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BERGOS BERENBERG

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Executive Summary

Dear Readers,

In the first quarter of 2019, capital markets developed very positively across all popular asset classes. The V-shaped recovery in US equities and bonds from emerging markets was particularly distinct. In hindsight, the sharp correction in the fourth quarter of 2018 has proven to be an exaggerated market reaction to global growth fears. That the worry over low growth is not unfounded, particularly in Europe and China, is shown by the sharp turn of the central banks. Thus, a new picture is emerging for capital markets. The head wind for the bond market has subsided somewhat. US Dollar bonds in particular are offering decent yields again. In our opinion, the pivot of the central banks is already priced into the Swiss Eidgenossen and German Bund government bonds. Additional rate potential is likely only if the economy falls into an actual recession. We do not see any serious signs of this in the next 12 months. For corporate bonds, the yield spreads have returned to a normal level, with valuations that are neither especially cheap nor particularly expensive. We see further potential in US Dollar bonds from emerging markets, which should profit increasingly from the lower interest rate pressure of the US Federal Reserve.

Our estimate for equities remains cautiously optimistic. Economic growth in the United States continues to be robust, even if the positive one-time effects of the US tax reform are losing their impact. The equity market valuation is moderate and by no means overpriced. In addition, the new monetary policy has a supportive effect. In terms of politics, the developments for Brexit and trade wars remain incalculable. If all aspects are taken into account, a balanced relationship of opportunities and risks emerges for equities.

Regionally, US equities remain our first choice compared to other regions. We favour cyclical value stocks. In historical comparison, they are extraordinarily low-priced compared to pure growth stocks.

We consider gold a sensible diversification against the backdrop of lower real interest rates and existing risks. We remain optimistic about the oil price due to the advantageous supply-demand situation.

We look forward to sharing more detailed insights of our capital market experts' assessments on the following pages. With best wishes for an interesting read,

Sincerely,

MAXIMILIAN HEFELE
Head of Asset Management

Business cycle about to bottom out

Dr. Holger Schmieding
Chief Economist

- **Economic outlook: the gruelling Winter in Europe and East Asia is not over yet, global trade slightly weaker**
- **Fresh momentum in the Summer if the trade dispute eases and a hard Brexit is avoided**
- **China is adding stimulus; central banks are supporting the economy**

The gruelling Winter is not yet over

A series of political crises and external shocks has knocked the economies of Europe and East Asia off stride. Business sentiment is being adversely affected primarily by the trade tensions being stoked by the United States and the growth weakness in China. The situation in Europe is further clouded by worries of a hard Brexit, meaning the possibility that the UK would leave the EU without a follow-up agreement. The still declining business expectations of European industry and the current drop in trade with China suggest that the downturn in Europe and East Asia will last a few more months. In the short term, we should be prepared for more bad news.

After the extensive tax gifts generated 2.9 percent growth in the United States in 2018, the economy there has lost some momentum since December. Manufacturing growth is slowing, due at least in part to the trade dispute with China. However, the solid growth of consumers' real incomes suggests that the US economy could expand by almost 2.5 percent in 2019.

Progress in sight

For the economy in Europe and East Asia to gather more speed, three conditions have to be met:

1. Trade tensions would need to ease notably. This appears to be happening. With the fading of last year's fiscal stimulus, the cost of the trade dispute will become apparent in the United States. This should give President Donald Trump an incentive to strike deals this year instead of endangering the US upswing with a further escalation of tensions, which would reduce his chances for re-election in 2020. The United States and China have evidently made progress in their negotiations, which they may possibly want to seal in a summit shortly. The trade

dispute between the United States and the EU will take longer to resolve, but if Trump can reach an agreement with China, markets and businesses will presumably bet that the same will ultimately happen with the EU as well.

