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Strategy
Western Europe

European Portfolio Strategist

Goldilocks Intact: Buy Pull-back, Buy Earnings Mo

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- **Goldilocks in a strait-jacket** — This is how we've described the post-2009 economic landscape. Extraordinary levels of global debt have been met by an extraordinary liquidity response from global central banks (the strait-jacket). Dangerous downside risks have been, so far, successfully intercepted. This has delivered a world of *low-to-modest* global nominal GDP growth (Goldilocks) and a positive environment for risk assets, including equity markets.

- **Goldilocks challenged** — Recent market moves, even if exaggerated by hedge funds, have challenged both our bullish view on equities and this Goldilocks view of the world. Our "Be Brave" report last week highlighted market concern about both growth and deflation fears. In particular, investors have been concerned about the ability and willingness of the ECB to step up to provide the region's liquidity/nominal GDP put with economic activity weakening and CPI under-shooting.

- **Goldilocks intact; growth improving** — Markets, forecasters and even the ECB itself (Draghi) cast doubt on the current path of Euro Area CPI relative to ECB target and, importantly, mandate. This firms our economists' base case for full QE, ie public & private asset purchases, around year-end. ECB liquidity support joins a weaker Euro, modest fiscal easing & improving banking/credit dynamics as why EA nominal GDP should remain on a *modestly* improving path over the next 1-2 years.

- **European earnings improving** — The year-on-year growth rate for 12m forward earnings had turned positive for the first time since 2011 (Figure 4). Given the relationship between PMIs and earnings, need the US PMI heading back towards 50 or the Euro Area PMI heading towards 45 to see improvement end. Both unlikely, in our view. The current reporting season shows c60% beats on earnings/sales = also encouraging. Need macro/growth shock to stop *modest* earnings' improvement.

- **Opportunity = focus on delivery** — We see market pull-back as re-load opportunity as outlined last week. We see underperformance of Cyclicals vs Defensives as opportunity to buy European Financials as outlined the week before that. We suggested in June that investors focus on 'delivery' strategies in a "valueless world", eg DY*G, surplus FCF, earnings momentum. The following look attractive based on positive relative earnings trends and also look cheap on various valuation metrics: peripheral markets, Financial sectors, Construction, Basic Resources, Unicredit, BT, HSBC, CRH, Experian, Glencore, AP Moller-Maersk.

Goldilocks Intact: Buy Earnings Momentum

"Goldilocks in a strait-jacket" is how we have described the post-2009 economic landscape. Extraordinary levels of global debt have been met by an extraordinary liquidity response from global central banks. Dangerous downside risks have been, so far, successfully intercepted. This has delivered a world of low-to-modest global nominal GDP growth, with central banks providing effective nominal GDP puts in each major country/region. Risk assets have been well supported.

Goldilocks = low-to-modest growth. The strait-jacket = debt & liquidity; debt, and the need for de-leveraging, as the growth ceiling, with liquidity as the floor. This Goldilocks environment is the foundation of our continuing bullish stance.

Recent market moves, even if exaggerated by hedge fund flows, have challenged both our bullish view on European equities and this Goldilocks view of the world. In particular, investors have been concerned about the ability and willingness of the ECB to step up to provide the region's liquidity/nominal GDP put with weakening economic activity and under-shooting CPI.

With the market (inflation swaps), professional forecasters (SPF) and the ECB itself (Draghi) casting doubt on the current path of inflation relative to ECB CPI targets, our economists continue to back increasing efforts by the ECB. Citi's base case remains full QE, ie public and private asset purchases, around year-end.

In terms of our equity view, this expected ECB action is akin to the region's liquidity/nominal GDP put remaining in place. In turn, this should also provide a put under corporate earnings, which while not strong are on an improving trend.

This note argues that: 1) the recent sell-off presents a buying opportunity to investors, 2) investors should not be too quick to kill growth hopes, but that 3) in a world of higher valuation investors should also skew more towards 'delivery' strategies, eg earnings momentum, DY*G, surplus FCF.

We have written about all of these strategies in recent weeks/months; here, we focus on what parts of Europe look attractive backed by positive earnings momentum. Both Financials and peripheral markets offer investors the combination of attractive valuation and positive relative earnings momentum. With both groups, likely to also find support from ongoing ECB actions, we think investors should look at both more closely following the sell-off.

Sell-off: de-rating, Goldilocks questioned

Various risk factors combined over recent weeks to drive a sharp sell-off in risk assets and the return of volatility more broadly. It appears that hedge fund actions may have exaggerated some moves, but financial markets have generally responded to (lower) growth concerns and rising deflationary risks, especially in the Euro Area.

We addressed the sell-off in equities in our global note, "Be Brave", last week. Our key conclusions were that: 1) global equities had quickly moved to price in 0% earnings growth in the coming 12-months, and 2) deflation risks were being priced more broadly with the 8 largest equity markets in the world running with a higher DY than local 10-year government bond yield. We think that both fears are overdone, hence buying opportunity.

Within the sell-off, European equities have been hit especially hard. Since global equities peaked on 3rd September, Italy had been the worst performer (until last week's note), followed by France and Germany. Europe ex-UK was the worst-

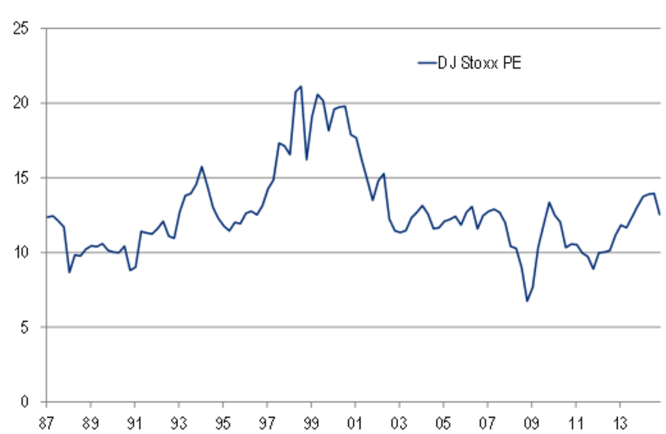
performing region in the sell-off and the UK was another market in the worst five performers during the recent sell-off, meaning few places to hide for equity investors across Europe.

So, what has the sell-off done in terms of valuation and is our "Goldilocks in a strait-jacket" assessment under pressure from a growth perspective?

De-rating: equities cheaper, but not cheap

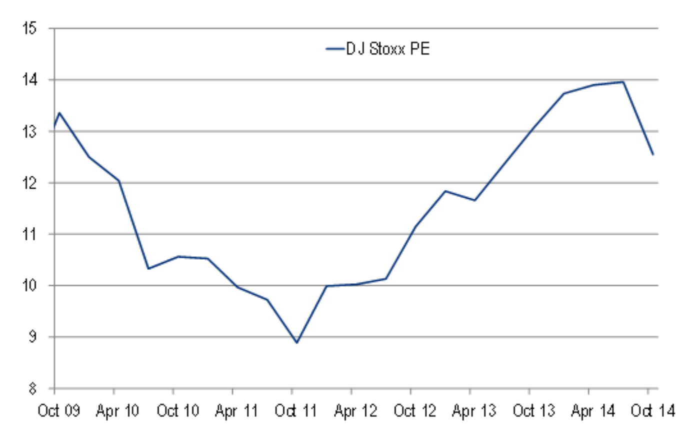
European equities have been sharply de-rated in the past few weeks, from c14x on a 12-month forward P/E basis to c12.5x, back to mid-2013 levels. The post-1987 average is 12.8.

Figure 1. 12M Forward PE (Long-Term)



Source: Citi Research, Datastream

Figure 2. 12M Forward PE (Last 5 Years)



Source: Citi Research, Datastream

This de-rating has left European equities looking cheaper, but not cheap as they were in 2008-09 (7x) or 2011 (9x). Therefore, to buy equities, even at these cheaper levels, investors need to believe that there will be support from earnings growth over the coming 1-2 years.

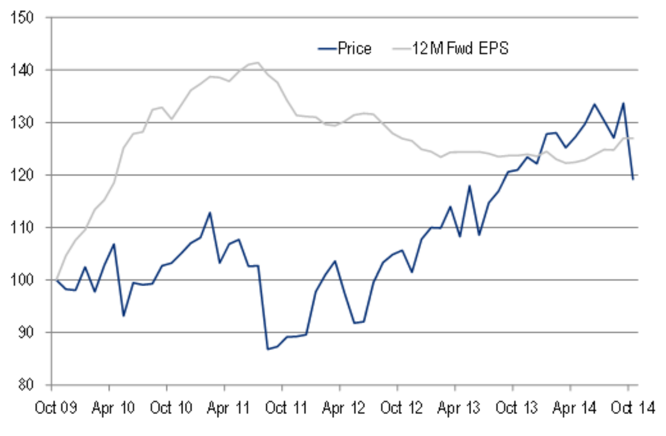
Earnings growth: improving or not?

European equities have been de-rated in recent weeks. Figure 3 shows that prices have fallen sharply, but also that earnings expectations, using 12-month forward earnings, have not.

This chart shows that the strong performance of European equities since 2H11 was about (share) prices moving to price out a big double-dip in European earnings. The gap between 12-month forward earnings and prices in mid-2011 was over 40%, ie a 40%+ fall in earnings would have re-aligned prices and earnings in Figure 3. This year, prices have continued to outpace earnings, which had driven the progressive re-rating, which recently ended.

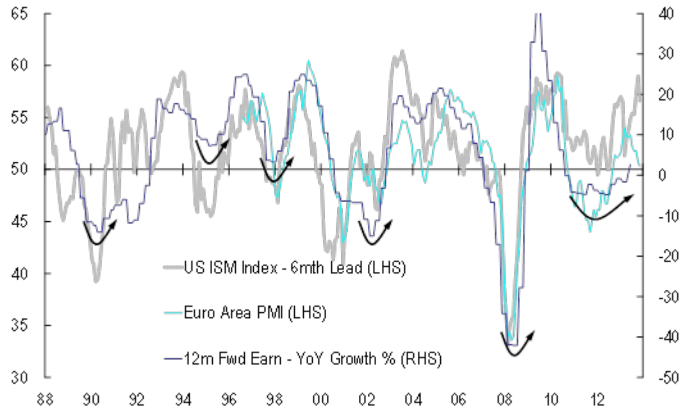
From here, we still think that the key to future price gains is earnings gains. And if there are earnings gains, on the back of improving regional economic growth and low-to-modest global (nominal) GDP growth, then there is also an additional upside re-rating risk. We now turn to growth. Markets have in recent weeks questioned the growth environment. What changes, if any, can we observe in the data?

