PERSPECTIVAS

"Skillful pilots gain their reputation from storms and tempests."
- Epictetus

JAN-FEB 2019 | VOL. 14

OUTLOOK 2019

NOTE FROM THE EDITOR

Certainly, 2018 markets absorbed the angst from global trade disruptions along with U.S. Fed tightening fears and other idiosyncratic political dilemmas worldwide. In the U.S., the rhetoric brought on by trade war worries and its prospective implications on global growth overshadowed all-time high corporate profits. The end of "easy money" and higher interest rates also contributed to market volatility. In Latin America, presidential elections in Colombia, Mexico, and Brazil highlighted important political challenges. In Europe, the refugee crisis and economic stagnation gave rise to populist forces in Italy. France also experienced a rollercoaster year that culminated with street protests over President Macron's reforms. And in the UK, Brexit continued to dominate headlines which, to this day, fail to narrow the list of potential outcomes. In Asia, fears over a Chinese slowdown governed market behavior, with data in the latter part of the year showing that some of the fears had come to fruition.

In its "Outlook 2019" paper, which we base most of this edition on, Citi Private Bank takes us through a few "guideposts" by which we can navigate markets in 2019 given the already-muddled backdrop in 2018. Global trade developments come into strong focus as a key item to watch this year. Trade is considered to be a critical determinant for corporate profits and is something that will likely impact Chinese and Asian growth—a second item to watch for in 2019. Despite this, we expect global economic expansion to carry on, "with the potential for ongoing modest returns in global equities and fixed income by the end of 2019." Throughout the publication, we take a closer look by region, and sometimes country, to present an outlook for the year along with opportunistic elements that may exist as a result of market expectations.

While the risk of a recession does not come into clear focus until 2020, it is important to take action now to preserve some of the gains from this historical bull market. The bouts of volatility brought on by late-cycle investing are expected to persist and attempting to time the market is not advised. Instead, we recommend that investors remain globally invested and take prudent steps toward a more conservative strategy that opts for higher quality assets. This approach could create value and participate in a still-rising market while, at the same time, limiting the risk of drawdowns. The "Outlook 2019" report concludes with four long term investment themes that we will deep dive into in this volume of Perpectivas. With that said, we urge you to seek advice often. We are here to help you navigate market turbulence and be your guide towards maintaining your assets. • **Grethel Alfonso**

We recommend a clear focus on portfolio quality and a more conservative asset allocation at this stage of the market cycle."

- Citi Private Bank "Outlook 2019"

Asset Allocation does not assure profit nor does it guarantee against losses.
For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

IN THIS ISSUE

OUTLOOK 2019

A compilation of Citi's views for the year ahead on the topics you need to know.

WHY ASSET ALLOCATION?

The seemingly infinite number of investment options available today may leave some people feeling daunted about choosing the right securities to meet their financial goals. The key might be to focus less on the selection of specific securities and more on the actual distribution into different classes of assets, giving way to the concept of asset allocation.

Asset allocation is built on the principle of reducing risk through balance, which is achieved by diversifying capital into different categories of investments. Extensive empirical academic studies have concluded that a portfolio's preset asset allocation explains more than 90% of a well-diversified portfolio's return variability.[1] Specific investment selection should, therefore, become a secondary task for any investor structuring a portfolio, because asset allocation tends to be the main determinant of results.

Finding the right allocation requires an understanding of each individual's specific risk profile, needs and expectations. Because these characteristics are unique to each investor, there is no standard formula for finding the appropriate distribution for each individual.

An investment strategy, then, should start with the setting of an objective, which incorporates reasonable expectations for risk and return. With that, asset allocation plays an important role in controlling the risks associated with each individual asset class. Ultimately, results may hinge not on how much you might earn, but how much you could avoid losing. In the long run, this strategy has proven to be more fruitful as you avoid making up large losses with hopes for increasingly larger gains.

As a general framework, it is important to keep in mind a few basic investment principles: Bonds are used to preserve capital, stocks are often introduced to generate growth, and most importantly, you cannot beat the market consistently in the long run.

As an investor, you should avoid market "timing," as the idea is to have a broad-based exposure to all buckets. Having a market portfolio, instead of trying to beat it with individual or specific "bets," will provide consistent market-like returns and, in the long run, is likely to generate the wealth the stock market has delivered for many decades.

Making sound investment decisions, in other words, tends to be less about accurate predictions and more about appropriate asset allocation, controlling risks and keeping costs down.

• Felipe Restrepo

Research suggests that asset allocation is one of the most, if not the most, important decision any investor will make.[2]

YOUR CALL TO ACTION

Talk to your financial professional and seek our guidance more frequently. We can help you:

EVALUATE YOUR PORTFOLIO

To collect insights, explore opportunities and seek out risk management tools available to you. Regularly rebalancing your portfolio can play an essential part.

FINE-TUNE YOUR RISK PROFILE

It is important not to time the market. Instead, consider the opportunity to update your risk profile. During turbulent times, investors often find they are more risk averse than originally believed.

PRESERVE YOUR PORTFOLIO'S VALUE

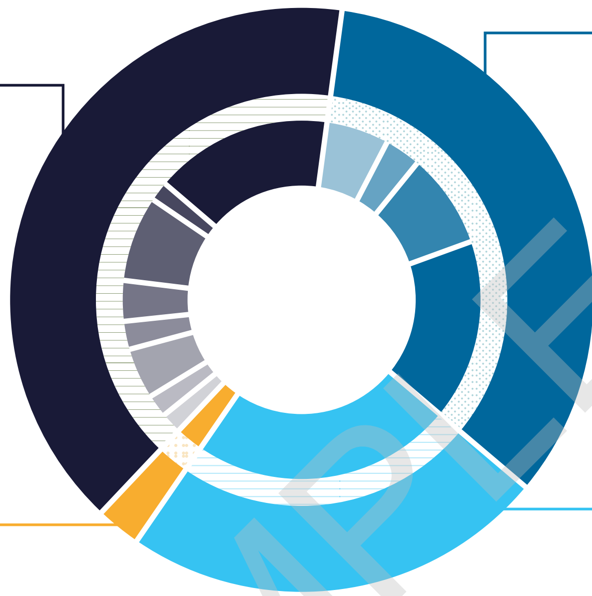
Adding higher quality assets to your portfolio and diversifying globally can help you manage market turbulence.[3]

[1] Brinson, 1986; Ibbotson and Kaplan, 2000 2 see Davis et al., 2007 3 Hood, 2005. [2] Citi Private Bank "Outlook 2019". Sources: Citi Research, Citi Private Bank. [3] Past performance does not guarantee future results. Asset Allocation does not assure profit nor does it guarantee against losses. Diversification does not assure a profit or protect against portfolio loss. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

THE STRATEGIC ALLOCATION ILLUSTRATED BELOW REPRESENTS THAT OF A MODERATE LEVEL 3 PORTFOLIO.

53% EQUITIES

- 25% North America Large Cap
- 4% North America Small/Mid Cap
- 11% Europe
- 5% Japan
- 2% Asia ex Japan
- 5% Emerging Asia
- 1% Emerging EMEA
- 1% Emerging LatAm



33% FIXED INCOME

- 21% Developed Sovereign
- 7% Developed Investment Grade
- 2% Developed High Yield
- 2% Emerging Market

12% ALTERNATIVES*

- 12% Alternative Investments*

2% CASH

- 2% Cash

	Most Conservative	Conservative-Moderate	Moderate	Moderate-Aggressive	Most Aggressive
	For investors who seek capital preservation and relative safety over the potential for a return on investment.	For investors seeking income generations and capital preservation.	For investors with a blended objective who seek balance between investments that offer income and a potentially higher return.	For investors who seek long-term growth of capital with moderate risk and market value fluctuations.	For investors who seek maximum long-term growth of capital with greater risk and market value fluctuations.
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**LEVEL 4**	**LEVEL 5**
Cash	6%	4%	2%	0%	0%
Fixed Income	94%	63%	33%	16%	0%
Equities	0%	26%	53%	70%	86%
Alternatives*	0%	8%	12%	14%	14%

This model portfolio allocation follows Citi Private Bank's Adaptive Valuations Strategy (AVS) methodology. Source: Global Strategy Quadrant (Sept 2018). *Alternative investments include hedge funds, private equity, and real estate among others. Asset Allocation does not assure profit nor does it guarantee against losses. Chart and images are for illustrative purposes only. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

TRADE

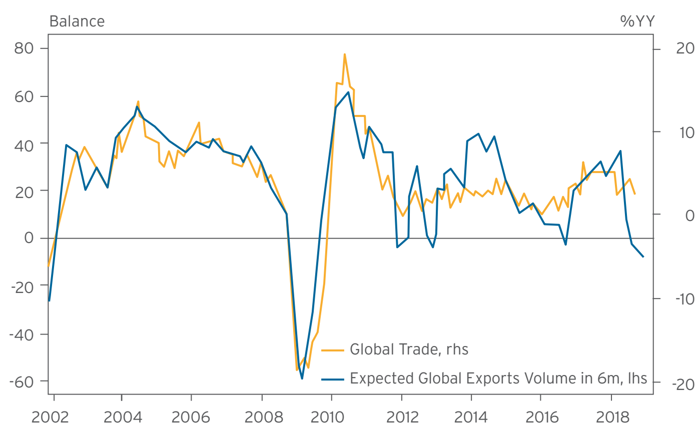
2018 was dubbed "the year of the tax cut" in reverence to the biggest corporate tax cut in U.S. history. Analogously, 2019 has been christened as "the year of the trade war." Trade wars overshadow the prospects for 2019 more than any other topic due to the burden it could impose on global growth and inflation—all on a backdrop of already late-stage economic cycle forces.

U.S.- CHINA

The U.S. is targeting a "China containment" strategy. This includes reducing the trade gap with China (to get China to buy more U.S. products) and ensuring the protection of U.S. companies' intellectual property. As the uncertainty surrounding tariffs extends into 2019, market volatility is likely to remain high. "In our view [the uncertainty] has already had an impact on trade (by bringing in imports) and investment plans," **Figure 1**. While it is our base case that the US will impose 25% tariffs on $200 billion in Chinese products come March, not all sectors will be impacted equally. Tech may be the most vulnerable followed by retail and consumer items if trade tensions escalate. Similarly, not all economies possess the same vulnerabilities to the tariffs, **Figure 2**.

FIGURE 1.

GLOBAL MERCHANDISE TRADE VOLUME (%YY) AND EXPECTED GLOBAL EXPORTS VOLUME THROUGH MID-2019

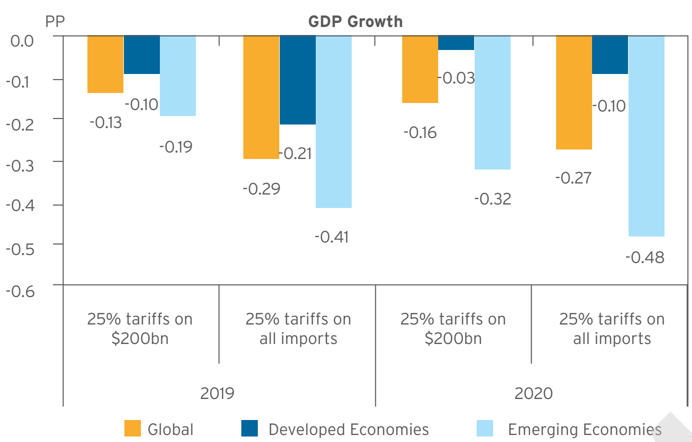


Source: Citi Private Bank, ifo Survey and Citi Research

[1] South China Morning Post "US-China trade war". [2] Global Economic Outlook & Strategy "Prospects for 2019". Sources: Citi Private Bank "Outlook 2019", Citi Research's Global Economics View "Trade Policy 2019 Outlook", Politico, Reuters, Business Insider. Asset Allocation does not assure profit nor does it guarantee against losses. Diversification does not assure a profit or protect against portfolio loss. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

FIGURE 2.

ESTIMATES OF THE IMPACT FROM US-CHINA TRADE TENSIONS



Note: Bottom-up estimates from trade tension scenarios.
Source: Citi Research

The International Monetary Fund forecasts China's GDP size will be 1.6% lower in 2019 than it otherwise would be if the U.S. slaps tariffs on all Chinese imports.[1]

Similarly, our estimates of the impact of a US-China trade war point to -0.2 percentage points (pp) lower global GDP growth in 2019 and -0.4pp in 2020 and peaking at -0.5pp in 2021[2] with emerging markets set to receive the worst of the economic shock.

