HERMES80 (DR)

Globlex Securities Co., Ltd.

6 August 2025

Hermès and the Power of Consistent Luxury

- Hermès success lies in consistent craftsmanship and decisive strategy—not trends—making it a generational luxury compounder.
- Hermès delivers over 600% shareholder returns (2015–2025).
- Recommend a BUY with TP of THB9.30 (€2473, based on EUR/THB at 37.5).

The Art of Making Less Worth More

Hermès doesn't just sell products—it sells discipline, craftsmanship, and the prestige of being out of reach. The company produces fewer handbags than the market demands, hires only a few hundred artisans a year, and refuses to accelerate growth at the expense of quality. Clients can't simply buy a Birkin or Kelly; they must be offered one. This scarcity isn't accidental—it's intentional. By limiting supply and resisting overexposure, Hermès keeps its brand elevated above trends, promotions, and mass prestige. This structural scarcity acts as a protective moat—reinforcing desire, pricing power, and long-term brand equity.

Valuation Backed by Timelessness

While Hermès trades at over 40x forward earnings—double that of peers like LVMH or Richemont—its premium valuation is underpinned by fundamentals, not fashion cycles. With operating margins exceeding 42%, zero net debt, and ROIC above 40%, Hermès delivers elite capital efficiency rarely found in global equities. Its business model avoids the volatility of wholesale channels or celebrity-driven seasonal launches. Core icons like the Birkin, Kelly, and silk carré remain timeless, ensuring stable margins without the need for discounts or reinvention. Investors are not paying for next quarter's hype—they're investing in an enduring engine of profitability and brand trust.

The Return Speaks for Itself

From 2015 to 2025, Hermès delivered over 600% in shareholder returns—more than triple LVMH's performance and far ahead of other listed luxury players. Even in the post-COVID recovery, where the sector bifurcated between aspirational and ultra-luxury, Hermès stood alone at the top. The company has proven to be not just resilient, but structurally advantaged: powered by recurring demand from high-net-worth clients, low reliance on marketing, and steady international expansion. As other brands chase trends or pivot strategy, Hermès compounds quietly—through pricing power, vertical integration, and unmatched operational consistency.

The Power of Doing Less, Better

At the heart of Hermès' greatness lies a philosophy that few modern businesses dare to follow: do less—but do it better than anyone else. Its history is defined by long-term thinking, whether it's choosing artisanal growth over mass production or defending its independence during LVMH's hostile takeover attempt. Every expansion—into beauty, homeware, or watches—has been deliberate, slow, and brand-aligned. This culture of restraint and precision has made Hermès not just a luxury icon, but a generational compounder. In a world obsessed with speed and scale, Hermès proves that excellence, when guarded with discipline, wins the race.

Recommend a BUY with TP of THB9.30 (€2473, based on EUR/THB at 37.5)

We recommend a BUY on HERMES80, with Bloomberg consensus target price of THB9.30 (equivalent to €2473, based on EUR/THB at 37.5). While the stock trades at a premium valuation of over 40x forward earnings, we believe this is justified by Hermès' unmatched consistency, superior return, and long-term brand resilience.

Analyst

Suwat Sinsadok, CFA, FRM, ERP
suwat.s@globlex.co.th,
+662 687 7026

Assistant Analyst

Peerayu Sirivorawong

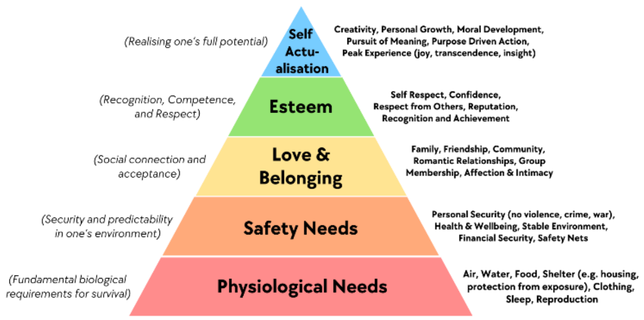
Hermès, the Power of Consistent Luxury

When selecting an industry to invest in, we look for major key traits: abundance, high margins, pricing power, alignment with human aspirations, and long-term growth potential. The luxury sector embodies all of these, making it a structurally attractive industry for long-term capital allocation.

