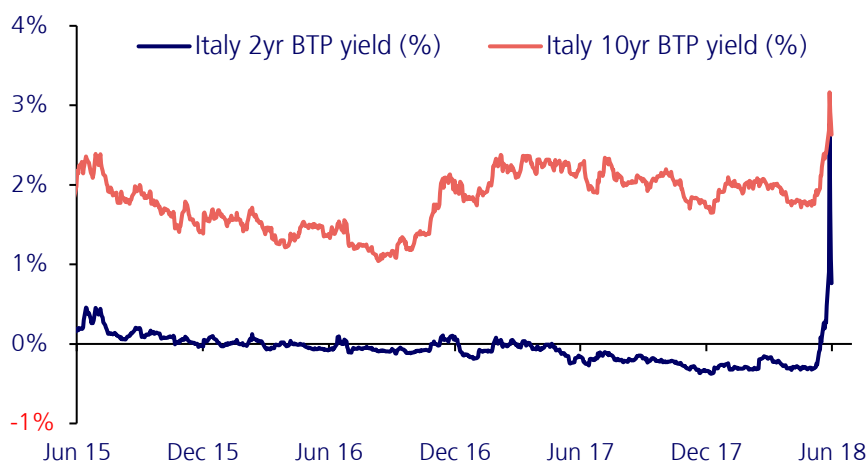


# Monthly Investment Insights

## Political turmoil in Italy brings back market volatility



Source: Bloomberg

As the stellar US earnings season is behind us, and concerns about North Korea and a trade war between the US and China have abated somewhat, other issues have caught investors' attention. The difficult political situation in Italy has rattled both government bond, credit and equity markets. We believe markets will remain volatile over the summer, although we are encouraged by positive macroeconomic developments that should keep the bull market in equities on track.

Italian President Sergio Mattarella's veto against a coalition government formed by the 5 Star and Lega parties, based on the eurosceptic view of its potential finance minister, has rekindled investor fears regarding the outlook for Italy and the Eurozone more broadly. Within just a month, the 10yr BTP yield surged from 1.7% to 3.4%, while the 2yr yield spiked from a negative -0.3% to 2.8%. This is particularly relevant considering that the Italian bond market is one of the largest in the world. In the equity space, Italian banks suffered the most, falling more than 20% within three trading weeks on the prospect of higher funding costs and vulnerable financial conditions. Even though a new coalition led government has finally been formed, and the Italian bond market has started to normalise, investors are likely to remain nervous, with some caution warranted.

We have argued that the weaker economic performance in some regions in the first quarter largely reflected idiosyncratic factors and would prove transitory. With new elections in Italy over the coming months, investors are likely to remain nervous. Indeed, economic indicators available for April and May largely confirm our view. The global composite PMI picked up in April, while the May print for the US shows that activity remains brisk. In Germany, the PMIs kept falling even in May, but it has to be recognised that they are still at a healthy level, which suggests that above-trend growth should continue. The stabilisation in the ifo business climate confirms our view. While Japan's longest expansion phase since the late eighties has ended with a negative print for real GDP growth in Q1, we believe this is just a bump in the road. What is even more encouraging is the fact that Asian export data have gathered steam again, indicating that global trade growth will be supportive for the global late-cycle upswing in equity markets. There is still enough steam in the system to benefit the corporate earnings outlook, even when looking through the benefits from the US tax reform.

## Market Assessment

### Key developments

- Leading indicators confirm that global growth has picked up again following weakness in Q1
- US earnings exhibited a stellar growth rate of 23% in Q1, with 8% sales growth
- Volatility around emerging market credit has given way to concerns about the European periphery following political turmoil in Italy

### Zurich's view

Tighter financial conditions amid the prospect of further Fed hikes should not yet derail the solid global economic environment. At the margin, some of the vulnerable economies like Argentina, South Africa and Turkey have been affected, which should be no surprise. However, we do not share the view of some investors that this will spill over into the broader emerging market space, particularly as most Asian markets are in better shape than during prior phases of volatility over the last ten years. We believe that the outperformance of emerging markets should prevail despite the recent setback.

We are looking through the recent bouts of geopolitical concerns and remain cautiously optimistic for risk assets. We believe the global bull market in equities will remain intact for now, with bouts of weakness offering buying rather than selling opportunities. We remain more cautious in the credit space. While we believe that credit spreads should recover from the current exaggerated levels, we think the cycle tightens are already behind us. Our view expressed last month, that there was not much more upside for Treasury yields, has indeed been reconfirmed.

## Key developments

## Zurich's view

### Global

- The global expansion remains in place, but peak growth is likely to be behind us
- Financial conditions are tightening globally and putting pressure on emerging markets
- This is unlikely to mark the end of the cycle, but central banks need to be cautious when removing stimulus

The global economy continues to expand at a solid rate, with the PMIs showing a modest rebound and stabilisation in April and May after a sharp fall in March. Peak growth is likely to be behind us though, as headwinds from tighter financial conditions, higher oil prices, and a strong USD are mounting. Emerging markets are more vulnerable, with intensifying pressure on weaker countries. Central banks have also adopted a less accommodating stance more broadly, which will be less supportive to growth going forward. We do not expect this to mark the end of the cycle and maintain our view of solid growth in 2018. The potential for a policy mistake is high, however, and it will be critical that central banks, in particular the Federal Reserve, maintain a cautious stance when removing stimulus.

