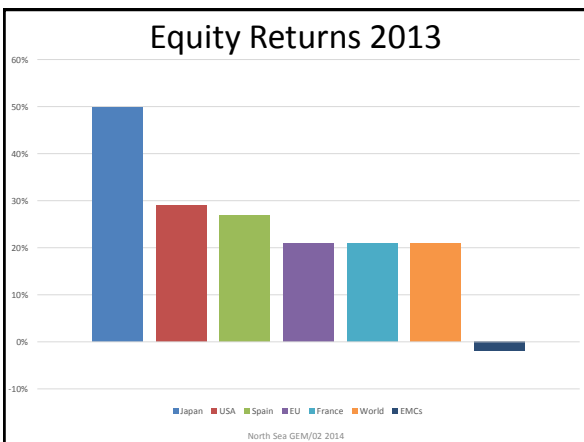
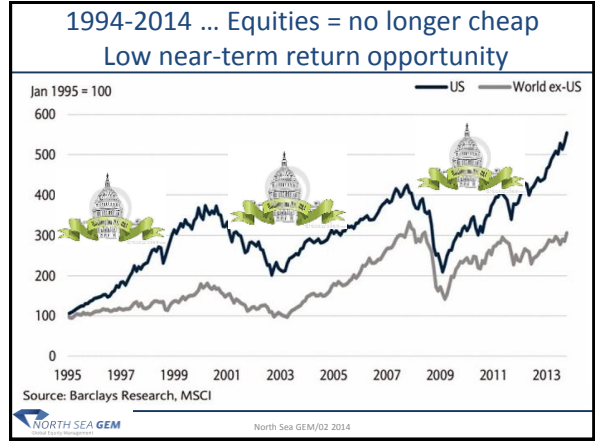


NORTH SEA GEM
Global Equity Management

NORTH SEA GEM'S Global Macro-economic Outlook 2014-15 (and beyond)



Dr. Michel Henry Bouchet/Chief Strategist
Stavanger-February 12, 2014



Dilemma: Picking up a **country** first, a **sector** first, or a **company's** stock first?

1. Keeping sight of the **global picture**
2. Focusing on a limited number of **countries with sustainable growth**
3. **Good business conditions + corporate performance & governance**



NORTH SEA GEM North Sea GEM/02 2014

What to expect in 2014-15?

- Global Economy: recovering, albeit slowly**
 - Growth = weak in EU, volatile in EMCs, and slowing in China
- Real interest rates: higher but moderately till 2015**
 - Gradual US Fed's tapering of bond purchase program
- Jobs: growing, but wages are not**
 - Budget austerity and global competitive pressure

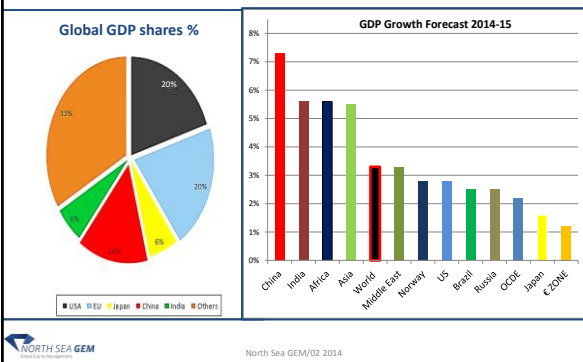
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US median real income

Unemployment + low wages + higher interest rates = low domestic consumption



Not yet out of the woods ! Low OECD growth + EMCs' volatile performance 2014-15



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What are the main risks 2014-15?

- False start recovery**
 - Tighter monetary policy = Deflation + lower corporate profits
- EMCs turmoil**
 - EMCs: currency depreciation
 - Global spill-over effect, defaults and risk aversion
- China's hard landing**
 - Rebalancing + deleveraging + shadow banking crackdown

