

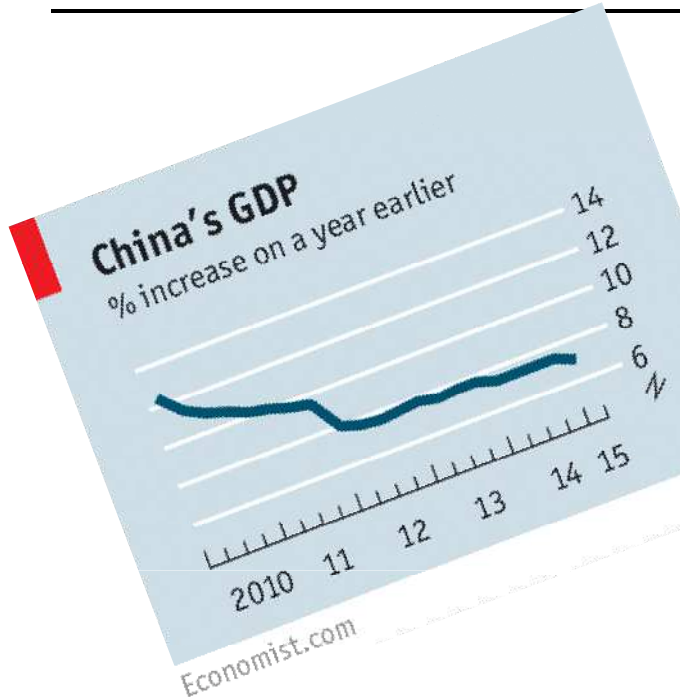
Feb 2016

CYCLICAL OPPORTUNITIES, STRUCTURAL CHALLENGES

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FINANCIAL MARKETS HAVE A LOT OF THINGS TO WORRY ABOUT



THE SLUMPING PRICE OF CRUDE

\$US PER BARREL (WTI)