### US

- GDP growth in the US slows to 2.2% QoQ in Q1, but fundamentals remain strong
- Unemployment falls to the lowest level since December 2000, but wage growth barely picks up
- 10y Treasury yields briefly rise above 3.1%, the highest level since 2011

GDP growth lost some momentum in the first quarter, slowing down to 2.2% QoQ from 2.9% in Q4 last year. The slowdown was driven by weaker household spending with consumption expenditure contributing the least to overall growth since 2013. Part of the weakness in consumption was compensated by higher net exports and a pickup in investment. Given strong business and consumer sentiment we expect economic momentum to remain strong. The unemployment rate fell to 3.9% in April, the lowest since December 2000. Despite the ever tighter labour market, wage growth remained at 2.6% YoY. Meanwhile, US companies reported stellar earnings growth of 23% YoY for Q1 fuelled by tax cuts and strong sales. However, stock markets have only shown a relatively modest reaction, as investors worry that earnings could have peaked already.

### UK

- GDP growth almost comes to a halt in Q1, rising just 0.1% QoQ
- Despite a weak economic environment, the FTSE 100 reaches a new all-time high in May
- The BoE refrains from hiking rates despite earlier signals of its intention to tighten monetary policy soon

Despite strongly signalling a rate hike earlier this year, the BoE kept its target rate of 0.5% at its meeting in May. The decision came after GDP growth almost came to a halt in Q1 and inflation moderated more than expected. Headline inflation slowed down to 2.4% YoY in April from 2.5% in March, while Core CPI fell to 2.1% from 2.3%. The decision to keep rates unchanged was not unanimous, however, as two MPC members voted for a rate hike. The employment situation remains healthy with unemployment at 4.2% and wage growth accelerating to 2.9% YoY in March. A solid rebound in retail sales in April indicates that at least part of the weakness in Q1 was transitory due to unusually bad weather. Fuelled by a weaker pound and rising oil prices the FTSE 100 reached a new all-time high in May.

### Eurozone

- Investors wake up to risks in Italy as populist's attempt to form a government
- Eurozone GDP growth fell back in Q1 to 0.4% QoQ, from 0.7% QoQ in Q4
- Data have been mixed so far in Q2, but on balance still consistent with above trend growth

Italy faced a political crisis after President Sergio Mattarella vetoed a coalition deal between the 5 Star and Lega parties due to their nomination of a eurosceptic candidate for finance minister. Italian bond and equity markets came under pressure, though eventually there was agreement on a compromise candidate for finance minister. Italian asset markets are likely to see further episodic periods of volatility. However, our view remains that Italy will stay in the Eurozone. The cost of exiting is very high, as are the legal and constitutional impediments. Separately, Eurozone economic data have been mixed, but still consistent with above trend growth. Crucially, the ECB's latest bank lending data show that lending to households and companies continues to grow at a decent pace.

### Switzerland

- Activity in the manufacturing sector rebounds strongly, while the broader economy grows at a steady pace
- The labour market is tightening rapidly, though job security remains a concern
- The SNB is set to leave policy unchanged, amid the recent flare up in safe haven demand

The manufacturing sector is still enjoying a boom, with the PMI rebounding in April. The labour market is improving rapidly with the unemployment rate at 2.7%, the PMI employment component at the highest level since 2008, and businesses are reporting difficulties in filling open positions. Concerns around job security linger though, as other parts of the economy are still facing headwinds, which caps domestic demand. The surge in the Swiss franc will act as a headwind for exporters going forward. With weaker momentum in the Eurozone, this supports our view that GDP is unlikely to rise above 2% this year. We also expect the SNB to keep policy unchanged as political uncertainty resurfaces in the Eurozone.

## Japan

- Following eight quarters of expansion, the economy shrinks in Q1
- Earnings reports for last fiscal year are robust, but the outlook for this fiscal year is very cautious
- Following a 10% rally over two months, the Topix rolls over amid a stronger yen

Japan's longest expansion phase since the late eighties ended when real GDP for Q1 fell by 0.2% QoQ, with Q4 growth revised down from 0.4% to 0.1%. However, we do not believe this to be the end of the cycle, as some one-off factors like bad weather were a drag. Leading indicators suggest that Q2 will show solid growth again, as the Reuters Tankan for May has turned to the upside, with the non-manufacturing component even reaching a record high. We also note that the new-export PMI turned higher again. Following a rally from 104.60 to 111.40, the USDJPY rolled over again, impacting Japanese equity performance negatively. Company earnings projections for this fiscal year remain overly conservative, with net earnings even expected to drop, which we think is overdone.

## China

- Growth picks up again following an end to pollution control measures
- Service sector activities remain solid
- Both domestic 'A'-shares and 'H'-shares traded in Hong Kong have been meandering

China's economy is gaining steam again following a somewhat lacklustre performance in Q1, which was not reflected in the strong official GDP statistics. Heavy industries are now benefitting from the end of pollution controls, which had been a drag on growth. Consumption and service sector related activities remain brisk, and we would not read too much into the disappointing retail sales in April. Infrastructure investment growth remains weak, but fully in line with the deleveraging targets set by the central government. We believe that growth will slow down in the second half of the year, albeit not rapidly. The recent trade agreement between China and the US does not seem to be a fundamental change, but rather an opportunity to buy more time, while the basic frictions remain.

