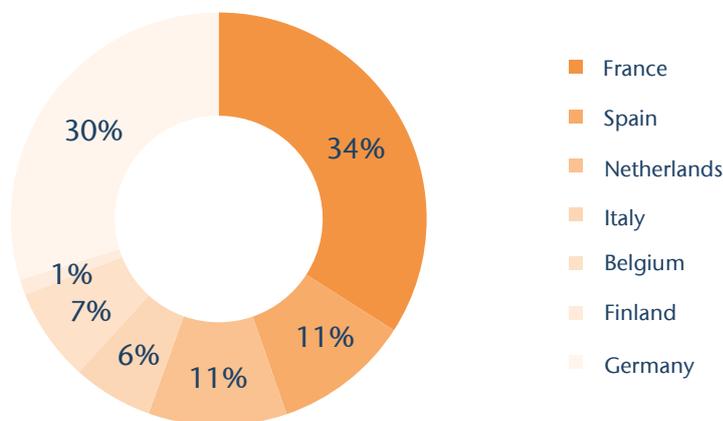


## Market Overview: EURO STOXX 50 Index

The EURO STOXX 50 is the leading Blue-chip index for the Eurozone, covering 50 stocks from the 12 countries of incorporation. Not only does it provide access to a broad range of sectors within the Eurozone, it also contains many household names such as L’Oreal and Volkswagen. As shown in the chart below, although heavily weighted in stocks traded on the Paris and Frankfurt stock exchanges, the EURO STOXX 50 also has exposure to 16 large companies that are not traded in either Paris or Frankfurt. Examples include Nokia from Finland, ING from the Netherlands and Santander from Spain.

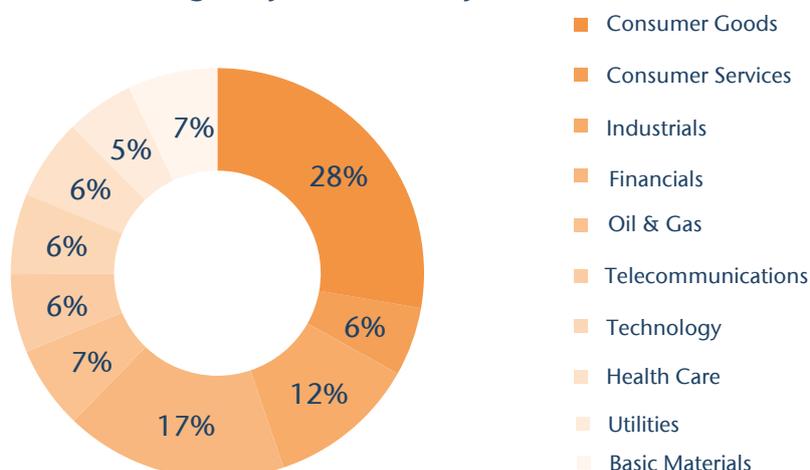
Weight by Country



Source: Bloomberg, 22 July 2016

The EURO STOXX 50 is a popular reference point for investors, as the market views the index as a critical measurement of Europe’s economic health. A transparent and up-to-date basket is maintained through a yearly review of index members. Consumer goods make up the largest proportion of the EURO STOXX 50, providing a firm capital structure for the index. As the chart below shows, the index is broadly comprised across different industries. This diverse composition protects the index from any market failures that could occur with in a specific industry.

Weight by ICB Industry



Source: Bloomberg 18 July 2016

## Market Overview: EURO STOXX 50 Index

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With its performance reliant on the health of European economic and political climates, the EURO STOXX 50 depends heavily on regional issues and events. In the first two quarters of 2016 especially, there were major concerns over the strength of the banking sector. This was particularly true in Italy, with many believing that state intervention would be required to support the financial system which was burdened by about 360 billion Euros worth of troubled loans. This was reflected in the value of the index. Signs of stabilisation appeared however, after Angela Merkel provided reassurance that the situation would not snowball into a crisis<sup>1</sup>. The recent UK vote to leave the EU also had an effect on the index. In the week of the vote, the EURO STOXX 50 dropped by up to 11.2%, twice the fall of the FTSE 100. It still remains below its pre-Brexit value, even as global shares elsewhere have recovered<sup>2</sup>. On top of this initial reaction, there remains an ongoing concern that the pace of growth in the Eurozone will slow. The IMF predict Brexit effects could last through to 2018<sup>3</sup>.

Another consideration however, is the value of the Euro. Depreciation will provide more attractive foreign investment opportunities which could potentially allow certain economies to grow significantly in the future. In particular, companies producing in the Eurozone with high sales exposures outside of Europe would benefit from a weaker Euro. Previous depreciations in the Euro have boosted the revenues of luxury brands, such as Louis Vuitton Moët Hennessey<sup>4</sup>. Research shows that China is the main engine for apparent sales growth<sup>5</sup>, due to the appeal of luxury goods in the Chinese market, along with the high proportion of Chinese travelers<sup>6</sup>. The depreciation of the Euro, moreover designates Europe, particularly France and the UK a travel and shopping paradise for millions of tourists.

## Using the EURO STOXX 50 in Structured Products

By including the EURO STOXX 50 in a structured product, investors are able to benefit from enhanced coupons. Investors should be aware that a 60% European barrier on the index's 52 week high of 3676.75 at 5 August 2015 would allow the index to fall to approximately 2206.05, which is around 200 points greater than the lowest index has been in the past 5 years.

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<sup>1</sup> The Local, 2016 "Merkel: No eurozone crisis developing over Italy's banks" (Online)

Available at: <http://www.thelocal.de/20160712/merkel-sees-no-eurozone-crisis-developing-over-italys-banks>

<sup>2</sup> Bloomberg, 2016 "European Stock Strategists Double Down on Gloom After Brexit" (Online)

Available at: <http://www.bloomberg.com/news/articles/2016-07-13/european-equity-strategists-double-down-on-gloom-after-brexit>

<sup>3</sup> Humans At Sea, 2016 "Brexit Will Slow Down Eurozone Economic Growth Warns IMF" (Online)

Available at: <http://humansatsea.com/2016/07/09/brexit-will-slow-eurozone-economic-growth-warns-imf/>

<sup>4</sup> ValueWalk, 2015 "Why Does Louis Vuitton Like A Weaker Euro?" (Online)

Available at: <http://www.valuewalk.com/2015/02/why-does-louis-vuitton-like-a-weaker-euro/>

<sup>5</sup> Bloomberg, May 2015, "Wealthy Chinese Head Abroad to Buy Diamonds Without Scrutiny" (Online)

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

<sup>6</sup> Jing Daily, 2010 "Europe Calling: Chinese Shoppers Taking Advantage Of Euro Depreciation" (Online) Available at: <http://jingdaily.com/weak-euro-entices-wealthy-chinese-to-shop-in-europe/>