Luxury is one of the few industries that thrives not only on functionality but also on **human psychology**—particularly the need for identity, status, and self-esteem. As Maslow's hierarchy suggests, once basic needs are met, consumers shift toward aspirational consumption—seeking items that represent success, refinement, and personal expression.

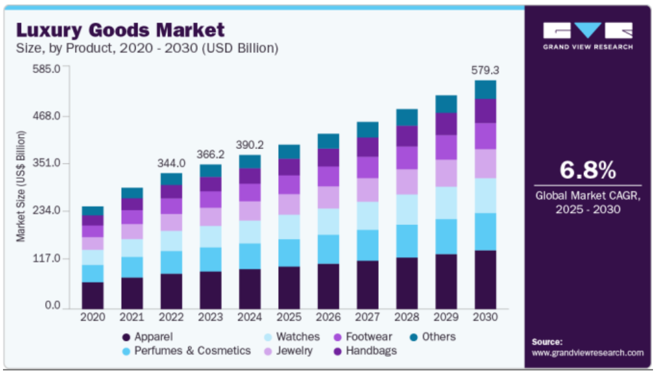
Luxury goods, by nature, fulfill these emotional and social roles. Economically, they are classic examples of Veblen goods, where demand increases as prices rise, due to their signaling effect. This confers exceptional pricing power, allowing brands to raise prices with minimal demand erosion—something which few industries can claim.

Exhibit 1: Maslow's hierarchy of needs



Sources: Wikipedia

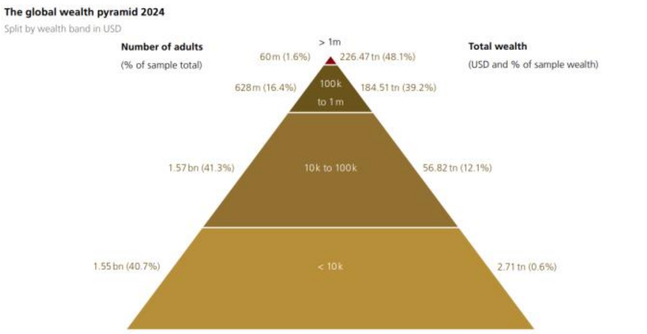
Exhibit 2: Luxury Goods Market



Sources: Grand View Research

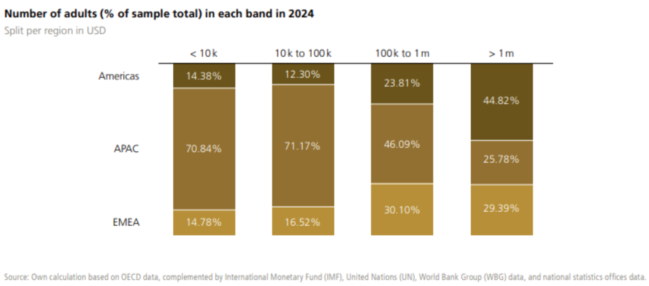
Economically, **luxury goods are highly income-elastic (YED > 1)**, meaning demand increases faster than income growth. This positions the industry to structurally benefit from global wealth expansion. Today, around 1.6% of the global population—around 60m people—are worth over $1m, according to UBS estimates. Over 40% of them are in America, with the remainder concentrated in Asia-Pacific and Europe, and this wealthy cohort is growing annually, particularly in emerging Asia. Even in downturns, this group remains resilient; for the ultra-wealthy, luxury is not discretionary—it is habitual and identity-defining.