OTHER TRADE SPATS

With perhaps more equanimity, we are likely to see joint cooperation between "like-minded economies" (like the U.S., EU, and Japan), as well as momentum for new organized arrangements around the world. Risks could increase, however, if, for example, the U.S. imposes a 25% tariff on all autos and auto parts coming into the U.S. from the EU and other trade partners. Although U.S.-EU talks seem to have calmed, EU officials have expressed their readiness to "strike back at the U.S." should an agreement on increased trade from the two sides not materialize. • **Grethel Alfonso**

> On the one hand, freer trade could calm tensions and extend the current period of global growth. On the other, we may see a greater negative impact as trade slows globally. Given these scenarios, our view is that investors should prepare portfolios for either outcome.
>
> - Citi Private Bank "Outlook 2019"

SECTOR TO WATCH

CHIPS & SEMICONDUCTORS

Given that a good percentage of the revenue made from semiconductors is from Asian manufactures, the industry has been particularly associated with trade restrictions and tariffs. As the US government continues to look into unfair business practices in China, chip and semiconductor companies could see themselves cutting out new and old buyers as a result of the trade restrictions. Additionally, tariffs have taken a toll on demand. This has been addressed by updates to companies' earnings guidance throughout most of 2018. Having said that, Citi "believes a bottom [has formed] in semiconductor stocks... and would recommend investors build positions in high quality companies that have already lowered [their] guidance." • **Hector Rojas**

CENTRAL BANKS

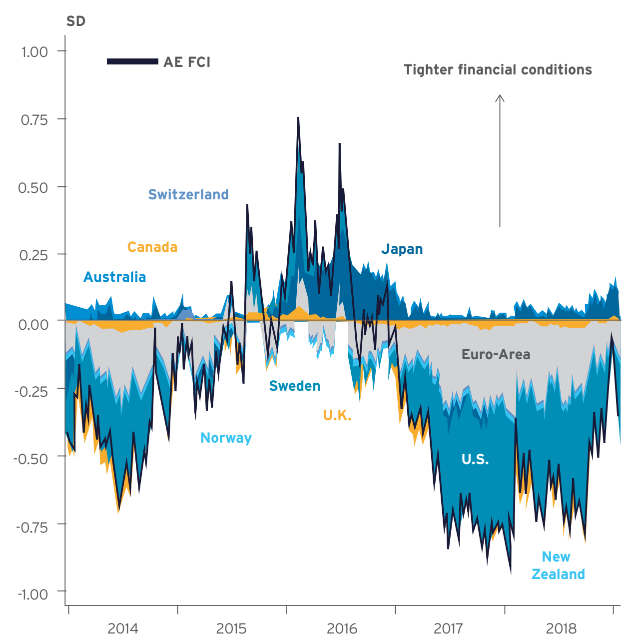
"Half of the G10 CBs have started their hiking cycles. More CBs joining the hiking cycle is likely to become increasingly relevant for market dynamics."

- Citi Research's Global Economics View, Central Bank QE

Central banks monetary policies are still considered accommodative. As such, we do not expect 'somewhat-tighter' conditions (as shown in Figure 3), to hinder growth in 2019. This is, however, something to certainly watch throughout the year as more banks progress in their course to normalization.

FIGURE 3.

TIGHTENING FINANCIAL CONDITIONS ACROSS G10 COUNTRIES



Note: Lower swings (lower values) suggest financial conditions are easing. Higher peaks (positive values) suggest tighter conditions relative to 2004-17 average.
Source: National Statistical Offices, Macrobond, Bloomberg and Citi Research.

Sources: Citi Research's Global Economics View "Central Bank QE", European Central Bank, Citi Private Bank "Outlook 2019". Chart and images are for illustrative purposes only. Asset Allocation does not assure profit nor does it guarantee against losses. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

THE U.S. FEDERAL RESERVE (FED)

The Fed is expected to continue its dovish monetary policy stance throughout 2019. Our analysts foresee two interest rate hikes this year, potentially in March and June, reaching ultimately the 3% mark. The timing has become less certain, however, as data prints on inflation and labor conditions have provided offsetting evidence (with inflation surprising to the downside and labor conditions still strong). On the balance sheet, we anticipate reductions to stay in place until the first quarter of 2020. After this time, the Fed will be net adding Treasuries while still allowing mortgages to mature.

THE EUROPEAN CENTRAL BANK (ECB)

The ECB's asset purchase program (APP) ended in December 2018. The central bank is expected to no longer add to its cumulative net purchases, but to continue reinvesting principal payments for its existing bonds as they mature. Taken as a whole, the ECB's large balance sheet is expected to persist for the foreseeable future. On policy rates, we expect the ECB to begin their normalization cycle by year end 2019. This view is, of course, largely dependent on core inflation data etching closer to the ECB's target of 2%.

THE BANK OF JAPAN (BOJ)

With a goal toward "sustaining moderate economic expansion" while achieving a price stability target of 2% inflation, the BoJ stands by its commitment to continue its monetary easing program. In fact, the BoJ is the only advanced economy central bank expected to continue its net asset purchases in 2019. Sometime in 2020, however, we expect the BoJ to make policy adjustments albeit this will depend on how global economic conditions evolve. If global conditions deteriorate, the central bank could be forced to delay starting its normalization cycle.

• **Grethel Alfonso**

WHAT DOES TIGHTER MONETARY POLICY MEAN FOR YOUR PORTFOLIO?

Citi writes that "the impact of central bank tightening on growth and inflation strongly depends on the financial market reaction." Less stimulus from both the Fed and the ECB and higher interest rates certainly brings into question the likelihood of a downturn in the near future. Before this dreaded downturn becomes a reality, it is important for investors to focus on increasing the quality of their portfolios and consider a more conservative asset allocation approach.

RECESSIONS

As the current expansion moves towards becoming the largest on record, much attention is given to when the next recession will occur. Although recessions are considered to be part of the broader economic cycle, there is no agreed-upon consensus of what causes it. Generally speaking, one of the most telling signals is the shape of the yield curve.

LEARNING BOX

A **recession** is defined as two consecutive quarters of negative GDP growth. This is later reflected as a slowdown in the overall economy, from investments and business profits, to household income.

The yield curve depicts the yields on government debt of different maturities at different points in time. The large majority of the time, the curve slopes upward, showing higher long-term rates than short-term rates in order to compensate investors for the risks of associated over longer periods of time.

The front end of the curve is heavily influenced by monetary policy. As the Federal Reserve increases their Fed Funds target rate, short-term Treasury yields move higher in response. On the other hand, depending on inflation expectations investors may be compelled to invest or withdraw money on a long-term basis. The aggregate effect of investor positioning and monetary policy, influence the shape and behavior of the yield curve.

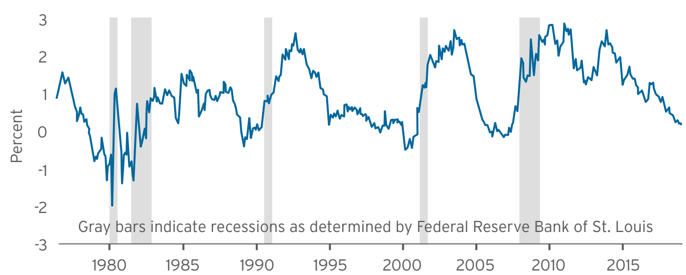
The U.S. economy has experienced five recessions since 1976, each different in nature and length. Independent of the reason, each recession has been preceded by an inverted yield curve, as seen on **Figure 4**. This is why investors are particularly wary of this indicator.

While growth prospects in the U.S. show little signs of abating, the biggest bet on Wall Street is when this tide will turn. Citi does not expect a recession nor a global downturn in 2019 as a number of key macro indicators are still indicating healthy levels. Our analysts believe, however, that risks to the downside increase the chances of a recession in 2020 and note that surprise shocks can certainly kick off a recession earlier than anticipated.

To some respite, after the yield curve inverts, it typically takes anywhere from six months to two years for its effects to roll through the economy and present itself as a recession. While some researchers argue that this time it's different and that the Fed's unusual bond-buying program could have altered the curve's predictive powers, others believe the 60-year old theory to be intact. • **Juan Luis Arana**

FIGURE 4.

LONG-TERM VS. SHORT-TERM TREASURY SPREADS (1976-2018)



Source: Federal Reserve Bank of St. Louis

> "We do not expect the next U.S. recession and global downturn to begin in 2019...[however] the probability of a recession rises in 2020."
>
> - Citi Private Bank "Outlook 2019"

The image above graphs the yield received on a 10 year U.S. Treasury bond minus the yield received on a 2 year U.S. Treasury bond. When the spread is negative, it indicates investors would receive a higher yield from investing on a 2 year bond, than a 10 year bond and is typically a bearish indicator of future economic conditions.

Sources: Citi Research, Bloomberg, St. Louis Fed. Charts and images are for illustrative purposes only. Historical analysis and past performance is not indicative of future results. For additional information, please refer to the Glossary and Disclosure section at the end of this publication

GOLD

In times of turbulence, market participants seek a **safe haven** in gold though many misunderstand the various factors that influence its price and the utility of the metal as an effective hedge.

Gold prices are defined by trends in the U.S. Dollar far more than by overall market sentiment. Citi believes that, in the short term, the strength of the USD will likely cap the metal's appreciation. However, Citi analysts think gold could benefit from a weakening USD starting late 2019 with a base case scenario (60% probability) of it reaching $1,375 per ounce by the end of 2020.

Our most bullish case (with a 30% probability) sees gold prices going up to $1,400 per ounce. This scenario could be triggered by: equities entering a bear market, a substantial boost in EM sentiment, and USD weakness as a result of a "surprise" US China trade deal.

Overall, Citi believes that increased market volatility and lower equity return expectations for 2019/2020 versus 2017/2018, should support buying gold on the dips. While the asset may appreciate during downturns, gold alone is not an absolute hedge. Hedging against market declines can be further improved by adding Treasuries and cash to the asset allocation mix in your portfolio. • Nadiya Kadirova

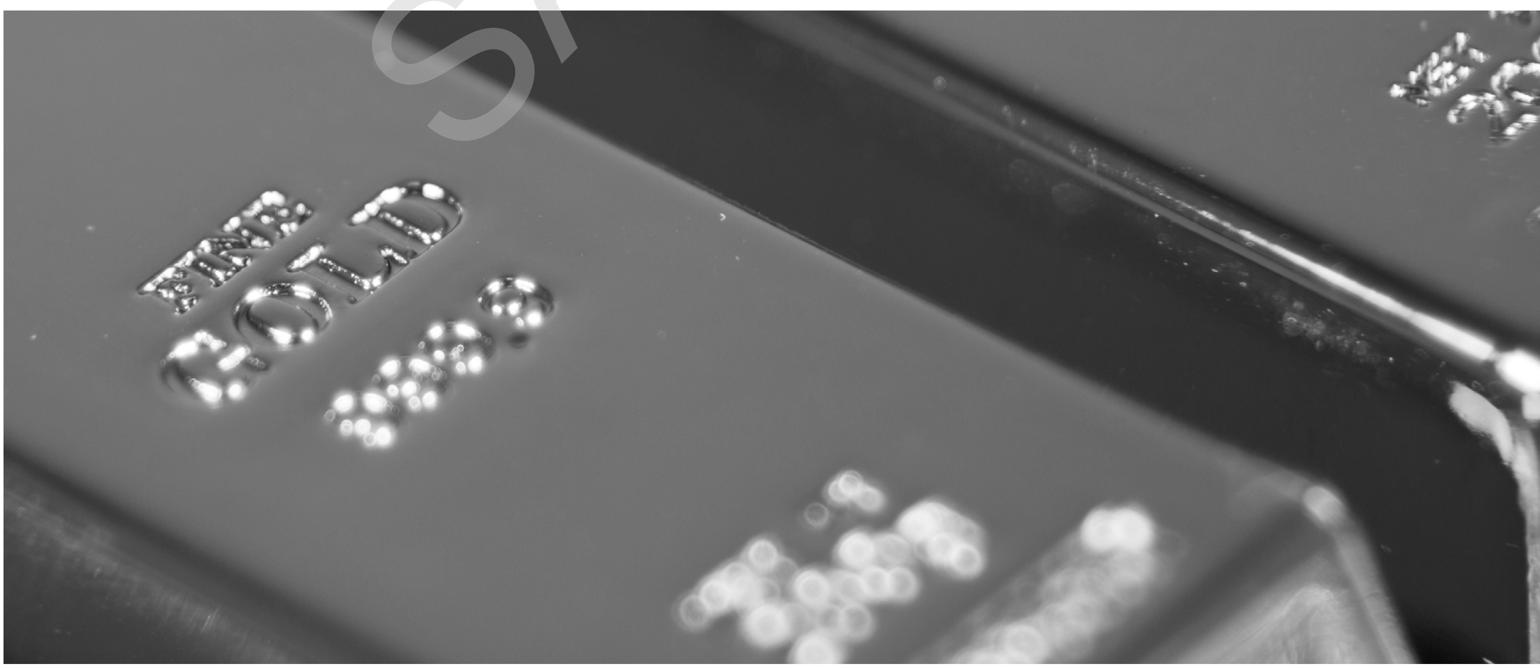
LEARNING BOX

Safe Havens are investments that are expected to retain their value during market downturns. Because of their negative correlation with traditional assets, they are typically good diversifiers in times of market distress.