## Australia

- Business confidence surveys are tracking at historically high levels while consumption indicators are weakening
- Housing prices fall 1.1% YoY in May, and mortgages disbursements to investors decline
- The AUDUSD cross rebounds above the 0.75 mark, but downside risks remain

Australia's economic paradox persisted in Q1. Companies are upbeat, while retail sales and wage growth remain weak. Q1 wage indices show that construction, mining and retail trade jobs are exhibiting soft growth in contrast to healthcare and education jobs. This distribution partly explains why overall wage growth remains stuck at 2.1% YoY. The developments in residential property markets might also play a role in consumption weakness. Overall, we are constructive. The RBA will maintain accommodative conditions until next year. On the fiscal side, higher corporate tax collections give the government enough resources to support households. We think that additional fiscal measures, on top of the proposed income tax cuts, will be necessary.

## ASEAN

- Dr Mahathir Mohamad, Malaysia's new Prime Minister, announces the cancellation of the Goods and Service Tax (GST) as of June 1
- Bank Indonesia (BI) hikes its policy rate by 50bps in two meetings
- Volatility in EM Asia currency markets stabilises, but foreign portfolio outflows persist

Investors have taken the surprising outcome of Malaysia's general elections in stride, reassured by the nominations of experienced and recognised advisers and ministers. However, the new government's initial economic decisions are likely to unsettle markets. The cancellation of the GST, effective June 1 will cost 1.0-1.5% of GDP. Offsetting measures, such as the re-introduction of the Sales and Service Tax and the reduction of government operating expenses are being assessed. Large infrastructure projects, initiated under the former regime, could also be streamlined, which would reduce total contingent claims, a positive for long-term public finances but a short-term negative for investment growth.

Valuation snapshot (MSCI Indices)

Current trailing valuations

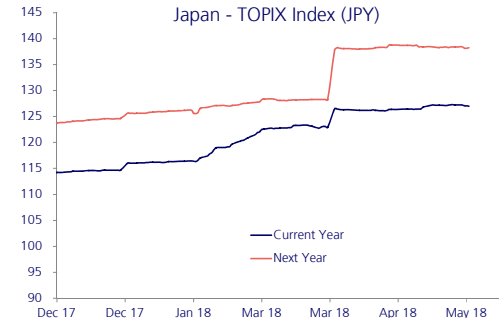
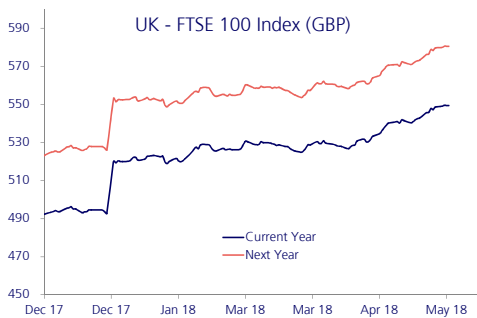
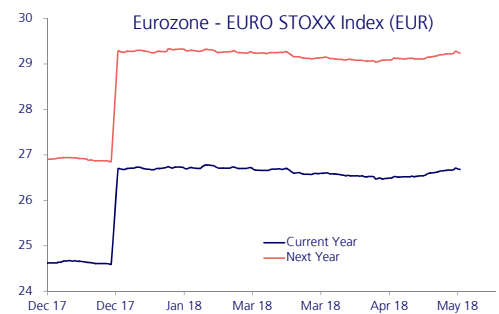
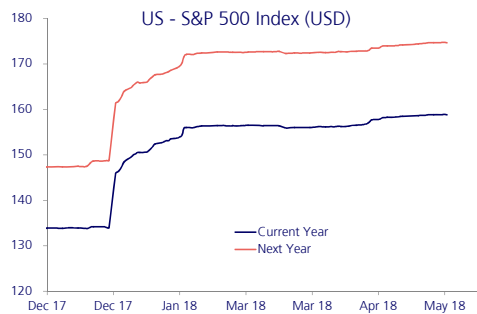
|                   | US    | Europe ex UK | UK    | Switzerland | Japan | APAC ex. Japan | China | Brazil | Mexico |
|-------------------|-------|--------------|-------|-------------|-------|----------------|-------|--------|--------|
| 12m Trailing P/E  | 23.00 | 17.47        | 17.05 | 22.61       | 14.55 | 14.45          | 15.20 | 19.16  | 19.29  |
| 12m Trailing P/B  | 3.23  | 1.86         | 1.77  | 2.50        | 1.37  | 1.76           | 1.94  | 2.01   | 2.41   |
| 12m Trailing P/CF | 15.12 | 10.80        | 10.97 | 15.12       | 8.05  | 9.50           | 8.67  | 9.43   | 8.49   |
| Dividend Yield    | 1.95  | 3.14         | 3.98  | 3.23        | 2.03  | 2.60           | 1.70  | 2.78   | 2.31   |
| ROE               | 14.03 | 10.64        | 10.40 | 11.07       | 9.42  | 12.16          | 12.77 | 10.50  | 12.47  |

Current trailing valuations relative to MSCI world

|                   | US   | Europe ex UK | UK   | Switzerland | Japan | APAC ex. Japan | China | Brazil | Mexico |
|-------------------|------|--------------|------|-------------|-------|----------------|-------|--------|--------|
| 12m Trailing P/E  | 1.22 | 0.93         | 0.90 | 1.20        | 0.77  | 0.77           | 0.81  | 1.01   | 1.02   |
| 12m Trailing P/B  | 1.43 | 0.82         | 0.78 | 1.11        | 0.61  | 0.78           | 0.86  | 0.89   | 1.06   |
| 12m Trailing P/CF | 1.27 | 0.90         | 0.92 | 1.27        | 0.67  | 0.80           | 0.73  | 0.79   | 0.71   |
| Dividend Yield    | 0.81 | 1.31         | 1.66 | 1.34        | 0.84  | 1.08           | 0.71  | 1.16   | 0.96   |
| ROE               | 1.17 | 0.89         | 0.87 | 0.92        | 0.79  | 1.02           | 1.07  | 0.88   | 1.04   |