Exhibit 3: The global wealth pyramid 2024



Sources: UBS

Exhibit 4: % of wealth breakdown by region

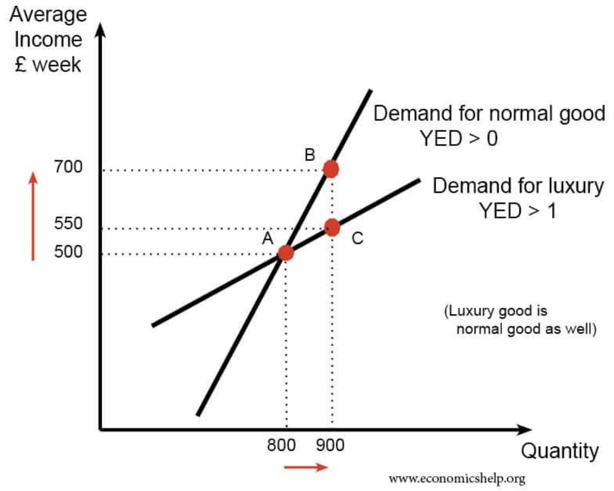


Sources: UBS

Financially, the luxury sector delivers **best-in-class profitability**, driven by brand equity, vertical integration, and direct-to-consumer models. Leading names like Hermès command EBIT margins of 40%+, while maintaining low discounting and minimal promotional activity. This operational leverage supports premium valuations and sustainable cash flow.

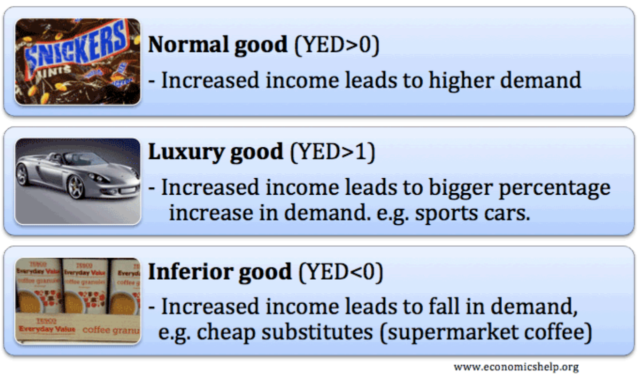
According to Grand View Research**, the global luxury goods market is expected to grow at a CAGR of 6.8%**, driven by both core markets and rising aspirational consumers in the Asia. In short, luxury offers a rare combination of emotional durability, economic resilience, and financial excellence—making it a structurally advantaged sector for long-term capital deployment.

Exhibit 5: Income elasticity of demand



Sources: economicshelp

Exhibit 6: Income elasticity of demand



Sources: economicshelp

Why Hermès Wins by Doing Less, Better ?

In a fast-changing industry driven by image and innovation, Hermès has succeeded by doing the opposite—**remaining remarkably consistent**. Its unwavering commitment to craftsmanship, product integrity, and brand control has allowed it to compound value quietly over time. But consistency alone doesn't explain its dominance. Hermès has also made a series of **decisive strategic choices** at critical moments—whether in how it scales production, preserves scarcity, or protects its independence. These two forces—**consistency and strategic discipline**—form the backbone of what makes Hermès not just resilient, but exceptional.

Saddles for Emperors: The Birth of Hermès

Hermès was founded in 1837 by **Thierry Hermès**, a skilled harness-maker who established a workshop in Paris dedicated to producing high-quality bridles and saddles for European nobility. His work quickly gained a reputation for exceptional craftsmanship, that his saddles were eventually used by Emperor Napoleon III and the French elite. From the very beginning, Hermès' brand was built on **uncompromising quality, precision, and prestige**—values that still define the company for nearly two centuries.

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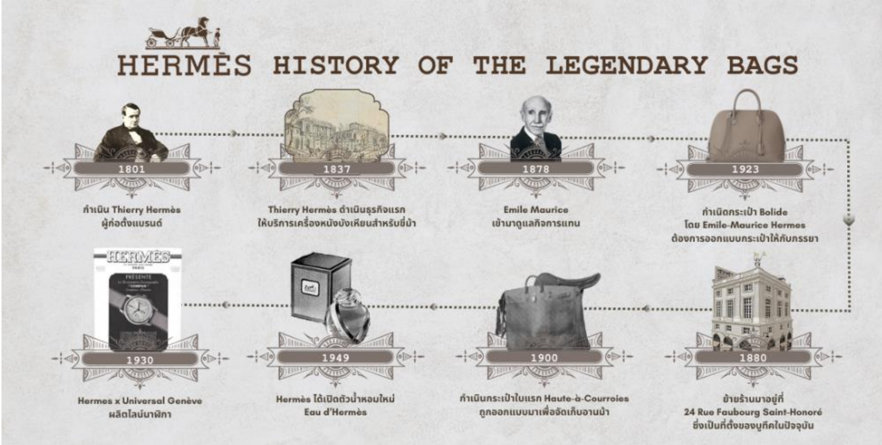
Exhibit 7: Hermès history timeline