A **negative correlation** occurs when one variable increases as a result of another decreasing, and vice versa. The two variables essentially move in opposite directions of each other.

DID YOU KNOW?

When using gold as a hedge, it is important to note that investing in a gold index is more stable than investing indirectly through gold miners. For miners, performance often depends on their ability to generate cash flows. Because if this, they often have a stronger relationship with equity markets, thus limiting their effect as a hedge.



Sources: Citi Research's Gold Market Outlook (26 Nov 2018), Investopedia. Asset Allocation does not assure profit nor does it guarantee against losses. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

REGIONAL OUTLOOKS

UNITED STATES

The fading effects from the 2018 tax stimulus prompted our analysts to lower the U.S.'s growth projection from the above average level seen in 2018. Expectations call for reductions in benefit for most industries by the end of 2019, **Figure 5**. What's more is that 2019 began with the federal government in the midst of the longest shutdown in its history. Prior to the shutdown, "leading indicators of economic activity point[ed] to continued US expansion through 2019," with Citi forecasting GDP growth of 2.8% . The White House's Council of Economic Advisors report[ed] that the… shutdown is lowering quarterly economic growth by 0.13 percentage points per week." By mid-January, this translated to an estimated one-half of a percent off growth for the first quarter . Reflecting expectations for a weaker first quarter, Citi lowered its own full-year forecast down 20 basis points to 2.6%.

The government funding impasse was exacerbated, in part, by the divided government that emerged following the 2018 mid-term elections. While the results were widely expected (Democrats seized control of the House and Republicans maintained the Senate), the impact will continue to play out over the next two years. Democrats have pledged aggressive oversight and investigations into the administration now that they have subpoena power. Combined with politicians already positioning themselves ahead of the 2020 presidential elections, it would not be surprising to see the passage of significant legislation come to a halt.

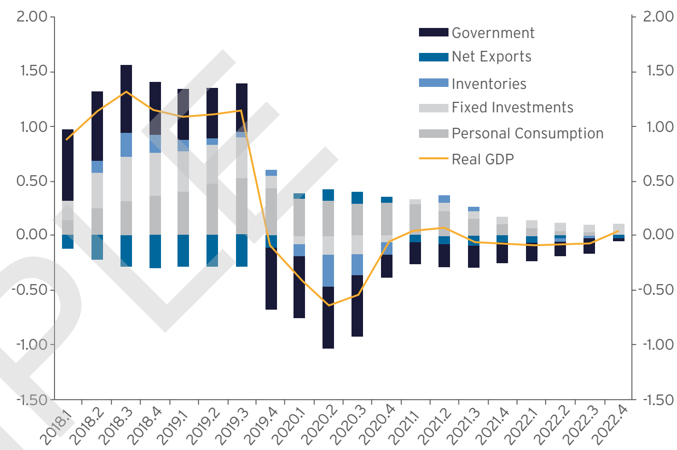
On the inflation front, minimal impact is expected this year. "While the unemployment rate is likely to put further upward pressure on wages, stronger labor productivity growth" and the ability of firms to accept lower profit margins mean that consumers may not experience higher prices after all.

Looking forward, economic risks fall short of plentiful. Protectionist threats to international trade, slowing business investment, inflation going too low, fiscal and/or monetary policy mistakes, and volatile markets all contribute to uncertainty. That said, Citi believes the "market has been too aggressive in its evaluation of the probability of a near-term recession" and expects still above-average momentum in 2019, **Figure 6**.

• Christian Riera

FIGURE 5.

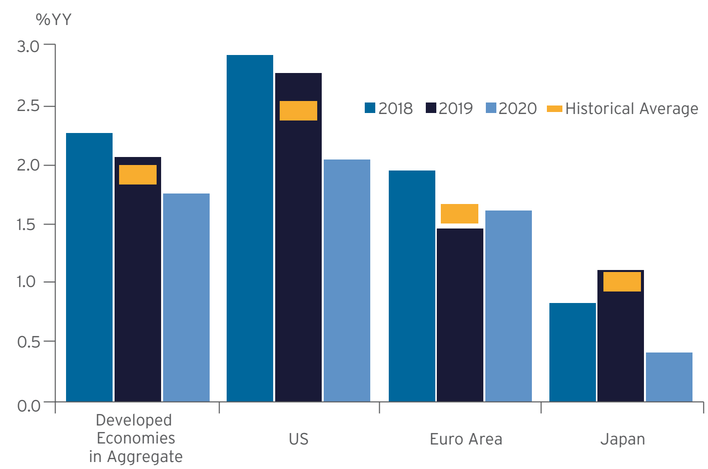
US FISCAL STIMULUS FADES LATE 2019



Source: Citi Research Global Asset Allocation "Citi House Views for 2019"

FIGURE 6.

REAL GDP GROWTH FORECASTS VERSUS HISTORICAL AVERAGES



Source: Citi Research and IMF, *Historical averages using IMF data: 1990 to 2017

Sources: Citi Private Bank "Outlook 2019", Barron's "The Ripple Effects of the U.S. Government Shutdown", Citi Research Global Asset Allocation "Citi House Views for 2019." For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

US DOLLAR

Driven by U.S. growth outperformance, rising interest rates, and easier fiscal policies, the U.S. Dollar (USD) outperformed every other major currency in 2018. While Citi expects some of these catalysts to carry on to this year, the USD is expected to start weakening sometime after 2019—and to continue that course over the following years. This longer-term trend reversal is accredited to expectations of slower U.S. growth, a nearend Fed tightening cycle, and the weight of a ascending U.S. fiscal deficit. Citi notes "this would reduce U.S. asset values for non-dollar investors and raise returns for non-dollar assets." • **Grethel Alfonso**

INVESTING IN THE U.S.

EQUITIES

- We expect corporate earnings growth of ~9%
- Valuations stand above their long-term averages: with a forward price to earnings ratio of 15.6 and 30.1 when cyclically-adjusted.
- Our analysts prefer companies with a record of growing their dividends.
- Avoid small-caps, which generally perform better during the early stages of an expansion cycle.
- In regards to sectors, opt for U.S. companies with solid earnings growth potential and compelling valuations within the Information Technology, Healthcare, Communication Services and Energy sectors.

FIXED INCOME

- Economic growth expectations and a more prudent monetary policy should continue to push yields higher in the US fixed income market.
- Increased market volatility tends to be supportive of government bonds. We anticipate 10-year US Treasury yields to end 2019 below 3.75%.
- Average yield of 3.8% in investment grade and ~6% in high yield may leave limited upside potential for investors with the risk of increased spells of volatility.
- Opt for active management in fixed income.
- We prefer fixed income assets with short maturities and floating features (due to rising interest rates). This includes variable rate high yield bank loans, investment grade floaters and asset-backed securities.

• **Diego Higuera**

Sources: Citi Private Bank "Outlook 2019", Barron's "The Ripple Effects of the U.S. Government Shutdown", Citi Research Global Asset Allocation "Citi House Views for 2019." For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

CHINA

Most of China's growth in the last year has been achieved by large infrastructure investments. In 2017, this contributed 44% to China's GDP, compared to only 20% for the U.S., and Citi believes that fiscal stimulus measures could continue to promote its growth. Retail sales growth could also bounce back during the year on support from policies. The personal income tax reform and other special deductions effective October 2018 and January 2019, respectively, could also provide a boost to consumption. Though the fiscal and monetary stimulus is likely to continue, an aggressive pickup is unlikely due to constraints on the rising fiscal budget deficit. In fact, Chinese non-financial debt-to-GDP levels have risen from just under 100% in 2008 to over 160% in 2018 despite significant deleveraging efforts in 2017. Figure 7

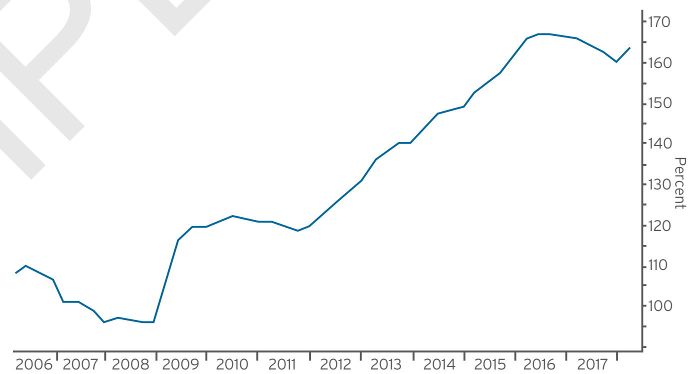
In addition to high debt levels, China could face strong headwinds from additional tariffs imposed by the U.S. Chinese shipping costs have significantly risen, hitting industrial profits. This is taking course at the same time that exports to the U.S., which account for about 20% of Chinese exports, are decelerating. Chinese export growth could continue to weaken, as a result, and domestic investment growth could feel the pressure. Chinese manufacturing data has already shown purchasing managers' index readings in contractionary territory—some of which has spread, in fact, to other countries across Asia.

China's slowing economy also faces demographic difficulties largely as a result of a three-decade-long onechild policy nd aging labor population. Despite these factors, the government has set an economic growth target of 6.5% for 2019 and Citi expects the country to come close to meeting this target. Thereafter, the country may be challenged by worse-than-expected conditions and further deceleration is estimated. **Figure 8**

While Chinese policymakers gathered for the annual Central Economic Work Conference to discuss various measures to help the struggling economy, it is difficult to say how competing forces will play out. In order to meet its growth objectives, the country will likely need to rely heavily on technical innovations and the development of private companies' ownership. Among the most anticipated structural changes are market-oriented economic policies that secure intellectual property rights and invoke a friendlier environment for foreign investors. • **Nadiya Kadirova**

FIGURE 7.

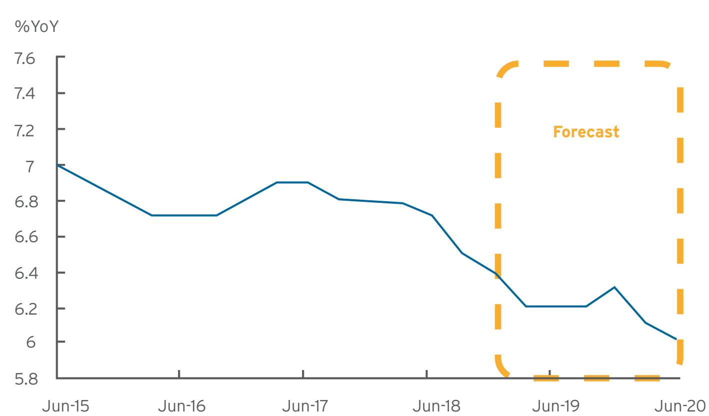
CHINA NON-FINANCIAL CORPORATE DEBT-TO-GDP



Source: Bank for International Settlements

FIGURE 8.

CHINA QUARTERLY GDP GROWTH FORECASTS



Source: CEIC, Citi Research

Sources: CNBC, CEIC, Forbes, Bloomberg, Quora. Chart and images are for illustrative purposes only. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

Fiscal stimulus will play a key role in [China's] growth stabilization, while monetary easing has already turned quite aggressive, in our view.

- Global Economic Outlook & Strategy
"Levels, Deltas, and Sentiment, Oh My! Avoiding a Self-fulfilling Recession Prophecy"

INVESTING IN ASIA

EQUITIES

- Although a stronger dollar is not our base case, Asian equities (along with most emerging markets), may continue to experience significant headwinds should the U.S. dollar continue to strengthen.
- We believe Asian economies are well-positioned to continue growing at historic rates that, coupled with expansionary monetary policies, could attract investors back into various Asian equity markets.
- We find attractive valuations in Singapore, Taiwan, South Korea, and especially within the Chinese market, where current prices are now at levels not seen since 2014.

