03/2018 QUARTERLY MARKET OUTLOOK

perspectives

IMPRINT
Editor: Bank CIC (Switzerland) Ltd.
Marktplatz 13, P.O. Box
4001 Basel, Switzerland, T +41 61 264 12 00
Authors: Markus Allemann *(alm)*, John James Bayer *(jb)*, Jürg Bützer *(jub)*, Luca Carrozzo *(cal)*, Mario Geniale *(mge)*, Carl Münzer *(muc)*, Robert Olloz *(robol)*, Nadja Zurflüh *(zurna)*
Editorial deadline: 18.06.2018

Dear reader

The rowdies
In the 1950s/1960s, the US actor James Dean became an idol for the youth of his day after he had become a poster child – for adolescents who wanted to disown the conservative bourgeoisie – with his movie "Rebel Without a Cause". Recently it seems as if the same movie is playing on the world's political stages. A good example is the fact that two EU-critical and populist parties in Italy promised and formed a "government of change". Or that a controversial political outsider became president of the United States and now wants to alter the political order together with a 34-year-old North Korean dictator.

This is now the world as we know it because more and more people in Western democracies seemingly feel marginalised, betrayed or manipulated by the sovereign states of the current social order. But this development need not be a bad thing. In the end, it may even be better for a state if such powers take centre stage rather than inciting unrest from the outside. Only time will tell if the German translation of the movie, "... for they know not what they do", holds true.

Mario Geniale
Chief Investment Officer

Economic perspectives

Follow us on Twitter @Bank_CIC

The Swiss economy has seen a very positive trend since the beginning of the year, not least due to the significant depreciation of the country's currency since June 2017. This is also reflected in the leading indicators, for example the purchasing managers' index, which is currently well above 50. The index is a survey of selected purchasing managers who work at relevant companies. A figure below 50 indicates a contraction, while a figure above 50 predicts economic expansion.

Swiss economy – full speed ahead
The positive sentiment can also be felt on the labour market. Switzerland is seeing its highest level of employment since 2012, and the current unemployment rate is very low at 2.60%. This rosy picture is complemented further by rising consumer prices. The Swiss economy is running smoothly. Only external disruptions such as global exogenous shocks could cloud the outlook.

The situation in Europe is slightly different. The political uncertainties plaguing the monetary union go hand in hand with weaker economic figures. The European Central Bank (ECB) evaluated the latest economic data in mid-June, and announced on 14 June 2018 that the quantitative easing programme will wind down at the end of the year. In our view, an extension could only be justified by a significant economic downturn or a marked increase in uncertainty regarding future economic developments. *(cal)*

Markets

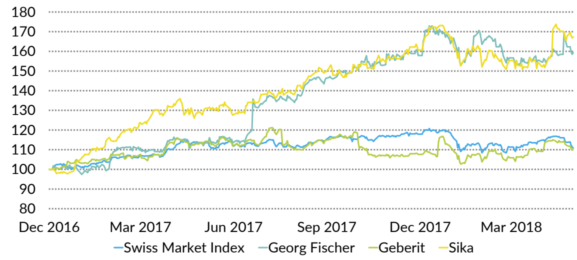
"The stock market – a never-ending comeback story?"

The stock markets have recovered from the sharp correction seen at the beginning of February – despite the continued erratic (trade) policies of the Trump administration, climbing interest rates and considerably higher crude oil prices. The surge in earnings in the US thanks to the tax reform has calmed investors' nerves and the central banks continue to ensure stability with their "homoeopathic" doses of modifications to interest rates and monetary policy. Nevertheless: even the greatest comeback can eventually be trampled by the herd instinct of investors. *(jub)*

Equities Switzerland

The OECD recently reaffirmed its view that it expects stable growth for the Swiss economy, which should see 2.30% GDP growth this year and 1.90% for next year. Swiss companies are benefiting from the upward momentum of the world economy – especially in the eurozone – and can impress with rising sales and earnings growth. Despite the continuing attractiveness of dividend yields, the Swiss equity market is somewhat overvalued historically speaking. For this reason, we have shifted our focus to high-quality dividend stocks, which are able to participate in the growth of the eurozone. These include companies such as **Georg Fischer, Geberit** and **Sika.** *(robol)*