Figure 3. 5 Year European Price vs Earnings



Source: Citi Research, Datastream

Figure 4. 12M Forward Earnings Growth & US and Euro PMI



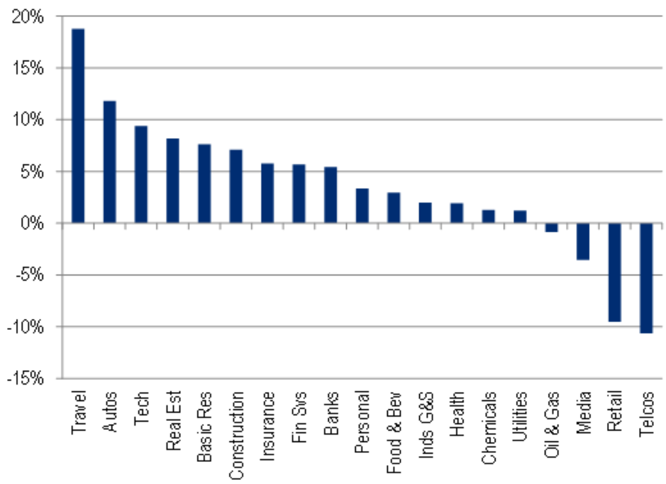
Source: Citi Research, Datastream

Figure 4 updates European earnings growth, using year-on-year growth of 12-month forward earnings, versus Euro Area and US PMIs. We use both PMIs given the international exposure of European companies and their earnings. There has been a reasonable relationship over the past 25+ years between lead economic indicators, with a 6-month lead, and European earnings.

It is clear from this that European earnings are improving. On this basis, European earnings have moved into positive year-on-year growth for the first time in the last few years. There is a positive inflection in growth, but it is modest. Although it is early days in the current results season, Bloomberg data shows that c60% of the c100 companies which have reported have beaten expectations on sales/earnings. Should this trend continue through the rest of the reporting season then this will be one of the best for some time; further evidence of modest improvement.

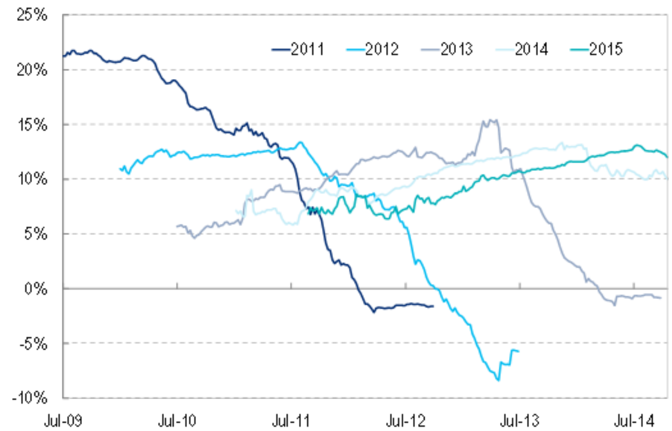
Current PMIs suggest different paths for European earnings, but taken together would be supportive of a further improvement in European earnings over the next few quarters. Therefore, to kill the European earnings story, it suggests that either the US PMI needs to head towards the 50 level, ie join the Euro Area PMI, or the Euro Area PMI needs to head back towards the 45 level, ie triple dip for the Euro Area economy. Our economists think that both outcomes are unlikely.

Figure 5. European Sectors 12M Forward Earnings Chg Since Dec-13



Source: Citi Research, Datastream

Figure 6. Europe EPS Growth Expectations



Source: Citi Research, MSCI, Factset

Figure 5 shows how 12-month forward earnings have changed since end-2013 at a sector level. Remember, 12-month forward earnings consider both net up/downgrades and forward growth estimates. So, a sector can have improving 12-month forward earnings and be experiencing net downgrades at the same time, providing that the growth is a bigger influence than the downgrades.

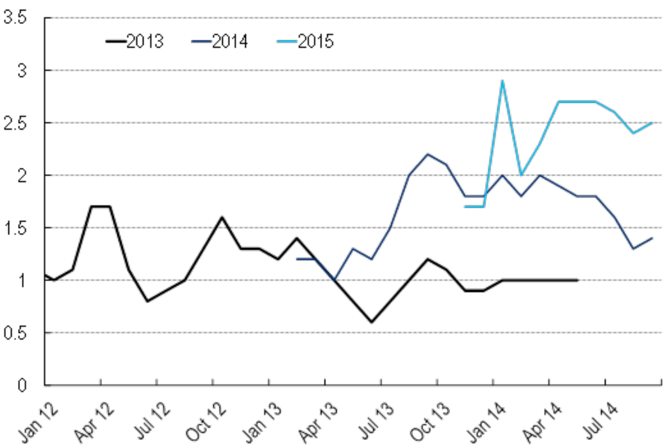
Only 4 sectors in Europe have seen a fall in 12-month forward earnings since end-2013: Oil & Gas, Media, Retail and Telecoms. All other sectors have seen rising 12-month forward earnings. This is further evidence of the broadening of a modest improvement in earnings from European companies. For this to reverse, it would likely need to see a significant negative re-assessment of regional and/or global economic growth prospects.

Figure 6 shows market consensus bottom-up European earnings growth estimates, 2011-15E. Big downgrades in 2013 eased in 1H14. Earnings estimates have been relatively stable, even if analysts have still been net downgraders, in the last few months. To be bearish on European equities following the recent sell-off, investors would need to back a sharp fall in these earnings estimates. We think that is only possible if there is a further sharp fall in economic growth, which itself is a challenge to the post-financial crisis central bank liquidity put. Not impossible, but again not our base case.

Economic growth: liquidity put or not?

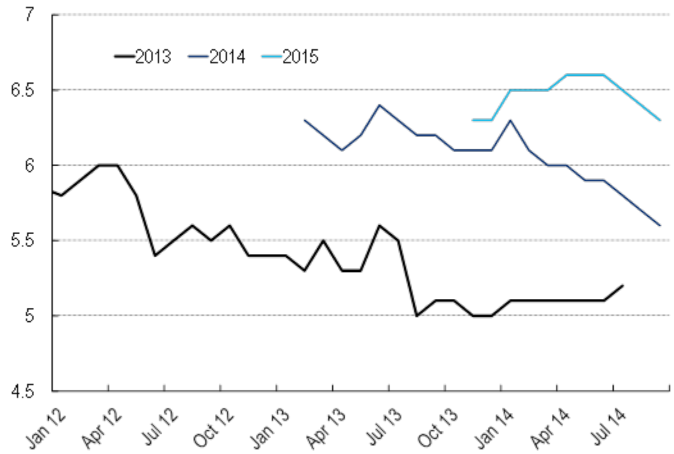
So, according to current earnings forecasts, it appears that European earnings are on an improving trend. A sharp deterioration in economic growth would change that, which is why recent data in Europe asks a big question of our bullish stance on European equities. It is also why we think that our view relies heavily on more aggressive liquidity actions from the ECB.

Figure 7. Euro Area Nominal GDP Forecasts



Source: Citi Research

Figure 8. Global Nominal GDP Forecasts

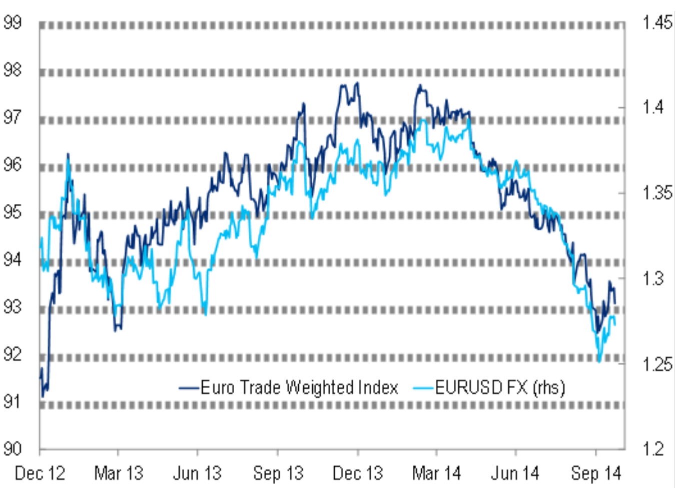


Source: Citi Research

Figure 7 and Figure 8 show Citi economists' Euro Area and global nominal GDP growth forecasts 2013-15E. The growth backdrop environment in the Euro Area remains weak. Nominal GDP growth in 2013 was around 1%, with a negative contribution from real GDP growth. Nominal GDP growth this year is expected to be modestly higher, with a further gain expected in 2015E. Globally, nominal GDP growth was just over 5% in 2013. Despite a steady fall in expected growth, with under-shoots from both real growth and from CPI, nominal GDP growth is still expected to be above 5.5% this year, rising to between 6-6.5% in 2015E.

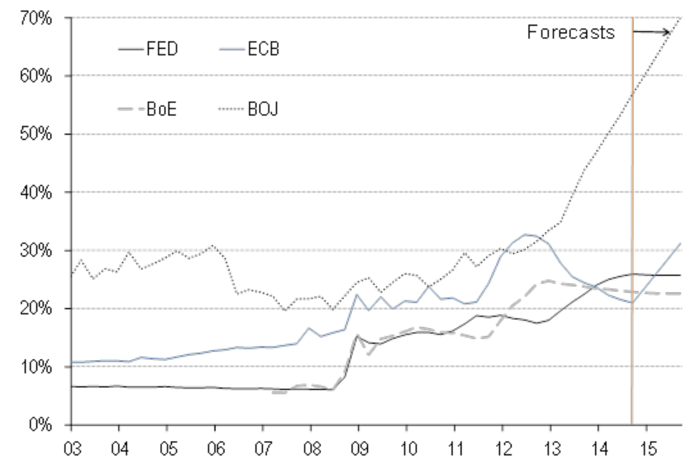
There are still downside risks to both European and global growth forecasts, but we would be surprised if the "slope of improvement" changes as we go through the next 12-18 months, ie we expect nominal GDP to remain on an improving trend.

