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perspectives

03/2016 QUARTERLY MARKET OUTLOOK

CIC BANQUE CIC |SUISSE|

DEAR READER

Start the engines, Mario!
The European economy has only been gaining momentum very slowly since the financial crisis. The measures implemented by the central banks are only boosting credit volumes, and business enterprises are still very reluctant to make the investments that are urgently needed. At the same time, unemployment is going down very slowly in Europe, which depresses private consumption. Maybe this is the reason why the European Central Bank (ECB) does not seem to tire of saying that it has not yet exhausted all avenues to revive economic activity. So what should be done to escape this negative spiral? Helicopter money! Mario Draghi could switch on the money printing press, throw the money from a helicopter and distribute it among the people. Consumption as well as prices would rise and companies would expand their investment activities again.
Even though this is a controversial issue, we can no longer exclude this possibility, in particular because the central bankers seem not yet to have fully exhausted their love of experimentation. For some time now there has already been speculation about such a measure in Japan. And who knows, maybe we in Switzerland can soon look forward to a bonanza from Mr Jordan and his colleagues.

Mario Geniale, Chief Investment Officer

Economic perspectives

With the exception of the US Fed, central banks worldwide are continuing their expansionary monetary policy. As this is only keeping global economic growth on a moderate keel, doubts about the effectiveness of quantitative easing have recently arisen. The (still) positive economic trend is mostly supported by the stable US economy and a gradual recovery in Europe where Germany and Spain reported strong economic data. But this glimmer of light falling on the European economy is increasingly being dimmed by political challenges, as a result of which Europe might benefit less from free trade, immigration and globalisation.

Growth in spite of doubts about monetary policies and the spanner in the global engine

Consumer sentiment in the US is continuing to improve on the back of a solid rise in employment and faster salary increases. Rising household income and low energy prices support consumption. Rising inflation means that the US economy is prepared for further interest rate hikes in spite of moderate growth.

With its robust domestic economy, Switzerland is also posting solid growth. The strengthening of the Swiss franc seems to have been digested for the most part. For future growth, however, the Swiss export industry needs sustainable innovative power.

The emerging countries are still placed bottom when it comes to growth, but the first signs of economic stabilisation are growing. Very few people still believe in a “hard landing” for the Chinese economy. (robol)

The Markets

"The spotlight is still on the future course of the Fed."

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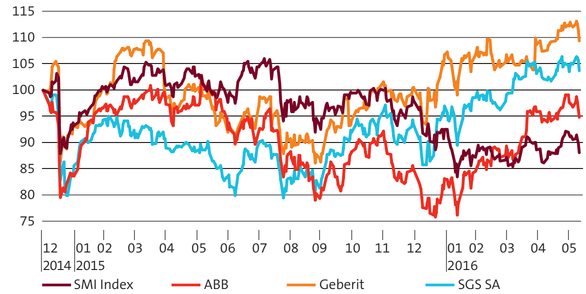
The equity markets have not yet fully recovered from the "false start" in the first quarter. Although commodity prices – in particular the oil price – have pulled away strongly from their lows and the leading central banks are continuing to flood the financial markets with liquidity, growing concerns about the effectiveness of these measures and the general slowdown of the economic recovery are dampening investor sentiment. The spotlight is also still on the future course of the Fed. It is a delicate task for the guardians of the US currency to choose the right time for the US and in particular the global economy to introduce the long overdue interest rate hike. The only reference point for investors is the relative attractiveness of equities in the continued zero interest rate environment. (jub)

SWISS EQUITIES

Swiss equities turned in a varied performance in the first half of 2016. Large caps included in the SMI mostly reported losses, while the small and medium caps represented by the SPIEX performed rather well. Cyclical stocks that depend strongly on growth such as ABB and Geberit left defensive stocks such as Roche and Nestlé in the dust. But it now seems as if the strong performance of the cyclicals is faltering. In this market environment, which can quickly become very volatile, we currently recommend the stock of the merchandise testing group **SGS SA**. (robol)

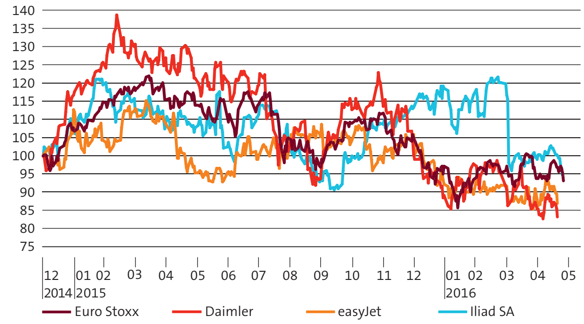
SMI



EUROPEAN EQUITIES

The comparatively weak performance of the European stock exchanges reflects dissatisfaction with the effectiveness of the extensive measures imposed by the ECB. Inflation is still in "crawling gear" and the economic recovery seems to be slackening. The continued reform gridlock in important member states also seems to indicate that words are still speaking louder than actions in Europe. Upside potential remains limited. In view of the persistently low interest rates, we prefer shares with an attractive dividend yield from consumer-oriented sectors: **Daimler**, **easyJet** and **Iliad SA**. (jub)

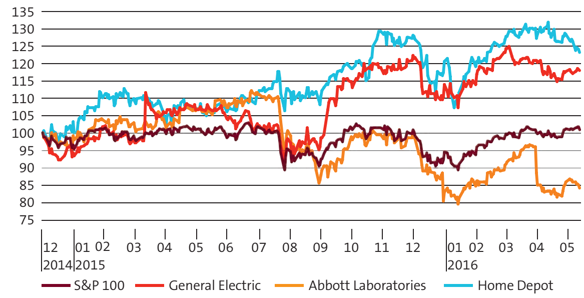
Euro Stoxx 50



US EQUITIES

Key indicators such as gross domestic product, rising inflation and unemployment of less than 5% point to a US economy in robust health. Against this background the Fed can be expected to announce another interest rate increase. The oil price has slowly returned to normal and the dollar has strengthened, and both these factors have had a dampening effect on the US stock exchanges. Although equities are not cheap, the outlook for profit growth is promising. The current presidential election will likely also create tension and cause increasing market volatility. In such an environment we prefer to focus on solid stocks: **Home Depot**, **General Electric** and **Abbott Laboratories**. (jb)