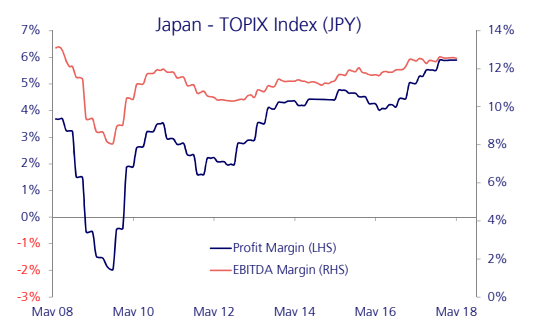
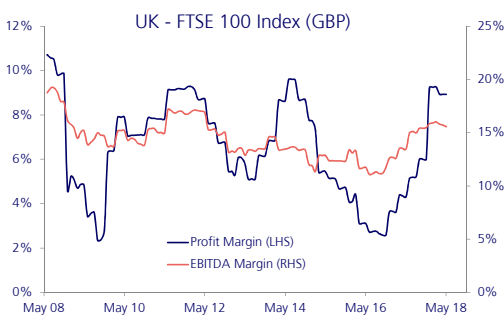
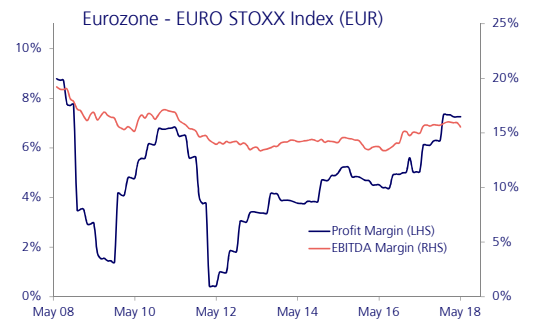
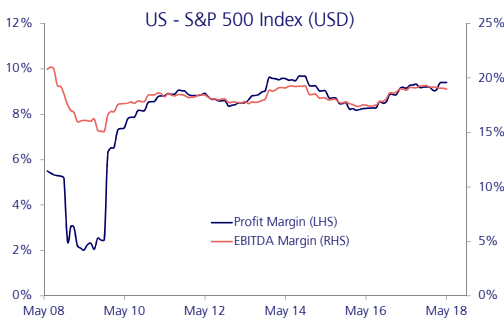
Source: Datastream

Earnings estimates - Full fiscal years



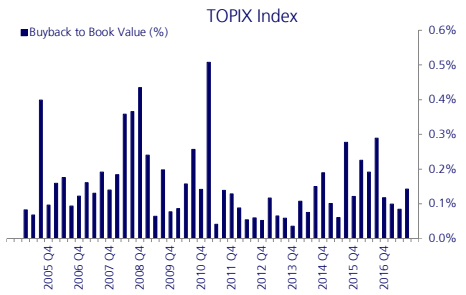
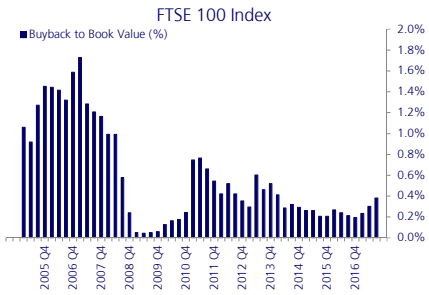
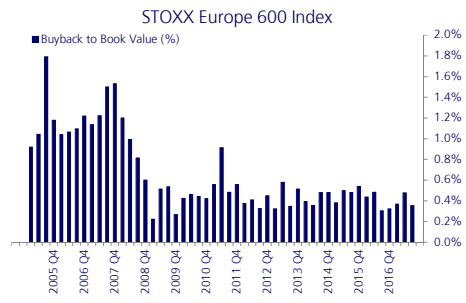
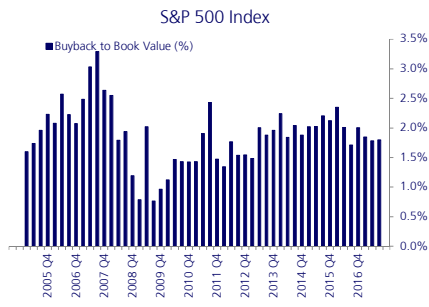
Source: Bloomberg

Historical margins



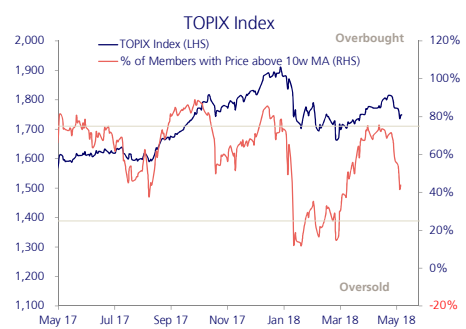
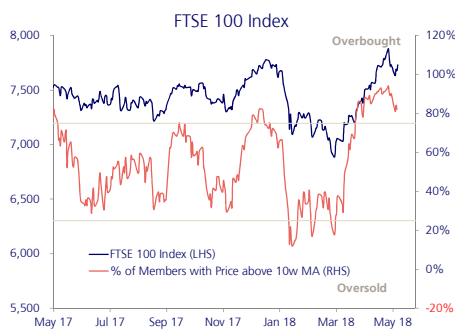
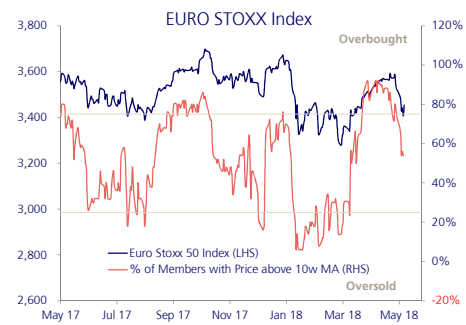
Source: Bloomberg

