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perspectives

03/2017 QUARTERLY MARKET OUTLOOK



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DEAR READER

Deceptive stability on the financial markets?

In the first half of 2017 basic economic figures have developed positively and early indicators have also demonstrated a constant upward trend. Along with the Trump euphoria and a French election result that was comforting for Europe, this has led to a pleasing development on the share markets and probably smoothed out worry lines for more than one investor in recent months. While the focus has tended to be on the political risks in Europe up to now, in the second half of the year investors' attention is likely to shift to the central banks and the future direction pursued by the US President. Although the latter's election win was celebrated by the financial markets, his record of achievements to date is still wanting. He has not even begun to put his biggest election promises into practice and his style of government is increasingly attracting criticism. The constant unrest surrounding Donald Trump and the fact that he is not just governing a divided country but is also President of a divided party is starting to raise doubts as to the feasibility of the reforms envisaged.

In view of this it will probably be worth scrutinising current orientation of the portfolio. Based on the positive first six months, we recommend partially hedging the equity allocation. This would be a logical step at the present time since volatility is at the very lowest levels, enabling acquisition of hedging products at low prices.

Mario Geniale, Chief Investment Officer

Economic perspectives

Once most of the political risks in Europe were eliminated, economic sentiment improved noticeably. Consumer prices seem to be slowly rising in the eurozone, growth figures are still positive and unemployment has dropped to a multi-year low.

The positive recovery in Europe also seems to be beneficial to the Swiss economy, with the latest domestic indicators reflecting a positive trend. Interestingly, the watch and jewellery industry has also seen strong growth, with this sector reporting its biggest quarterly growth since 2011.

Investor confidence in the eurozone rises while the US economy slows down

In the US on the other hand, the Trump euphoria is slowly dissipating and the economic indicators are taking a breather at a high level. According to the latest data published by the US trade department, US growth improved by 1.2% on the previous quarter. This is due, among other things, to consumer behaviour in the US: the index for consumer confidence trended very weakly in the past few months.

We believe that further developments in Europe and the US will depend heavily on future central bank policies. While the Fed is likely to continue raising interest rates, we expect a slight easing of ultra-expansionary monetary policy in Europe. It will be a challenge for the Swiss National Bank to keep the Swiss franc in calm waters in spite of the pressure from these two economic powers. (cal)



The Markets

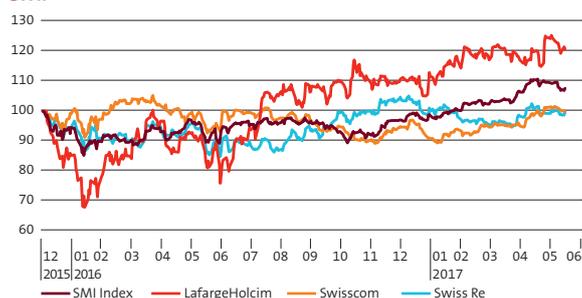
“Financial market euphoria is subsiding.”

During his first 100 days in office, Donald Trump regularly put his foot in it and dropped one clanger after the other on Twitter. But as no real progress has been made with his “America First” economic policy, the euphoria on the financial markets is subsiding. The key central banks seem to be the only players providing some sense of constancy: in view of the (political) uncertainties they are either moving at a snail’s pace (Fed) or not at all (ECB, BoJ, SNB). Thanks to the ongoing liquidity glut and frenetic merger and take-over activities, investors are not too fussed about geopolitical tensions. (jub)

SWISS EQUITIES

In spite of the French presidential election hanging over the markets like the sword of Damocles, unexpectedly improved reports from various companies (ABB, LafargeHolcim, UBS) boosted prices on the Swiss equity market. Compared to the rest of Europe, the price-earnings ratio of 24.5 for the Swiss Leader Index points towards an overvaluation (for comparison: the PE ratio for the Euro Stoxx 50 is 20). Although this overvaluation is supported by positive growth forecasts for the Swiss economy (ZEW Credit Suisse index), a closer look at price trends should warn us to be cautious about current levels. Shares that were rather unpopular among investors in recent times such as **LafargeHolcim**, **Swisscom** and **Swiss Re** are interesting candidates for us. (goste)