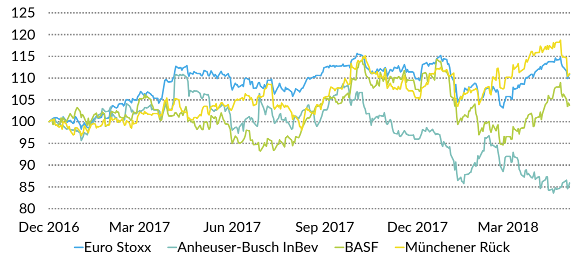
SMI



Equities Europe

A lot is happening in Europe, especially on the political stage: the EU is repeatedly clashing with the US government, Brexit negotiations are in a deadlock and the current situation in Italy is a great cause of concern in Brussels. The economy has been slowed by the strength of the euro and the trade dispute with the US, which had a negative impact on corporate results. The ECB will support the financial markets and the real economy until the end of the year. We maintain our cautious market estimate for the time being and prefer defensive and global companies such as **Anheuser-Busch InBev, BASF** and **Münchener Rück.** *(jub)*

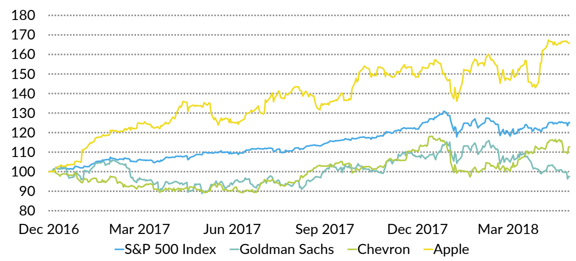
Euro Stoxx



Equities US

The US economy is showing no signs of weakness. This is remarkable as a short breather would be expected after a nine-year upward trend. Unemployment is low at 3.80%, with moderate wage pressure. Even inflation has returned as planned, putting the US Federal Reserve in the comfortable position of being able to set its eye on further interest rate hikes. Thanks to factors including the weakening US dollar, companies are reaping impressive profits. Only hardened fronts in the trade war with China, an unfavourable development in the situation with North Korea or a flare-up in the debt situation could taint the picture. Companies such as **Goldman Sachs, Chevron** and **Apple** present good investment opportunities. *(jb)*

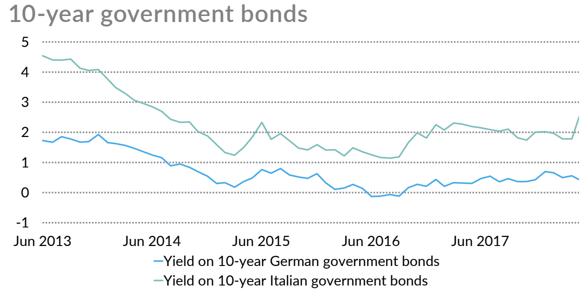
S&P 500



Bonds

The political events in Italy fuelled fears that the countries of the eurozone may be drifting apart, triggering uncertainty on the bond markets. This in turn led to greater volatility on the interest markets. The yield on a 10-year Italian government bond jumped by over 1% in the month of May alone. The US bond markets were also under pressure. The Federal Reserve increased interest rates again on 13 June 2018, inflation has increased considerably this year and at the same time, unemployment is at its lowest level in nearly two decades. As we expect interest rates to continue their ascent this year, we have chosen a shorter duration. *(muc)*

10-year government bonds



Column

What do drums have to do with pension funds?

Nothing! Or do they? The more I think about it, maybe they do.

The story goes something like this: As a 16-year-old, I dreamt of having my own rock band. To get the ball rolling, I wanted to buy a set of drums. There was just one problem: I didn't have enough money. What was I to do? Ask my dad, of course! Excitement failed to materialise because at the time, I was supposed to be playing the violin. My father came to accept that the violin was neither a cool instrument in a rock band nor a viable alternative to a set of drums, and then gave me this advice: "You just need to save!"

But of course it wasn't as easy as that: my allowance was of little help; the instrument I coveted most was very expensive. The music store around the corner had a window with a complete set of gold-trimmed drums on display. There it was. The instrument of my dreams! The man at the store was very sympathetic to me and my financial difficulties and made me an offer. With the consent of my parents, I could make a down payment and pay off the rest in instalments over the course of two years – then I would be the proud owner of a set of drums! "It's a deal", my father said. "If you save the money yourself, you will enjoy it even more once you reach your goal."

