



Standpoint

Q1 | 2014

Global Market Analysis by EMEA Consumer Banks

Citi Outlook	02
Regional analyses	03
Guest Corner	09
Asset allocations	10

Revisiting Growth and Value

During the last 20 years style investing has been a recurrent topic through market cycles and an important driver of returns. Style investing truly reached a large popularity during the late 90's with the TMT bubble, a glorious period during which the death of Value investing had been announced or even promised more than once. Let's take our first lesson from here: the relative performance of a style against another is cyclical and subject to rotation. Neglecting the future potential excess return of a style which is underperforming in the near term would be an elementary mistake in a portfolio strategy. This being said, history shows that throughout these style cycles, an appropriate style exposure can generate significant excess returns for investors. Indeed, during the 1998-2000 period of the TMT bubble, global Growth stocks outperformed Value stocks by more than 70%. The 9 years that followed until the 2008 crisis could be seen as the Golden Age of Value investing as in turn they outperformed Growth equities by a similar 70%. The period that covers the

last 5 years is considered to have been more favourable for Growth equities, as between 2008 and 2013 Growth investing outperformed Value by 18%, although a softening of the trend has already been visible since 2012.

While the cyclical relative performances of between Growth and Value can be impressive, the long term returns differentials are much less significant

Interestingly, while selecting the right style at the right moment can be a major source of alpha, it is difficult to state that one style is a clear long term outperformer against the other. Indeed, since 1980, Value outperformed Growth by an average of 0.4% per year. Should Growth continue to outperform in the near term, the long term edge of Value could eventually decrease further.

Looking at the forecasts and the various literatures published around the turn of the year, it seems that the key word for 2014 is growth: economic growth accelerating in the Developed

Opinions, forecasts, and weightings expressed by Citigroup Global Consumer Group Investments may not be attained or suitable for all investors. Past performance is no guarantee of future results. There are additional risks associated with international investments, including foreign, political, currency and economic factors to consider. Please contact your financial professional to determine what is suitable for your individual situation

Citi Outlook

A snapshot of Citi's global market views across a select group of asset classes, regions and currencies over the next three to six months.

Our Market Outlook reflects our assessment of each asset class independently.

At the latest asset allocation meeting, the Global Investment Committee (GIC) has decided to decrease its position in Emerging Market debt to underweight.

The Committee decided to maintain its existing overall equity/bond asset allocation. The allocation remains overweight risk assets and underweight interest rate risk.

While market interest rates have increased in the first weeks of the year on the back US Fed Tapering announcement, Citi analysts expect further rate volatility down the road on the basis of better or worse than expected macro data in the US. U.S. equity returns looking forward seem unlikely to match 2013's returns after two years of rerating and anaemic EPS growth, but should still prove solid, justifying the continued overweight. While far from uniform, equity market prospects outside the U.S. seem to be improving further. The GIC maintains overweight in equities, with overweights in US, Japan, Asia ex-Japan and Europe. This is offset with an underweight in fixed income, concentrated in a heavy underweight in developed sovereign bonds. Within its fixed income portfolio, the GIC now has small overweight position in high-yield while positions in emerging market debt (both developed and emerging) and investment grade corporate bonds are neutral. The GIC has no more exposure to commodities.

Global equities

Market	Outlook
	Positive
US	Positive
Europe	Positive
Japan	Positive
Latin America	Negative
Asia Pacific	Positive
Emerging Europe	Neutral

Global fixed income

Market	Outlook
	Negative
Global Government	Negative
Global IG Corporate	Neutral
Developed High Yield	Positive
Emerging Market Debts	Negative

Global currencies

Currency	Outlook
Euro	Positive
Yen	Negative
British Pound	Positive

Markets, with in particular the US and UK leading the trend, and companies delivering earnings growth after 2 years characterized by a stagnation in Earnings per Share. Although the trend is not expected to be spectacular, a new cycle is emerging and it has already started affecting investment styles.

Growth Approach to Value Stocks

We stated earlier that during the last 5 years Growth stocks had outperformed Value stocks, which is basically what readings of the relative performance between the MSCI World Growth Index and the MSCI World Value Index show us. However, the reality is more complex than what the readings show. Adopting a Value style means focusing on well established companies offering low or depressed valuations and where the importance of the stability of fundamentals comes before the potential earnings growth. In other words, quality primes. A Growth investors will focus on the expectations that future earnings, sales, cash flows will increase faster than the average. The key in the Growth approach is the promise.

What happened during the last 5 years is that equities valuations have decreased to a reach a record low in 2011 where basically everything was ultra cheap, reflecting investors' fears of a never ending economic crisis. At the same time, whilst value was common, growth was on the other hand a very scarce asset. In order to generate excess returns, thematic such as dividend growth, cash flow growth, or more particularly exposure to Emerging Markets economic growth have been proposed. The sectors that have been the primary beneficiaries of this growth seeking approaches were actually defensive sectors such as Consumer Staples or Healthcare. On the other hand, sectors such as technology or Financials traditionally considered as growth sectors have underperformed.

The definition of Growth and Value approaches haven't changed, but the companies, sectors to which they are applicable can change.

During that period, quality has been given a growth premium and non-cyclicals have seen their weight increased within the growth style. The breakdown of sectors differences between 'value' and 'growth' clearly highlights the dominance of food and beverage, healthcare and personal and household goods in the growth style those days. These are non-cyclical industries with actually low and stable rates of growth.