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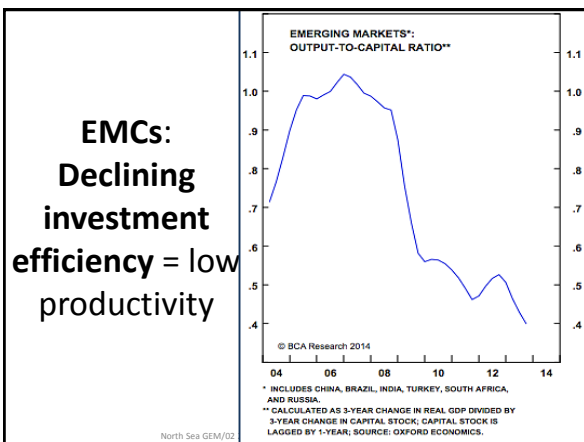
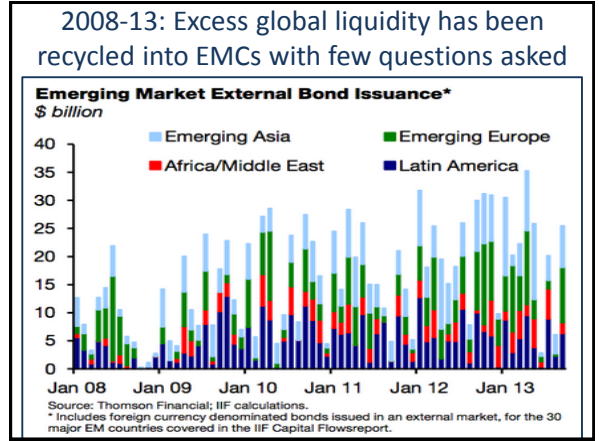
With rising interest rates, bond portfolio principal is at risk

Interest rates ↑

BONDS

Bond value ↓

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EMCs currency sell-off 02-2014:
When the bottom of the market will be reached?

- Unustainable BOP deficits → Economic overheating = stop & go!
- Declining productivity performance → Fall in output/capital ratios in most EMCs 2000-13
- Forget the acronyms: EMCs, BRICS, PIGS! → GDP growth does not correlate with equity returns!

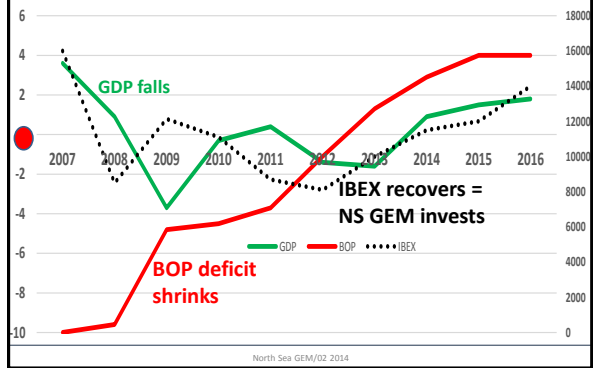
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What to do then in 2014-15?

- Underweight: OECD bonds and US equities
 - Higher rates of interest + tighter liquidity = bad for equity & bond markets
- Overweight: equities in X-driven companies in EMCs and EU
 - Norway, Spain, Germany, France, Turkey, Mexico, Chile
- Reliable growth path in a few EMCs
 - Comfort zone? rigorous risk analysis: bonds & equities

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Spain: successful and painful adjustment process 2007-16



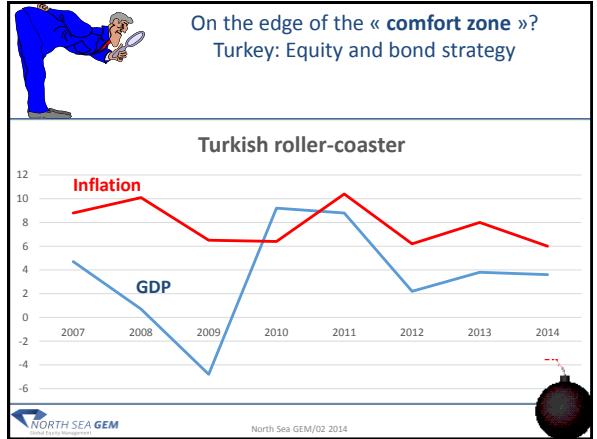
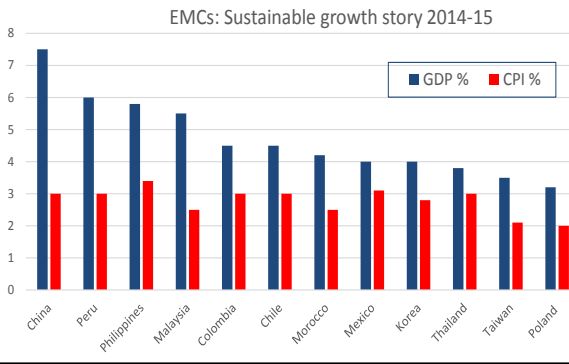
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EMCs: Focus on sustainable growth stories!

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Only a dozen EMCs with buoyant and sustainable growth



Limited number of candidates!



1. Norway, Sweden, Germany, US, Switzerland
2. Spain, France, Poland, Turkey
3. Mexico, Chile, Colombia, Peru
4. Korea, Indonesia, Malaysia

North Sea GEM's Standpoint

- Weak recovery is better than none
- Tighter liquidity and higher market volatility
- Defensive in US market while seeking LT capital appreciation in EU & EMCs' equity markets
- Flexible portfolio management = Active trading + Capital preservation!