SOURCE: US ENERGY INFORMATION ADMINISTRATION

THI

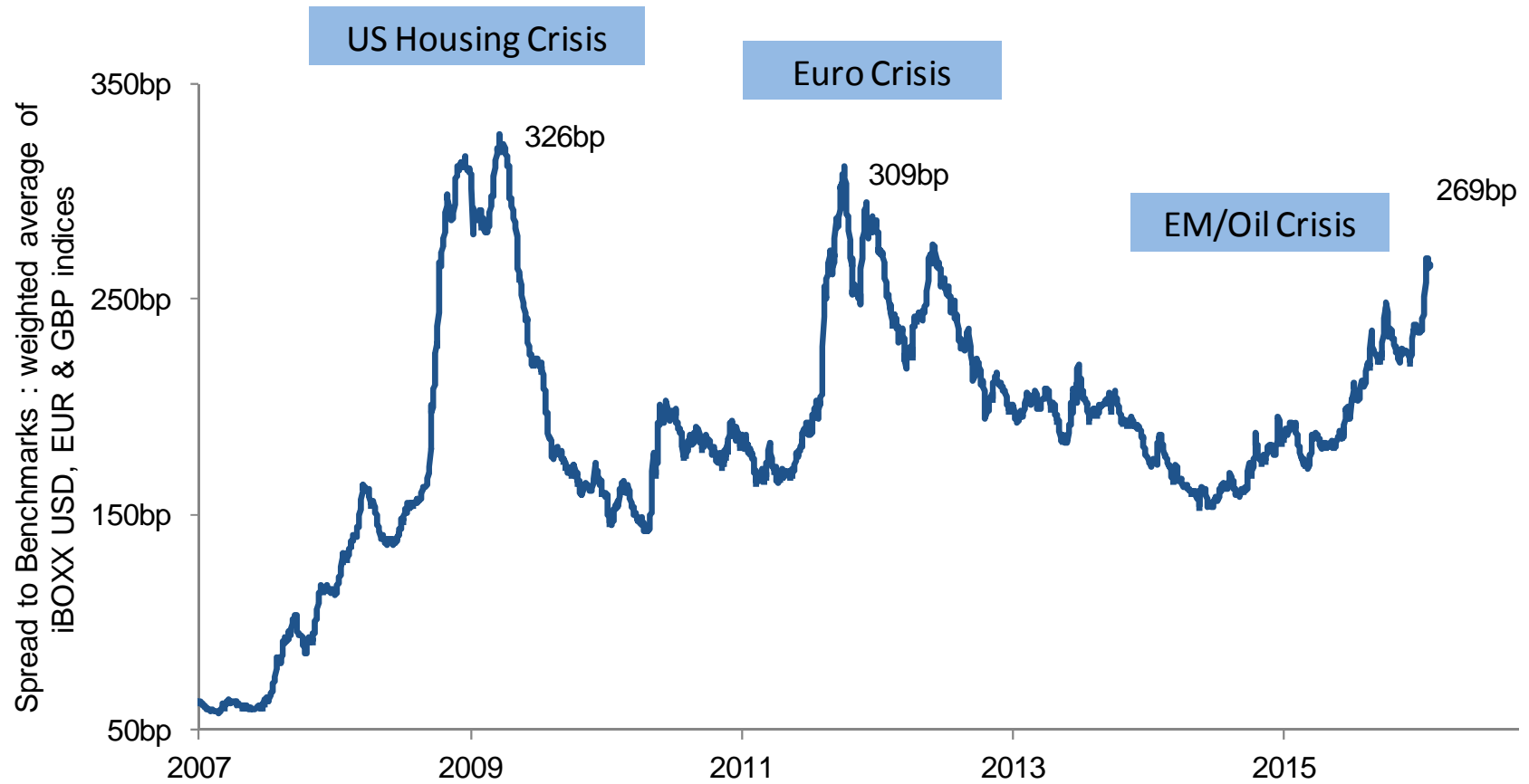


EU begins assessment of Poland over controversial new laws



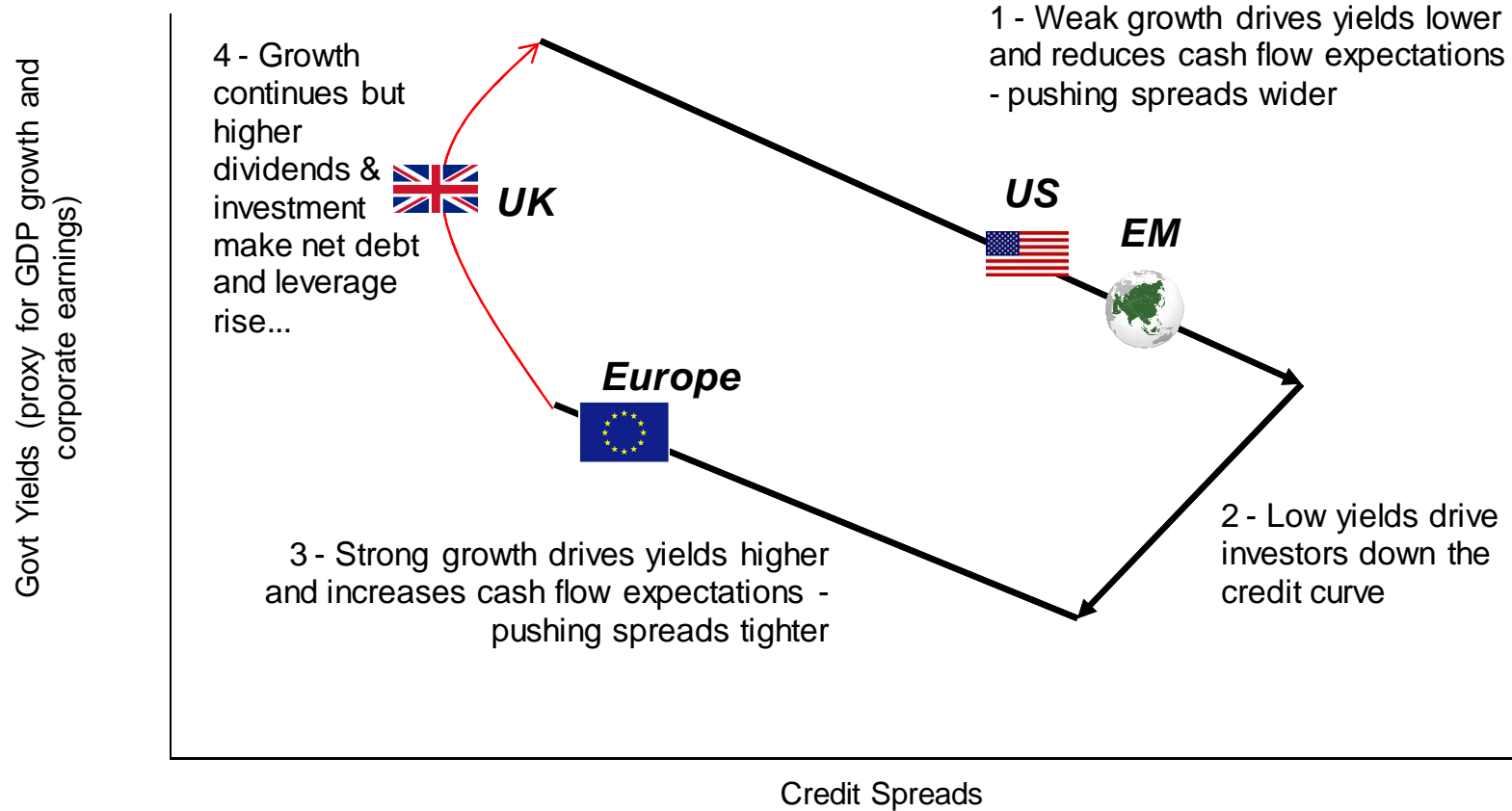
Sources: *Financial Times, The Economist, The Canadian Press, The Irish Times*

CREDIT SPREADS ARE (ALSO) SOUNDING THE ALARM



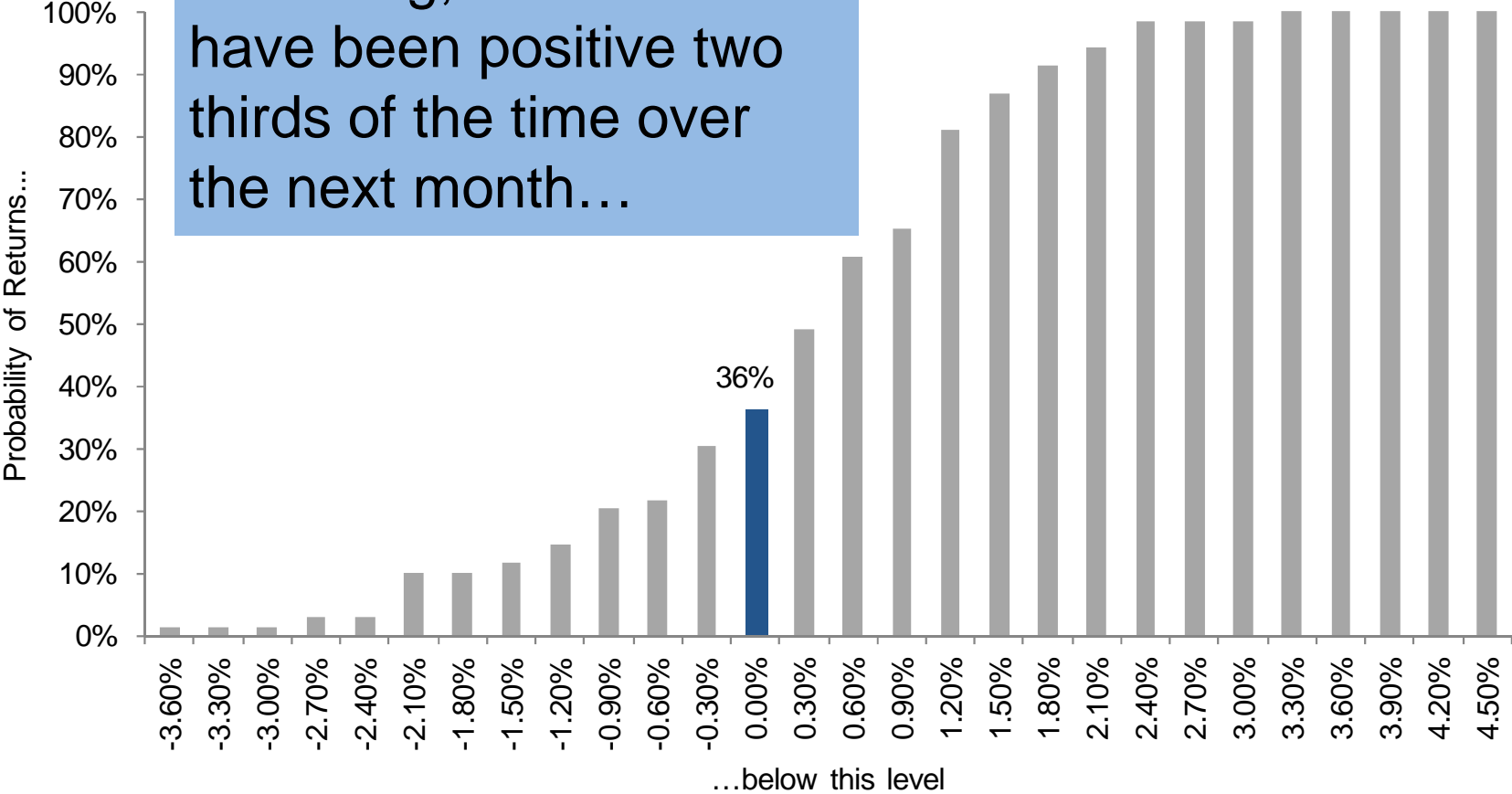
Sources: www.markit.com, SG Cross Asset Research/Credit

