

GIAM Macro & Market Research - Market Commentary

November 25, 2019

Q3 earnings season provides reassuring results.

- **Q3 earnings season is almost finished showing decent results which even improved since our last October's update.**
- **At the index level, around 80% of US companies have beaten analysts' expectations for earnings and sales.**
- **The earnings growth increased in Q3 vs Q2 both in Europe and in the EA.**
- **In the US, the earnings guidance improved and is above norm. The US capex increased in Q3 vs Q2 but capex intentions remain subdued at a cyclical low.**
- **After having being cut, Q4 expectations are not so exuberant anymore. That said, 2020 estimates remain too bullish (growth of 10% vs our estimate of 3-to-4%) with risks of further negative revisions going forward.**
- **The most export-oriented EM countries (Korean, Taiwan) show negative yearly earnings growth. Indian companies are turning around and have significantly beaten analysts' expectations.**

We confirm last month impression: Q3 results are decent after sharply reduced expectations.

Q3 earnings season is almost finished showing decent results which even improved since our last October's update. Ex-Energy & Materials, US yearly growth is in positive territory: at 2.4% and 3.6% for earnings and sales, respectively.

At the index level in the US, around 80% of companies have beaten analysts' expectations for earnings and sales. The earnings growth dropped vs Q3 (from +1.4% to -0.9%), while the sales growth remained positive and unchanged (+3.7%). Energy and Materials still suffer.

The earnings growth increased in Q3 vs Q2 both in Europe and in the EA (from -0.4% to -0.1% and from +0.2% to +1.5%). The sales growth slowed (from 2.2% to 1.1%) for Europe but remained at the same level of 0.9% in the EA.

Like in the US, ex-commodity sectors, growth increased vs Q2 both in Europe and the EA.

The median stock results for Q3 - yearly growth and surprise vs expectations in the US and Europe - are in positive territory and stable vs Q2. The beat ratio is above history for both indices.

In the US, the earnings guidance improved and is above norm. The US capex increased in Q3 vs Q2 but capex intentions remain subdued at a cyclical low.

After having being cut, Q4 expectations are not so exuberant anymore. That said, 2020 estimates remain too bullish with risks of further negative revisions going forward.

The most export-oriented EM countries (Korean, Taiwan) are still experiencing a negative yearly earnings growth. Indian companies, on the other hand, are turning around and have significantly beaten analysts' expectations.

Sector	S&P	Stoxx earnings growth, yoy: Q3 2019	Euro Stoxx	Topix	S&P	Stoxx sales growth, yoy: Q3 2019	Euro Stoxx	Topix
Energy	-37.6%	-26.4%	-26.1%	-49.6%	-8.1%	-12.5%	-9.2%	0.1%
Materials	-14.4%	-13.6%	-16.8%	-25.0%	-17.7%	-3.1%	-3.6%	-2.0%
Industrials	2.4%	11.2%	9.6%	-0.2%	-0.6%	4.7%	5.8%	0.9%
Cons. Discretionary	-1.6%	11.4%	12.0%	-4.3%	7.7%	7.7%	7.7%	1.0%
Consumer Staples	2.3%	24.8%	24.2%	-0.6%	3.6%	2.9%	2.3%	0.3%
Health Care	8.9%	8.5%	5.0%	17.2%	15.1%	7.7%	6.8%	12.6%
Financials	0.9%	2.1%	4.1%	-17.0%	3.5%	3.5%	4.9%	-1.7%
IT	-5.2%	2.7%	5.5%	-6.1%	1.5%	8.2%	8.7%	-0.2%
Comm. Services	4.7%	-15.7%	-23.0%	0.0%	9.3%	2.5%	4.2%	2.0%
Utilities	9.7%	23.9%	23.9%	109.6%	0.5%	-0.8%	-0.9%	-0.6%
Real Estate	6.7%	-10.9%	-	2.9%	5.1%	5.8%	5.9%	6.5%
Market	-0.9%	-0.1%	1.5%	-4.5%	3.7%	1.1%	3.3%	0.8%
Median (all sectors)	2.3%	2.7%	5.2%	-0.6%	3.5%	3.5%	4.9%	0.3%
Median, ex. Energy & Materials	2.4%	8.5%	7.5%	-0.2%	3.6%	4.7%	5.8%	0.9%

