underway in the internet – the transition of advertising dollars towards mobile and digital video; 2. Instagram, owned by FB since 2012, is in the early stages of monetisation, on top of the company's long-term optionality to monetise the Messenger and WhatsApp platforms it also owns (each has more than 1bn monthly users).

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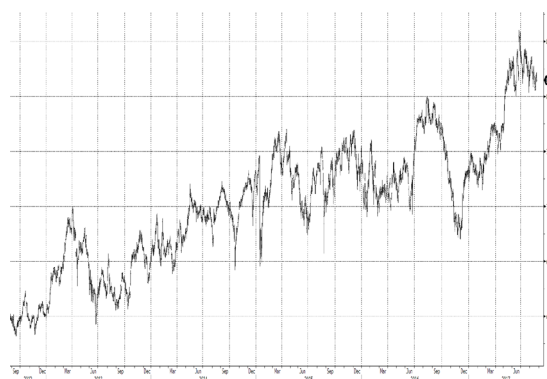
# Equities

## Investment ideas

### Nestlé (R – PT CHF 95)

- **Nestlé CEO Mark Schneider made a strong impression at the company's latest investor day on 25 September.** There was a clear change in communication style, management commitment seems more tangible and future targets quite ambitious. We like this evolution - Nestlé no longer appears to be the 'sleeping beauty'.
- **Management presented 2020 targets of mid-single-digit organic sales growth and 17.5-18.5% trading operating margins, versus 16% in 2016.** The CEO stated that more aggressive margin improvement might curb growth, therefore under current circumstances, investors should not expect more margin expansion in 2020. Instead, the company wants to achieve a balance between growth, margins and capital efficiency.
- The company confirmed its focus on the food & beverage categories, with additional opportunities in consumer health. Its portfolio will be adjusted accordingly; products under portfolio review represent around 10% of sales or CHF9bn.
- Mr Schneider presented himself as committed and passionate about delivering shareholder value. We believe Nestlé remains a valuable core holding with an upside option in the share price.
- **Conclusion:** Buy

### Nestlé

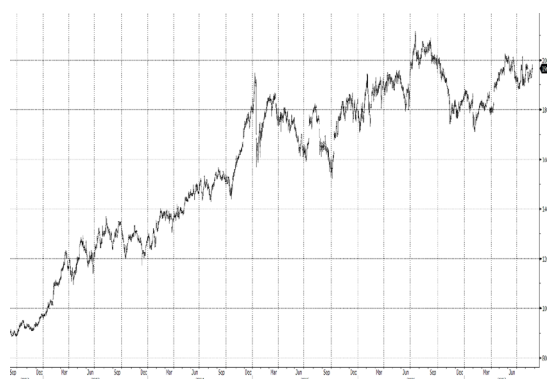


Source : Lombard Odier, as of 27 September 2017.

### Givaudan (R – PT CHF 2,090)

- Givaudan's stock price has had a strong run of late, up 13% since a low in July, to reach a new all-time high of 2,130 in late September. It is up 25% since February when it traded close to CHF 1,700 (outperforming the broader Swiss Market Index by 15% over the past six months).
- **We see a few reasons for the rise:** 1) market expectations of an accelerated growth rate in the second half, 2) a solid message on the savings front during its August conference, 3) a couple of broker upgrades, notably last week Vontobel from Hold to Buy. While analysts' overall EPS revisions have hardly moved over the past six months, these factors explain a fast and considerable multiple expansion over that period.
- **In our view the stock price has overshot.** Today, the stock trades at more than 25 times forecast 2018 earnings, or an EV/EBITDA ratio of close to 18x (versus Nestlé at 21.6x and 15x, respectively). Although we continue to see resilience in growth, margins and returns in the flavours & fragrance sector in which Givaudan operates, we believe **further upside looks limited in the short-term.**
- To add to this, competitor Symrise recently mentioned pricing pressure from big staple customers (which account for roughly half of Givaudan's sales). Pricing power appears to be diminishing, despite an oligopolistic market structure, as consumer concentration (mergers and acquisitions in the staple food and beverage sector) is naturally leading to tough price environment.
- **Conclusion:** We believe investors should take some profits and either switch into 1) Nestlé (R – PT CHF 95), 2) Mondelez (RF – PT EUR 52) in the US or 3) Dufry (R – PT CHF 165) in the Swiss mid-cap space.