FIXED INCOME

- Increased anxiety over the likelihood of an ending U.S. economic cycle has put pressure on Asian sovereign and corporate bonds. As the Fed's rhetoric becomes more dovish, Asian fixed income markets could gain more investor interest, especially for dollar-denominated bonds.
- China's local currency-denominated bond markets may present an interesting opportunity as the onshore market is expected to benefit from significant inflows—particularly as ~$3 trillion of eligible local bonds will be included in the Bloomberg Barclays Global Aggregate Index starting in April.
- Contrary to China, we believe India and Indonesia could face increased volatility on the back of pronounced political uncertainty and fiscal concerns.
- Japan remains our least attractive market based on the Bank of Japan's potential reduction in its bond purchase program.

• Diego Higuera

Sources: Citi Private Bank "Outlook 2019", Barron's "The Ripple Effects of the U.S. Government Shutdown", Citi Research Global Asset Allocation "Citi House Views for 2019." For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

UNITED KINGDOM

Deal or no Deal? This is the dilemma UK Prime Minister (PM) Theresa May is currently grappling with as she works to obtain Parliamentary approval for her Withdrawal Agreement Bill. At the time of writing, the Prime Minister was less than two weeks removed from a crushing Parliamentary defeat of her bill (by a margin of 202 to 432 votes) and a subsequent narrow victory in a no-confidence vote. The PM is currently campaigning for approval of her Brexit Plan B (which is essentially the same as Plan A) and Parliament is expected to have voted on this by end of January.

Among the points of contention for critics of May's deal is the question of the Northern Irish **backstop** and how it may affect British autonomy in a **"no deal"** scenario. Currently, there is little evidence of any concessions by the European Union (EU) with regards to the backstop but the PM will continue to lobby the EU for better terms. Improved assurances on the back stop will increase the likelihood of wider support of her plan and eventual Parliamentary approval. With the March 29th **Article 50** deadline looming (essentially the deadline for a **"hard Brexit"**), time is running out for Theresa May.

We do not rule out the possibility that the March 29th deadline is extended (if approved by all 28 EU member states) or that a new referendum takes place, although the latter would require the navigating of several logistical hurdles: act of Parliament, cross party cooperation, six-month time frame between the announcement of the referendum and the actual vote. Given the high degree of uncertainty, it is extremely difficult to forecast an outcome. However, we remain hopeful that the next few months will provide clarity in a process that for over two years has been riddled with uncertainty.

The precariousness nature of Brexit makes it difficult to forecast economic estimates for the UK. If May can avoid a "no deal" scenario, we expect UK GDP to grow from a rate of 1.2% in 2018 to 1.4% in 2019. Alternatively, crashing out of the EU will likely cause a sharp contraction in the UK's economy and bring about a recession. Some estimates call for an economic contraction equal to the Financial Crisis of 2008. Fallout from a "hard Brexit" may also lead to leadership change via a no-confidence vote in Parliament. This could result in a new government led by the Labour Party—whose agenda includes renationalization of several industries and increasing taxes. Our base case (and hope) is that a deal will be struck, eventually. In the meantime, investors can expect to see substantial volatility in UK risk assets. • **Cesar Alonso**

Sources: Citi Research, Citi Private Bank. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

BREXIT TERMS OFTEN USED

BACKSTOP

The **backstop** was created to prevent a hard border between Northern Ireland and the Republic of Ireland in a "no deal" Brexit scenario. Critics are opposed to the fact that the backstop would impose different regulations for Northern Ireland and the rest of the UK. Most importantly, the UK cannot exit the terms of the backstop without the EU agreeing. This, in the view of the opposition, would undermine the autonomy of the UK which is contrary to the spirit of Brexit.

ARTICLE 50

Article 50 is the part of an EU treaty that sets out how member countries can leave, with a two-year timetable for leaving.[1]

HARD BREXIT

A **"hard Brexit"** refers to is another way to say a clean break from Europe. That means Britain giving up membership of the EU's single market, an arrangement that enables the country to trade freely with its European partners without restrictions of tariffs. Supporters of a hard Brexit want the freedom to set up their own trade deals and rules. The problem is that drawing up its own independent trade agreements will take a lot of time and, in the meanwhile, force the country to use less favorable World Trade Organization rules.[2]

NO DEAL

Unlike, a hard Brexit, which could theoretically include some type of agreement with the EU and potentially set out a transitional period to negotiate free trade deals, a **"no deal"** Brexit would mean the UK leaving the European Union and cutting ties immediately, with no agreement at all in place.

If Parliament does not approve Theresa May's deal, and there is no alternative deal or move to delay or stop Brexit, the UK will leave with no deal on March 29. The UK would then follow World Trade Organization rules to trade with the EU and other countries, while trying to negotiate separate free-trade deals.[2,1]

VOTE OF NO CONFIDENCE

In the United Kingdom, a confidence motion may take the form of either a vote of confidence, usually put forward by the government, or a **vote of no confidence**, usually proposed by the opposition. When such a motion is put to a vote in the legislature, if a vote of confidence is defeated, or a vote of no confidence is passed, then the incumbent government must resign, or call a general election.[3]

Sources: CNBC, CEIC, Forbes, Bloomberg, Quora. [1] BBC: Brexit: Jargon-busting guide to the key terms. [2] Invetopedia: Hard, Soft, On Hold or No Deal: Brexit Outcomes Explained. [3] Wikipedia: Motions of no confidence in the United Kingdom. Chart and images are for illustrative purposes only. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

ITALY

Italy's ruling coalition, led by the Five Star movement, was a point of stress for risk assets in 2018 due to their pushback against European Union (EU) budget constraints. However, a last minute budget agreement in December 2018 between Rome and Brussels averted EU backlash against the country. Still, political uncertainty will continue to weigh on sentiment and growth prospects. We expect the economy to expand by 0.2% in 2019 after rising by 0.9% in 2018. However, we do not expect the deceleration trend to persist beyond the first quarter 2019 unless we see a sustained downturn in the rest of Europe. Dwindling economic growth and rising opposition to the government increase the likelihood of additional coalition infighting and snap elections in 2019. If Five Star cannot retain its majority, it is likely that the other populist right-wing party (Lega) will assume control. This will certainly heighten political uncertainty in Italy (and Europe) as Lega's anti-EU, protectionist, and pro-Russia views will leave Italy in a difficult bargaining position once the 2020 EU budget negotiations take place. The low possibility of positive political change, high debt to GDP levels, and a problematic banking sector likely mean Italy will remain a point of stress for Europe in 2019. • **Cesar Alonso**

GERMANY

When German Chancellor Angela Merkel steps down as leader of the Christian Democratic Union (CDU) (likely sometime in 2021), her successor will be the recently-elected Annegret Kramp-Karrenbauer (AKK). AKK is largely viewed as Merkel's protégé and would presumably be a continuity candidate. However, the strength of the ruling coalition has weakened largely due to the social implications of Merkel's open door immigration policy that welcomed refugees fleeing war-ravaged areas of the Middle East and North Africa. The large influx of refugees has created discord within the coalition and stoked the patriotic flames that empower right-wing nationalist political groups. It is our base case that AKK will keep the CDU-led coalition in place even if new elections are triggered prior to 2021. Still, a shift in the political winds that gives the populist element of the country a louder voice in the Bundestag is certainly a tail risk that cannot be ignored. After all, Germany has been the most steadfast proponent of the European Economic and Monetary Union. Growing populist sentiment within the EU member states has called into question the sustainability of the Euro project and any wavering from Germany would only serve to increase uncertainty. • **Cesar Alonso**

FRANCE

The news flow out of France has been dominated by the protests and violence of the 'yellow vest' movement. The movement was triggered by an increase in the tax on fuel and quickly spread across the country. As a result, President Macron's approval ratings hit a new low in December 2018. With EU parliamentary election looming within the next six months, President Macron has shown an urgency to end the protests quickly. While the protests have more to do with frustration over inequality in the country, Macron's much-needed structural reforms will be walking a very precarious line. We expect France's real GDP growth to rise 1.6% in 2019 (in line with 2018 estimates), but the damage done to Macron's approval rating could hinder his reform agenda and budget consolidation efforts. • **Cesar Alonso**

EURO

Citi analysts see the euro strengthening toward \$1.18 versus the U.S. dollar in 2019 and toward \$1.30 in 2020. This forecast is pinned to the assumption that the European Central Bank's (ECB) monetary policy will diverge from that of the Federal Reserve's in 2019. That is, the ECB is expected to tighten monetary policy while the Fed is likely to slow or halt their rate-hiking cycle. Our analysts' expectations are also directed by the currency's valuation, the region's improving current account surplus, and what appears to be a relatively benign political landscape for the region in 2019. • **Grethel Alfonso**

Sources: Citi Research, Citi Private Bank. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

High expectations for Europe in 2018 were quickly tempered as the new year ushered in a Turkish economic crisis, new governing coalitions in Spain, Italy and Germany, fears of trade conflict with the US, and weakening Eurozone economic performance. As a result, investors shunned away from European equities in favor of the more robust economic prospects in the US. However, much of what contributed to a favorable outlook for Europe last year still rings true for 2019.

INVESTING IN EUROPE

EQUITIES

- Corporate earnings are forecast to grow at a rate of 10% by year-end, which we think is noteworthy.
- Valuations appear attractive relative to the U.S.
- On a cyclically-adjusted price to earnings basis, European equities ex-UK trade at a 25% discount relative to US equities. On a price to book basis, Europe is trading at a 47% discount to U.S. equities.
- European equity yields stand at ~3.3%, which could entice inflows from investors seeking income in a yield starved environment (refer to the yields on fixed income below).

FIXED INCOME

- European government bond yields are still at significantly low levels—with more than 30% of the government bond market offering negative returns—making it our less preferred asset class.
- Eurozone investment grade corporate bonds, which have also benefited from an accommodative monetary policy, are yielding an average 1.2% and we anticipate a less optimistic forecast as the ECB ends its bond buying program.
- European high yield, where we expect yields to increase, is in less demand as lower-quality bonds are not preferred during this stage of the market cycle.

• Cesar Alonso & Diego Higuera

Sources: Citi Research, Citi Private Bank. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

RUSSIA

Russia is the largest oil producer outside OPEC, with oil representing close to half of its exports. Because of this, economic growth in 2019 could face headwinds from increased volatility in oil prices. Citi projects economic growth of 1.5% in 2019, down from 1.8% in 2018. While the moderation is expected largely as a result of a deceleration in consumer and investment spending, fiscal and technology measures instituted by the government could help counteract the softness.

With a fiscal rule that seeks to allocate excess tax revenues from oil and gas toward the federal budget, the government seeks to allocate additional funds toward the welfare fund required for its aging population. This rule is also aimed at limiting Russia's dependency on oil as the surplus funds are used to buy foreign currency to offset rate volatility.

Russian risk level indicators have dropped significantly compared to just a few years ago. Low external debt levels and high international reserves help to offset some of the macroeconomic shocks– one of which still consists of a potential new set of sanctions. The 2014 sanctions marked a sharp collapse in the ruble and a short-term downturn for the Russian economy. Increased tension in politics also caused investment outflows and a decrease in investor sentiment. On the flip side, Russia used the standoff as an opportunity to focus on building a stronger economy, improving the macroeconomic environment and implementing structural changes.

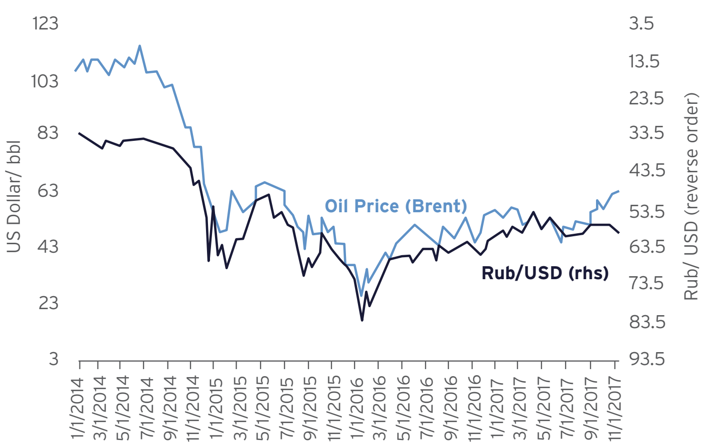
Russia has outlined a plan until 2035, aimed at the development of key initiatives in technology and innovation. Today, the Russian electronic payments market is growing at a faster pace than global levels and is expected to account for 96.3% of payment and remittance operations in Russia by 2035, **Figure 10**. The Fintech environment, supported by the government and banking sector, is expected to rise from $1.8 billion in 2020 to $178.6 billion in 2035. Russian e-commerce volume is increasing by 30% each year and is forecast to reach $81 billion by 2025. Last but not least, the Digital Economy program, started in mid 2017, supported the increase of Internet penetration levels in Russia, expecting to reach 97% by 2024. • **Nadiya Kadirova**

DID YOU KNOW?

