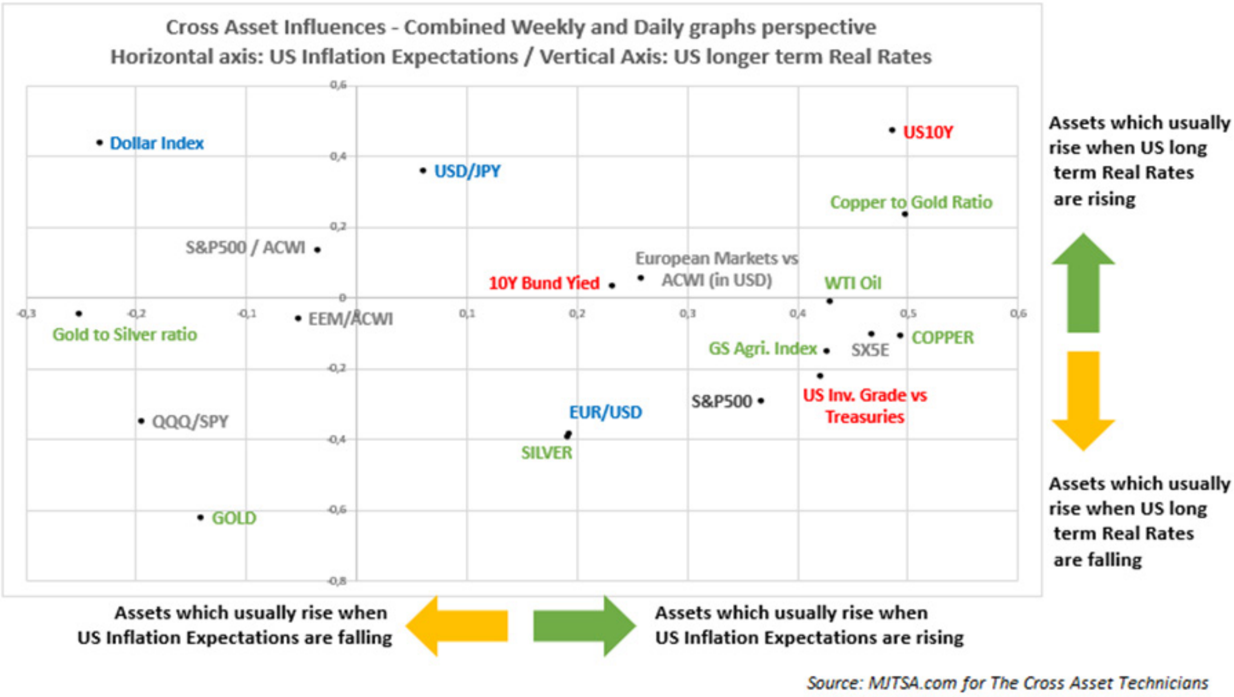
7/ Cross Asset Influence Factors

We've considered the Assets and Relative Ratios featured in the following graph and drew their analogy (correlation based on price but also on the position of our envelopes and of our cyclical oscillators) vs the following Key Asset Drivers: the S&P500 Index, the Dollar Index, Gold, Oil, the US10Y Treasury yields, the US10Y – 3Y Treasury spread, the US10Y – Bund 10Y Interest Rate differential, the US Investment Grade vs Treasury ratio, US Inflation Expectations (US Tips vs Treasuries), US TIPs (inversely US long term Real Rates), the Nasdaq100 vs the S&P500 ratio, the EM Markets vs the All Country World Index ratio. We've done so on a Weekly and Daily graphs' basis, which implies an average comparison time span of circa 12 months.

Among the strongest influence factors on the universe we are considering, we find US Tips (inversely US long term Real Rates) and the Dollar Index. These are very much inversely correlated, and we have decided to focus on only one of them, i.e. **US long term Real Rates** (featured on the Y axis in the graph below). We have then chosen to complement this Cross Asset analysis with **US Inflation Expectations**, which have been very much in focus over the last few months (featured on the X axis in the graph below).



Our analysis suggests the following relationships:

- US Inflation Expectations are accompanying most risk assets higher. This also includes European markets vs the All Country World Index higher in US Dollar (strong European markets / strong Euro).
- Rising US long term Real rates on the other hand seem to be the main factor which could justify a US Dollar bounce. Precious Metals would then suffer some retracement, along with Credit Instruments, most Equities and Commodities.
- Over the next couple of months, we expect some retracement in both factors. Indeed, after having dipped in June, US Inflation Expectations may attempt to bounce / retest-up in July. In a couple of weeks, Tapering Expectations could then start to rise again and TIPs to fall, bringing US Inflation Expectations back down again with them into August.
- Our projections on US Tips also point to some retracement, probably from mid/late July and into August (another bounce in real yields). Cyclical assets could hold up better, while Growth profiles could retrace more. The US Dollar would bounce, while Precious Metals and most risk assets would then come under downside pressure.