Figure 9. Trade Weighted Euro & EURUSD



Source: Citi Research, Datastream

Figure 10. Central Bank Assets (% Of GDP)



Source: Citi Research, Haver

It is hard to be bearish on corporate earnings based on this economic outlook. So, to be bearish, we need to undermine support for economic growth. In Europe, the key economic risks remain skewed to the Euro Area rather than the UK.

To be bearish on the modest nominal GDP growth improvement our economists have as their baseline in the Euro Area, we would need to overturn the support from: 1) fiscal headwinds in 2014E turning to modest fiscal tailwinds in 2015E, with a net 1% move from +0.5%/GDP to -0.5%/GDP expected, 2) support from weaker Euro, with Citi targeting 1.15 vs USD in coming quarters, 3) ECB taking its balance sheet back towards 2012 levels, also boosting confidence through its commitment to providing such liquidity support, and 4) improving dynamics in European banking, eg lending standards easing, credit demand rising; both as shown in the ECB bank lending survey. In short, the growth environment in the Euro Area is not strong and sentiment is fragile, but it is hard to argue for a growth melt-down unless the ECB is unable or unwilling to use additional tools in the coming months and quarters.

Our view continues to back incremental liquidity support from the ECB and implicitly ongoing support for our "Goldilocks in a strait-jacket" assessment of the regional and global economy.

Looking for delivery/earnings momentum

There are always two key questions that equity investors have to answer: 1) to buy or not to buy, 2) what to buy. We think the answer to the first question is that investors should re-load into the recent pull-back unless their growth view is significantly different to the one we have outlined previously.

We now try to deal with the second question – what to buy. We concluded in June that it was becoming increasingly difficult for investors to find value in what we called a "valueless world".

Following the re-rating of equities and of value within equities over the last couple of years, we suggested that investors should focus on various 'delivery' strategies for the next 12-18 months, ie which companies were going to deliver on sales, earnings, dividends and cashflow.

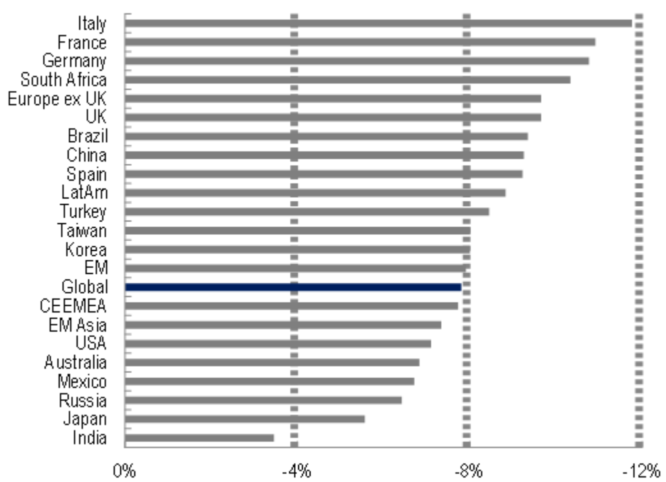
There are various ways of trying to capture such strategies and we have written in recent weeks/months on DY*G and surplus FCF as two examples of such delivery strategies, trying to find those companies where we would back the delivery of dividends (growth) and FCF respectively.

Here, we focus on earnings momentum as another delivery strategy. In an environment of low earnings growth and significant earnings uncertainty, which European countries and sectors have positive earnings momentum relative to the market? What would current earnings momentum trends suggest that investors do following the recent market sell-off and into the final months of 2014 in the face of significant newsflow from the banking sector, eg ECB comprehensive assessment this weekend, and from the ECB, eg additional liquidity measures?

Country strategy – looking for earnings momentum

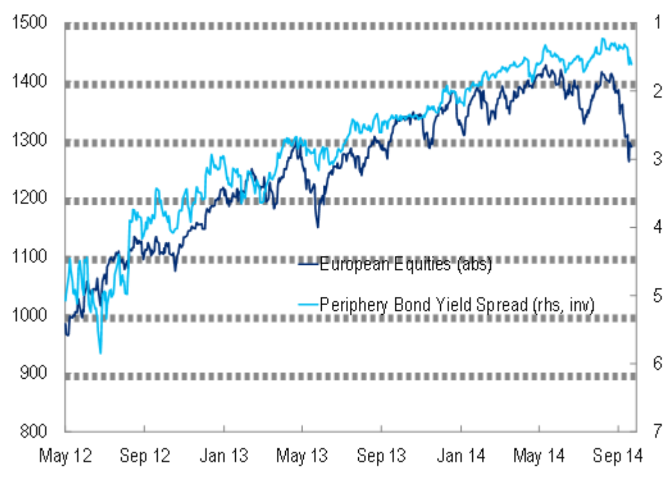
European equities were hit hardest in the recent sell-off, as we showed last week (Figure 11). There was also a significant break in the relationship between European peripheral bond spreads (tighter) and European equities (higher) in the last few weeks (Figure 12). Equities sold off heavily while bond spreads were little changed, similar to the experience of mid-2013, which was another significant buying opportunity in European equities.

Figure 11. Regional/Country Performance*



Source: Citi Research *Price Change between 3rd September and 15th October

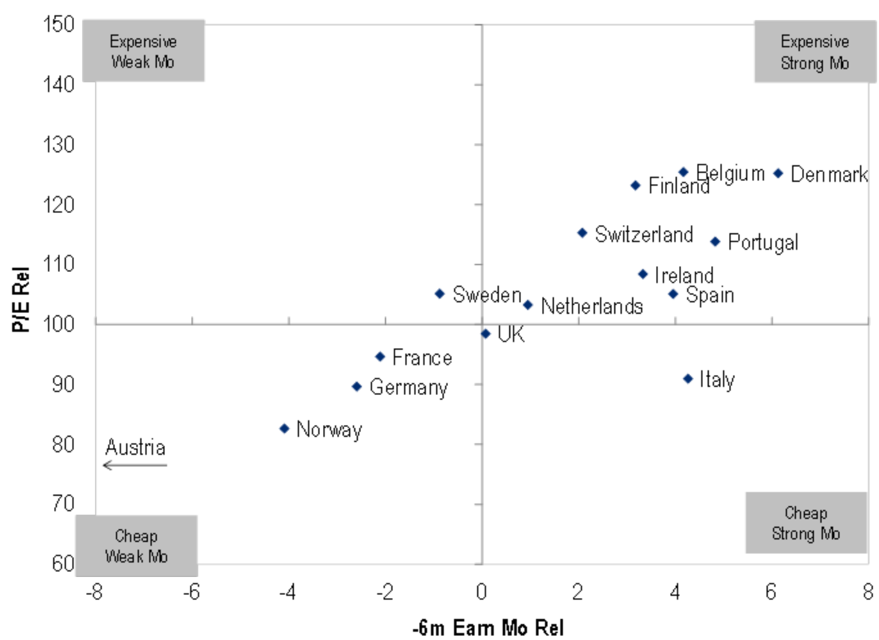
Figure 12. European Equities And Periphery Bond Yield Spreads



Source: Citi Research, Datastream

So, if the recent sell-off is another re-load opportunity for investors, which countries look attractive on the basis of earnings momentum trends. We also compare earnings trends to valuation to see which countries look most attractive on both. We use P/E relative, price/book relative and normalized P/Es as our valuation metrics.

Figure 13. Country 6M Earnings Mo Rel and PE Rel

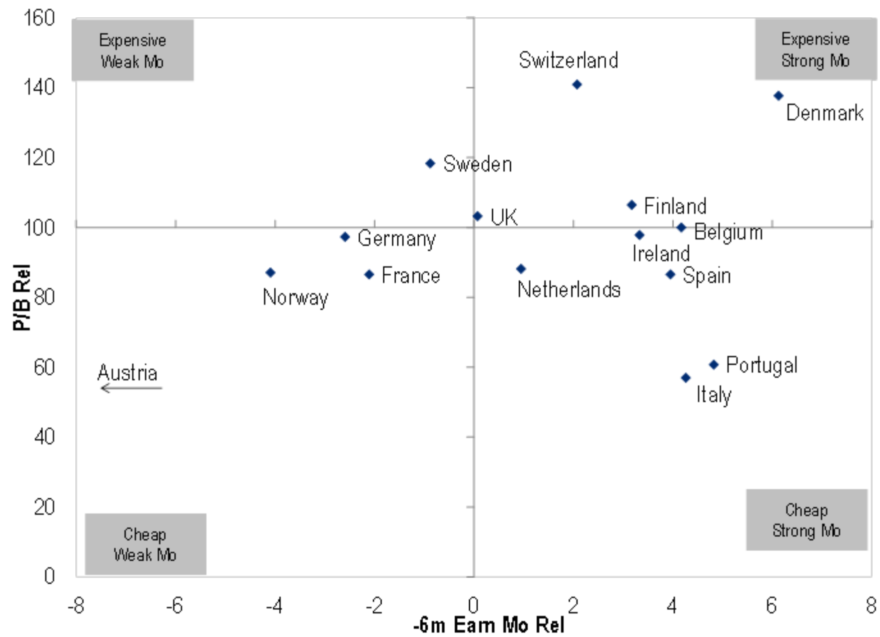


Source: Citi Research, Datastream

Figure 13 plots European country P/E relatives vs 6-month earnings momentum relative. There are only two countries which appear in the cheap and strong momentum quadrant – UK and Italy, although the UK only scrapes in on both valuation and earnings. More broadly, the peripheral markets have positive earnings momentum suggesting the recent sell-off is an opportunity to raise exposure again. Germany and France look cheap, similar to Italy, but earnings momentum remains

negative. Earnings momentum investors would wait until trends improve in these countries before over-owning relative to the periphery.