Traditionally, the Russian ruble has closely followed oil prices because of the strong economic dependency. This relationship has, however, started to weaken with the introduction of the new fiscal rule. **Figure 9**

FIGURE 9.

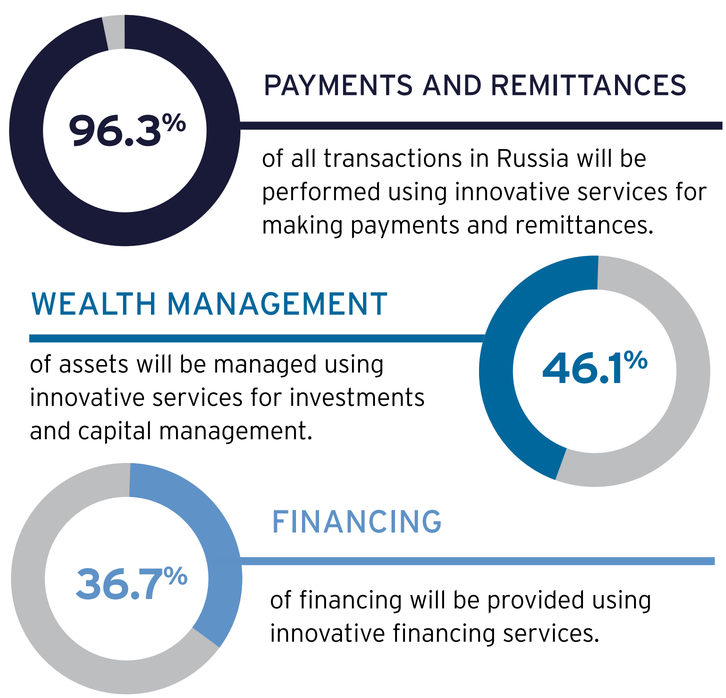
THE RUSSIAN RUBLE AND OIL PRICES DIVERGE



Source: Central Bank of Russia, World Bank

FIGURE 10.

FORECAST GROWTH OF FINTECH SEGMENTS IN RUSSIA TO 2035



Source: EY's Focus on FinTech: Russian market growth prospects

Sources: Citi Research's Gold Market Outlook (26 Nov 2018). Chart and images are for illustrative purposes only. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

OIL

Oil market conditions were beneficial during most of 2018. Nonetheless, during the last quarter the commodity found itself wrestling with similar dynamics from 2014. The booming US shale market produced record amounts of fuels effectively misbalancing OPEC's weakening grip on the oil market.

2019 is poised to be another tug-o-war between OPEC and non-OPEC producers. In light of these, Citi expects three possible scenarios, as outlined in **Figure 11.** • Juan Luis Arana

LEARNING BOX

OPEC, or the Organization of the Petroleum Exporting Countries, is made up of 14 countries. They include Algeria, Angola, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Republic of the Congo, Saudi Arabia, United Arab Emirates, and Venezuela. OPEC+ includes the 14 OPEC members and other "petro allies" like Russia, Mexico, and Kazakhstan. OPEC's 14 members control 35% of global oil supplies and 82% of proven reserves. With the addition of the 10 Non-OPEC nations, those shares increase to 55% and 90%, respectively. This affords OPEC+ a level of influence over the world economy never seen before.1,2

WTI stands for West Texas Intermediate, and is also known as Texas Light Sweet, the majority of which is located in the Permian oil Field. It is a type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts.

FIGURE 11.

CITI'S 2019 OUTLOOK FOR WTI PRICES

20% PROBABILITY

BEAR CASE

If OPEC's proposed cuts fall apart, prices could drop below $40 as continuing supply from US shale could oversupply the market.

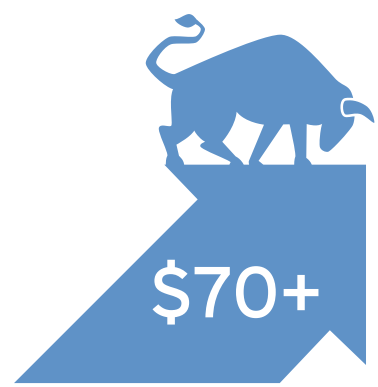
60% PROBABILITY

$55 - 65

BASE CASE

On December 7th, OPEC+ agreed to cut a nominal 1.2 million barrels per day with 66% from OPEC and 33% from non-OPEC. These cuts should help stabilize supply and inventories, leading to some stability in oil price.

20% PROBABILITY



BULL CASE

Further cuts by OPEC+ after monitoring the oil market in 1Q19 could draw inventories lower, leading to possible appreciation of oil prices.

[1] OPEC. [2] Forbes. Sources: Citi Research's Global Commodity Focus – Annual Commodities Market Outlook 2019. Charts and images are for illustrative purposes only. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

BRAZIL

As the saying goes, every new broom sweeps well. Brazil has certainly not been the exception to that expression. The biggest country in Latin America premiered 2019 with Social Liberal Party leader, Jair Bolsonaro, assuming the presidency on January first.

The election results have been well received by investors, with risk assets rebounding and making up some of the underperformance experienced early in 2018. Going forward, the new administration's economic policy decisions will be closely watched as they possess the power to drive performance.

At present, Bolsonaro's market-friendly cabinet appointments have been good signs of his promises. His selections for the posts of Economy Minister, Minister of Justice and Public Security, and Central Bank President, particularly, have already bolstered consumer and business confidence levels.

Fiscal policy remains Brazil's Achilles' heel. The country's high fiscal deficit will need to be adopted as the new administration's first priority. Without deep pension reforms, Brazil's debt will continue its rise and the market is likely to, again, put pressure on Brazil.

The President's ability to push reforms is expected to be met with some opposition in Congress. Since the Social Liberal's do not hold a majority in Congress, negotiations might take on greater importance. Bolsonaro should expect fierce opposition from the Democratic Socialist, or Worker's Party, which holds the largest base in the lower house and the most number of state governors.

DID YOU KNOW?

By 2050, Brazil's:

- Projected life expectancy will have surpassed 80 years
- Ratio of elderly to working-age population will double
- Elderly population will triple

This means that fewer workers will be supporting more retirees. Coupled with the past several years of limited or negative growth and the generous pensions given to public employees, Brazil is fast approaching a point when it will no longer be able to meet its pension obligations.

Citi sees Bolsonaro as likely to pass a watered-down Pension Reform plan in 2019. A gradual economic recovery ahead is supportive of economic growth estimates of 2.2% for the year after growth of 1.4% during 2018. Privatizations, concessions, and a more "pro-business" stance by the new government should help fuel Brazil's economic recovery.

Currency appreciation, lower oil prices and better rainfall have been favorable toward the inflation outlook. Our analysts now see 2019 inflation to stand at 4.2%. The dip in consumer prices opens the door for Brazil's central bank to postpone monetary policy normalization until 2020 (from initial estimates of mid-2019) and holding the Selic rate at an all-time low of 6.5%—all signs that could indicate a better road ahead. • Mariana Arbiza

BRAZILIAN REAL

Brazil has instituted a "dirty float" regime for the real since 1999. The term has been coined by analysts because although the currency is allowed to float more or less freely, the Brazilian Central Bank (BCB) often uses a variety of open market tools to intervene and manage its strength and volatility.

The BCB also uses inflation targets to anchor the real. While that target was set to an inflation rate of 4.5% for over a decade, that target has been set lower (to 4.25% for 2019) for the first time. Additionally, the Selic interest rate, set by the central bank roughly every 45 days, is a key instrument used to achieve this inflation target.

At Citi, we believe policies will keep inflation consistent with the BCB's target bands. As such, the real exchange rate between Brazil and the US should remain stable. More specifically, our view is that of a nominal exchange rate that is closer to 3.75 for the next 6-12 months. • Mariana Arbiza

Sources: Citi Global Economic Outlook & Strategy "Prospects for 2019", Citi Private Bank "Outlook 2019", BNP Paribas "Global Outlook", BTG Pactual "2019 Brazil Equity Strategy Outlook.", BofA ML" Brazil Primer. Brasilopedia: the return of Brazil", FXCM Group's "Market Insights" on the BRL, Banco Central do Brasil.
All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

MEXICO

Andres Manuel Lopez Obrador (AMLO) has taken office and a turbulent year is expected for the nation before finding stability. The 2019 budget presented by the new administration was a positive surprise for the market. This, however, did little to calm investors' doubts about the feasibility of the plan. With spending promises now at about 1% of GDP (versus 2% of GDP in 2018), and a new budget (which passed with more votes than needed in congress), market reaction at large has been positive, putting Mexico's equity index in the green since AMLO took office.

Tax revenues are expected to increase 3.8% in 2019 relative to 2018, in real terms. Most of this increase is associated with the expected collection of the gasoline tax. Despite this, real GDP growth is estimated to remain subdued, at around 1.7%, in 2019.

As a presidential decree, the new administration has set reductions in the value added tax (VAT) in Mexico's northern U.S. bordering states, from 16% to 8%, in hopes to promote local consumption (and away from the U.S.). The decree also lowered corporate tax rates from 30% to 20% to spur domestic investment.

A serious risk that investors should take into account is the central bank's historically high interest rates. Now set at 8.25%, this could make borrowing difficult and deter companies from starting new projects. AMLO's ideas have, so far, kept investors' pleased with his socialist agenda. This should, however, be taken with caution and monitored closely.

Rating agencies will be carefully watching how new economic proposals develop. Mexico's government debt is rated BBB+ by the main credit agencies. While it would take a two-notch downgrade to bring the country below investment grade, the new administration could be challenged if Mexico's investment support does not come as easy as usual.

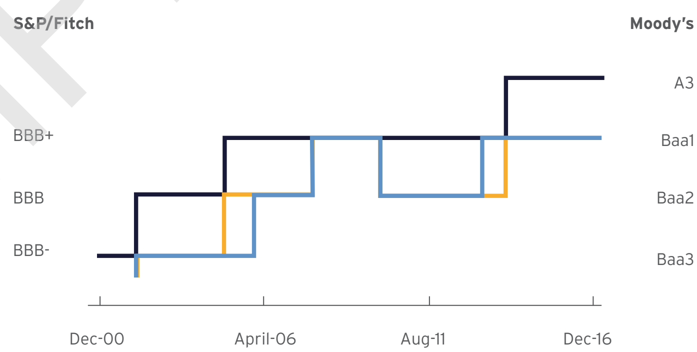
• Andres Uriarte & Matteo Sada

DID YOU KNOW?

Mexico's credit rating was difficult to achieve in the early 2000s and has been maintained for over 15 years, **Figure 12**. The country's fiscal policies have served as a model for other emerging economies as its debt to GDP ratio has hovered around 50% in the last decade, earning it investors' credibility.

FIGURE 12.

MEXICO'S CREDIT RATING



Source: Bloomberg

MEXICAN PESO

The consensus expectation is for the peso to depreciate to 20.85 versus the U.S. dollar by the end of 2019 and to 21.00 by end of 2020.

• Andres Uriarte & Matteo Sada

Sources: Citi Research, Citi Private Bank. Chart and images are for illustrative purposes only. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

ARGENTINA

2018 was a shattering year for Argentina. The most devastating drought in fifty years snowballed into a series of unfortunate events; wreaking havoc on harvests and economic growth, devaluing the peso, and sending inflation sky-rocketing. Falling into a second recession in just three years led the country to seek help from the International Monetary Fund (IMF) in what is considered one of the largest monetary reliefs in IMF history.

Argentina remains Latin America's most difficult call for 2019. Even as it seems on track to meet public finance and monetary targets for the year, the outlook for 2019 remains highly uncertain. A survey conducted in September by the Central Bank of Argentina to analyze market prospects showed that average 12-month inflation expectations have fallen to 29% from the 32.1% recorded the previous month. This decrease in inflation expectations was substantial enough for the central bank to remove the 60% floor on the **Leliq rate** that was introduced in August.