Sources: Katexoxo.com

Hermès Leadership Through Generations: Evolution Without Compromise

Hermès is known for its unwavering consistency, that has been preserved through a series of well-timed, generational innovations—each leader making deliberate strategic expansions without ever compromising the brand's core DNA of craftsmanship, scarcity, and control.

Charles-Émile Hermès (Mid-1800s): The Urban Expansionist

- Son of Thierry Hermès, Charles-Émile moved the Hermès workshop from the Grands Boulevards to 24 Rue du Faubourg Saint-Honoré in Paris—still the brand's flagship location today.
- He broadened the client base beyond aristocracy to the growing urban bourgeoisie, helping Hermès evolve from a royal saddler to a prestigious equestrian house for the emerging elite.
- Under his leadership, Hermès began cultivating relationships across Europe, laying the groundwork for the international luxury presence that would follow

Émile-Maurice Hermès (Late 1800s–1951): The Leather Goods Pioneer

- Grandson of founder Thierry Hermès, Émile-Maurice was the first to expand beyond equestrian saddlery.
- Introduced handbags, travel goods, and leather accessories—laying the groundwork for what would become the company's most iconic product lines.
- Famously obtained exclusive rights to use the zipper in France, initially designing a leather golf jacket for the Prince of Wales, marking an early luxury-meets-utility innovation.
- Expanded Hermès' vision from workshop to full-fledged Maison of elegant utility.

Robert Dumas-Hermès (1951–1978): The Brand Shaper

- Brought in by marriage (not by bloodline), but instrumental in shaping Hermès' aesthetic.
- **Designed and refined the Kelly bag** (formerly "Sac à Dépêches") and introduced the brand's most enduring visual cues.
- Launched the **first Hermès silk scarf (Carré)**—which would become one of the most recognizable luxury accessories in the world.
- Introduced the now-signature **orange box** during World War II due to material shortages—turning constraint into a branding triumph.
- Spearheaded the first wave of **international expansion**, planting seeds of global brand awareness.

Exhibit 8: Grace Kelly carrying Kelly bag

Sources: Persuitist

Exhibit 9: Jane Birkin with her original prototype bag

Sources: Sotheby's

Jean-Louis Dumas (1978–2006): The Global Visionary

- Fifth-generation family member who modernized the house while fiercely protecting its heritage.
- Created the iconic **Birkin bag** in 1984, transforming Hermès into a pop-cultural and fashion benchmark.
- Expanded Hermès into **ready-to-wear, perfumes, watches, and homeware**, building a full lifestyle brand.
- Led **international flagship store expansion** (notably in New York and Tokyo) while maintaining boutique exclusivity.
- Championed creative collaborations, including with Martin Margiela, reflecting a rare openness to modernity while keeping control.

Patrick Thomas (2003–2014): The Steward of Financial

- The first non-family CEO of Hermès, appointed to professionalize and protect the business.
- Oversaw a period of significant financial growth, with revenues and profitability reaching new highs.
- Led the company during the LVMH hostile takeover attempt (2010), helping the family consolidate shares into a protective holding company (H51).
- Emphasized sustainability and long-term brand stewardship, laying the groundwork for scalable artisanal production.

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Exhibit 10: The Battle Between Hermès and LVMH

Sources: Bangkokbiznews

The LVMH Takeover Attempt: A Quiet Battle for Control

In 2010, the luxury world was shaken when **LVMH, the world's largest luxury conglomerate**, quietly **acquired a 17% stake in Hermès**—without the family's knowledge or consent. Rather than buying shares openly on the market, LVMH used cash-settled equity swaps through multiple banks, a complex financial strategy that allowed it to build its position discreetly over time. By the time it was revealed, LVMH had increased its stake to over 22%, sparking fears that Hermès—known for its independence and strict brand control—could be absorbed into the LVMH empire.