WHERE ARE WE ON THE CREDIT CYCLE?



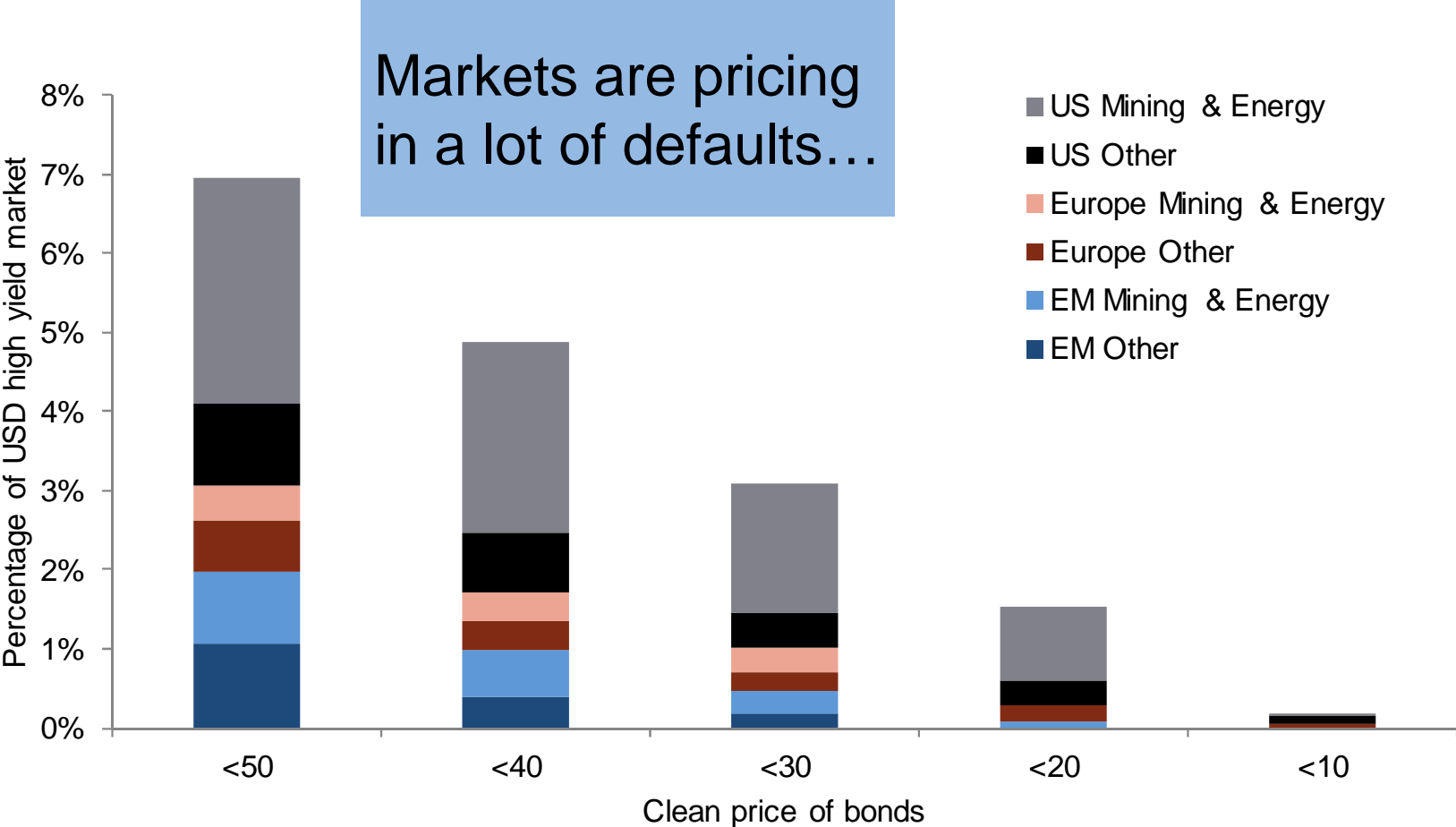
GOOD NEWS 1: SPREADS ARE THE MOTHER OF RETURNS

At current spread levels in sterling, credit returns have been positive two thirds of the time over the next month...



