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What Does Recent Data Mean for US & European Equities?

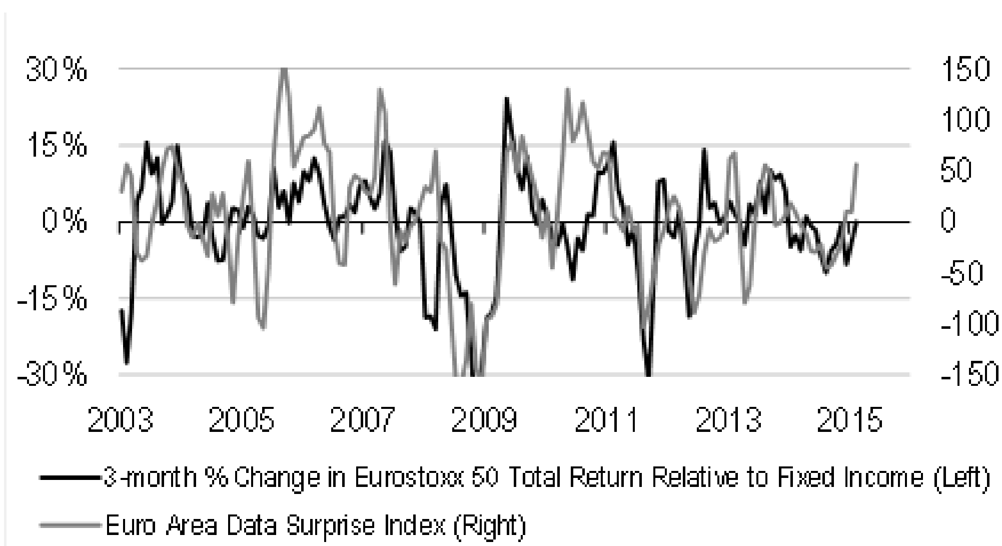
- **From an Asset Allocation perspective, it is important to track the extent to which actual economic data is an upside surprise or downside surprise relative to these expectations, and the extent to which this is embedded in Equities and Bonds.**

- **In recent weeks and months, both US and European Equities have rallied, yet long duration Bonds have also gained ground.**

- **Recent US data is supportive of US long Bonds, however we remain positive on selected Equities on a full year view. Recent European data is supportive of significant relative upside for European Equities.**

This view has Tactical Investment Implications for Asset Allocation and Equities Sector Allocation. We also see selected Investment Opportunities to invest in this view, shown within the Investment Implications section of the note.

In Europe, data surprises have been strongly positive…



Sources: Bloomberg; Deltec International Group

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Tracking Data Surprises:

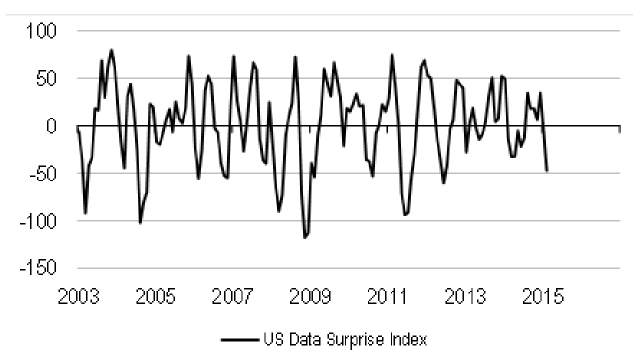
As discussed in our recent research, As discussed in our recent research, Surprise!, Recent Data Favors Fixed Income over Equities and What does recent US data mean for Asset Allocation?, we can track the performance of actual economic data relative to expectations using a Data Surprise Index. There are many Data Surprise indices available, such as the Citigroup Data Surprise Index, which is publicly available and measures whether actual economic data was above or below expectations on a three month rolling basis. When actual economic data is above expectations, the Data Surprise Index rises, and when actual economic data is below expectations, the Data Surprise Index falls.

US Data Surprise Index:

The US Data Surprise Index is currently the most negative it has been in over 2.5 years - since June 2012. In H2 2014, actual economic data in the US was consistently above expectations on a three month rolling basis, resulting in a sharp increase and sustained level in the Data Surprise Index, as US growth momentum surged upwards following the H1 volatility in data. Since late 2014, actual economic data has been weak, resulting in a sharp decline in the US Data Surprise Index – in part due to significantly elevated expectations following a strong 2014, in part due to a typical cyclical decline in new orders from firms, and in part due to a decline in oil prices that is yet to be met by a commensurate increase in consumption and ancillary benefits for the broader economy.