Shares buybacks



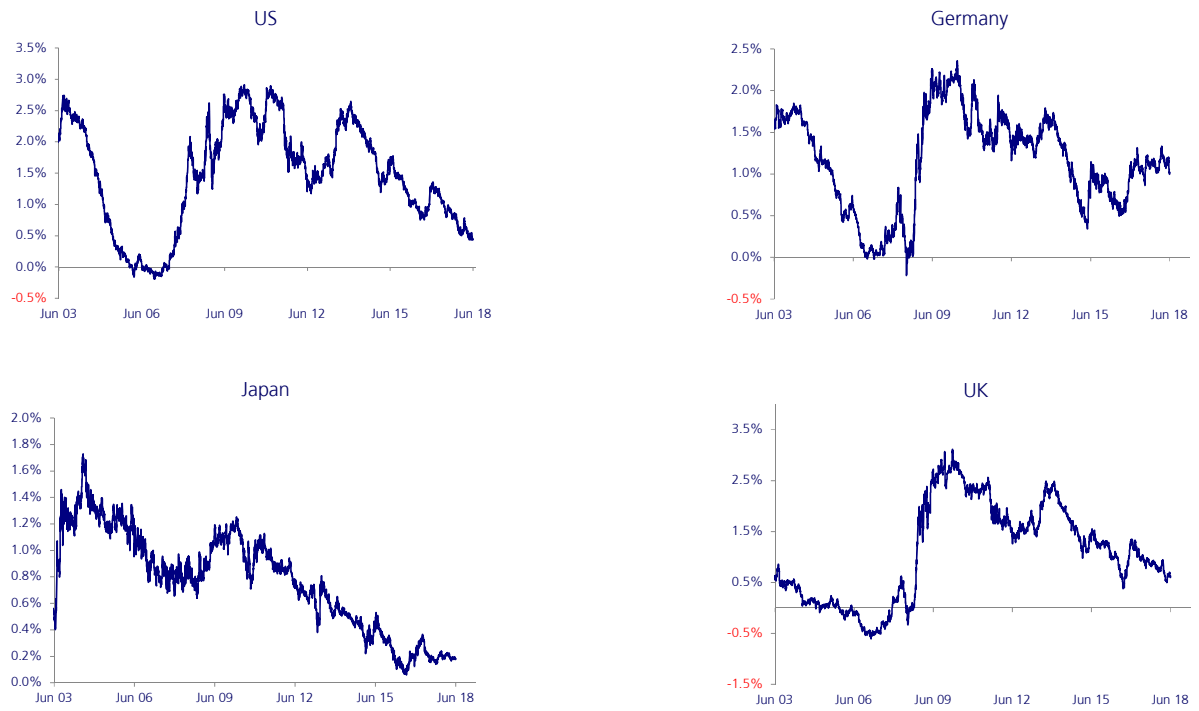
Source: Bloomberg

Overbought / Oversold



Source: Bloomberg

### Yield Curve Steepness (2yr-10yr)



Source: Bloomberg

### Spread Snapshot

Generic Government Yields (10yr)

| Country     | Spread over US Treasury (bps) |        |        |         |
|-------------|-------------------------------|--------|--------|---------|
|             | Jun-18                        | 1m ago | 3m ago | 1yr ago |
| UK          | -161                          | -156   | -139   | -114    |
| Germany     | -249                          | -241   | -221   | -191    |
| Switzerland | -292                          | -288   | -279   | -238    |
| Japan       | -283                          | -292   | -280   | -216    |
| Australia   | -18                           | -21    | -13    | 18      |
| China       | 77                            | 68     | 100    | 142     |
| South Korea | -18                           | -25    | -11    | 0       |
| Malaysia    | 130                           | 117    | 114    | 167     |
| Indonesia   | 411                           | 396    | 371    | 474     |
| Thailand    | -28                           |        | -50    | 39      |
| Philippines | 118                           | n/a    | n/a    | n/a     |
| Brazil      | 858                           | n/a    | n/a    | 858     |
| Mexico      | 493                           | 453    | 475    | 510     |
| Colombia    | 374                           | 346    | 408    | 399     |
| Peru        | 277                           | 223    | 194    | 343     |

Generic Government Yields (10yr)

| Country     | Spread over German Bund (bps) |        |        |         |
|-------------|-------------------------------|--------|--------|---------|
|             | Jun-18                        | 1m ago | 3m ago | 1yr ago |
| France      | 31                            | 23     | 27     | 43      |
| Netherlands | 18                            | 14     | 4      | 21      |
| Belgium     | 38                            | 26     | 30     | 36      |
| Austria     | 31                            | 19     | 22     | 29      |
| Ireland     | 58                            | 41     | 44     | 49      |
| Italy       | 215                           | 123    | 132    | 195     |
| Spain       | 107                           | 72     | 90     | 126     |
| Portugal    | 146                           | 112    | 134    | 269     |

