

European Equity Strategy

Outlook 2015 – Five peak crisis gaps left to invest in

Equity Strategy

Europe including UK

Five peak crisis gaps remain & shout 'no growth for Europe'. We invest in them

1. The real yield gap today (bonds vs equities) is 90% of its crisis peak; 2. Cyclical performance is c. 5% away from the 09 lows; 3. US has outperformed Europe by 45% since 07 and is valued at a 30 year record premium to Europe; 4. US & European profit gap still at record high (fig 1); and 5. Troubled sectors in Europe are still near trough (to history & many US peers). We think Europe gets back to its 2007 profits by end 2016 (c. 10% a year) and if so it trades on 10.5x PE. See roadmap for this: page 27.

Europe improving: five changes: Banks, Credit, Euro, Oil/Consumer & Margins

1. Banks: AQR done, balance sheets better by > €200bn and TLTRO offers a MIN €400bn at 15bps for 4 years contingent on lending; 2. ECB credit survey best in 7 years; 3. Lower oil: Eurozone wins & real wage growth at 5 year high; 4. A weaker Euro supports revenues; and 5. Margins are starting to turn up. Five Changes: page 19.

BUY Gap: Europe vs US. Gap starting to look beyond bizarre (pages 9-15)

We are 50% behind the US in the race back to (or beyond!) last cycle's peak profits. Sadly only 30% of the gap to the US is due to sector composition (more Tech in US); 70% is due to lower ROE for European Sectors vs US peers, Euro, etc. Some SECTORS responsible: Technology, Transport, Food Retail, Telecoms, Autos, Media, Utilities, Energy, Diversified Financial, Real-estate & more. If we put Europe & US earnings both back to 07 profits (closely aligned in past): European PE sits on 10.5x and US on 20.5x.

Buy Gap: 43 ROE recovery plays & 30 Cyclical that combined yield 4.9%

Profits down and no one believes in growth. So buy 1) where ROE still depressed & cheaper than local/US peers (fig 2) includes: TOTAL, BBVA, Randstad, M&S, SocGen; and 2) Cyclical with dividends: Swedbank, CRH, HSBC, M&S, Amec, Michelin & more.

Karen Olney, CFA

Strategist
karen.olney@ubs.com
+44-20-7568 8944

Nick Nelson

Strategist
nick.nelson@ubs.com
+44-20-756 81960

Andras Nagy, CFA

Associate Strategist
andras-a.nagy@ubs.com
+44-20-7568 3577

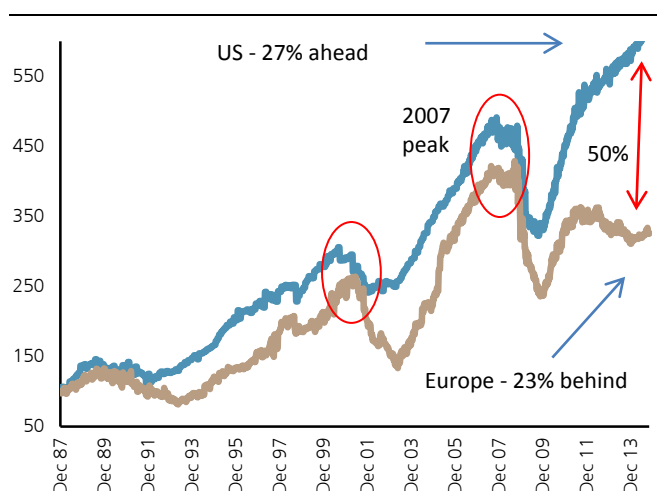
Philip Finch

Strategist
philip.finch@ubs.com
+44-20-7568 3456

Reinhard Cluse

Economist
reinhard.cluse@ubs.com
+44-20-7568 6722

Figure 1: US vs European profits. Race to surpass last cycle's peak – c.7 years on. Gap at 50%



Source: Datastream, UBS Strategy, MSCI versus S&P

Figure 2: ROE recovery plays cheaper than local & US peers (stocks screens on page 31)

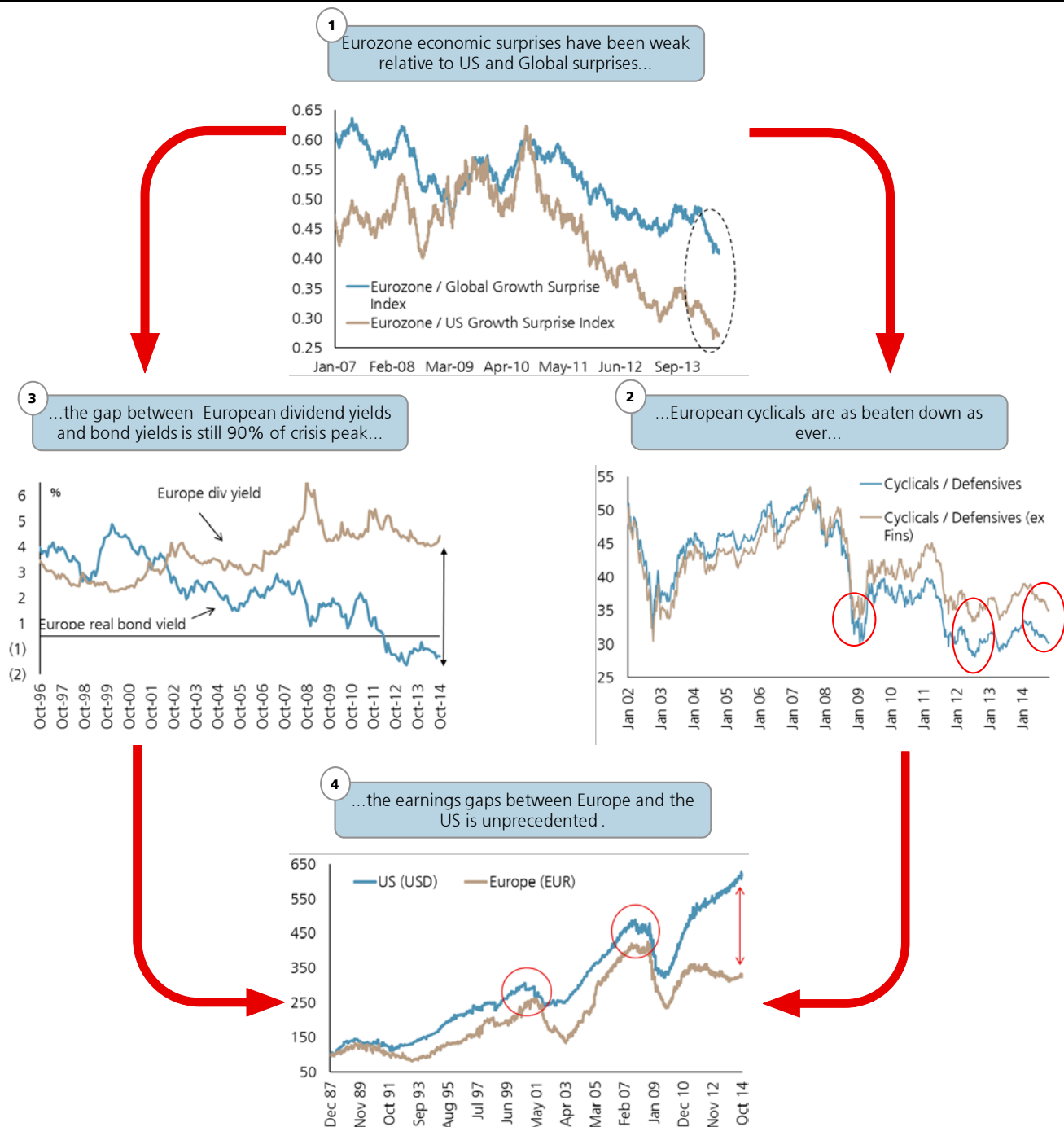
Stock Name	Rel Perf to Mkt since May 07 %	Change in ROE since 2007
Deutsche Bank	-70	-80%
TOTAL	-1	-73%
William Hill	-11	-72%
BBVA	-45	-67%
Randstad	-30	-66%
Marks & Spencer	-30	-60%
Iberdrola	-37	-60%
Soc Gen	-66	-58%
Tate & Lyle	-8	-53%
Rexel	-7	-49%
Carnival Plc	0	-49%
Umicore	21	-49%
Ericsson	-19	-48%
Mediaset	-60	-48%

Source: UBS, Datastream

Four Key Charts

Are we a bit too depressed about growth in Europe? We think so and want to invest in them. See also five peak crisis gaps charts on pages 4 & 5.

Figure 3: Four key charts



Source: UBS, Thomson Datastream

5 gaps still at crisis peak = opportunity

Overview

We like anomalies. We believe that the 5 gaps won't last forever: 1) real yield gap between equities and bonds; 2) cyclicals versus defensives; 3) Europe's gap to US profits; and 4) Europe's gap to US valuation; and 5) extreme sector gaps. We are almost 6 years on from the original heart-attack and 2009 market trough. We thought the gap would recede this year but were too optimistic. We don't give up now: Banks are stronger, credit conditions are easing, the euro is weaker, real income growth is at a 5 year high and GDP growth is moving from a negative phase in 2012 and 2013, to a more positive one (2014E-16E).

Also out today: *European Equity Strategy: Outlook for 2015: Goldilocks or the Three Bears?* Where we see 13% upside to markets by year-end 2015 (page 30)

What should you invest in?

- **Buy Europe versus the US:** only 30% of the US vs Europe profit gap is due to sector composition, the rest is weaker sector profits in Europe. We are 50% behind the US in the race to (or past) last cycle's peak. If both the US and Europe were back at 2007 profits the PE would be 10.5x for Europe and 20.5x for the US. We would rather buy the market with earnings upside. We think Europe gets back to 07 profits by end 2016 (page 27).
- **Earnings recovery list** – Earnings have gone nowhere since 2010 and this is the slowest EPS cycle in over 50 years. After a record 43 months of earnings downgrades, we think the downgrade cycle is over. We look at good companies with the most depressed ROEs versus 2007.
- **Cyclicals pay dividends:** we think the world has become a bit too downbeat about Eurozone growth (see economic surprise indicator). We take a contrarian view and prefer cyclical stocks. Given Europe is knee deep in dividends (market yield is 3.85%), we add a dividend sweetener to our cyclical list

5 gaps to invest in – page 4

5 areas of progress – page 19

3 investment ideas

European strategy note also out today on market targets, scenarios & interactive models

US is 27% above its 2007/08 profit peak & Europe is 23% behind

Europe offers more EPS upside

Stocks with biggest fall in ROE since 2007 (pg 31)

Beta with a balance sheet (pg 31)

Figure 4: ROE recovery plays & cheaper than US peers

Stock Name	Rel Perf to Mkt since May 07 %	Change in ROE since 2007
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Rexel	-7	-49%
Carnival Plc	0	-49%
Umicore	21	-49%
Ericsson	-19	-48%
Mediaset	-60	-48%

Source: UBS

Figure 5: Cyclicals that offer 4.9% yield & lagged the rally

Stock Name	Rel Perf to Mkt since Jul 12 %	DY 2014
Swiss Re	-1	8.6
Swedbank	18	6.1
Standard Chart.	-50	5.5
Orkla	-19	5.3
HSBC	-8	5.0
Statoil	-29	4.7
Unibail-Rodamco	1	4.7
Amec	-25	4.4
Michelin	4	4.1
Pirelli	9	3.8
SKF B	-24	3.8
Husqvarna	15	3.7
CRH	-8	3.6
Marks & Spencer	-3	3.6
Syngenta	-30	3.6

Source: UBS

5 remaining crisis gaps

All of the 5 gaps below are unusual for Europe if we look back to the last 40 to 50 years. We are either more like a delayed US or a Japan. If we move even partially in the direction of the US, these gaps will close. The US fixed their banks by late 2010/early 2011 and economic growth followed – Europe went the other way and the two parted ways (figure 9).

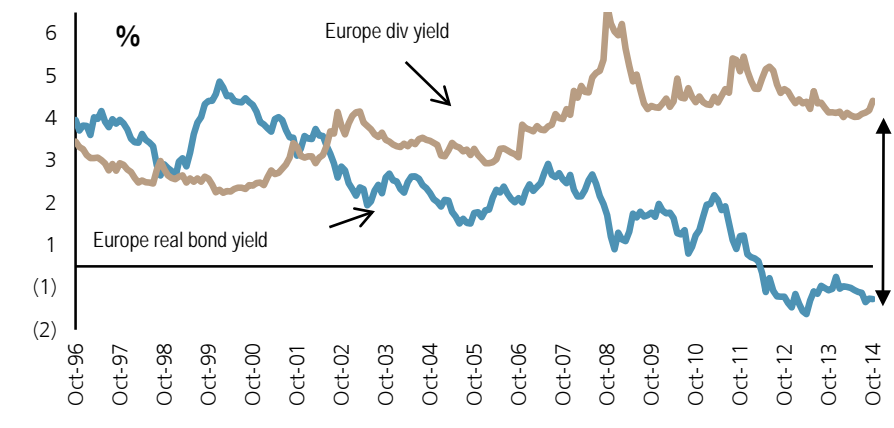
5 gaps are still near crisis peak

1. Bonds vs Equities – gap still 90% of crisis peak

The real yield gap between dividends and German 10 year bunds is now at 90% of the crisis peak. It looks like the bleakest days of the Eurozone crisis.

Figure 6: Real yield gap: Europe dividend yield vs German bund yield

Real yield gap at 90% crisis peak - points to no growth



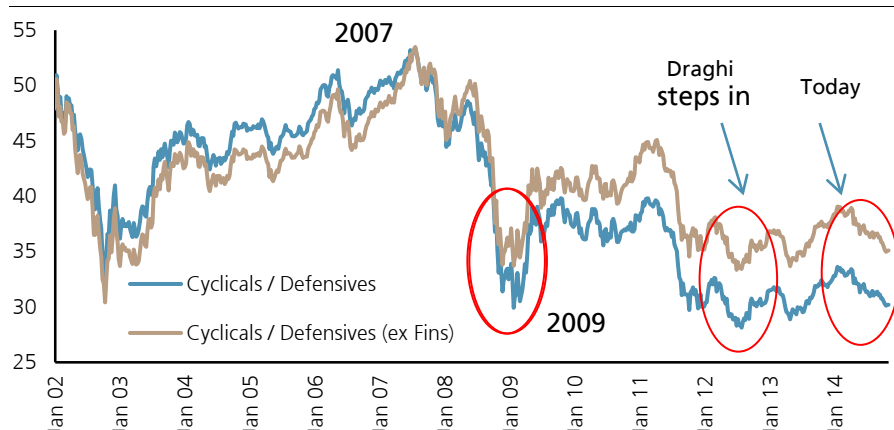
Source: UBS, Thomson Datastream

2. Cyclical performance is at crisis levels

Even the performance of cyclicals versus defensives is only 5% off the March 2009 floor and close to the July 2012 pre-Draghi rescue.

Cyclicals are as unloved as in March 2009 and July 2012

Figure 7: Cyclicals / Defensives – a long way to go.



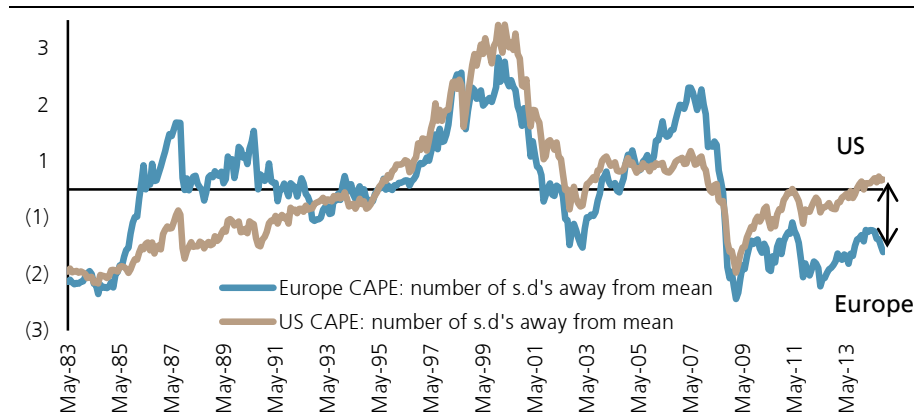
Source: UBS, Thomson Datastream

3. Valuation: US at record premium to Europe

The cyclically adjusted PE for Europe versus the US is at a record gap only seen one other time in over 30 years: in July 2012 when Draghi was forced to step in.

A disbelief in Europe's ability to grow profits relative to the US

Figure 8: Cyclically adjusted PE: US versus Europe at peak gap – 30 yr high



Source: Global Strategy Team, Datastream

Today: cyclically adjusted PE gap is at record high

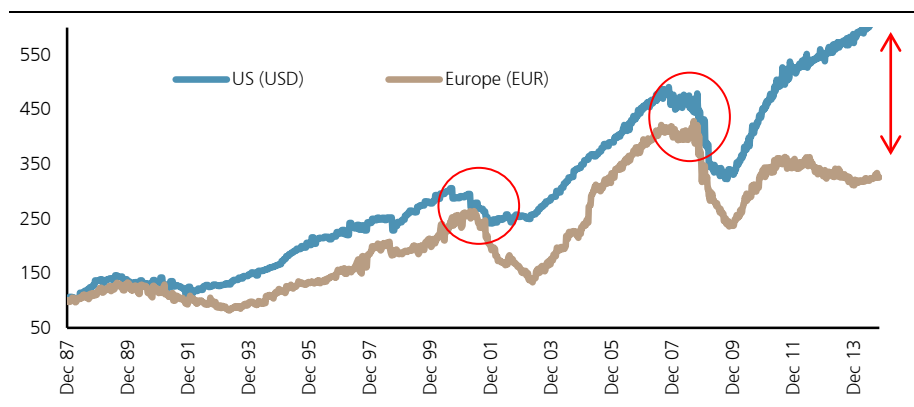
4. European profits – extreme gap to US

We have shown this gap before and each time we run it we are surprised that it is still so BIG. This gap opened up almost 4 years ago when the banks in the US were being repaired. Will we ever catch up with the US? If, just IF, US and Europe were in the same place (back at 2007 levels) then Europe would be trading on a 10.5x PE and the US on a 20.5x PE. We used to be more aligned...

No profit growth for Europe

Gap is frustrating given they used to travel together

Figure 9: Earnings gap between Europe and US is unprecedented



Source: European equity strategy and Datastream

Put both on 2007 profits and US PE would be 20.5x versus Europe at 10.5x

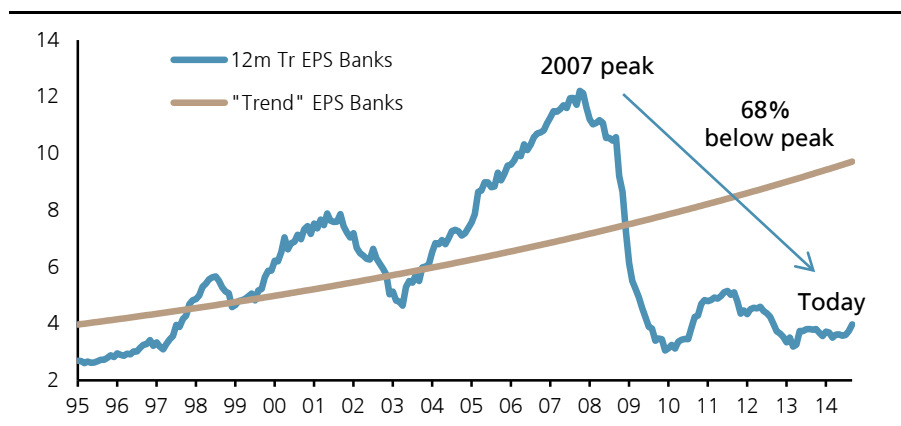
5. Sector extremes: when will big gaps close?

Banks and Diversified Financials earnings are still 67% and 68% below where they were in last cycle's peak. If we do our best to adjust for the share issuance that has taken place in the sector this falls to somewhere between 50% and 60% today and it is still big. At the peak of despair they were 74% below their 2007 peak. While balance sheets are being pruned and strengthened we still have not seen the profits.

Gap in EPS today versus 2007

If we take share issuance into account, the gap would be closer to 55%

Figure 10: Banks sector earnings – still near crisis trough



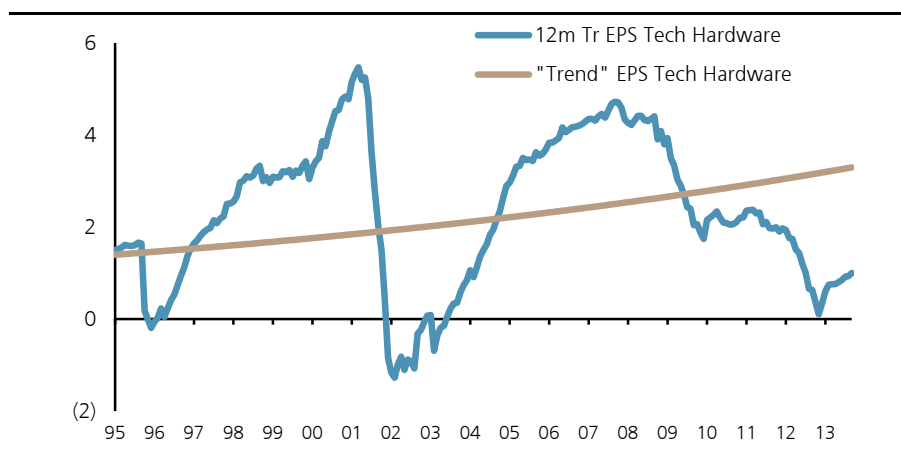
Source: UBS, Thomson Datastream

Big sectors suffering...

Technology looks a lot different in Europe than it does in the US. US Tech H/W earnings are 98% above their 2007/08 peak. To the contrary, the European sector is 74% below. See page 27 and 41 to see what the other sectors are doing.