Sector	S&P	Stoxx earnings surprise: Q3 2019	Euro Stoxx	Topix	S&P	Stoxx sales surprise: Q3 2019	Euro Stoxx	Topix
Energy	0.7%	2.0%	-4.3%	-24.0%	-0.4%	2.1%	-1.9%	-12.6%
Materials	4.1%	-1.2%	-1.2%	-3.5%	-1.5%	-0.5%	-0.1%	-2.3%
Industrials	2.6%	8.9%	7.8%	-5.2%	-2.0%	2.0%	2.1%	-5.8%
Cons. Discretionary	5.5%	8.6%	10.8%	4.8%	2.0%	2.3%	2.5%	0.4%
Consumer Staples	5.3%	-1.6%	-2.2%	-4.4%	0.1%	-0.6%	-0.3%	-0.2%
Health Care	6.7%	7.0%	5.8%	18.0%	2.3%	2.7%	2.1%	4.3%
Financials	3.7%	-1.8%	-4.2%	12.6%	1.2%	0.6%	1.4%	-0.1%
IT	7.2%	7.9%	9.0%	-1.0%	1.4%	1.6%	1.7%	1.6%
Comm. Services	3.2%	3.6%	6.9%	-57.8%	0.1%	-0.7%	0.1%	0.6%
Utilities	4.4%	2.1%	2.3%	34.0%	-5.5%	-1.1%	-1.3%	-3.5%
Real Estate	2.0%	-18.9%	-	-5.8%	1.6%	-4.9%	-7.3%	-5.4%
Market	4.7%	3.2%	2.2%	-2.6%	0.4%	1.2%	0.9%	-1.8%
Median (all sectors)	4.1%	2.1%	4.0%	-3.5%	0.1%	0.6%	0.1%	-0.2%
Median, ex. Energy & Materials	4.4%	3.6%	6.3%	-1.0%	1.2%	0.6%	1.4%	-0.1%

Surprises have improved this quarter:

FIGURE 5

% of European companies beating quarterly sales and EPS estimates was above average in Q3

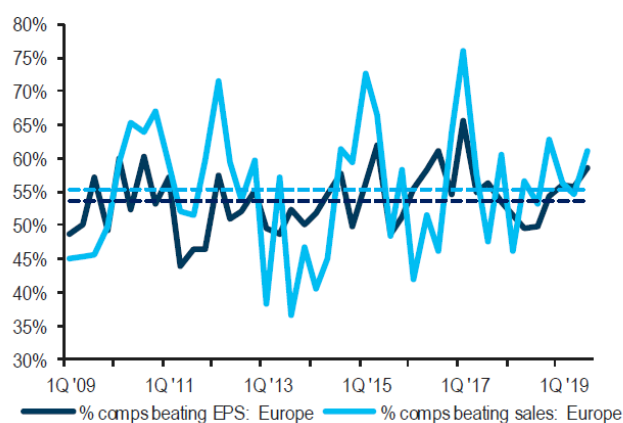
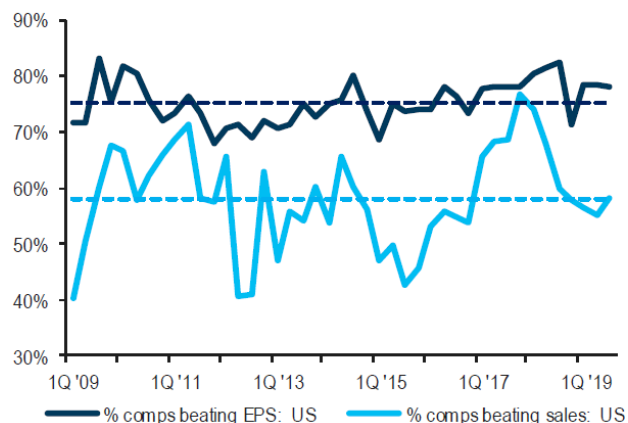