The Hermès family, which had long prided itself on being private and self-governed, **viewed the move as hostile**. In response, they quickly formed a **holding company called H51**, pooling together over 50% of the shares held by family members to ensure they maintained control. The case went to French regulators, and while LVMH denied hostile intent, it was eventually forced to unwind the position in 2014, after being fined for failing to disclose its stake buildup properly.

What made this episode decisive wasn't just the defense—it was the message. The Hermès family proved they would never trade independence for scale or market cap. This battle cemented Hermès as the only major French luxury house still owned and operated independently. It also reinforced its brand image: **uncompromising, focused, and truly rare**—in business philosophy as much as in product.

Axel Dumas (2014–Present): Quiet Expansion, Artisan Scaling

- Sixth-generation family member and current CEO.
- Focused on expanding workshop capacity in France to meet demand while preserving quality.
- Maintains the brand's **"no discounts, no trends"** philosophy.
- Strengthened Hermès' presence in Asia, China and South Korea.
- Oversaw launches into beauty (lipsticks, skincare) and jewelry, extending the Hermès touch to new verticals without stretching the brand thin.

Hermès: A Luxury Experience Defined by Connection, Craftsmanship, and Core Value

Hermès approaches client service differently from many luxury brands. The in-store experience is intentionally understated, with minimal attention placed on pleasing or impressing customers in a traditional sense. Rather than offering high-touch service or personalised attention from the first visit, Hermès maintains a sense of formality and distance. Clients are welcomed, but the relationship is not rushed. For some, this reinforces the brand's confidence and exclusivity; for others, it can feel unapproachable.

This deliberate approach reflects Hermès' broader strategy of cultivating desire through scarcity and selectivity. Nowhere is this more evident than in the Hermès Journey—an unspoken path that may eventually lead to an offer of a Birkin or Kelly bag. These products are never available on request; they are offered discreetly, based on long-term engagement and the discretion of sales associates.

Therefore, clients are often encouraged to explore other product categories—such as scarves, ready-to-wear, and homeware—not only to build purchase history, but to demonstrate genuine interest in the brand. Sales associates, who receive commission on these categories but not on Birkins or Kellys, guide them through this process. As the relationship develops, clients often gain a deeper appreciation for Hermès' values, craftsmanship, and timeless philosophy—discovering the brand's world far beyond its most iconic bags.

Regardless of what customers purchase, Hermès constantly provides an experience rooted in quality, identity, and timelessness—proving that what is truly well-made, both in product and in experience, will last in the long term. This is what distinguishes Hermès apart, not just as a luxury brand, but as a living legacy.

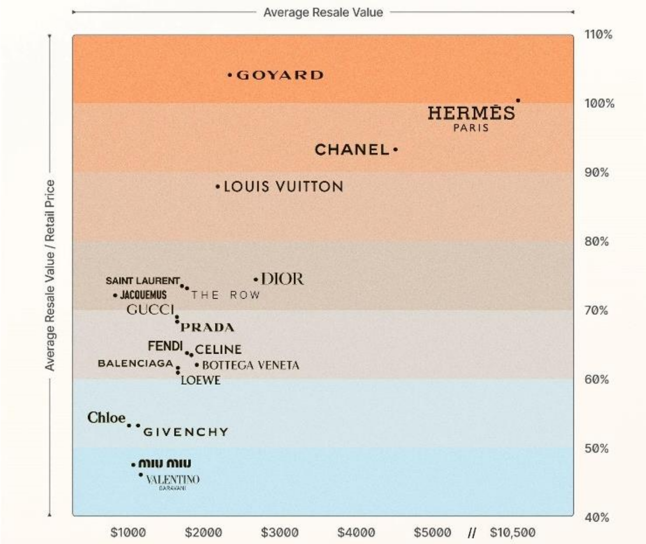
Exhibit 11: Hermès Paris flagship on avenue George V