Value Approach to Growth Stocks

The situation today is very different from 5 or even 2 years ago. Equities have re-rated. Cheap stocks have re-rated. Expensive shares have re-rated. Everything has basically gotten more expensive, especially in the past 6-12 months. While growth is increasingly available, value has become a scarcer asset.

Adopting a value approach to investment decisions and selection is very different than simply investing in value-labelled names or sectors.

In particular, traditional value defensive sectors have become particularly expensive compared to traditional growth and cyclical sectors. For example, Consumer Staples offer 20% premium on Forward PE against global equities, with EPS growth forwards of 10%. In comparison, the Technology sector is 15% cheaper than Consumer Staples on PE reading for 13% EPS growth forwards. Citi analysts think that in the new cycle the promise of growth which supported the great re-rating and the outperformance of defensive sectors will no longer be sufficient. This cycle could actually be more favourable to cheaper and discarded cyclical sectors traditionally labelled as "growth".

Europe and North America

Europe equities

Re-leveraging Optionality

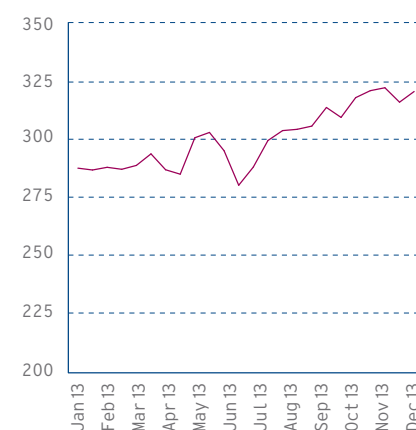
The last quarter of the year was another positive one for European equities, with the DJ Stoxx 600 posting a 5.6% return. Citi analysts continue to forecast double digit total returns to end-2014, and cite several positive factors. Firstly, the macro environment continues to get better as diminishing risks stemming from the evolution of the Eurozone sovereign debt crisis are driving a synchronised pick-up in risk appetite from investors. Modest but accelerating growth, low inflation and low interest rates is what Citi analysts have described as "Goldilocks in a strait-jacket": It is hard to see the global economy becoming too hot (strong recovery) or too cold (recession) in the next couple of years.

Then, according to Citi analysts, corporate profitability is finally expected to improve after 83 straight weeks of net

earnings downgrades. As they say, better macro should also lead to better profits. Citi analysts highlight that current PMIs suggest earnings growth of 10%+ in 2014E. This is similar to bottom-up Citi analysts' expectations of 12%.

With regards to valuation, messages are more mixed: Two years ago, European equities were cheap in both absolute and relative terms. Now, they trade 20% above the post-1972 average trailing P/E, but at post-1990 average. Still, according to Citi analysts, European equities are cheap (15x versus 20x long-term average) based on the cyclically adjusted P/E ratio and super-cheap relative to other asset classes.

Considering the key risks for 2014, Citi analysts believe that for investors to turn bearish it would take (a) a rapid normalisation of interest rates (like in 1994



DJ Stoxx 600

Data source: Bloomberg as of 31 December 2013

for example), (b) the end of the credit cycle (as in 2007) or a global recession (as in 2008). Citi analysts note that investors should also keep a close eye on the re-emergence of global political risk factors and Emerging Markets risks.

North America equities

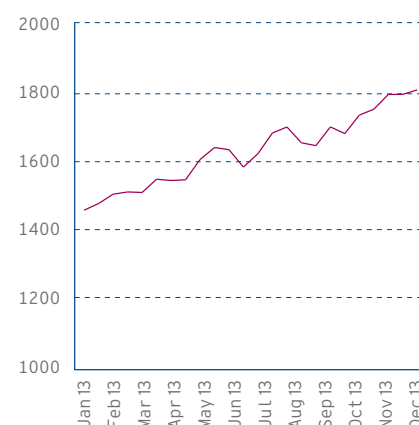
Strong Context but Beware Euphoria

US equities outperformed global equities once again during the last quarter of 2013. The S&P 500 managed to record gains of close to 10% on a quarterly basis and 30% on an annual basis, thus posting its best year since 1997. Citi analysts cite the delay of the Fed's QE tapering, the improvement in government fiscal balances that reduced risk premiums and allowed for better-than-anticipated P/E multiple expansion as well as the strong money flows into equity funds as the main reasons behind the market's strong run.

As per Citi analysts' multi-layer targeting process, the good news from credit conditions, hiring intentions and capital spending plans on the economy, allow the S&P 500 2014 year-end target price to be raised with earnings growth progress being the primary driver. Moreover, a preference for large caps remains in place as is evident

by valuation differentials with small caps, lead indicators and corporate profit margin levels. As for style, Citi analysts think that growth stocks should benefit from capital spending trends as well as statistically driven lead indicators. Furthermore, large cap and growth stocks should both benefit from their more diversified geographic and market sales exposures given improving economic conditions abroad.

However, Citi analysts also warn that the potential for a 5%-10% correction in 1H2014 is significant given the likelihood for greater volatility, euphoric investor sentiment and political challenges. As a result of worrisome readings on the Panic/Euphoria Model and low intra-stock correlation, Citi analysts state that there is reason to be concerned about a more meaningful pullback even though identifying the specific catalyst may be difficult. Factors such as excessive



S&P 500 Index

Data source: Bloomberg as of 31 December 2013

earnings expectations, Fed tapering and/or economic disappointments have not had much impact thus far, but as Citi analysts think, strong runs can be reversed once fund managers decide to lock in their recent gains.