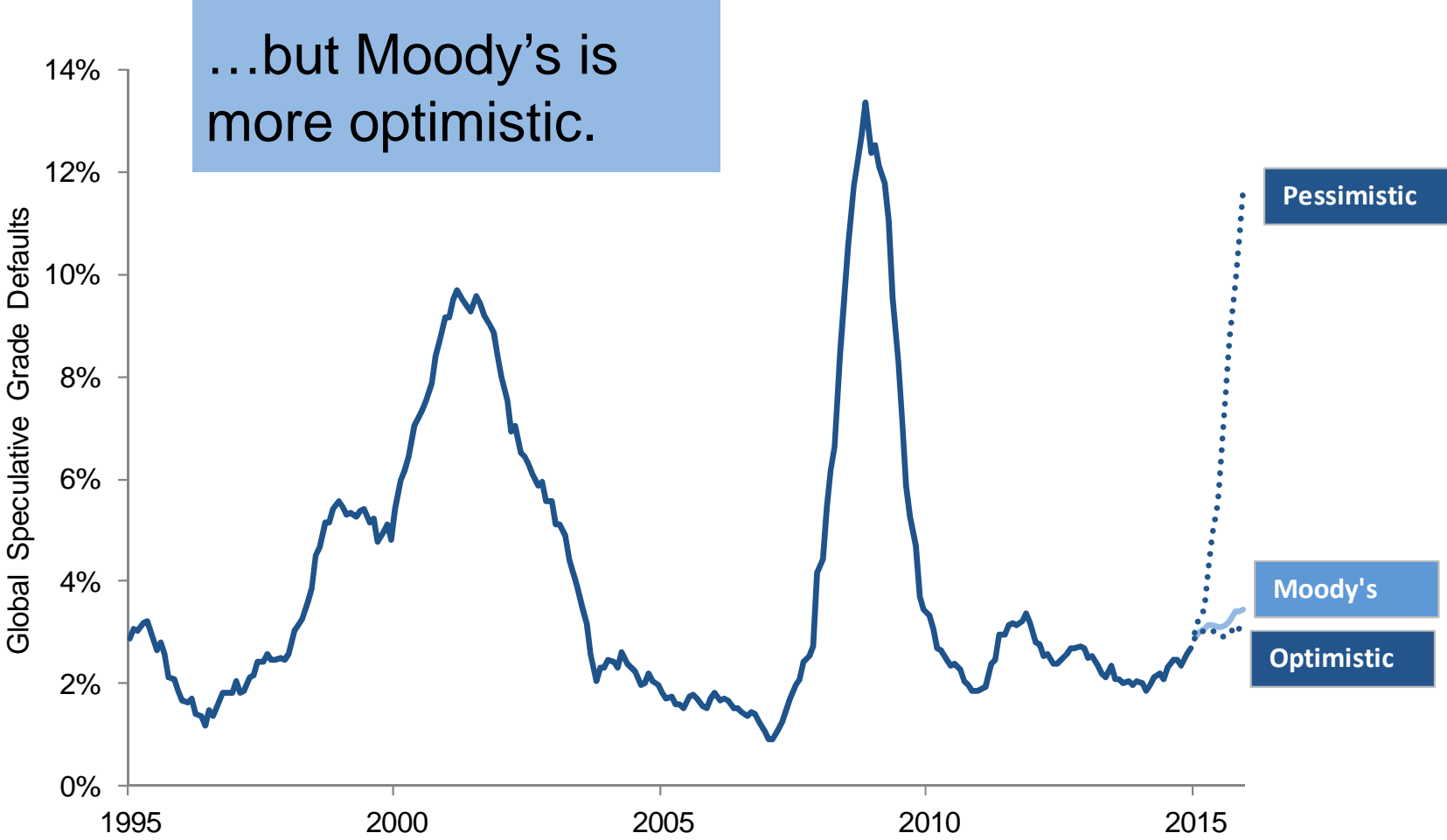
Sources: www.markit.com, SG Cross Asset Research/Credit

GOOD NEWS 2: DEFAULTS MAY BE LOWER THAN THE MARKETS EXPECT



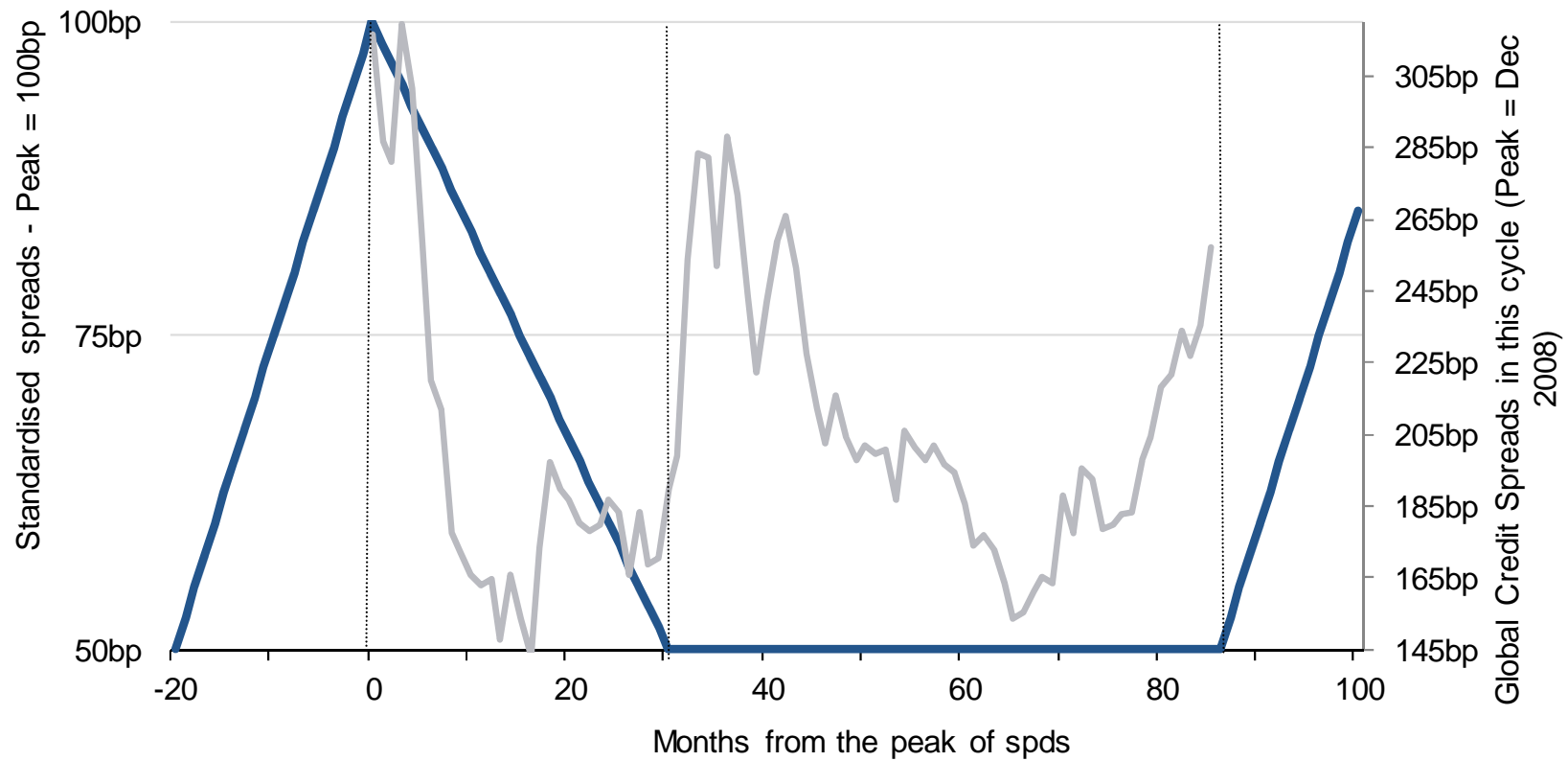
Sources: Bloomberg, SG Cross-Asset Research/Credit