Source: Bloomberg, ZIG

## Economic data

| US                                  | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend*  |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| ISM Manufacturing (Index)           | 55.5   | 56.7   | 56.5   | 59.3   | 60.2   | 58.5   | 58.2   | 59.3   | 59.1   | 60.8   | 59.3   | 57.3   |        | up      |
| ISM Non-Manufacturing (Index)       | 57.1   | 57.2   | 54.3   | 55.2   | 59.4   | 59.8   | 57.3   | 56.0   | 59.9   | 59.5   | 58.8   | 56.8   |        | up      |
| Durable Goods (% MoM)               | -1.2   | 7.1    | -7.4   | 2.7    | 4.7    | -4.1   | 2.2    | 3.2    | -4.2   | 4.5    | 2.7    | -1.7   |        | up      |
| Consumer Confidence (Index)         | 117.6  | 117.3  | 120.0  | 120.4  | 120.6  | 126.2  | 128.6  | 123.1  | 124.3  | 130.0  | 127.0  | 125.6  | 128.0  | up      |
| Retail Sales (% MoM)                | 4.2    | 3.5    | 3.7    | 3.7    | 5.2    | 5.3    | 6.1    | 5.3    | 3.9    | 4.5    | 5.1    | 4.6    |        | down    |
| Unemployment Rate (%)               | 4.3    | 4.3    | 4.3    | 4.4    | 4.2    | 4.1    | 4.1    | 4.1    | 4.1    | 4.1    | 4.1    | 3.9    |        | down    |
| Avg Hourly Earnings YoY (% YoY)     | 2.3    | 2.3    | 2.2    | 2.3    | 2.6    | 2.2    | 2.3    | 2.4    | 2.4    | 2.5    | 2.6    | 2.6    |        | up      |
| Change in Payrolls ('000, MoM)      | 155.0  | 239.0  | 190.0  | 221.0  | 14.0   | 271.0  | 216.0  | 175.0  | 176.0  | 324.0  | 135.0  | 164.0  |        | up      |
| PCE (% YoY)                         | 1.5    | 1.5    | 1.4    | 1.3    | 1.4    | 1.5    | 1.5    | 1.5    | 1.5    | 1.5    | 1.8    | 1.8    |        | up      |
| GDP (% QoQ, Annualized)             |        | 3.1    |        |        | 3.2    |        |        | 2.9    |        |        | 2.2    |        |        |         |
| UK                                  | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend*  |
| PMI Services (Index)                | 53.8   | 53.4   | 53.8   | 53.2   | 53.6   | 55.6   | 53.8   | 54.2   | 53.0   | 54.5   | 51.7   | 52.8   |        | down    |
| Consumer Confidence (Index)         | -5.0   | -10.0  | -12.0  | -10.0  | -9.0   | -10.0  | -12.0  | -13.0  | -9.0   | -10.0  | -7.0   | -9.0   | -7.0   | up      |
| Unemployment Rate (%)               | 4.5    | 4.4    | 4.3    | 4.3    | 4.3    | 4.3    | 4.3    | 4.4    | 4.3    | 4.2    | 4.2    |        |        | down    |
| CPI (% YoY)                         | 2.9    | 2.6    | 2.6    | 2.9    | 3.0    | 3.0    | 3.1    | 3.0    | 3.0    | 2.7    | 2.5    | 2.4    |        | down    |
| GDP (% YoY)                         |        | 1.9    |        |        | 1.8    |        |        | 1.4    |        |        | 1.2    |        |        |         |
| Eurozone                            | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend*  |
| PMI Manufacturing (Index)           | 57.0   | 57.4   | 56.6   | 57.4   | 58.1   | 58.5   | 60.1   | 60.6   | 59.6   | 58.6   | 56.6   | 56.2   | 55.5   | down    |
| PMI Services (Index)                | 56.3   | 55.4   | 55.4   | 54.7   | 55.8   | 55.0   | 56.2   | 56.6   | 58.0   | 56.2   | 54.9   | 54.7   | 53.9   | down    |
| Ifo Business Climate (Index)        | 101.8  | 103.3  | 104.3  | 104.2  | 104.3  | 104.8  | 105.2  | 105.0  | 104.8  | 104.1  | 103.3  | 102.2  | 102.2  | down    |
| Industrial Production (% MoM)       | 1.0    | -1.0   | 1.5    | 1.2    | -0.2   | 0.0    | 1.5    | -0.1   | -0.6   | -0.9   | 0.5    |        |        | down    |
| Factory Orders GE (% MoM)           | -0.7   | 0.7    | -0.5   | 3.5    | 0.6    | 0.8    | 0.4    | 2.6    | -3.5   | -0.2   | -0.9   |        |        | down    |
| Unemployment Rate (%)               | 9.2    | 9.0    | 9.0    | 9.0    | 8.9    | 8.8    | 8.7    | 8.7    | 8.7    | 8.6    | 8.6    | 8.5    |        | down    |
| M3 Growth (% YoY, 3 months MA)      | 4.9    | 4.9    | 4.6    | 5.0    | 5.2    | 5.0    | 4.9    | 4.6    | 4.6    | 4.3    | 3.7    | 3.9    |        | down    |
| CPI (% YoY)                         | 1.4    | 1.3    | 1.3    | 1.5    | 1.5    | 1.4    | 1.5    | 1.4    | 1.3    | 1.1    | 1.3    | 1.2    | 1.9    | up      |
| Core CPI (% YoY)                    | 0.9    | 1.1    | 1.2    | 1.2    | 1.1    | 0.9    | 0.9    | 0.9    | 1.0    | 1.0    | 1.0    | 0.7    | 1.1    | down    |
| GDP (% QoQ)                         |        | 0.7    |        |        | 0.7    |        |        | 0.7    |        |        | 0.4    |        |        |         |