### Givaudan



Source : Lombard Odier, as of 27 September 2017.

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# Currencies

## Outlook

### Portfolio Considerations

#### A shaky EUR/USD...

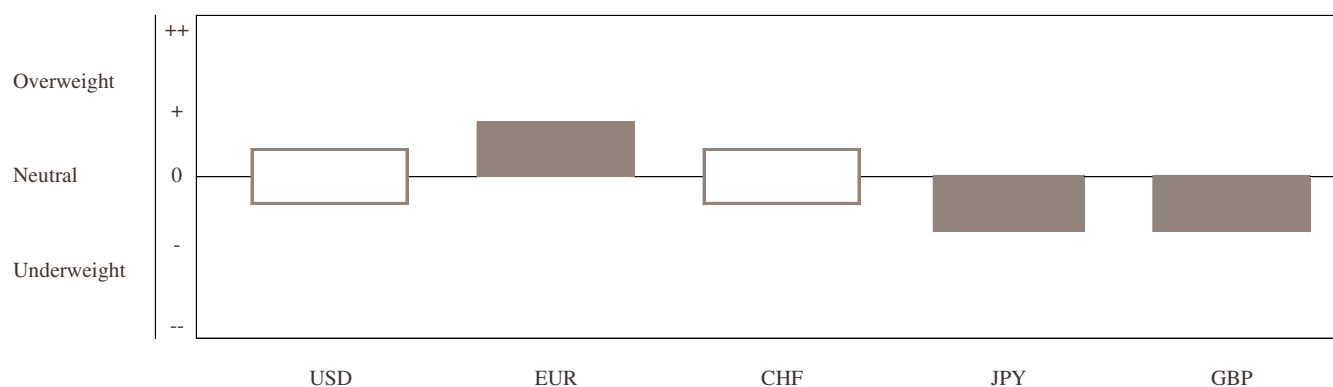
**On 28 September, our Investment Committee decided to strengthen a hedging policy it initially put in place in June, by increasing USD hedges from 3% to 6% in EUR portfolios (balanced and growth).** In line with our house view on ongoing euro strengthening against the dollar, it was decided to take advantage of the latest retracement of the currency pair and increase EUR holdings (in EUR-denominated growth and balanced portfolios).

We could sum up our global picture for the currency pair by saying that euro strength is not a worry at current levels, as it reflects good European macroeconomic fundamentals. This time around, EUR strength is mainly driven by domestic factors, including strengthening demand, providing extra tolerance for a stronger currency. So unless we get an exogenous-led acceleration of EUR/USD above 1.30, we believe that a gradual rise towards 1.25 is totally feasible without unduly damaging Europe's prospects.

From a tactical angle, we believe that the latest correction is a healthy one, taking into account the following headwinds: 1) stretched investor positioning, 2) the US Federal Reserve showing its cards and on track to deliver further tightening which the market hasn't yet fully priced in, 3) the proposed US tax reform announced on 27 September, and 4) the German IFO business confidence index maybe reaching a temporary top. While the recent German elections did not shake the market, it is interesting to note that a populist party (AfD) is now the third largest party represented in parliament. This is not a significant concern, but could be a warning sign if Italy follows a similar path in its next elections.

In a nutshell, we foresee a higher EUR/USD in the medium term and see the latest correction as a healthy development in a sustainable and gradual rise, so buying the dips is the name of the game.

### Currencies preferences



Source: Bloomberg, 5 rolling days, as of 28 September 2017.

### FX performance

	Price	5 days	1 month	3 months	YTD
EURUSD	1.18	-1.47	-1.79	3.40	11.87
EURCHF	1.14	-1.23	0.06	4.87	6.84
EURJPY	1.33	-1.26	1.34	3.78	7.79
EURGBP	0.88	-0.11	-5.17	-0.21	3.05
GBPUSD	1.34	-1.37	3.56	3.62	8.54
USDJPY	112.73	0.23	3.17	0.37	-3.65
AUDUSD	0.78	-1.26	-1.68	2.47	8.62
USDCHF	0.97	0.25	1.87	1.42	-4.49
GBPCHF	1.30	-1.13	5.50	5.08	3.70

Source: Bloomberg, as of 28 September 2017.