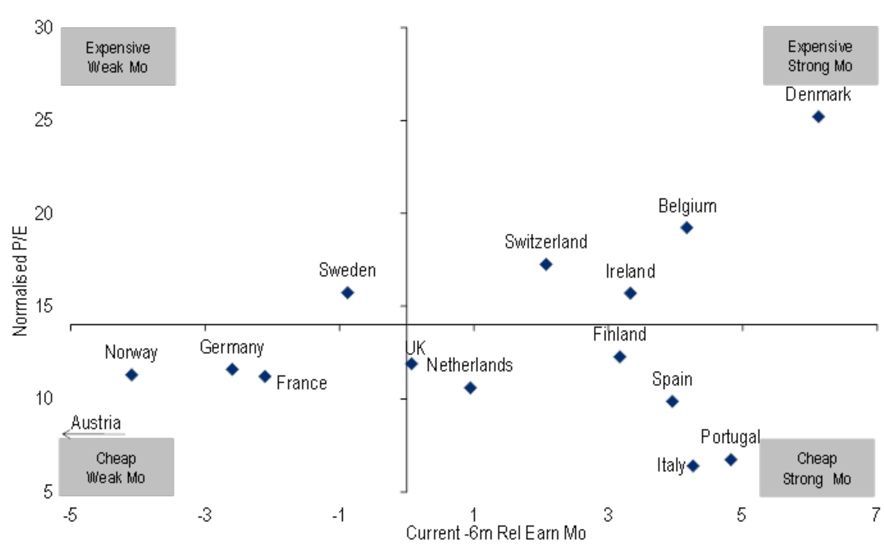
Figure 14. Country 6M Earnings Mo Rel and PB Rel



Source: Citi Research, Datastream

Next, Figure 14 plots price/book relative versus relative earnings trends. All peripheral markets appear cheap on this basis, joined also by the Netherlands. Italy and Portugal are both the cheapest markets in Europe on price/book and have the best relative earnings trends over the past 6-months, alongside Denmark.

Figure 15. Normalised P/E vs 6m Earning Mo rel - Country



Source: Citi Research, Datastream

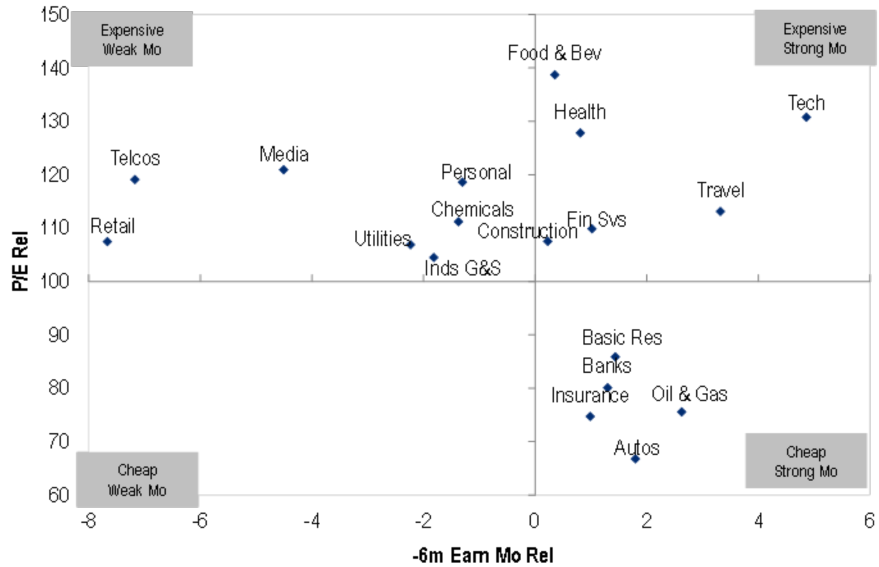
Last, Figure 15 shows countries' normalised P/Es versus relative earnings trends. Again, the peripheral markets show well. Earnings are depressed, but importantly

on an improving trend. With economic momentum also stronger in the periphery (ex-Italy) than in the rest of the Eurozone (Euro Economics Weekly: What's Behind the Periphery Growth Outperformance?), there is also emerging evidence of macro support for outperforming earnings trends.

Sector strategy – looking for earnings momentum

We look at European sectors on the same basis. Five sectors trade on a P/E discount to the market with positive relative earnings trends over the past 6-months – Resources, Banks, Insurance, Autos, Oil & Gas. The first three of these sectors also scored well in our recent report on Cyclicals vs Defensives as the only sectors with above market DY and DY*G. We Overweight all three.

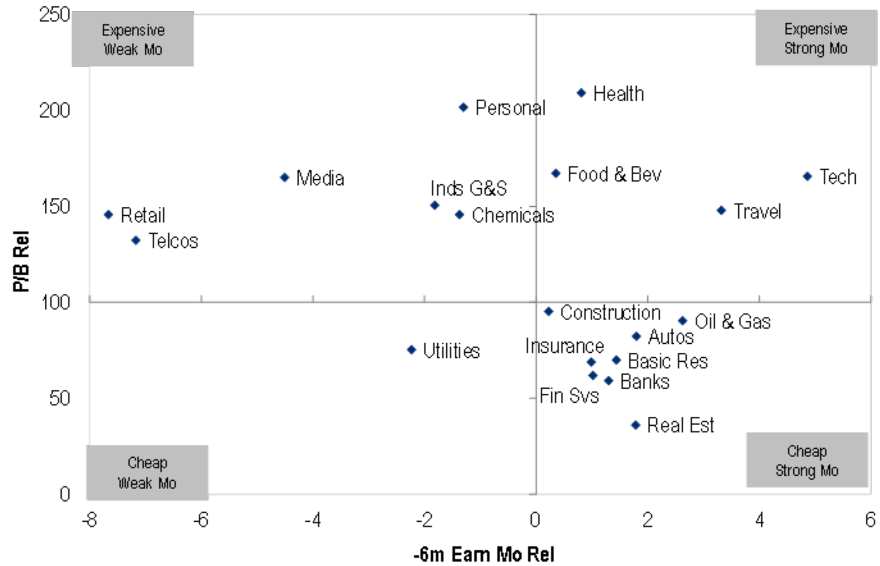
Figure 16. Sector 6M Earnings Mo Rel and PE Rel



Source: Citi Research, Datastream

Figure 17 replaces P/E relative with price/book relative. Real Estate and Financial Services join to make it a clean sweep for the Financial sectors on this basis. Construction also joins the cheap with positive earnings momentum group.

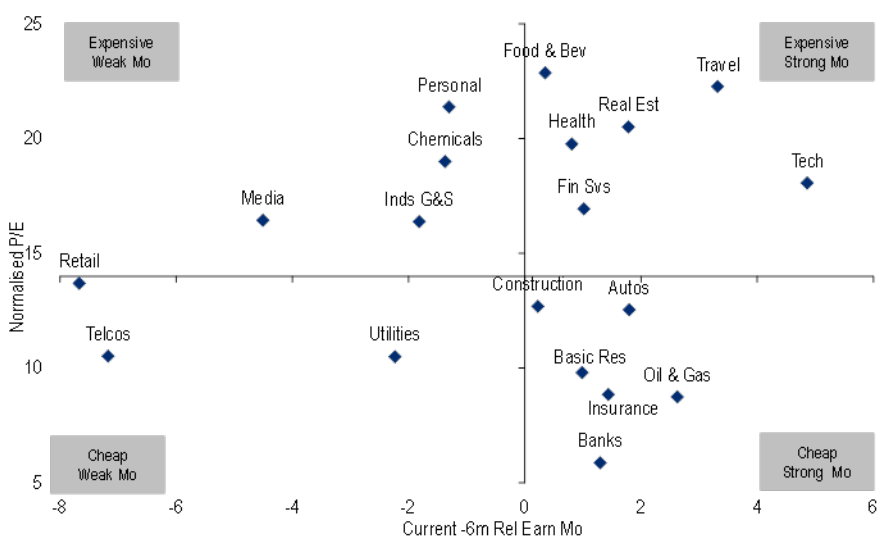
Figure 17. Sector 6M Earnings Mo Rel and PB Rel



Source: Citi Research, Datastream

Investors looking for sectors at the other end of the spectrum, ie expensive and weak earnings trends, should look at the likes of Retail, Telecoms, Media, Industrials and Chemicals. Our overall sector strategy is Underweight (Retail, Telecoms, Chemicals) or Neutral (Media, Industrials) all of these sectors, whereas we are Overweight or Neutral all of the sectors in the opposite cheap with positive earnings momentum quadrant.

Figure 18. Normalised P/E vs 6m Earning Mo rel - Sector



Source: Citi Research, Datastream

Last, there are six sectors which look cheap on a normalised P/E (vs a market median) and which also have positive relative earnings trends. The big Financial sectors – Banks and Insurance – again show strongly here. These sectors have depressed earnings, but importantly, have earnings trends improving from these

depressed levels. It is not hard to see why these sectors have attracted increasing investor attention over the past couple of years. We think both will also be direct and/or indirect beneficiaries of ECB liquidity measures over the coming months.

What to own – stocks with earnings momentum

We finish with three stock screens which look for companies which look attractive on current 6-month earnings momentum trends, but also on valuation.

Figure 19. PE Rel sub 100 and Positive 6mth Emo Rel (Market Cap > €5bn)

RIC	Company	Market Cap	PE Relative	6M Earnings Mom Rel	YTD Rel Perf
RBS.L	Royal Bank Of Sctl.Gp.	9953	84	45.8%	11%
PSN.L	Persimmon	5007	75	17.5%	25%
CRDI.MI	Unicredit	29321	87	16.8%	4%
RDSa.L	Royal Dutch Shell A	102159	69	15.4%	5%
YAR.OL	Yara International	6146	86	14.1%	18%
DANSKE.CO	Danske Bank	13102	77	13.1%	21%
ISPA.AS	Arcelormittal	9753	95	12.8%	-19%
ISP.MI	Intesa Sanpaolo	29422	95	12.7%	23%
LLOY.L	Lloyds Banking Group	48558	71	12.2%	0%
GLEN.L	Glencore	39430	91	12.2%	11%
MAERSKb.CO	A P Moller - Maersk B	12221	74	11.5%	11%
BAER.VX	Julius Bar Gruppe	6956	94	11.5%	-7%
SAN.MC	Banco Santander	80716	92	11.4%	16%
ZURN.VX	Zurich Financial Services	32926	76	7.6%	9%
TPK.L	Travis Perkins	5067	99	6.6%	-1%
VLOF.PA	Valeo	5920	76	6.4%	3%
HEIG.DE	HeidelbergCement	6961	84	6.0%	-6%
TECF.PA	Technip	6055	76	5.3%	-12%
LGEN.L	Legal & General	15866	94	5.2%	7%
HSBA.L	HSBC Holdings	147737	82	5.2%	2%
SRENH.VX	Swiss Re	20203	67	4.8%	-8%
BT.L	BT Group	36931	95	4.5%	3%
AV.L	Aviva	17590	74	4.2%	17%
ADEN.VX	Adecco R	8829	91	4.0%	-9%

Source: Citi Research, Datastream

Figure 19 shows stocks with 6-month relative earnings momentum 4% better than the market and also trading on a sub-market P/E. Financials are the dominant group in this screen.