The latest economic data shows that the external deficit is shrinking, even as the recession continues to bite. Going forward, it will be important to keep focus on macroeconomic imbalances which will require an adjustment period and may elicit social turmoil in the interim.

Even under great stress, President Macri's market friendly efforts, should lead to a growth normalization in 2019. This by no means guarantees Macri's continuity in the Presidency as he ended 2018 with an all time low approval rating. Certainly, the October 2019 presidential election is bound to heighten market nervousness as differing political ideologies and philosophies vie for power.

President Macri is the likely candidate for the Cambiemos, or "Change," coalition. We expect former President Cristina Kirchner to run against Macri, although an emergence of a strong **Peronist** candidate is not discounted and could make for a more challenging election for Macri. Citi believes, however, that the market is less likely to be concerned about a moderate Peronist than former president Kirchner.

Apart from the noise around elections, we believe that the current administration will be able to sufficiently meet the public finance and monetary targets to keep the IMF funding flowing throughout 2019. Inflation is expected to continue its descent and the peso should stabilize under the new monetary framework. Citi foresees growth in Argentina to be flat for 2019, an improvement from the 2% drop in 2018. These notions are based mainly on the belief that current public finance and monetary targets are well within reach and that President Macri will be able to secure another term in power.

• Francisco Pastor & David Yepez

LEARNING BOX

The Leliq Rate is Argentina's benchmark policy rate on seven-day liquidity notes.

Peronist refers to a political party that derives its name from former Argentinian President Juan Domingo Peron. Peronism has three ideological pillars that form its philosophy: political sovereignty, economic independence and social justice.

DID YOU KNOW?

President from 2007 to 2015, Cristina Kirchner implemented a series of new taxes and social programs with the aim of improving a deteriorating economy. The programs were met with a challenge when Argentina entered into a technical default in 2014 after missing a $15 billion payment on its sovereign debt.

Sources: The Economist, Citi Research's Gold Market Outlook (26 Nov 2018). All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

INVESTING IN LATIN AMERICA

EQUITIES

- We have a constructive view on Latin American equities based on the region's positive fundamentals and attractive valuations, however as we expect a period of increased uncertainty in global markets, we reinforce the benefits of selectivity and active management.
- While we are forecasting real GDP growth of 2.2% for the region in 2019, we believe investors will see diverse outcomes in economic growth considering new monetary and fiscal policies from the recently elected presidents in Brazil, Mexico and Colombia; as well as the continuation of a strict monetary policy in Argentina.
- Expectations are for the region's corporate earnings to grow at an average rate of 20%, with Argentina (147%) and Brazil (22%) amongst the highest expected earners, and Colombia (13%) and Chile (14%) amongst the lowest.
- In terms of valuations, the region trades at 11 times 2019 earnings with a 3.4% dividend yield.
- We prefer Brazilian equities as per our positive view on the economic reforms to be implemented by President Bolsonaro, a solid earnings growth potential, and attractive valuations.

FIXED INCOME

- Improving fundamentals, attractive valuations, and compelling yields make the Latin American fixed income market an appealing asset class for 2019, albeit we believe selectivity and active management is appropriate in the current environment.
- We prefer US-dollar denominated debt as a strategy to increase quality in the portfolio. Investors should remember that the region has been historically susceptible to global market volatility and therefore our preference for USD-denominated bonds.
- While an average yield of 7.9% for local-denominated Latin American debt is attractive, the likelihood of unexpected idiosyncratic events throughout the year (such as the ones in Turkey and Argentina during 2018) could have a negative impact in total returns.
- In 2019, Brazil is our preferred market, particularly within certain quasi-sovereigns where we believe spreads of up to 1% above sovereign bonds make it a compelling option.

• Diego Higuera

Sources: Citi Research, Citi Private Bank. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change withoutnotice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

LONG-TERM INVESTMENT THEMES

25 EMERGING **ASIA**

27 **LONGEVITY** & THE NEED FOR HEALTH CARE


PRINCIPLES
INTEGRITY

EMERGING ASIA

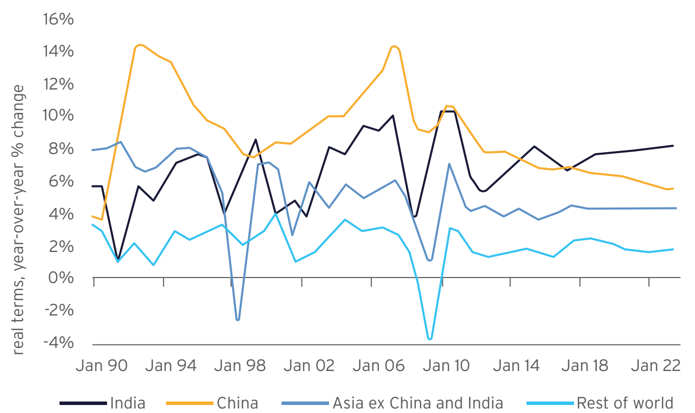
Citi advocates that the next few years have some interesting opportunities in store for Emerging (EM) Asia. With lower valuations than those in developed countries and rising output growth, the prospective benefits from the trade war and demographic advantages provides an optimistic outlook for the region. Because of the region's vast potential, Citi has dubbed "The Rise of Asia" as one of the most compelling trends possessing "profound long-term implications for your portfolio."

OUTPUT ON THE RISE

The International Monetary Fund estimates that for the next four years, regional Asian GDP will achieve 5.9% growth on average, while projecting only 1.9% GDP growth for the rest of the world, **Figure 13**. Three decades ago, production in EM Asia accounted for less than 10% of world output. Its contribution today is close to 30% and, by 2023, Citi thinks it could reach as much as 40%.

FIGURE 13.

GDP GROWTH FOR ASIA
VERSUS THE REST OF THE WORLD



Note: Asia excluding Japan
Source: IMF Forecasts, Credit Suisse research

Sources: Citi Private Bank, Credit Suisse, Forbes. Chart and images are for illustrative purposes only. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

DEMOGRAPHIC DEVELOPMENT

While most of developed world suffers from an aging population, EM Asia benefits from a growing working-age population—and one that is expected to be even more highly educated. As people take on more jobs, the middle class is set to expand, setting in motion the transfer of people away from rural areas and into cities. With over 40% of the world's population and a quickly growing middle class, EM Asia's urbanization could fuel even faster growth. Citi notes that "the necessary upgrades to infrastructure – housing, utilities, and warehousing – to accommodate the burgeoning urban population may itself be an important driver of growth, as well as providing investment opportunities." Urbanization can also bring the benefit of increased productivity, which could lead to higher wages and, ultimately, increases in consumption.

BENEFITS FROM TRADE

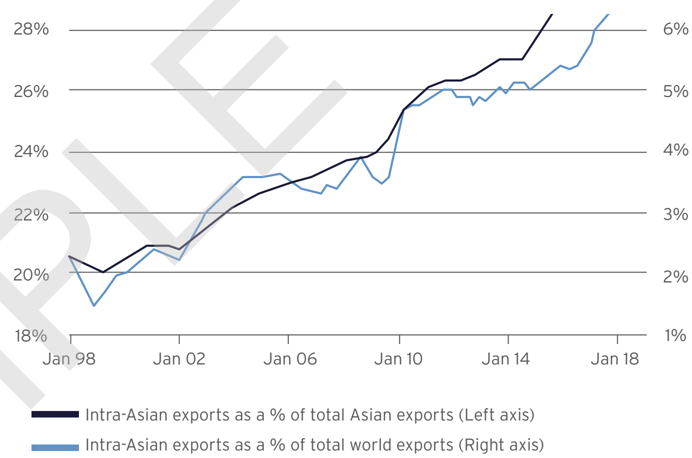
EM Asia might significantly benefit from the tensions between the U.S. and China due to a few factors. First, companies seeking to avoid the uncertainty around rising costs of manufacturing in China will seek to diversify their supply chains around smaller Asian countries. Second, a Chinese economy with an increasing tilt toward services and growing domestic consumption levels could be less vulnerable to changes brought upon by the trade spat. Third, exports within EM Asia have risen in the last two decades (**Figure 14**), allowing the region more economic independence and placing less importance on the region's exports to the U.S. • **Nadiya Kadirova**

LEARNING BOX

EM Asia includes China, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Taiwan, Thailand.[1]

FIGURE 14.

INTRA-ASIAN TRADE (AS A % SHARE OF ASIAN AND GLOBAL EXPORTS)



Source: Credit Suisse

DID YOU KNOW?

"While EM Asian investments themselves have a higher risk profile, adding them to a diversified portfolio may help enhance risk-adjusted returns. We therefore see EM Asia as offering one way to help implement our recommendation to go global."

- Citi Private Bank "Outlook 2019"

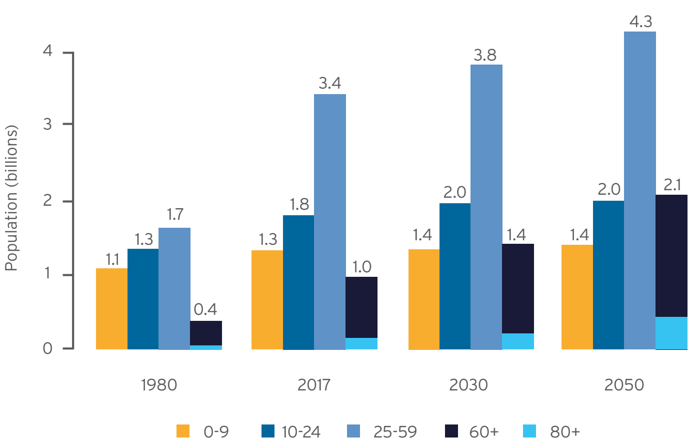
LONGEVITY & THE NEED FOR HEALTH CARE

It is often heard that 30s are the new 20s, 40s the new 30s, and so on. What seems to be only part of a recurrent phrase in advertising, actually implies the affirmation of an unprecedented global demographic shift: 'people are living longer'.

Life expectancies have risen sharply, from a global average of 49 years in 1955 to 72 years today. What's more is that, according to the United Nations Population Division, the global population older than 60 years will double (to 2 billion) by 2050, **Figure 15**. Perhaps even more impressive is that the over-80 age group is expected to more than triple, rising from 1.7% of the global population today to 4.5% by 2050.

FIGURE 15.

GLOBAL POPULATION BY BROAD AGE GROUP



Source: United Nations Population Division

Additional factors are also contributing to this demographic watershed: the significant drop in fertility rates, social changes including increases in the female workforce, and urbanization, to name a few. In 2030, it is expected, for the first time in history, for older persons to outnumber children under the age of ten.

The potential consequences of the aging of the global population, and its impact on sustainable development, is on the agenda of governments worldwide. Fewer workers mean less tax revenue and higher social costs, straining government finances due to pensions and healthcare costs. Spending per capita on healthcare in developed nations for someone aged over 85 can be as much as six times greater than for a 59-year old. Having already risen sharply in recent years, public spending on healthcare is set to swell inexorably over coming decades.

Health care systems around the world are working to promote healthy aging, to prevent and treat nontransmittable diseases and chronic conditions, as well as to expand access to quality long-term care. The Bureau of Labor Statistics predicts that healthcare practitioners, support staff, and technical workers will account for about one in every four new jobs added over the next decade.

The longevity mega-trend also opens up important opportunities for investors around the world, specially in areas that focus on pharmaceuticals and biotech, companies specializing in medical devices and medical robotics; wearable technologies; immunotherapy developments; and genome analysis as preventive steps. • **Mariana Arbiza**

Sources: Citi Private Bank Outlook 2019 Safeguarding assets. PGMI Investment Implications of an Aging World. United Nations, World Population Ageing

 Chart and images are for illustrative purposes only. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

> "The aging of the world's population presents a major challenge for society and opportunities to boost your portfolio's immunity."

- Citi Private Bank "Outlook 2019"

FIGURE 16.