2. China would need to overcome its pronounced economic weakness. This is likely to happen in the near future. The monetary and credit policy steps taken in late Autumn 2018 are already starting to show results in the form of somewhat faster credit growth. In addition, China announced in early March that it will lower taxes by around 2 percent of economic output, further loosen lending restrictions, and increase infrastructure spending again. As a result, China's economy will probably turn around quickly.
3. The United Kingdom must avoid a hard Brexit. Even though uncertainty remains high, the risk of an abrupt and disorderly departure from the EU has recently diminished appreciably. Although the British Parliament is finding it very difficult to agree on any specific variant of Brexit, several votes have shown that a bipartisan majority of Parliament would like to avoid a hard Brexit. Any other solution would ease tensions considerably.

Because we see progress being made on these three conditions, we continue to expect that the gruelling Winter for the economies of Europe and East Asia will be followed by friendlier Summer, even if the brighter times may start only in June rather that at the end of Winter already

Political risks in the Eurozone

Now that Italy has slid into recession mainly as a result of the politically induced widening of risk spreads, it will miss its budget targets for 2019 by a wide margin. But given that the especially free-spending Five-Star-Movement is losing political support in Italy, the chances are good that Italy will adjust its policies if necessary to limit the risk of a debt crisis. In France, President Emmanuel Macron is apparently succeeding in containing the Yellow Vest protests without abandoning his growth-promoting reforms.

Central banks pivot

Wage pressures are rising only slowly in the United States and Europe. For this reason, core inflation rates are either very low, at around 1 percent in the Eurozone, or in line with the targeted rate of around 2 percent in the United States. Central banks can afford to adapt their policies to the outlook for the economy. After the US Fed rattled markets in December with its statement that part of its monetary policy was on »autopilot,« it corrected that mistake in January. It is pausing any further interest rate hikes and will end the gradual reduction of its balance sheet already at the end of this year.

In March, the ECB lowered its growth forecast for 2019 considerably (to the 1.1 percent rate we expected) and adjusted its monetary policy. It will offer banks fresh, generous liquidity injections and leave its base interest rates unchanged until at least the end of 2019, instead of only until the end of Summer. These pivots on the part of central banks limit the downside risks for the economy.

A pleasant start to the year for global equity markets

Till Christian Budelmann
Equity Strategist

- **Ten years of US bull market and no end in sight**
- **No recession, no interest rate hikes, but political risks**
- **Lowered expectations of profit growth, moderate equity valuations**
- **No technical worries; euphoria is non-existent**
- **US equities and cyclical value securities preferred**

Likely in part as a reaction to the extreme price correction last December, a broad-based recovery trend was apparent in international equity markets in the first quarter of 2019. Depending on the equity region, the painful losses of the previous year have already been made up either to a certain extent (Europe, Emerging Markets) or even entirely (United States). Impulses came above all from the Fed, whose statement in January was well received by markets, quite in contrast to its statement in December. Hope for a reconciliation in the trade dispute between the United States and China also helped investors find new courage. The expectations of global corporate profits, on the other hand, were broadly adjusted downward. Subsequently, price-earnings ratios (PEs) worldwide rose – after having virtually collapsed in 2018.

Ten years of US bull market and no end in sight

»Just how low can stocks go?« read the headline in the renowned Wall Street Journal on March 9, 2009. The devastations of the »once-in-a-lifetime tsunami« (Greenspan) that still sticks in the bones of many market participants reached their low point on that very day, however. The US equity index S&P 500 closed at 677 points and in hindsight this marked the start of an exceptional bull market. According to the official definition on Wall Street, a US bull market ends only when the S&P 500 has lost at least 20 percent from its last high, based on closing prices. This high then marks the turning point and, retroactively, the start of the bear market. This has not happened for the past ten years, and the US stock market is enjoying its second-longest rise since World War II (after the bull market from 1987 to 2000). Last Christmas Eve,

though, the bears were knocking hard on the door – at that time the loss since the previous high on September 20, 2018 had reached 19.8 percent. Since then, prices have risen sharply again and a confirmation of the bull market seems more likely than its interruption. That is supported substantively by the presumed end of the phase of interest rate increases by the Fed, but also by the moderate equity valuations, the market-breadth of the performance, and a cautious positioning by investors. The biggest risk factor remains politics.

