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perspectives

01/2016 QUARTERLY MARKET OUTLOOK

CIC BANQUE CIC |SUISSE|

Please read the account overview on the reverse

DEAR READER

Switzerland is a strong performer, neutral and culturally very diverse. What seems natural to us today came about through a combination of internal determination and external influences. 700 years ago, the people of Central Switzerland defended themselves against the pretensions to power of the Habsburg Empire and defeated the superior forces of their noble enemy at Morgarten. Even if not historically documented beyond all doubt, this victory was a symbol of the young Confederation's fight for freedom. The Confederates repeatedly proved their ability to defend themselves and were therefore considered invincible at the summit of their fame. Hostilities between the cantons rekindled after the defeat at Marignano 500 years ago. It was France who one year later introduced order and peace in Switzerland with the "Paix perpétuelle" peace accord. Today we still look to France and Europe. Most recently, the Paris attacks made us aware again that peace is a basic condition for prosperity. We now need to safeguard this peace and our values while at the same time finding categorical answers to the fundamental questions of our time. We have to close ranks to defend ourselves against terror and promote economic growth and social and political equality. This approach resulted in a new coherence and positive decisions at the climate conference in Paris. Switzerland's development from the squabbling cantons after the Battle of Marignano to the world's strongest democracy can serve as a good example.
With this in mind I look toward the future with confidence, happy that we may support you with advice and assistance. Thank you for your trust.

Thomas Müller, CEO

Economic perspectives

The most recent global economic indicators have dispersed the fears of an imminent global recession. While concerns about China retreated, the US economy once again proved its strength with a growth rate of 2.1% for the third quarter. This is also reflected by the unemployment rate, which has dropped further to 5.0% and is now at its lowest level since 2008. Although the economic recovery is furthest along in the US, the lack of inflationary pressure means that the US Fed will only slowly abandon its very relaxed monetary policy.

Without inflationary pressure monetary policy will remain relaxed

The emerging market economies find themselves at the other end of the growth spectrum. In spite of the weak data, however, the downward trend seems to have stopped for now.

The economic recovery in the eurozone is continuing with a growth rate of 1.6% for the third quarter, which is reflected by a strong lending environment. Spain boasts the best growth rate at 3.4%. As the eurozone's inflation rate is stuck close to 0%, the probability of a further expansion of quantitative easing by the European Central Bank (ECB) is increasing.

Against this background of a slightly improved global economy, the Swiss economy is supported by solid private consumption, capital investment and net exports. The fear of a looming recession has not been borne out, in spite of the exchange rate shock. (robol)

The Markets

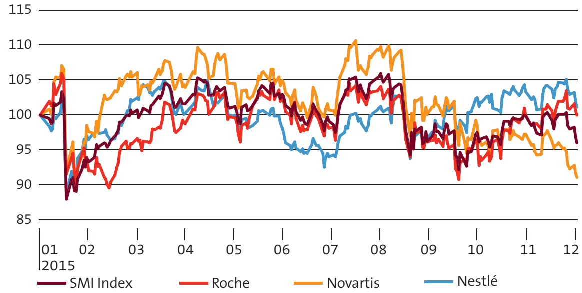
"We expect an interesting year on the stock exchanges"

Investors can expect a sense of "déjà vu" on the equity markets in 2016. The leading central banks will continue to call the tune for the equity markets with their interest rate policies. As the US Fed with its tighter policy is confronted by a host of central banks with an expansionary monetary policy and quantitative easing (QE) programmes, the currency war will continue unabated. The anticipated exchange rate fluctuations will affect corporate results and give rise to economic turbulence, also in the developing countries. However, equity securities remain (relatively) attractive in the current low interest rate environment, which is boosting merger and acquisition activities. In short: We expect an interesting year on the stock exchanges with volatile markets. (jub)

SWISS EQUITIES

The Swiss equity market had a very eventful 2015. Often driven by the central banks' relaxed monetary policy and other triggers that cannot be explained by fundamentals, even large companies were exposed to volatile price fluctuations. The burning question now is what the trend on the Swiss equity market will be in 2016. Generally speaking we believe the Swiss stock exchange still has much upside potential. The large cash reserves held by many companies allow them to follow a shareholder-friendly dividend policy, keeping equities attractive compared to the yields that can be earned on bonds. The political stability in Switzerland gives companies domiciled here additional security. At the beginning of 2016 we will again bet on our tried-and-tested favourites such as **Roche**, **Novartis** and **Nestlé**. (mch)