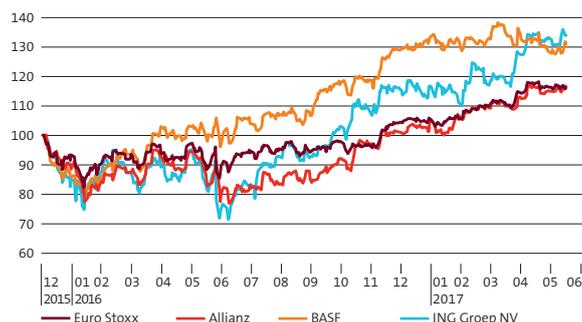
SMI



EUROPEAN EQUITIES

Emmanuel Macron, the modern-day Jeanne d’Arc, is saving France and bringing momentum to the European stock exchanges. The surprisingly strong performance of the CDU/CSU in the German regional elections also strengthened the position of Federal Chancellor Angela Merkel and thus the eurozone as a whole. While the economic spring is mainly the result of the ECB’s ultra-expansionary monetary policy, difficult Brexit negotiations, Trump’s verbal “bad Germany” attacks against international free trade, the upcoming elections and the latent risk of terror attacks all harbour serious potential for setbacks. We continue to favour equity investments in well-capitalised global companies such as **Allianz**, **BASF** and **ING Groep NV**. (jub)

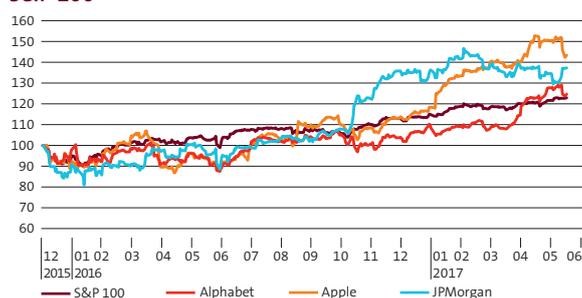
Euro Stoxx 50



US EQUITIES

During the first quarter reporting season, US companies in the S&P500 index reported record profit growth of +14%. Even though this is excellent news, it also points towards stagnation. In spite of good labour market data with seemingly full employment and generally robust macro data on the US economy, the expected interest rate hikes and high valuations are limiting the upside potential of the US equity markets. The result is stock exchanges that are moving sideways. We see opportunities in the technology sector, the favourites of which are **Alphabet** and **Apple**. **JPMorgan** is also an interesting bank stock. (jb)

S&P 100



BONDS

In 2017 to date, bond markets were shaped by a volatile sideways movement in interest rates as well as falling credit premiums. The first important political hurdle was overcome with the election of Emmanuel Macron. At present, investor sentiment and the fundamentals in Europe seem solid and core inflation also speeded up recently. We therefore expect the ECB to prepare the markets for a further tapering in its bond purchases by autumn, which we believe will push up interest rates. We therefore advise investors to reduce their interest risk without losing sight of the credit risk. (muc)

10-year Swiss franc interest rates (Swaps)



The Column

by Markus Allemann, Head of Special Projects



“SO TELL ME, HOW MUCH DO YOU EARN?”

DEAR READER

Unusual, shocking, irritating, impolite and provocative! Do you feel under attack when confronted with this rather simple question? Does it make you feel uncertain, or just simply stupid? In Switzerland, people do not

many years ago. I was introduced to an English colleague, and his first question to me was: How much do you earn? This embarrassed me greatly, because I was unprepared. Maybe a return question would have

they feel small and defrauded when they do their sums and compare these oversized salaries to their own – which shows how tricky it can be to make some things too transparent. It can arouse envy as well



say what they earn, and to ask strangers about this is almost criminally impolite. We protect our salaries like government secrets, and hardly ever mention them in public. And when we do reveal something about our income, we do it publicly by buying prestigious items. This satisfies the curiosity of people who are thirsting to know how much money others have in their wallets. They simply have to extrapolate the value of these luxuries and do the sum as follows: if he can afford something like that, he has to earn this much! Easy, isn't it?