No recession, no interest rate hikes, but political risks

We are not expecting a recession in the currency zones relevant to us either in 2019 or in 2020. For the US economy, for example, we expect growth of just under 2.5 percent in the current year and somewhat over 2 percent in the coming year – and for the Eurozone our expectations are at a good 1, respectively 1.5 percent. Our forecasts for 2019/2020 are thus on balance higher than the consensus estimates for the United States, and pretty much in line with the general projections for the Eurozone (a little lower for 2019 and a little higher for 2020). The central bank policies will likely tend to support equity markets, in our opinion. For instance, we consider it unlikely that the Fed will perform further hikes this year; and after phases of interest rate increases come to an end, the S&P 500 usually grows rather positively, historically speaking.

Politics is still a source of worries, however. Donald Trump is generally viewed by Wall Street as business-friendly, with one exception: his trade policy. The trade dispute with China cannot be ignored from a business standpoint. However, there are signs a solution is near and it would be a shock to markets if

S&P 500 vs. Stoxx 50 vs. MSCI EM over the US bull market

Fig. 1

Source: Bloomberg

it did not come about. The trade dispute between the United States and Europe is not off the table either; rather, an escalation seems fairly likely over the coming months (right after a reconciliation between Presidents Trump and Xi is reached), which would likely put a strain mainly on the European economy. Add to this the great uncertainty about the outcome of Brexit negotiations and votes.

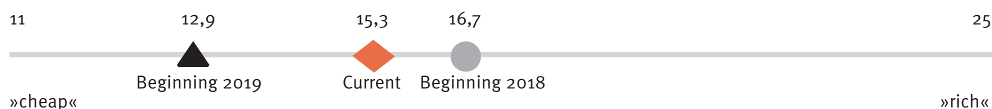
Lowered expectations of profit growth, moderate equity valuations

After a very strong profit year in 2018 in the United States, estimates for corporate profits this year are much lower. Analysts currently expect profit growth of 4 to 8 percent, depending on the region. At the end of last year, the estimates for 2019 were somewhat higher at 8 to 10 percent. But since market participants at the moment are pricing no increase globally (and in fact one must differentiate more than ever between the analyst consensus on the one hand and the expectations reflected in market prices on the other), any and all positive figures for 2019 will likely support international equity prices in the end, all other things being equal. For the United States, we anticipate profit growth of 2 to 4 percent, thus somewhat higher than Europe and the emerging markets. PEs have risen again in all regions since the start of the year. Prices have gone up and profit expectations are down compared to the start of the year. Nonetheless, the PEs in the relevant regions are still slightly under or at the historic average. Thus we continue to regard global equity markets as not overpriced – especially considering the attractiveness of the investment alternatives.

No technical worries; euphoria is non-existent

The current development in global equity markets can largely be assessed as neutral from a technical standpoint. On the positive side, with regard to the US it can be emphasized that the market-breadth of the performance was quite pronounced this year. Unlike previous years, the market is not driven solely by the well-known FAANG stocks. In Europe, the breadth of the market is not as pronounced. Sentiment-indicators provide further support. For example, the American Association of Individual Investors surveys its members every week about how the market will perform in the coming six months. Marginally more investors are bullish than bearish at the moment. But there is no notable euphoria which would have been a clear

Global valuations based on the MSCI ACWI Forward-PEs



We refer to »cheap« as the 5th percentile and »rich« as the 95th percentile over the 20Y range.
The calculation of the Forward PE is based on the expected earnings for the next 12 months.

Fig. 2

Source: Bloomberg.

warning signal. Instead, all indicators point towards a relatively defensive positioning of major global investors at present.

US equities and cyclical value securities preferred

With regard to equity regions, we continue to prefer the United States over the rest of the world. Despite a certain easing of political tension since the start of the year, the regions more shaken up in the past year (Europe, emerging markets) have not recovered, relatively speaking. And the fundamentals continue to look better for the US market, both on the macro- and micro-level. Add to that additional continuing political problem areas in Europe. At the level of sectors, we still see the greatest potential in the US and Europe in the »financial« and »industrial« sectors. These are typical representatives of the »cyclical value stocks« area. Especially in America, value stocks suffered much worse compared to growth stocks and still appear to be relatively undervalued. Moreover, these sectors are currently recording the strongest expected growth of 2019 corporate profits and experienced the smallest adjustments of estimates for this year in the course of the first quarter.