Global Sovereign and Corporate Bonds



Global Sovereign Bonds

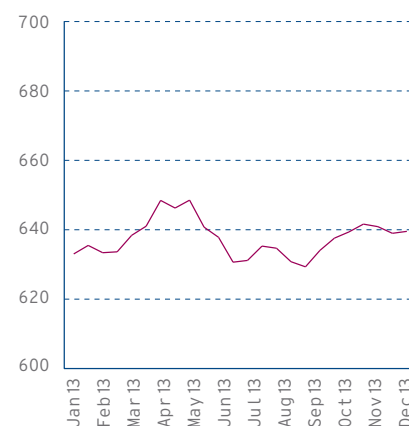
Further Yields Normalization

In the US, with relatively optimistic economic expectations for 2014, Citi analysts expect further normalization in Treasury yields in 2014. Over the past 50 years, 10yr Treasury yields have averaged about 25bp less than nominal GDP. Based on longer-term economic expectations this would suggest a top of cycle 10yr Treasury yield of just above 4%. 2014 is unlikely to be the top of the cycle as Fed Funds are likely to remain on hold the entire year, so 4% as a mid-range point on 10yr yields is probably still a few years away. However, Citi analysts expect 10yr yields to move safely above 3% in 2014 and end the year at 3.3%.

In Europe, a substantial deviation of Bund yields from current levels is not expected in the coming three quarters (1.7-1.8%). However, the front-end of

the EUR curve could de-couple further from the US given Citi's forecast of another 25bp refi rate cut and 10bp deposit rate cut by the ECB. The uncertainty around the baseline comes mainly from further potential downward adjustment in inflation and the efficiency of ECB's response. The yield curve may reflect all these factors and a steepening is expected especially in the 5-10y segment.

While core interest rates are likely to remain supportive for EM assets near term, Citi analysts remain wary about their prospects in 2014 for Emerging market sovereign bonds. In Citi's view, the strong recent performance provides EM investors with a window of opportunity to reposition portfolios and become more discriminating about duration and credit exposures. As Fed tapering inevitably begins, core rates



Citigroup World Government Bond Index

Data source: Bloomberg as of 31 December 2013

will rise and liquidity withdrawal from EM markets may resume. Prevailing fiscal pressures and current account deficits could exacerbate deteriorating fundamentals, accompanied by weaker currencies and wider spreads.

Corporate Bonds

Prefer High Yield

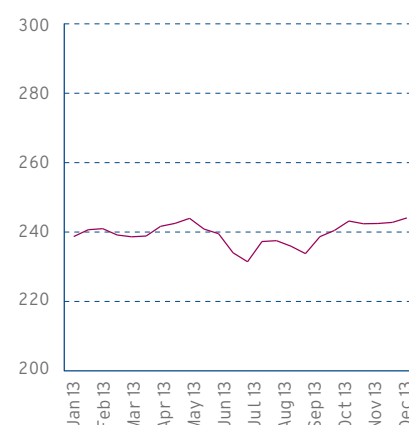
Higher government rates will be a critical factor impacting the potential performance of US and European corporate bonds. Given Citi analysts' projections for credit spreads and yields, European issuers are likely to outperform US corporate bonds. High yield credit markets are once again expected to outperform investment grade.

The modest carry provided by the US corporate bond market (spreads currently trade near five-year lows) is a very thin buffer to offset potential principal deterioration should interest rates rise as our analysts expect. Indeed, in their view, it will be very challenging for the US corporate market to post positive returns next year.

That said, US high yield is poised for another positive year even though spreads are approaching 400 basis points (tightest

since 2007) and absolute yields are near historical lows. A receptive primary market has allowed issuers to further postpone the so-called "maturity wall," resulting in lower refinancing risks and enhanced liquidity profiles. Default rates remain very low (around 3.0% on a trailing 12-month basis, according to Moody's), which our analysts expect to continue. Even if we consider modest spread widening near term, returns are still likely to be positive. Our analysts project 3.0% to 4.0% gains in the coming year.

In Europe (ex-UK), a lackluster regional recovery is projected to keep ECB policy rates lower for longer, with a flatter term structure compared to the US. Strong demand for corporate bonds should support an already resilient technical (supply/demand) backdrop and help narrow spreads further. Our analysts even expect high beta peripheral credit



Citigroup World Corporate Bond Index

Data source: Bloomberg as of 31 December 2013

spreads to compress. This should boost index returns to about 3.0% to 4.0% in EUR high grade credit. Returns in the European high yield market should be even more impressive, in the 6.0% to 7.0% range.

Japan and Asia Pacific

Japan equities

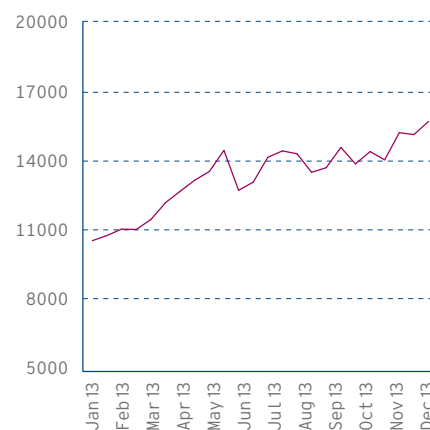
Potential Threat From Tax Increase

There is a little doubt that the Japanese stock market was one of the biggest winner of 2013. It rose over 50% and this bull market has been accompanied by a significant weakening of JPY. Since the start of Abenomics, the performance of equity indices in Japan exceeded an impressive 70%.