Figure 20. Cheap on Normalised PE and Positive 6mth Emo Rel (Market Cap > €5bn)

RIC	Company	Market Cap	Normalised PE	6M Earnings Mom Rel	YTD Rel Perf
RBS.L	Royal Bank Of Sctl.Gp.	9953	1.3	46%	11%
TKAG.DE	ThyssenKrupp	7677	7.8	33%	6%
SABE.MC	Banco De Sabadell	7779	7.9	30%	16%
NOK1V.HE	Nokia	22957	8.8	23%	11%
ALUA.PA	Alcatel-Lucent	5285	7.3	21%	-42%
VIE.PA	Veolia Environnement	5552	8.2	20%	13%
CRDI.MI	Unicredit	29321	3.4	17%	4%
RDSa.L	Royal Dutch Shell A	102159	9.3	15%	5%
UBI.MI	UBI Banca	5036	6.3	14%	18%
ISP.MI	Intesa Sanpaolo	29422	7.7	13%	23%
LLOY.L	Lloyds Banking Group	48558	5.4	12%	0%
SAN.MC	Banco Santander	80716	9.0	11%	16%
HEIG.DE	HeidelbergCement	6961	9.4	6%	-6%
HSBA.L	HSBC Holdings	147737	9.8	5%	2%
AV.L	Aviva	17590	7.0	4%	17%

Source: Citi Research, Datastream

Figure 20 has the same earnings hurdle but looks for stocks trading on a single-digit normalised P/E; again Financials dominate.

Figure 21. Derated YTD and Positive 6mth Emo Rel (Market Cap > €10bn)

RIC	Company	Market Cap	PE Rel Dec-13	PE Rel now	PE De-rating YTD	6M Earnings Mom Rel	YTD Rel Perf
NOK1V.HE	Nokia	22,957	171	160	-7%	23%	11%
CRDI.MI	Unicredit	29,321	113	87	-22%	17%	4%
DANSKE.CO	Danske Bank	13,102	78	77	-1%	13%	21%
LLOY.L	Lloyds	48,558	85	71	-16%	12%	0%
GLEN.L	Glencore	39,430	100	91	-9%	12%	11%
MAERSKb.CO	A P Moller	12,221	77	74	-4%	11%	11%
BG.L	BG Group	44,029	113	107	-5%	7%	-12%
FMEG.DE	Fresenius	11,101	138	136	-2%	7%	3%
ARM.L	ARM Holdings	15,229	312	248	-21%	6%	-12%
CRH.L	CRH	11,726	165	120	-27%	6%	-9%
LGEN.L	Legal & General	15,866	97	94	-3%	5%	7%
SRENH.VX	Swiss Re	20,203	77	67	-14%	5%	-8%
EXPN.L	Experian	12,136	136	118	-13%	5%	-7%
WOS.L	Wolseley	10,241	117	106	-9%	5%	-1%
BT.L	BT Group	36,931	102	95	-7%	4%	3%
HMb.ST	H&M	28,201	179	162	-9%	4%	-5%
PRU.L	Prudential	42,474	104	100	-4%	4%	9%

Source: Citi Research, Datastream

The final screen looks at those stocks which have been de-rated YTD but which have positive relative earnings trends (Figure 21). There is a broader range of industries represented here, although Financials are again over-represented.

Strategy outlook

Recent market sell-off challenges our “Goldilocks in a strait-jacket” view of the post-2009 economic landscape. Low-to-modest nominal GDP growth has been kept in check in the past few years on the upside by extraordinary levels of debt and protected on the downside by the extraordinary central bank liquidity response.

Our economists continue to back full ECB QE around end-year. Combined with modest fiscal easing in 2015E, a weaker Euro and modest improvements in European bank lending/credit growth suggests ongoing support for a modest pick-up in regional nominal GDP growth, ie Goldilocks intact.

We think that the recent pull-back offers investors an opportunity to reload on equities and to focus on “delivery” strategies, such as earnings momentum. This suggests investors should consider peripheral markets, Financials, Construction, and stocks such as Unicredit, CRH and HSBC, for exposure to both attractive valuation and positive relative earnings trends.

Valuation Tables

Figure 22. Pan-European Sector Weightings & Returns

As at Close 21 Oct 14	Mkt Cap	% of	Return Relative to Stoxx				Absolute Return			
Sector (No of Stocks)	(Euros m)	Stoxx	1m	3m	12m	Ytd	1m	3m	12m	Ytd
Oil & Gas (33)	514,985	7.6	-4	-9	-6	-5	-11	-12	-2	-4
Chemicals (25)	324,859	4.8	0	-2	-1	-4	-7	-5	3	-3
Basic Resources (19)	220,986	3.3	0	-5	-3	1	-7	-9	1	2
Construction & Materials (20)	151,784	2.2	1	-5	-2	-3	-6	-9	2	-2
Industrial G&S (108)	695,437	10.3	-1	-2	-7	-8	-8	-6	-3	-8
Automobiles & Parts (14)	192,009	2.8	-1	-8	-4	-7	-8	-11	-1	-7
Food & Beverage (27)	567,545	8.4	3	2	4	5	-4	-2	8	6
Personal & H'hold Goods (29)	384,944	5.7	2	0	0	1	-5	-4	4	2
Health Care (35)	832,063	12.3	0	5	17	13	-7	1	22	15
Retail (27)	193,595	2.9	-2	-7	-16	-13	-9	-10	-13	-12
Media (28)	173,246	2.6	1	3	-2	-3	-6	-1	1	-2
Travel & Leisure (21)	102,023	1.5	3	3	7	2	-4	-1	11	3
Telecommunications (24)	293,830	4.4	0	0	-4	-3	-7	-4	0	-2
Utilities (26)	298,701	4.4	1	0	9	12	-6	-4	13	13
Banks (49)	981,642	14.5	0	5	-4	-1	-7	1	0	0
Insurance (38)	403,327	6.0	0	3	5	2	-7	-1	9	3
Real Estate (25)	101,750	1.5	5	2	8	12	-3	-2	13	14
Financial Services (31)	106,986	1.6	0	-2	0	-2	-7	-5	4	-1
Technology (21)	208,868	3.1	-3	-1	-5	-6	-10	-5	-1	-5
Stoxx - Pan Europe (600)	6,748,580	100.0	—	—	—	—	-7	-4	4	1
Pan Euro - Large Cap	5,432,938	80.5	0	0	0	0	-7	-4	4	1
Pan Euro - Mid Cap	906,596	13.4	1	-1	0	0	-6	-5	4	1
Pan Euro - Small Cap	409,045	6.1	1	-1	-3	-4	-6	-5	1	-3
Stoxx ex UK - Europe ex UK (415)	4,559,813	67.6	—	—	—	—	-7	-4	3	0
EuroStoxx - Eurozone (294)	3,083,556	45.7	—	—	—	—	-8	-5	1	-2

Source: Citi Research & DataStream

Figure 23. Pan-European Sector Relative Ratings

As at Close 21 Oct 14	P/E Relative to Stoxx				Yield Relative to Stoxx			
Sector	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
Oil & Gas	75	76	82	81	140	138	131	124
Chemicals	106	109	111	110	80	80	80	79
Basic Resources	97	91	85	81	102	100	104	104
Construction & Materials	113	113	107	104	93	95	89	90
Industrial Goods & Services	110	105	104	105	86	89	89	89
Automobiles & Parts	80	62	61	61	88	97	98	96
Food & Beverage	131	134	138	142	81	83	81	80
Personal & H'hold Goods	115	115	117	119	84	86	86	84
Health Care	117	123	128	130	87	84	82	81
Retail	98	106	112	114	103	91	87	86
Media	115	123	123	126	105	96	88	88
Travel & Leisure	133	121	105	101	62	67	74	76
Telecommunications	89	110	123	126	146	125	117	111
Utilities	86	98	112	123	150	136	126	118
Banks	94	91	78	74	98	105	125	137
Insurance	74	67	73	77	128	132	129	126
Real Estate	144	142	152	161	108	109	104	99
Financial Services	65	92	86	110	105	108	104	103
Technology	167	139	129	121	51	64	51	51
Stoxx - Pan Europe	100	100	100	100	100	100	100	100
Pan Euro - Large Cap	96	97	98	98	103	103	103	103
Pan Euro - Mid Cap	127	116	108	107	88	88	88	87
Pan Euro - Small Cap	107	113	109	108	90	88	87	87
Stoxx ex UK - Europe ex UK	103	103	99	100	98	97	97	98
Stoxx Eurozone - Eurozone	102	101	96	95	100	99	98	99

Source: Citi Research & DataStream

Figure 24. Pan-European Sector Growth

As at Close 21 Oct 14	Earnings Growth %			Net Dividend Growth %		
Sector	2014E	2015E	2016E	2014E	2015E	2016E
Oil & Gas	2.7	5.1	13.2	4.0	5.2	3.3
Chemicals	1.3	12.3	12.0	5.0	10.6	8.2
Basic Resources	11.8	21.6	17.6	3.8	15.2	9.4
Construction & Materials	5.2	19.3	15.0	7.5	4.7	9.4
Industrial Goods & Services	9.3	14.7	10.5	8.5	11.3	9.0
Automobiles & Parts	35.2	15.3	12.8	15.8	12.6	7.2
Food & Beverage	2.0	10.2	8.8	8.2	8.7	7.1
Personal & H'hold Goods	4.8	11.3	9.8	8.1	11.0	5.8
Health Care	0.1	9.3	9.3	3.0	7.2	7.5
Retail	-3.3	7.3	9.4	-6.1	5.4	7.6
Media	-2.1	13.9	8.4	-3.7	2.3	8.6
Travel & Leisure	15.4	30.4	16.0	13.2	22.9	11.8
Telecommunications	-16.0	1.4	8.7	-9.5	3.2	4.1
Utilities	-8.6	-0.8	1.3	-4.0	2.6	2.4
Banks	8.0	31.5	17.9	13.8	31.7	19.6
Insurance	14.8	4.4	5.7	8.7	8.6	6.6
Real Estate	6.6	6.1	5.1	6.5	5.8	4.1
Financial Services	-25.5	21.0	-13.0	9.0	6.6	7.7
Technology	25.5	22.5	18.4	33.7	-11.0	7.7
Stoxx - Pan Europe	4.4	13.7	11.3	5.7	11.0	8.9
Pan Euro - Large Cap	3.6	12.4	11.0	5.8	11.1	9.2
Pan Euro - Mid Cap	14.2	21.7	12.6	6.1	11.0	6.7
Pan Euro - Small Cap	-0.8	17.3	13.3	2.9	10.1	8.8
Stoxx ex UK - Europe ex UK	5.0	17.5	11.2	5.2	10.6	9.9
Stoxx Eurozone - Eurozone	5.9	19.6	12.5	4.4	10.3	9.7

