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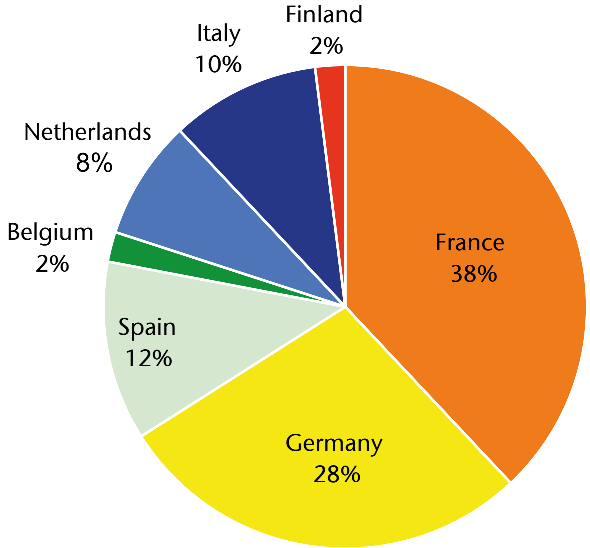
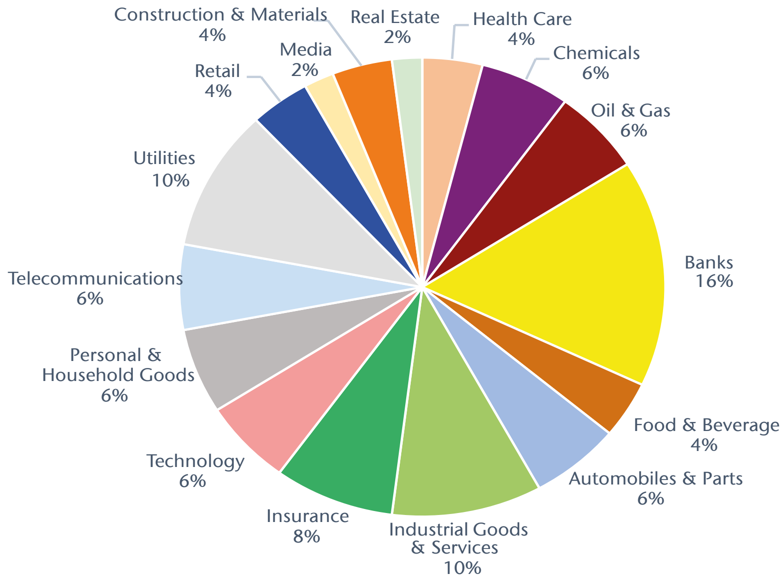
Market Overview: EURO STOXX 50 Index

The EURO STOXX 50 is the leading Blue-chip index for the Eurozone, covering 50 stocks from seven countries of incorporation. Not only does it provide access to a broad range of sectors within the Eurozone, but also many household names such as L'Oreal and Volkswagen. As can be seen in the pie chart below, although heavily weighted in stocks traded on Paris and Frankfurt exchanges, the EURO STOXX 50 also has exposure to 17 large companies that are not traded in either Paris or Frankfurt, including, for example, Nokia from Finland and other significant firms from the Netherlands and Spain.



Source: Meteor Research Department/www.stoxx.com 15 July 2015

The EURO STOXX 50 is a popular reference point for investors since the market views it as a critical measurement of Europe's economic health. A transparent and up-to-date basket is ensured and maintained through the yearly review of Index members. As can be seen in the pie chart below, banks make up the largest portion of the EURO STOXX 50, providing a firm capital structure for the Index. All in all, however, the Index is very broadly composed of sixteen different super sectors. This diverse composition protects the Index from any market failures that occur within a specified industry.