Less-restrictive central bank policy relieves pressure from the bond side

René Bolhar
Bond Strategist

- **US Dollar bonds show acceptable yields; situation in Euro and Swiss Franc remains challenging with less-attractive yield levels**
- **Risk premiums especially in the high-interest segment back to neutral levels after successful start of the year**
- **Emerging markets as a strategic admixture offer attractive interest income and further potential to appreciate over the course of the year**
- **Bonds of European core countries already reflect negative factors to a very high degree**

The start of the year brought a noticeable upswing and more positive numbers to the bond segment. Besides the considerable recovery of risk-sensitive investments, such as those from the high-yield and emerging market sectors, the recovery was apparent in nearly all categories including safe-haven investments (German, US or Swiss government bonds, etc.). The reasons for this are multi-layered. First, hopes that the so far unsolved controversies (Brexit, US-China trade dispute) would be laid to rest spurred on valuations, and second, a restrained policy on new issues by companies across the various currency regions and an underweighted positioning by investors, which they began to close at the start of the year, formed reasons for the recovery. Other factors like the US government shutdown, with 35 days the longest in history did little to counter the positive spirit of optimism.

Looking at the development of government bonds of top-rated issuers over the first few weeks, market participants do not seem to entirely trust the positive picture. Taking the development of yields on the ten-year BUND as a starting point, the trend toward lower yields that has persisted since October of last year intensified as of the second half of January and reached an interim low at just under 9 basis points. In the US as well, interest rates fell to an interim low of 2.55 percent in the period under consideration, after they

Credit spreads of investment grade and high yield bonds over Government Benchmark in EUR and USD

Period from 03/31/2009 – 03/31/2019

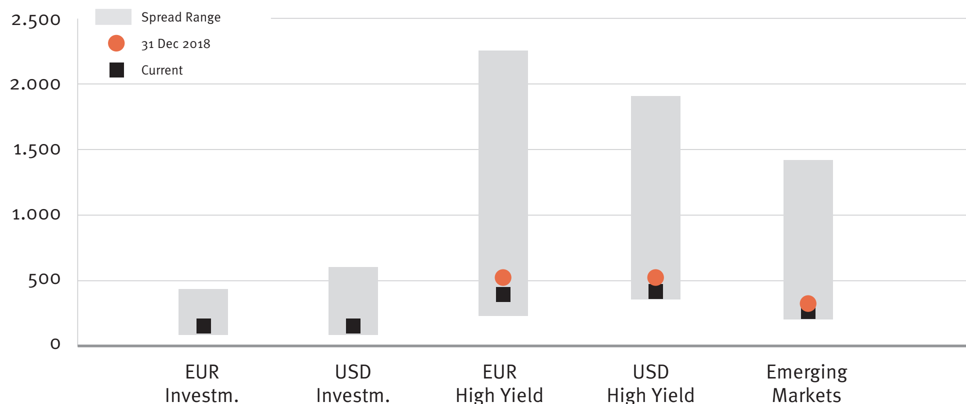


Fig. 3

Source: Bloomberg; presentation by Bergos Berenberg AG

were at 3.24 percent in the middle of the previous quarter. In view of the more restrictive policy then being followed by the US Federal Reserve, this was interpreted as the long-awaited interest rate turnaround. The release of disappointing macro data especially for Europe led to an accelerated downward trend of bond yields: those on 10-year German sovereign bonds moved into negative territory while the US yield curve notably inverted with 3-month yields now higher than those on 10-year maturities.

Much has happened since then. It seems appropriate to ask: "What's next?" A few of the specific negative drivers of the past year have lost some of their importance and influence. The rising US interest rate environment, along with the associated strong US Dollar over the course of 2018 can be blamed for the negative performance of investments in emerging markets. In the meantime, however, the general economic environment has begun to slow down. Economic and business indicators are showing initial signs of weakening.