Recent data suggest that the impact of Abenomics on the Japanese economy is clearly visible. GDP growth increased significantly, sales and profits of companies shot up and we see an improvement in the leading indicators such as PMIs or BoJ Tankan Corporate index. Despite this, Citi analysts expect that 2014 may be relatively difficult for the Japanese economy. The main threat is the announced VAT hike in April

(from 5% to 8%), which will probably make the Japanese economy slow. However, it should not result in a recession thanks to monetary easing and economic stimulus measures.

Citi analysts still see long-term potential for the Japanese stock market which remains one of the top picks globally. They think Japanese market should be supported by improving economic data, more favourable global environment and further weakening of JPY. Additionally, the government's financial growth strategy could change how Japanese corporate managers operate as they will increasingly be required to focus on investment return rather than maintain employment. It is worth noting that market valuations tend to be in the middle of their historical



NIKKEI 225 Index

Data source: Bloomberg as of 31 December 2013

ranges or even below (such as CAPE ratio), which allows further potential upside. What's more, Citi analysts think foreign investors are likely to continue increasing their exposure to Japanese equities."

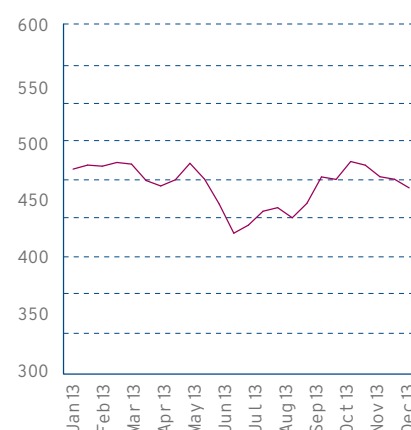
Asia Pacific equities

Chinese Reforms to Kick In

Asia ex China growth in 2014 is expected to be slightly stronger at 6.3% vs 6.2% in 2013, led by a mild rebound in Korea and Taiwan but others may see domestic demand growth weighed from household debt. Inflation is unlikely to be a huge issue in 2014 as only Malaysia and Philippines could eventually tighten. Finally, Citi analysts see domestic politics kicking in with elections in three Asian countries that happen to have current account deficits: Indonesia, India & Thailand, which could serve sufficient distraction to delay progress on much needed structural reforms. In China, GDP growth may decelerate from about 7.6% in 2013 to 7.3% in 2014 as reforms implementations kick off. Indeed, capex growth is likely to remain sluggish ahead of SOE reform, funding constraints could hit local governments

due to land, sales volume in the property sector could decline on fears of a property tax initiative, and the cost of capital should remain high.

Asian equities in aggregate, is attractively valued vs. its own history and earnings are now 18% above their pre GFC peak. North Asia provides cheaper valuations, stronger fundamentals and a more direct play on a pick-up in global growth. In contrast, ASEAN is handicapped by being a consensus overweight and expensive. In terms of liquidity within EM, Asian central bank balance sheets are the only ones that are expanding again, which could continue to be positive for Asia. The rotation out of current account deficits and domestic demand markets is expected to continue as the global growth momentum gathers pace. This bodes



MSCI Asia Pacific Ex-Japan

Data source: Bloomberg as of 31 December 2013

well for Citi's overweights in China, Hong Kong, Korea and Taiwan. Sector wise, Consumer Discretionary, Banks, Energy and Technology are preferred.

Emerging Europe and Latin America

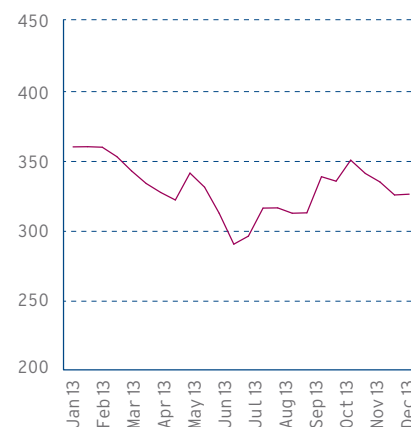


Emerging Europe equities

Modest Rebound Expected in Earnings Growth

Citi Economists believe that the delay of tapering can be an extra source of volatility in Emerging Europe. The outlook for a strong export-led recovery remains uncertain, and a number of countries (Russia, South Africa and Turkey) have uncomfortably high inflation. Furthermore, of the major EM economies, the ones running the widest current account deficits are in Emerging Europe: Turkey (6.9% of GDP) and South Africa (5.9% of GDP). As a result, Citi analysts are forecasting GDP growth to remain tepid at 2.8% in 2014. Following a contraction of 5.6% yoy in 2012 and 0.7% in 2013, EPS are expected to rebound very modestly in 2014 (3.3%). As such, the EPS growth outlook is the weakest amongst the three EM regions. In terms of valuations, the region's PE

multiple of 8.7x (2014E) is at a discount to the rest of EM. However, this is largely due to Russia's extremely low PE of 5.5x 2014E. Multiples in the larger markets range from attractive (Turkey: 9.7x) to expensive (South Africa: 13.7x). Citi's preferred market remains Russia where 2014 GDP growth may likely edge up to 2.6% from 1.4% in 2013 chiefly on account of a favourable base and a recovery in Europe. Monetary policy should also lend a helping hand in 2014 as expectations for moderating inflation provides room for cutting interest rates. From an equity perspective, the slide in the economic outlook is very much reflected in the earnings outlook, with bottom up analysts expecting profits to moderately contract in 2014. At the same time, expectation of the oil price moving sideways over the coming years also poses some challenges to Russia.