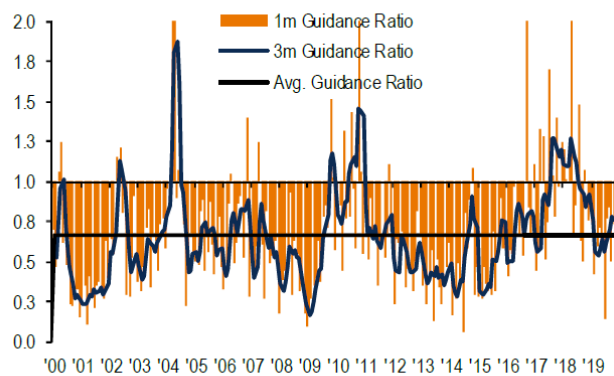
FIGURE 6

% of US companies beating quarterly sales and EPS estimates also improved in Q3



US guidance ratio is also above the historical average:

Chart 7: S&P 500 Management Guidance Ratio (# Above vs. Below Consensus) – 10/19



Source: BofA Merrill Lynch US Quantitative Strategy

Interestingly, the yearly capex growth of S&P 500 firms increased in Q3 to 3.6% vs 2% in Q2:

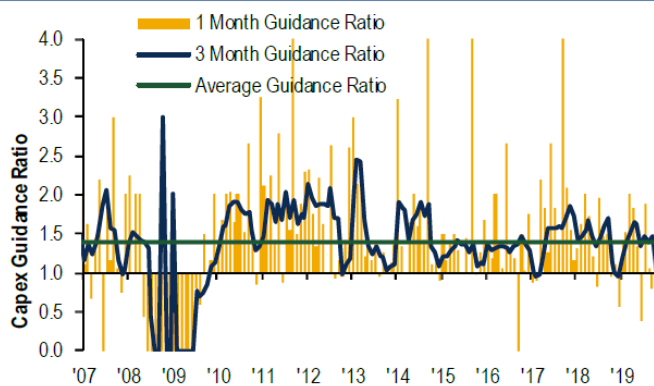
Table 3: S&P 500 aggregate 3Q capex by sector

	3Q19	2Q19	YoY
Consumer Discretionary	17,604	17,097	3.0%
Industrials	16,452	17,370	(5.3%)
Communication Services	27,506	26,018	5.7%
Information Technology	17,590	17,649	(0.3%)
Consumer Staples	6,250	6,098	2.5%
Financials	10,379	9,332	11.2%
Energy	25,582	23,911	7.0%
Real Estate	1,706	1,569	8.7%
Health Care	8,148	7,828	4.1%
Materials	5,962	6,259	(4.8%)
Utilities	19,841	18,501	7.2%
S&P 500	157,020	151,631	3.6%

Source: FactSet, BofA Merrill Lynch US Equity & Quant. Strategy

On the other side, above- vs. below-consensus capex guidance reached a cyclical low in Q3, with lower levels only seen in 2008-09.