As already alluded to, this development did not go unnoticed by central banks either. To begin with, the US Fed published minutes of its January meeting at the start of the second half of February. For the first time, there was clear talk of a pause in the raising of interest rates. The issue was also raised whether and to what extent the winding-down of the Federal Reserve's balance sheet was still supportable in light of the economic development worldwide.

At its regular meeting in early March, the European Central Bank doubled down only two months after the net bond purchases had run out: growth and inflation expectations were adjusted downward; a hike in base rates was not to be expected for 2019.

»The fundamental situation for businesses remains strong and shows no signs of an imminent weakening«

Fuelled by the major central banks' obvious caution, the downward trend of government bond interest continued. Since then, credit risk premiums for corporate bonds at every credit rating level have tended to rise again. For the further development of risk premiums and price quotes caution is in order.

Very few market participants anticipate an upcoming recession this year. And the fundamental situation for businesses remains strong and shows no signs of an imminent weakening. However, the question arises: how long can the current cycle go on, and when will it finally come to an end?

»Particularly in US Dollars, investors are meanwhile earning an acceptable yield even in the investment-grade segment«

Unquestionably, the recovery rally can ring in another round and provide for positive overall yields with credit risk premiums falling again and potentially even lower benchmark interest rates. But especially in light of the strong positive development of the first three months, the potential for setbacks appears more marked.

Unsolved conflicts still exist. Shortly before the original exit date, a solution of the Brexit question has not yet been achieved. Concrete agreements have not yet been reached in the trade dispute. In the meantime, the risk of an escalating trade conflict between the United States and Europe has risen again. All this is in an economic environment in which growth is weakening in a global context and could make new stimuli necessary.

In this environment, we prefer a return to high-quality investments in the bond segment. In historical comparison, the risk premiums in the high-interest segment for both currency areas appear to us to be insufficient for an overweighted allocation, especially in view of a weakening economy.

Particularly in US Dollars, investors are meanwhile earning an acceptable yield with low expected volatility in the investment-grade space. Within this segment, we are underweighting bonds with a BBB rating. Because of »cheap central bank money,« its share in the overall market has grown enormously since the Global Financial Crisis. As soon as lending becomes more restrictive, there is a risk of more wide-ranging downgrades in the speculative field with corresponding consequences for valuations.

»Attractive yields in the form of regular coupon payments can still be achieved in isolated areas of the high-interest segment«

For government bonds, the overall picture is bifid. While the risk of rising interest rates in the area of US treasuries is manageable for the time being in view of the current Fed policy, interest rates of the European core countries are already at extremely low levels. Further potential for narrowing is limited in the case of an economy that is slowing but not shrinking. Peripheral countries still offer attractive premiums, but the debate and the market movement triggered by the budget dispute between Italy and the EU in the last quarter clearly illustrate that this premium represents

a risk premium in the truest sense. At least by the time we see the results of the European Parliamentary elections in May and a possible further strengthening of anti-Europe forces, this topic might begin to occupy us again.

Nonetheless, there are still areas in which yields can also be achieved in the fixed-interest segment. Even if a slowing global economy and a still strong US Dollar keep pressure high on investments in emerging markets, the (at least temporary) halt to interest rate increases in the United States should take considerable pressure off of these issuers. As long as the Fed does not tighten the reins again and there is no collapse of risk premiums, we expect solid earnings and high carry from the area of emerging markets.

Attractive yields in the form of regular coupon payments can still be achieved even in isolated areas of the high-interest segment. However, in the current market environment a significant increase in asset values is rather unlikely and offers a potential for setbacks with present quotations. As in the past, a distinct and detailed analysis must lie at the core of any investment decision.