..and small ones

Figure 11: Tech Hardware sector earnings – still near crisis trough



Source:

US tech hardware earnings are 98% above 2007 peak, Europe is 74% below (chart left)

How to invest in the gaps and why they might get better.

- These gaps drive the discussion on what to buy and how Europe is improving (however slowly)
- Please also see our **sector roadmap on a possible route back to last cycle's peak**. All that has to happen is that 10 sectors, the troubled guys, need to close today's gap to the last peak by one-third by end 2016. This will be after nearly a decade! The rest of the market can go on vacation. See page 27.

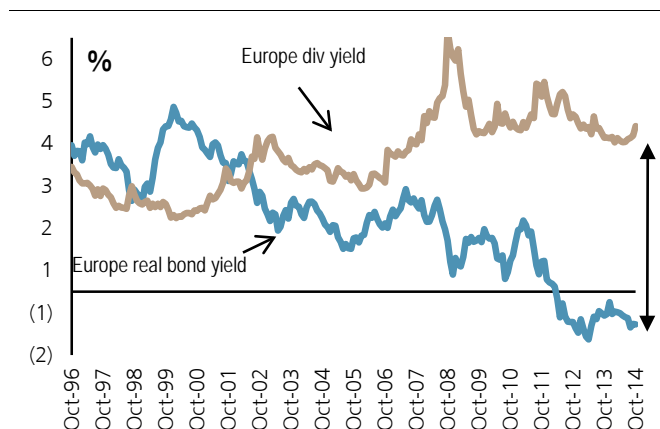
See a possible roadmap on a route back to peak – 10 sectors work hard, the rest can go on vacation

1. Yield gap extreme: equities pay

Not only is the dividend yield impressive at close to 3.9% today, its position relative to other asset classes is even more impressive. The real yield gap today between European dividend yields and 10 year German Bunds is still at 90% of the peak crisis gap, as shown vividly in both charts below.

We like dividends

Figure 12: Europe dividend yield vs German bund yield



Source: UBS, Thomson Datastream

Figure 13: Gap between dividend yield and real bond yield



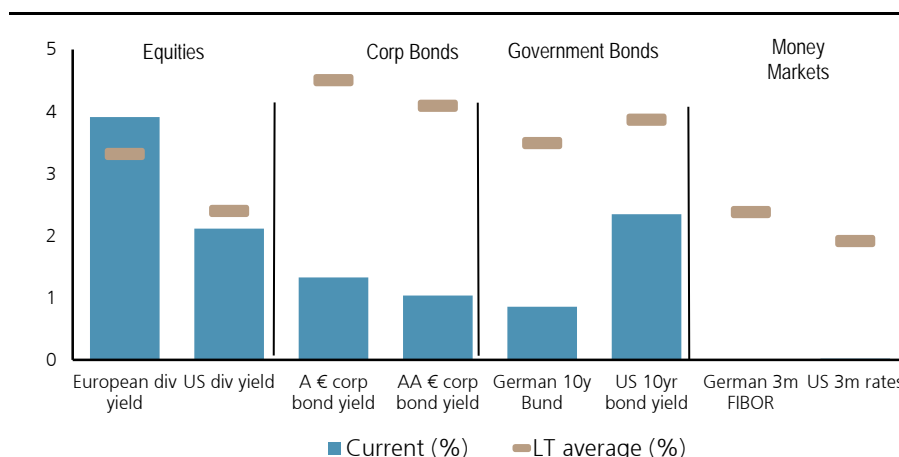
Source: UBS, Thomson Datastream

Other assets pay about one-quarter of their historical yield

The chart below shows just how different other asset classes look. While dividends offer a 25% premium to history, other assets are lucky if they pay you half – or even a quarter – of their historical yield (as below).

See cyclicals that pay a rich dividend: beta with a balance sheet on page 31

Figure 14: Asset class yields versus their 30 year averages. Equities pay more absolutely and versus history



Source: UBS, Thomson Datastream

We like and trust European dividends: 5 reasons in linked note right

In addition to the above, European **dividends** are **one-quarter as volatile** as earnings in recessions (since 1970) and the **dividend pay-out ratio** is still in line with its 30 yr average (not too stretched). For detail on 5 arguments that favour dividends, see: "Feeling nervous? 5 reasons to buy dividends, 17th October 2014". This also includes our wider list of **sector-neutral Quality dividend picks**.

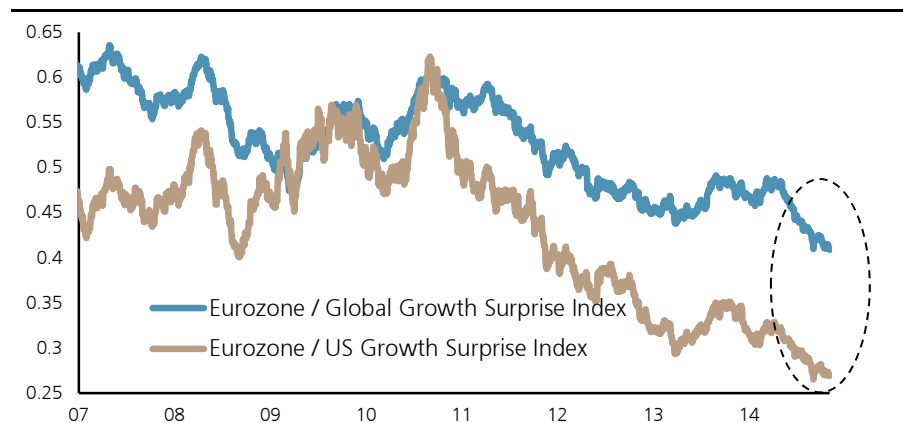
[Europe's High Quality Dividends "Feeling nervous? 5 reasons to buy dividends"](#)

2. Cyclical unloved: so we'll have some

Economic doom & gloom

The Eurozone has suffered a raft of economic disappointment relative to the world and US (see Eurozone economic surprise indicator below). But we like to play contrarians (especially with changes taking place in Europe) and think this is a good time to look at cyclicals. See macro forecasts in appendix 1.

Figure 15: Eurozone economic surprise indicator

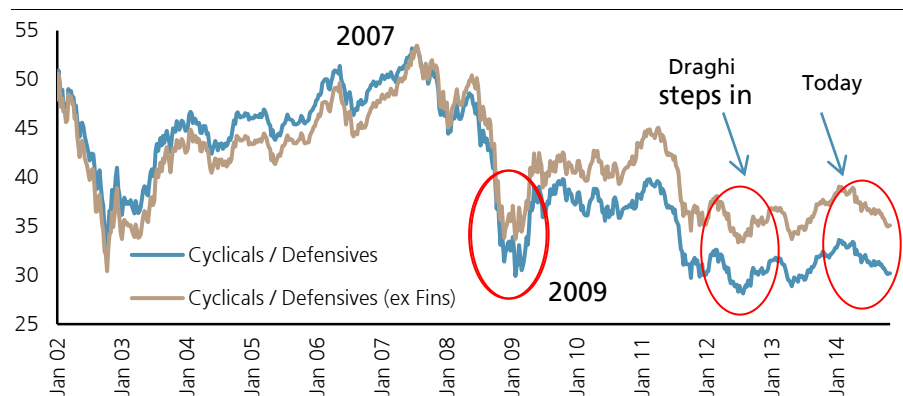


Source: UBS, Bloomberg

Performance suggest no cyclical growth as well

The performance of cyclicals over defensives looks more akin to a crisis than an economic recovery. GDP growth may be close to anaemic, but the delta is significant in a world of small numbers. With fiscal austerity coming to an end for the first time in 6 years, real income growth at a 5 year high (consumption makes up 60% of GDP), loose monetary policy with Draghi's comments on 6th November even showed him to be a bit more open to sovereign based QE (albeit it's not our base case), external help via a strong US growth story and a weaker euro (UBS forecasts 1.20 at end 2015), we think the pessimism is overdone. Both the GDP cycle and the profit cycle lagged the US, but by end 2003 and early 2004, even while GDP in eurozone was still pretty anaemic, profit growth started to outpace that in the US until the profit gap closed. While this isn't 2003-04, we don't expect a triple dip recession either. See Appendix 1, page 38 for macro forecasts.

Figure 16: Cyclicals / Defensives – a long way to go.



Source: UBS, Thomson Datastream

We like to play the contrarian

Pick up cyclicals when economic sentiment is depressed

UBS global growth goes from 3.3% to 3.5% (end 2015E)

Performance of cyclicals over defensives is already depressed so not much to lose

Macro forecasts on page 38

Please see European Economics Outlook published on 3rd November 2014.

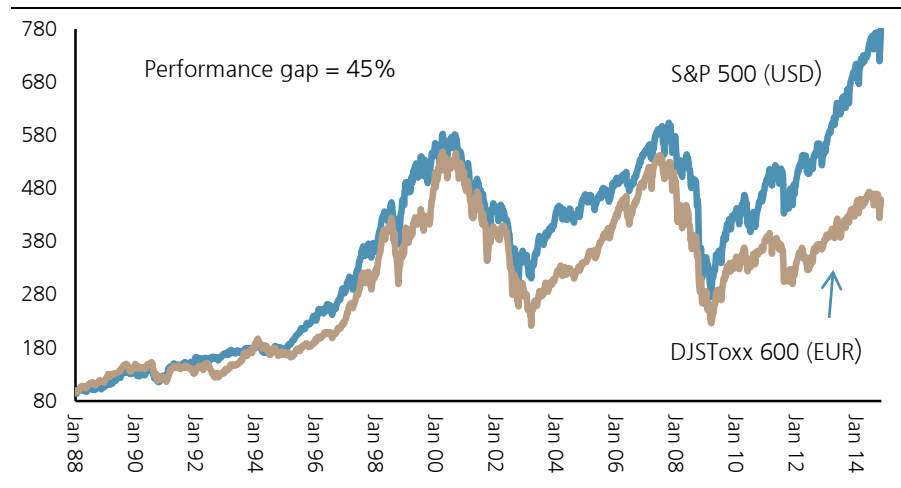
3. Valuation gap extreme: Europe vs US

Below we look at the gap to find out what sectors are behind it. Is it down to a different sector composition (e.g. more Tech in the US) or not? Or is it just a more challenging backdrop in Europe (banks, credit, fiscal reform, etc?)

US versus Europe: performance & valuation

The DJ Stoxx 600 is still 15% below its 2007 market peak whereas the S&P 500 is 30% above its 2007 market peak.

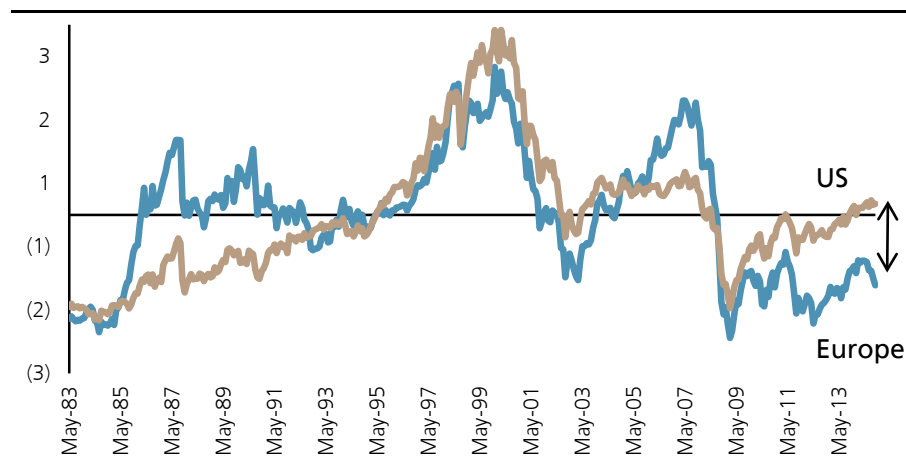
Figure 17: S&P 500 is close to 50% ahead of DJStoxx 600



Source: Datastream, UBS

If we look at the cyclically adjusted PE highlighted earlier: the gap of 1.3 standard deviations to its mean is a record gap (only seen once in last 30 years in July 2012, when the Spanish and Italian bond yields were near 7.5% and the EURO/USD was \$1.21, and when Draghi was forced to step in). In simple terms, if the gap in European earnings starts to normalise, Europe starts to look much cheaper.

Figure 18: CAPE PE versus mean for each region. A record gap and only seen once before since 1983 - in July 2012 (1.3 std deviation gap)



Source:

When will it end?

Markets & profits have materially disconnected

US cyclically adjusted PE premium at record high

US profits have recovered, but little faith in a European recovery

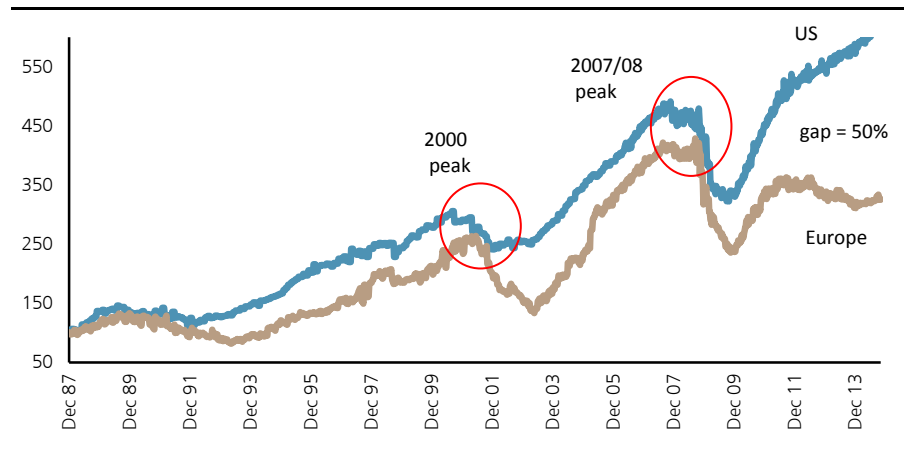
4. Profit gap extreme: Europe vs US

Total market earnings & relative ROE

We have never been here before. We are lagging the US profit recovery by 4 years, so far, after coming out of the 2009 recession. We travelled together until 2010 and then parted ways as the Eurozone went back into recession (2012 & 2013) and the US grew. The normal recovery gap is for the US to lead by 6-8 months.

Today, the US is 27% above its 2007 peak profits and Europe is 23% below. The charts don't look that different from a year ago, so maybe they don't close anytime soon? But, we are not giving up and think the gap is exceptional.

Figure 19: Gap between European & US earnings = 50%

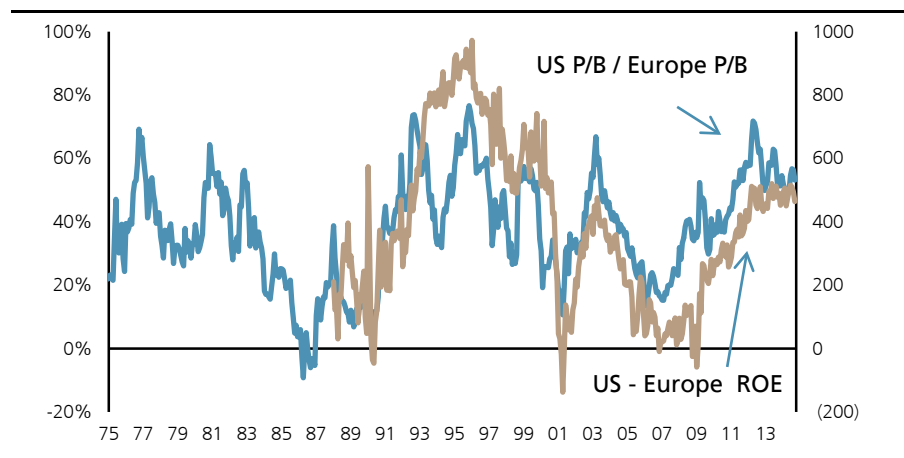


Source: Datastream, UBS European strategy team

The ROE and P/B gap are also extreme.

The US trades at a 55% Price to Book premium to Europe ex-UK. The excess ROE being earned in the US versus Europe is 4.6%. This gap is similar to 2003 and for the next 3-4 years profit growth in Europe surpassed profit growth in the US. We don't expect a repeat of a 2003 to 2007 boom, but the starting point is similar.

Figure 20: US ROE is 4.6% higher, and US trades at 55% P/B premium



Source: UBS, Datastream. Europe = Europe ex-UK

In the race to surpass last cycle's peak – the US wins by 50%

US 27% ahead & Europe 23% below

Only 30% of this is due to sector composition (pg 12)

The ROE gap = 2003 gap

US trades at 53% premium on P/B

2003 was right before European EPS growth sped past US growth

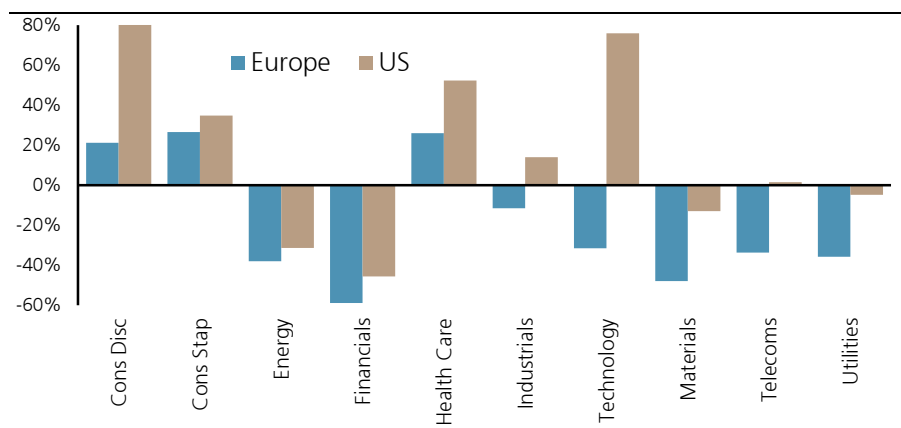
Europe vs US profits: Level 1 sectors - Europe lags in all

Which sectors are heading back to (or beyond!) the last cycle's peak more quickly? The below chart shows the earnings level today versus the sectors peak in the last cycle (07/08). The US is doing better in every category, albeit the Financials and Energy suffer in both regions.

Where are sector earnings versus the last cycle peak?

Level 1 - Europe behind in every sector group

Figure 21: Level 1 Sector earnings gap from 2007 – 2008 peak – US vs Europe



Source: UBS, Thomson Datastream

Let's dig deeper

Dig deeper into Level 2 – 20 sectors lag the US

Sectors ahead of the US: Consumer durables, beverages, household and personal and commercial services. But it is materially behind in Media, Autos, Hotels, Retailing, Tech & Semis, Food Retail, Transport, Utilities, Telecoms, and Chemicals.

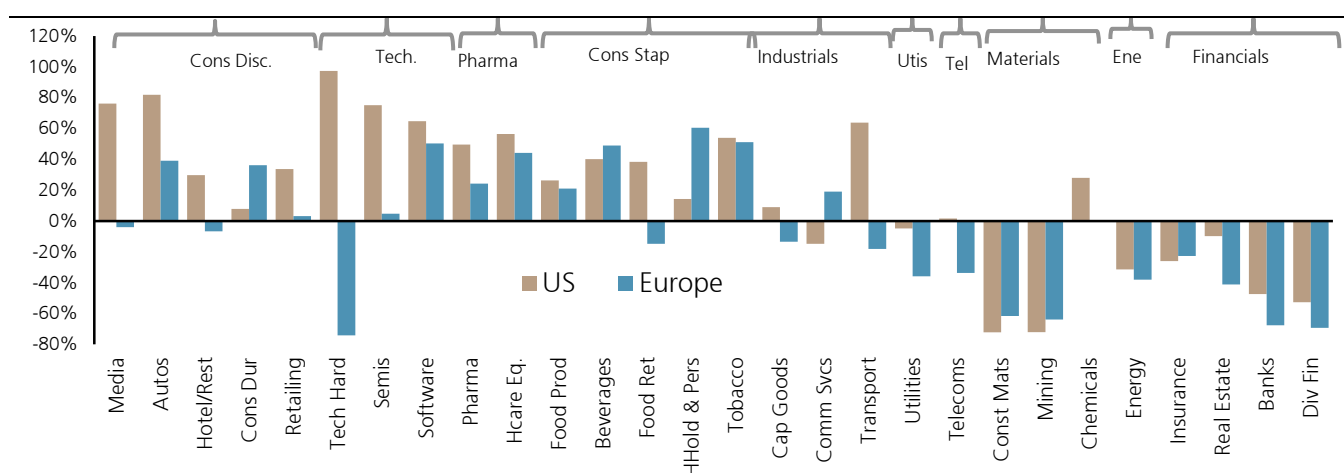
Europe is behind in 20 sectors & ahead in 4

Household & Personal does well

Those near trough levels in both regions include: Financials, Energy and Mining. The problem is Financials are Mining are 'more relevant' in Europe.

