04/2018 QUARTERLY MARKET OUTLOOK

perspectives

IMPRINT
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Dear reader

On the threshold

The term emerging markets describes countries that are transitioning from developing country to industrialised nation. Since the end of the Asian crisis at the end of the 20th century, growth in these countries has been a staggering 4% higher on average per year than in developed countries. South Korea crossed the threshold to become an industrialised nation not too long ago, and other countries, such as China, aim to follow its lead as soon as possible.

The emerging markets' race to catch up has been supported in large part by a massive increase in debt, primarily in US dollars. However, interest rate hikes in the US have caused the US currency to appreciate, enlarging the debt burden of these countries and becoming a potential boomerang. Structurally weak economies, such as Argentina and Turkey, have already experienced this first hand and their currencies are now in free fall. Today, some developing countries are actually on the threshold of a downward spiral – it can only be hoped that their next steps will not lead to their collapse.

Mario Geniale
Chief Investment Officer

Economic perspectives

Since the beginning of the legislative period under US President Donald J. Trump, the law of gravity seems to have been overridden in the world of US companies. During his term in office, new forms of politicisation are being practised on the highest level – including disruptive negotiating tactics, altering or disclaiming statements made and aggressive foreign trade policy.

Surprisingly, this new dynamic has led to positive expectations with wide-ranging impact. This is suggested by sentiment indicators such as consumer confidence, expectations of purchasing managers and other surveys regarding the economic situation. They all point to an expansive global economic development.

World economy in limbo

It is realistic to say that global discord in the areas of politics, world trade and the financial system is growing and coincides with a certain amount of scepticism. It is no secret that the budgets of the major EU states are suffering from severe imbalances, which would only be aggravated further if interest rates should rise. For export nations, in particular, the tariffs threatened by Trump could lead to greater tensions.

In times of uncertainty, the Swiss franc becomes a safe haven currency, making it appreciate against other currencies. This in turn incites local companies to overcome the competitive disadvantage once again through innovative and creative strength. With this combination of contrary signals, it is worthwhile to remain calm and take prudent decisions. A healthy dose of caution is required. *(jb)*

Markets

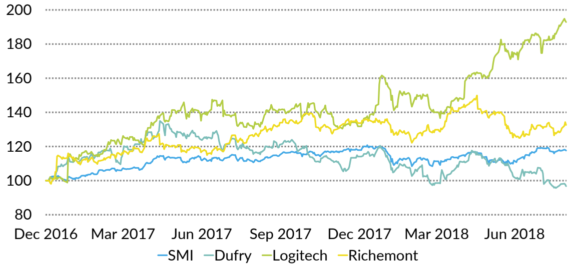
In the grip of "Trump tweets"

Encouraged by the sound earnings situation and for lack of investment alternatives, equities remain the most popular investment vehicle. Central banks are upholding the positive sentiment with their continued loose monetary policy, and surprisingly, the Trump tweets only rattle investors briefly, with stock markets continuing their climb shortly thereafter. However, there are some factors that could spoil the party: notably, the trade war between the US and "the rest of the world" and geopolitical developments pose serious risks. The pitcher that goes too often to the well is broken at last. *(jub)*

Equities Switzerland

The world economy continues to perform robustly. Risks such as a renewed flare-up in the trade dispute, the looming Brexit or the currency crisis in Turkey have as yet had little impact on global economic growth. Swiss companies are also the benefactors of this environment, which is expected to bring high sales and earnings growth for the year overall. The latter is even set to reach levels last seen in 2006. We prefer export-oriented companies such as **Dufry, Logitech** and **Richemont.** *(robol)*

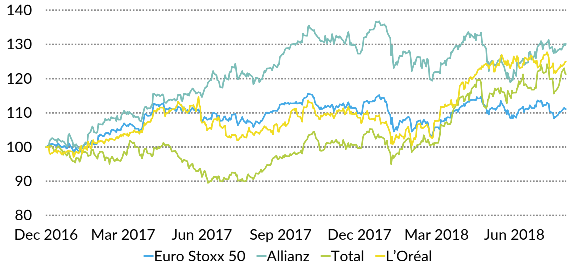
SMI



Equities Europe

After the summer slump, the economy and politics have come back into focus. Not surprisingly, very little in either area has taken a turn for the better. The economic momentum is weakened and the trade dispute with the US is curbing investment activity. There is little agreement on the political stage, which weakens the euro-zone's position abroad. Based on our generally conservative market estimate, we are focussed on defensive stocks such as **Allianz, Total** and **L'Oréal.** *(jub)*