HEALTH CARE PERFORMANCE RELATIVE TO THE S&P 500 INDEX

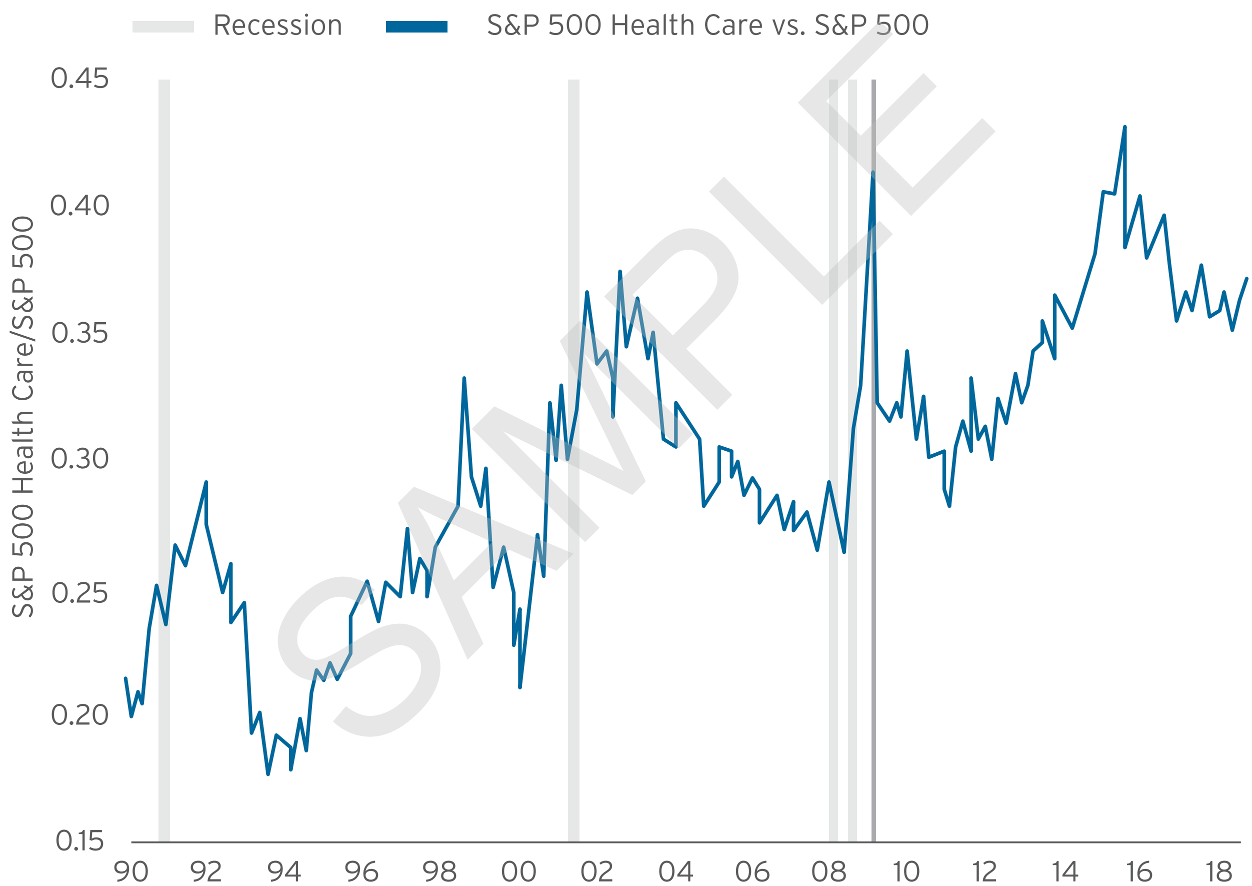
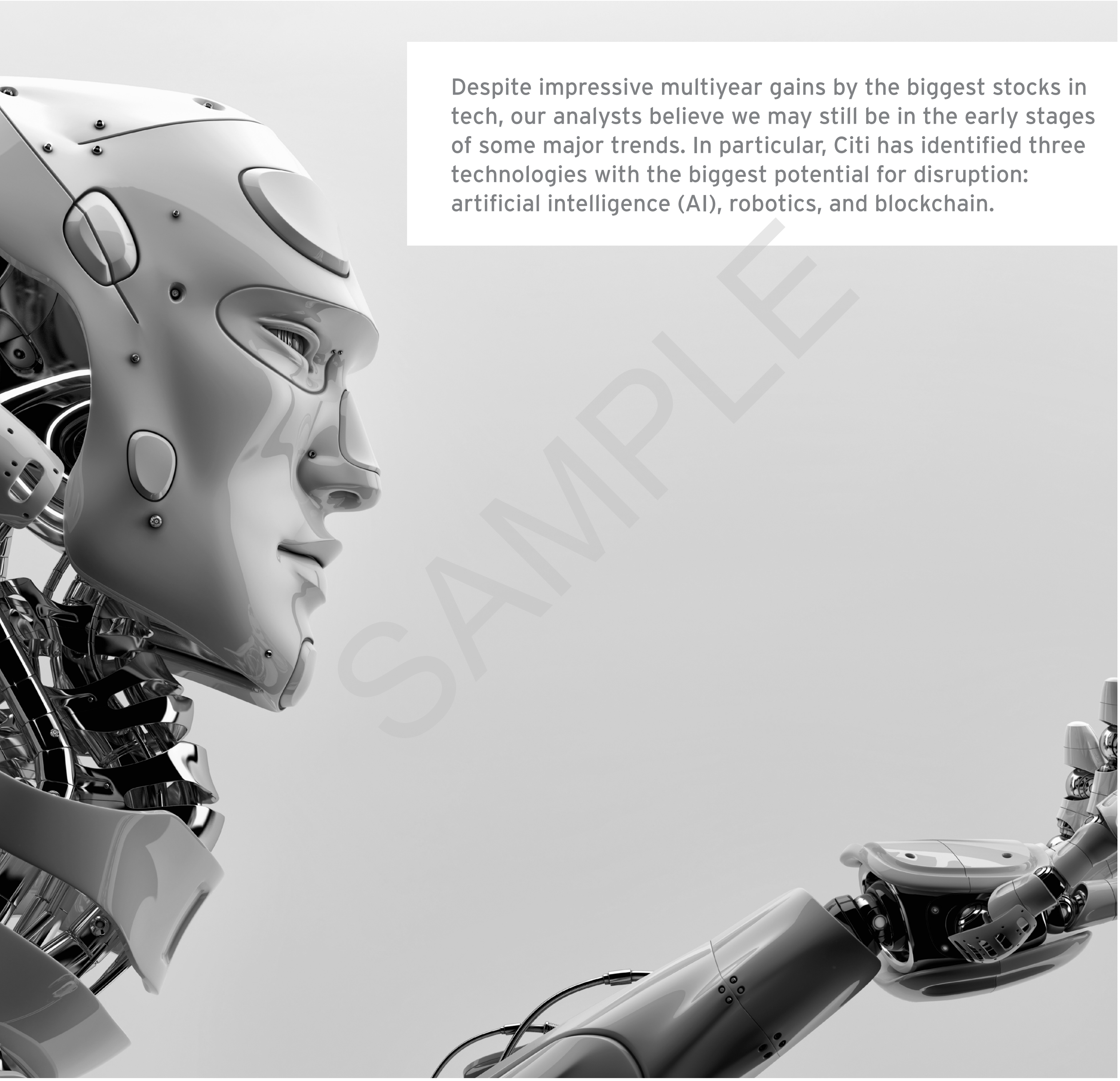


Figure 16 shows that the healthcare sector has historically outperformed during periods of heightened uncertainty and risk aversion. This is owed to the sector's relatively stable earnings outlook despite economic weakness. Opportunities in healthcare are present as regulatory and political uncertainty drive focus on reducing systemic costs and achieving significant improvements.

Sources: Citi Private Bank "Outlook 2019", PGMI Investment "Implications of an Aging World", United Nations World Population Aging. Indices are not managed, have no expenses and cannot be directly invested in. Chart and images are for illustrative purposes only. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

DIGITAL DISRUPTIONS



Despite impressive multiyear gains by the biggest stocks in tech, our analysts believe we may still be in the early stages of some major trends. In particular, Citi has identified three technologies with the biggest potential for disruption: artificial intelligence (AI), robotics, and blockchain.

Sources: Citi Private Bank's "Outlook 2019", Charts and images are for illustrative purposes only. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication

The recent rise of AI is due to the confluence of everimproving sensors and processors, the explosion of data creation ("big data"), and breakthroughs in how to process it all. Two sectors seem early candidates for AI-driven disruption: transportation and healthcare. Made possible by AI, driverless vehicles can reduce accidents and emissions, ease traffic congestion and, thus, improve productivity. Vehicle ownership, as a result, may undergo its own transformation. Citi writes, "the driverless car market of tomorrow may be typified by people hiring RoboTaxis for individual trips, much as they do with Uber-type services today, as well as subscribing to driverless car services." Alphabet's Waymo announced the launch of such a service in December 2018. In the U.S. alone, Citi estimates similar services will form part of a $900 billion market with commercialization expected to gain steam during 2019 and grow rapidly through the 2020s.

> People may not own cars anymore, nor drive them, nor stop at gas stations along the way.
>
> - Citi Private Bank "Outlook 2019"

Within the healthcare industry, AI possesses the ability to detect diseases, evaluate tests, and process insurance claims. The benefits are enormous: saving lives and reducing healthcare costs. For context, healthcare expenditures for 2017 were $3.5 trillion in the U.S. alone (about 18% of GDP). Enabled by the advent of big data, Citi believes AI will soon analyze far more information than any human could in a lifetime to produce more accurate, and perhaps even predictive, diagnoses.

While robots exist in many industries already, our analysts consider that "the growth potential of robotics remains substantial." Case in point, the sale of industrial robots was up 31% year-over-year in 2017, reaching a new record. As robots develop the ability to carry out increasingly complex tasks, they are likely to help boost productivity growth, improve standards of living, and address shortages created by an aging population. Like AI, robotics can help improve healthcare and eventually help fill the shortage in medical professionals such as nurses. Citi expects the usage of robotics over the next decade will grow by 400% in the healthcare sector alone.

Finally, blockchain may have suffered from its association with cryptocurrencies like Bitcoin, but that is just one application of the technology. At its core, blockchain is a distributed database. Blockchain solves the issue of trust between users where there is no central administrator. It also promises to make the "recording, storage, and processing of data [...] simpler, streamlined, cheaper, more accurate, and more trustworthy." It's already being tested in situations where "verification is critical, but where data does not tend to change significantly" – think of land registration and trade settlement. Payments, of course, are another area where blockchain will be deployed, but Citi cautions that the benefits "are likely to take time to be realized." • **Christian Riera**

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INVESTING WITH PURPOSE

Investors are consistently seeking new ways in which to measure the value of their assets. As social issues (like global warming, for example) take the forefront, many consumers are scrutinizing the companies they support and invest in, making sure they are not only profitable but also ethical businesses. This new standard of "socially responsible investing" has given birth to three pillars by which to rate companies on: "Environmental, Social and Governance," or ESG. As shown in **Figure 17**, these pillars offer a broad framework by which rating companies can evaluate businesses social responsibility.

While traditional rating agencies, like S&P and Moody's, rank companies based on their financial data, ESG rating agencies have the complex task of evaluating companies using less straightforward data. Though it is still an evolving discipline, as companies grow more conscious of this calibrated change and ESG gains traction, so will the agencies that conduct these assessments. Sustainalytics, for example, has established itself as one of the global leaders in ESG study and today covers close to 11,000 companies worldwide. The agency uses three major indicators to make their assessment, including companies':

1. Preparedness: How well management and policies incorporate ESG issues.
2. Disclosure: How transparent is the company in addressing ESG issues and meeting international standards.
3. Performance: Involves quantitative data that measures the company's carbon emissions, for example, and qualitative assessments on how well the company manages ESG issues.

The idea of ESG is rapidly spreading in capital markets. Citi Private Bank's 2019 Outlook introduces an investment strategy titled 'Investing with Purpose' (IwP). IwP combines ESG principles with Citi's investment philosophy in order to align your values with quality investments. This notion of investing with a greater purpose is outlined by ideas that seek to generate a total package benefit of financial success with sustainable attributes.

FIGURE 17.

ESG PILLARS

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Stands at the forefront of reducing a company's carbon footprint and minimizing waste.	**An expansion on the traditional Corporate Social Responsibility (CSR) programs, this pillar seeks to safeguard social issues.**	**Looks into the company's management, it's values and responsibilities to stakeholders.**
• Climate change • Destruction of rain forest for farming • Depletion of natural resources • Sustainable energy • Pollution	• Safety, diversity, inclusion • Human rights • Animal welfare • Consumer protection	• Corporate culture • Relationship between management, employees, and shareholders • Supply chain management • Company values

Source: Citi Private Bank, Wikipedia.