Source: Citi Research & DataStream

Figure 25. Pan-European Sector Ratings

As at Close 21 Oct 14	Price/Earnings				Net Dividend Yield			
Sector	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
Oil & Gas	11.5	11.2	10.7	9.4	4.72	4.90	5.16	5.32
Chemicals	16.3	16.1	14.3	12.8	2.70	2.84	3.14	3.40
Basic Resources	15.0	13.4	11.0	9.4	3.43	3.56	4.10	4.48
Construction & Materials	17.4	16.6	13.9	12.1	3.14	3.37	3.53	3.86
Industrial Goods & Services	16.9	15.5	13.5	12.2	2.90	3.15	3.50	3.82
Automobiles & Parts	12.4	9.1	7.9	7.0	2.97	3.44	3.87	4.15
Food & Beverage	20.1	19.7	17.9	16.5	2.72	2.94	3.20	3.43
Personal & H'hold Goods	17.7	16.9	15.2	13.8	2.84	3.07	3.41	3.61
Health Care	18.0	18.0	16.5	15.1	2.92	3.00	3.22	3.46
Retail	15.0	15.5	14.5	13.2	3.46	3.25	3.43	3.69
Media	17.7	18.1	15.9	14.7	3.53	3.40	3.48	3.78
Travel & Leisure	20.5	17.7	13.6	11.7	2.10	2.37	2.92	3.26
Telecommunications	13.6	16.2	16.0	14.7	4.93	4.46	4.60	4.79
Utilities	13.2	14.4	14.5	14.3	5.05	4.84	4.97	5.09
Banks	14.4	13.3	10.1	8.6	3.29	3.74	4.93	5.90
Insurance	11.4	9.9	9.5	9.0	4.31	4.68	5.08	5.42
Real Estate	22.2	20.8	19.6	18.7	3.64	3.88	4.10	4.27
Financial Services	10.1	13.5	11.2	12.8	3.53	3.85	4.10	4.42
Technology	25.6	20.4	16.7	14.1	1.70	2.27	2.03	2.18
Stoxx - Pan Europe	15.4	14.7	12.9	11.6	3.36	3.56	3.95	4.30
Pan Euro - Large Cap	14.8	14.3	12.7	11.4	3.45	3.65	4.06	4.43
Pan Euro - Mid Cap	19.5	17.1	14.0	12.5	2.96	3.14	3.49	3.72
Pan Euro - Small Cap	16.5	16.6	14.2	12.5	3.03	3.12	3.43	3.74
Stoxx ex UK - Europe ex UK	15.9	15.1	12.9	11.6	3.29	3.47	3.83	4.21
Stoxx Eurozone - Eurozone	15.7	14.8	12.4	11.0	3.36	3.51	3.87	4.25

Source: Citi Research & DataStream

Figure 26. Pan-European Country Weightings & Returns

	Mkt Cap	% of	Relative Return to Stoxx				Absolute Return			
	(Euros m)	Stoxx	1m	3m	12m	YTD	1m	3m	12m	YTD
Austria	21,110	0.3	-2	-8	-23	-21	-9	-11	-20	-20
Belgium	118,096	1.8	2	5	7	7	-5	1	11	8
Denmark	156,433	2.3	-1	4	20	17	-8	0	25	19
Finland	98,021	1.5	2	3	9	7	-5	-1	13	8
France	996,495	14.8	-1	-1	-5	-3	-8	-5	-1	-2
Germany	849,759	12.6	-2	-4	-4	-8	-9	-7	0	-7
Greece	15,705	0.2	-7	-8	-25	-14	-14	-12	-22	-14
Ireland	49,331	0.7	3	5	4	4	-4	1	9	5
Italy	263,277	3.9	-2	-2	-1	3	-9	-6	3	4
Netherlands	290,284	4.3	1	5	0	-1	-6	1	4	0
Norway	84,571	1.3	-4	-6	-2	2	-11	-10	2	3
Portugal	19,205	0.3	-2	-11	-24	-19	-9	-14	-21	-18
Spain	362,273	5.4	0	1	2	6	-7	-3	6	7
Sweden	304,887	4.5	1	1	-3	-1	-6	-3	1	0
Switzerland	924,380	13.7	2	3	5	6	-5	-1	9	7
UK	2,188,767	32.5	0	0	2	1	-7	-4	6	3
Stoxx - Pan Europe	6,742,593	100								

Source: Citi Research & DataStream

Figure 27. Pan-European Country Relative Ratings

As at Close 21 Oct 14	Price/Earnings				Net Dividend Yield			
Country	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
Austria	110	890	72	71	84	80	122	120
Belgium	140	124	124	129	84	91	78	91
Denmark	155	124	125	120	51	54	57	63
Finland	169	127	126	127	93	131	96	91
France	103	105	94	93	106	102	101	101
Germany	84	83	86	87	89	90	90	91
Greece	37	382	125	88	23	59	84	90
Ireland	137	118	111	109	52	53	51	49
Italy	119	107	95	91	92	97	103	108
Netherlands	117	103	101	100	71	70	84	88
Norway	78	80	84	86	147	149	146	147
Portugal	13586	143	120	113	104	100	94	90
Spain	105	112	107	102	155	138	129	124
Sweden	93	103	101	111	116	115	112	113
Switzerland	110	111	112	114	88	90	91	92
UK	94	95	101	101	104	105	106	104
EuroStoxx - Eurozone	102	101	96	95	100	99	98	99
Stoxx ex UK - Europe ex UK	103	103	99	100	98	97	97	98
Stoxx - Pan Europe	100	100	100	100	100	100	100	100

Source: Citi Research & DataStream

Figure 28. Pan-European Country Growth

As at Close 21 Oct 14	Earnings Growth %			Dividend Growth %		
Country	2014E	2015E	2016E	2014E	2015E	2016E
Austria	-87.1	1,298.0	13.0	-0.1	69.8	7.0
Belgium	17.7	14.0	7.2	15.1	-5.4	26.6
Denmark	30.0	13.2	15.6	12.0	16.7	20.9
Finland	39.1	15.0	10.5	49.2	-18.8	3.7
France	2.5	26.4	12.7	1.7	10.5	8.3
Germany	5.4	9.8	10.0	7.3	10.7	10.2
Greece	-90.0	246.8	59.2	176.2	57.6	17.3
Ireland	21.1	20.7	13.7	8.0	6.9	6.1
Italy	16.2	28.0	16.4	10.6	18.0	14.8
Netherlands	19.2	15.3	12.6	4.5	32.5	15.2
Norway	1.4	7.9	8.7	7.6	8.8	9.1
Portugal	9,797.4	35.7	18.1	1.8	4.3	5.2
Spain	-1.9	18.9	16.6	-5.7	3.9	4.3
Sweden	-6.0	15.2	1.4	4.7	7.9	10.0
Switzerland	3.7	13.0	9.5	7.9	12.5	9.3
UK	3.5	6.5	11.5	6.5	11.9	7.1
EuroStoxx - Eurozone	5.9	19.6	12.5	4.4	10.3	9.7
Stoxx ex UK - Europe ex UK	5.0	17.5	11.2	5.2	10.6	9.9
Stoxx - Pan Europe	4.4	13.7	11.3	5.7	11.0	8.9

Source: Citi Research & DataStream

Figure 29. Pan-European Country Ratings

As at Close 21 Oct 14	Price/Earnings				Net Dividend Yield			
Country	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
Austria	16.9	130.9	9.4	8.3	2.84	2.84	4.82	5.15
Belgium	21.5	18.3	16.0	15.0	2.82	3.25	3.07	3.89
Denmark	23.8	18.3	16.2	14.0	1.72	1.92	2.24	2.71
Finland	26.0	18.7	16.3	14.7	3.11	4.65	3.77	3.91
France	15.8	15.4	12.2	10.8	3.55	3.61	3.99	4.32
Germany	12.9	12.3	11.2	10.2	2.99	3.20	3.55	3.91
Greece	5.6	56.2	16.2	10.2	0.76	2.09	3.30	3.87
Ireland	21.0	17.4	14.4	12.7	1.73	1.87	2.00	2.12
Italy	18.3	15.8	12.3	10.6	3.10	3.43	4.05	4.65
Netherlands	18.0	15.1	13.1	11.6	2.38	2.49	3.30	3.80
Norway	11.9	11.8	10.9	10.0	4.94	5.31	5.78	6.31
Portugal	2087.6	21.1	15.5	13.2	3.49	3.55	3.70	3.89
Spain	16.1	16.4	13.8	11.9	5.20	4.90	5.09	5.31
Sweden	14.2	15.1	13.1	12.9	3.90	4.08	4.41	4.85
Switzerland	17.0	16.4	14.5	13.2	2.97	3.21	3.61	3.94
UK	14.4	13.9	13.1	11.7	3.51	3.74	4.18	4.48
EuroStoxx - Eurozone	15.7	14.8	12.4	11.0	3.36	3.51	3.87	4.25
Stoxx ex UK - Europe ex UK	15.9	15.1	12.9	11.6	3.29	3.47	3.83	4.21
Stoxx - Pan Europe	15.4	14.7	12.9	11.6	3.36	3.56	3.95	4.30