Financials & Mining bad for both, but more relevant in Europe (page 12)

Figure 22: Level 2 Sector earnings gap from 2007 – 2008 peak – US vs Europe



Source: UBS, Thomson Datastream

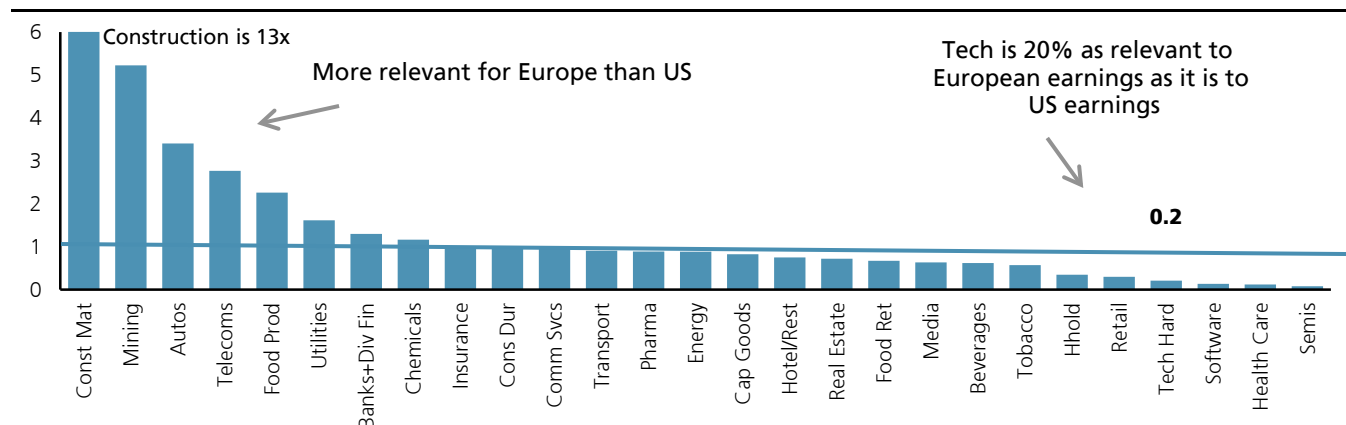
Which sectors MATTER more for Europe?

The chart below is how relevant a sector is in Europe versus the US. Mining is 5.5x more relevant in Europe than it is 'in the US'. Unfortunately the sectors that are really struggling are very relevant for European earnings: construction, mining, telecoms, utilities, banks, diversified financials.

Tech is only one-fifth as relevant in Europe as in the US

How do we get this – we look at the weight of European sector earnings / market earnings OVER the US sector earnings / market earnings.

Figure 23: Relevance of European sector earnings in Europe versus US sector earnings in US = (Ratio of sector earnings weight in Europe over US sector earnings weight)



Source: UBS, Thomson Datastream

What if we equalise sector weights?

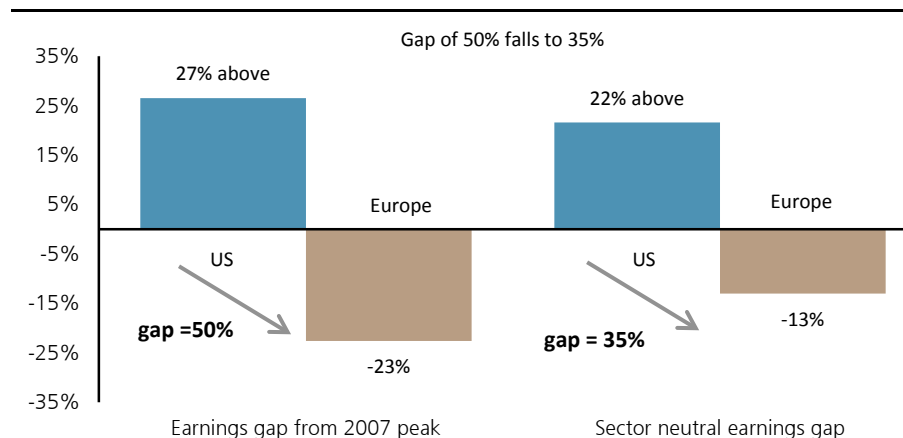
Many believe the profit gap to the US is due to them having more technology than Europe, and they are partly right. But our analysis shows that only 30% of the gap can be attributed to sector composition. 70% of the gap is due to European sectors not doing as well as US sectors. The chart below shows the original gap of 50% (27%+23%) and the gap using developed world sector weights for both the US and Europe. Here we end up with a 35% gap. The US is 22% above its recent peak and Europe is 13% below. So 70% (35 / 50) of the gap has nothing to do with their different sector make-up.

What is the gap if we give each the same sector weights?

Gap today = 50%

Sector neutral gap = 35%

Figure 24: Earnings gap to last cycle peak with & without equal sector weights



Source: UBS, Thomson Datastream. Using MSCI developed world sector weights for US and Europe

Equal sector weights – contribution to the earnings gap

Using the same sector weights for each region, the table below shows the earnings contribution from each sector to both US earnings above their prior peak, and European earnings below. Tech was the biggest contributor in the US. After being given the same sector weight as the developed world index, tech helped pull European earnings 2.9% down below the 2007 level.

Gap = 35% if we equal weight US & European sectors

**Bottom table:
21.6 + 13.3 = 35% gap**

This tells us that many of European sectors are less profitable either due to cyclical or structural reasons.

Figure 25: Where is the US / European gap coming from?

US sector contribution to its earnings being <i>above last cycle's peak</i>		Europe sector contribution to earnings being <i>below last cycle's peak</i>	
Tech Hardware	5.3%	Pharma	2.3%
Pharma	4.1%	Autos	1.5%
Media	3.5%	Software	1.5%
Cons Dur	2.7%	Health Care	1.1%
Autos	2.5%	HHold & Pers	1.0%
Software	2.2%	Beverages	0.9%
Cap Goods	1.9%	Tobacco	0.8%
Transport	1.6%	Cons Dur	0.8%
Chemicals	1.5%	Food Prod	0.7%
Health Care	1.4%	Retailing	0.5%
Food Ret	1.2%	Semis	0.4%
Food Prod	1.1%	Chemicals	0.2%
Beverages	1.0%	Comm Svcs	0.2%
Tobacco	0.8%	Media	0.1%
Semis	0.8%	Others	0.0%
Energy	0.8%	Hotel/Rest	0.1%
Retailing	0.7%	Food Ret	-0.2%
Telecoms	0.6%	Transport	-0.2%
Hotel/Rest	0.5%	Const Mats	-0.3%
HHold & Pers	0.4%	Real Estate	-0.4%
Utilities	0.4%	Cap Goods	-0.5%
Others	0.4%	Insurance	-0.5%
Comm Svcs	0.0%	Utilities	-1.3%
Const Mats	-0.3%	Telecoms	-1.3%
Real Estate	-0.5%	Mining	2.2%
Insurance	-1.6%	Tech Hardware	-2.9%
Mining	-2.5%	Energy	-4.5%
Banks + Div Fin	-8.7%	Banks + Div Fin	-11.1%
US above	21.6%	Europe below	-13.3%

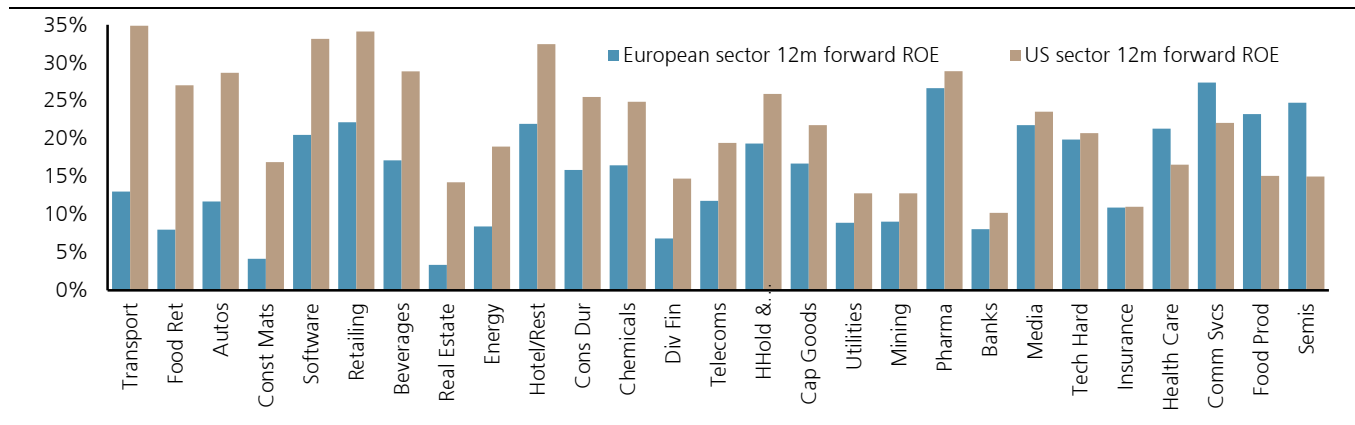
Source: UBS

ROE - European sectors less profitable

The ROE chart is **ordered by those European sectors with the biggest absolute shortfall gap in ROE** versus their US sector peers. Transport, Food Retail, Construction, Software and Retail have the biggest absolute gap. But Real Estate and Diversified Financials look pretty substantial too over a lower ROE base.

Those left have biggest shortfall to the US

Figure 26: European sector ROE vs US sector ROE – 25 out of 30 sectors have higher ROE in US



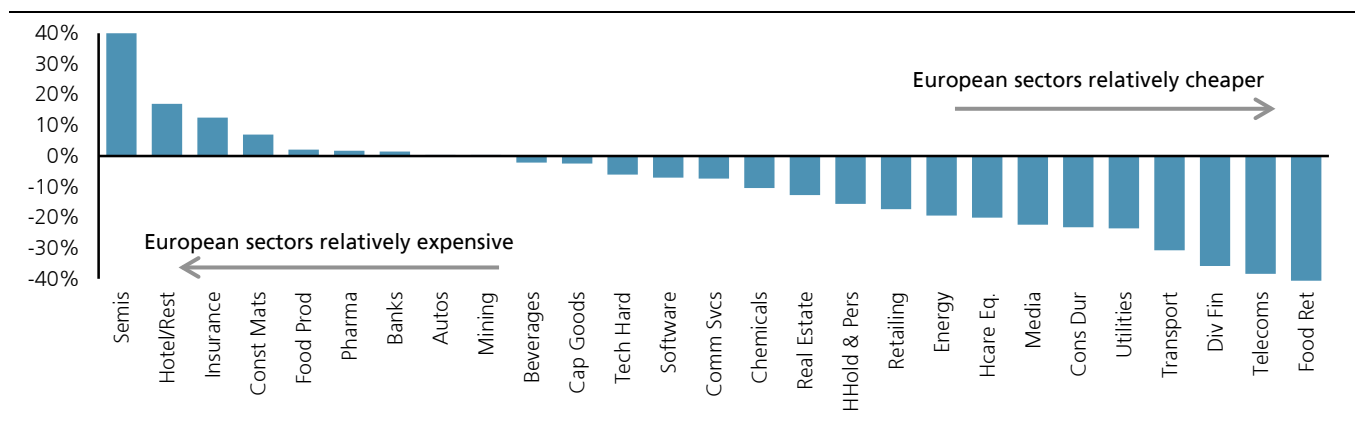
Source: UBS, Thomson Datastream

Price to Book: where are European sectors cheaper?

Many of the sectors that are cheaper than the US are also troubled. Those that can't seem to get themselves back to the prior peak – even after 7 years! Look right for most of the suspects: Food Retail, Telecoms, DivFin, Transport, etc. But how about the ones with a lower ROE and higher valuation such as: Hotels, Insurance and Construction?

Cheaper include: Telecoms, Div Fins, Media & Healthcare Equip

Figure 27: European sector relative P/B vs US sector relative P/B (premium/discount to 10 year average)



Source: UBS, Thomson Datastream

Summary: earnings lag versus & valuation gap

Here we create a scatter chart to show which sectors are lagging the US in the return to prior cycle peak earnings and which ones are cheaper too.

Sector EPS gap (vs US) & Valuation gap

In this chart we summarise the earnings and valuation gap between the two regions. By earnings we look at the gap to each sectors 2007/08 peak. The lower left quartile is where sectors are cheaper in Europe and where earnings have still not caught up to their 2007 levels **and are well behind the US's catch up**. The upper right is more expensive and earnings are ahead. Insurance is one.

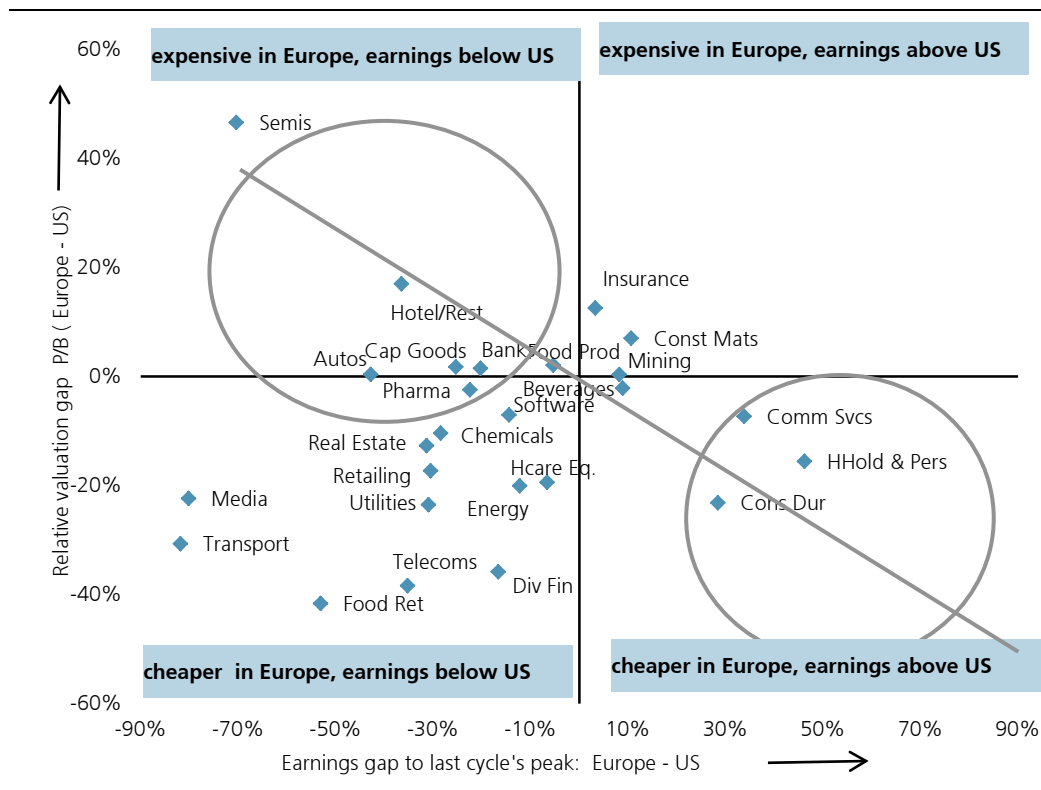
US Food Retail is 40% above last cycle peak, but 10% below in Europe so gap = c. 50% (see x axis). Food Retail is also on about a 40% discount to the US.

Who is better at getting back to (or surpassing) 07/08 peak profits?

And who is cheaper?

Tech is off the map with a c. -170% earnings gap

Figure 28: EUROPE versus US: profit gap versus last peak & valuation gap (Price to Book)



Source: European Equity Strategy

Sectors that stand out as serious laggards to the US include: Food & General Retail, Transport, Media, Diversified Financials, Telecoms, Energy & Utilities. These sectors are all pretty depressed on earnings and valuation, but given low expectations any positive surprises should reap dividends

Sectors that have done a better job on the race to surpass last cycle's peak and are cheaper than US on price to book are: Commercial Services (which we upgrade today), Household and Consumer Durables.

Sectors that stand out

Today we upgrade Commercial Services to a BUY

5. Sector extremes inside Europe

A look at how Europe is doing flags two key conclusions: 1) total profits are not moving up (see red line below); but 2) margins have started to improve.

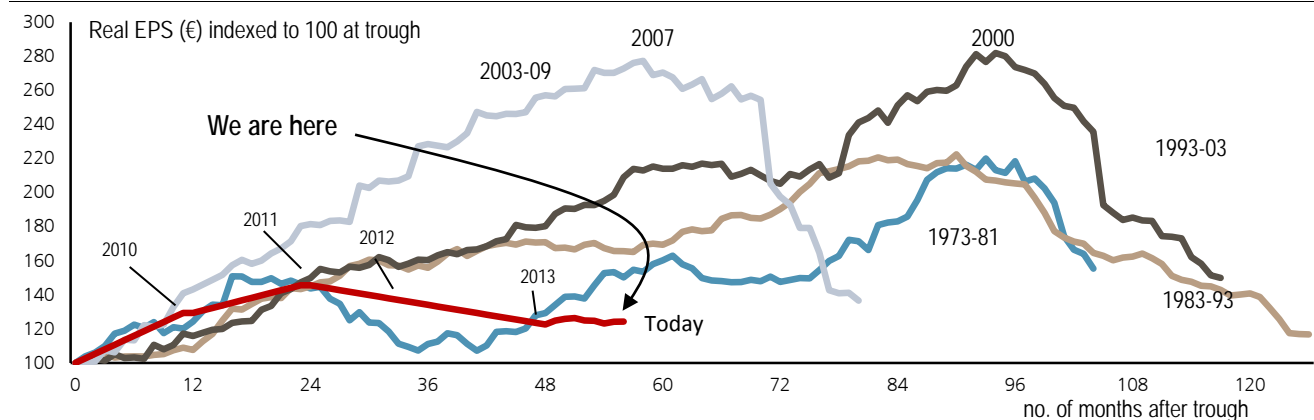
Slowest profit cycle in > 50 years

And 4 years behind US recovery

A walk through history

A look at 5 profit cycles: from trough to peak (and the fall back to trough). European profits are travelling in the slowest profit lane in c. 50 years. And for Europe as a whole they have not really moved since September 2010.

Figure 29: Profit cycle earnings progression: rebased to 100 at trough (as start next cycle) & length of cycle (x axis)



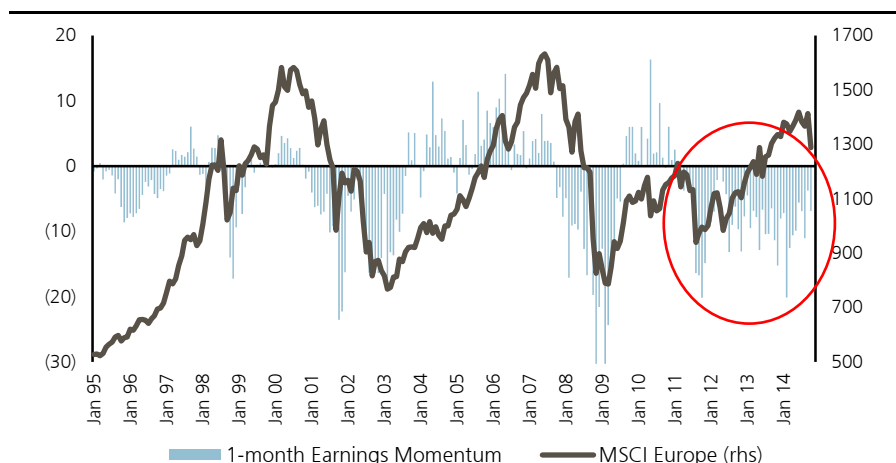
Source: UBS, Thomson Datastream. 1970s disrupted by oil price shock (as real figures above)

It's been terrible - 43 months of downgrades is a record

Ever since late 2010, earnings growth forecasts have started in positive, double-digit territory since late 2010. Yet growth has been an anaemic 1% (2011); -6% (2012); -5% (2013), and 5% (2014E). So -5% since the end of 2010 - what a disappointment.

Earnings in record territory in every way

Figure 30: 43 months in a row of earnings downgrades



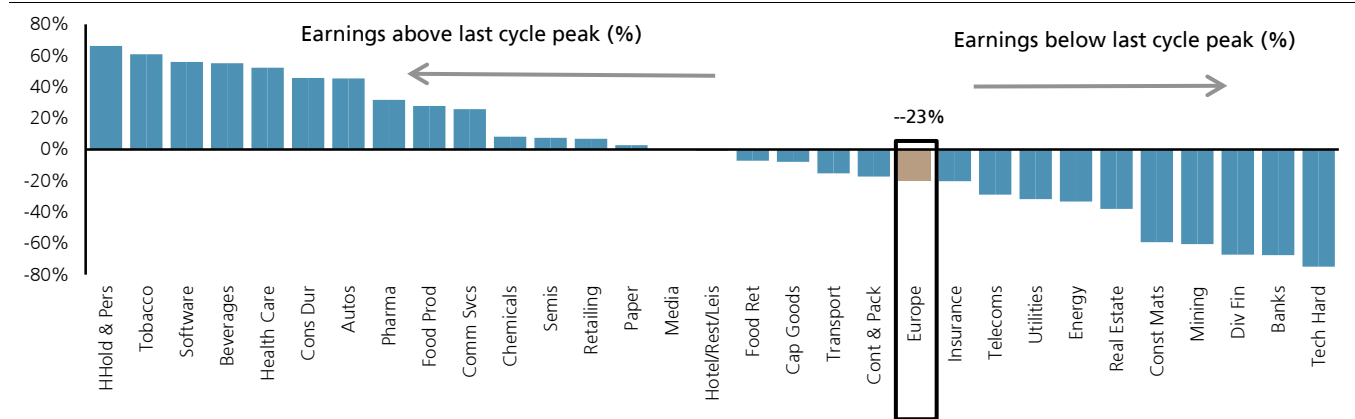
Source: UBS, Thomson Datastream

Sector gaps to their own prior cycle peak

If we just look at EPS levels today versus 2007, we can see that the left-hand sectors are still doing well (even after some earnings disappointment in the past year) and more importantly the beaten-up stuff is still depressed if compared to a 2007 world. While we are not expecting 2007 to repeat itself, we have had 7 years to grind back to those levels, not a big ask. If the US can grow well beyond 2007 – why can't we close these gaps?

Big sector gaps still exist

Figure 31: Profit levels versus last cycle's peak. International defensives largely above the last peak.



