BASE CASE SCENARIO (55%)

- 2015 major theme: fight against low inflation across the globe (structural momentum + energy component)
- We expect US growth in line to slightly higher than expected and modest to flat growth in EU
- Major monetary policy divergence between Central Banks (FED, BoE, BOJ and ECB) with tightening most likely in the US & UK (late 2015) - vs. aggressive easing in Japan, China & Europe
- Market participants are way too complacent - be prepared for higher volatility across most asset classes and less diversification effect between Equities & Bonds (traditional 60/40 portfolio should be challenged because the 10-yr old secular trade long equities / long bonds should offer less convexity)
- Major European elections (UK, Spain, Greece) should create market disruptions (and investment opportunities)
- Europe should avoid triple dip but country divergences will increase
- Price action: Uncertainty dominates investor sentiment & more volatility
  - Overall risky assets should experience choppy times in 2015, especially in Europe
  - Equities: Premium to liquidity. Upside potential should come from EPS growth for once. We expect much more dispersion to the benefit of alpha managers
  - Sovereign interest rates are officially entering negative value (no longer a value trade but a pure safe heaven trade - no matter what it costs)
  - Corporate credit decompression trade should keep trending until macro data significantly improves
  - USD rallying extending
UPSIDE SURPRISES (10%)

1. EU agreement for budgetary relaxation
2. European Fund for Investments (€315 bn. expected) successfully boosts European economies
3. European peripheries accelerate recovery and overshoot market expectations
4. Banks regulatory pressure easing
5. Oil stabilized at a good equilibrium level (60-80$) and lower prices spur household spending & SMEs boost hiring
6. QE more aggressive than expected
Despite European QE, macro continues to show negative signals and Europe enters into deflation

Greek elections show Syriza winning the anticipated election in Jan. 2015 with majority and impose an unilateral restructuring

No or lower than expected ECB QE

Massive cyber attack or any other malicious attack targeting financial institutions and disrupting exchanges or financial transactions

European political divergences accelerates and Germany doesn’t accommodate to flexible budget

Localized bubble bursting especially on US HY, energy related companies, green tech... in the medium term we should observe some impact on the GDP growth

Sovereign defaults due to Oil price collapse (Nigeria, Venezuela, Russia...) and geographic instability

Oil price stay low for long, threatening major global economies and CAPEX drops sharply

China real estate bubble burst

Russia / Ukraine conflict worsening and spreading to a major political crisis.
1. EU budgetary relaxation
2. European Fund for Investment boost European economies
3. European peripheries accelerate recovery
4. Bank regulatory pressure easing
5. Oil price stabilized at fair equilibrium boosting economies
6. QE more aggressive than expected
7. QE fails and Europe enters deflation
8. Syriza wins election and unilaterally restructure Greek debt
9. QE disappointment
10. Massive cyber attack
11. European political divergence accelerates
12. Local bubble bursting
13. Sovereign default due to Oil price collapse
14. Oil price threatening corporate activities, slowing down global economies
15. China real estate bubble burst
16. Russia & Ukraine conflict worsening
Alternative Strategies: Rating & Outlook
ERAAM’S TREE OF OPPORTUNITIES

Investment Universe -> Equities
  - Long Short Equity
  - Event Driven
  - Long Only Equity

Fixed Income
  - Illiquid & structured
  - Corporate liquid RV
  - Sovereign RV
  - Directional

Trading
  - Macro discretionary
  - Multi Strat Systematic
  - CTA Trend Follower
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