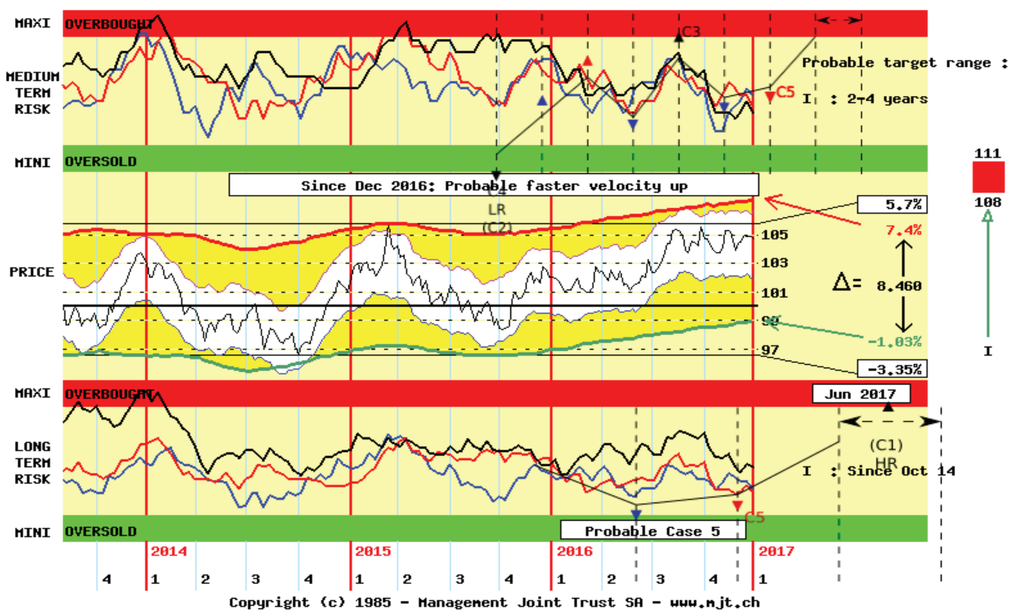
Disparities in the Eurozone worsen during H1 2017

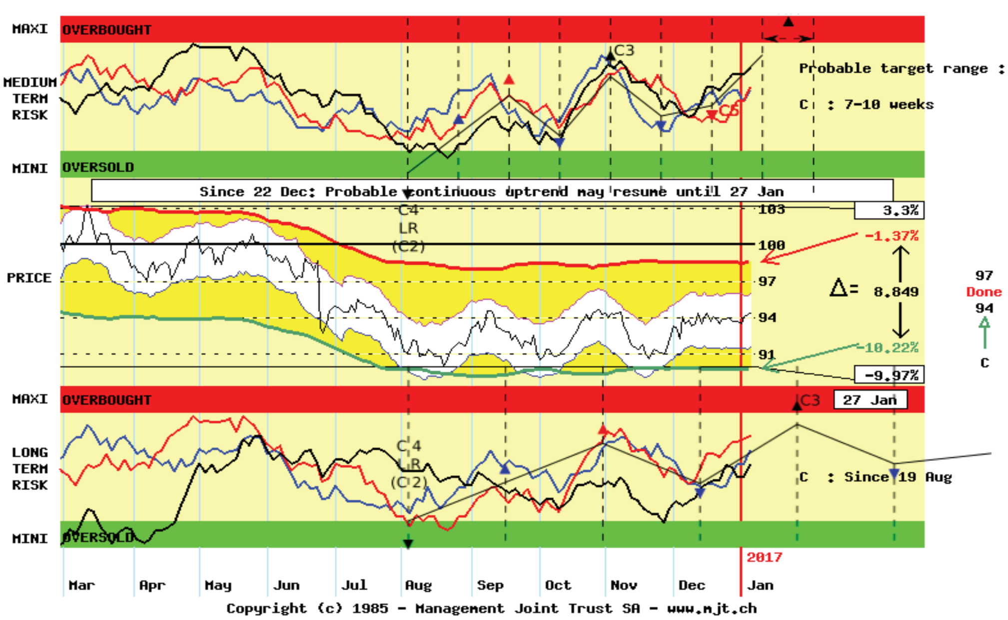
Bouncing off the introductory comments in this document and using stock markets performances as a proxy for economic prospects and investors confidence, we note that the reflationary revaluation of the South vs the North of Europe has been limited in H2 2016. Worse, in H1 2017, Germany should resume its outperformance, while PIIGS (Portugal, Italy, Ireland, Greece and Spain) start lagging again. These divergent developments will result in continued hefty monetary policy ring-fencing discussions inside the Eurozone in H1 2017.

DAX 100 Price Index vs EuroStoxx 600 Index (Weekly graph or the perspective over the next 2 to 4 quarters)



The sequence on our long term oscillators (lower rectangle) is calling for a re-acceleration of the DAX100 Price Index vs Eurostoxx 600 until mid 2017 (Probable Case 5). The outperformance potential is between 3 to 5% (right hand scale). Our medium term sequence (upper rectangle) would confirm that this acceleration could start from end January/early February.