Sources: Citi Research, Citi Private Bank, Personal Capital, Bloomberg,
For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

> Aligning your investment activities with personal values and interests can help enable you to seek financial gain while serving the greater good.
>
> - Citi Private Bank "Outlook 2019"

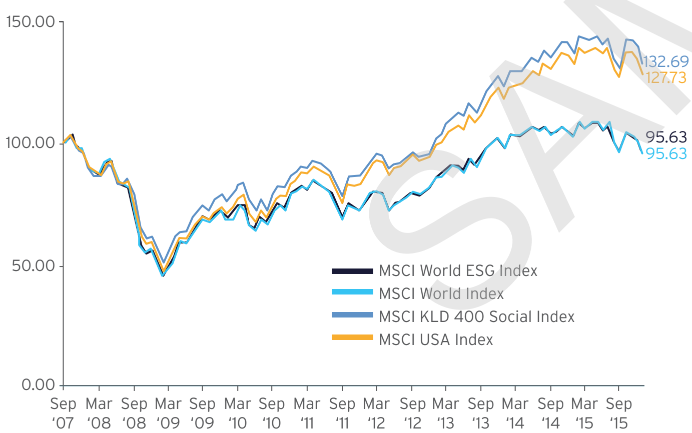
LEARNING BOX

Millennials, also known as Generation Y, are the generational demographic group born between the early 1980s and the mid-1990s. They are often the children of the baby boomers and are generally characterized by their social consciousness, possessing a strong sense of community both local and global. Although millennial characteristics vary by region, the group is commonly more open to change and more supportive of a progressive social agenda than older generations.

Historically, ESG indicators have assumed a noncompelling return on investment but rather more of a "feel good" achievement for organizations to adopt. Nevertheless, responsible investment indices have tracked this performance since before the financial crisis and compared to the MSCI World Index, they have a strong case, **Figure 18.**

FIGURE 18.

ESG INDICES VS. WORLD INDICES



Source: New York Life Investments

Citi implements ESG principles by investing in companies that emphasize these ethical values. Citi, for example, rates Semiconductor companies by taking into consideration the whole spectrum of their supply chain: From making sure the raw product extraction is ethical to the company's pollution control, employee diversity and safety, and code of ethics followed by top management.

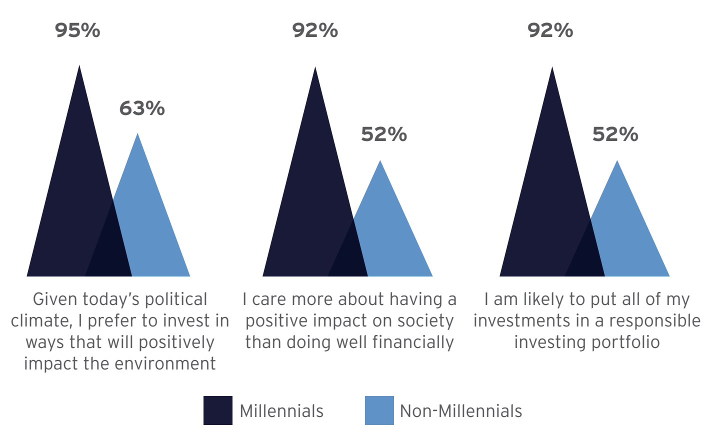
Millennials have an important role in the future of ESG investments. Different from past generations, ESG principles influence how millennials' consume, who they work for, and the place where they live. According to a Nielsen report, millennials are willing to pay more for sustainable goods, as a result, we have seen companies like Whole Foods thrive.

According to the U.S. Census, millennials will be taking over as the nation's largest adult population in 2019. While some argue that millennials do not represent a high-income level (limiting their impact on the economy), Bloomberg estimates that over the next four decades, millennials could inherit as much as $40 trillion in wealth from their parents—making them major decision makers in investments. **Figure 19** One thing is certain, irrespective of generational principles, an increasing number of investors are beginning to recognize ESG as a driver of value.

• Michael Larrea

FIGURE 19.

MILLENNIALS' PREFERENCE FOR RESPONSIBLE INVESTING



Source: Nuveen's Third Annual Responsible Investing Survey, 2017

Sources: Inc. Magazine, Citi Private Bank. Indices are not managed, have no expenses and cannot be directly invested in. Chart and images are for illustrative purposes only. Historical analysis and past performance is not indicative of future results. All forecast are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events. For additional information, please refer to the Glossary and Disclosure section at the end of this publication.

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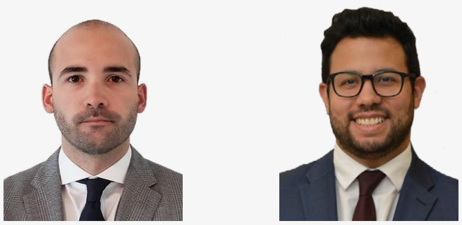

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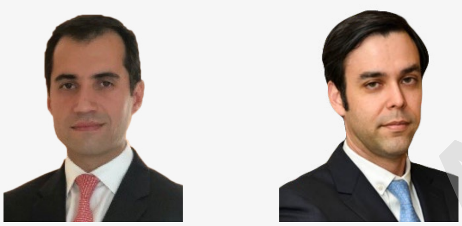

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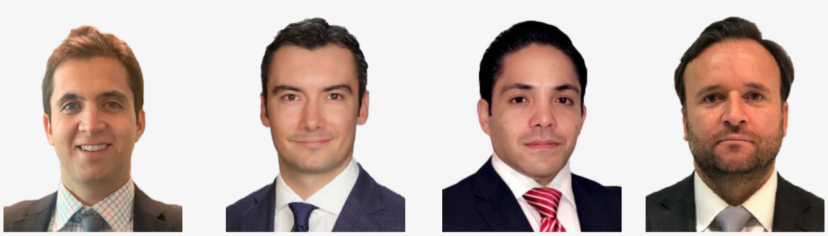

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GLOSSARY

COMMODITIES

WTI Crude: West Texas Intermediate (WTI), also known as Texas Light Sweet, the majority of which is located in the Permian oil Field. It is a type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts.

Brent Crude: Is used to price two thirds of the world's internationally traded crude oil supplies. Brent Blend is a combination of crude oil from 15 different oil fields in the North Sea. It is less "light" and "sweet" than WTI, but still excellent for making gasoline. It is primarily refined in Northwest Europe, and is the major benchmark for other crude oils in Europe or Africa.

LME: London Metal Exchange

CURRENCIES

Currency Abbreviations: AUD: Australian Dollar; GBP: British Pound; EUR: Euro; CHF: Swiss Franc; JPY: Japanese Yen; BRL: Brazilian Real; MXN: Mexican Peso; CNY: Chinese Renminbi; INR: Indian Rupee; USD: U.S. Dollar

INDICES

MSCI AC World: The MSCI All Country World index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

S&P 500: Index of 500 widely held common stocks that measures the general performance of the market.

Euro Stoxx 600: Dow Jones STOXX 600 Index represents large, mid and small capitalization companies across 18 countries of the European region. Free float market capitalization subject to 20% weighting cap.

FTSE 100: This is a share index of the 100 most highly capitalized UK companies listed on the London Stock Exchange.

Topix: Tokyo Stock Price Index is an important stock market index for the Tokyo Stock Exchange (TSE) in Japan, tracking all domestic companies of the exchange's First Section. It is calculated and published by the TSE.

MSCI EM: The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI Emerging Markets Index consists of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MXCN: The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 150 constituents, the index covers about 85% of this China equity universe.

Sensex: Is a value-weighted index composed of the 30 largest and most actively traded stocks in India, representative of various sectors, on the Bombay Stock Exchange.

Bovespa: The Bovespa Index is an index of about 50 stocks that are traded on the São Paulo Stock, Mercantile & Futures Exchange in Brazil.

Bolsa: The IPC index is Mexico's balanced weighted selection of shares that are representative of all the shares listed on the exchange from various sectors across the economy. Weight is determined by market capitalization.

FIXED INCOME

Investment Grade Bonds: A bond is considered investment grade, or IG, if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's. By Fitch, the rating must be BBB- or higher to be considered IG. Generally these are bonds that are judged by the rating agencies as likely enough to meet their payment obligations.

High Yield Bonds: A high-yield bond is a high paying bond with a lower credit rating than investment-grade bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds. Based on the two main credit rating agencies, high-yield bonds carry a rating below "BBB" from S&P, and below "Baa" from Moody's. Credit ratings can be as low as "D" (currently in default), and most bonds with "C" ratings or lower carry a high risk of default; to compensate for this risk, yields will typically be very high.

Yield: The yield is the income return on an investment, such as the interest or dividends received from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost, current market value or face value.

Yield Curve: A graph illustrating the term structure of interest rates by plotting the yields of all bonds of the same quality, with maturities ranging from the shortest to the longest available.

GLOSSARY

Emerging Market Bonds: Emerging market bonds are debt issues by countries with developing economies as well as by corporations within those nations. Bonds are issued from developing nations and corporations based in countries, such as Asia, Latin America, Eastern Europe, Africa and the Middle East. Typically offering higher returns, emerging market issues tend to carry higher risks than those associated with Treasuries and domestic corporate bonds. The risks of investing in emerging market bonds include the standard risks that accompany all debt issues, such as the variables of the issuer's economic or financial performance and the ability of the issuer to meet payment obligations. These risks are heightened due to the potential political and economic volatility of developing nations. Although emerging countries, overall, have taken great strides in limiting country risks, it is undeniable that the chance of socioeconomic instability is more considerable in these nations than in developed countries, particularly the U.S. When assessing the risks associated with each emerging nation, investment analysts often refer to that country's sovereign risk. Emerging markets also pose other cross-border risks, including exchange rate fluctuations and currency devaluations. If a bond is issued in local currency, the rate of the dollar versus that currency can positively or negatively affect your yield. If you do not want to participate in currency risk, it is possible to invest in bonds that are dollardenominated, or issued only in U.S. dollars.

Risk Premia: Is the return that you receive above the return of a risk-free investment. In other words, it is the excess return the investor receives for taking on a higher level of risk.

Spread: A spread measures the difference between the yield earned on a Treasury bond and the yield of a corporate bond of similar maturity but lesser credit quality.

Maturity: The date on which a security may be presented to the issuer for payment of face value.

Basis Points (bps): One basis point is equal to one hundredth of 1% i.e. 130 basis points equals 1.30%. It is generally used to denote a percentage change.

CREDIT QUALITY AND RATINGS DEFINITIONS

Standard & Poor's:

Investment Grade: AAA obligator has extremely strong capacity to meet its financial commitments; AA obligator has very strong capacity to meet its financial commitments. It defers from the highest rated obligators only in small degree; A obligator has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions that obligators in higher-rated categories; BBB obligator has adequate capacity to meet its financial commitments but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments.

Non-Investment-Grade: BB obligator is less vulnerable in the near term than other lower-rated obligators. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligator's inadequate capacity to meet its financial commitments; B obligator is more vulnerable than the obligator rated BB but it currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair its capacity or willingness to meet its financial commitments; CCC obligator is currently vulnerable, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments; CC obligator is currently highly vulnerable; R obligator is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favor one class of obligations over others or pay some obligations and not others; SD and D obligators has failed to pay one or more of its financial obligations when it came due. D is assigned when S&P believes that the default will be general and that the obligator will fail to pay all or substantially all of its obligations as they come due. SD rating is assigned when S&P believes that the obligator has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in timely manner. Plus (+) or minus (-): 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.

Moody's:

Investment Grade: Aaa obligations are judged to be of the highest quality, with minimal risk; Aa obligations are judged to be of high quality and are subject to very low default risk; A obligations are considered upper-medium grade and are subject to low credit risk; Baa obligations are subject to moderate credit risk, they are considered medium-grade and as such may possess certain speculative characteristics.

Non-Investment-Grade: Ba obligations are judged to have speculative elements and are subject to substantial credit risk; B obligations are considered speculative and are subject to high credit risk; Caa obligations are judged to be of poor standing and are subject to very high credit risk; Ca obligations are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest; C obligations are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest; WR Withdrawn. Moody's appended numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. When Moody's places a rating on watch, Bloomberg uses *+ for possible upgrade, *- for downgrade, and* for developing.

Fitch:

Investment Grade: AAA-ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. AA-denotes very high credit quality, as well as very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. Adenotes high credit quality and low expectation of credit risk. The capacity for timely payment of financial commitments is considered string. However, this capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. BBB denotes good credit quality. BBB ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.

Non-Investment Grade: BB denotes speculative quality. BB ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time. However, business or financial alternatives may be available to allow financial commitments to be met. B denotes highly speculative quality. B ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. CCC, CC, C denote high default risk. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. CC rating indicated that default of some kind appears probable. C ratings signal imminent default. D ratings indicate an issuer that in Fitch Ratings opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

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