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# Currencies

## Investment ideas

### EUR/CHF well anchored in the middle of our target range

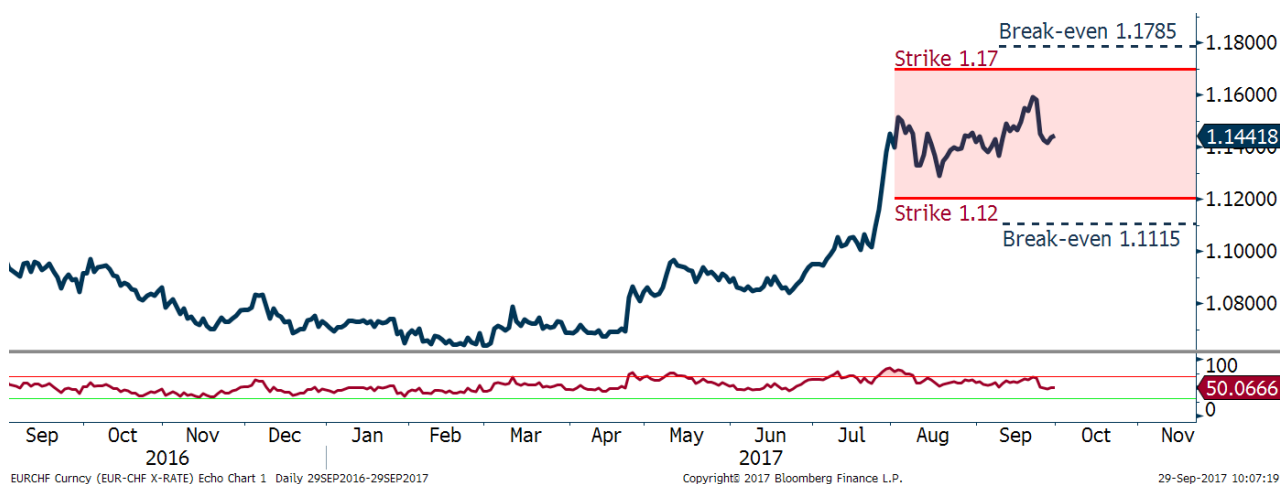
EUR/CHF is back in the middle of its monthly trading range, as tensions with North Korea and an unforeseen strong showing by the far-right AfD party in recent German elections gave support to the safe-haven alpine currency. We expect the currency pair to consolidate around the current level in coming weeks on the back of contrary drivers.

On the one hand, the euro should be supported by the fact that the Swiss National Bank (SNB) is still expected to lag behind the European Central Bank in the normalisation of its monetary policy (the inflation picture remains structurally depressed in Switzerland). On the other

hand, the euro's upward move is limited by the fact that the SNB might be tempted to sell some of its extreme long euro positions, accumulated over the last couple of years.

Short-term volatility in the currency pair has spiked recently, offering better conditions for options sellers. Consequently, we advise investors to play a steady EUR/CHF over the coming weeks by selling options, in particular a short strangle EUR/CHF (a neutral strategy that involves the simultaneous selling of puts and calls with the same expiry date), with a two-month expiry, and strike prices between 1.12-1.17, for a cashed-in premium of 0.75% of the EUR notional amount (and a spot reference price of 1.1455).

EUR/CHF 1 year spot rate



Source: Bloomberg, as of 27 September 2017.

Past performance is not a reliable indicator of future performance.

