

What outlook for European equity markets in 2019?

2018 will rank as one of the worst years in history for stock market performances, with European markets recording their steepest fall since the financial crisis of 2008. The scale of the decline in European equities is even more striking considering it was fuelled by a combination of extraordinary fear factors, mainly relating to the impact of continuing monetary tightening in the US, trade tensions and the fragility of certain emerging countries, as well as political instability in Europe. Soaring risk aversion over the second half of the year was reflected in an underperformance in Europe, by cyclical stocks in particular, that was at odds with the performance of the real economy. In other words, equity markets are expecting recession despite the absence of any established systemic risk, unlike during the last two market crises, i.e. 2011 in the wake of the Greek debt crisis or 2008, triggered by the collapse of Lehman Brothers.

At this stage, the real economy is robust, particularly in the US, with no sign of a downturn in macroeconomic indicators and record levels of job creation, despite the prospect of trade slowing down as a result of higher customs tariffs. The situation is rather more complex in Europe. Political instability coupled with trade tensions have given rise to a constant decline in manufacturing PMI leading indicators, although still in positive territory with the exception of Italy, which saw its GDP shrink in the third quarter. Germany also witnessed a GDP shrink, although this had more to do with external factors. Setting up new standard international laboratory tests for passenger vehicles caused major disruption for the automotive industry, which accounts for 20% of Germany's industrial activity.

On a more general note, European companies reported strong results with profits growth averaging 10% over the first 9 months of 2018 and order books continuing to grow. They are also in a position to withstand a possible economic crisis, backed by solid fundamentals as they have undergone massive restructurings over recent years in order to confront both 2009 and 2012 recessions. They have slashed their fixed costs and their

debt is at one of its lowest levels in the last 20 years.

However, a slowdown of economic activity, as a result of geopolitical uncertainties accumulating cannot be ruled out as it mostly depends upon confidence in the future. This is a risk that has not yet been fully taken into account by analysts forecasts pointing to a modest downgrading of profits with a growth of +7% expected for 2018 and +8.5% for 2019 in Europe. On the other hand, we believe the intrinsic valuation of cyclical stocks has already factored in the scenario of a recession comparable to 2012, and even 2009 in some cases, i.e. significant lower revenue, shrinking margins and squeezing of valuation multiples. One example would be **BMW**, which current share price represents a valuation multiple at an all-time low of 30% of revenue, on assumptions of a 10% fall in sales in a repeat of 2008-2009 falling margins further eroded by investment in developing electric vehicles, as well as twice as much losses as in 2009 on its financing activity. The same holds true for banking stocks such as **Banco Santander**, **BNP Paribas**, **Société Générale**, **Unicredit** and **Intesa Sanpaolo**, which valuation multiples have also hit all-time lows, with market capitalisations well below tangible common equity. There are also unprecedented discounts to be found in relatively non-cyclical sectors such as food retailing: at 27%, **Carrefour's** EV to revenue multiple is at its lowest level of the past 25 years. There is no shortage of other examples.

Eventually, it is important not to overlook the very real risks that hang over the outlook for the global economy, but rather to assess whether these risks are properly taken into account in share valuations, and whether company balance sheets are sound enough to withstand a downturn, possibly even a sharp one, in the economy. It is for this reason that we have left unchanged the overall structure of our portfolios, heavily weighted in quality cyclical stocks, despite very negative market performances in 2018. Unlike some, we consider that the current period, with so many stocks trading at exaggerated discounts, provides prime investment opportunities.

Performances*

PERFORMANCES	2018	2017	2016	2015	2014	2013	1 yr.	3 yrs.	5 yrs.	10 yrs.	Since inception	Volat. Vol. bench NAV
EUROPEAN AND EUROZONE EQUITIES												
METROPOLE SELECTION A												
FR0007078811	-18.25%	8.03%	-0.53%	9.19%	-0.02%	28.44%	-18.25%	-12.15%	-4.10%	94.02%	160.26%	13.04%
STOXX Europe Large 200 NR	-10.53%	8.92%	1.88%	7.70%	7.09%	19.68%	-10.53%	-0.72%	14.51%	111.21%	113.88%	12.64%
Performance gap	-7.71	-0.89	-2.42	1.50	-7.11	8.76	-7.71	-11.44	-18.60	-17.19	46.38	520.52
METROPOLE EURO SRI A												
FR0010632364	-16.28%	4.27%	2.93%	6.73%	1.24%	27.74%	-16.28%	-10.15%	-2.90%	81.67%	37.43%	13.33%
Euro STOXX Large NR	-12.85%	10.81%	3.97%	8.66%	4.30%	22.69%	-12.85%	0.41%	13.80%	81.26%	30.01%	13.46%
Performance gap	-3.43	-6.54	-1.04	-1.93	-3.06	5.05	-3.43	-10.56	-16.70	0.41	7.41	274.85
METROPOLE AVENIR EUROPE A												
FR0007078829	-24.11%	13.26%	3.64%	9.49%	-1.70%	28.99%	-24.11%	-10.92%	-4.13%	138.04%	177.11%	13.69%
STOXX Europe Small 200 NR	-12.88%	18.10%	0.52%	15.68%	4.93%	26.73%	-12.88%	3.42%	25.54%	217.72%	296.14%	13.13%
Performance gap	-11.23	-4.84	3.12	-6.20	-6.64	2.26	-11.23	-14.34	-29.67	-79.68	-119.03	554.21
METROPOLE FRONTIERE EUROPE A												
FR0007085808	-10.14%	15.33%	0.89%	6.19%	-1.86%	18.97%	-10.14%	4.56%	8.96%	47.25%	90.06%	9.97%
STOXX Europe Large 200 NR	-10.53%	8.92%	1.88%	7.70%	7.09%	19.68%	-10.53%	-0.72%	14.51%	111.21%	127.50%	12.64%
Performance gap	0.39	6.41	-0.99	-1.50	-8.95	-0.71	0.39	5.27	-5.54	-63.97	-37.45	380.11
BONDS & CONVERTIBLES												
METROPOLE CONVERTIBLES A												
FR0007083332	-7.98%	-0.67%	1.98%	2.88%	0.71%	7.22%	-7.98%	-6.79%	-3.42%	39.45%	56.84%	3.45%
ECl-EURO	-5.18%	6.99%	-0.21%	6.08%	3.06%	9.81%	-5.18%	1.23%	10.68%	61.85%	79.11%	4.65%
Performance gap	-2.80	-7.66	2.18	-3.20	-2.34	-2.59	-2.80	-8.03	-14.10	-22.40	-22.27	313.69
METROPOLE CORPORATE BONDS A												
FR0010695874	-2.64%	0.26%	0.51%	0.96%	3.78%	3.68%	-2.64%	-1.89%	2.80%	46.66%	48.88%	2.87%
FTSE MTS 3-5 Y	-0.24%	0.14%	1.46%	1.39%	5.93%	2.32%	-0.24%	1.35%	8.85%	30.22%	30.70%	2.29%
Performance gap	-2.40	0.12	-0.95	-0.42	-2.15	1.36	-2.40	-3.24	-6.05	16.44	18.18	297.76

Past performances are not necessarily indicative of future results. The mutual funds may lose value.

*Data as of 31 December 2018

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