PIIGS cap weighted estimated portfolio vs DAX 100 Price Index (Daily graph or the perspective over the next 2 to 3 months)

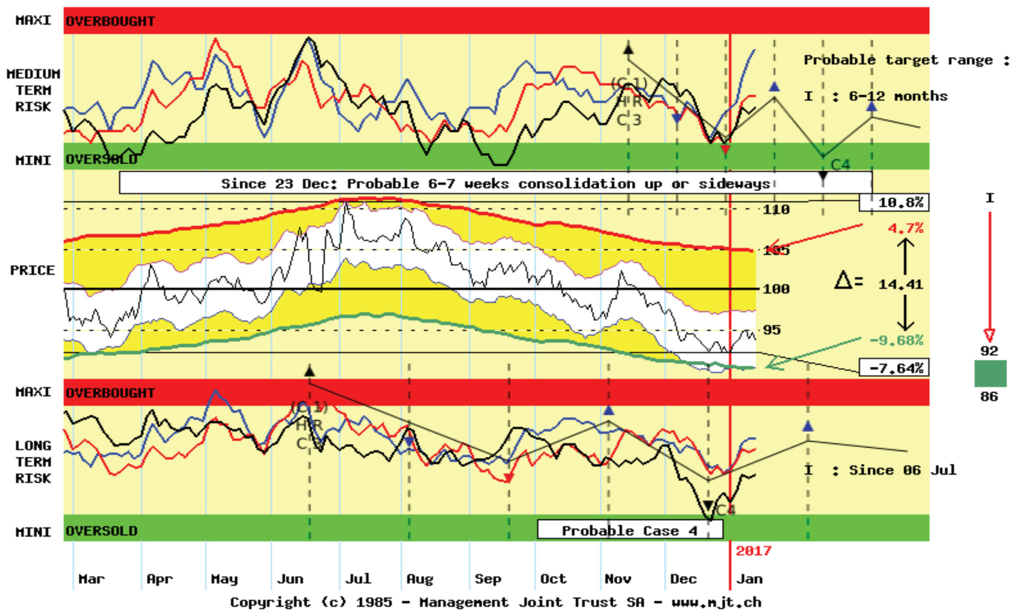


This weak uptrend for PIIGS vs Germany since August last year should top out towards end January as shown by both oscillator series (lower and upper rectangles). Our corrective targets up are pretty much done (1 to 3% outperformance left; right hand scale). Hence from February, the previous downtrend for PIIGS vs the DAX 100 Price Index is likely to resume.

Cross currency Defensive trades on both sides of the Atlantic

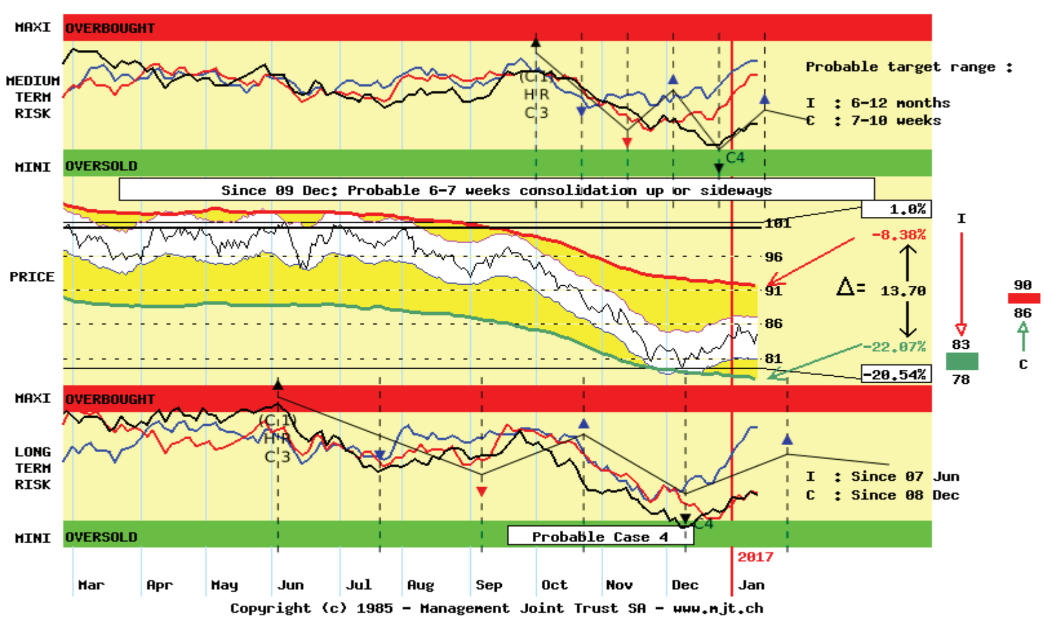
As detailed above, from February onwards, we expect the beginning of a risk-off period and a correction down in the US Dollar. Whether they are USD or European currencies based, investors may seize the opportunity to combine both trades. As detailed below, some of these may soon be ripe to consider.

XLV - Health Care Select Sector SPDR Fund vs Dow Jones STOXX (ccy hedged) (Daily graph or the perspective over the next 2 to 3 months)



Theoretically, given the H1 2017 scenario above, European investors could outperform by buying defensive trades in the US hedged for currency risk. We've compared the XLV US Healthcare ETF (currency hedged) with the Dow Jones European STOXX Index. Although our medium term oscillators (upper rectangle) cannot exclude one last sell-off, our long term oscillators sequence has confirmed a Case 4 intermediate bottom while price targets down have pretty much been reached (right hand scale).

HEALTHCARE - Dow Jones STOXX / SPY - SPDR S&P 500 (not ccy hedged) (Daily graph or the perspective over the next 2 to 3 months)



Invertedly, a US Investor may consider investing in European defensive stocks and retain the currency exposure. We've looked at the European Healthcare Index (SXDP), which is particularly skewed towards Switzerland and Northern Europe and compared it to the SPY S&P500 ETF. Both our oscillators series (lower and upper rectangles) have made important lows during December within their "I" Impulsive price targets down and have started to correct up.