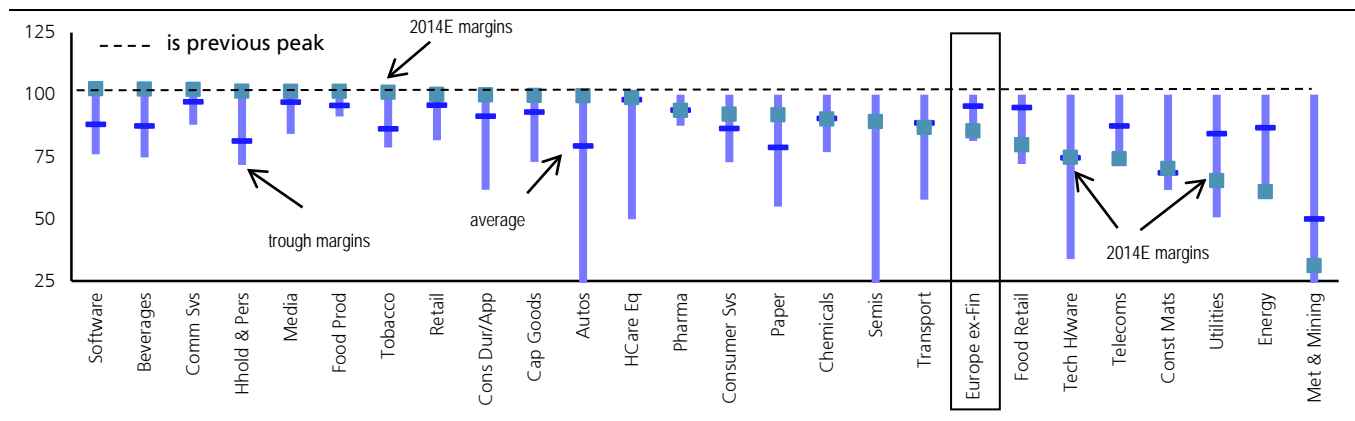
Source: UBS, Thomson Datastream

Sector Margins have improved a little though

When we published this a year ago, 13 sectors were below their 10 year average (square = today, versus little blue line). Today only 7 sectors are below their average (16 are behind their 10 year peak). Those that improved: construction, tech hardware, chemicals, commercial services, paper and cap goods are no longer below their 10 year average.

Margins improving but cyclical / domestics struggle - see right

Figure 32: Today's margins (square) vs prior peak (dotted line) & 10 year average (blue line). 11 sectors at peak margins (left)



Source: UBS, Europe Market Map

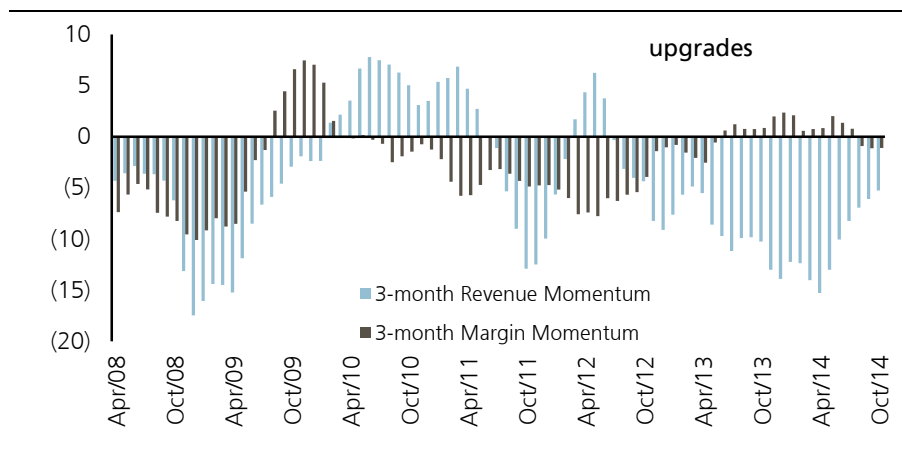
Revenues

The real problem now is getting Revenues to grow. Sales are weak on the back of weaker GDP growth and a stronger currency over the past few years, until very recently. See page 25.

Slow GDP & strong euro have not helped

The chart below shows that margins have recently been more resilient, bouncing around the base-line to slightly up. It is the revenue disappointment that has hurt earnings growth.

Figure 33: Revenue versus margins: upgrades versus downgrades



Source: UBS, datastream

Margins okay recently, but Revenue disappointment as bad as 2009

Euro now a tail-wind & should help – see pg 25

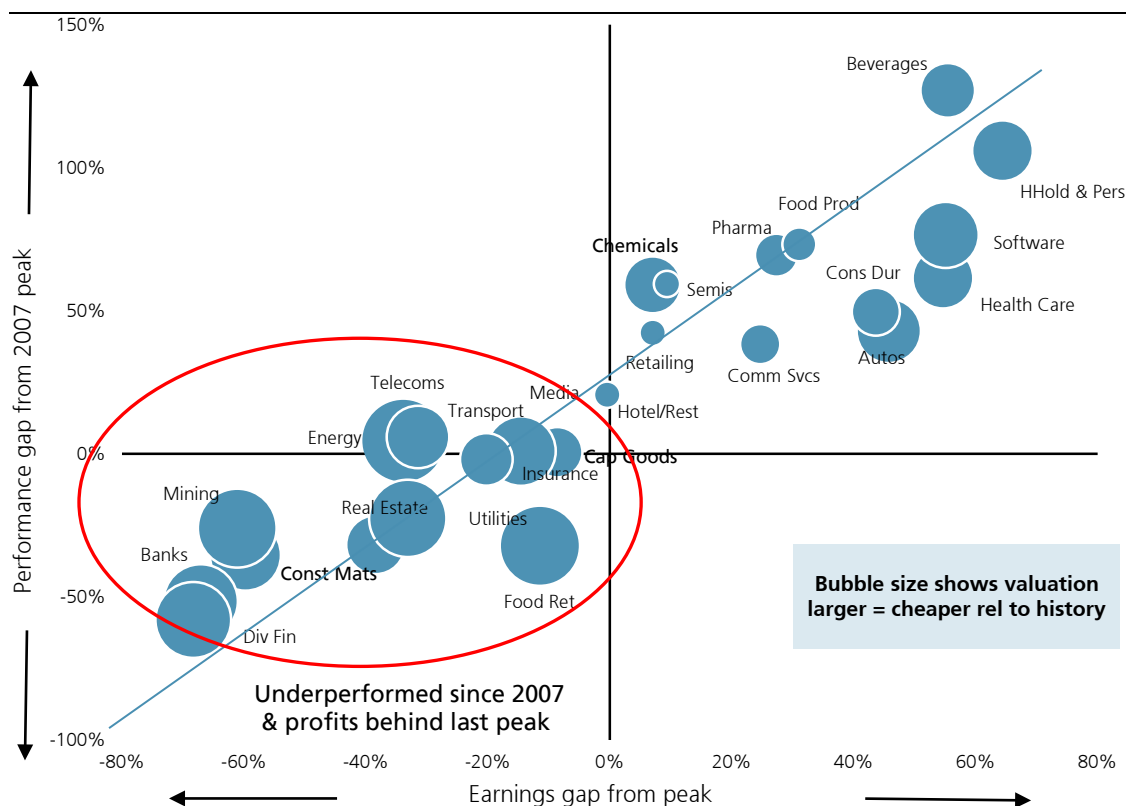
Inside Europe: Sector performance vs earnings *since 07*

The guys in the upper right corner have done well on earnings 'and' performance since 2007. If earnings gaps to the last peak start to close: Financials, Construction, Mining, Telecoms, Utilities, Food Retail and Capital Goods should do to better.

Winners: Staples & Pharma/Health

Broken: lower left corner

Figure 34: Sector Performance & earnings gaps since 2007



Source: UBS, Thomson Datastream

5 key changes to help in 2015

Below we flag 5 items that have got better over the past year.

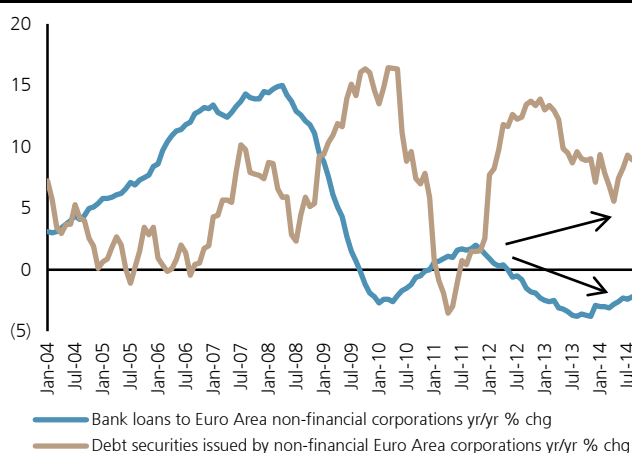
1. Banks are stronger

- The Banking sector's balance sheet is more than €200 billion stronger (as noted by the ECB) from a combination of €75bn equity raising, retained earnings growth and coco's issued. A quote from our banks team: "there has been much more enforced balance sheet contraction in Europe since the crisis. Therefore, large US banks have got bigger and large European banks have got smaller as authorities have sought to defuse the negative bank/sovereign feedback loop.
- **In June, the ECB announced the new TLTRO** The targeted LTRO is for up to €400bn in the first two auctions and up to €1 trillion in all 8 auctions combined, which will run until June 2016. In the first two, banks can borrow up to 7% of their outstanding private sector loans. In the subsequent 6 auctions, they can borrow 3 times their net additional lending, so it becomes more targeted or conditional. This, together with the Asset Backed Securities (ABS) and Covered Bonds will hopefully increase the ECB balance sheet by close to €1 trillion, but if not, the ECB has indicated it might buy other assets as well. Unlike prior LTROs, the T in front means it is targeted at lending. If you do lend, you don't have to pay it back for a full 4 years. If you don't lend you pay back in 2 years. Given bank lending makes up 80% of European corporate loans (chart below), what they do is incredibly important.

Thoughts from a chat with Philip Finch & JP Crutchley in our Global/European banks team

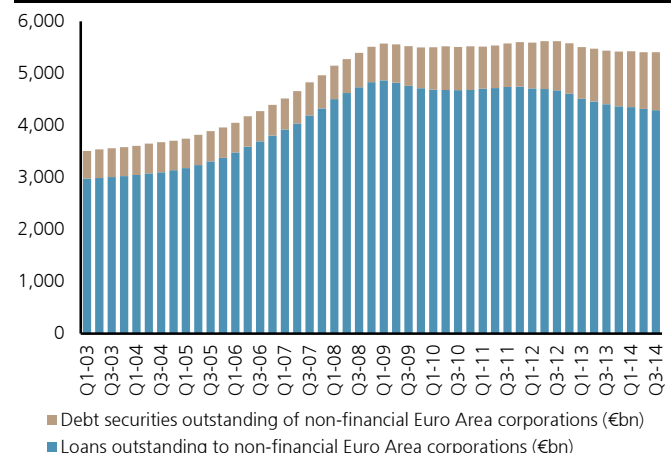
What is TLTRO? ECB provided funding costing 15 bps that is targets lending

Figure 35: Debt issuance is replacing Bank lending in Eurozone



Source: ECB, UBS European Equity Strategy

Figure 36: ...but bank lending still makes up c.80% of total loans



Source: ECB, UBS European Equity Strategy

- **Over the AQR (asset quality review) hurdle.** The view from Philip Finch and John Paul Crutchley from our Global/European banks team is as follows: While the AQR/stress test may have limited direct read-through for banks outside the Eurozone, it has helped strengthen confidence in the health of the banking sector in Europe, which is important for ensuring financial stability globally. The successful completion of the AQR/stress test in the Eurozone is an important milestone towards the restoration of balance sheet strength for banks that is

necessary both for underpinning macro-economic growth in the region as well as ensuring financial stability globally. As the most credible assessment of the health of the largest banks in the Eurozone to date, it should also help bolster market confidence that over time could potentially lower risk premiums and cost of equity. Only 11 out of 130 banks failed the test outright and less than \$10bn in equity needed to be raised.

Catching up to the USA: As witnessed in the US, the early recapitalisation of the banking sector (via state capital support otherwise known as TARP) soon after the start of the global financial crisis in 2008 and subsequent stress tests of banks' balance sheets, **paved the way for a recovery in the US economy** in recent years. It also helped profitability and returns for US banks to recover more quickly, although with sector ROE at around 10% today, it remains well below historical levels. In contrast, the capital raising process for banks in the Eurozone has been very drawn out, and reflecting this, economic recovery in the region has taken longer while sector profitability lagged. Based on our bottom-up estimates, we forecast Eurozone banks' ROE at 4.7% in 2014 and at 8.3% in 2015E and over 9% in 2015E.

Catching up to the US

- **The banks have had positive EPS momentum** relative to the market this year to do a winding down of write-offs and provisions (where the US banks were in 2010 and 2011). Next year their 2015E earnings account for 25% of the European market's EPS growth.
- But **REGULATION still creates uncertainty**. JP reminds us that the US is growing, but Europe isn't. Credit creation and demand lags a recovery, it doesn't lead it – at least that's the lesson of previous economic downturns. Europe is not only not growing but has a high debt load and is more dependent on a banking system that has been subject to a more uncertain regulatory environment as we have moved to the ECB as regulator and introduced leverage ratios as a new regulatory tool.

Next year their 2015E earnings account for 30% of the European market's EPS growth.

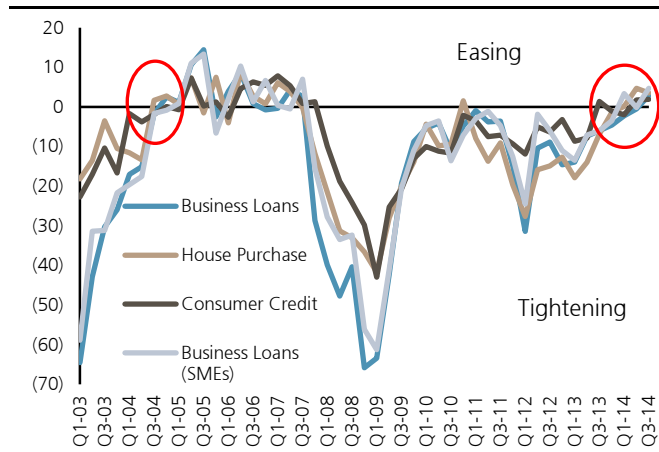
2. Credit conditions – at a 7 year high

The above TLTRO program should support a better credit backdrop (all else being equal). And things are looking a little bit brighter if we look at the progress being made below.

ECB survey at 7 year high on 2 fronts

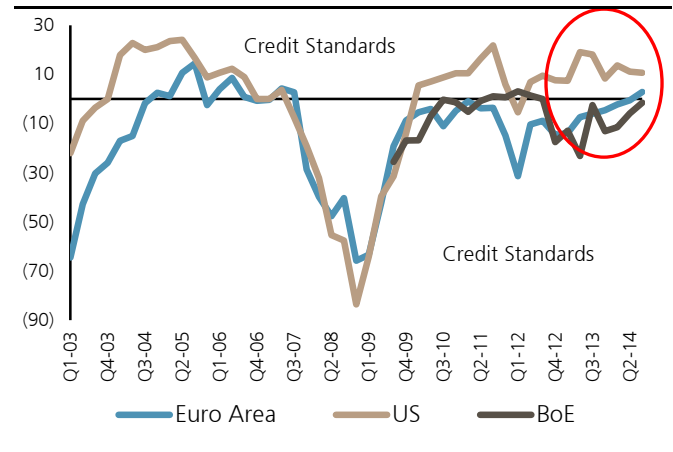
- In Q3 of this year it is the first time in 7 years all 4 pockets of lending are in EASING camp, and in Q3 of this year it is the first time in 7 years that business lending has been in easing.

Figure 37: Getting easier? All 4 in easing camp: 1st since 2007 !



Source: ECB October credit survey, European equity strategy

Figure 38: Sentiment: Gap closing between all 3

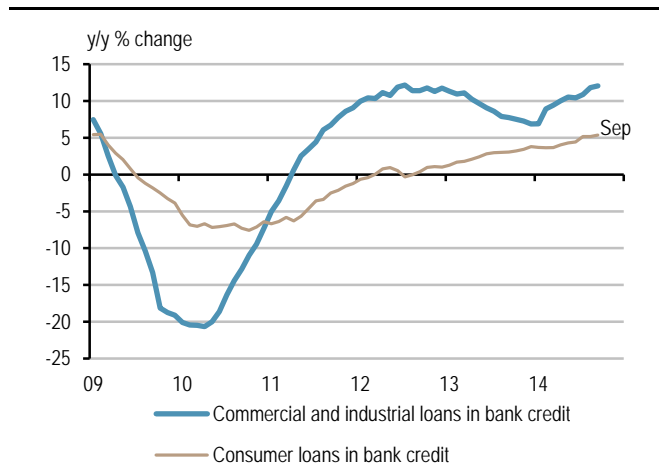


Source: ECB, Fed and BoE credit surveys, European equity strategy

Lending US versus Eurozone – trying to turn up

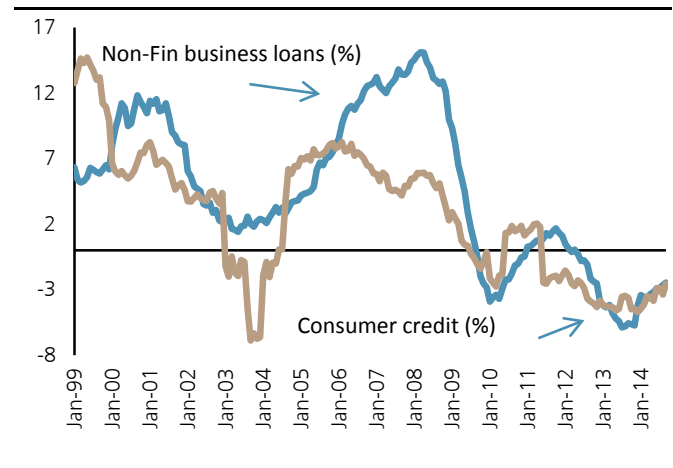
Still negative in the Eurozone, after a false dawn in the short lived 2010 recovery. But at least the 2nd derivative is turning up again.

Figure 39: US – consumer credit and business credit is growing! Spot the 2010 turn



Source: UBS, Haver

Figure 40: Eurozone: Not growing yet. Corporate and consumer lending growth (%)



Source: UBS, Haver

3. Falling oil price helps Eurozone & could it trigger QE?

Andy Cates, our Global economist, estimates there is presently **around a \$15 discount in the price of oil (from UBS \$100 base case) relative to previously established relationships with US and global demand fundamentals**. If the price sits at \$85 for a year, Andy's simulated impact on inflation suggests inflation in the Eurozone falls by, ceteris paribus, 0.6pp (chart below). **GDP** rises in emerging markets by 0.3pp to 0.5pp on average, the Eurozone by 0.22pp and the US is up close to 0.2pp. Emerging markets also do very well and close to one-quarter of Eurozone exports go to emerging markets. It suggests that European economies with high oil import intensities ought to benefit more from lower oil prices than the US or Japan. The fact that the European Central Bank explicitly targets headline inflation (which includes energy prices), unlike the Fed which targets core inflation (excluding energy and food), could be another source of support for more action by the ECB

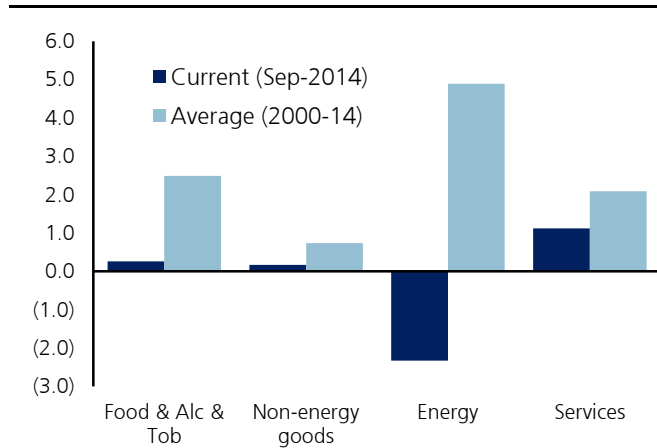
Good for global GDP & Eurozone companies are big exporters

Oil at \$85 is a 'good' force of lower prices

European Equity Strategy "\$85 oil price sticks - big bazooka for Europe?"

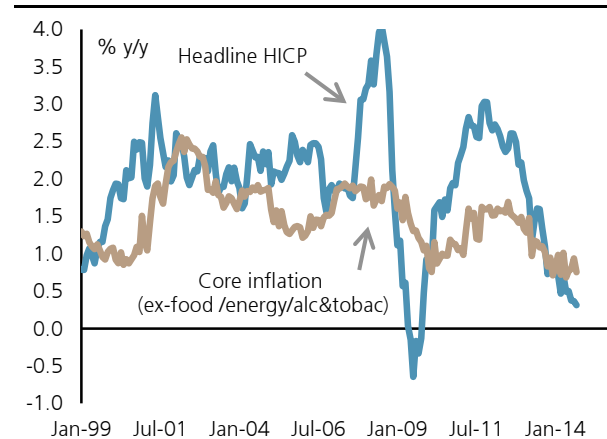
Global Economic Comment "Oiling the wheels"

Figure 41: Inflation by category: Energy a big drag



Source: Datastream, UBS European Equity Strategy

Figure 42: Currently Eurozone HICP at 0.3

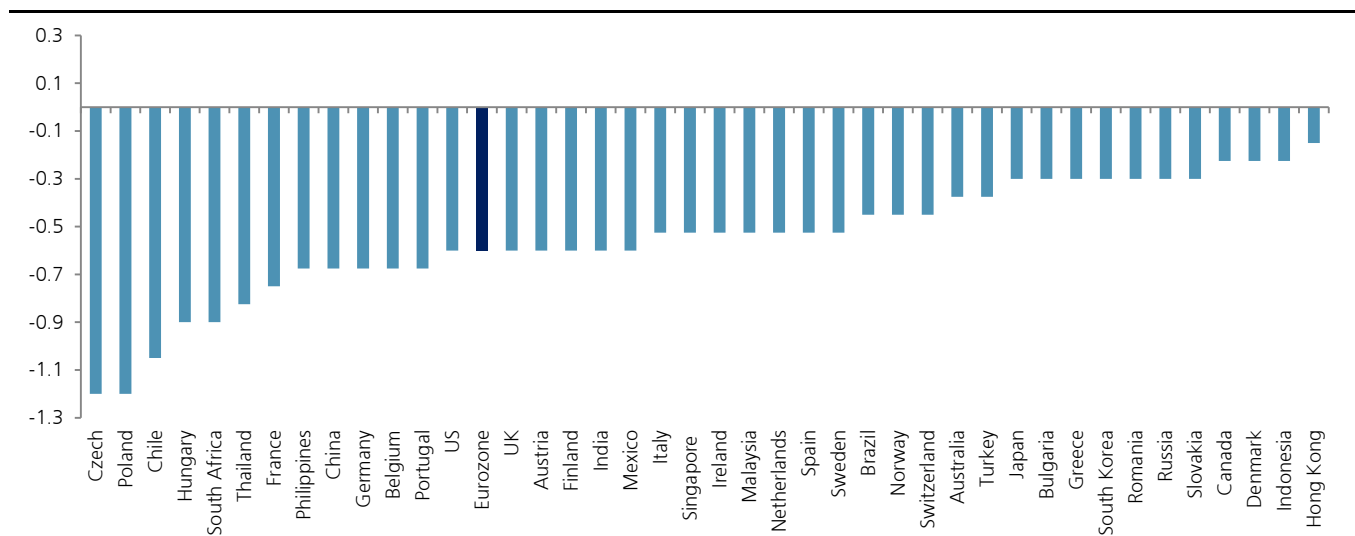


Source: Haver, UBS European Equity Strategy

Would the fall in CPI – if it was to occur or even partly occur – trigger QE? We ask our Eurozone economist, Reinhard Cluse, for his view on this scenario.