S&P 100



BONDS

Swiss interest rates moved sideways in a very volatile market in the second quarter. If the oil price increase and the stabilisation of consumer prices continue in the second half, this could lead to a rise in Swiss interest rates. This movement could be supported by a possible cash shortage in the European bond market triggered by the ECB's bond buying programme. Another interest rate hike by the US Fed should also lead to higher interest rates. In this environment we continue to prefer bonds with a reduced interest rate risk and higher coupon payment that do not have a first-class credit rating. (muc)

Yields on 10-year Swiss government bonds

The Column

with Markus Allemann, Head of Special Projects

At eye level with technology!

DEAR READER

Much is still unclear, some things seem to be clear, and a few things we believe we know exactly. We are surrounded by transforma-

tion, and change dominates our times and our daily lives across the board. Here I am thinking of climate change, the energy revolution, the political transformation that can be seen on all continents. I am thinking of the technology-driven transformation of the working world, the interest rate turnaround, whenever it may come, about banks in turmoil and mass migrations that can scarcely be stopped. These all pose enormous challenges to the global community, and they are coming our way as a demolition bomb in a multipack. Politicians are challenged to develop and implement new rules and new strategies, but the knowledge that is needed is not always in the hands of the politicians. The thirst for power and political interests often take centre stage.

The new and unknown unleashes fear and criticism.

We know that there is always opposition to change, to transformation. This is a natural and understandable reaction, as people want to protect their beliefs and the things they know and understand. The new and unknown unleashes fear and criticism. A good example of this is the exit from nuclear power – a fait accompli in many countries. But the related problems have not been solved, nor can they be managed. Even though the approaches needed to find solutions are perfectly clear, we have not yet reached the goal by a long chalk. Opposition against wind power, hydro power and even the use of solar energy is a given. The reasons are many, as a young US company, a successful manufacturer of electric cars, recently found. Astonishingly enough, the company had no success in Singapore. Although the Singapore government welcomed the environmentally friendly car as sustainable, the car was still banned from the roads. Because the electricity used to drive the luxury car comes from environmentally harmful coal- or gas-fired power plants, the major energy carriers in Asia.

The sector is faced with the development of technology and the demands of its clients.

The banking sector is seeing enormous change and transformation at all levels. The Swiss banks in particular were and continue to be challenged. Banking confidentiality was not the only challenge with new dimensions, the sector is also faced with the lightning-fast development of technology and the growing demands of its clients. The investments that are needed are cumbersome and expensive. Investing in the future is a creed that must be realised as quickly as possible, because the future is almost upon us. But be careful, because we are falling into a digital dependence of which we cannot judge the consequences! Many daily activities, at work and in our private lives, are replaced by new technologies.

Man and technology will increasingly complement one another instead of competing against one another.

In the end we will be left only with the things that the computer cannot do itself. But I am convinced that the personal touch will remain an important success factor in the banking business, in spite of all these technological advances. Client service and proximity to clients are gaining in importance once again. I cannot believe that client advisors could be completely replaced by computers.

The dawn of the modern digital age also brings many new opportunities. Man and technology will increasingly complement one another instead of competing against one another. The goal is to speed up the quantity and improve the quality. It will be vital to accept the challenge, to remain at eye level with technology, to use it and not to allow it to get the better of us!

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

Much hurly-burly about black gold

The mood on the crude oil market is nervous. Oil is pumped in enormous quantities, even though demand has declined massively. The consequence: a noticeable collapse in the oil price. Is now the time to invest in oil? The crude oil industry distinguishes between three activities: pumping up crude-oil (upstream), transporting crude oil (midstream), and refining and selling crude oil (downstream). In view of the fact that it might take quite long for the oil price to recover, oil field services companies are doing particularly well. The sector leaders Schlumberger Ltd and Baker Hughes Inc are among the favourites. Investors who wish to participate more broadly in the crude-oil market are best advised to invest in large integrated multinational oil companies such as Royal Dutch Shell Plc or Total SA in Europe and Chevron Corp in the US. With their downstream activities, they can cushion or even overcompensate for the losses suffered in the upstream business. (jb)

Banque CIC (Suisse) supports the Swiss Alzheimer Association (ALZ)

“Let us not forget those who are forgetting” – this is the motto for the Swiss Alzheimer Association’s activities and the new engagement by Banque CIC (Suisse), which is supporting the Swiss Alzheimer Association with a three-year partnership. To launch this commitment, Banque CIC (Suisse) organised and financed a charity evening in favour of the Alzheimer Association on 4 June.

Pierre Schroeter, head of the Banque CIC (Suisse) branch in Fribourg, hands over a symbol of the donation to Luana Menoud-Baldi, chairman of the ALZ section in Fribourg, and Ulrich Gut, chairman of the Swiss Alzheimer Association.

Current interest rates in CHF

(as at 01.07.2016)

For savings and pensions	Private clients	Business clients
Savings account	0.400%	no offer
Investment account	0.300%	0.150%
3a retirement account	0.650%	no offer
Vested benefits account	0.250%	no offer

For day-to-day use		
Private account	0.0625%	no offer
Current account	no offer	0.000%

Savings account offer for clients domiciled in Switzerland.
3a retirement offer for clients domiciled in Switzerland.
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