Chart 8: S&P 500 capex guidance ratio (2007-10/19)



Source: FactSet, BofA Merrill Lynch US Equity & US Quant. Strategy

The median stock results are also good:

Analysis of the median stock: Q3 2019 reporting season

Median stock	Earnings Growth		Sales Growth		availability
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q3 2019
S&P	6.16 %	5.84 %	3.01 %	3.16 %	93.4%
Stoxx	3.35 %	3.20 %	4.42 %	5.18 %	91.8%
Euro Stoxx	3.37 %	2.64 %	4.05 %	5.53 %	93.0%
Topix	(4.09)%	3.48 %	1.68 %	2.54 %	95.9%

Median stock	Earnings Surpr		Sales Surpr		availability
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q3 2019
S&P	2.70 %	3.53 %	0.21 %	0.36 %	93.4%
Stoxx	2.25 %	2.32 %	0.53 %	0.57 %	91.8%
Euro Stoxx	3.96 %	2.56 %	0.69 %	0.80 %	93.0%
Topix	0.52 %	3.76 %	(0.71)%	0.00 %	95.9%

S&P

467 reported 466 reported

Sector	earnings growth, yoy		sales growth, yoy	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-4.8%	-37.6%	-2.1%	-8.1%
Materials	-8.2%	-14.4%	-20.0%	-17.7%
Industrials	2.0%	2.4%	1.4%	-0.6%
Consumer Discretionary	-4.6%	-1.6%	5.6%	7.7%
Consumer Staples	-1.4%	2.3%	1.7%	3.6%
Health Care	11.6%	8.9%	14.0%	15.1%
Financials	2.9%	0.9%	2.6%	3.5%
Information Technology	-7.1%	-5.2%	-0.7%	1.5%
Communication Services	8.8%	4.7%	13.1%	9.3%
Utilities	3.5%	9.7%	0.0%	0.5%
Real Estate	4.6%	6.7%	4.2%	5.1%
S&P	1.4%	-0.9%	3.7%	3.7%
Median (all sectors)	2.0%	2.3%	1.7%	3.5%
Median, ex. Energy & Materials	2.9%	2.4%	2.6%	3.6%

S&P

467 reported 466 reported

Sector	earnings surprise %		sales surprise %	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	10.2%	0.7%	0.3%	-0.4%
Materials	2.4%	4.1%	-2.0%	-1.5%
Industrials	5.2%	2.6%	-0.7%	-2.0%
Consumer Discretionary	2.3%	5.5%	2.1%	2.0%
Consumer Staples	3.6%	5.3%	0.0%	0.1%
Health Care	6.7%	6.7%	1.6%	2.3%
Financials	3.8%	3.7%	0.7%	1.2%
Information Technology	6.9%	7.2%	1.1%	1.4%
Communication Services	2.0%	3.2%	-0.1%	0.1%
Utilities	3.1%	4.4%	-3.0%	-5.5%
Real Estate	2.1%	2.0%	0.7%	1.6%
S&P	4.8%	4.7%	0.5%	0.4%
Median (all sectors)	3.6%	4.1%	0.3%	0.1%
Median, ex. Energy & Materials	3.6%	4.4%	0.7%	1.2%

Number of firms beating estimates is also satisfactory: 82% in the US (lower in Europe at 52%).

Higher US positive earnings preannouncements vs Q2:

Exhibit 9. Earnings Pre-Announcements

Type	4Q2019 Total #	4Q2019 Total %	4Q2018 Total #	4Q2018 Total %	3Q2019 Total #	3Q2019 Total %
Positive	28	29.2%	34	35.4%	22	24.7%
In-Line	8	8.3%	9	9.4%	8	9.0%
Negative	60	62.5%	53	55.2%	59	66.3%
Total	96		96		89	
N/P Ratio	2.1		1.6		2.7	