> Save on a monthly basis until the defined retirement age and then you will be happy, month for month.

Even if only marginally, there is still a lesson to be learned from this anecdote when it comes to pension provision in Switzerland, and more specifically to the three pillars AHV, pension fund and voluntary pension provision: save on a monthly basis until the defined retirement age and then you will be happy, month for month.

Only, seems to me, the thing about joyful anticipation doesn't really hold true. Young people, in particular, have (too) little interest in their pension fund and are even less interested in the AHV. Maybe they know more about private savings, through the third pillar, for example, since the tax advantages are well known. Interest in subjects such as pension fund and AHV grows only through increasing age, and in some cases only right before retirement age. Negative surprises are therefore not uncommon.

It would be in the interest of all pension fund members to familiarise themselves with the regulations, organisation, investment strategy, costs, conversion rate, funding ratio and much more. After all, it's your money!

And note, what is written or said in the media about pension funds always sounds universal. But it's not, by far. Each pension fund has its own regulations – albeit compliant with the regulations put in place by lawmakers. However, the leeway provided by the regulations of the pension fund as well as in their implementation could make all the difference.

The population in Switzerland is ageing and it is becoming increasingly difficult to generate the necessary returns on the financial markets. This problem must be analysed and solved by the board of trustees of a pension fund in good time to ensure pensions can be paid out in the future, too. Possible solutions are many and do not always best serve the insured. The reasons for this are just as varied.

For me as Chairman of the Board of Trustees of the Pension Fund of Bank CIC, the funds with the best financial footing and those who enable their fund members to march to the beat of their own drums even after retirement are the ones who set the tone.

Markus Allemann
Head of Special Projects and Chairman of the Board of Trustees of the Pension Fund of Bank CIC

The column reflects the personal opinion of the author.

In brief

An approach to stock picking

Stay calm, systematically, is our mantra. We have developed a stock-picking system which considerably eases our decision-making process. It is a combination of the tried-and-tested analysis of fundamental data and the use of automated tools. With the analysis of fundamentals, we review companies in detail and filter for those with the greatest return potential. Then we use automated tools to further analyse these pre-selected stocks. These tools are rooted in a time series analysis of the stock price and can identify stocks that are set to see a price hike. This helps us to act anti-cyclically and invest at the right time. These combined investment recommendations can be found every week in our newsletter "CIC Weekly Markets", which you can subscribe to free of charge at **cic.ch/en/publications**. *(cal)*

Our brand

We unveiled our brand new look in mid-April, strengthening our identity and giving our brand a modern makeover. We have positioned ourselves based on our strengths and on what sets us apart from the rest: our flexibility. As a flexible bank for companies, entrepreneurs and private individuals with complex financial requirements, we underscore our expertise in being able to provide quick and straightforward tailored solutions for complex financial requirements. Find out more at **cic.ch**. *(zurna)*

Golfing for a good cause

We are proud sponsors of the charity event GOLF FOR AFRICA in aid of the Roger Federer Foundation, which will be held on 17 August 2018. It focuses on the Foundation's message and mission "I AM TOMORROW'S FUTURE". Lynette Federer will personally report at the event on the educational projects Foundation supports in southern Africa and Switzerland to ensure that children have better prospects for the future. Read more at **golfforafrica.ch**. *(zurna)*

Current interest rates

in CHF, as at 01.07.2018

Savings	Private individuals	Companies and entrepreneurs
Savings account	0.200%	No offer
Investment account	0.150%	0.050%
Pensions		
3a retirement account	0.400%	No offer
Vested benefits account	0.250%	No offer
Payments		
Personal account	0.030%	No offer
Current account	0.000%	0.000%

Savings account / 3a retirement account: offer for clients domiciled in Switzerland.
The latest interest rates and conditions can be found at **cic.ch**.

CIC

Bank CIC (Switzerland) Ltd.
Basel, Fribourg, Geneva, Lausanne, Lugano, Neuchâtel, Sion, St. Gallen, Zurich, T +41 61 264 12 00, cic.ch