MSCI EM EMEA

Data source: Bloomberg as of 31 December 2013

However, the mitigating factor in the Russian Energy sector is that cash is increasingly being returned to shareholders, and dividend yields look better.

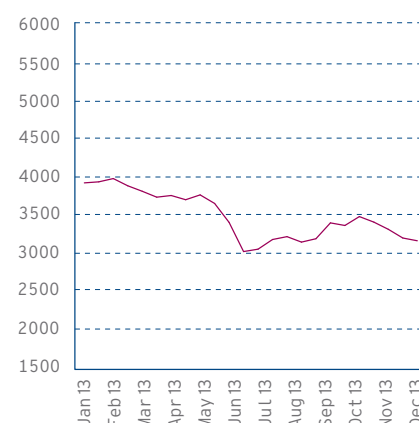
Latin America equities

Growth and Inflation in Brazil Weigh on the Region

Citi economists have been cutting their GDP forecasts for LatAm region. They are now forecasting GDP to grow by 2.6% in 2013E and 2.7% in 2014E, down from 3.4% and 4.0% respectively at the beginning of 2013. Citi analysts continue to believe that economic growth in Brazil is unlikely to show a significant improvement after the disappointing 3Q13 GDP figure, supporting their 2014 annual GDP growth estimates of 2.0%. BRL depreciation and resultant inflationary risks may lead the Central Bank to hike the Selic rate further to 10.75% in February 2014 and they may resume the tightening cycle in 2015, further increasing the Selic rate by 125bps, to 12%, in 1H15. While sluggish growth looks likely to persist in Brazil, GDP growth is expected to rise to about

3.8% in Mexico while the central bank may remain on hold in 2014. In Argentina and Venezuela, macroeconomic imbalances continue to grow, leading to low growth and high inflation, and eroding international reserves.

Within LatAm, Citi analysts are expecting reasonable EPS growth both for Mexico and Brazil in 2014E, 9% and 17% respectively. In Brazil, they do not believe the FX collapse will be repeated in 2014. Exporters are likely to benefit from the currency weakness we have seen in 2013. As the BRL has stabilized, the consumer has shown unexpected strength, and the wide valuation gap has narrowed, Citi's core theme of preference for commodity vs. domestic names is close to playing out. Only banks remain as a large-cap sector that appears broadly undervalued with reasonable EPS growth potential.



MSCI EM Latin America

Data source: Bloomberg as of 31 December 2013

Having said that though, they prefer Mexico to Brazil as the region has the best exposure to an improving US.

Global REITs and Commodities

Real Estate Investment Trusts (REITs)

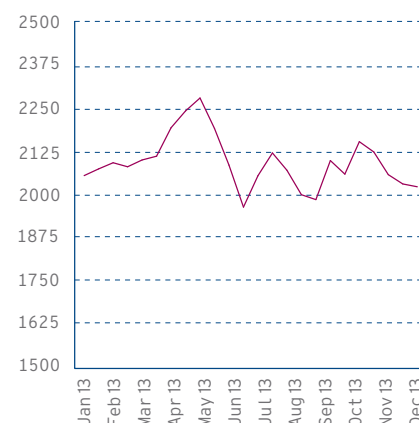
Analysts Ratings Near Peak

REIT's underperformance in 2013 continued well into the last quarter of the year, with the EPRA/NAREIT global index registering slightly negative returns, without being able to follow the generally positive climate for developed world equities. Indeed, citi analysts note that even though REITs have performed relatively well in prior tightening interest rate cycles (i.e. 2004-06), every cycle is different and a rising interest rate environment can be a powerful force, both in perception and reality.

They also observe that sell-side US REIT analysts remain as bullish as ever on the sector: Per a bottom up analysis, US REIT group ratings currently consist of 41% "buy", 53% "hold" & only 6% "sell" recommendations, which is just below peak ratings levels experienced during

the fall of 2011. Citi analysts believe that the lack of further ratings upside may limit further gains and could be a potential headwind if downgrades pick up in the future.

Based on Citi analysts' views, the bear case for the sector is that recent stock under-performance is a leading indicator and correctly prices what will be a rise in private market cap rates over the next 12-18 months. The bull case, on the other hand, is that this observed under-performance due to interest rate concerns proves temporary: Interest rates are of course more likely to move higher than not, but this is well understood and factored into current market pricing. Moreover, stronger economic growth in 2014 would mean better real estate fundamentals (i.e. stronger rent growth) and greater availability of capital, both



EPRA/NAREIT Global Index

Data source: Bloomberg as of 31 December 2013

of which are positive for real estate and could also mitigate the impact of higher rates.

Commodities

Unfavourable Global Context

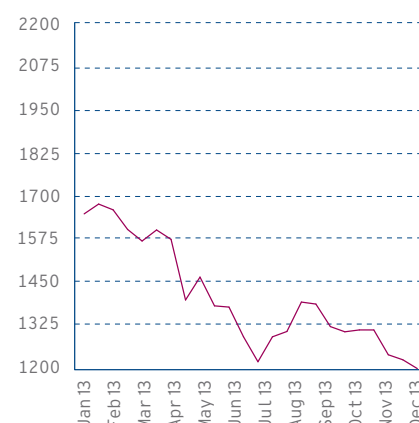
Macroeconomic factors should continue to mute global demand for commodities for at least another year, so Citi's outlook remains neutral to bearish for commodities, even if conditions improve slightly in both advanced economies and emerging markets. However, seasonal and tail risk factors could potentially push prices up.