GOOD NEWS 2: DEFAULTS MAY BE LOWER THAN THE MARKETS EXPECT (CON'T)



Sources: www.markit.com, SG Cross Asset Research/Credit

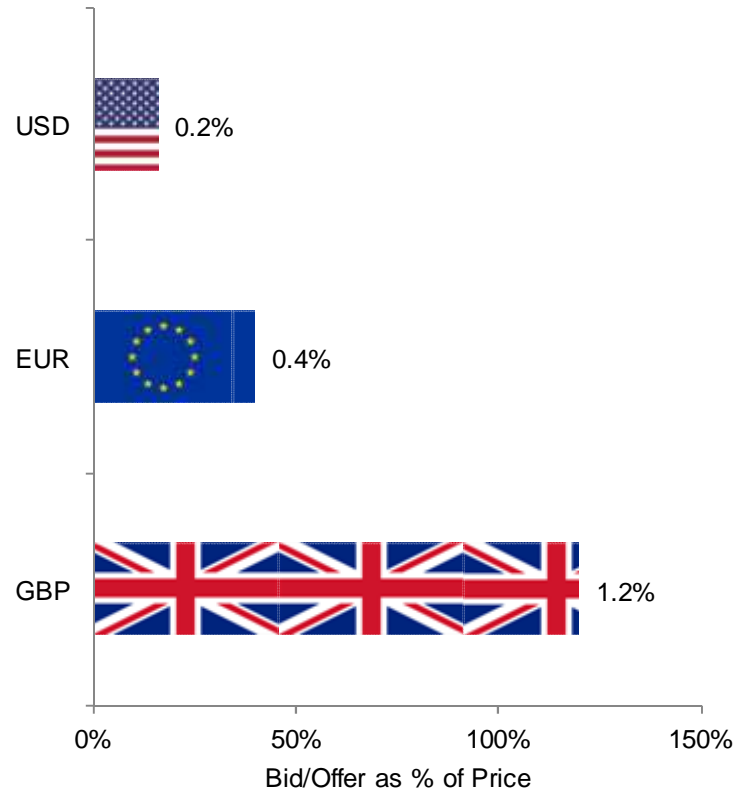
THE REAL PROBLEMS ARE STRUCTURAL. LIKE SHORTER CREDIT CYCLES



Source: SG Cross-Asset Research/Credit, www.markit.com

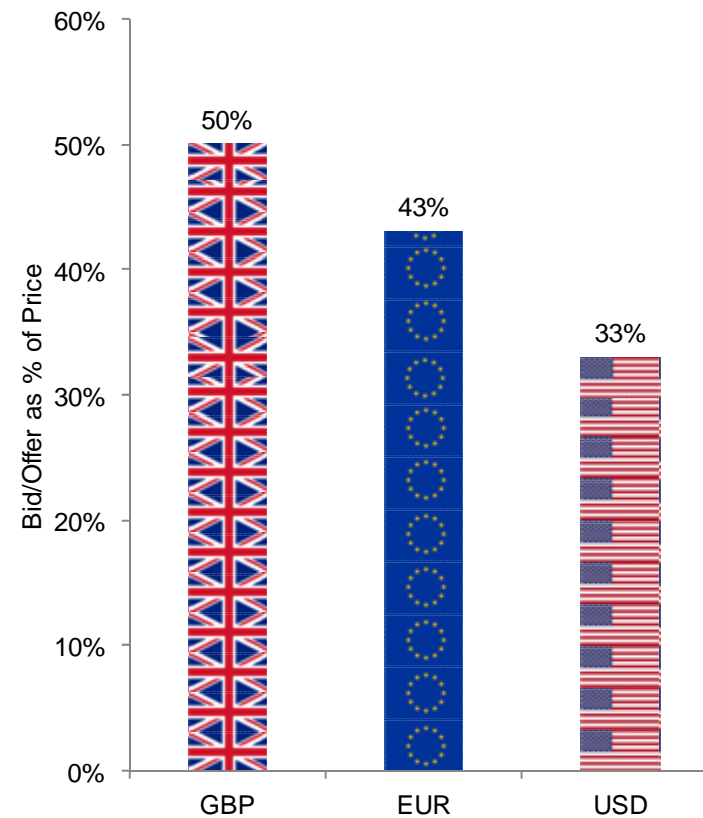
STRUCTURAL PROBLEM 2: A LACK OF LIQUIDITY

