

IMPRINT

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perspectives

02/2012 QUARTERLY MARKET OUTLOOK

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DEAR READER

Politicians have rarely been faced with so many unpopular decisions: higher taxes, spending reductions, drastic cuts in social security, to name but a few. And the international investment community is demanding further measures to counter the current confidence and debt crisis. Given the many outstanding issues it is still advisable to hold a diversified portfolio, not just with regard to asset classes but also in terms of regional distribution. We expect the markets to be largely positive in 2012, with short-term asset allocation once again playing a central role. Ongoing adjustments are required in line with changing circumstances to achieve a balance between risks and opportunities.

Mario Geniale
Chief Investment Officer

Economic perspectives

The economic situation in Switzerland remains surprisingly stable. We anticipate GDP growth of 0.75% for the current year, while the second and third quarters in particular could be weak.

The risks for Switzerland also lie in Europe: the Swiss economy is closely linked to its European counterparts through exports, with 59% of Swiss exports going to eurozone countries and net exports accounting for 25% of Swiss GDP. Falling demand in export business therefore has a rapid and direct impact on the Swiss economy. Other likely risks include a banking crisis or the end of the exchange rate floor. Developments in the eurozone must therefore be closely monitored in order to prepare in good time for the impact on Switzerland.

European economic growth on a weak footing

We expect zero growth for eurozone GDP in 2012, followed by an increase of 1.0% in 2013. European economic growth is on a weak footing, meaning that external shocks could easily see the region drift into recession. There are numerous potential risks that could trigger shocks of this kind, including a disorderly default by Greece, the withdrawal of one of the PIIGS countries (Portugal, Italy, Ireland, Greece, Spain) from the eurozone, refinancing problems in Italy and Spain, surprisingly weak global economic growth or political resistance at the ballot box, all of which point to the scenario of a slight economic slowdown.

Following the positive signs from US leading indicators in the last quarter, the stronger economic growth can now be seen in higher GDP growth (4Q11: 3%) and lower unemployment. The US is on a solid growth path with low growth fluctuations. We therefore anticipate GDP to be 2.5% higher in 2012. Quantitative easing by the Fed or economic effects triggered by the forthcoming presidential election in November could provide additional support. (fur)

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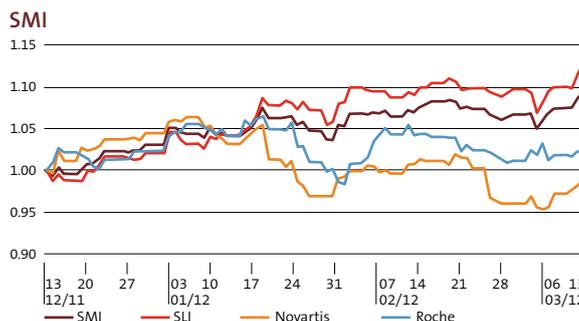
The Markets

“... investors should still favour defensive investments.”

Greece, safety net, financial crisis – not a day goes by without these buzzwords appearing in the media. The euro debt crisis has still to be resolved, confidence in the economy is at a somewhat critical level, and yet the major indices made a flying start to the new year. There is a degree of euphoria evident on the markets that on closer inspection of the economic indicators actually appears not to be wholly unjustified. Global macro data is faring better than most economists expected, providing ongoing momentum to the sometimes beleaguered equity markets. Despite a number of promising bright spots in the gloomy financial sky, investors should still favour defensive investments. (mch)

SWISS EQUITIES

There have so far been no signs yet of an economic collapse like that seen in 2008, so Swiss equities have also benefited from the global uptrend. Most of the equities in the three Swiss indices (SMI, SLI, SMIM) have recorded an at times impressive performance since the start of the year. A more detailed examination of these indices reveals that the SMI has not been able to keep up with the performance of the SLI and SMIM. This lesser performance is primarily attributable to the index heavyweights **Novartis** and **Roche**, which together make up more than one-third of the SMI and lost value at the beginning of the year. Although these two defensive stocks have yet to convince in 2012, they should always be on investors' radar. (mch)