Raw materials markets have recovered as well

Soumaila Tékété
Alternative Investments Strategist

- **The negative exaggerations of the last quarter of 2018 have normalized again in most respects**
- **A continuation of this recovery will therefore require new economic growth impulses in many sectors of the raw materials market**

After the massive price drops toward the end of last year, the first quarter of 2019 stood for a marked recovery trend in nearly all segments of the raw materials markets. However, measured against the size of the preceding slump, the recovery was not quite as notable as was the case, for example, in some areas of the equity market. Here, too, the improved sentiment was attributable in large part to the central banks' change in tone and the hope for reconciliation in the trade dispute between the United States and China. However, fundamental data and factors specific to raw materials are also having a positive influence on their respective segments.

WTI Crude Oil vs. Gold vs. Industrial Metals over 1 Year

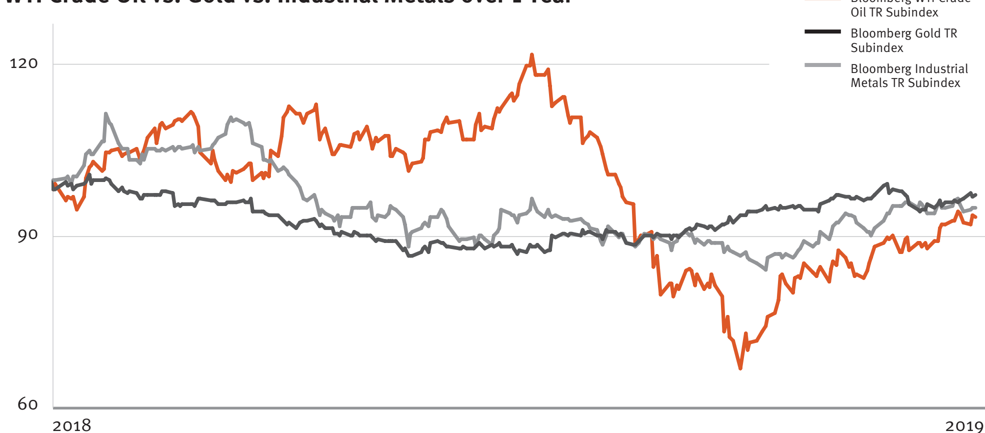


Fig. 4

Source: Bloomberg

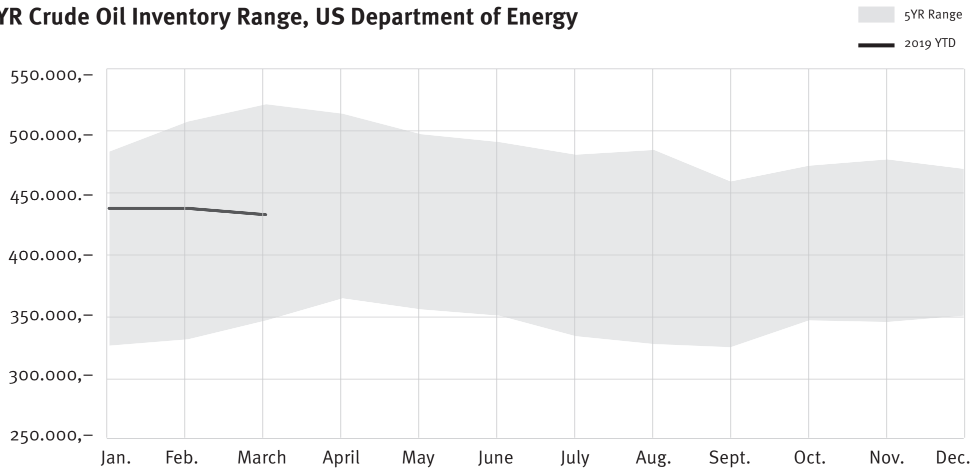


Fig. 5

Source: Bloomberg

Oil price recovers from the wounds of the past year

The supply-and-demand situation in the crude oil markets has improved considerably compared to last year. Demand from some regions at the start of 2019 was already higher than originally expected. On the supply side, OPEC countries, and above all Saudi Arabia, are making an effort to implement production cuts faster and more restrictively than originally announced. Sanctions against Iran and Venezuela make for further export reductions, and the number of active shale oil bore holes in the United States has already been reduced in reaction to the lower and less profitable oil price level. The crude oil storage situation in the United States has also relaxed somewhat, since, contrary to seasonal patterns, there was no inventory build-up in the first months of the year.