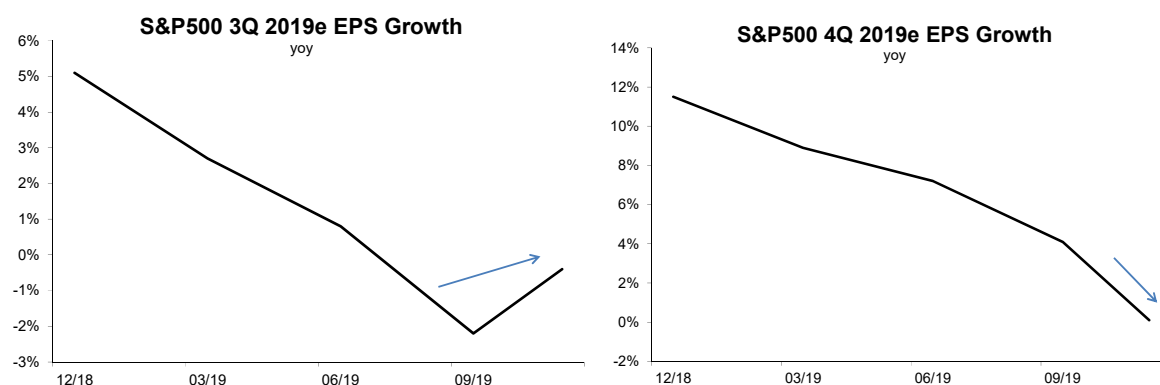
Source: I/B/E/S data from Refinitiv

Huge profit estimate reduction in the last months helped companies to beat analysts' expectations:

Exhibit 15. Blended (Reported & Estimated) Quarterly Earnings Growth for 2019Q3

Sector	Today	1 Oct	1 Jul	1 Apr	1 Jan	1 Oct
Consumer Discretionary	1.5%	1.5%	6.8%	9.8%	9.9%	18.8%
Consumer Staples	3.5%	-0.6%	1.6%	2.8%	4.4%	7.7%
Energy	-37.8%	-29.8%	-13.6%	-15.5%	-3.8%	23.2%
Financials	2.3%	4.1%	6.8%	7.6%	9.2%	12.2%
Health Care	9.5%	2.4%	3.3%	4.7%	5.9%	10.0%
Industrials	3.5%	1.3%	6.0%	10.6%	11.2%	13.2%
Materials	-11.0%	-9.9%	-12.0%	-0.2%	3.0%	7.4%
Real Estate	5.6%	3.2%	3.4%	4.0%	4.8%	7.5%
Technology	-2.1%	-7.5%	-6.4%	-3.5%	1.0%	9.9%
Communication Services	-1.5%	-0.6%	1.0%	1.3%	1.9%	13.3%
Utilities	6.7%	2.2%	3.7%	3.9%	2.9%	6.5%
S&P 500	-0.4%	-2.2%	0.8%	2.7%	5.1%	12.1%

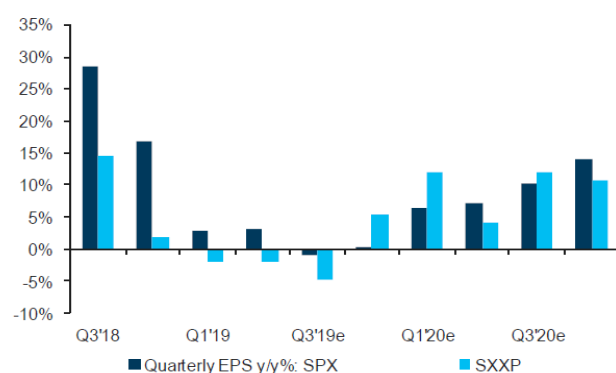
Source: I/B/E/S data from Refinitiv



Q4 expectations have been cut and they do not seem too aggressive anymore. But from Q1 2020 on analysts remain too optimistic. We expect 2020 estimates to be further cut in the next months.

FIGURE 20

Earnings expectations for Q4 do not look demanding, but the bar for Q1'20 and Q2'20 is higher