| Switzerland                         | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend*  |
| KOF Leading Indicator (Index)       | 104.0  | 105.3  | 107.4  | 104.3  | 106.1  | 109.4  | 110.3  | 111.4  | 107.6  | 108.3  | 105.1  | 103.3  | 100.0  | down    |
| PMI Manufacturing (Index)           | 55.7   | 60.0   | 60.3   | 61.4   | 62.2   | 61.5   | 64.6   | 65.6   | 65.3   | 65.5   | 60.3   | 63.6   | 62.4   | down    |
| Real Retail Sales (% YoY)           | -0.5   | 1.7    | -0.1   | -1.2   | 0.3    | -2.1   | 0.4    | 1.6    | -0.6   | 0.2    | -1.1   | 2.2    |        | down    |
| Trade Balance (Billion, CHF)        | 3.3    | 2.8    | 3.5    | 2.2    | 2.8    | 2.3    | 2.6    | 2.6    | 2.1    | 3.2    | 1.7    | 2.3    |        | down    |
| CPI (% YoY)                         | 0.5    | 0.2    | 0.3    | 0.5    | 0.7    | 0.7    | 0.8    | 0.8    | 0.7    | 0.6    | 0.8    | 0.8    |        | down    |
| Japan                               | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend*  |
| Nomura Manufacturing PMI (Index)    | 53.1   | 52.4   | 52.1   | 52.2   | 52.9   | 52.8   | 53.6   | 54.0   | 54.8   | 54.1   | 53.1   | 53.8   | 52.8   | down    |
| Machine Orders (% YoY)              | 0.6    | -5.2   | -7.5   | 4.4    | -3.5   | 2.3    | 4.1    | -5.0   | 2.9    | 2.4    | -2.4   |        |        | down    |
| Industrial Production (% YoY)       | 6.2    | 5.2    | 4.5    | 5.0    | 2.5    | 5.7    | 3.6    | 4.5    | 2.9    | 1.6    | 2.4    | 2.5    |        | down    |
| ECO Watchers Survey (Index)         | 50.1   | 49.9   | 51.0   | 49.6   | 49.6   | 49.9   | 52.4   | 53.9   | 49.1   | 48.4   | 51.7   | 50.9   |        | down    |
| Jobs to Applicants Ratio (Index)    | 1.5    | 1.5    | 1.5    | 1.5    | 1.5    | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    | 1.6    |        | up      |
| Labour Cash Earnings (% YoY)        | 0.6    | 0.4    | -0.6   | 0.7    | 0.9    | 0.2    | 0.9    | 0.9    | 0.7    | 1.0    | 2.0    |        |        | up      |
| Department Store Sales (% YoY)      | 0.0    | 1.4    | -1.4   | 2.0    | 4.4    | -1.8   | 2.2    | -0.6   | -1.2   | -0.9   | 0.1    | 0.7    |        | down    |
| Money Supply M2 (% YoY)             | 3.8    | 3.9    | 4.0    | 4.0    | 4.1    | 4.1    | 4.0    | 3.6    | 3.4    | 3.2    | 3.1    | 3.3    |        | down    |
| CPI Ex Food & Energy (% YoY)        | -0.2   | -0.2   | -0.1   | 0.0    | 0.0    | 0.0    | 0.1    | 0.1    | 0.1    | 0.3    | 0.3    | 0.1    |        | up      |
| Exports (% YoY)                     | 14.9   | 9.7    | 13.4   | 18.1   | 14.1   | 14.0   | 16.2   | 9.4    | 12.3   | 1.8    | 2.1    | 7.8    |        | down    |
| China                               | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend*  |
| PMI Manufacturing (Index)           | 51.2   | 51.7   | 51.4   | 51.7   | 52.4   | 51.6   | 51.8   | 51.6   | 51.3   | 50.3   | 51.5   | 51.4   | 51.9   | up      |
| Industrial Production (% YoY)       | 6.5    | 7.6    | 6.4    | 6.0    | 6.6    | 6.2    | 6.1    | 6.2    |        |        | 6.0    | 7.0    |        | up      |
| Retail Sales (% YoY)                | 10.7   | 11.0   | 10.4   | 10.1   | 10.3   | 10.0   | 10.2   | 9.4    |        |        | 10.1   | 9.4    |        | down    |
| PPI (% YoY)                         | 5.5    | 5.5    | 5.5    | 6.3    | 6.9    | 6.9    | 5.8    | 4.9    | 4.3    | 3.7    | 3.1    | 3.4    |        | down    |
| Exports (% YoY)                     | 7.6    | 10.3   | 6.4    | 4.9    | 7.9    | 6.3    | 11.5   | 10.9   | 10.9   | 43.8   | -2.8   | 12.7   |        | up      |
| CPI (% YoY)                         | 1.5    | 1.5    | 1.4    | 1.8    | 1.6    | 1.9    | 1.7    | 1.8    | 1.5    | 2.9    | 2.1    | 1.8    |        | up      |
| RRR (%)                             | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 17.0   | 16.0   | 16.0   | down    |
| GDP (% YoY)                         |        | 6.9    |        |        | 6.8    |        |        | 6.8    |        |        | 6.8    |        |        | neutral |
| PMI Non Manufacturing (Index)       | 51.2   | 51.7   | 51.4   | 51.7   | 52.4   | 51.6   | 51.8   | 51.6   | 51.3   | 50.3   | 51.5   | 51.4   | 51.9   | up      |
| Aggregate Financing (Billions, CNY) | 1063.1 | 1771.8 | 1195.6 | 1489.5 | 1833.5 | 1035.7 | 1619.6 | 1139.8 | 3061.0 | 1167.1 | 1354.6 | 1560.5 |        | down    |