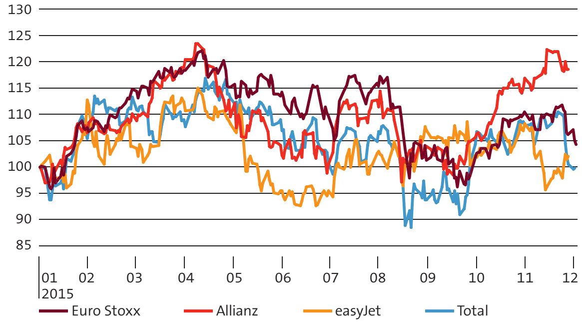
SMI



EUROPEAN EQUITIES

In word and deed, the ECB under Mario Draghi will continue to exert much influence on the stock exchanges in 2016. The consistent euro weakness has noticeably improved the global competitiveness of European companies and, combined with low energy costs, triggered a continuing economic recovery in the eurozone. Nevertheless, from an economic and in particular a political viewpoint, Europe remains a scrap yard. The upside potential is limited by these uncertainties. Our stock selection focuses on shares paying an above-average dividend of financially sound companies such as **Allianz**, **easyJet** and **Total**. (jub)

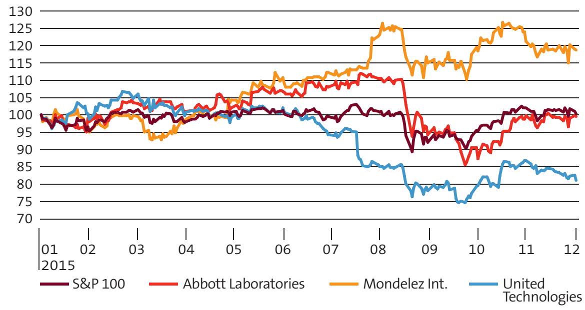
Euro Stoxx 50



US EQUITIES

The US economy is currently showing strength, in particular as the current unemployment rate of 5% is set to drop further. The strong increase in the US dollar and the weak oil price are less pleasing, as these, in combination with the fragile economy of the emerging markets, are throttling corporate profits. The high-flying stock market pushed prices higher and the S&P 500, Dow Jones and Nasdaq markets are no longer cheap. In this environment it is a good idea to invest in top-quality stocks: **Abbott Laboratories**, **Mondelez Int.** and **United Technologies**. (jb)

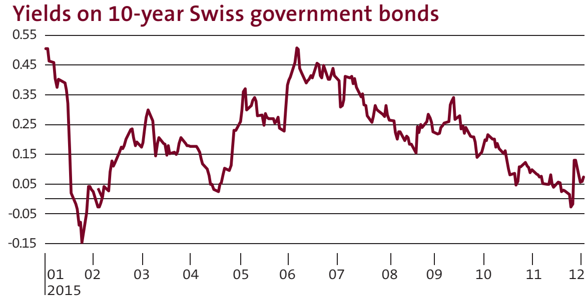
S&P 100



BONDS

In the fourth quarter, interest rates in Switzerland came under renewed pressure along the entire interest rate curve. This specifically benefited top-quality bonds as well as bonds with a slightly higher credit risk, as these were also boosted by the stock market rally. This could also be seen in the sharp tightening of credit risk premiums. Against this background, the average yield on Swiss BBB bonds dropped by almost 0.5%. Given the ECB's continued expansionary monetary policy, we expect interest rates for short maturities to remain low. However, as we believe it likely that interest rates may rise in 2016 for bonds with a longer term to maturity, we remain positive about short-term bonds with a slightly higher credit risk. (muc)