Would it trigger QE QE

Figure 43: IMPACT on CPI in Eurozone: falls by 0.6pp if oil price stays at \$85 all year (all else being equal)



Source: UBS

Europeans economist's view on oil scenario and QE

This is just a scenario. Our base-case is a modest pickup in inflation to end 2015 from 0.5% to 1.0% in the Eurozone and we still dig our heels in and assume no QE, but the risks to that view are rising.

Back to the oil simulation, firstly, the 0.6pp decline in headline inflation that our sensitivity model has calculated would most likely **squeeze Eurozone HICP into negative territory** in y/y terms. In our view, this could well force the ECB to further increase its monetary stimulus. While the ECB has so far announced the purchase of ABS and covered bonds, we would expect the Bank to accelerate and expand its asset purchases, **probably by including corporate bonds and/or sovereign bonds**. Hence, we believe that the decline in inflation – and its impact on longer-term inflation expectations – would be so disconcerting that it would force even the conservative Bundesbank and its hawkish allies in the ECB Governing Council to give up their resistance against broader-based asset purchases, including sovereign bonds.

In the US, QE contributed significantly to declining bond yields. This was important, as the bond markets are the dominant source (> 80%) of borrowing in the US. In Europe, however, bond yields have already fallen so low (bund yields at 0.87%) that QE might not achieve a further significant downward shift in yields. And any decline in yields might be less relevant than in the US, because the dominant source of corporate funding is not the bond market, but the banking system.

Instead, QE in Europe would probably work mainly via a **weaker Euro exchange rate**. By buying assets, currently ABS and covered bonds, but perhaps also corporate and sovereign bonds in the future, the ECB raises liquidity in the system. But it discourages this liquidity to flow back to the ECB by imposing negative deposit rates (-0.2%). And since the Eurozone's capacity to absorb the liquidity through spending and investment is limited, we expect a good share of the excess liquidity to leave via capital outflows, hence driving the EUR weaker.

Reinhard Cluse on oil scenario and QE – for further detail see note referenced above

HICP could go into negative territory

Could move to sovereign bonds

But unlikely to reduce the bond yield much further

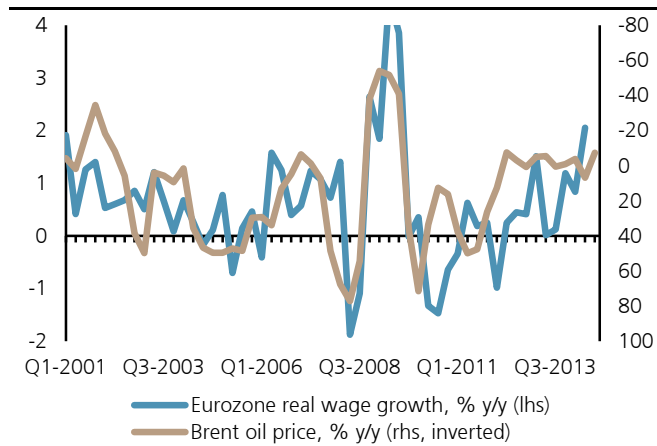
Result – a weaker Euro.

Good news again for one of the world largest exporters.

3a. Consumer – real wage growth best in 5 years

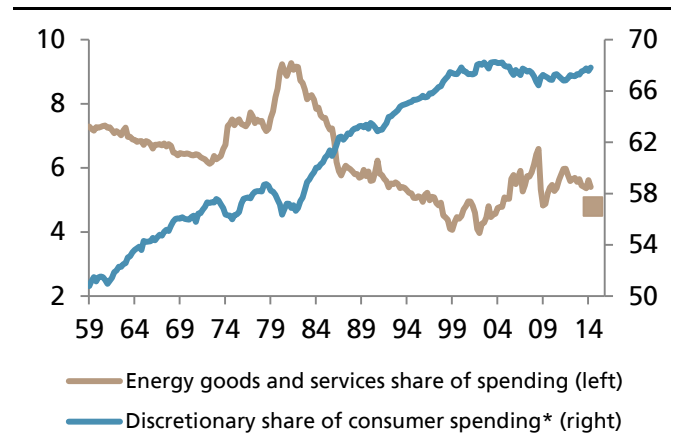
The real wage growth ties in nicely with oil prices, but has also been rising steadily. Today it is the highest in 5 years.

Figure 44: Eurozone - consumer & real income boost from falling OIL



Source: UBS European Economics

Figure 45: US: Energy share of spending vs discretionary share of spending. Today = box.

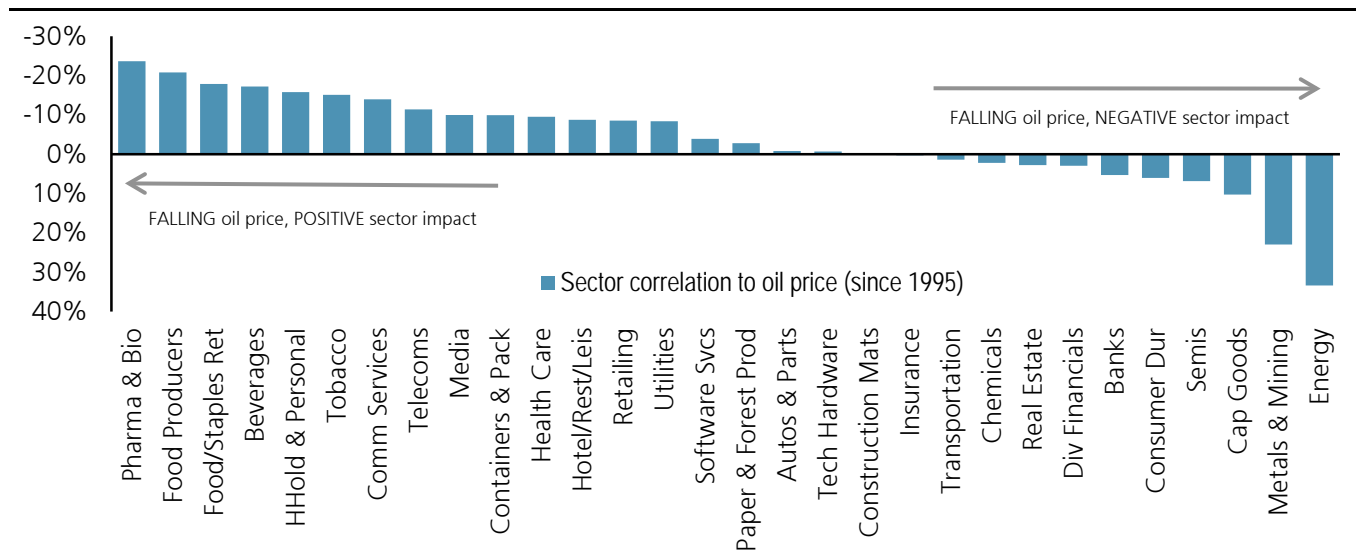


Source: UBS European Economics

Sector correlation to oil price favours consumer

Looking simply at the correlations since 1995 between sector performance and the oil prices suggests to us that the sectors most negatively impacted by a falling oil price, alongside the obvious commodities, are some of the cyclical, but that is also if GDP is also falling. The winners from a falling oil price are consumer-facing partly because of consumer purchasing power rising (as real wages rise).

Figure 46: European sectors – sector performance correlation to oil price (weekly returns, since 1995)



Source: Datastream, UBS European Equity Strategy

4. Weaker Euro – boost to revenues

We estimate that a 10% fall in the trade-weighted euro boosts profitability by 4% to 6%, which is a huge support given it has gone the other way for the past few years. In Q1 and Q2, a strong trade-weighted euro triggered the highest revenue misses since 2009 (light blue bars in chart right). In Q1 and Q2 of this year, the US saw more revenue beats than misses according to Julian Emanuel, our US Equity and Derivatives Strategist.

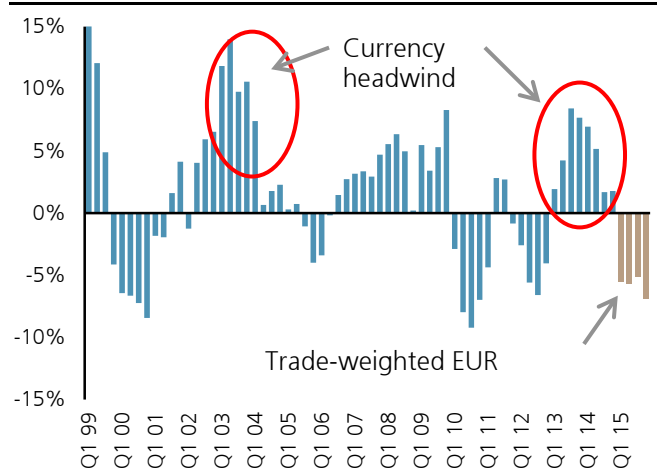
Our house view is for the euro/USD to fall to 1.20 by end 2015. \$1.20 is also considered fair value. All else being equal, a fall to 1.20 would cause a c. 5% decline in the trade-weighted euro and a 3-4% boost to profits.

Strong euro in Q1 = worst revenue downgrades since 2009

House view – Euro/USD at \$1.20 end 2015

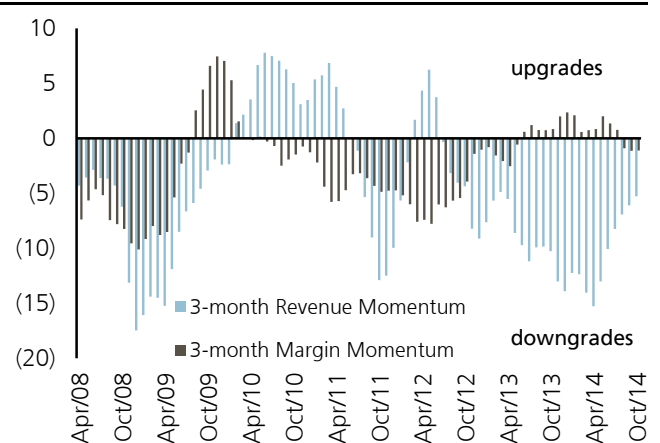
Boost to profits = 3-4%

Figure 47: Trade-weighted drag is ending



Source: UBS, Thomson Datastream

Figure 48: Revenue downgrades closely linked to euro



Source: UBS, Thomson Datastream

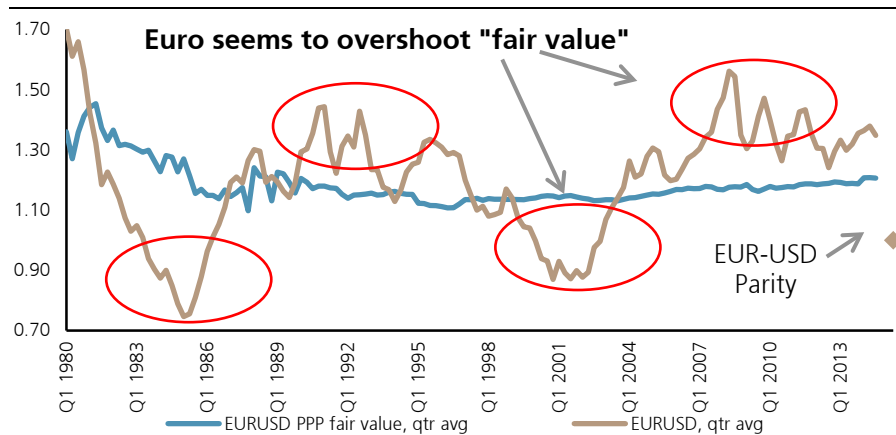
The euro never stops at fair value

The euro is another key support to profit growth and history says it never stops at fair value. We could get an even bigger boost given the difference in Fed and ECB monetary policy, etc. In our recent report "What if the Euro goes to Parity?" 3rd November, we look at the impact of a fall in the euro to parity against the US dollar. This suggests an 11% boost to earnings in year 1 and a cumulative 20%+ boost over 3 years – not bad when profit growth has been -5% since 2010.

But it never seems to stop at fair value. See note below.

What if the Euro goes to Parity?

Figure 49: EUR/USD and PPP fair value estimate (Quarter average)



Source: Haver, OEF, Thomson Datastream, UBS European Equity Strategy

5. Margins are beginning to turn – ripe for operational gearing if get revenue growth

The below is a net profit margin chart – so it is after 'everything' essentially and harder to pin-point the exact driver. But the gap below (that was also recently at a record to the US) is starting to close.

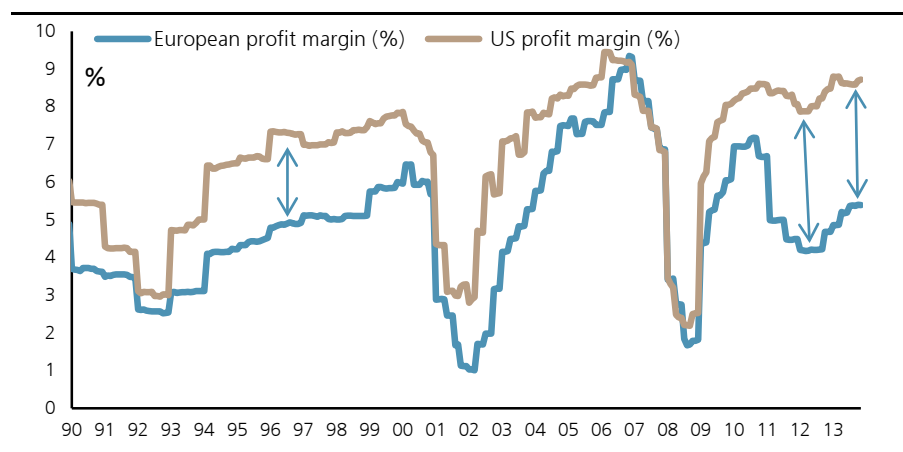
If the euro does remain weak (or indeed hit our year-end 1.20 target, all we need is a weakening euro and some decent (okay even) GDP-based revenue growth to fire up some powerful operational gearing.

Margins are starting to turn up

We just need revenue to join in

Any improvement in GDP and the euro should help

Figure 50: European vs US profit margins



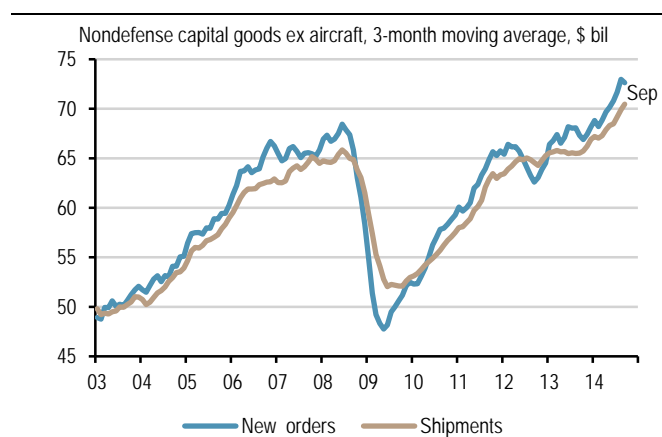
Source: UBS, Thomson Datastream

Capex – hasn't turned noticeably yet

Capex doesn't make the top 5 changes, because it is still pretty dire and recently ticked back down. Our team looked at the typical capex recovery style since 1945 in the US. Normally, 4 quarters after GDP troughs it begins to pick up. On this basis, **Europe is 4 years late**. But we don't believe it is dead forever. Once the companies believe that some of the pressure has been removed from the banks (AQR dangling, equity issuance), they might start to spend a little bit more. Reinhard Cluse, our Eurozone economist, suggests that capex normally starts to fire up when capacity utilisation gets to somewhere between 80% and 85% – it looks like we are getting close.

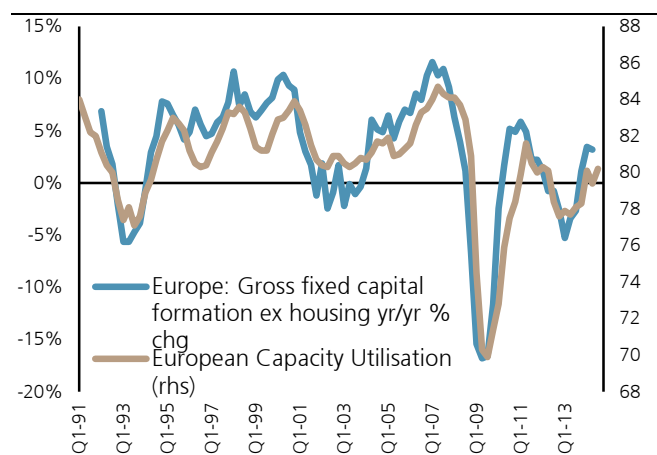
Capex is still disappointing so we leave it out of our top 5 change, but we think it's on the cusp

Figure 51: US cap goods order - picture only



Source: UBS, US economics team

Figure 52: Capacity Utilisation is just touching 80%



Source: UBS economists

A roadmap to last cycle's peak profits

Many are sceptical that Europe will return to its 2007 profit peak any time soon after 4 years of disappointment. **One year ago we forecasted that Europe would return to last cycle's peak profits by end 2016.** We still believe that will happen. To get to the 2007 market peak requires c. 10% growth for just over 2 years which would be compounded to 24%.

We update our scenario of what has to happen to the broken sectors (and others) to get us there. We think this is reasonably conservative and it gets us back to 2007 profits by end 2015. This is a top-down exercise – we do not involve our bottom-up analysts.

In our scenario, 12 sectors do NOT need to get back to their 2007 profits by 2016.

Why should we get back?

- RECORD gap to US is verging on the bizarre
- Europe is travelling in slowest lane in over 50 years. We are due some growth.
- TMT sectors returned to peak profits within 5 years of the 2000 tech crash.
- Japan returned to its peak profits within 15 years – but didn't act for 5 years. We are asking Europe to get there in 9 years. See 2nd September 2013, "Can Europe return to their 2007 peak", for views on Japan.

Road map back to last cycle's peak by end 2016

We divide European sectors into three groups:

Troubled: sectors still more than 25% below their 2007 peak profit level get to close their current gap to last cycle's peak by only one-third

In-betweeners: sectors travelling near 2007 levels grow at long run trend

Sky high-club: sector flying way above 2007 profits – grow by half trend

Sector growth table below

The scenario in the table below delivers c.10% growth a year and 24% compounded. This will get us back to (within 1-2%) of where we were in 2007. While not all of the sectors will look sensible, as a whole this is a logic test of how difficult it will be.

We are comforted by the fact that all we need is for the TROUBLED SECTORS to close their gap to the last cycle's peak by one-third (see last column below). This drives the annual growth in column 5. For the others we use trend growth rates.

Financials and share Issuance – but our work is done on EPS falls. If we look at total earnings (not disrupted by share issuance), the fall in Banks' total earnings from 2007 to 2013 end is 55% and that of Diversified financials is 52% from 2007 by end 2014 estimates, whereas below it will be higher given the EPS nature of our analysis and the need to be consistent throughout.

How to get back to last cycle's peak by end 2016

12 sectors don't need to get back...

.. but market EPS still grows at c. 10% a year

Crazy gap to US

Slowest profit cycle in 50 years

TMT got back in 5 years & Japan got back in 15 years

Troubled sectors close current gap by 1/3rd

In-betweeners grow at trend

Sky high club at half trend

Page 41 for charts of all sectors and where they are versus last peak.