# Currencies

## FX & Precious Metal Trades mentioned in other WIN editions

Date if WIN issue	Trades	Instrument	Expiry of Trade	Initial price	Target Status	Current price	Performance
16-Jun-16	Short Gold	Risk Reversal Calendar	16-Aug-16	0.00%	2.00% Expired	-	0.00%
30-Jun-16	Short EURNOK	Short Risk Reversal Option	03-Oct-16	0.00%	2.70% Closed	-	2.78%
07-Jul-16	Long USDJPY	Long Call Spread	04-Aug-16	0.20%	1.00% Expired	-	-0.20%
14-Jul-16	Short Gold	Short Call Option	15-Sep-16	1.85%	1.85% Expired	-	1.85%
21-Jul-16	Long USDCHF	Option Call Spread	23-Aug-16	0.20%	1.00% Expired	-	-0.20%
04-Aug-16	Short JPY vs CHF	Option Seagull zero cost	03-Nov-16	0.00%	4.40% Expired	0.52%	0.52%
04-Aug-16	Short JPY vs EUR	Option Seagull zero cost	03-Nov-16	0.00%	3.50% Expired	0.26%	0.26%
04-Aug-16	Short JPY vs USD	Option Seagull zero cost	03-Nov-16	0.00%	3.90% Expired	1.22%	1.22%
18-Aug-16	Short EURGBP Spot	Forward	18-Oct-16	0.866	0.844 Closed	-	2.61%
18-Aug-16	Long GBPCHF	Forward	18-Oct-16	1.254	1.300 Closed	-	3.67%
25-Aug-16	Short USDNOK	Forward	25-Aug-17	8.180	7.500 Closed	-	4.50%
15-Sep-16	Short Strangle EURUSD	Short Put 1.10/Short Call 1.15	17-Nov-16	1.00%	1.00% Closed	2.80%	-1.80%
22-Sep-16	Short Strangle XAUUSD	Short Put 1300/Short Call 1350	24-Nov-16	3.03%	3.03% Closed	8.20%	-5.17%
29-Sep-16	Short USDMXN	Forward	3-Apr-17	19.778	17.500 Closed	18.691	5.82%
13-Oct-16	Long EURUSD Seagull	Option Seagull (1.0870/1.1100/1.1450)	13-Dec-16	0.00%	3.15% Closed	-2.14%	-2.14%
20-Oct-16	Short USDCHF Seagull	Option Seagull (0.9500/0.9800/0.9980)	22-Dec-16	0.00%	3.15% Closed	-2.51%	-2.51%
3-Nov-16	Short EURSEK	Option Put Spread 9.65/9.50	3-Feb-17	0.30%	1.57% Closed	1.40%	1.10%
17-Nov-16	Long GBPUSD	Call GBPUSD 1.26 RKO 1.31	19-Jan-17	0.37%	2.50% Closed	0.00%	-0.37%
15-Dec-16	Short USDCHF	Short Call USDCHF 1.03	17-Jan-17	0.65%	0.65% Closed	0.00%	0.65%
12-Jan-17	Double No Touch	EURUSD 1.0350-1.0850	15-Feb-17	1.00%	4.00% Closed	4.00%	3.00%
19-Jan-17	Short CAD vs NOK	Forward	27-Jul-17	6.402	6.20% Closed	-	0.02%
26-Jan-17	Short EURSEK	Option Put 9.35	26-Apr-17	0.55%	3.00% Closed	0.00%	-0.55%
9-Feb-17	Long EURJPY	Forward	13-Apr-17	119.850	123.500 Closed	116.20	-3.05%
9-Feb-17	Long EURUSD	Short Put 1.05	20-Apr-17	0.81%	0.81% Closed	0.00%	0.81%
23-Feb-17	Long EURUSD	Short Put 1.0420	20-Apr-17	0.73%	0.73% Closed	0.00%	0.73%
2-Mar-17	Long EURUSD	Long Risk Reversal 1.025-1.0820	2-Jun-17	0.00%	1.66% Closed	1.66%	1.66%
15-Mar-17	Long USDJPY	Long Risk Reversal 112.50-115.90	15-Jun-17	0.00%	3.50% Closed	-1.57%	-1.57%
16-Mar-17	Short GBPUSD	Put GBPUSD 1.2270 KO 1.15/1.26	16-Jun-17	0.55%	4.00% Closed	0.00%	-0.55%
<b>4-May-17</b>	<b>Short EUR/SEK</b>	<b>Forward</b>	<b>10-Nov-17</b>	<b>9.630</b>	<b>9.200 Open</b>	<b>9.5817</b>	<b>0.50%</b>
1-Jun-17	Bearish EUR/USD	Short Risk Reversal 1.1150-1.1385	3-Aug-17	0.00%	2.70% Closed	-2.15%	-2.15%
29-Jun-17	Bullish USD/JPY	Forward	3-Oct-17	112.00	4.90% Closed	110.00	-1.80%
5-Jul-17	Neutral USDCAD	Short Put USDCAD 1.2850 KO 1.31	5-Oct-17	0.68%	0.00% Closed	3.08%	-1.20%
13-Jul-17	Bullish XAU/USD	Long Seagull 1185 / 1225 / 1280	15-Jan-18	0.00%	4.50% Closed	2.30%	2.30%
13-Jul-17	Bullish XAU/EUR	Long Seagull 1030 / 1075 / 1135	15-Jan-18	0.00%	5.50% Closed	1.70%	1.70%
20-Jul-17	Neutral AUD/USD	Short Call AUD/USD 0.8025 KO 0.7800	21-Sep-17	0.65%	0.00% Closed	0.00%	0.65%
<b>3-Aug-17</b>	<b>Bullish EUR/USD</b>	<b>Long Risk Reversal 1.1950-1.1650</b>	<b>2-Oct-17</b>	<b>0.00%</b>	<b>2.00% Open</b>	<b>-0.04%</b>	<b>0.04%</b>
18-Aug-17	Neutral EUR/USD	Short Put EUR/USD 1.1590 1-month	19-Sep-17	0.33%	0.00% Closed	-	0.33%
<b>23-Aug-17</b>	<b>Neutral XAU/USD</b>	<b>Short Call XAU/USD 1300 KO 1250</b>	<b>23-Oct-17</b>	<b>15.50</b>	<b>0.00 Open</b>	<b>7.49</b>	<b>0.62%</b>
14-Sep-17	Bearish GBP/USD	Forward	18-Dec-17	1.3385	1.3000 Closed	-	-1.23%
<b>21-Sep-17</b>	<b>Bearish GBP/USD</b>	<b>Short Risk Resersal 1.3700-1.3350</b>	<b>21-Dec-17</b>	<b>0.00%</b>	<b>3.20% Open</b>	<b>0.40%</b>	<b>0.40%</b>
<b>21-Sep-17</b>	<b>Bullish EUR/GBP</b>	<b>Long Risk Resersal 0.8950-0.8725</b>	<b>21-Dec-17</b>	<b>0.00%</b>	<b>3.50% Open</b>	<b>-0.31%</b>	<b>-0.31%</b>