Source: Citi Research & DataStream

Figure 30. UK Sector Weightings & Relative Returns

As at Close 21 Oct 2014	Mkt Cap £m	% of AllShare	% of Group	Relative return 1m	3m	12m	Qtd	Ytd
OIL & GAS (22)	278,410	14.1		-3	-6	0	-4	-2
Oil & Gas Producers (15)	268,203	13.6	96	-4	-7	1	-4	-3
Oil Equip, Serv and Distrib (7)	10,206	0.5	4	0	-6	-10	-3	2
BASIC MATERIALS (31)	158,319	8.0		0	-5	-4	2	1
Chemicals (7)	12,436	0.6	8	0	0	-5	3	-9
Forestry & Paper (1)	3,680	0.2	2	-2	2	-6	3	2
Industrial Metals & Mining (2)	789	0.0	0	-9	18	-12	-1	-1
Mining (21)	141,413	7.2	89	1	-6	-4	2	2
INDUSTRIALS (115)	190,061	9.6		-1	-2	-7	-1	-8
Construction & Materials (14)	15,536	0.8	8	-2	-5	-11	-2	-9
Aerospace (9)	40,168	2.0	21	-6	-6	-12	-6	-15
General Industrials (6)	12,553	0.6	7	-2	-2	-9	-2	-13
Electronic & Electrical Equip (12)	8,676	0.4	5	-3	-5	-12	-1	-20
Industrial Engineering (14)	18,106	0.9	10	-2	-5	-9	-1	-5
Industrial Transportation (8)	5,719	0.3	3	5	0	-11	8	-9
Support Services (52)	89,303	4.5	47	1	2	-2	1	-3
CONSUMER GOODS (38)	282,610	14.3		2	4	6	2	7
Automobiles & Parts (1)	5,098	0.3	2	-3	-5	-11	2	-12
Beverages (6)	81,423	4.1	29	2	4	-2	2	0
Food Producers (10)	15,428	0.8	5	2	-2	7	4	4
Household Goods & Home Const (12)	52,218	2.6	18	3	8	14	1	11
Leisure Goods (2)	373	0.0	0	-3	-9	-14	-7	-9
Personal Goods (5)	38,877	2.0	14	4	7	-2	1	-1
Tobacco (2)	89,193	4.5	32	1	3	12	2	16
HEALTH CARE (19)	161,003	8.2		-4	-6	14	-5	9
Health Care Equip & Services (9)	12,383	0.6	8	-1	0	26	-1	18
Pharmaceuticals & Biotech (10)	148,620	7.5	92	-4	-6	14	-6	8
CONSUMER SERVICES (97)	205,266	10.4		0	-1	-7	1	-6
Food & Drug Retailers (7)	26,015	1.3	13	-9	-24	-41	3	-35
General Retailers (30)	42,752	2.2	21	2	2	0	2	3
Media (25)	63,638	3.2	31	0	3	-3	0	-2
Travel & Leisure (35)	72,861	3.7	35	4	6	7	2	2
TELECOMMUNICATIONS (8)	88,720	4.5		1	3	-8	-1	-11
Fixed-Line Telecoms (6)	34,316	1.7	39	-1	2	4	1	1
Mobile Telecoms (2)	54,404	2.8	61	1	4	-13	-1	-15
UTILITIES (8)	78,829	4.0		5	4	10	2	12
Electricity (3)	17,525	0.9	22	6	6	10	2	13
Gas, Water & Multi-Utilities (5)	61,304	3.1	78	4	3	10	2	12
TECHNOLOGY (22)	26,464	1.3		-3	2	-9	-3	-11
Software & Computer Serv (14)	11,024	0.6	42	2	0	-1	0	-3
Technology Hardware & Equip (8)	15,440	0.8	58	-6	3	-15	-5	-16
TOTAL NON-FINANCIAL (360)	1,469,681	74.4		-1	-2	0	-1	-1
FINANCIALS (283)	504,393	25.6		2	6	0	2	2
Banks (7)	227,878	11.5	45	1	9	-7	2	-3
Non-Life Insurance (12)	21,948	1.1	4	3	1	6	0	6
Life Insurance (12)	90,641	4.6	18	1	3	9	1	8
Real Estate Inv. Servs (25)	12,355	0.6	2	3	3	-1	2	-2
REITS (20)	37,703	1.9	7	5	6	15	5	17
Financial Services (29)	44,075	2.2	9	2	2	5	3	2
FTSE ALL SHARE (643)	1,974,074	100.0		0	0	0	0	0
FTSE 100 (100)	1,615,702	81.8		0	0	0	0	0
Mid 250 (250)	292992	15		1	2	0	1	-1
Small Cap (293)	65,381	3		1	0	0	-1	-1

Source: Citi Research & DataStream

Figure 31. UK Relative Ratings

	P/E Relative				Yield Relative			
As at Close 21 Oct 2014	**2013E**	**2014E**	**2015E**	**2016E**	**2013E**	**2014E**	**2015E**	**2016E**
OIL & GAS	82	77	83	82	124	120	114	110
Oil & Gas Producers	82	77	83	83	125	121	114	110
Oil Equip, Serv and Distrib	83	87	78	77	88	90	93	94
BASIC MATERIALS	89	95	86	81	99	97	97	98
Chemicals	119	117	114	116	67	71	71	74
Forestry & Paper	98	92	88	91	77	86	89	95
Industrial Metals & Mining	-70	77	62	52	41	89	109	105
Mining	86	93	85	79	103	100	99	100
INDUSTRIALS	111	110	104	105	81	80	78	78
Construction & Materials	136	128	108	99	109	107	96	94
Aerospace	86	90	91	96	93	91	88	87
General Industrials	96	94	91	95	111	98	96	94
Electronic & Electrical Equip	112	111	108	110	66	70	69	69
Industrial Engineering	126	119	115	119	68	69	68	68
Industrial Transportation	113	106	90	89	72	101	111	116
Support Services	121	119	111	110	71	69	69	70
CONSUMER GOODS	124	124	120	123	87	90	90	89
Automobiles & Parts	81	84	86	91	69	71	71	73
Beverages	142	147	145	148	66	68	67	69
Food Producers	119	135	133	132	59	60	59	62
Household Goods & Home Const	129	110	102	104	77	86	94	80
Personal Goods	140	145	140	144	89	88	89	90
Tobacco	108	111	108	112	116	118	116	117
HEALTH CARE	103	118	121	128	110	106	100	96
Health Care Equip & Services	148	138	129	127	59	48	48	50
Pharmaceuticals & Biotech	101	117	121	128	114	111	104	99
CONSUMER SERVICES	100	105	101	103	87	82	80	81
Food & Drug Retailers	49	75	87	91	189	118	96	90
General Retailers	113	105	101	103	73	77	76	79
Media	110	110	106	112	84	85	81	82
Travel & Leisure	128	115	103	102	60	70	75	78
TELECOMMUNICATIONS	112	135	146	140	124	127	122	122
Fixed-Line Telecoms	89	95	99	103	82	90	93	97
Mobile Telecoms	133	184	209	179	150	150	140	137
UTILITIES	108	114	115	122	135	134	127	124
Electricity	94	100	104	106	146	140	135	136
Gas, Water & Multi-Utilities	113	119	119	127	132	133	125	120
TECHNOLOGY	171	159	144	141	40	44	49	53
Software & Computer Serv	128	123	115	116	60	66	69	73
Technology Hardware & Equip	222	199	174	165	26	30	35	39
TOTAL NON-FINANCIAL	101	104	104	104	101	100	97	95
FINANCIALS	95	88	90	89	97	101	112	116
Banks	83	78	81	78	97	102	123	132
Non-Life Insurance	120	82	85	89	141	127	123	121
Life Insurance	97	92	90	92	95	100	100	101
Real Estate Inv. Servs	185	163	152	145	38	59	60	63
REITS	202	191	185	194	86	87	83	82
Financial Services	102	101	97	99	99	106	102	102
FTSE ALL SHARE	100	100	100	100	100	100	100	100
FTSE 100	98	98	100	100	104	103	103	103
Mid 250	111	111	104	104	78	83	84	85
Small Cap	110	106	95	92	67	79	75	78