Citi analysts revised lower their oil prices forecasts to US\$97.50/bbl for Brent and US\$92.80/bbl for WTI in 2014 on US step back regarding Syria and nuclear deal with Iran. The bearish pressures on the oil market are growing and looking less likely to be derailed by supply disruptions in 2014. Venezuela is the best candidate for a potential bullish geopolitical surprise, but overall the odds favour a softer market in 2014 as compared to 2013, with balances pointing to oversupplied

crude and product markets. Citi analysts believe that thermal coal demand is in structural decline as a result of both increasing environmental pressure and declining cost competitiveness compared to alternatives for power generation

With regards to base metals, the combination of lower demand, increased supply and reduced pricing power appears to be playing out, and Citi forecasts most base metals to remain under pressure in the medium to longer term.

Fed tapering may push Gold prices towards US\$1,200/oz in 1Q14 before the physical market in the form of Chinese buying limit downside price moves, according to Citi analysts. Indeed, Chinese physical retail buying/investment represents a key source of price support for the gold market, and



Golds US\$/troy oz.

Data source: Bloomberg as of 31 December 2013

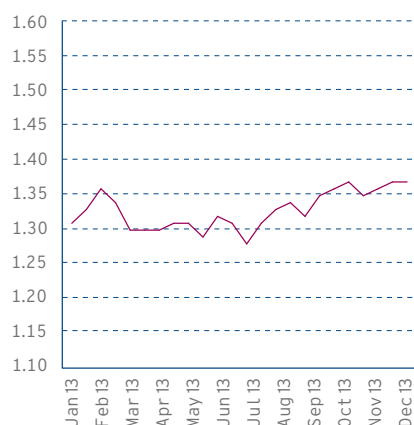
Citi analysts believe renewed positive buying momentum in China may prevent a wholesale rout of gold prices in 2014, resulting in prices to average US\$1,255/oz in the year.

Currencies



Euro

EUR's attraction stems from euro zone's balance of payments surplus (current account surplus and strong capital inflows into European equities), but the outlook for 2014 against USD specifically, may likely be guided by policy actions of the ECB against the Fed tapering. The quick recovery in EURUSD following the unexpected ECB rate cut on 7 November to curb rising disinflation risks within the euro zone shows that the ECB needs to follow up with more policy action in order to weaken EUR. The rate cut has not been enough in itself to stem the relative pace of balance sheet expansion that lies in the Fed's favour. Indeed, the ECB balance sheet has continued to contract since mid-2013 while the Fed balance sheet continues to expand and this means that even as the Fed commences tapering, the ratio of the Fed to ECB balance sheet may still continue to rise albeit at a slower pace. For EURUSD to fall, the ECB balance sheet needs to turn from outright contraction to expansion. Citi analysts forecast EURUSD at 1.40 in the next 6 to 12 months.

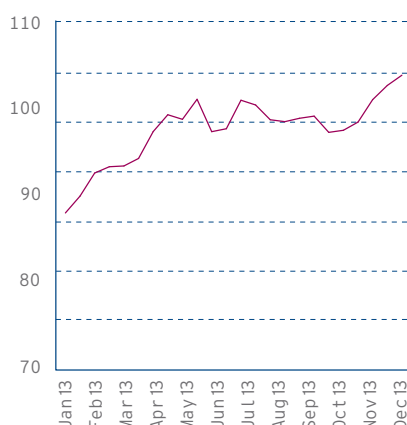


Euro-Dollar (USD/EUR)

Data source: Bloomberg as of 31 December 2013

Yen

USDJPY appears to have already discounted the Bank of Japan (BoJ) plans for asset purchases through the end of 2014. Despite the current BoJ on hold and the domestic investment community seeming somewhat slow in responding to Abe/Kuroda's inflation pledge, JPY has continued to remain under pressure. Recent trade numbers and USD strength have continued to drive USDJPY higher, a trend which Citi analysts expect to continue even if the next 3 months bring about some consolidation due to delays in Fed tapering. Going forward, Citi analysts believe the future direction of rates will depend on the BoJ's decision for additional easing. They expect that decision to come in June or July after the sales tax hike impacts the Japanese economy as of April. BoJ Governor Haruhiko Kuroda will also be less constrained by US/Japan relations in 1Q 2014. The BoJ Policy Board is currently split into four groups on this issue, and the decision will likely wait for Governor Kuroda to announce his intentions. Citi analysts forecast USDJPY to reach 105 in the next 6 to 12 months.

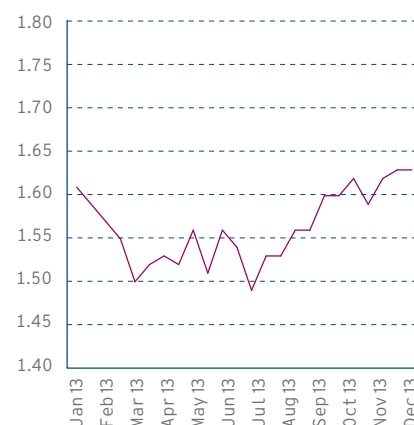


Dollar-Yen (JPY/USD)

Data source: Bloomberg as of 31 December 2013

Pound Sterling

Sterling is likely to be an outperformer in 2014. Economists have upgraded their forecasts for UK growth and employment for 2014 but various leading indicators suggest that even recent upgrades may be conservative as the recent inflation report presented higher forecasts for growth and lower estimates for inflation. At the same time, rates markets are yet to fully discount chances of higher rates from late 2014 onwards given the likelihood that the Bank of England (BoE) unemployment threshold is likely to be hit around then. Indeed, the consumer friendly recovery is also expected by the BoE to see unemployment fall more quickly, with it breaching the 7% threshold in Q3-2015. Against this backdrop GBP has continued to outperform both the Euro and USD. Citi analysts suspect such outperformance could persist in the near term with continuation of the strong dataflow. Citi analysts forecasts GBPUSD to reach 1.71 in the next 6 to 12 months.