Refer to Figure 1, showing the US Data Surprise Index through time:

Figure 1: US Data Surprise Index



Sources: Bloomberg, Deltec International Group

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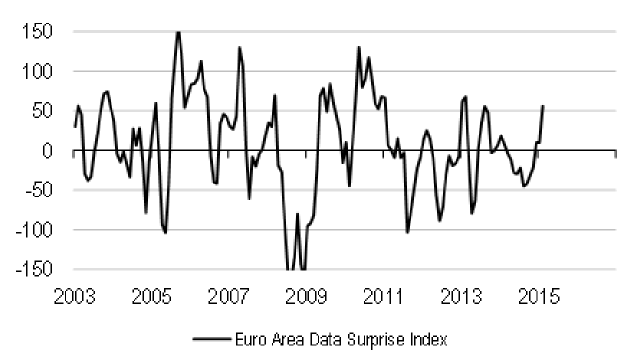
Europe Data Surprise Index:

The Europe Data Surprise Index is currently the most positive it has been in 2 years - since February 2013. From late Q1 to early Q4 2014, actual economic data in Europe was consistently below expectations on a three months rolling basis, resulting in a progressive decline in the Data Surprise Index, as growth declined and the policy response remained wanting. However, since December, actual economic data has begun to recover, slowly yet consistently, as a range of indicators from manufacturing surveys to consumption data to credit indicators have improved. Importantly, this strong momentum is likely to be sustained, as the benefits of lower gasoline prices will benefit consumers, a lower currency will benefit manufacturers and greater monetary stimulus will benefit the financial system.

Refer to Figure 2, showing the Europe Data Surprise Index through time:

Figure 2: Europe Data Surprise Index



Sources: Bloomberg, Deltec International Group

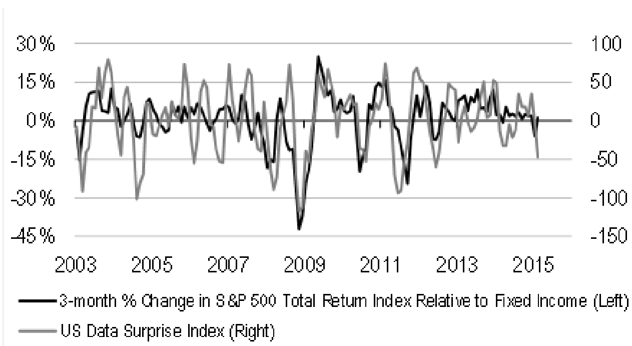
Implications for US and European Equities:

Data Surprise Indices can be a highly useful asset allocation tool, particularly at present, when these indices are showing a clear direction (i.e.; clearly negative data surprises in the US, clearly positive data surprises in Europe). Typically, when data surprises are positive, Equities will outperform Bonds, and when data surprises are negative, Bonds will outperform Equities. As has been discussed in Deltec Markets Monday and on the Deltec Markets Monday Conference Call in recent weeks US data has been below expectations, whilst data in Europe has been above expectations.

In the US, data surprises are deeply negative, yet Equities have performed in line with Bonds over the past 3 months. Whilst this negative data does not necessarily suggest negative absolute returns for US Equities in the coming months, it does suggest that long Bonds will continue to be well supported. On a full year view, we continue to believe that US growth will be strong. Lower gasoline prices are feeding into stronger consumption, which is likely to lead to an increase in new orders and a boost to industrial production from late 2Q 2015, all of which will be complemented by a recovering capex cycle. As such, we retain our preference for selected US Equities – Technology Hardware; Semiconductors; Industrials and Autos.

Refer to Figure 3, showing the US Data Surprise Index and the Relative Performance of Equities vs. Bonds:

Figure 3: US Data Surprise and Relative Performance of Equities vs. Bonds

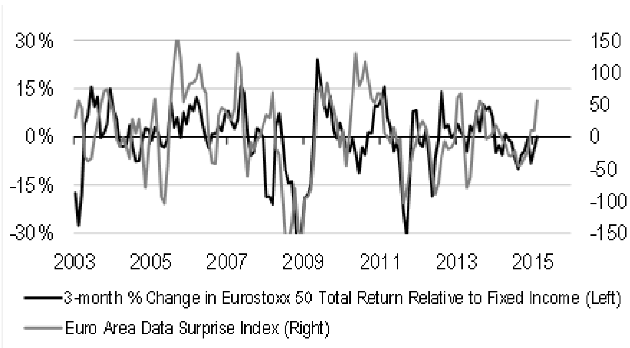


Sources: Bloomberg, Deltec International Group

In Europe, data surprises are strongly positive, yet Equities have underperformed Bonds over the past 3 months. Whilst this positive data does not suggest negative absolute returns for European long Bonds in the coming months, especially in an environment of ECB quantitative easing, it does suggest that Equities will strongly outperform Bonds. On a full year view, we believe that European growth will continue to stabilize, as discussed in our recent research 10 Things I Like About Eu-rope. As such, we retain our preference for selected European Equities – Autos, selected Banks and broad currency hedged Equities.