Yields on 10-year Swiss government bonds



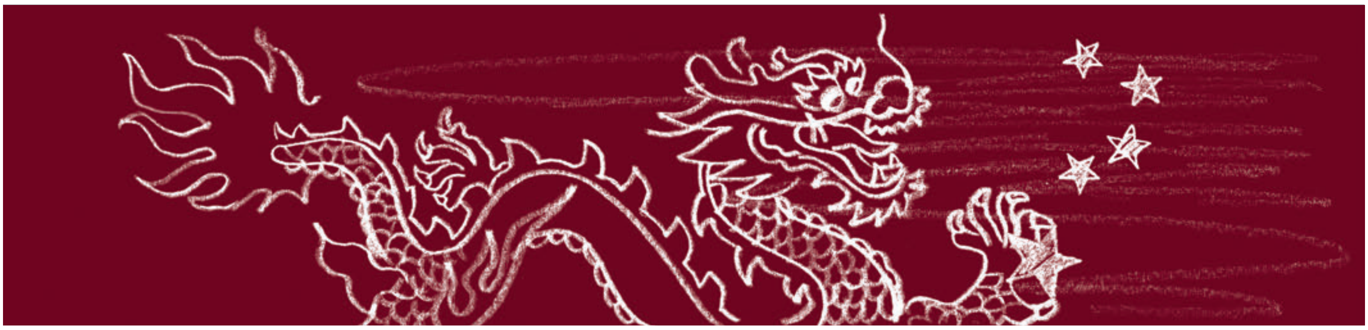
The Column

with Christian Meier, Deputy Chief Investment Officer

China: hot... or not?

DEAR READER

Many investors claim that only modest amounts of money can be earned on the capital markets at the moment. True, times were sometimes easier in the past, but the economy is a dynamic environment that constantly gives birth to new opportunities. The challenge is to recognise future trends at an early stage and to invest with suitable means. Unfortunately, it is more difficult to forecast trends correctly than one might think and nobody is safe from making errors of judgement. In 1993, Bill Gates, the founder of Microsoft, said to his employees: "The internet is just a hype." A colossal error in judgement, as we all know today.



China is one of the biggest trends of our time. Many see the future in this country. Is this really true, or is this prediction simply one of countless other errors of judgement? Granted, there are very many and very convincing reasons to favour China. Measured by its purchasing power, China is the world's largest national economy. A seemingly inexhaustible supply of human power gives the country its unbelievable vigour. Although it is clear with hindsight that the Asian giant tottered for a while, China is fundamentally a very healthy country that has always solved its problems without outside help. However, before we invest blindly in China I would like to look at the China trend from another perspective.

Although many entrepreneurs in the emerging market of China are copying the behaviour of their Western counterparts, the country still has a planned economy on the whole. The Communist party has the say and pulls the strings in the background. Although the Communists successfully applied their management style to mastermind an unparalleled economic boom, the government will not be able to avoid changing its mindset in the long run. Economic growth instantly improves the prosperity of the Chinese people. Meat consumption is on the rise, and many people now wish to have their own car. The next consequence of this improved affluence could be a demand for political freedom or even freedom of expression. How will the government handle this? Could the Asian giant survive such domestic demands unscathed?

China is currently sitting on a demographic time bomb. In addition to the steep rise in life expectancy, the country has for many decades strictly enforced the "one-child policy". This has caused two main problems. Firstly, around two generations of children were extremely spoilt in material terms while growing up and never learned to share anything. China's future rests on the shoulders of "little princes". Secondly, this policy has caused a demographic gap. Retirement provision is a particular concern, and there is currently no solution. The government has in fact recognised the problem and relaxed its one-child policy, but this may very well already be too late.

Another problem is China's lack of revolutionary innovative power. China does not invent anything. During the upswing of the industrialised nations, every nation came up with its own inventions, and this snowballed and led to further innovations. This is completely missing in China. Although Japan also copied many things in the past, it now sets new global benchmarks for manufacturing efficiency and quality. In a century in which technological innovation capacity is key to sustainable economic growth, China's future in this regard is very uncertain too.

China is without a doubt synonymous with a hunger for growth and an army of consumers. But I believe that this view of China is completely overrated and mostly blown up by analysts with an optimistic tunnel vision who trivialise all problems and push the hype about China. Do you remember the "rare earth" trend? If your timing was right you could earn good money with this trend. But long-term investors have had to digest losses of more than 80% since the trend was at its height. This is not unusual for trends. The art of making money with trends lies not only in recognising the trend, but also in knowing when to exit. The same is true for China. This long-term trend is currently driven more by investor behaviour than the country's sustainable development. But this trend nevertheless still offers opportunities for profit. The one thing does not rule out the other.

The column reflects the personal opinion of the author.

Christian Meier is Deputy Chief Investment Officer and responsible for the Advisory division at Banque CIC (Suisse). The business economist with a university of applied sciences degree is also a Certified International Investment Analyst (CIIA) and has worked in Portfolio Management at the bank for around eight years.