Source: Source: Meteor Research Department/www.stoxx.com 15 July 2015

This information is for financial advisers only and should not be presented to, or relied upon by, private investors

Although the Eurozone has had various economic issues in the last five years, these being reflected in stock market performance, the EURO STOXX 50 Index has outpaced its U.S. index counterpart, the Dow Jones Industrial Average so far this year. As of July, the EURO STOXX 50 is approximately 15% up, year to date, compared to approximately 1% for the Dow Jones, which suggests potential momentum in European stocks. With speculation of money flowing out of the United States and into European markets[1] partly due to currency volatility, European indices may continue to comparatively out-perform and we may see improvements to the Eurozone economy.

With its reliance on European economic and political health, the EURO STOXX 50 greatly depends on regional issues. Greece's potential exit from the Eurozone introduces greater volatility in the short-term, there are however, encouraging signals. Current conditions compel investors into focusing on the fate of Greek banks, however, glimmers of stabilisation in the market are a result of the confidence in global central banks to intervene in order to protect the Euro and ensure composure within the region[2]. Additionally, the Euro could even become stronger in the long-term with the absence of Greece, as suggested by ex-Fed President Fisher[3].

Furthermore, volatility in Chinese stocks has been shown to affect the European index. Although not a chief factor in determining the performance of the EURO STOXX 50 Index, the recent volatility in the Shanghai Composite Index has shown that if the Chinese authorities fail to control the market, the risk sentiment could change global investor sentiment[4].

By and large, the EURO STOXX 50 Index is still in good shape despite all of the above current affairs. In fact, contrarians might consider this a good buying opportunity if we analyse historical patterns. Research from Bloomberg has shown that if cyclical trends persist, then we can expect a recovery from the recent sell off and a return to outperforming the S&P500[5]. The current long-term uptrend started in 4Q11[6], and thus recent declines in individual European stock markets show a potentially good buying opportunity in the EURO STOXX 50. This is of course caveated with the fact that history does not always repeat itself and a Greek default and/or exit could trigger further declines.

Depreciation of the Euro moreover allows greater investment opportunities which would potentially allow the economy to grow significantly in the future. In particular, companies producing in the Eurozone with high sales exposures outside of Europe are benefiting from the weaker Euro. Weakness in the Euro has boosted the revenues of luxury brands, for example Louis Vuitton Moet Hennessey[7], with China being the main engine for apparent sales growth[8] due to the appeal of luxury goods in combination with the high quantity of Chinese travellers[9]. The depreciation of the Euro moreover designates Europe, particularly France and the U.K., a travel and shopping paradise for millions of tourists. While recent trends in the Euro give foreign shoppers an advantage, the IMF has ultimately concluded that the Euro's decline essentially brings long-term economic gain to the entire region, too[10].

Using it in Structured Products

By including the EURO STOXX 50 in a structured product, investors are able to benefit from the enhanced coupon that the extra volatility generates. Investors should be aware that a 60% European barrier on the Index's 52 week high of 3836.28 on 13 April 2015 would allow the index to fall to approximately 2,301.768, which is around 300 points greater than the lowest the index has been in the entire past five years.

1 http://uk.investing.com/analysis/equities:-can-europe-continue-to-outperform-the-us-2330

2 http://uk.investing.com/analysis/greece-dominates,-but-could-china-be-the-real-problem-3415

3 http://www.cnbc.com/2015/07/06/why-angela-merkel-wont-back-down-on-greece-fisher.html

4 http://www.bloomberg.com/news/articles/2015-07-13/china-may-tip-world-into-recession-morgan-stanley-s-sharma-says

5 http://uk.investing.com/analysis/the-contrarian%E2%80%99s-view-on-european-stock-indices-3204

6 http://www.ibtimes.co.uk/technical-analysis-euro-stoxx-50-headed-3500-1483874

7 http://www.valuewalk.com/2015/02/why-does-louis-vuitton-like-a-weaker-euro/

8 http://www.bloomberg.com/news/articles/2015-05-28/china-s-diamond-buyers-shopping-abroad-to-avoid-scrutiny

9 http://jingdaily.com/weak-euro-entices-wealthy-chinese-to-shop-in-europe/

10 http://blogs.wsj.com/economics/2015/04/14/imf-euro-depreciation-will-restrain-the-u-s-and-china-for-years/

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