	Total	Winners	Losers	Flat	Currently open
Number of recommendations	41	24	16	1	5

Source: Bloomberg valuation as of 28 September 2017 20:07.

Past performance is not a reliable indicator of future performance.

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# Glossary

## Alpha

Alpha represents the performance of a portfolio relative to a benchmark, it is often considered to represent the value that a portfolio manager adds to or subtracts from a fund's return. In other words, alpha is the return on an investment that is not a result of general movement in the greater market. As such, an alpha of 0 would indicate that the portfolio or fund is tracking perfectly with the benchmark index and that the manager has not added or lost any value. (Investopedia)

## Amount (Amt)

Amount of a bond issue, expressed in millions of units of the currency.

## “Barbell”

A “barbell” bond investment strategy allocates the entire portfolio to short-term and long-term bonds in order to reduce the portfolio's sensitivity to an increase in interest rates. The investor therefore benefits from higher income from long-term bonds, while their exposure to short-term instruments provides security and flexibility.

## BOE

Bank of England

## BoJ

Bank of Japan

## Balance of trade

Difference between the value of a country's exports and its imports of goods and services.

## Ccy

Currency

## Coupon (Cpn)

Paid interest in percent. The letter “s” indicates it is paid semi-annually.

## Current account balance (current account)

Net balance of a country's trade with third countries, integrating the value of exports of goods and services less that of imports and the balance of capital transfers.