Bid/Offer as % of price



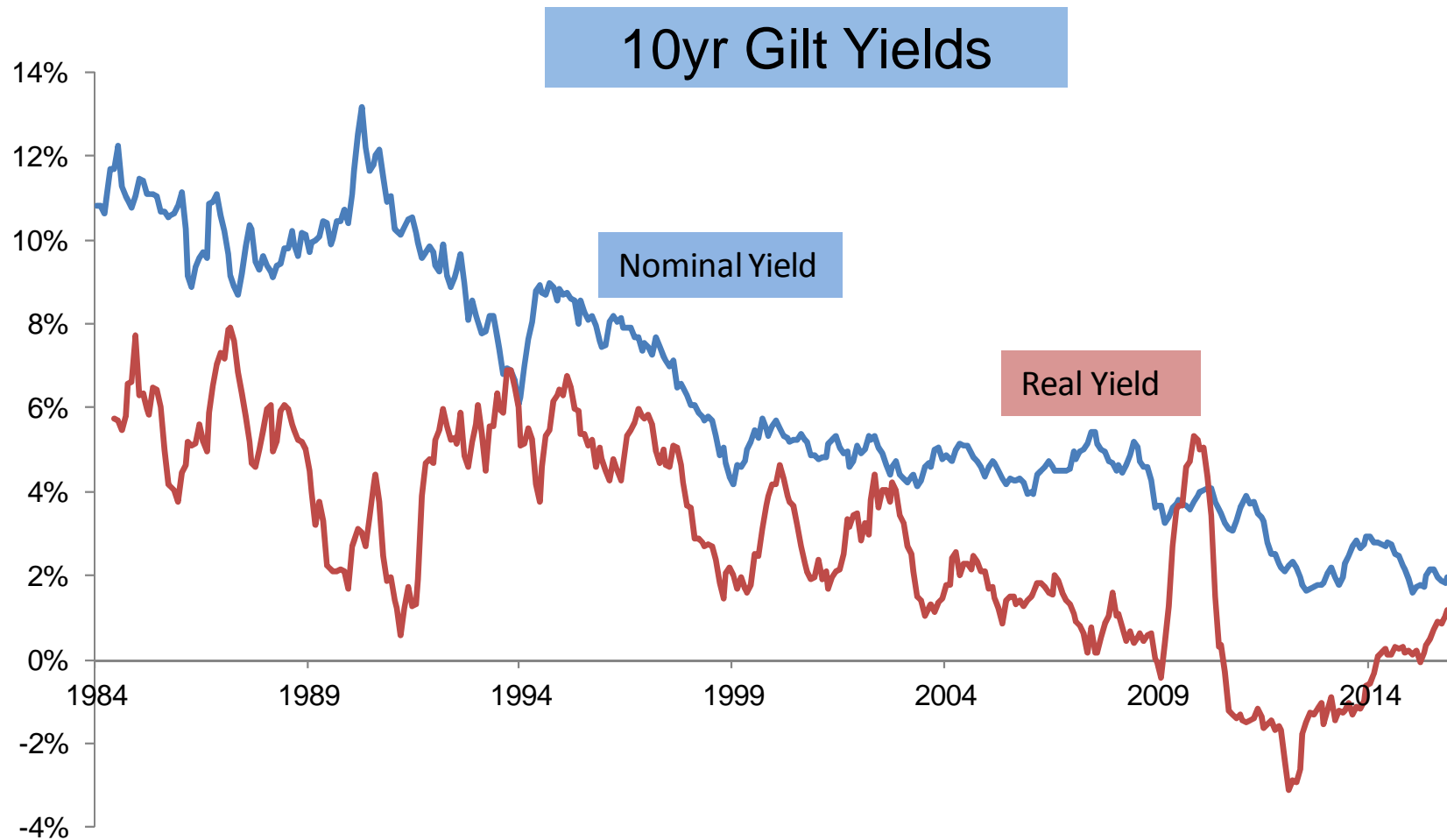
Source: Blackrock

Top 5 dealers as % of volume



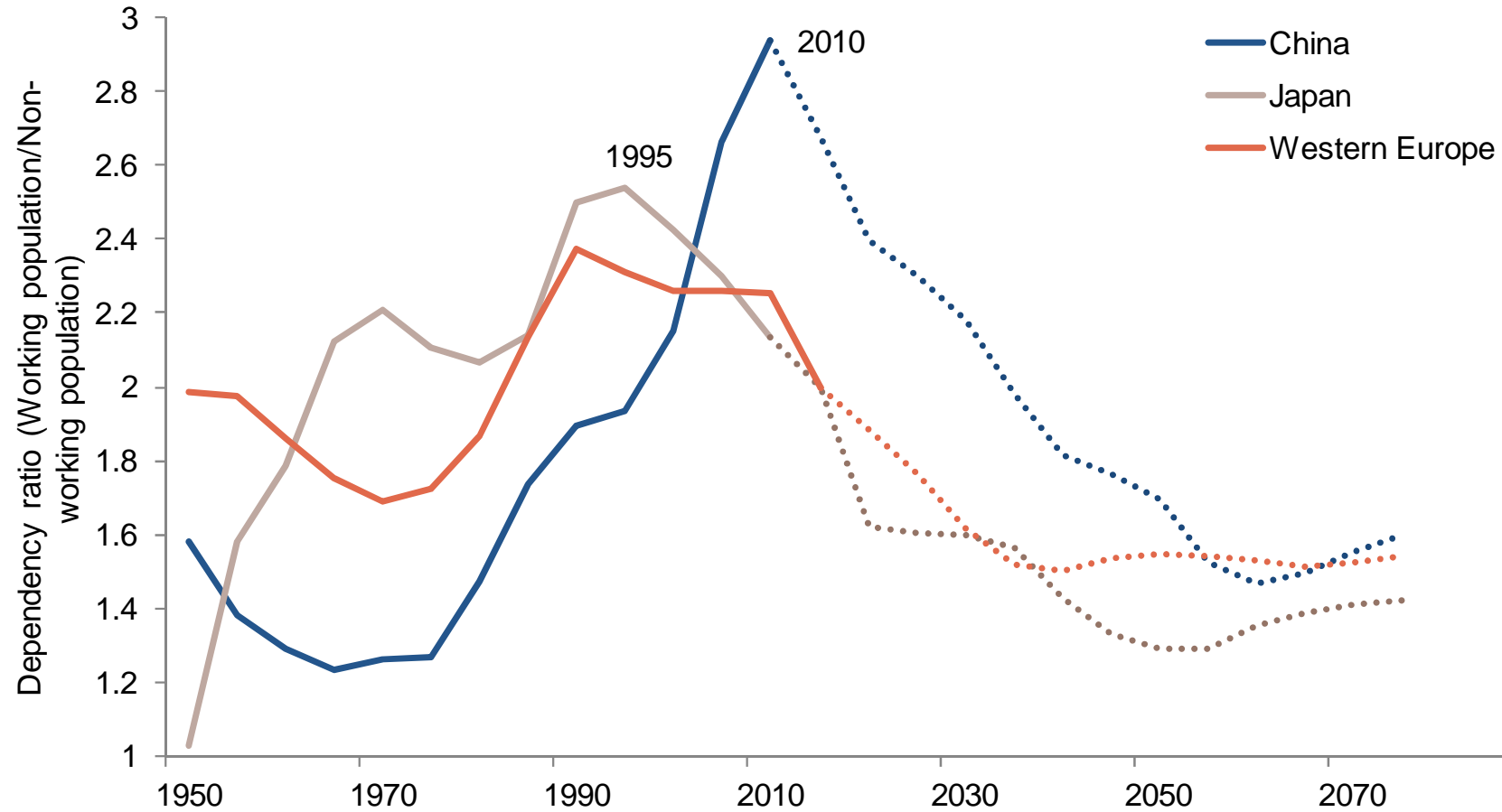
Sources: MarkitAxess

STRUCTURAL PROBLEM 4: LOW YIELDS



Sources: Bank of England, Bloomberg

STRUCTURAL PROBLEM 4: DEMOGRAPHICS



Sources: UN Population Survey

STRUCTURAL PROBLEM 5: A CHANGING ROLE FOR INVESTMENTS



What is ESG?

Environmental

Climate impact and greenhouse gas (GHG) emissions; energy efficiency; air and water pollution; water scarcity; biodiversity; and site restoration.

Social

Human rights; local community impact and employment; child labour; working conditions; health and safety; and anti-corruption practices.

Governance

Alignment of interests; executive compensation; board independence and composition; and voting and other shareholder rights.

Sources: CPP, EDF Pulse, Harrington Investments

A TOUGH CLIMB, BUT A GOOD VIEW FROM THE TOP



Source: iStock

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The following named research analyst(s) hereby certifies or certify that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report: Suki Mann

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SG Cross Asset Research may contain both a credit opinion of the company and market recommendations on individual bonds issued by the company and/or its Credit Default Swap.

Credit Opinion:

Positive: Indicates expectations of a general improvement of the issuer's credit quality over the next six to twelve months, with credit quality expected to be materially stronger by the end of the designated time horizon.

Stable: Indicates expectations of a generally stable trend in the issuer's credit quality over the next six to twelve months, with credit quality expected to be essentially unchanged by the end of the designated time horizon.

Negative: Indicates expectations of a general deterioration of the issuer's credit quality over the next six to twelve months, with the credit quality expected to be materially weaker by the end of the designated time horizon.

Individual Bond recommendations:

Buy: Indicates likely to outperform its iBoxx subsector by 5% or more

Hold: Indicates likely to be within 5% of the performance of its iBoxx subsector

Sell: Indicates likely to underperform its iBoxx subsector by 5% or more

Individual CDS recommendations:

SG Cross Asset Research evaluates its expectation of how the 5 year CDS is going to perform vis-à-vis its sector.

Sell: CDS spreads should outperform its iTraxx sector performance

Neutral: CDS spreads should perform in line with its iTraxx sector performance

Buy: CDS spreads should underperform its iTraxx sector performance

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ABB	SG acted as co manager in ABB Finance's high grade bond issue.
ABB	SG acted as co-manager in ABB's bond issue (2.625% 26/03/19 EUR).
Accor	SG acted as joint bookrunner in Accor's bond issue (maturity 19/06/17 2,875 EUR)
Accor	SG is acting as financial advisor to Accor for the disposal of Motel 6.
Akzo Nobel NV	SG acted as joint bookrunner in the Akzo Nobel's bond issue.
Alstom	SG acted as joint bookrunner in Alstom's senior bond issue (3.875% 02/03/16 EUR).
ArcelorMittal	SG acted as joint bookrunner in ArcelorMittal's bond issue (4.5% 29/03/18 EUR).
ArcelorMittal	SG acted as passive joint bookrunner in ArcelorMittal's bond issue. (USD)