In view of these developments, we see further recovery potential for the oil price. However, we do expect an initial test of this scenario by the middle of the year, as soon as OPEC's scheduled production cuts run out, and the more stable oil prices in turn provide a heightened production incentive for shale oil producers in the United States.

Continuing positive environment for gold

While a historically low positioning of speculative market participants favoured an acceleration of the price rise particularly at the end of last year, the gold price gave back part of its gains in recent weeks in an improved mood environment for investments that carry risk. We do not believe a recession is directly ahead of us, and we assume that, after the current slight weakening in the economic framework data, a mild acceleration of global economic growth should return at the middle of the year. However, simply because of the sheer length of the global economic recovery, which has now lasted ten years, a certain core of market sceptics will likely hold on, who will remain faithful to gold as a safe-haven-investment and provide for a certain base-level demand. By far the greatest potential driver, however, is and remains the changed policy of

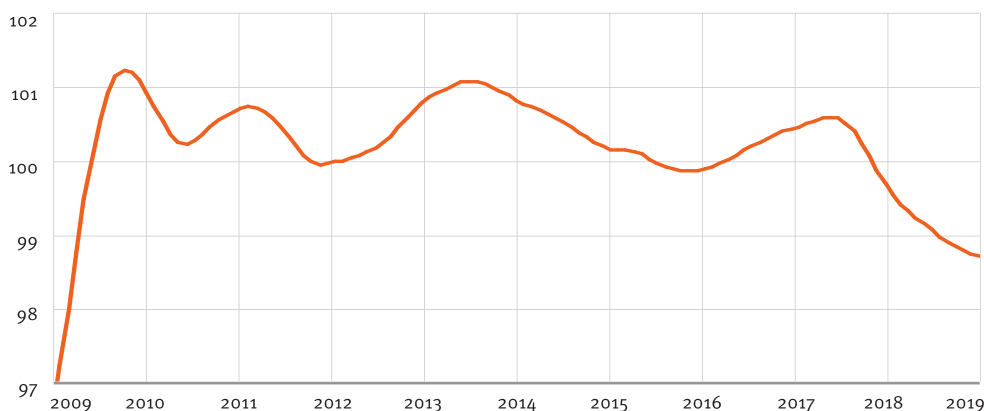


Fig. 6 Source: Bloomberg

the central banks. While the Fed noticeably refrains from further interest rate hikes and China tries to boost lending again, a general short-term rise in the interest rate will likely be avoided. This will keep opportunity costs low for gold and should provide for additional demand on the investor side in the medium term. We assume that the gold price should continue its positive trend of the last six months, although short-term volatility cannot be ruled out due to declining risk aversion or possible fluctuations of the US Dollar.

Industrial metals dependent on China's development

Industrial metals likewise managed to recover strongly at the start of the year. However, dependency on the economic development of China as a marginal demander remains very high for this market segment. But these very economic data from China point to current weakness. By way of example, just recently at the annual conference of the People's Congress, the growth target for 2019 was lowered to 6 - 6.5 percent.

The recent growth in lending and promised tax cuts make it clear, however, that China will take adequate stimulant measures to bring its growth back above the desired target mark. That would generate additional upside potential for industrial metals as well. Industrial metals have already made up nearly all their losses from the fourth quarter of 2018, but for their recovery trend to continue, in our opinion, there will first have to be positive, real economic impulses. Thus, in the short term, it is especially important to keep an eye on the leading economic indicators in this region and the progress in terms of trade negotiations between the United States and China.