## Days

Number of accrued days.

## Deflation

Environment in which consumer prices generally fall. The opposite situation (inflation) is far more common.

## EBITDA

Earnings before interest, taxes, depreciation and amortisation

## ECB

European Central Bank

## EM

Emerging market(s)

## EMBI

Emerging Market Bond Index, as defined by JP Morgan

## EPS

Earnings per share

## Equity long/short managers

Managers, primarily of hedge funds, who use an equity long-short strategy, which involves taking long positions in stocks that are expected to increase in value and short positions in stocks that are expected to decrease in value.

(*BarclayHedge*)

## Event-driven

**Event risk is the risk that the ability of an issuer to make interest and principal payments will change because of rare, discontinuous, and very large, unanticipated changes in the market environment** such as (1) a natural or industrial accident or some regulatory change or (2) a takeover, or corporate restructuring. (*Investopedia*)

## Expected outperformance

The security is expected to do better than its peers in terms of total return in a 12-month time horizon.

## Expected underperformance

The security is expected to do worse than its peers in terms of total return in a 12-month time horizon.

## FCF

Free cash flow

## Federal Reserve

US central bank, commonly known as “the Fed”.

## FINMA

Swiss Financial Market Supervisory Authority.

## FOMC

Federal Open Market Committee

## FRN

Floating-rate note. pas de point

## GDP

Gross Domestic Product (total wealth produced by a country)

## Govt spread

Yield spread versus government bonds

## High-yield

Bond rated below investment-grade. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better-quality bonds in order to make them attractive to investors.

## Issuer

Entity that placed the relevant bond on the market.

## Issue date (Iss)

Day, month and year of the issue of a bond.

## Inflation linked bonds (ILBs)

Primarily issued by sovereign governments such as US and UK, ILBs are indexed to inflation so that the principal and interest payments rise and fall with the rate of inflation. Inflation can significantly erode investors' purchasing power, and ILBs can potentially provide protection from inflation's effects. ILBs may also offer additional benefits in a broader portfolio context.

## IP

Industrial production

## ISIN

International Securities Identification Number Uniquely identifies a security.

## Key rate

Overnight rate of interest, set by the central bank.

## LIBOR London interbank offered rate

Series of money market reference rates for different currencies produced by the British Bankers' Association, reflecting the average rate at which a sample of large banks based in London lend to other large banks without the loan being guaranteed by securities.

# Glossary

## Liquidity risk managers

**Liquidity risk is the risk that arises from the difficulty of selling an asset in a timely manner. It can be thought of as the difference between the “true value” of the asset and the likely price, less commissions.** (*Investopedia*)

## Lower Tier 2 included

A debt that is subordinated to senior debt but ranks ahead of Upper Tier 2 and Tier 1 capital.

## Maturity

Redemption date of the issue.

## MoM

Month on month

## M. Dur

Modified duration expresses the measurable change in the value of a security in response to a change in interest rates.

## Name

Name of issuer

## NAV

Net Asset Value, or book value

## ND/EBITDA

Net debt to EBITDA ratio.

A measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The net debt to EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant. If a company has more cash than debt, the ratio can be negative.

## NFPs

Nonfarm Payrolls

## Non-IG

Non-investment-grade issuers, which therefore have a rating of BB+ or below.

## ParCurve

Bench-mark yield curve

## PBOC

People's Bank of China

## PMI

Purchasing Managers Index

## PPE

“Propriété par étages”  
(*condominium ownership*)

## Price

Indicative closing price.

## Price target

A projected price level as stated by an investment analyst or advisor. A price that, if achieved, would result in a trader recognising a good outcome for his or her investment. The price at which the trader would like to exit his or her position.

## Option spread

An option spread strategy involves buying and selling the same number of options on the same underlying security with different strike prices.

## QoQ

Quarter-on-quarter

## Quantitative easing

An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new banknotes

## R

Recommended positioning or issuer

## Rating

Composite rating (Fitch, Moody's and Standard & Poors)

## ROE

Return on equity

## Sec. no.

ISIN identification number

## Front, short, intermediary, long, very long segments

Maturities of respectively 1-3 years, 3-5 years, 5-7 years, 7-10 years, 10+ years

## Seagull

A seagull is an option strategy which involves a purchase of a call spread and the sale of a put option, or inversely.