Sources: Fashionnetwork

Exhibit 12: Inside Hermès store

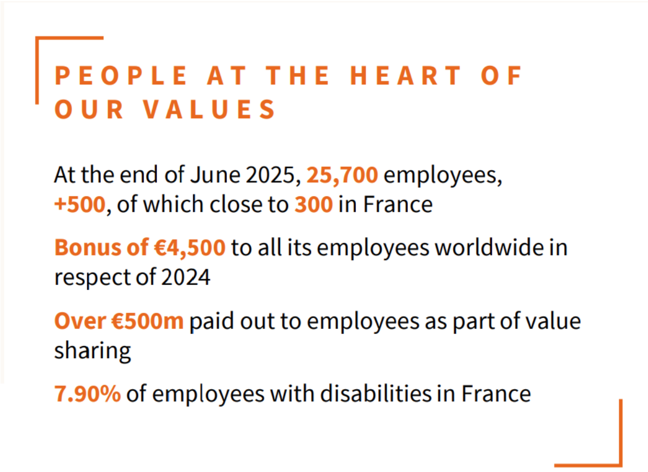
Sources: Bloomberg

Exhibit 13: The luxury resale hierarchy



Sources: Quartr

Exhibit 14: 2Q25 employees



Sources: Hermès

Artisan Growth, Not Overproduction

One of Hermès' most admirable qualities is its ability to **scale without compromising craftsmanship**. While demand for its products continues to outpace supply globally, Hermès remains committed to **producing each piece by hand**, one artisan at a time. Rather than accelerating output through automation or outsourcing, the company adds a limited number of qualified artisans each year, ensuring that growth matches its rigorous quality standards.

As of June 2025, Hermès **employed 25,700 people worldwide, with 500 new hires over the past year**—nearly 300 of them in France, where many of its leather workshops are based.

Despite rising demand, Hermès continues to **produce less than the market could absorb**, preserving both brand exclusivity and long-term pricing power. This intentional shortfall is not a limitation—it is a strategy. It keeps Hermès out of the promotional cycle, prevents overexposure, and reinforces its image as the purest form of scarcity-based luxury.

At the same time, Hermès rewards its people: in 2025, the company paid a €4,500 bonus to each employee globally and distributed over €500m in value-sharing, reaffirming that its people—not just its products—are central to the brand's value.

Exhibit 15: Hermès 2Q25's overview

Sources: Hermès

Exhibit 16: Revenue by product categories

REVENUE BY SECTOR

in €m	June 2025	Change at constant rates
Leather Goods and Saddlery	3,578	12%
Ready-to-wear and Accessories	2,255	6%
Silk and Textiles	447	4%
Other Hermès sectors	1,056	10%
Perfume and Beauty	248	(4)%
Watches	281	(8)%
Other products	168	8%
TOTAL	**8,034**	**8%**

Sources: Hermès

As of mid-2025, the global luxury sector is showing signs of moderation after a multi-year post-COVID boom. Giants like **LVMH and Kering have reported**

slowing sales, especially in aspirational segments and key markets like **China**, where consumer spending has become more selective. Brands reliant on fashion cycles, wholesale channels, or middle-income luxury are seeing pressures on volumes and margins.

In contrast, Hermès remains an outlier. Its timeless positioning, ultra-wealthy clientele, and disciplined supply strategy continue to insulate it from broader cyclical softness. This resilience underscores the structural strength of true ultra-luxury over trend-driven mass prestige.

Hermès enters the second half of 2025 with strong momentum following a **robust 1H25, where revenue grew +17%** at constant exchange rates and **recurring operating income rose +28%**, driven by strong demand across all regions, particularly in Asia (+20%) and the U.S. (+15%). The company continues to benefit from exceptional pricing power, resilient demand from high-net-worth customers, and steady growth across key product lines—especially in Leather Goods & Saddlery, which expanded +18%, and Ready-to-Wear, which saw a +25%.

Looking to 2H25, Hermès plans to **open six new stores**, including major locations in Munich and Washington D.C., as well as reopen its renovated flagship in Hong Kong. These store openings are expected to support further growth, especially in **Asia**, which now accounts for **almost half of the group's revenue**. Management reiterated its commitment to artisan-driven scaling, with continued investment in French production capacity and a pipeline of new workshops to maintain quality while accommodating rising demand.