Pound-Dollar (USD/GBP)

Data source: Bloomberg as of 31 December 2013

Guest Corner

Global Political Outlook: Between Polarization and Populism

by Tina Fordham, Citi Chief Global Political Analyst

Political developments dominated the headlines in 2013: the election stalemate in Italy; a spike in tensions in North Korea; the death of Hugo Chavez in Venezuela; the largest-ever popular protests in Brazil, India and Turkey; a military takeover in Egypt; the first government shutdown in seventeen years in the United States; elections in Germany; and the threat of US military intervention in Syria.

Yet thanks largely to accommodative policy from the Federal Reserve and European Central Bank, coupled with signs of economic recovery, these developments generated minimal market jitters rather than significant destabilization. Given that neither liquidity nor modest economic growth will reverse the underlying causes of political risk, in our view Vox Populi risk – the notion that shifting and more volatile public opinion represents a new and powerful risk to the business & investment environment – remains a significant force.

The combination of polarized electorates more prone to either protest or turning to non-mainstream political alternatives; weak political leadership, and limited international consensus on addressing global challenges remains potent. At the forefront for 2014 will be US midterm elections, a spate of elections in EM middle-income democracies – many of which saw major protests this year – European Parliamentary elections, and ongoing geopolitical challenges in the Middle East and Asia. Even so, the probability that political risk will generate

systemically-significant disruptions remains comparatively moderate in the year ahead, given the small number of elections or planned changes in government in systemically significant markets and the shift toward diplomacy over military conflict. But longstanding political risks will continue to surface periodically until the next major election cycle, hampering economic governance and business confidence in the process.

In our view, given persistently high unemployment, the modest growth pickup in DM will not reverse the trend toward fractured polities and anti-reform pressures. In EM, new middle classes are likely to continue to demand more from their leaders, even where they have been delivering growth and improving living standards. At the same time, the international system will struggle to address geopolitical challenges, as the focus on narrow domestic considerations collides with less room for maneuver for leaders constrained by low approval ratings and weak mandates. Taken together, the global political outlook suggests an ongoing fragile equilibrium, with last-minute, piecemeal policymaking that may prevent the worst-case outcomes yet nonetheless continues the pattern of periodic heart attacks. In an era marked by a high degree of distrust of elites and dissatisfaction with politics, we find limited prospect for the improved economic governance that markets and corporates expect, keeping the pressure high on already “super-empowered” central banks. With Citi Research’s global growth

forecast at 3.1% next year and 0.9% in the eurozone, slow growth and high unemployment will mean that political risks continue to occupy center stage in the years to come.

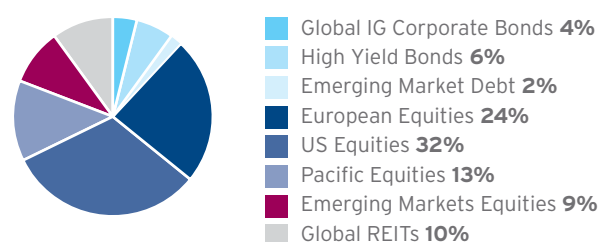
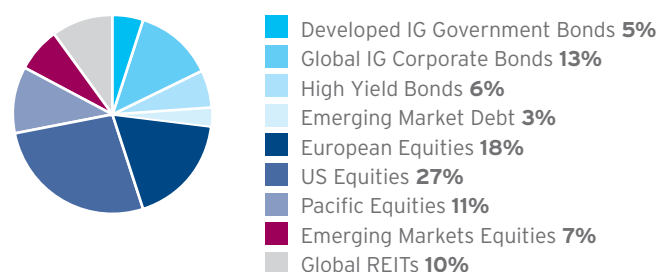
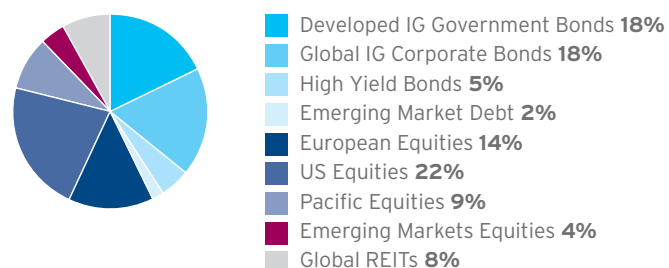
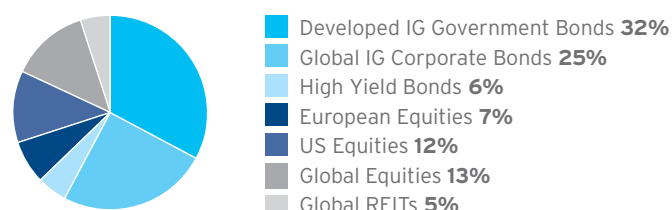
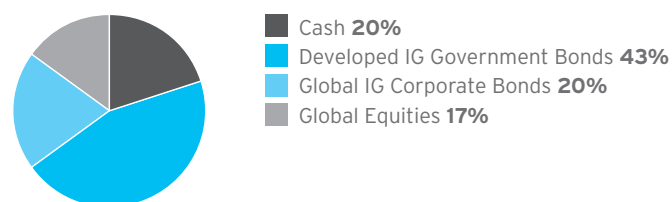
As more and more governments face intense pressure to be responsive to popular discontent and to produce sustainable economic benefits for the whole society, the Vox Populi will remain a force to be reckoned with and an important risk factor for the foreseeable future. Some suggest that democracy is in decline in the aftermath of the global financial crisis, with various indicators of democratic freedoms going into reverse. Yet demand for political alternatives and accountability of leaders, the spike in protest activity and the flexibility, if lack of muscularity, found in the world’s democracies over the course of the post-crisis period refute this argument. Demand for democracy, civil rights and liberties shows no signs of slowing, nor do the pressures and opportunities of globalization. It will be the ability of leaders to respond to public concerns while anticipating the shifts in the global system that will largely determine the shape of things to come.