## Settl

Settlement date at subscription.

## SNB

Swiss National Bank.

## Soft comm.

Soft commodities

## SPI

Swiss Performance Index

## Swap

Spread between the yield of the bond and the yield from the appropriate swap curve.

## Systematic macro managers

Fund managers who adjust a portfolio's long- and short-term positions on a particular security according to price trends. Systematic managers decide to allow a security to remain part of the portfolio as long as the price of that security remains above a predetermined level. (*Investopedia*)

## Underlined/Red: Avoid

This indicates a security which has a significant probability of default in a 12-month (no's') horizon.

## Tapering

Gradual reduction of the Fed's asset purchase programme.

## VIX Index

Chicago Board Options Exchange (CBOE) Volatility Index. It measures the stock market's expectation of 30-day volatility.

## Yield (YTM) Yield to maturity

The total return anticipated on a bond if the bond is held until the end of its lifetime.

## Yield curve

Graphical representation of the reference interest rates for each maturity. The difference between the yields on long- and short-term maturities indicates the steepness of the curve.

## YoY

Year on year

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## The Lombard Odier Equity Research rating system

### Financial Rating

The financial rating and price target are the result of an analytical process conducted by the Research department of Bank Lombard Odier & Co Ltd. This process is based first on company fundamentals, then on valuation and momentum indicators.

The financial rating aims to indicate the expected performance of a security over 12-18 months relative to its sector universe benchmark. It is the final step of an analytical process based first on company fundamentals, then on valuation and momentum indicators. It is expressed as follows:

- Research List (R): We expect the stock to post a 12-18 month performance above that of its sector universe benchmark.
- Research List - Focus (RF): Designates the analyst's best pick within his or her universe, again with a 12-18 month view.
- Supplementary Swiss List (SSL): Designates companies on a supplementary list of Swiss stocks that are covered, but not recommended within the universe.
- Not Rated (NR): The stock is not one of our preferred picks within its sector universe.

In parallel, for each stock rated R or RF, we issue a 12-month price target.

### Thematic exposure

The Research department has identified nine investment themes that represent a significant long-term market opportunity (>USD 100 bn) and an incremental growth opportunity.

- (++)/(+): Indicates that a stock is very positively/moderately impacted by one of our investment themes.
- (-)/(-): Similarly, indicates that a stock is negatively/very negatively impacted by an investment theme.
- (): Impact on the stock is neutral or not relevant.

### Extra-financial Rating

Since 1998, Lombard Odier has also produced extra-financial ratings for companies within a socially responsible investment framework. These ratings are based on a three-pillar approach that rates the following factors for each pillar:

- Environmental: group-wide policy, international certifications, product innovation.
- Social: service quality, health & safety, training, ethics, community involvement.
- Governance: structure, independence, voting rights, compensation, controversy management.

Each pillar is given a score (A: best quartile; D: worst quartile) following a proprietary methodology last updated in 2014. These ratings are partly based on our main information provider, Sustainalytics.

### Bond rating system (source Bloomberg Composite)

**AAA:** A bond rated "AAA" has the highest rating assigned by Bloomberg Composite. The issuer's capacity to meet its financial commitment on the bond is EXTREMELY STRONG / **AA:** A bond rated "AA" differs from the highest rated bonds only in small degree. The issuer's capacity to meet its financial commitment on the bond is VERY STRONG. / **A:** A bond rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher rated categories. However, the issuer's capacity to meet its financial commitment on the bond is still STRONG. / **BBB:** A bond rated "BBB" exhibits ADEQUATE protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the issuer to meet its financial commitment on the bond. / **BB+ to CCC:** From and including BB+ to CCC, the bond is vulnerable to nonpayment. In the event of adverse business, financial, or economic conditions, the issuer is not likely to have the capacity to meet its financial commitment on the bond. / **Plus (+) or minus (-):** The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

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## MIDDLE EAST | AMERICAS | ASIA | PACIFIC

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