Figure 53: Earnings growth scenario gets you back to 2007 peak earnings by end 2016

	Gap to last cycle peak profits <i>at sector TROUGH</i>	Gap to last cycle peak profits <i>TODAY</i>	Delivers a Growth scenario	GROWTH: Our scenario's annual growth rate (%)	Consensus annual growth Ave (15/16).	Growth = we close TODAY'S gap by 1/3rd by end 2016
TROUBLED GUYS – Current gap from the peak earnings 20% or more, grow to close the gap by one-third						
Tech Hardware	-95%	-74%	Above Trend	34%	25%	-49%
Div Financials (pg 25)	-70%	-68%	Above Trend	28%	24%	-46%
Banks (pg 25)	-74%	-67%	Above Trend	27%	19%	-45%
Metals & Mining	-68%	-61%	Above Trend	21%	15%	-41%
Construction Mats	-67%	-60%	Above Trend	20%	26%	-40%
Real Estate	-46%	-38%	Above Trend	9%	5%	-26%
Energy	-41%	-34%	Near Trend	7%	7%	-23%
Utilities	-33%	-33%	Near Trend	7%	4%	-22%
Telecoms	-31%	-31%	Near Trend	7%	8%	-21%
Insurance	-48%	-20%	Near Trend	5%	5%	-14%

IN-BETWEENERS – Sectors hovering around their 2007 peak (without big issues) GROWTH AT TREND						
Transportation	-44%	-15%	Trend	4%	15%	-7%
Food/Staples Ret	-11%	-11%	Trend	4%	8%	-4%
Cap Goods	-19%	-9%	Trend	6%	13%	4%
Hotel/Rest/Leis	-22%	-1%	Trend	4%	12%	8%
Media	-16%	0%	Trend	3%	10%	7%
Chemicals	-5%	7%	Trend	8%	11%	27%
Retailing	-11%	7%	Trend	5%	11%	20%
Semis	-27%	9%	Trend	11%	31%	38%
Comm Services	-4%	25%	Trend	4%	11%	36%

SKY HIGH CLUB – Sectors flying well above 2007 peak – GROW AT HALF TREND						
Food Producers	6%	27%	Half Trend	3%	9%	37%
Pharma & Biotech	17%	31%	Half Trend	4%	8%	44%
Consumer Dur	-8%	44%	Half Trend	3%	13%	52%
Autos & Parts	-14%	46%	Half Trend	2%	14%	53%
Health Care	15%	55%	Half Trend	4%	12%	68%
Software Svcs	-5%	55%	Half Trend	4%	10%	70%
Beverages	11%	55%	Half Trend	3%	9%	67%
Tobacco	20%	59%	Half Trend	6%	7%	81%
HHold & Personal	16%	64%	Half Trend	6%	7%	87%

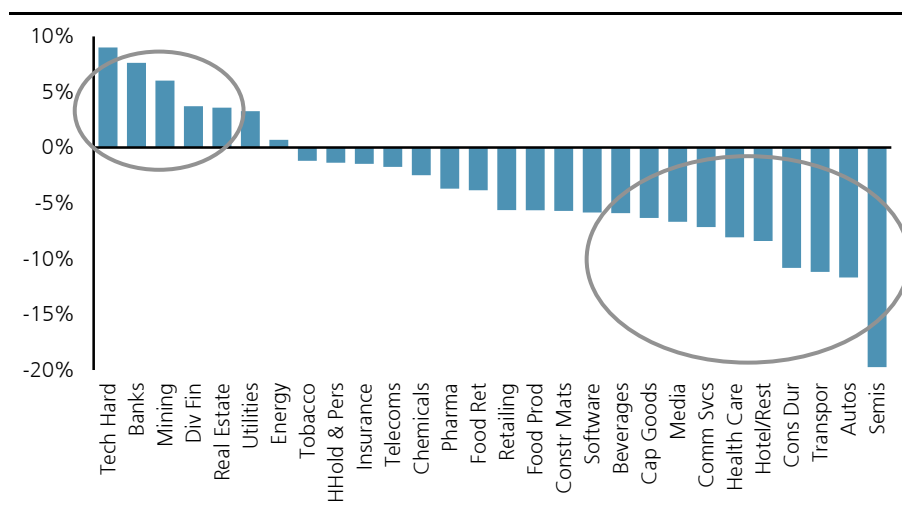
Source: UBS

How does this compare to consensus?

We only expect 5 sectors to grow ahead of consensus; the bulk of the market doesn't even need to get close to consensus estimates if the troubled guys improve. Chart below shows where our TOP-DOWN EPS growth estimates differ the most from consensus estimates. We use average growth rate for 2015 and 2016. Our analysis is pretty rudimentary and based on some form of mean reversion or normality, but it does have a common theme. Our scenario growth is most optimistic for the troubled sectors and much more pessimistic for the sky high club.

If we believe that the troubled guys can close their gaps (to 2007) by just one-third between now and 2016, then Europe should have no problem getting back to 2007 profits. It will have taken close to a decade and is nothing to be proud of. But we could have misses on all of the right-hand sectors and still get there.

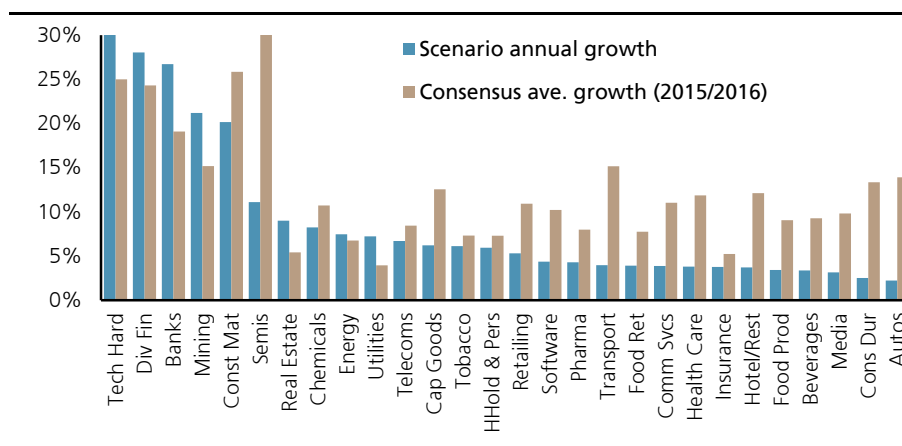
Figure 54: EPS growth our scenario delivers versus consensus (average of 2015/2016 for both)



Source: UBS, Thomson Datastream

Below we break the above chart into Scenario and Consensus growth. The troubled sectors do the heavy lifting, but remember we don't expect them to get back to their last cycle peak, even after 9 years – so not such a heavy lift after all.

Figure 55: Scenario vs consensus estimates



Source: UBS, Thomson Datastream

We get 10% growth per year, but think it is conservative

We need 5 sectors to grow > consensus

21 can grow well below

9 sectors still 20% or more below last peak – after nearly a decade!

Favours broken guys: Tech Hardware, Banks, Mining, Diversified financials, Utilities & Energy

Analysis separate from our team's strategy forecast for earnings, but the result is almost the same

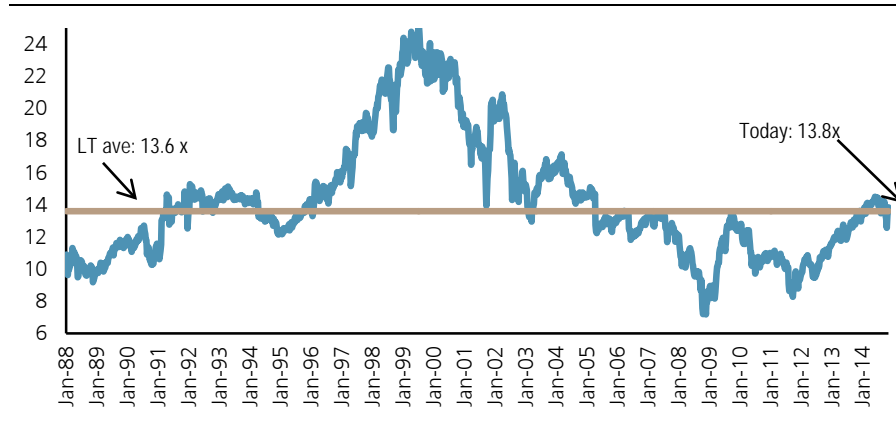
All down to this: do you think these sectors will start to close their 'very unusual' gaps?

European equity strategy market view

Also out today: *European Equity Strategy: Outlook for 2015: Goldilocks or the Three Bears?* Here we present our year-end 2015 market target for the DJStoxx 600 of 13% upside and our 12-month forward target P/E of 14.5. This delivers close to 10% EPS growth each year, not that dissimilar to our Roadmap. We carried out the two sets of analysis independently. So it offers a good cross-check.

Strategy note out today:
economic backdrop, offers
scenarios and interactive models
for EPS growth

Figure 56: Long-run European 12m forward PE



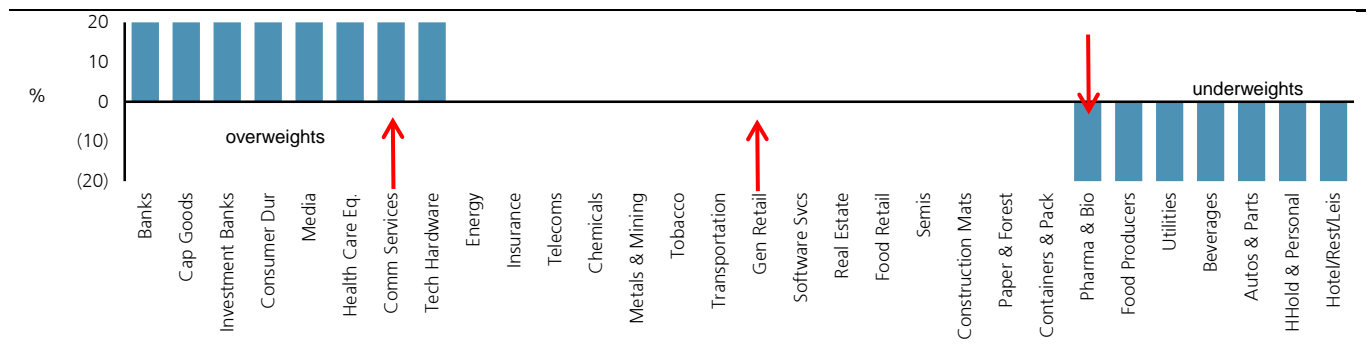
Source: UBS, Thomson Datastream

Figure 57: Market valuation snapshot

Date: 06/11/2014		2013	2014	2015	2016	12m Fwd	12m trail
MSCI Europe	PE	15.4	14.7	13.2	11.9	13.4	14.8
	EPS growth		4.2%	11.6%	10.6%		
	Div Yield	3.4%	3.6%	3.9%	4.2%	3.8%	3.6%
	Price-to-Book	1.73	1.68	1.60	1.51	1.61	1.69
DJStoxx600	PE	15.9	15.3	13.6	12.3	13.8	15.4
	EPS growth		4.1%	12.5%	11.0%		
	Div Yield	3.3%	3.5%	3.8%	4.1%	3.7%	3.4%
	Price-to-Book	1.79	1.73	1.65	1.56	1.66	1.74
UK FTSE100	PE	14.3	13.9	13.1	12.0	13.3	13.9
	EPS growth		3.2%	5.6%	9.8%		
	Div Yield	3.6%	3.7%	4.1%	4.4%	4.0%	3.7%
	Price-to-Book	1.87	1.79	1.71	1.63	1.73	1.81

Source: UBS, Thomson Datastream

Figure 58: UBS sector recommendations – Red arrows are today's sector moves



Source: UBS, Thomson Datastream

Stocks – ROE recovery & Dividends

EPS recovery plays also cheaper than US peers

We look for companies with a depressed ROE versus their 2007/08 peak. We expect most to at least improve in the next 1-2 years. By end 16 it will be 9 years since their last peak. Screen criteria include stocks that:

- Largely underperformed the market since 2007 peak;
- Suffered a collapse in ROE from 2006-07 to-date of over 10% (almost half are still down by 50% or more);
- Company is cheaper than its European sector peers on DY and PB (other than a few exceptions that we think are justified);
- Company is cheaper than US peer - on at least 2 of the 3 valuation variables (PE relative, PB relative and DY relative).

1. ROE recovery screens that lagged market since 07

2. Cyclical that pay

Full company list & details on following pages

Cyclicals pay 4.9% – beta with a balance sheet

The market is pessimistic about growth, and cyclicals have massively underperformed the defensives. Add a record yield gap between German bunds and equities and we look for cyclicals that pay. We screen for:

- Market cap over €3bn 'and' Beta that is > than 1 and generally positive correlated to ISM lead indicators;
- Stocks that missed the post Draghi July 2012 recovery rally since July 2012 (odd for high beta stocks). We allow no more than a relative outperformance of 20% since July 2012, but most have underperformed;
- Dividend pay-out ratio is less than 90% 'and' Gearing is low and generally below sector average;
- DY 2014 greater than 3.8% (market) & dividend relative to sector is > 100%.

Figure 59: ROE recovery plays & cheaper than US peers

Stock Name	Rel Perf to Mkt since May 07 %	Change in ROE since 2007
Deutsche Bank	-70	-80%
TOTAL	-1	-73%
William Hill	-11	-72%
BBVA	-45	-67%
Randstad	-30	-66%
Marks & Spencer	-30	-60%
Iberdrola	-37	-60%
Soc Gen	-66	-58%
Tate & Lyle	-8	-53%
Rexel	-7	-49%
Carnival Plc	0	-49%
Umicore	21	-49%
Ericsson	-19	-48%
Mediaset	-60	-48%

Source: UBS

Figure 60: Cyclicals that pay healthy dividends (page x)

Stock Name	Rel Perf to Mkt since Jul 12 %	DY 2014
Swiss Re	-1	8.6
Swedbank	18	6.1
CRH	-8	3.6
Standard Chart.	-50	5.5
Husqvarna	15	3.7
Orkla	-19	5.3
HSBC	-8	5.0
Marks & Spencer	-3	3.6
Statoil	-29	4.7
Unibail-Rodamco	1	4.7
Pirelli	9	3.8
Amec	-25	4.4
Michelin	4	4.1
Syngenta	-30	3.6
SKF B	-24	3.8

Source: UBS

Figure 61: European earnings recovery plays and laggards since 2007

Stock Name	Mkt Cap (EUR bn)	Sector	Upside to PT(%)	Rating	Rel Perf to Mkt since May 07 %	Change in ROE since 2007	Change in Margins since 2007	PB 2014	PB rel to sector	DY 2014	DY rel to sector	Sales Exp (%) (US+ Europe + UK)	Cheaper than US on parameters
Bouygues	8.7	Capital Goods	-15%	Neutral	-49	-87%	-85%	1.2	52	5.8	173	88%	2
Deutsche Bank	33.9	Div Fin	5%	Neutral	-70	-80%	-65%	0.5	56	2.0	62	88%	2
Eni	58.8	Energy	15%	Neutral	-25	-73%	-65%	1.0	83	6.7	125	72%	3
TOTAL	103.8	Energy	18%	Buy	-1	-73%	-56%	1.3	111	5.2	98	83%	3
William Hill	4.0	Cons svcs	11%	Buy	-13	-72%	-18%	2.8	71	3.5	139	NA	3
Anglo American	21.7	Mining	9%	Neutral	-53	-71%	-58%	0.8	70	3.9	111	31%	3
BBVA	38.9	Banks	16%	Buy	-45	-67%	-44%	1.1	120	4.6	119	39%	2
BHP Billiton Plc	109.9	Mining	29%	Buy	38	-67%	-35%	2.2	184	4.0	113	25%	2
Randstad	6.1	Comm Svcs	35%	Buy	-30	-66%	-39%	2.2	53	3.2	108	91%	3
Statoil	54.8	Energy	27%	Neutral	4	-66%	33%	1.3	111	4.7	87	96%	3
GDF Suez	45.4	Utilities	3%	Neutral	-40	-65%	-39%	1.0	71	5.3	109	65%	3
OMV	8.1	Energy	4%	Neutral	-39	-65%	-66%	0.7	57	5.0	93	59%	3
Marks & Spencer	8.5	Retailing	6%	Buy	-32	-60%	-32%	2.8	67	3.6	110	89%	3
Iberdrola	34.1	Utilities	7%	Buy	-37	-60%	-43%	0.7	51	4.8	99	85%	3
Soc Gen	28.6	Banks	38%	Buy	-66	-58%	-30%	0.7	71	3.9	102	89%	3
Voestalpine	5.5	Mining	16%	Buy	-30	-56%	-54%	1.3	107	4.1	118	NA	3
STMicroelectronics	4.9	Semis	-10%	Neutral	-54	-54%	-67%	1.2	34	5.6	403	NA	2
Rio Tinto Plc	70.1	Mining	18%	Buy	-2	-53%	-28%	1.7	145	4.5	127	26%	3
Tate & Lyle	3.6	Food Prod	3%	Neutral	1	-53%	18%	1.6	45	3.5	118	NA	3
Standard Chart.	29.4	Banks	17%	Buy	-30	-52%	-17%	0.8	82	5.5	144	12%	3
CS Group	33.1	Div Fin	4%	Neutral	-56	-51%	-33%	0.9	96	2.8	87	91%	3

Source: UBS

Figure 62: European earnings recovery plays and laggards since 2007cont.

Stock Name	Mkt Cap (EUR b)	Sector	Upside to PT(%)	Rating	Rel Perf to Mkt since May 07 %	Change in ROE since 2007	Change in Margins since 2007	PB 2014	PB rel to sector	DY 2014	DY rel to sector	Sales Exp (%) (US+ Europe + UK)	Cheaper than US on parameters
St. Gobain	19.1	Const Mat	0%	Neutral	-43	-51%	-34%	1.1	97	3.6	139	82%	3
Rexel	3.8	Cap Goods	45%	Buy	-7	-49%	31%	0.9	39	5.6	169	NA	3
Carnival Plc	24.9	Cons svcs	11%	Buy	0	-49%	-48%	1.3	33	2.4	98	85%	3
Umicore	3.4	Chemicals	16%	Buy	21	-49%	-23%	2.0	87	3.2	103	NA	3
Ericsson	30.7	Tech Hard	5%	Neutral	-19	-48%	-47%	1.9	81	3.5	116	43%	2
Mediaset	3.0	Media	63%	Buy	-60	-48%	-64%	1.4	40	4.4	124	NA	2
Husqvarna	3.4	Cons Dur	-9%	Neutral	-26	-48%	-5%	2.5	95	3.7	158	NA	3
EDF	41.7	Utilities	9%	Neutral	-60	-46%	-26%	1.1	79	5.7	116	83%	3
Icade	4.6	Real Estate	20%	Buy	-45	-44%	36%	0.8	81	5.8	136	NA	3
Inchcape	4.1	Retailing	1%	Neutral	-26	-42%	9%	2.0	49	2.8	85	NA	3
Intesa SanPaolo	36.3	Banks	23%	Buy	-50	-41%	-38%	0.8	90	2.7	70	94%	2
HSBC	152.3	Banks	14%	Buy	-20	-34%	24%	1.0	109	5.0	131	44%	3
Klepierre	6.9	Real Estate	2%	Neutral	-8	-29%	9%	1.1	105	4.6	106	91%	3
Vinci	25.2	Cap Goods	17%	Buy	-5	-28%	12%	1.7	76	4.9	146	85%	3
Danone	31.4	Food Prod	-5%	Neutral	17	-28%	-4%	2.4	66	2.7	91	50%	3
Fraport	4.6	Transport	24%	Buy	3	-26%	-2%	1.2	66	2.6	85	NA	3
Orkla	6.1	Food Prod	21%	Buy	-42	-25%	-19%	1.7	46	5.3	178	78%	3
Adecco	9.6	Comm Svcs	21%	Buy	17	-25%	13%	2.6	61	3.3	111	79%	3
Allianz	57.3	Insurance	18%	Buy	-8	-24%	NA	1.2	103	4.9	99	83%	3
Thales	8.0	Cap Goods	13%	Neutral	5	-16%	19%	1.8	80	3.1	93	70%	3
Swiss Re	23.7	Insurance	-1%	Neutral	11	-16%	NA	1.2	107	8.6	176	65%	3
Renault	16.2	Autos	32%	Buy	-32	-14%	-6%	0.6	55	3.1	94	58%	3

Source: UBS

Cyclicals pay 4.9% - beta with a balance sheet

Figure 63: Cyclical pays dividend stock list – offers 4.9% dividend yield for 2015

Stock Name	Mkt Cap (EUR b)	Sector	Upside to Tgt Price(%)	Rating	Rel Perf to Mkt since Jul 12 %	DY 2014	DY rel to Sector	DY 2015	Net Debt / Equity 2014E	Net Gearing rel to Sector	Div Payout Ratio	Beta	Correl to ISM
Swiss Re	24	Insurance	-1%	Neutral	-1	8.6	176	7.0	NA	NA	68	1.1	0.1
Swedbank	23	Banks	3%	Buy	18	6.1	160	6.8	NA	NA	74	1.6	0.2
CRH	13	Const Mat	24%	Buy	-8	3.6	142	3.5	28	55	76	1.2	0.0
EDF	43	Utilities	9%	Neutral	14	5.7	116	5.7	99	114	54	1.2	0.0
Standard Chart.	30	Banks	17%	Buy	-50	5.5	144	5.7	NA	NA	54	1.2	0.2
Nordea	41	Banks	3%	Neutral	6	5.5	144	7.2	NA	NA	59	1.3	0.1
Corio	4	Real Estate	4%	Neutral	-16	5.3	124	5.2	75	NA	90	1.3	0.0
Husqvarna	3	Cons Dur	-9%	Neutral	15	3.7	158	4.6	45	NA	67	1.4	0.1
Orkla	6	Food Prod	21%	Buy	-19	5.3	178	5.9	19	76	68	1.1	0.1
ICAP	3	Div Fin	-21%	Neutral	5	5.7	178	5.2	43	NA	69	1.1	0.2
Informa	4	Media	3%	Neutral	5	3.9	109	3.9	54	109	47	1.3	0.2
OMV	8	Energy	4%	Neutral	-21	5.0	93	5.0	37	145	38	1.3	0.2
HSBC	153	Banks	14%	Buy	-8	5.0	131	5.4	NA	NA	55	1.0	0.0
Marks & Spencer	8	Retailing	6%	Buy	-3	3.6	110	4.3	91	NA	53	1.0	0.0
Statoil	56	Energy	27%	Neutral	-29	4.7	87	4.8	22	86	49	1.1	0.0
Unibail-Rodamco	19	Real Estate	4%	Buy	1	4.7	109	4.8	75	NA	87	1.2	0.0
Old Mutual	14	Insurance	18%	Buy	-4	4.6	95	5.1	NA	NA	48	1.2	0.2
Klepierre	7	Real Estate	2%	Neutral	-1	4.6	106	4.6	72	NA	76	1.3	0.1
Rio Tinto Plc	70	Mining	18%	Buy	-18	4.5	127	5.1	37	95	44	1.4	0.2
Pirelli	5	Autos	13%	Neutral	9	3.8	115	4.5	32	NA	47	1.4	0.2
Amec	4	Energy	8%	Buy	-25	4.4	81	4.8	49	195	57	1.2	0.1
Skanska	7	Cap Goods	0%	Neutral	6	4.3	130	4.5	-18	-79	78	1.3	0.1
BASF SE	64	Chemicals	27%	Buy	-7	4.2	135	4.5	41	117	51	1.3	0.0
Michelin	13	Autos	27%	Buy	5	4.1	124	4.5	3	NA	36	1.3	0.1
Syngenta	23	Chemicals	7%	Neutral	-30	3.6	115	3.7	22	63	51	1.0	0.0
Philips	20	Cap Goods	-3%	Neutral	-3	4.0	122	4.3	17	72	74	1.1	0.0
BHP Billiton Plc	110	Mining	29%	Buy	-31	4.0	113	4.8	30	78	48	1.3	0.1
Anglo American	22	Mining	9%	Neutral	-48	3.9	111	4.0	51	131	47	1.1	0.1
Electrolux B	6	Cons Dur	-9%	Neutral	-4	3.8	164	4.3	25	NA	68	1.3	0.1
SKF B	7	Cap Goods	2%	Neutral	-24	3.8	116	4.3	77	332	45	1.2	0.0