Final Word

The suggested allocations are intended to be general in nature and are not to be construed as specific investment advice. Investors are encouraged to consult with their Financial Professional to determine their allocation needs based on their risk tolerance, suitability and goals.

Spotlight on allocations

Global model portfolios



About the Citi Asset Allocation Process

The Citibank tactical portfolio allocations are based on the work of the Global Investment Committee (GIC) of Citi Private Bank. The membership of the committee is comprised of experienced investment specialists from across Citi. The GIC deliberates on the macroeconomic and financial market environment in order to formulate an outlook across multiple asset classes and is responsible for maintaining tactical model portfolios based on this outlook. The tactical weights that are applied to the Citibank portfolios are aligned to the decisions of the GIC.

Allocation to bond and equity markets

The Global Investment Committee (GIC) has decided to bring down its position in Latin American equities but to maintain an overall Neutral stance in Global Emerging Markets equities.

Overall the GIC now stays overweight on equities, neutral on commodities and underweight on fixed income.

The GIC believes that medium term outlook for equities is likely brightening and equities may offer better risk/reward than credit this year while both returns are likely to be below last year's gains as the attractiveness of valuations has somewhat deteriorated.

Allocation to regional equity markets

The GIC maintained its overweight in US, Europe and Japan and Asia ex-Japan. Emerging Market equities continue to be neutral.

Within the equity universe, the GIC has the largest overweight positions to US equities with a brightening outlook given signs of growing corporate capital expenditure combined with improving housing and job markets feed through into economic growth although the Fed's taper process could generate periods of volatility. Exposure to Asian equities has been maintained on the basis of valuation not reflecting the strong earnings growth momentum in the region.

And the GIC believes that Japan may continue to grind higher even though at a slower pace supported by new political leadership taking a more aggressive stance on fiscal and monetary policy. Also the GIC maintains its position in Europe equities given still attractive valuations and improving sentiments. Meanwhile .

Allocation to government and credit markets

The GIC is heavily underweight sovereign bonds, with US Treasuries bearing the brunt of the underweight, and Emerging Market debt on the back of increasing yields and currency risks. They have small overweight position in High yield bonds. Investment grade allocation of the GIC are now neutral on the basis of narrower spreads capping the scope for gains in a period of rising yields.

Important Disclosure

"Citi analysts" refers to investment professionals within Citi Investment Research and Analysis, Citigroup Global Markets and voting members of the Global Investment Committee and Global Portfolio Committee of Citi Private Bank.

This document is based on information provided by Citigroup Investment Research and Analysis, Citigroup Global Markets, Citi Private Bank and Citigroup Alternative Investments. It is provided for your information only. It is not intended as an offer or solicitation for the purchase or sale of any security. Information in this document has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the information, consider its appropriateness, having regard to their objectives, financial situation and needs. Any decision to purchase securities mentioned herein should be made based on a review of your particular circumstances with your financial adviser. Investments referred to in this document are not recommendations of Citibank or its affiliates.

Although information has been obtained from and is based upon sources that Citibank believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. All opinions, projections and estimates constitute the judgment of the author as of the date of publication and are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Past performance is no guarantee of future results.

Subject to the nature and contents of the document, the investments described herein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested. Certain investments contained in the document may have tax implications for private customers whereby levels and basis of taxation may be subject to change. Citibank does not provide tax advice and investors should seek advice from a tax adviser.

Investment products: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested.

Citibank N.A., London Branch is authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Our firm reference number with our UK regulators is 124704. Citibank International plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our firm reference number with our UK regulators is 122342. Citibank N.A., London Branch and Citibank International plc are licensed by the Office of Fair Trading with licence numbers 0001486 and 0482552 respectively to extend credit under the Consumer Credit Act 2006. Citibank N.A., London Branch is registered as a branch in the UK at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. Registered number BR001018. Citibank International plc has its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. Registered number 01088249. Citibank N.A., Jersey Branch is regulated by the Jersey Financial Services Commission under the Financial Services (Jersey) Law 1998 for the conduct of investment [and under the Banking Business (Jersey) Law 1991 for the conduct of deposit taking business. Citi International Personal Bank is registered in Jersey as a business name of Citibank N.A. The address of Citibank N.A., Jersey Branch is P.O. Box 104, 38 Esplanade, St Helier, Jersey JE4 8QB. Citibank N.A. is incorporated with limited liability in the USA. Head office: 399 Park Avenue, New York, NY 10043, USA. © Citibank N.A. 2014. CITI, CITI and Arc Design are registered service marks of Citigroup Inc. Calls may be monitored or recorded for training and service quality purposes.