Refer to Figure 4, showing the European Data Surprise Index and the Relative Performance of Equities vs. Bonds:

Figure 4: European Data Surprise Index and Relative Performance of Equities vs. Bonds



Sources: Bloomberg, Deltec International Group

As discussed in our recent research Q1 2015 Deltec Quarterly Global Strategy Outlook: A World Apart, global growth momentum is currently peaking, and is likely to decline in the near term. However, this decline will be temporary, as it comes within a broader economic recovery that is increasingly disparate across and within regions, yet still largely intact. As such, tactical opportunities remain, particularly in the context of a broader global economic recovery that remains intact. Fixed Income may provide a perceived safe haven in periods of volatility, however selected Developed Market Equities and Cash & Liquids continue to offer the most attractive risk adjusted returns.

Conclusions

In recent weeks and months, economic data across the US and Europe has changed significantly, however asset prices have not responded correspondingly. In this environment, it is important to track the extent to which expectations of economic data is embedded in asset prices, and to track the extent to which actual economic data is an upside surprise or downside surprise relative to these expectations – both provide guidance for the future relative performance of Equities.

Recent US economic data has been below expectations, consistent with continued support for long Bonds in this region, whilst recent European economic data has been above expectations, consistent with significant relative upside for Equities within this region.

Tactical Investment Implications and Opportunities

This view has Tactical Investment Implications for Asset Allocation and Equities Sector Allocation. We also see selected Investment Opportunities to invest in this view:

- **Asset Allocation: Preference for selected Equities over Fixed Income and Cash.** Within Developed Market Equities, we have a preference for the US given the short and medium term economic growth outlook, especially across the Industrial Production and Fixed Asset Investment sectors of the economy; a preference for Europe, where markets are relatively undervalued and not pricing in an stabilization in economic growth and; a preference for Japan, which remains a high beta exposure to the continued global economic recovery, whilst also benefitting from lower oil prices and a more competitive export sector.

- **Equities Sector Allocation:** Recent US data is consistent with a continued strong performance of long duration Bonds, however an anticipated recovery in growth momentum and continued expansion in growth is likely to result in continued upside for Equities, although more selectively in sectors such as Technology Hardware; Semiconductors; Industrials and selected Autos. Recent European data is consistent with a further stabilization in economic growth and further upside in Equities more generally, and in specific sectors including Autos and Banks.

- **Tactical Investment Opportunities:** Selected current Tactical Investment Opportunities based on the above are on the following page:

Ticker	Security Name	Last Price	Upside / Downside to Consensus Target Price	1 Year Forward PE	Current Dividend Yield	1 Year Forward EPS Growth	6 Month EPS Revisions
US EQUITIES							
Technology							
GOOG US Equity	GOOGLE INC-CL C	535.5	18.8%	16.1	0.0%	6.3%	-8.4%
AAPL US Equity	APPLE INC	132.8	1.7%	14.4	1.5%	26.0%	17.2%
EMC US Equity	EMC CORP/MA	28.9	7.1%	13.1	1.7%	4.9%	-13.8%
QCOM US Equity	QUALCOMM INC	71.3	3.9%	13.4	2.4%	1.3%	-3.6%
SYMC US Equity	SYMANTEC CORP	25.2	1.5%	12.9	2.4%	-6.4%	-13.6%
Semiconductors							
SMH US Equity	MARKET VECTORS SEMICONDUCTOR	57.3	-	-	-	-	-
MU US Equity	MICRON TECHNOLOGY INC	30.6	38.6%	7.5	0.1%	-8.1%	-8.0%
Industrials							
ETN US Equity	EATON CORP PLC	71.6	7.1%	13.3	3.0%	1.6%	-13.3%
PH US Equity	PARKER HANNIFIN CORP	123.4	7.2%	14.0	1.9%	7.4%	-5.3%
FDX US Equity	FEDEX CORP	178.0	7.8%	16.2	0.4%	51.1%	-1.7%
Autos							
F US Equity	FORD MOTOR CO	16.4	1.9%	8.7	3.5%	6.4%	-35.9%
EUROPE EQUITIES							
Exchange Traded Funds							
HEDJ US Equity	WISDOMTREE EUROPE HEDGED EQU	63.6	-	-	-	-	-
Autos							
SXAPEX GY Equity	ISHARE EUR 600 AUTO&PARTS DE	60.8	-	-	-	-	-
VOW GY Equity	VOLKSWAGEN AG	220.4	-3.0%	9.2	2.2%	0.7%	1.7%
DAI GY Equity	DAIMLER AG-REGISTERED SHARES	85.2	1.9%	10.8	3.2%	78.1%	-
RNO FP Equity	RENAULT SA	84.9	0.6%	7.4	2.7%	-	-
Commercial Banks							
UCG IM Equity	UNICREDIT SPA	5.9	5.5%	10.0	2.7%	15.2%	4.2%
UBI IM Equity	UBI BANCA SCPA	7.2	-6.6%	13.4	1.9%	54.8%	-6.3%
ISP IM Equity	INTESA SANPAOLO	2.9	-0.8%	12.7	3.9%	62.2%	-

Sources: Bloomberg; Data provided where available; All data based on Consensus as at 24 February 2015
Note: The above list will change based on individual investment and market movements.

Should you have any queries regarding this Deltec Investment Research, or require any further information, please contact your Deltec representative.

Disclosures:

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