Source: UBS

Appendix 1: Macro Forecasts

Figure 64: GDP forecasts

%y/y	Weight*	2014F	2015F	2016F
US	0.17	2.2	2.9	2.8
Canada	0.02	2.4	2.9	2.8
Japan	0.05	1.1	1.2	1.0
Western Europe	0.16	1.2	1.5	1.8
of which:				
Eurozone	0.12	0.8	1.2	1.6
UK	0.02	3.0	2.6	2.8
Switzerland	0.01	1.6	1.4	1.6
Asia **	0.35	5.9	5.7	5.8
of which:				
China	0.18	7.3	6.8	6.5
India	0.07	5.3	5.5	6.5
Latin America	0.08	1.0	1.4	2.8
of which:				
Brazil	0.03	0.3	0.6	1.8
Emerging EMEA	0.08	2.1	2.4	2.9
of which:				
Russia	0.04	0.5	0.2	1.0
Advanced economies (old weights)	(0.60)	1.8	2.2	2.3
Advanced economies	0.45	1.9	2.2	2.3
Developing economies (old weights)	(0.40)	4.1	4.0	4.4
Developing economies	0.55	4.6	4.5	4.7
WORLD (old weights)		2.8	3.0	3.2
WORLD	1.00	3.3	3.5	3.6

Source: UBS. *Based on purchasing-power-parity-adjusted GDP levels; **includes Australia and New Zealand
We have made large changes to the PPP weights that we apply to our regional and global aggregates to bring them more into line with IMF benchmarks. The main impact of this change is to raise the weight on China's (and other emerging economies') GDP and to lower the weight on developed economies' GDP. This lifts our global growth arithmetic relative to our previously reported forecasts. Under our old methodology we would be forecasting that global GDP growth would climb from 2.8% in 2014 to 3.0% in 2015 and 3.2% in 2016. Using our new methodology we forecast global growth of 3.5% in 2015 and 3.6% in 2016, after 3.3% in 2014.

Figure 65: Interest rate forecasts

%	Latest	Dec-15	Dec-16
US			
Fed Funds Rate	0.13	1.38	2.88
10 year yield	2.6	3.50	3.50
Japan			
Call Rate	0.06	0.05	0.05
10 year yield	0.46	0.70	1.00
Germany			
Repo Rate	0.05	0.05	0.05
10 year yield	0.84	1.60	2.00
UK			
Repo Rate	0.50	1.00	2.00
10 year yield	2.25	2.35	2.50

Source: UBS estimates

Figure 66: Inflation forecasts

%/y	2014F	2015F	2016F
US	1.7	1.8	2.4
Canada	2.1	2.2	2.0
Japan	2.9	2.0	2.3
Western Europe	0.7	1.1	1.6
of which:			
Eurozone	0.5	1.0	1.5
UK	1.5	1.4	1.9
Switzerland	0.1	0.3	0.6
Asia **	3.7	3.3	2.9
of which:			
China	2.2	1.8	2.0
India	7.7	6.4	5.1
Latin America	11.1	11.8	9.9
of which:			
Brazil	6.4	6.8	5.8
Emerging EMEA	6.6	7.0	5.8
of which:			
Russia	7.6	8.1	5.4

Source: UBS estimates

*Based on purchasing-power-parity-adjusted GDP levels; **includes Australia and New Zealand

Figure 67: FX forecasts

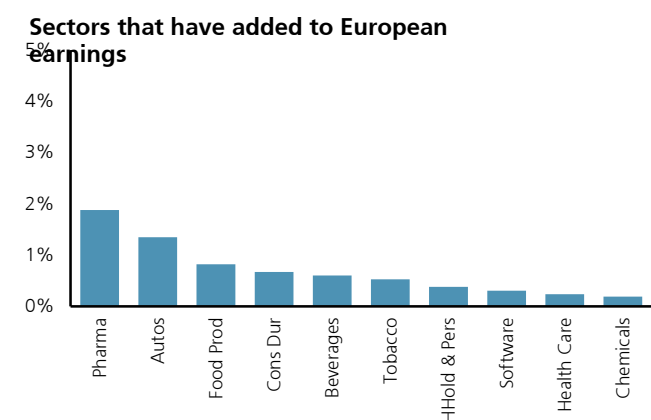
	Latest	Dec-15	Dec-16
EUR/USD	1.25	1.20	1.15
USD/JPY	114	115.00	120.00
EUR/JPY	142	138.00	138.00
USD/RMB	6.15	6.35	6.40
GBP/USD	1.60	1.60	1.53
EUR/GBP	0.78	0.75	0.75
USD/CHF	0.96	1.03	1.08
EUR/CHF	1.21	1.24	1.24
USD/CAD	1.14	1.10	1.10
AUD/USD	0.87	0.80	0.80
NZD/USD	0.77	0.72	0.71

Source: UBS estimates

Appendix 2

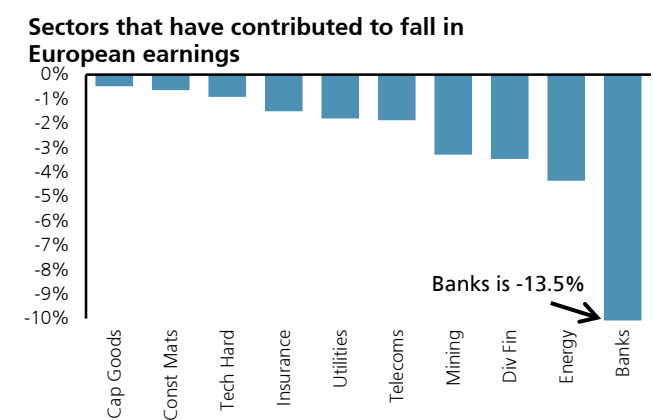
Sector contribution to the 23% earnings gap in Europe

Figure 68: Defensives have propped up earnings



Source: UBS, Thomson Datastream

Figure 69: Financials are dragging us below peak



Source: UBS, Thomson Datastream

How much of Europe's earnings are in laggard camp? 59%

Figure 70: Sector earnings weight in European earnings

Sectors EPS above 2007	2007 weight	2014 weight
Pharmaceuticals	5.9%	10.3%
Automobiles	3.0%	4.7%
Beverages	1.1%	2.5%
Food Products	3.0%	4.2%
Chemicals	2.3%	3.3%
Tobacco	0.9%	1.8%
Household & Pers	0.6%	1.3%
Consumer Durables	1.5%	2.2%
Software	0.5%	1.3%
Health Care	0.5%	0.8%
Total	19%	32.4%

Source: UBS, Thomson Datastream

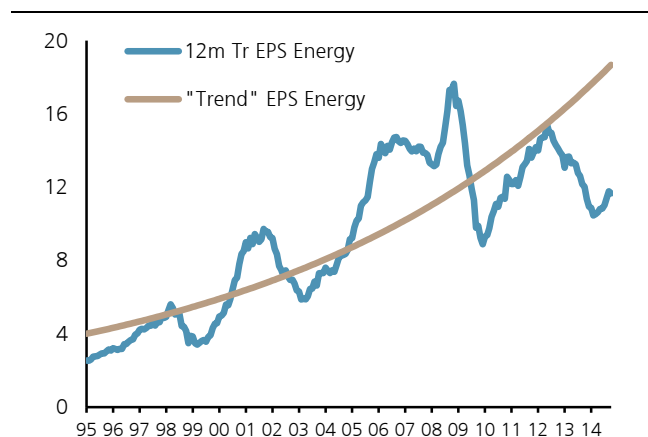
Figure 71: Sector earnings weight in European earnings

Sectors EPS below 2007	2007 weight	2014 weight
Banks	20.2%	14.3%
Energy	13.4%	12.4%
Insurance	7.5%	8.3%
Telecoms	6.5%	4.1%
Capital Goods	6.4%	7.7%
Utilities	5.7%	4.4%
Metals & Mining	5.4%	3.6%
Diversified Financials	5.1%	3.2%
Technology Hardware	1.2%	0.7%
Construction Materials	1.1%	0.6%
Total	72%	59%

Source: UBS, Thomson Datastream

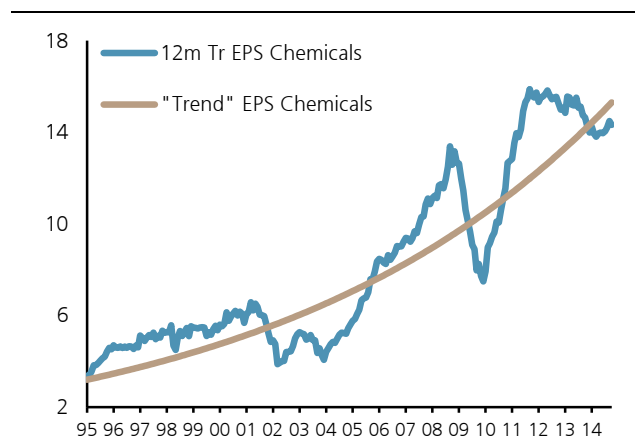
Appendix 3 – Sectors' long-term earnings

Figure 72: Historical trend earnings: Energy



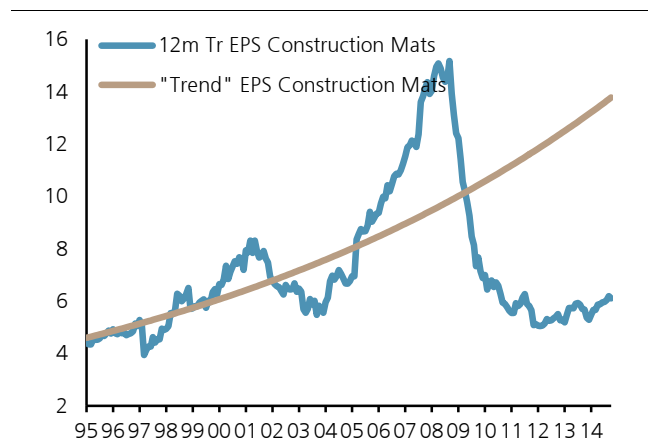
Source: IBES, Datastream, UBS European Market Map

Figure 73: Historical trend earnings: Chemicals



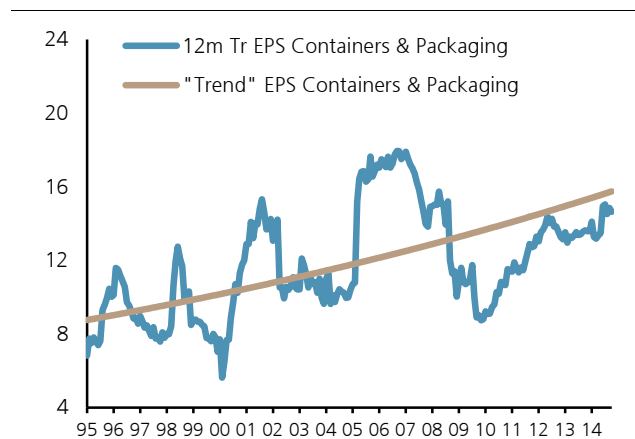
Source: IBES, Datastream, UBS European Market Map

Figure 74: Historical trend earnings: Construction Mats



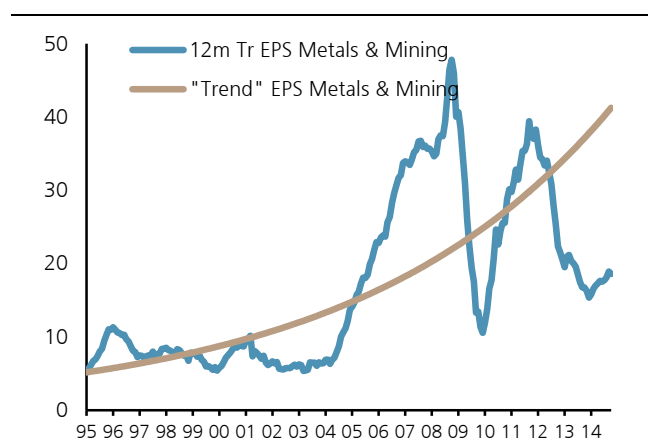
Source: IBES, Datastream, UBS European Market Map

Figure 75: Historical trend earnings: Containers & packing



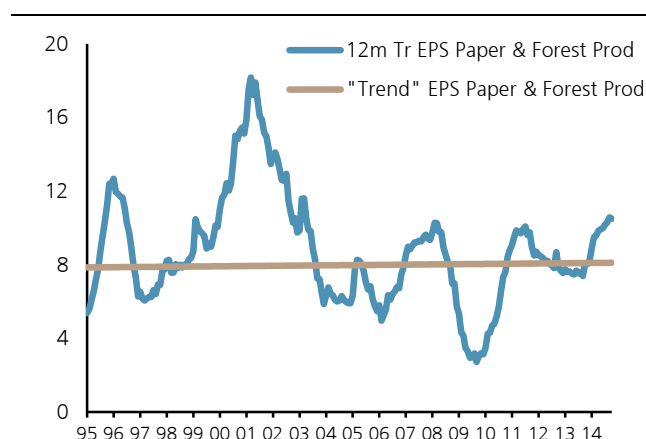
Source: IBES, Datastream, UBS European Market Map

Figure 76: Historical trend earnings: Metals & Mining



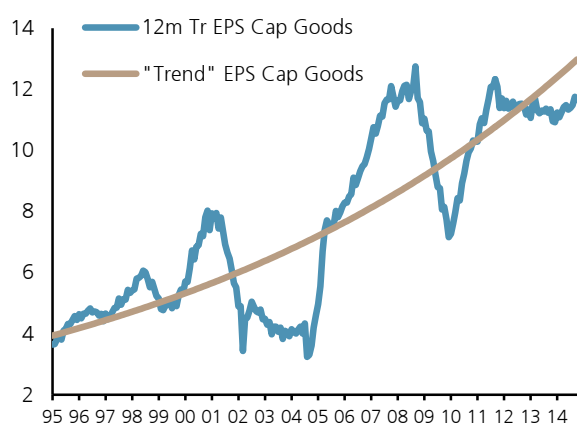
Source: IBES, Datastream, UBS European Market Map

Figure 77: Historical trend earnings: Paper & Forest Prod



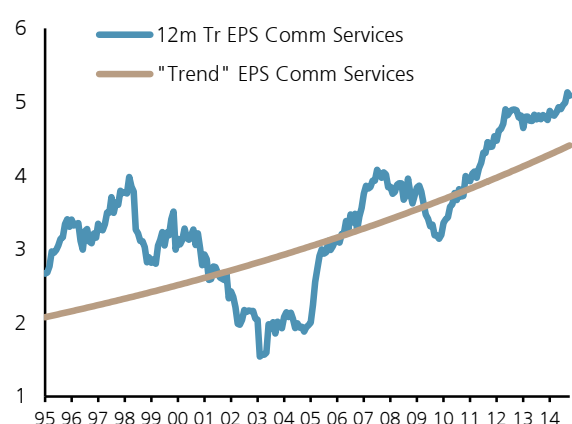
Source: IBES, Datastream, UBS European Market Map

Figure 78: Historical trend earnings: Capital Goods



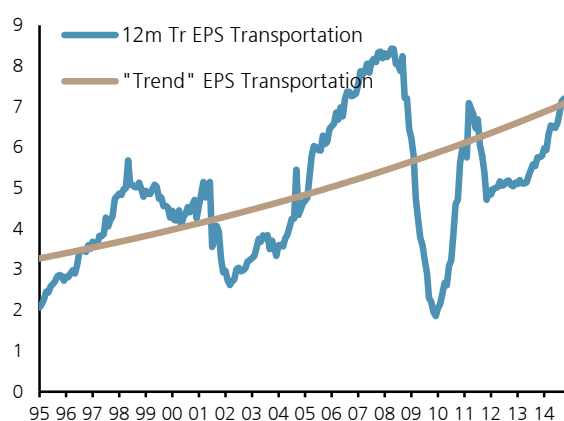
Source: IBES, Datastream, UBS European Market Map

Figure 79: Historical trend earnings: Commercial Services



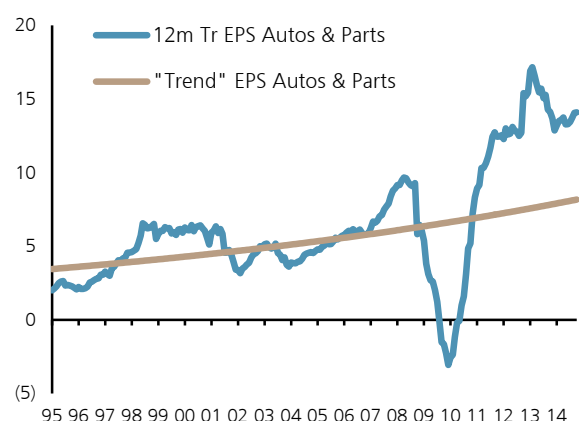
Source: IBES, Datastream, UBS European Market Map

Figure 80: Historical trend earnings: Transportation



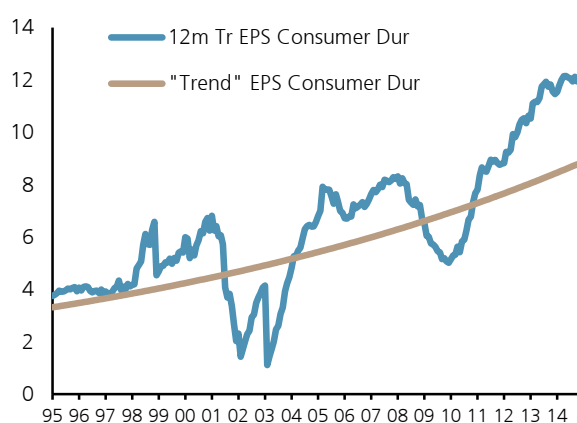
Source: IBES, Datastream, UBS European Market Map

Figure 81: Historical trend earnings: Autos & Parts



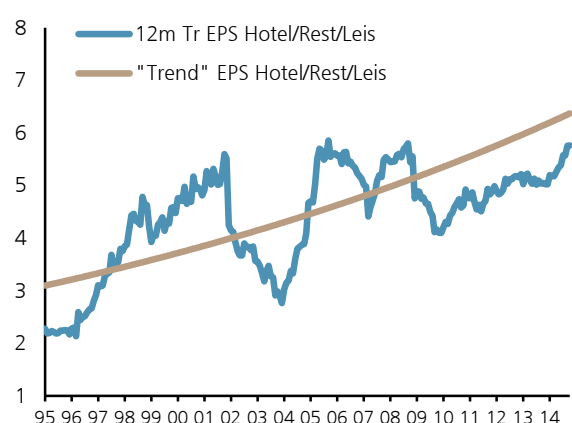
Source: IBES, Datastream, UBS European Market Map

Figure 82: Historical trend earnings: Consumer Durables



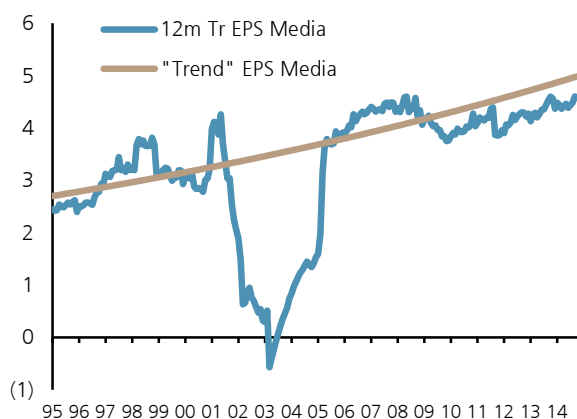
Source: IBES, Datastream, UBS European Market Map

Figure 83: Historical trend earnings: Hotels/Rest/Leis



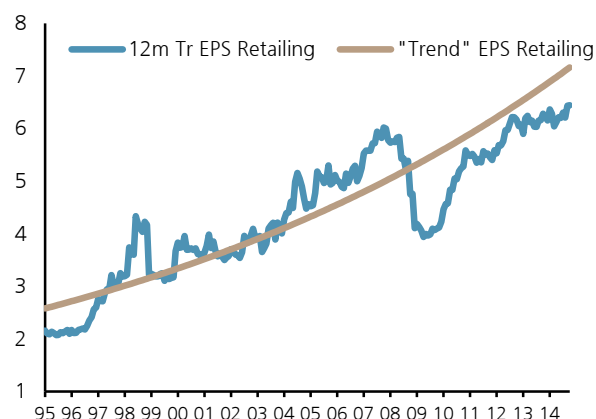
Source: IBES, Datastream, UBS European Market Map