Source: Refinitiv, Barclays Research

28/10/19 - 21/11/19					
Consensus eps estimates: (IBES)	changes (%) since 28/10/19				
	2018	12m fwd eps	2019	2020	2021
MSCI AC WORLD	-0.1%	0.0%	-0.6%	-0.8%	-0.6%
MSCI WORLD	-0.2%	-0.1%	-0.6%	-0.9%	-0.7%
S&P 500 COMPOSITE	0.0%	0.2%	-0.1%	-0.6%	-0.5%
FTSE-100 INDEX	0.4%	0.4%	0.4%	-0.1%	0.0%
TOPIX Index	0.0%	-0.3%	-1.5%	-0.6%	-0.1%
SWISS MARKET INDEX	0.2%	1.3%	0.3%	0.5%	0.8%
MSCI EUROPE	-0.6%	-0.6%	-1.2%	-1.3%	-1.0%
MSCI EMU	0.0%	-0.2%	-1.1%	-1.0%	-0.7%
STOXX 50 (EURO)	0.4%	0.5%	-0.2%	-0.2%	0.2%
EURO STOXX 50 E	0.1%	0.1%	-0.7%	-0.8%	-0.4%
MSCI USA IT	-0.2%	1.0%	0.3%	-0.1%	-0.1%
MSCI EM	0.3%	1.0%	-0.6%	0.0%	0.0%

Notwithstanding the earnings reductions so far, earnings growth estimates for 2020 and 2021 remain sanguine and are at risk.

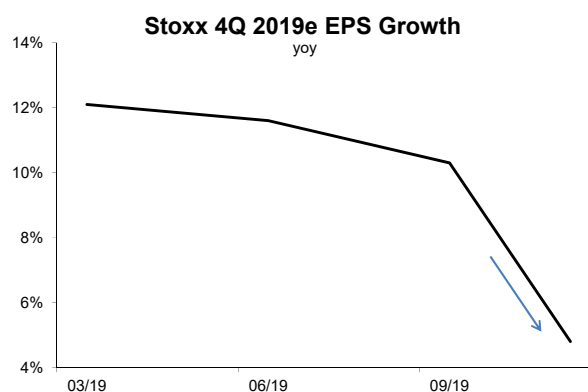
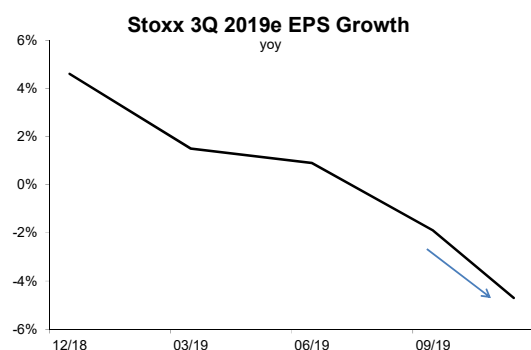
World Markets: Forecast Earnings Growth (IBES Consensus) 21-Nov-2019				
	A12FE vs 2018	2019/2018	2020/2019	2021/2020
MSCI AC WORLD	9.3%	0.2%	9.8%	10.1%
MSCI WORLD	8.7%	0.2%	9.0%	9.6%
S&P 500 COMPOSITE	10.3%	1.2%	9.2%	10.8%
FTSE-100 INDEX	2.9%	-3.2%	7.1%	6.1%
TOPIX Index	6.2%	0.9%	7.3%	8.3%
SWISS MARKET INDEX	16.1%	6.7%	9.7%	8.3%
MSCI EUROPE	8.1%	-0.7%	9.6%	7.8%
MSCI EMU	8.5%	-1.3%	10.8%	8.5%
STOXX 50 (EURO)	9.0%	0.7%	9.0%	7.7%
EURO STOXX 50 E	11.3%	1.1%	10.8%	7.9%
MSCI USA IT	10.9%	1.1%	7.9%	14.3%
MSCI EM	13.5%	0.5%	14.6%	12.9%

EU results are decent, too, but only when energy and materials are excluded.