Source: Citi Research & DataStream

Figure 32. UK Sector Growth

	Earnings Growth %			Net Dividend Growth %		
As at Close 21 Oct 2014	2014E	2015E	2016E	2014E	2015E	2016E
OIL & GAS	6.5	-2.6	12.7	-0.4	4.1	3.3
Oil & Gas Producers	6.9	-3.3	12.8	-0.6	3.8	3.1
Oil Equip, Serv and Distrib	-4.1	17.7	11.9	5.4	13.3	7.7
BASIC MATERIALS	-5.5	15.1	18.8	1.2	9.5	8.2
Chemicals	2.2	8.2	9.2	9.1	9.4	10.9
Forestry & Paper	7.5	9.4	7.4	15.0	13.5	14.0
Industrial Metals & Mining	-191.5	30.8	32.7	122.8	33.6	3.3
Mining	-7.6	15.6	19.6	0.2	9.3	7.9
INDUSTRIALS	1.6	10.5	10.5	1.7	7.3	7.7
Construction & Materials	7.2	24.4	20.8	1.4	-2.1	5.5
Aerospace	-4.3	4.0	5.7	1.3	5.5	6.0
General Industrials	3.3	8.5	6.5	-8.7	7.4	4.7
Electronic & Electrical Equip	0.9	8.0	9.8	9.1	7.9	7.6
Industrial Engineering	6.6	8.2	8.0	4.6	7.9	8.0
Industrial Transportation	7.5	22.5	13.9	44.3	20.3	12.0
Support Services	2.8	12.2	12.3	0.4	9.3	9.3
CONSUMER GOODS	0.8	8.1	8.9	6.6	10.0	5.3
Automobiles & Parts	-2.5	2.3	5.6	6.3	10.0	10.0
Beverages	-2.7	6.0	9.5	5.9	8.1	9.3
Food Producers	-11.3	6.5	12.2	5.6	6.2	12.6
Household Goods & Home Cor	18.1	13.3	9.2	16.4	18.6	-8.6
Personal Goods	-2.8	8.5	8.9	1.9	10.0	8.9
Tobacco	-1.7	7.1	8.1	4.8	7.5	7.7
HEALTH CARE	-12.0	2.2	5.6	-0.3	3.1	2.2
Health Care Equip & Services	7.9	12.6	12.9	-16.5	10.5	11.7
Pharmaceuticals & Biotech	-13.0	1.5	5.1	0.4	2.8	1.8
CONSUMER SERVICES	-3.9	8.7	9.1	-2.1	6.1	8.6
Food & Drug Retailers	-33.2	-10.0	6.9	-35.6	-11.0	0.4
General Retailers	7.5	10.0	9.1	9.1	8.5	10.9
Media	0.6	9.3	5.9	4.9	4.0	8.4
Travel & Leisure	11.9	17.7	12.7	20.0	17.3	11.5
TELECOMMUNICATIONS	-16.5	-3.3	17.0	5.8	5.3	6.7
Fixed-Line Telecoms	-5.0	0.4	6.7	13.5	13.4	12.1
Mobile Telecoms	-27.2	-7.9	30.7	3.2	2.2	4.5
UTILITIES	-4.6	3.4	5.8	2.5	3.4	4.3
Electricity	-5.3	0.5	9.8	-1.0	5.9	7.4
Gas, Water & Multi-Utilities	-4.4	4.4	4.4	3.6	2.7	3.3
TECHNOLOGY	8.0	16.0	14.2	13.7	20.5	17.0
Software & Computer Serv	4.3	12.7	10.4	12.3	14.7	14.1
Technology Hardware & Equip	12.4	19.6	18.1	15.8	29.3	20.8
TOTAL NON-FINANCIAL	-1.7	5.3	11.3	1.8	6.3	5.6
FINANCIALS	8.7	3.3	12.7	8.0	20.7	11.5
Banks	8.0	0.7	15.6	9.0	32.2	14.8
Non-Life Insurance	48.4	0.2	7.2	-7.1	6.2	5.0
Life Insurance	6.1	8.0	8.3	9.3	9.6	7.5
Real Estate Inv. Servs	14.3	12.5	17.0	60.7	10.4	13.5
REITS	6.2	8.6	6.5	4.3	4.7	5.1
Financial Services	1.5	9.1	9.3	9.7	5.6	6.9
FTSE ALL SHARE	0.7	4.8	11.6	3.1	9.6	7.1
FTSE 100	0.7	3.7	11.6	2.2	9.5	6.8
Mid 250	1.0	11.8	11.5	9.5	10.7	8.5
Small Cap	3.8	17.0	15.8	20.5	5.0	10.2

Source: Citi Research & DataStream

Figure 33. UK Sector Ratings

As at Close 21 Oct 2014	2013E	2014E	2015E	2016E	2013E	2014E	2015E	2016E
OIL & GAS	11.2	10.5	10.8	9.6	4.54	4.52	4.71	4.86
Oil & Gas Producers	11.2	10.5	10.8	9.6	4.59	4.56	4.74	4.89
Oil Equip, Serv and Distrib	11.3	11.8	10.1	9.0	3.23	3.41	3.86	4.16
BASIC MATERIALS	12.1	12.8	11.2	9.4	3.63	3.67	4.02	4.35
Chemicals	16.3	15.9	14.7	13.5	2.47	2.70	2.95	3.27
Forestry & Paper	13.4	12.4	11.4	10.6	2.83	3.26	3.70	4.22
Industrial Metals & Mining	-9.6	10.5	8.0	6.0	1.51	3.36	4.50	4.65
Mining	11.7	12.7	10.9	9.2	3.76	3.77	4.12	4.45
INDUSTRIALS	15.1	14.9	13.5	12.2	2.96	3.01	3.23	3.48
Construction & Materials	18.6	17.3	13.9	11.5	3.99	4.05	3.96	4.18
Aerospace	11.7	12.2	11.7	11.1	3.41	3.46	3.65	3.86
General Industrials	13.2	12.7	11.7	11.0	4.05	3.70	3.98	4.16
Electronic & Electrical Equip	15.2	15.1	14.0	12.7	2.43	2.65	2.86	3.08
Industrial Engineering	17.2	16.1	14.9	13.8	2.48	2.59	2.80	3.02
Industrial Transportation	15.4	14.3	11.7	10.3	2.66	3.83	4.61	5.17
Support Services	16.6	16.1	14.4	12.8	2.60	2.61	2.85	3.12
CONSUMER GOODS	17.0	16.8	15.6	14.3	3.18	3.39	3.73	3.93
Automobiles & Parts	11.1	11.3	11.1	10.5	2.52	2.68	2.95	3.25
Beverages	19.4	20.0	18.8	17.2	2.43	2.58	2.79	3.05
Food Producers	16.2	18.3	17.2	15.3	2.16	2.28	2.42	2.73
Household Goods & Home Co	17.7	15.0	13.2	12.1	2.81	3.27	3.88	3.54
Personal Goods	19.2	19.7	18.2	16.7	3.27	3.34	3.67	4.00
Tobacco	14.7	15.0	14.0	13.0	4.26	4.47	4.80	5.17
HEALTH CARE	14.1	16.1	15.7	14.9	4.04	4.02	4.15	4.24
Health Care Equip & Services	20.2	18.8	16.7	14.8	2.17	1.81	2.00	2.23
Pharmaceuticals & Biotech	13.8	15.9	15.6	14.9	4.18	4.20	4.32	4.40
CONSUMER SERVICES	13.6	14.2	13.1	12.0	3.18	3.11	3.30	3.59
Food & Drug Retailers	6.8	10.1	11.2	10.5	6.91	4.46	3.97	3.98
General Retailers	15.4	14.3	13.0	11.9	2.66	2.90	3.15	3.49
Media	15.1	15.0	13.7	12.9	3.07	3.22	3.35	3.63
Travel & Leisure	17.5	15.7	13.3	11.8	2.20	2.64	3.10	3.45
TELECOMMUNICATIONS	15.3	18.3	18.9	16.2	4.53	4.80	5.05	5.39
Fixed-Line Telecoms	12.2	12.9	12.8	12.0	2.99	3.40	3.85	4.32
Mobile Telecoms	18.2	25.0	27.1	20.7	5.51	5.68	5.81	6.07
UTILITIES	14.7	15.4	14.9	14.1	4.96	5.08	5.26	5.48
Electricity	12.9	13.6	13.5	12.3	5.33	5.28	5.60	6.01
Gas, Water & Multi-Utilities	15.4	16.1	15.4	14.8	4.85	5.02	5.16	5.33
TECHNOLOGY	23.4	21.6	18.6	16.3	1.47	1.67	2.01	2.36
Software & Computer Serv	17.5	16.7	14.9	13.5	2.22	2.49	2.85	3.25
Technology Hardware & Equip	30.3	26.9	22.5	19.1	0.97	1.12	1.45	1.75
TOTAL NON-FINANCIAL	13.9	14.1	13.4	12.0	3.70	3.77	4.00	4.23
FINANCIALS	13.0	12.0	11.6	10.3	3.54	3.83	4.62	5.15
Banks	11.4	10.5	10.5	9.0	3.54	3.86	5.11	5.86
Non-Life Insurance	16.4	11.1	11.0	10.3	5.18	4.81	5.11	5.37
Life Insurance	13.3	12.5	11.6	10.7	3.47	3.80	4.16	4.47
Real Estate Inv. Servs	25.3	22.2	19.7	16.8	1.39	2.23	2.47	2.80
REITS	27.6	26.0	23.9	22.4	3.17	3.30	3.46	3.63
Financial Services	13.9	13.7	12.6	11.5	3.64	4.00	4.22	4.51
FTSE ALL SHARE	13.7	13.6	12.9	11.6	3.67	3.78	4.14	4.44
FTSE 100	13.4	13.4	12.9	11.5	3.81	3.89	4.26	4.55
Mid 250	15.2	15.0	13.4	12.1	2.88	3.15	3.49	3.78
Small Cap	15.0	14.4	12.3	10.7	2.47	2.98	3.13	3.44

Source: Citi Research & DataStream

Figure 34. Stocks Mentioned In The Report

Stock Name	RIC	Price	Rating	Currency
A P Moller	MAERSKb.CO	13,200.00	2	DKK
Adecco R	ADEN.VX	62.15	3	CHF
Alcatel-Lucent	ALUA.PA	2.10	1	EUR
Arcelormittal	ISPA.AS	10.06	1	EUR
ARM Holdings	ARM.L	8.16	2	GBP
Aviva	AV.L	5.05	1	GBP
Banco De Sabadell	SABE.MC	2.30	3	EUR
Banco Santander	SAN.MC	6.94	2	EUR
BG Group	BG.L	10.42	1	GBP
BT Group	BT.L	3.75	1	GBP
CRH	CRH.L	13.64	1	GBP
Danske Bank	DANSKE.CO	156.00	1	DKK
Experian	EXPN.L	9.30	1	GBP
Fresenius	FMEG.DE	54.98		EUR
Glencore	GLEN.L	3.18	1	GBP
H&M	HMb.ST	280.80	1	SEK
HeidelbergCement	HEIG.DE	53.25	1	EUR
HSBC Holdings	HSBA.L	6.29	2	GBP
Intesa Sanpaolo	ISP.MI	2.30	1	EUR
Julius Bar Gruppe	BAER.VX	39.82	2	CHF
Legal & General	LGEN.L	2.25	2	GBP
Lloyds	LLOY.L	0.76	2	GBP
Nokia	NOK1V.HE	6.51	1	EUR
Persimmon	PSN.L	14.05	1	GBP
Prudential	PRU.L	13.66	1	GBP
Royal Bank Of Sctl.Gp.	RBS.L	3.65	3H	GBP
Royal Dutch Shell A	RDSa.L	21.67	2	GBP
Swiss Re	SRENH.VX	74.45	2	CHF
Technip	TECF.PA	55.33	2	EUR
ThyssenKrupp	TKAG.DE	18.95	2	EUR
Travis Perkins	TPK.L	16.20	1	GBP
UBI Banca	UBI.MI	6.16	1H	EUR
Unicredit	CRDI.MI	5.80	1	EUR
Valeo	VLOF.PA	85.03	1	EUR
Veolia Environnement	VIE.PA	13.17	2	EUR
Wolseley	WOS.L	31.93	1	GBP
Yara International	YAR.OL	303.80	2	NOK
Zurich Financial Services	ZURN.VX	279.40	2	CHF

Source: Citi Research *Prices as of 22 Oct 2014

Appendix A-1

Analyst Certification

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