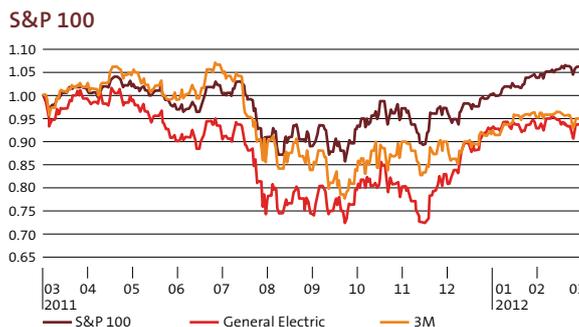
EUROPEAN EQUITIES

The European equity market underwent a recovery rally in the first quarter driven by rising economic growth forecasts and solidarity support for the PIIGS countries. We anticipate that practical implementation of this support will meet with growing resistance in the coming quarter, so we remain cautious as regards the European equity allocation and favour investments in Germany. Sectors whose sales performance is closely related to economic trends appear attractive. We are positive about **ArcelorMittal**, which is still trading below book value and could benefit from rising steel prices. (fur)



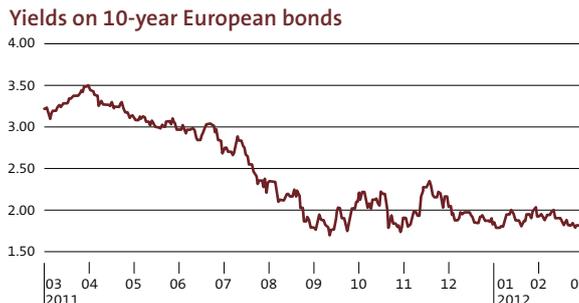
US EQUITIES

The economic climate in the US appears to be gradually brightening. Falling unemployment, rising industrial production and measurable GDP growth go hand in hand with a robust recovery in the world's biggest economy. The prospects for companies are good. The equity markets have already largely predicted this positive outlook, however, so a certain amount of caution is still called for. The major leading indices (Dow Jones and S&P 500) are at highs last seen before the dotcom bubble burst in 2000 or Lehman Brothers collapsed in 2008. Equities do not appear to be overvalued on the whole, particularly as a revaluation could be imminent. We see setbacks as opportunities to buy equities. Broadly diversified stocks such as **General Electric** and **3M** are attractive. (jb)



BONDS

The first quarter of 2012 began in surprisingly positive fashion. Yield premiums on the government bonds of all PIIGS countries apart from Greece fell sharply against German yields. The positive market sentiment is due in part to the Long-Term Refinancing Operation (LTRO) of the European Central Bank (ECB), which allowed the banks to fund themselves at lower interest rates. The total volume of the two LTRO auctions was EUR 1,019 billion. The ECB's balanced inflation outlook and the fact that the benchmark interest rate was kept at 1.0% were also well received. (muc)



The Column

with René Bachmann, Senior Currency Trader



Positive news ...

DEAR READER

Positive news in a negative environment? Certainly, if you take a look at global stock market indices. A flying start to the year that few analysts were predicting. The upshot is that most year-end targets have already been achieved and even exceeded. The DAX, for example, has already risen by 21%. The SMI is lagging somewhat behind this trend, up “just” 7%. The causes of this rally can be found in the European financial crisis, of all places.

“Investors seem to once again be ready to take on bigger risks”

Led by the ECB, various central banks have pumped massive amounts of liquidity into the markets. Investors seem to once again be ready to take on bigger risks. Is this a good thing?



At the end of February the ECB and its allies put together a further rescue package for Greece. However, the country continues to be a source of huge concern for almost all politicians and business leaders. We all now know how things got so bad. People were, and in many places (not just in Greece) still are, living beyond their means. Money cannot be spent twice, though. This is a bill that will never be settled in the long term, and will inevitably lead to debt chaos. At the same time, we are now all brutally aware of just how difficult it is to reduce debt in times of crisis.

Many bondholders appear to be losers. The nominal value of Greek bonds is being cut by no less than 53%. But after all the rescue package is in place. Does it really represent a rescue for Greece and hence positive news for the financial markets, as the stock market indices lead us to believe? I hardly think so. The problem is a profound one and the Greeks are going to have to dig deep. Painful cuts are essential.