Stoxx 600		411 reported	412 reported		
Sector	earnings growth, yoy		sales growth, yoy		
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	
Energy	-14.7%	-26.4%	-2.5%	-12.5%	
Materials	-21.3%	-13.6%	-1.7%	-3.1%	
Industrials	14.7%	11.2%	6.1%	4.7%	
Consumer Discretionary	-13.6%	11.4%	4.9%	7.7%	
Consumer Staples	6.3%	24.8%	-1.8%	2.9%	
Health Care	6.8%	8.5%	5.9%	7.7%	
Financials	2.4%	2.1%	3.0%	3.5%	
Information Technology	4.5%	2.7%	9.2%	8.2%	
Communication Services	-8.3%	-15.7%	2.0%	2.5%	
Utilities	23.6%	23.9%	0.2%	-0.8%	
Real Estate	25.4%	-10.9%	18.4%	5.8%	
Stoxx 600	-0.4%	-0.1%	2.2%	1.1%	
Median (all sectors)	4.5%	2.7%	3.0%	3.5%	
Median, ex. Energy & Materials	6.3%	8.5%	4.9%	4.7%	
Median, ex. Fin.	5.4%	5.6%	3.5%	3.8%	

Stoxx 600

Sector	earnings surprise		sales surprise	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-8.3%	2.0%	3.9%	2.1%
Materials	-0.5%	-1.2%	-1.0%	-0.5%
Industrials	1.4%	8.9%	0.1%	2.0%
Consumer Discretionary	3.3%	8.6%	1.2%	2.3%
Consumer Staples	5.2%	-1.6%	-2.5%	-0.6%
Health Care	7.5%	7.0%	1.4%	2.7%
Financials	8.0%	-1.8%	2.0%	0.6%
Information Technology	6.0%	7.9%	2.5%	1.6%
Communication Services	3.7%	3.6%	0.6%	-0.7%
Utilities	8.4%	2.1%	-3.3%	-1.1%
Real Estate	16.7%	-18.9%	-1.3%	-4.9%
Stoxx 600	3.7%	3.2%	0.8%	1.2%
Median (all sectors)	5.2%	2.1%	0.6%	0.6%
Median, ex. Energy & Materials	6.0%	3.6%	0.6%	0.6%
Median, ex. Fin.	4.4%	2.9%	0.4%	0.5%



EURO STOXX

265 reported 265 reported

Sector	earnings growth, yoy		sales growth, yoy	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-7.0%	-26.1%	2.1%	-9.2%
Materials	-23.3%	-16.8%	-1.2%	-3.6%
Industrials	12.5%	9.6%	7.0%	5.8%
Consumer Discretionary	-16.0%	12.0%	4.8%	7.7%
Consumer Staples	5.6%	24.2%	-4.0%	2.3%
Health Care	12.3%	5.0%	9.0%	6.8%
Financials	3.3%	4.1%	2.1%	4.9%
Information Technology	4.0%	5.5%	9.3%	8.7%
Communication Services	-9.0%	-23.0%	3.7%	4.2%
Utilities	23.6%	23.9%	0.4%	-0.9%
Real Estate	13.8%	-	19.4%	5.9%
Total	0.2%	1.5%	3.1%	3.3%
Median (all sectors)	4.0%	5.2%	3.7%	4.9%
Median, ex. Energy & Materials	5.6%	7.5%	4.8%	5.8%
Median, ex. Fin.	4.8%	5.5%	4.3%	5.0%

EURO STOXX

Sector	earnings surprise		sales surprise	
	Q2 2019	Q3 2019	Q2 2019	Q3 2019
Energy	-2.4%	-4.3%	7.9%	-1.9%
Materials	1.0%	-1.2%	-0.2%	-0.1%
Industrials	-3.5%	7.8%	0.8%	2.1%
Consumer Discretionary	5.2%	10.8%	1.5%	2.5%
Consumer Staples	6.5%	-2.2%	-3.3%	-0.3%
Health Care	3.4%	5.8%	0.6%	2.1%
Financials	10.9%	-4.2%	2.3%	1.4%
Information Technology	7.5%	9.0%	2.6%	1.7%
Communication Services	12.5%	6.9%	0.5%	0.1%
Utilities	6.5%	2.3%	-3.2%	-1.3%
Real Estate	13.8%	-	-2.0%	-7.3%
Total	5.4%	2.2%	0.9%	0.9%
Median (all sectors)	6.45%	4.04%	0.63%	0.07%
Median, ex. Energy & Materials	6.5%	6.3%	0.6%	1.4%
Median, ex. Fin.	5.8%	5.8%	0.5%	0.0%