In Brief
Overview of topical investment themes

CIC Primus Fund: hunter of lost yields

Yield hunters are finding it particularly difficult to earn money with bonds in the current interest rate environment. To earn a small yield, investors in CHF bonds have to either accept a high level of risk or an extremely long term to maturity. Three years ago, Banque CIC (Suisse) launched a fund that is unique in Switzerland and closes this gap: the CIC CH - High Yields CHF Primus Fund. The Primus Fund is unique for two reasons. Firstly, the Primus Fund is the only fund in Switzerland that invests in bonds with an above-average yield (AAA - B-) while always making sure that the average rating is at least BBB- in order to secure the Fund's investment grade rating. Secondly, the Primus Fund only invests in Swiss franc bonds and does not hold any foreign currencies. Even though for the past three years we found ourselves confronted by falling interest rates that even dropped into negative territory, the Primus Fund outperformed the broad bond index (SBR14T) and grew by more than 9% before costs.

With its unique mission, the Primus Fund is only really coming to the exciting part now. Interest rates can hardly fall further, and bond investors are worried about the interest rate reversal. The fixed income investment crisis is reaching its zenith. As an unrivalled alternative, the Primus Fund should be included in every Swiss franc bond portfolio. Use this opportunity to talk to your investment advisor about your options for using the Primus Fund to improve the performance of your bond portfolio. (cal)

CIC CH - HIGH YIELDS "CHF PRIMUS"
ISIN LU0851060664

Number of people with Pillar 3a savings accounts rises to more than 50%

The central importance of 3a savings plans in Switzerland rises: more than half of all Swiss had a private 3a retirement savings plan in 2015. This is up 16% from three years ago. German-speaking Swiss and women in general prefer to give their 3a savings to the bank. Most Swiss do not know how much interest they earn on a Pillar 3a account. The second survey on Pillar 3a private retirement provision carried out on behalf of Banque CIC (Suisse) came to these and other conclusions. Find out more at www.cic.ch/studien.

Current interest rates in CHF
(as at 01.01.2016)

For savings and pensions	Private clients	Business clients
Savings account	0.400%	no offer
Investment account	0.300%	0.150%
3a retirement account	0.800%	no offer
Vested benefits account	0.500%	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 or the Principality of Liechtenstein.
3a retirement offer for clients domiciled in Switzerland or the Principality of Liechtenstein and Swiss domiciled abroad.
Current conditions and rates of interest can also be found at www.cic.ch.

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Overview of range of accounts of Banque CIC (Suisse)

	PAYMENTS		
Type	PRIVATE ACCOUNT	CURRENT ACCOUNT	
Holder	**Private individuals**	**Private individuals**	**Entrepreneurs and companies**
Description	For your salaries, payments and securities transactions	For your bank transactions in a foreign currency or as a settlement account for a line of credit that has been granted	For all transactions within the framework of your business activities
Currency	CHF, EUR, USD and GBP	CHF and foreign currency	CHF and foreign currency
Interest rate [4]	CHF 0.0625% EUR 0.0625% USD 0.125% GBP 0.125%	CHF 0.000% EUR 0.000% USD 0.125% GBP 0.125% Other foreign currencies on request	CHF 0.000% EUR 0.000% USD 0.125% GBP 0.125% Other foreign currencies on request
Interest limit	Interest rate above CHF 10 million on request	Interest rate above CHF 10 million on request	Interest rate above CHF 10 million on request
Opening and closing	Free of charge	Free of charge	Free of charge
Account management	Included in the client relationship fee [1]	Included in the client relationship fee [1]	CHF 6 per month
Availability / withdrawal limit	CHF, EUR, USD, GBP 500 000 p. a. Higher amounts are subject to a notice period of 3 months. If the notice period is not met, 0.500% of the amount exceeding the limit is charged at the end of the year or upon account closure. No limit on purchases of securities and precious metals or for interest and amortisation payments at Banque CIC (Suisse).	Up to the available balance, not subject to a notice period.	
Account overdrafts	No facility Individually authorised overdrafts are charged interest at the default rate. [4]	Possible Amounts that exceed the authorised credit limit are charged interest at the default rate (plus 0.250% credit commission per quarter on the highest debit balance). [4]	
Account balancing statements	Annually, free of charge	Quarterly, free of charge	
Payment transactions	Available	Available	
eBanking	Account queries and payment transactions	Account queries and payment transactions	
Maestro card	Available for CHF and EUR accounts CHF 50 p. a. (or equivalent)	Available for CHF and EUR accounts CHF 50 p. a. (or equivalent)	
Credit card	Available for CHF, EUR and USD accounts Silver CHF, EUR, USD 100 p. a. Gold CHF, EUR, USD 200 p. a.	Available for CHF, EUR and USD accounts Silver CHF, EUR, USD 100 p. a. Gold CHF, EUR, USD 200 p. a.	
Link to custody account	Available	Available	

[1] Client relationship fee CHF 25 per quarter
Simple and transparent – a fee for all accounts
Banque CIC (Suisse) charges a simple and transparent flat-rate fee per client relationship for private clients instead of an account management fee. This client relationship fee includes the account management for all the transaction accounts held under one client relationship, including foreign currency accounts and other services. You can find details of this in the tariff schedule «Fees and conditions for private clients». For clients domiciled abroad and with a business volume of less than CHF 100,000 the rate of CHF 75 per quarter generally applies. A higher fee may be charged depending on the country in question. Your client advisor would be pleased to inform you about the individual countries.