“Investor confidence has suffered too much...”

The targeted debt level of around 120% of GDP (currently 170%) by 2020 will interest almost no one. Investor confidence has suffered too much in recent years for anyone to listen to debt targets announced by politicians. The problems are not being solved, simply put off until a later date. The



radical cuts required if the country is to stand on its own two feet again will be almost impossible to implement and see massive social unrest.

Merkel and Sarkozy, as the driving forces behind the EU, will protect the EU and the euro. They will use all possible means to prevent countries from leaving the eurozone in order to demonstrate the credibility and stability of this economic power. Some very creative “solutions” are being employed. The greatest assistance is coming from the massive injection of liquidity into the financial markets. In December 2011 the banks were offered liquidity of EUR 493 billion in the form of three-year loans at an interest rate of 1%. Just two months later, at the end of February, a further EUR 530 billion was lent (to more than 800 banks) on the same conditions. The aim is to prevent a credit crunch in the economy caused by banks no longer having confidence in each other. The Americans have been doing this for some time. And where has it led? US government debt has continued to explode, eroding the value of the US dollar. What do you think



will happen to the euro over the next few years as a result?

We believe we can guide you successfully through volatile and uncertain markets. Just ask us.

This column reflects the personal views of the author.

René Bachmann is responsible for currency trading at Banque CIC (Suisse). He has many years' experience in this area and has been with the bank for twenty years. René Bachmann is a member of management.

In Brief

Overview of topical investment themes

Security as a basic need

The 2008 Summer Olympics in Beijing swallowed up approximately USD 1,880 million in security costs. High figures are expected once again for the upcoming 2012 Games in London. The topic of "security" is increasingly becoming a focal point of our society. The need for stability, fear of chaos and calls for legal security have become more noticeable on a global scale. The current financial crisis is also a regular source of public concern – not least due to the lurking threat of social disturbances. In today's technology-driven world, security is a wide-ranging, highly dynamic and omnipresent topic. Traffic, IT, the Internet, healthcare, the environment and criminality are just some of the areas where security demands are constantly on the rise.



For example, cybercrime is growing so strongly that it has now become a bigger business than the drug trade. Security is a central topic for the future, and not one simply for the short-term. The security market has already grown strongly in the past few years – and continues to offer enormous growth potential. (ost)

Scarce food supplies



The global population is currently seven billion, and could grow to nine billion in less than 40 years. Demographic developments pose two challenges for the foodstuffs industry: On the one hand, biological tests have shown that the population grows exponentially under ideal conditions. On the other hand, eating habits change as disposable incomes increase. This challenge results in the increased consumption of meat and dairy products. These foodstuffs are expensive to produce – for example, twenty kilograms of grain are required to produce one kilogram of meat. As a result of demographic developments, the food industry can expect an exponentially increasing long-term demand. Grain production will increase in particular, which offers fertiliser and seed manufacturers interesting investment opportunities. However, classical food providers that are well positioned in regions with high levels of population growth are also an attractive proposition. (cal)

Our Group: a strong foundation

Banque CIC (Suisse) is part of the Crédit Mutuel-CIC Group, giving it a stable shareholder base and clear ownership. With its cooperative structure and diversified business model, the Crédit Mutuel-CIC Group is the best-capitalised bank in France and hence one of the best throughout the whole of Europe. The group has benefited from its solidity in a difficult environment and reports balanced results with clear client growth.



Its consistently high quality and embedded client focus led to the group being awarded the coveted title "Bank of the Year FRANCE" by "The Banker" for the second year running in 2011.

Current interest rates (as at 01.04.2012)

For savings and pensions

Anniversary savings account	1.000 %
Junior savings account	1.000 %
Investment account	0.625 %
Savings account	0.500 %
Savings 3 account	2.150 %

For day-to-day use

Senior citizen account	0.750 %
Private account	0.250 %
Current account	0.125 %

Current conditions and rates of interest can also be found at www.cic.ch.



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