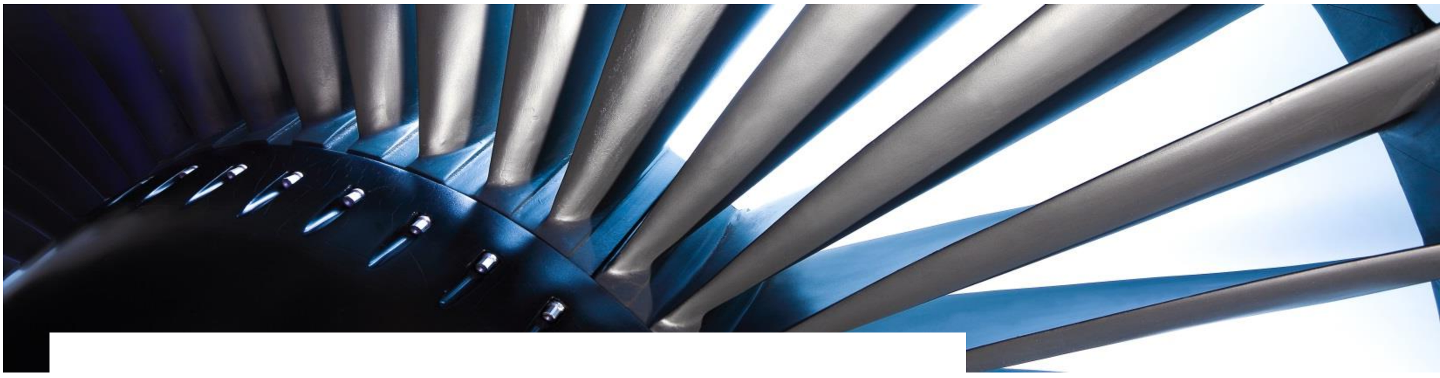

31 JULY 2017

Less Savings to Fund US Tax Cuts

By Florence Tan, Celestee Tan

Failure to pass the healthcare bill and exclusion of the Border Tax Adjustment in the proposed tax reform imply that there is less savings to finance a corporate tax rate cut.

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Market Performance

Global equities as measured by MSCI World Index closed marginally lower on the week (-0.06%).

In the US, the Dow Jones Industrial Average increased 1.16%, S&P 500 Index was nearly unchanged (-0.02%) and the Nasdaq Composite ticked 0.20% lower.

European equities, as measured by the Stoxx Europe 600 Index, dropped 0.48% while Japanese stocks also fell on yen strength (Nikkei 225: -0.70% and Topix: -0.54%).

Emerging Markets, on the other hand, outperformed with the MSCI EM index rising 0.26%, led by MSCI Asia ex Japan (0.33%), MSCI Latin America (0..27%) and MSCI Emerging Europe (0.03%). Within Asia, the Jakarta Composite Index (JCI) was the top performer, advancing 1.14% on the week.

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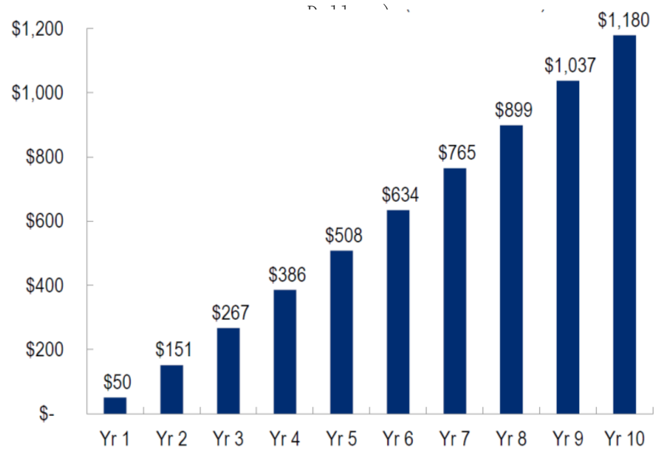
Less Savings to Fund US Tax Cuts (Continued)

- The failure of the Senate to pass the American Health Care Act (AHCA), in any version, does not mean the end of the Republican aim to repeal and replace Obamacare. The House of Representatives will depart for its five-week summer recess, but the Senate shortened its recess to two weeks in late August. Ahead of the break, Senators are free to consider alternative options, including a bi-partisan solution that would leave the existing Obamacare regime in place, but stabilize faltering insurance markets and fix other troubled aspects of the system.

"The Border Adjustment Tax (BAT) could have generated $1.2 Trillion in static Federal tax revenues over 10 years."

Cumulative Revenues from the BAT (Billions of



Source: Citi Research as of 28 July 2017.

- The Trump Administration leaders posted a joint statement on tax reform on July 27th, promising big changes, but no Border Adjustment Tax (BAT).

- Officials restated the three core principles of tax reform which include providing relief for businesses and consumers, simplifying a complex tax code and rendering the US tax system more internationally competitive.

- Large US importers including retailers, auto-makers, tech firms, oil refiners as well as the Senate Republicans had pressed for the BAT to be excluded. The sidelining of the BAT was a significant blow to the House Speaker who had hoped to level the playing field for US exporters while generating roughly $1.2 trillion in revenue for the federal government.

- Failure to pass the healthcare bill and exclusion of the Border Tax Adjustment in the proposed tax reform imply that there is less savings to finance a corporate tax rate cut. Citi analysts now assume a 25% corporate tax rate in their earnings forecasts, up from 20%.

Why Investors Need Not Fear Euro Strength

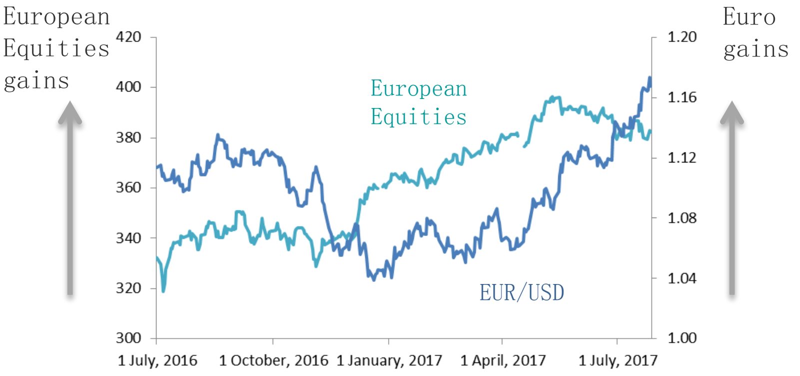
Citi analysts find little evidence that a strong euro hurts European company earnings.

- European equities have rallied with the DJ Stoxx up 8.5% year to date. During this period, the performance of the euro has been even more impressive, up 11%. Would further gains in the euro start to hurt earnings of European companies?

- Citi analysts find little evidence that a strong Euro hurts European companies' earnings. Data over the last 15 years shows that economic growth in the euro area is more important in driving earnings of European companies.

"Economic growth is more important than the euro in driving earnings."

Euro and European Equities have rallied year to date



Source: Citi. Bloomberg. As of 25 July 2017.

- However, Citi analysts find that Euro strength affects the relative performance between sectors. Sectors that derive a large share of their revenues overseas, such as Healthcare and Technology tend to underperform when the euro strengthens. Domestic sectors, including Utilities and Banks tend to be more resilient to euro strength.

- Citi analysts have a positive outlook on European equities given fading political risks and a broadening economic recovery. The strength in the euro this year has been largely driven by persistent strength in the economic data from Europe (ex UK) and the reduction in political risks post the French presidential election. In this context, euro strength is to be welcomed by investors and not feared.

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