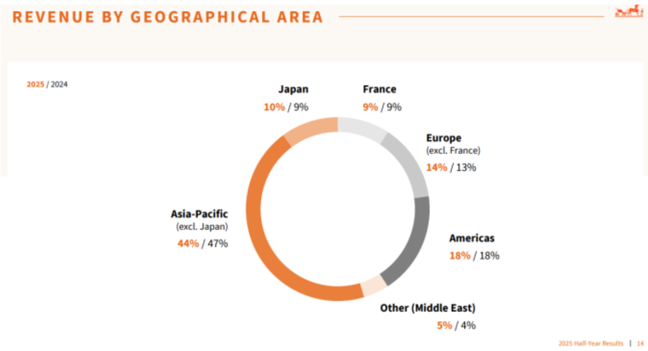
Exhibit 17: Revenue by geographical area

REVENUE BY GEOGRAPHICAL AREA

in €m	June 2025	Change at constant rates
France	740	9%
Europe (excl. France)	1,088	13%
EUROPE	**1,828**	**11%**
Japan	815	16%
Asia-Pacific (excl. Japan)	3,574	3%
ASIA	**4,389**	**5%**
Americas	1,455	12%
Other (Middle East)	362	17%
TOTAL	**8,034**	**8%**

Sources: Hermès

Exhibit 18: Revenue by geographical area



Sources: Hermès

The group also highlighted growing traction in **Beauty, Homeware, and Watches**, which, while still small in revenue share, are seen as promising verticals to reinforce Hermès' lifestyle positioning. Importantly, management confirmed its guidance for 2025 of **"ambitious revenue growth at constant exchange rates"**, reaffirming that the company remains on track despite macroeconomic uncertainties and FX headwinds.

Valuation Premium Reflects Brand Permanence

At first glance, **Hermès' valuation appears demanding**. The stock trades at a P/E of over 40x forward earnings, compared to 20–25x for peers like LVMH and Richemont. But that **premium is not a bubble**—it reflects a fundamentally **different business model**. Where other brands rely on seasonal collections, and celebrity campaigns, **Hermès builds on long-term brand aspiration and scarcity**, not fashion. It doesn't need to reinvent itself every quarter, because its core products—Birkin, Kelly, silk scarves—never go out of style.

More importantly, Hermès consistently delivers **best-in-class returns**.

As of 1H25: **Operating margin** exceeds 42%, far ahead of LVMH (~25%) and Kering (~18%). **Return on Invested Capital (ROIC)** is above 40%, sustained over time, indicating strong capital discipline and brand monetization.

The company operates with **no net debt**, yet generates high free cash flow, which it reinvests conservatively into artisanal capacity and store expansion—not marketing blitzes.