Currency markets: relative calm despite high risks

Jörn Quitzau
Currency Strategist

- **EUR/USD: Cooling US economy should put the brakes on the Dollar's strength**
- **EUR/GBP: Currency market distances itself from a hard Brexit**
- **EUR/CHF: The old story of the safe-haven**

The economy and the financial markets remain exposed to numerous risks. Despite this fragile, mixed situation, currency markets were surprisingly calm in the first quarter of 2019. Volatility has been relatively mild. Apparently, market players are in "wait-and-see" mode. Only the strong Swiss Franc is signalling a heightened risk assessment. "Wait-and-see" also describes the monetary policy of central banks in the United States, Great Britain, and Europe. The clouded economic data are forcing central banks to hold back for the time being. The US Federal Reserve has said goodbye to its strict tight-money policy. And the last meeting of the European Central Bank (ECB) on March 7, 2019 once again brought the realization that monetary policy will be very expansive for a while longer. Like many other market watchers, we had already forecast that the first base rate increase would not come in 2019. Now this has been officially confirmed by the ECB. So there will be a

Trade weighted Euro

Fig. 7

Source: Bloomberg

long wait for a base rate turnaround. In addition, the ECB is offering banks a new form of long-term liquidity, called TLTROs. A look at the trade-weighted Euro rate, which measures the value of the Euro against the most important trading-partner currencies, shows the consequences of the weaker economy and the extremely expansive monetary policy. In the last few months, things have gone downhill for the Euro.

EUR/USD: Cooling US economy should put the brakes on the Dollar's strength

The economic data from the United States are mixed. While the GDP data for the fourth quarter of 2018 were surprisingly positive, the labour market data for February were disappointing. Overall, we expect the US economy to lose some of its momentum in 2019, as the effect of the government's economic stimulus gradually wanes.

EUR/USD exchange rate

In US-Dollar

Fig. 8

Source: Bloomberg

EUR/GBP exchange rate

In GBP

Fig. 9

Source: Bloomberg

EUR/CHF exchange rate

In Swiss Franc

Fig. 10

Source: Bloomberg

At the same time, we still expect weak economic data for the moment in the Eurozone, before things can gradually improve over the Spring. As a result, there are no strong arguments in the short term neither for the US Dollar nor for the Euro. Now that the Euro has fallen against the Dollar to around 1.12, we see only limited upside potential for the US currency. Nonetheless, the 1.12 rate is an interesting mark from a technical standpoint. If the Euro falls below that, it might go a bit further down. But we expect, rather, that the exchange rate can stabilize at this mark and continue along sideways, with some volatility at first. If it begins to appear that the external interference factors are losing weight and the economy is starting up again, the Euro rate might rise a few cents to, say, 1.15 US Dollars per Euro by the end of the second quarter. Nevertheless, the risks of surprising turns in the trade conflict or Brexit obviously persist. The currency outlook is thus tied to some uncertainties.

EUR/GBP: Currency market distances itself from a hard Brexit

The currency market meanwhile has positioned itself against the risk of a hard Brexit. The British Pound has risen in value in Q1 and the Euro has become correspondingly weaker (this is shown in the above figure in the downward movement on the current edge). The Euro has lost nearly five cents since the start of the year. In the meantime, the exchange rate is nearing the mark of 0.85 pounds per euro. Market players seem to be rather sure that a hard Brexit will not come to pass. The prospect of a deadline postponement was apparently providing encouragement. If the optimism being traded on the market proves true and a Brexit with no exit agreement is avoided, the Pound should likely have some room to rise. For this case, we see an increase up to 0.83 Pounds per Euro by the end of the year. There might even be a little wave of euphoria in the short term, with a matching further rise for the Pound. But if there is un-

expectedly a hard Brexit, the height for the Pound's fall has meanwhile become considerable. In that case, there is a threat of parity between the Euro and the Pound.

EUR/CHF: The old story of the safe-haven

As was to be expected, the Swiss Franc has firmly established itself in a high position, on account of numerous economic and political risks. In uncertain times, the Franc is traditionally sought as a safe-haven investment. If we disregard this safe-haven aspect, the Euro/Swiss Franc exchange rate fundamentally would be fairly valued in the range from 1.20 to 1.25 Francs per Euro. Even the Swiss National Bank (SNB) has long classified the Franc as rated highly. We are confident that the Franc's overrating will fade away over the year. This outlook is based on our assumption that the political and economic risks will gradually recede or lose their importance to market players. The tension in the exchange rate can then resolve relatively quickly.

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