[2] Offer for clients domiciled in Switzerland or the Principality of Liechtenstein.

[3] Offer for clients domiciled in Switzerland or the Principality of Liechtenstein as well as for Swiss nationals living abroad.

[4] The interest rates published apply to clients domiciled in Switzerland or the Principality of Liechtenstein. Conditions for clients domiciled abroad upon request. Debit interest on account overdrafts p. a.: CHF 9.0%, EUR 8.5%, GBP and USD 8.0%. Further terms and conditions on request.

	SAVINGS			RETIREMENT PROVISION	
Type	INVESTMENT ACCOUNT		SAVINGS ACCOUNT [2]	3A RETIREMENT ACCOUNT [3]	VESTED BENEFITS ACCOUNT
Holder	Private individuals	Entrepreneurs and companies	Private individuals	Private individuals	Private individuals
Description	For flexible saving with high availability for your medium to long-term investment aims	For flexible investment saving with high availability and for the medium-term secure placing of your liquidity	For traditional, long-term saving Minimum deposit CHF 10 000	For private savings within the framework of private retirement provision under Pillar 3a	For the ring-fenced investment of your Pillar 2 assets (BVG) from a Swiss pension fund
Currency	CHF, EUR	CHF, EUR	CHF	CHF	CHF
Interest rate [4]	CHF 0.300% EUR 0.125%	CHF 0.150% EUR 0.0625%	0.400%	0.800%	0.500%
Interest limit	Interest rate above CHF, EUR 500 000: CHF 0.150% EUR 0.0625% Interest rate above CHF 10 million on request	Interest rate above CHF 5 million, EUR 500 000: CHF, EUR 0.000% Interest rate above CHF 10 million on request	CHF 500 000 Interest on amounts above this: Same interest rate as for private account	None	None
Opening and closing	Free of charge	Free of charge	Free of charge	Free of charge [5]	Free of charge [5]
Account management	Free of charge	CHF 6 per month	Free of charge	Free of charge	Free of charge
Availability / withdrawal limit	CHF, EUR 50 000 p. a. Higher amounts are subject to a notice period of 3 months. If the notice period is not met 0.500% of the amount exceeding the limit is charged at the end of the year or upon account closure. No limit on purchase of securities and precious metals or for interest and amortisation payments at Banque CIC (Suisse).		CHF 25 000 p. a. Higher amounts are subject to a notice period of 6 months. If the notice period is not met, 0.500% of the amount exceeding the limit is charged at the end of the year or upon account closure.	Transfers to a new Pillar 3a pension provider are subject to a notice period of 3 months. No notice period for all other withdrawal options provided for by law (e.g. early withdrawal for residential property, self-employment, etc.).	No notice period within the framework of the withdrawal options provided for by law (e.g. transfer to another pension fund, definitive departure from Switzerland, etc.).
Account overdrafts	Not possible		Not possible	Not possible	Not possible
Account balancing statements	Annually, free of charge		Annually, free of charge	Annually, free of charge	Annually, free of charge
Payment transactions	▪ conditional availability ▪ no direct debits ▪ incurs costs pursuant to “Fees and conditions for private clients” and “Fees and conditions for business clients”			Not available	Not available
eBanking	Account queries and account transfers		Account queries and account transfers	Account queries	Account queries
Maestro card	Not available		Not available	Not available	Not available
Credit card	Not available		Not available	Not available	Not available
Link to custody account	Available		Not available	Saving through securities possible, details on application	Saving through securities possible, details on application

[5] Exceptions for closure/partial payment free of charge: in the case of early withdrawal for residential property, a flat-rate administration fee of CHF 300 is charged. If the financing is held with Banque CIC (Suisse), the administration fee is waived. In the case of the definitive departure from Switzerland, a flat-rate administration fee of CHF 300 is charged.

Valid as per 01.01.2016
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