Exhibit 19: Hermès stock price with peers

Sources: LSEG

Exhibit 20: Luxury peers' comparison

	Rating	Target	Price	% diff	P/E 2025E	P/E 2026E	P/E 2027E	EPS growth 2025E	EPS growth 2026E	EPS growth 2027E
LVMH	Neutral	€ 487	€ 475	3%	23.2	21.9	20.2	-22%	6%	9%
Kering	Neutral	€ 215	€ 212	1%	42.3	42.9	28.2	-53%	-1%	52%
Richemont	Buy	CHF 169	CHF 138	23%	23.6	20.8	17.9	-4%	13%	16%
Swatch	Sell	CHF 71	CHF 147	-52%	149.9	100.6	36.6	-74%	49%	175%
Hermès	Buy	€ 2,704	€ 2,378	14%	54.7	46.6	41.5	-1%	17%	12%
Ferrari	Buy	$ 560	$ 505	11%	48.9	43.2	38.9	6%	13%	11%
EssilorLuxottica	Neutral	€ 262	€ 263	0%	37.3	34.3	31.0	4%	9%	11%
Burberry	Buy	1,575p	1,336p	18%						
Moncler	Neutral	€ 52.0	€ 47.6	9%	22.1	21.0	19.1	-8%	5%	10%
Prada	Buy	HKD 77.0	HKD 47.5	62%	14.9	13.4	12.0	7%	11%	12%
Ferragamo	Neutral	€ 5.5	€ 5.1	7%						
Zegna	Neutral	$ 8.5	$ 8.7	-3%	20.2	17.1	13.2	4%	18%	30%
Brunello Cucinelli	Buy	€ 125.0	€ 102.8	22%	53.0	48.0	42.0	10%	11%	14%
Hugo Boss	Neutral	€ 38.5	€ 41.6	-8%	12.6	11.6	10.7	-8%	8%	8%
Pandora	Sell	DKK 950	DKK 1,069	-11%	15.7	14.9	13.0	5%	5%	14%
Watches of Switzerland	Neutral	400p	354p	13%	9.2	9.0	8.2	-2%	3%	9%
Tapestry inc	Neutral	$ 73.0	$ 107.4	-32%	21.0	20.7	19.3	7%	2%	7%
Capri Holdings	Neutral	$ 18.0	$ 19.2	-6%	-424.8	15.0	14.3	-98%	-2970%	5%
Canada Goose	Neutral	$ 11.0	$ 13.1	-16%	12.7	11.7	10.3	-6%	8%	13%
Ralph Lauren	Buy	$ 385	$ 301	28%	22.5	21.5	20.0	13%	5%	7%
Sector Average				**8%**	**36.4**	**33.2**	**29.0**	**-7%**	**3%**	**14%**
Sector Average ex- RMS, RACE				**5%**	**27.0**	**26.2**	**22.4**	**-12%**	**-4%**	**15%**
Sector Average within Luxury coverage inc-RMS, RACE				**8%**	**38.2**	**33.8**	**29.5**	**-8%**	**11%**	**14%**
Sector Average within Luxury coverage ex- RMS, RACE				**6%**	**29.2**	**26.7**	**22.7**	**-13%**	**8%**	**16%**

Note: Sector Average excludes Ferragamo, Burberry

Sources: UBS

This consistency gives **Hermès the rare luxury of pricing power** without discounting, **growth without overexposure**, and **prestige without volatility**. Its valuation multiple reflects not just current earnings, but the **durability of its moat**—something few luxury peers can replicate. Investors are not paying for next season's trend. They're paying for a generational compounder that has proven its ability to scale scarcity and monetize craftsmanship at global scale.

The Best-Performing Luxury Stock, Consistently

Over the past decade, **Hermès has delivered the highest total shareholder return** among all listed global luxury brands. Even when compared to giants like **LVMH, Richemont, and Kering**, Hermès stands apart. From 2015 to 2025, Hermès' stock price has risen over 600%, nearly **tripling LVMH's return** and far outperforming Kering, which has seen more volatile cycles tied to fashion trends.

Crucially, even post-COVID, when the luxury sector experienced divergent recoveries, Hermès continued to outperform all peers—with steady earnings growth, minimal discounting, and unmatched brand pricing power. In short, Hermès is not just a premium brand—it's a premium equity compounder, offering a rare blend of resilience, growth, and long-term capital efficiency.

Exhibit 21: Hermes (RMS) stock price

Sources: Google

Exhibit 22: LVMH stock price

Sources: Google

Initiated with BUY and a TP of THB9.30

We recommend a BUY on HERMES80, with Bloomberg consensus target price of THB9.30 (equivalent to €2473, based on EUR/THB at 37.5). While the stock trades at a premium valuation of over 40x forward earnings, we believe this is **justified by Hermès' unmatched consistency**, superior return metrics, and long-term brand resilience.

Unlike peers who rely on fast-moving fashion cycles, Hermès compounds value through **decades of artisan discipline, supply control, and quiet but decisive strategic victories**—from vertical integration to defending its independence. In a sector where trends rise and fade, Hermès stands as **the gold standard of scarcity-driven luxury** and remains a structural long-term winner in any market cycle.

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Analyst Certification

Suwat Sinsadok, Register No. 020799, Globlex Securities Public Company Limited

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RECOMMENDATION STRUCTURE

Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

Country (Strategy) Recommendations

Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral: Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight: Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.