Areva	SG is acting as financial advisor and is providing financing to Weather Investments II in the acquisition of the Areva's 63%-stake in La Mancha Resources.
Areva	SG has acted as financial advisor to Areva notably to give a fairness opinion on its stake in Eramet to be sold to the FSI.
Areva	SG acted as joint bookrunner in Areva's bond issue.
Areva	SG is acting as financial advisor to Areva
AXA	SG acted as joint bookrunner in AXA BE's covered bond issue (EUR 2.25% 19/04/2017).
Banco Popular	SG acted as joint Dealer Manager in Banco Popular Espanol's tender offer (targeted ISIN: DE0009190702 ; DE000A0BDW10 ; XS0288613119 ; XS0225590362 ; ES0213770011)
Banco Popular	SG acted as joint bookrunner in Banco Popular Espanol's bond issue. (TAP)
Barclays	SG acted as co-lead manager in Barclays' covered bond issue (4.25% 12/01/22 GBP).
BBVA	SG acted as dealer manager in BBVA's tender offer.
BBVA	SG acted as joint lead manager in the BBVA's bond issue.
Bertelsmann	SG acted as joint bookrunner in Bertelsmann's bond issue (2.625% 02/08/22 EUR).
BHP Billiton	SG acted as co-manager in BHP Billiton's bond issue (USD benchmark SEC registered 5-part sr unsec notes consisting of 2y FRN, 3y, 5y, 10y, 30y)
BHP Billiton	SG acted as co manager in BHP Billiton Plc's high grade bond issue.
BMW	SG acted as joint bookrunner in BMW's bond issue (ABS Bavarian Sky 3). (maturity 3A et 3B EUR)
BMW	SG acted as joint bookrunner in BMW's bond issue (2.125% 13/01/15 EUR & 3.25% 14/01/19 EUR).
CEZ	SG acted as joint bookrunner in the CEZ's bond issue.
CEZ	SG acted as Joint Dealer Manager in CEZ's tender offer.
Daimler	SG acted as joint lead manager in Daimler Finance North America LLC' senior high grade bond issue.
Daimler	SG acted as co manager in Daimler Finance North America LLC' senior high grade bond issue.
Danone	SG acted as passive joint bookrunner for Danone's forthcoming high grade bond issue. (USD)
Deutsche Bank	SG acted as joint bookrunner in Deutsche Bank's bond issue.
Deutsche Telekom	SG acted act joint bookrunner in Deutsche Telekom UDS bond issue.
EADS	SG is mandated lead arranger of the loan granted to Republic of Brazil to finance the acquisition of helicopters from EADS Group.
EDF	SG acted has joint bookrunner in EDF's bond issue (15yr).
EDF	SG acted as joint bookrunner of EDF's senior bond issue (3.875% 18/01/22 EUR).
EDF	SG has acted as financial advisor to Iren in the restructuring of the shareholding of Edison and Edipower.
EDF	SG acted as co-sponsor of EDF EN's squeeze out.
EDF	SG acted as active joint bookrunner in EDF's bond issue (10yr).
EnBW	SG acted as joint bookrunner in ENBW's hybrid bond issue (7.375% 02/04/72 EUR).
ENI	SG acted as joint bookrunner in ENI SPA's bond issue. (maturity 27/06/2019)
Faurecia	SG acted as joint bookrunner in Faurecia's high yield bond issue (tap - 9.375% 15/12/16 EUR)
Faurecia	SG acted as joint bookrunner in Faurecia's high yield bond issue (9.375% 15/12/16 EUR).
Faurecia	SG is acting as sole global coordinator and joint bookrunner in Faurecia's convertible bond issue.
Fiat SpA	SG acted as joint bookrunner in FIAT's bond issue (7.75% 17/10/16 EUR).
France Télécom	SG acted as co-lead Manager in France Telecom's bond issue (maturity 15/06/22 3 euros)
GDF Suez	SG acted as structuring advisor, joint dealer manager of the tender offer and joint bookrunner of GDF Suez's bond issue (3.125% 21/01/20 EUR).