In sum, Q3 earnings results and guidance look decent vs sharply reduced expectations and improved since late October. Margins are weaker and 2020 profit expectations remain optimistic. That said, dovish Central Banks and early signs of an economic trough are to compensate for earnings risk. We remain positive on equities but have reduced the overweight after the recent rally.



Across EMs, the reporting season is finished for selective markets (India, Brazil, China) or has advanced to cover around 90% of the results.

The **Indian market** has experienced a turn-around.

Earnings growth at the index level has **increased** from -7% in the previous quarter to 33.5% in the current one. This was **largely caused by Financials and Communication Services** (increasing between quarters from 22.8% to 114.8% and from +47.1% to 663.5%, respectively). The sales growth has, however, slightly decreased from 8.8% to a modest 4%. The only sector with the negative earnings growth is Energy. Health care and Finance have shown the strongest results in terms of sales growth (around 18%), while Consumer Discretionary has shown the lowest sales growth (-8.2%). About 70% of the companies from the Nifty index have either met or exceeded analyst expectations. **Energy** is the only sector that has **disappointed**. Overall, the reporting season has **beaten the analysts' expectations on the earnings side by around 7.6%** (as compares to the average of 1.8% over the last 9 available quarters). Sales expectations have been beaten as well (sales surprise of 5.4%) but they have stayed behind the average beat of 7.5% over the last 9 quarters. The analysis of the median stock shows that **earnings growth has significantly increased (from 10% to 33.6% in the current quarter) while sales' growth has almost halved (from 11.2% to 6.2%)**.

The **Brazilian companies** at the index level have shown both decreasing earnings growth (from 3.8% to 3.0%) and sales growth, which has become appreciably negative (from -0.7% in the previous quarter to -4.6%). Most of the sectors **have disappointed** (with the exception of Energy, Consumer Discretionary, Utilities and Real Estate). Both earnings and sales surprise are negative (-10% and -5%, respectively).

The earnings growth of the Chinese A-shares has stayed **at the same solid level** (around 16%) but the sales growth has **significantly increased** (from 2.8% to 17.2%). Still, only about 40% of the Chinese companies have either met or exceeded analysts' expectations.

The most export-oriented Korea and Taiwan still show negative earnings growth (slightly improved) and practically no sales growth.

Analysis of the median stock

Index	Earnings Growth		Sales Growth		completion
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q3 2019
India	10.03 %	33.58 %	11.21 %	6.16 %	100%
Brazil	14.73 %	3.98 %	8.67 %	6.37 %	100%
Shanghai	2.65 %	3.04 %	5.43 %	6.26 %	100%
Kospi	(8.25)%	(4.20)%	3.17 %	2.16 %	98%
Taiwan	(5.98)%	(2.08)%	1.80 %	0.29 %	86%

Index	Earnings Surpr		Sales Surpr		completion
	Q2 2019	Q3 2019	Q2 2019	Q3 2019	Q3 2019
India	1.12 %	6.77 %	(0.15)%	0.42 %	100%
Brazil	(3.66)%	(8.66)%	0.09 %	(0.08)%	100%
Shanghai	(3.08)%	(9.53)%	(0.31)%	(1.47)%	100%
Kospi	(2.38)%	2.27 %	0.38 %	(0.60)%	98%
Taiwan	1.64 %	2.34 %	0.15 %	(0.66)%	86%

* For India, the financial year ends in March

Authors:

Michele Morganti

michele.morganti@generali-invest.com

Vladimir Oleinikov

vladimir.oleinikov@generali-invest.com

www.generali-invest.com

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