Figure 84: Historical trend earnings: Media



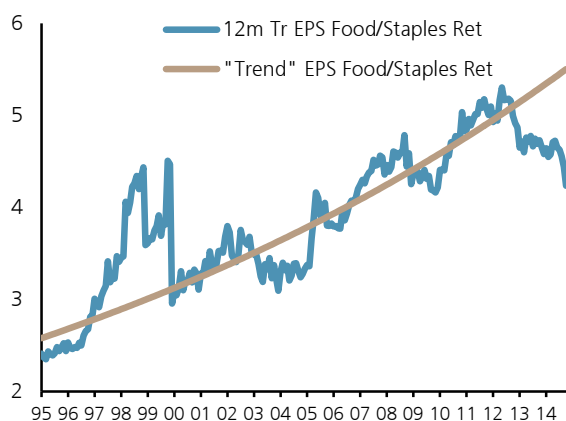
Source: IBES, Datastream, UBS European Market Map

Figure 85: Historical trend earnings: Retailing



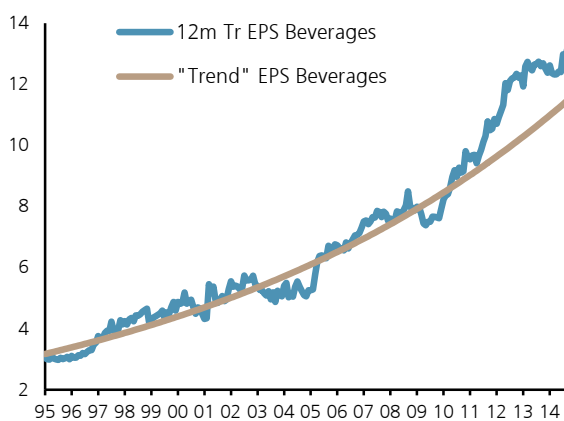
Source: IBES, Datastream, UBS European Market Map

Figure 86: Historical trend earnings: Food/staples Ret



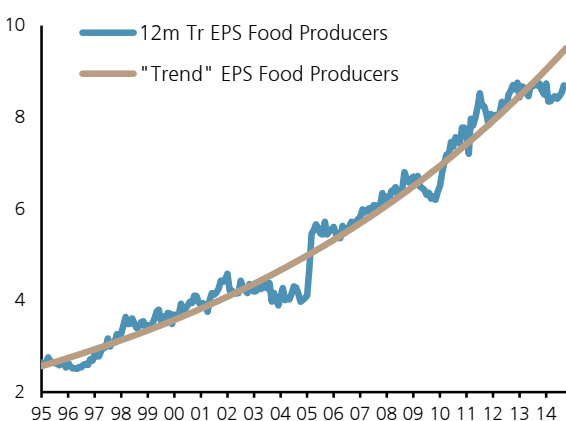
Source: IBES, Datastream, UBS European Market Map

Figure 87: Historical trend earnings: Beverages



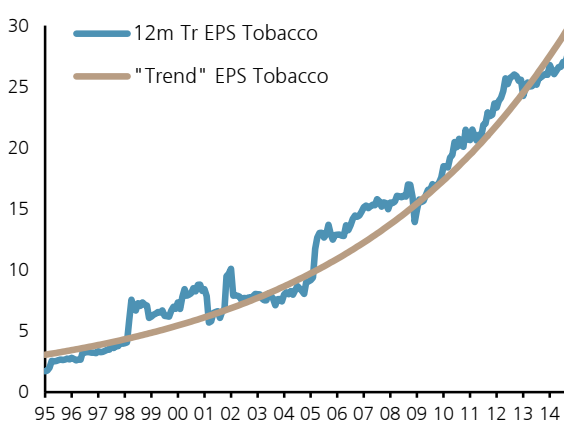
Source: IBES, Datastream, UBS European Market Map

Figure 88: Historical trend earnings: Food Producers



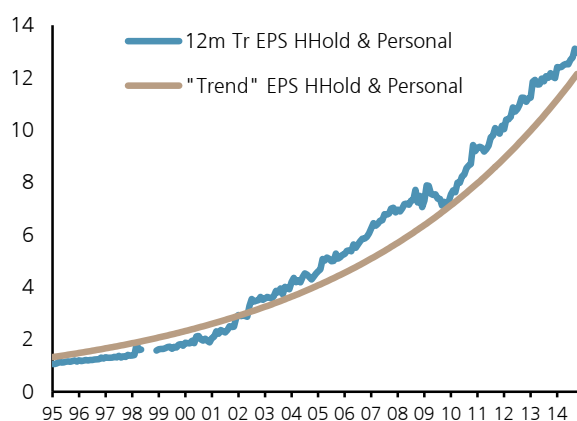
Source: IBES, Datastream, UBS European Market Map

Figure 89: Historical trend earnings: Tobacco



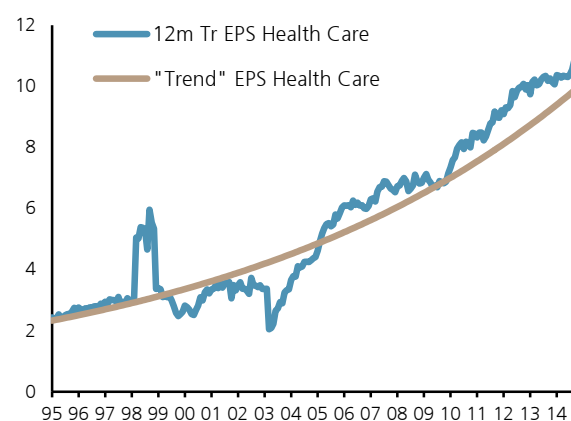
Source: IBES, Datastream, UBS European Market Map

Figure 90: Historical trend earnings: H'hold & Personal



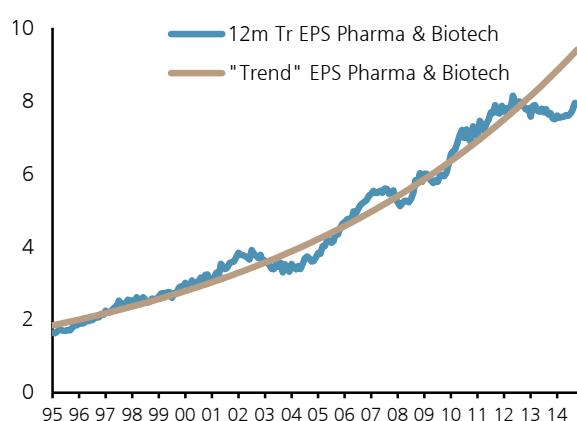
Source: IBES, Datastream, UBS European Market Map

Figure 91: Historical trend earnings: Health Care



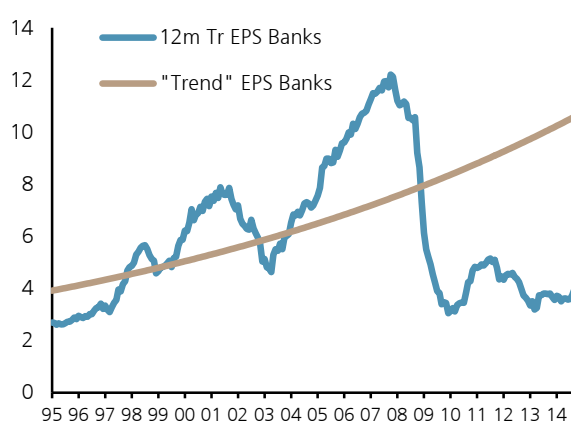
Source: IBES, Datastream, UBS European Market Map

Figure 92: Historical trend earnings: Pharma & Biotech



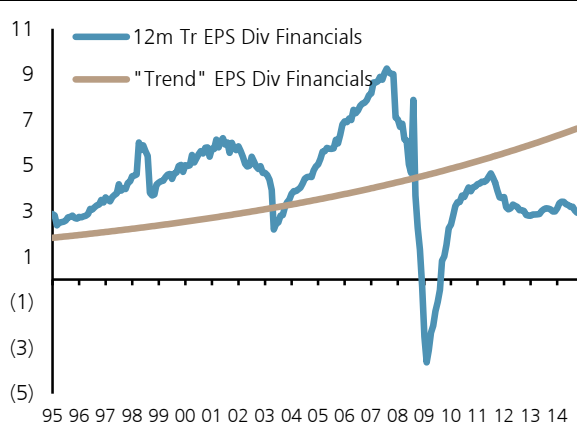
Source: IBES, Datastream, UBS European Market Map

Figure 93: Historical trend earnings: Banks



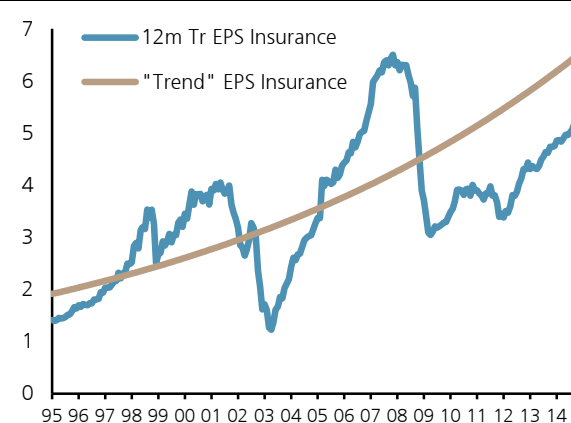
Source: IBES, Datastream, UBS European Market Map

Figure 94: Historical trend earnings: Div Financials



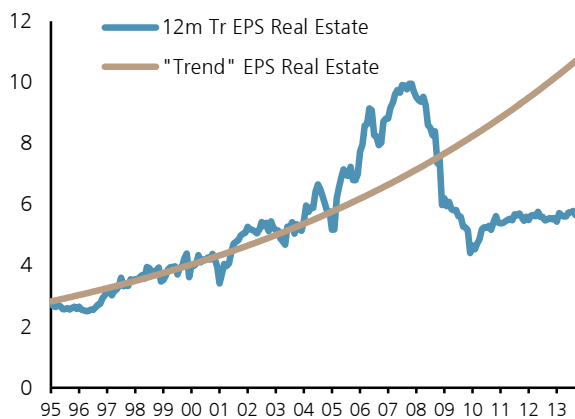
Source: IBES, Datastream, UBS European Market Map

Figure 95: Historical trend earnings: Insurance



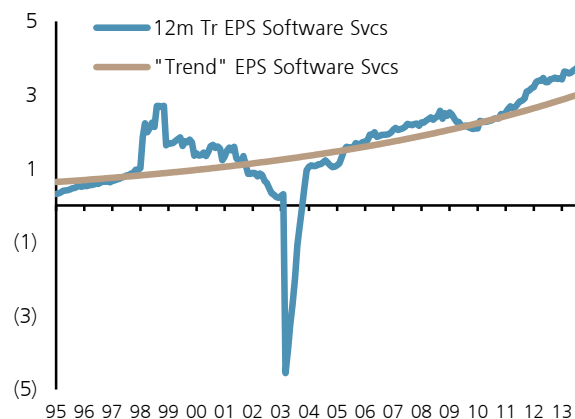
Source: IBES, Datastream, UBS European Market Map

Figure 96: Historical trend earnings: Real Estate



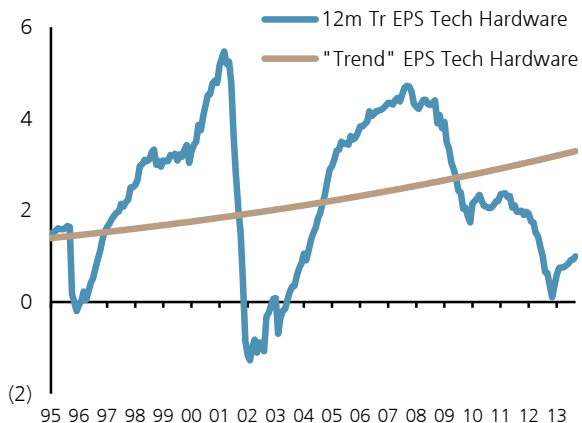
Source: IBES, Datastream, UBS European Market Map

Figure 97: Historical trend earnings: Software Services



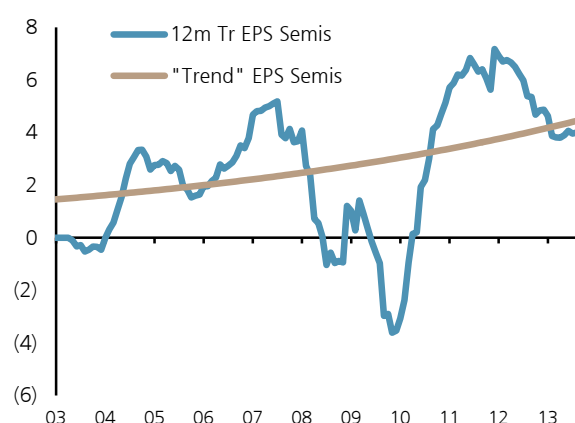
Source: IBES, Datastream, UBS European Market Map

Figure 98: Historical trend earnings: Tech Hardware



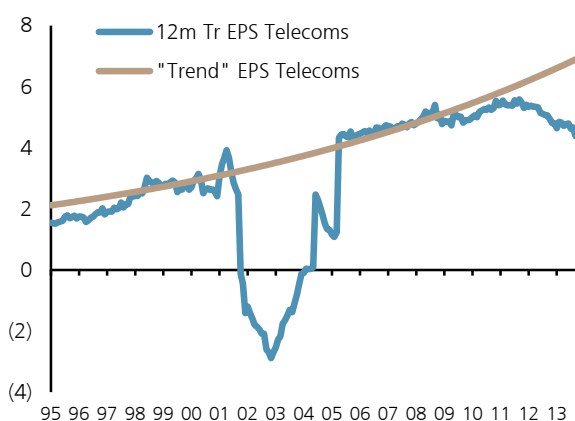
Source: IBES, Datastream, UBS European Market Map

Figure 99: Historical trend earnings: Semis



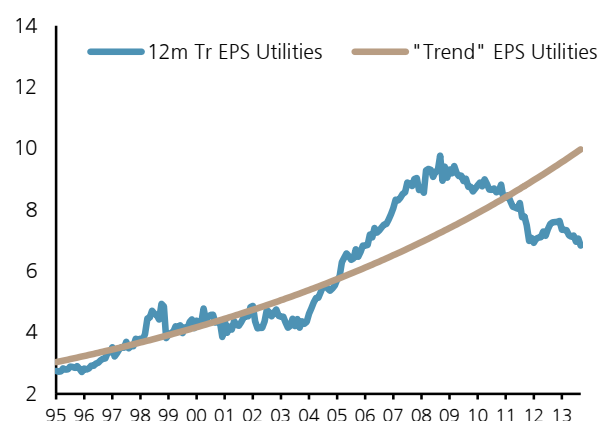
Source: IBES, Datastream, UBS European Market Map

Figure 100: Historical trend earnings: Telecoms



Source: IBES, Datastream, UBS European Market Map

Figure 101: Historical trend earnings: Utilities



Source: IBES, Datastream, UBS European Market Map

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Buy	FSR is > 6% above the MRA.	47%	34%
Neutral	FSR is between -6% and 6% of the MRA.	42%	28%
Sell	FSR is > 6% below the MRA.	11%	21%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 September 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Limited: Karen Olney, CFA; Nick Nelson; Andras Nagy, CFA; Philip Finch; Reinhard Cluse.

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Adecco ⁵	ADEN.VX	Buy	N/A	CHF62.85	07 Nov 2014
Allianz S.E. ^{2, 4, 5}	ALVG.DE	Buy	N/A	€131.20	07 Nov 2014
Amec	AMEC.L	Buy	N/A	1,057p	07 Nov 2014
Anglo American ^{2, 3b, 4, 5, 18c}	AAL.L	Neutral	N/A	1,365p	07 Nov 2014
BASF SE ^{5, 14}	BASFn.F	Buy	N/A	€70.30	07 Nov 2014
BBVA ^{2, 4, 5, 16b}	BBVA.MC	Buy	N/A	€8.51	07 Nov 2014
BHP Billiton Plc ^{3a, 4, 6a, 16b}	BLT.L	Buy	N/A	1,676p	07 Nov 2014
Bouygues	BOUY.PA	Neutral	N/A	€27.67	07 Nov 2014
Carnival Plc ^{4, 5, 6b, 7, 13, 14, 16b}	CCL.L	Buy	N/A	2,498p	07 Nov 2014
Corio	COR.AS	Neutral	N/A	€38.44	07 Nov 2014
Credit Suisse Group ^{5, 16b, 22}	CSGN.VX	Neutral	N/A	CHF24.96	07 Nov 2014
CRH ^{2, 4, 5, 14, 16b}	CRH.L	Buy	N/A	1,401p	07 Nov 2014
Danone	DANO.PA	Neutral	N/A	€53.50	07 Nov 2014
Deutsche Bank ^{2, 4, 5, 13, 16b, 18b}	DBKGn.DE	Neutral	N/A	€24.28	07 Nov 2014
EDF	EDF.PA	Neutral	N/A	€22.98	07 Nov 2014
Electrolux B	ELUXb.ST	Neutral	N/A	SKr206.70	07 Nov 2014
Eni ^{4, 5, 16b}	ENI.MI	Neutral	N/A	€16.41	07 Nov 2014
Ericsson ^{2, 16b}	ERICb.ST	Neutral	N/A	SKr87.25	07 Nov 2014
Fraport AG	FRAG.DE	Buy	N/A	€47.99	07 Nov 2014
GDF Suez ⁵	GSZ.PA	Neutral	N/A	€18.63	07 Nov 2014
HSBC ^{2, 4, 5, 6a, 13, 16a, 16b, 22}	HSBA.L	Buy	N/A	630p	07 Nov 2014
Husqvarna	HUSQb.ST	Neutral	N/A	SKr53.65	07 Nov 2014
Iberdrola ^{2, 4, 5}	IBE.MC	Buy	N/A	€5.52	07 Nov 2014
Icade SA ⁵	ICAD.PA	Buy	N/A	€62.00	07 Nov 2014
ICAP plc	IAP.L	Neutral	N/A	424p	07 Nov 2014
Inchcape ¹³	INCH.L	Neutral	N/A	675p	07 Nov 2014
Informa ^{5, 13}	INF.L	Neutral	N/A	489p	07 Nov 2014
Intesa SanPaolo ^{2, 3d, 4, 5}	ISP.MI	Buy	N/A	€2.21	07 Nov 2014
Klepierre SA ^{1, 4, 5}	LOIM.PA	Neutral	N/A	€34.10	07 Nov 2014
Koninklijke Philips N.V. ^{16b}	PHG.AS	Neutral	N/A	€22.22	07 Nov 2014
Marks & Spencer	MKS.L	Buy	N/A	466p	07 Nov 2014
Mediaset ^{3c}	MS.MI	Buy	N/A	€2.61	07 Nov 2014
Michelin	MICP.PA	Buy	N/A	€70.42	07 Nov 2014
Nordea ^{2, 4, 5, 6a, 22}	NDA.ST	Neutral	N/A	SKr90.95	07 Nov 2014
Old Mutual Plc	OML.L	Buy	N/A	193p	07 Nov 2014
OMV	OMVV.VI	Neutral	N/A	€24.71	07 Nov 2014
Orkla	ORK.OL	Buy	N/A	NKr52.65	07 Nov 2014
Pirelli & C SpA ^{2, 4}	PECI.MI	Neutral	N/A	€10.67	07 Nov 2014
Randstad	RAND.AS	Buy	N/A	€34.98	07 Nov 2014
Renault SA	RENA.PA	Buy	N/A	€58.98	07 Nov 2014
Rexel ^{2, 4}	RXL.PA	Buy	N/A	€13.53	07 Nov 2014

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Rio Tinto Plc ^{5, 16b, 22}	RIO.L	Buy	N/A	3,039p	07 Nov 2014
Saint Gobain	SGOB.PA	Neutral	N/A	€34.47	07 Nov 2014
Skanska	SKAb.ST	Neutral	N/A	SKr155.10	07 Nov 2014
SKF B	SKFb.ST	Neutral	N/A	SKr151.80	07 Nov 2014
Société Générale ^{2, 4, 5, 6a}	SOGN.PA	Buy	N/A	€36.18	07 Nov 2014
Standard Chartered ^{2, 4, 13, 14, 16a}	STAN.L	Buy	N/A	946p	07 Nov 2014
Statoil ^{16b}	STL.OL	Neutral	N/A	NKr152.50	07 Nov 2014
STMicroelectronics ^{5, 16b}	STM.PA	Neutral	N/A	€5.50	07 Nov 2014
Swedbank ^{5, 22}	SWEDa.ST	Buy	N/A	SKr191.30	07 Nov 2014
Swiss Re ^{2, 4, 5}	SRENH.VX	Neutral	N/A	CHF79.65	07 Nov 2014
Syngenta ^{2, 4, 5, 16b, 18a}	SYNN.VX	Neutral	N/A	CHF303.70	07 Nov 2014
Tate & Lyle ⁸	TATE.L	Neutral	N/A	610p	07 Nov 2014
Thales	TCFP.PA	Neutral	N/A	€40.40	07 Nov 2014
TOTAL ^{2, 4, 5, 16b}	TOTF.PA	Buy	N/A	€46.53	07 Nov 2014
Umicore	UMI.BR	Buy	N/A	€32.26	07 Nov 2014
Unibail-Rodamco ^{2, 4, 5}	UNBP.AS	Buy	N/A	€201.50	07 Nov 2014
Vinci	SGEF.PA	Buy	N/A	€45.87	07 Nov 2014
Voestalpine AG	VOES.VI	Buy	N/A	€31.20	07 Nov 2014
William Hill ¹³	WMH.L	Buy	N/A	352p	07 Nov 2014

Source: UBS. All prices as of local market close.

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