EQUITY MANAGEMENT

Results forecasts and evaluation of the markets

PROFITS OUTLOOK

Projected results: increase is slowing

• The consensus continues to revise its 2010 earnings projections upwards for all regions except Japan, but less in 2011, hence a decline in 2011 growth.

• In the United States, despite estimates of higher growth in 2010 earnings, we note for the first time since 2009 that more than half of all companies saw their earnings revised downwards over a month (negative net-up).

Very attractive valuations: declining markets remain a contrast with earnings expectations. Whom should we believe?

• Valuations are therefore very attractive and do not appear to take earnings expectations into account.

• The US and Europe reported declines in the historic valuation levels of 2003-2007, and are approaching the 2009 low points.

OTHER FACTORS

Liquidity:

• Significant withdrawings in US and European equity funds, we are seeing a reversal of this trend since the start of the year.

• Some mergers and acquisitions, particularly in Spain.

Performance of the main indices since the start of the year

	08/07/10	Var. 2010 in euros
DJ Euro Stoxx 50	2666	-10 %
SBF 250	2564	-8 %
CAC 40	3538	-10.1%
FTSE 100 (UK)	5105	0.2%
S&P 500	1070	8.6 %
Nasdaq	2175	8.5 %
Topix (Japan)	861	12.9 %

Source : Datastream

Small caps: 2010... still a year of out-performance?

• Current problems are specifically concentrated in financial securities, which hardly exist in this class of assets

• Sharper improvement in earnings

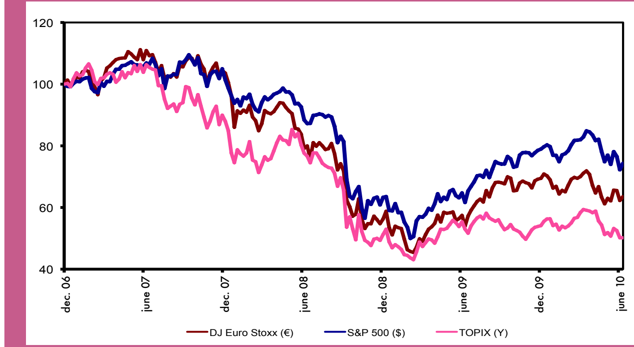
• Major proving ground for under-valued issues.

Graphic analysis: return to a bear market

• Markets are trending slightly downwards, breaking through significant levels and largely positioning themselves under the long-term (200-day) moving averages

• Beyond the very short-term rallies corresponding to "over sold" periods, the trend remains downwards in the months ahead. For now, signs of accumulation prevent us from envisaging any reversal in this trend.

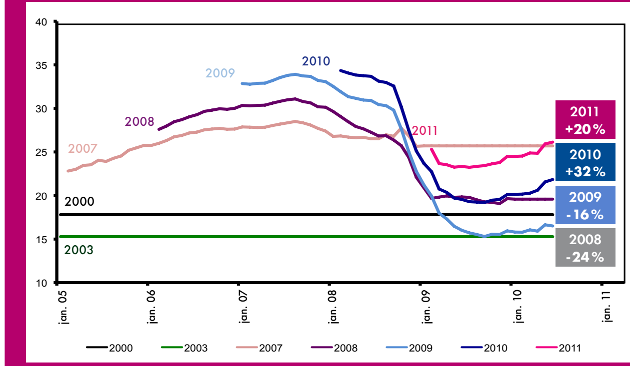
Performances of international stock market indices



Source : Datastream

Claire Chaves d'Oliveira
Head of Equity Management

Profits forecast by the consensus on Euro Stoxx



Source : IBES

Market outlook

Prospects: turbulent summer in prospect...

The micro-macro battle mentioned last month is continuing, with earnings still upgraded (although momentum is tailing off) and stock markets are once again being impaired by the financial crisis. Still fearing the effect of the multiplication of austerity plans (pressure on consumption, fiscal pressure, risk of deflation, higher net-equity requirements for financial companies, etc.), we have not changed our growth prospects for companies, which are still far below analyst consensus, particularly for 2011 when we anticipate growth close to zero.

The only strong point for European export companies is the euro's weakness against the dollar, but this favourable trend seems to be resulting in a pause.

However, company Q2 results, which are scheduled to appear in the next few days, are expected to remain solid: the primary challenge will be the tone of the prospects communicated by company management.

Our short-term as well as long-term objectives therefore remain unchanged, with high volatility expected during the summer, around levels close to current ones. We maintain our preference for the US market (still protected from austerity plans) and the Japanese market, over the European and Asian markets, which are suffering from a turning point in the growth rate.

Groupama
Asset Management