Datasource: Bloomberg

\*Trend = Last 3m - Previous 3m

## Appendix 5

### Economic data

| <b>Australia</b>                    | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend* |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| AiG Manufacturing (Index)           | 54.8   | 55.0   | 56.0   | 59.8   | 54.2   | 51.1   | 57.3   | 56.2   | 58.7   | 57.5   | 63.1   | 58.3   | 57.5   | up     |
| AiG Service (Index)                 | 51.5   | 54.8   | 56.4   | 53.0   | 52.1   | 51.4   | 51.7   | 52.0   | 54.9   | 54.0   | 56.9   | 55.2   |        | up     |
| Westpac Consumer Confidence (% MoM) | -1.1   | -1.8   | 0.4    | -1.2   | 2.5    | 3.6    | -1.7   | 3.6    | 1.8    | -2.3   | 0.2    | -0.6   | -0.6   | down   |
| Building Approvals (% YoY)          | -15.7  | 1.8    | -9.9   | -12.7  | 0.6    | 17.3   | 20.1   | -4.4   | 14.4   | -0.8   | 15.6   | 1.9    |        | down   |
| Employment Change ('000, MoM)       | 30.3   | 31.2   | 32.2   | 52.8   | 23.0   | 10.4   | 64.3   | 35.1   | 38.4   | -7.4   | -0.7   | 22.6   |        | down   |

| <b>Brazil</b>                          | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend* |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| CPI (% YoY)                            | 3.6    | 3.0    | 2.7    | 2.5    | 2.5    | 2.7    | 2.8    | 3.0    | 2.9    | 2.8    | 2.7    | 2.8    |        | down   |
| Industrial Production (% YoY)          | -4.3   | 4.6    | 0.8    | 2.8    | 4.0    | 2.6    | 5.5    | 4.7    | 4.5    | 5.8    | 2.4    | 1.3    |        | down   |
| Retail Sales (% YoY)                   | 1.7    | 2.6    | 2.9    | 3.1    | 3.6    | 6.2    | 2.6    | 6.0    | 4.0    | 3.1    | 1.5    | 6.5    |        | down   |
| Trade Balance (Millions, USD)          | 7661.0 | 7195.0 | 6298.0 | 5599.0 | 5178.0 | 5201.0 | 3546.0 | 4998.0 | 2768.0 | 4907.0 | 6281.0 | 6142.0 |        | up     |
| Budget Balance Primary (Billions, BRL) | -67.0  | -51.1  | -44.6  | -45.5  | -53.3  | -30.5  | -30.0  | -65.6  | 18.6   | -45.8  | -57.6  | -26.8  |        | down   |

| <b>Chile</b>                           | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend* |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| IMACEC Economic Activity Index (% YoY) | 1.17   | 0.99   | 2.71   | 2.52   | 2.34   | 3.45   | 3.56   | 2.79   | 3.47   | 3.96   | 4.56   |        |        | down   |
| CPI (% YoY)                            | 2.60   | 1.70   | 1.70   | 1.90   | 1.50   | 1.90   | 1.90   | 2.30   | 2.20   | 2.00   | 1.80   | 1.90   |        | down   |
| Retail Sales (% YoY)                   | 5.91   | 4.17   | 3.65   | 5.57   | 3.81   | 3.43   | 5.56   | 4.24   | 3.86   | 3.55   | 4.13   |        |        | down   |
| Industrial Production (% YoY)          | -1.09  | -1.24  | 3.41   | 4.33   | 0.55   | 3.84   | 2.33   | 0.10   | 5.26   | 9.10   | 8.70   | 7.57   |        | up     |
| Unemployment (%)                       | 7.00   | 7.00   | 6.90   | 6.60   | 6.70   | 6.70   | 6.50   | 6.40   | 6.50   | 6.70   | 6.90   | 6.70   |        | up     |

| <b>Mexico</b>                 | May-17 | Jun-17 | Jul-17 | Aug-17 | Sep-17 | Oct-17 | Nov-17 | Dec-17 | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Trend* |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| PMI (Index)                   | 48.8   | 54.8   | 51.5   | 53.6   | 52.4   | 52.4   | 52.5   | 52.4   | 51.6   | 53.0   | 53.7   | 51.7   |        | up     |
| CPI (% YoY)                   | 6.2    | 6.3    | 6.4    | 6.7    | 6.4    | 6.4    | 6.6    | 6.8    | 5.6    | 5.3    | 5.0    | 4.6    |        | down   |
| Retail Sales (% YoY)          | 4.1    | 0.4    | 0.4    | -0.2   | -0.3   | -0.1   | -1.5   | -2.0   | 0.5    | 1.2    | 1.2    |        |        | up     |
| Industrial Production (% YoY) | 4.7    | 2.3    | 3.5    | 4.0    | 2.5    | 2.9    | 2.6    | -0.1   | 1.3    | 0.7    | -2.4   |        |        | down   |
| Remittances (Millions, USD)   | 2584.2 | 2417.0 | 2490.7 | 2479.7 | 2349.3 | 2642.7 | 2258.6 | 2604.2 | 2216.6 | 2198.3 | 2620.6 |        |        | down   |

Datasource: Bloomberg

\*Trend = Last 3m - Previous 3m



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