But appearances are deceiving: the calculation is not really that straightforward. Curiosity about how much someone earns is almost never satisfied and salaries remain a taboo topic. This is very different from other countries with different cultures, such as England or Sweden where people openly talk about their salaries and nobody is offended. I experienced this myself in London

been a suitable response. It is difficult for me to say whether this habit of speaking openly about salaries is better, but experience shows that transparency almost always leads to positive results.

In general, transparency almost always leads to positive results.

Exceptions prove the rule. Transparency about remuneration quickly leads to passionate debate involving people from all walks of life. Such as when the salaries and bonuses of senior managers at big Swiss banks are published, as was the case recently. These bankers are accused of ripping off the public, of suffering from a lack of sensitivity, and of arrogance. Which might be true to some extent, although not always. But what is the cut-off point for a decent, acceptable salary? This is an issue everybody feels qualified to judge. What is worse,

as hate, opening up divides that really should not be there.

So it is quite surprising that hardly anybody in our country is upset about the excessive salaries earned by top Swiss and foreign athletes. Sport is one of the few professions that is generally very transparent, with the earnings of players even being published in ranking lists. When I hear that a certain footballer earns between CHF 200,000 and CHF 250,000 per day (published annual salary divided by 365), then I start doing my sums, too. Even better, I will make an appointment with my line manager for next week and do the sums together with him. But in all modesty, on an annual rather than a daily basis! A tip for everybody who is upset: my negotiation will be based on: daily rate = annual rate.

With this equality principle, the world looks better. Good luck!

The column reflects the personal opinion of the author.

Markus Allemann is Head of Special Projects at Head Office in Basel. He has many decades of experience in research and portfolio management, among other things as a former department head at Clariden Heusser and as business editor of the "Berner Zeitung".

In Brief

Overview of topical themes

Drones and robots – unmanned high flyers

Without a doubt, drones and robotics are currently hot topics in the investment world, too. From 2025, products using advanced robotics could generate up to USD 4.5 billion per year. The areas of application are almost unlimited. Unfortunately, however, technology trends are often driven more by the disproportionate reaction of investors than by fundamental analysis. Interested investors would be well advised to take a careful look not only at the producers of end products, but also at the manufacturers of components, as the latter will likely also benefit from an upswing. Talk to us, we will be happy to discuss interesting investment opportunities with you. (mch)

Put options: the price is good

In times of geopolitical uncertainty, Europe's equity markets recently rallied impressively. At the same time, the economic recovery in the EU is boosting buying interest on the Swiss stock market. It is therefore hardly surprising that the premium for the SMI put option (maturing in December 2017) is only 4% to hedge 100% of the equity portfolio. Even though we are not forecasting an end to the bull market, one thing definitely speaks in favour of put options: the low price. We know this from Oscar Wilde. The value of hedging, however, will only become clear in the near future. (goste)

Banque CIC (Suisse) supports development of a speaking watch



For three years now, Banque CIC (Suisse) has provided non-profit support for the visually impaired and blind, collaborating with the Swiss National Association of and for the Blind to improve their quality of living. In particular it is involved in the development of a speaking watch – the second most important aid for those who are visually impaired or blind. The analogue quartz watch is available for purchase from June 2017 under the name of "ACUSTICA". See www.cic.ch/szb for details.

Current interest rates in CHF

(as at 01.07.2017)

For savings and pensions	Private clients	Business clients
Savings account	0.200%	no offer
Investment account	0.150%	0.050%
3a retirement account	0.550%	no offer
Vested benefits account	0.250%	no offer
For day-to-day use		
Private account	0.030%	no offer
Current account	no offer	0.000%

Savings account/3a retirement account: offer for clients domiciled in Switzerland. Current conditions and rates of interest can also be found at www.cic.ch.



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