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Groupama	SG is acting as financial advisor to Silic for the potential combination between Silic and Icade.
Holcim	SG acted as joint bookrunner in Holcim US Finance's bond issue.
HSBC	SG acted as co manager in HSBC's High Grade bond.
Iberdrola	SG acted as joint bookrunner in the disposal by ACS of a 3% stake in Iberdrola.
Intesa Sanpaolo	SG acted as joint dealer manager in Intesa San Paolo's tender offer and joint bookrunner in the following bond issue (8.047% 20/06/49 EUR).
Intesa Sanpaolo	SG acted as Joint Dealer Manager in Intesa Sanpaolo's share buy back..
Lafarge	SG acted as joint bookrunner in the Lafarge Bond issue (5.875% 09/07/19 EUR).
Lagardère	SG has acted as financial advisor to Lagardère in the sale of its radio division in Russia.
Lagardère	SG was mandated as joint lead manager and joint bookrunner in Canal + France's postponed IPO. .
Michelin	SG acted as joint bookrunner in Michelin's bond issue (maturity 02/06/19 2,75 EUR)
Pernod Ricard	SG acted as joint bookrunner in the disposal of Pernod-Ricard's stakes by Groupe Bruxelles Lambert.
Pernod Ricard	SG acted as passive joint bookrunner in Pernod-Ricard's bond issue (5yr, 10.5yr, 30yr).
Pernod Ricard	SGSP is managing a liquidity contract on behalf of Pernod-Ricard.
Repsol	SG acted as joint bookrunner in Repsol-YPF's bond issue (4.875%19/02/2019 EUR).
RTE	SG is acting as joint bookrunner in RTE's bond issue
Saint-Gobain	SG acted as joint bookrunner in Saint-Gobain's bond issue.(Maturity 4yr:30-Sept-15 & 8yr:30-Sept-19).
Siemens	SG is acting as joint bookrunner in Siemens Financieringsmaatschappij NV's bond issue. (Maturities : 10 Sep 14 and 10 Mar 20)
Snam Rete Gas	SG is acting as joint bookrunner in SNAM's bond issue
Snam Rete Gas	SG acted as joint bookrunner in SNAM's bond issue (5% 18/01/19 EUR).
Telecom Italia Spa	SG acted as joint bookrunner in Telecom Italia's bond issue (4.625% 15/06/15 EUR & 6.125% 14/12/18 EUR).
Telecom Italia Spa	SG is acting as advisor to Telecom Italia to evaluate various strategic options
Telefonica SA	SG acted as joint bookrunner in Telefonica's bond issue (4.967% 03/02/16 EUR).
Veolia Environnement	SG acted as Structuring Advisor and Coordinator for Veolia Environnement's tender offer (FR0000474975; FR0010750497; FR0010397927; FR0000474983) and joint bookrunner in the new bond issue (4.625% 30/03/27 EUR).
Vinci	SG acted as joint bookrunner in Vinci's bond issue.
Vivendi	SG acted as passive joint bookrunner in Vivendi's USD bond issue (3yr/5yr/10yr).
Vivendi	SG acted as joint bookrunner of Vivendi's bond issue (4.125% 18/07/17 EUR).
Vivendi	SG acted as passive bookrunner in Vivendi's bond issue (3.875% 30/11/15 EUR & 4.875% 30/11/18 EUR).
Vivendi	SG was mandated as joint lead manager and joint bookrunner in Canal + France's postponed IPO.
Volkswagen (Pref.)	SG acted as sole bookrunner in Volkswagen's bond issue (Tap: VW 2.125% Jan 2015)
Volkswagen (Pref.)	SG acted as joint bookrunner in Volkswagen's bond issue (3.25% 21/01/19 EUR).

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SG or its affiliates have received compensation for investment banking services in the past 12 months from ABB, AXA, Accor, Akzo Nobel NV, Alstom, ArcelorMittal, Areva, BBVA, BHP Billiton plc, BMW, Banco Popular, Barclays, Bertelsmann, CEZ, Daimler, Danone, Deutsche Bank, Deutsche Telekom, EDF, ENI, EnBW, Faurecia, Fiat SpA, France Télécom, GDF Suez, Groupama, HSBC, Holcim, Iberdrola, Intesa Sanpaolo, Lafarge, Lagardère, Michelin, Pernod Ricard, Repsol, Saint-Gobain, Siemens, Snam Rete Gas, Telecom Italia Spa, Telefonica SA, Veolia Environnement, Vinci, Vivendi, Volkswagen (Pref.).

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