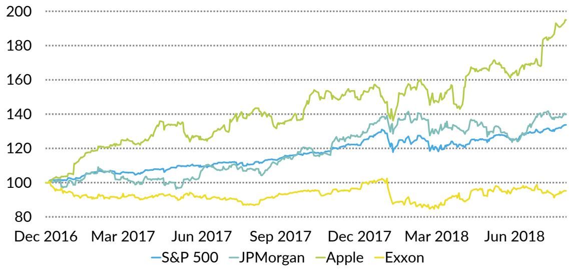
Euro Stoxx 50



Equities US

At first glance, the US economy is running smoothly: companies have reported double-digit growth in earnings, unemployment is low, the Fed is successively normalising interest rate levels and despite brief interruptions, markets are rising. At second glance, however, the tariff conflict with globally networked trading partners could prove to be a boomerang and put a damper on the US economy and stock market. **JPMorgan, Apple** and **Exxon** stand out here as solid stocks. *(jb)*

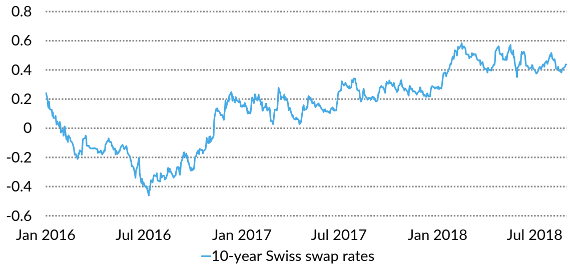
S&P 500



Bonds

The bond markets continue to be volatile. In August 2018, bond yields came under some pressure due to a growing risk aversion in the emerging markets. Although we expect to see rising yields in future, we do not foresee major movement for now, based on statements made by Mario Draghi to keep rates low until mid-2019. This is also reflected in the fact that the correlation to US yields is currently very low. We continue to prefer corporate bonds with shorter terms. *(muc)*

10-year Swiss swap rates



Column

Flexible provision thanks to Pillar 3a investment savings plans

After the rejection of the "Altersvorsorge 2020" initiative (pension reform initiative) and with the current debate regarding a reduction of the BVG minimum interest rate to 0.75%, private pension provision and thus the tied Pillar 3a is becoming more and more relevant for the Swiss population.

What many don't know: much more can be gained from Pillar 3a than just tax savings – for example through a Pillar 3a investment savings plan.

A comparison over the past ten years shows that a dynamic investment strategy (average of 45% equity allocation) with Bank CIC would have generated additional returns of over 27% against the classic 3a account. However, the latest pension figures released by the Association for Swiss Pension Provision (VVS – Verein Vorsorge Schweiz) states that as at the end of 2017, only one-quarter of Pillar 3a assets were invested in securities. Considering that pension funds are nearly 90% invested, the potential for Pillar 3a is far from exhausted.

Especially when it comes to younger savers, the share of securities investments in Pillar 3a is very low: for those 18 to 34 years of age, it is below 15%, despite the fact that with an investment horizon of ten years or more, the risks are relatively low and the returns even greater.

As I started to make regular payments into a Pillar 3a account upon completion of my banking apprenticeship at the age of 19, interest was still around 3%. A few years ago, my wife and I were able to realise our dream of owning our own home – not least thanks to our 3a savings and the compound interest effect. Today, in the low to zero interest rate environment, savers must choose a different path to grow their savings.

> For 3a investment savings plans, the return outlook is significantly more favourable than with a simple 3a account solution.

My niece is now in a similar situation to what I was in at the time: she is 20 years old, recently completed her apprenticeship and is looking to open her first 3a account. She knows that I am the managing director of the Stiftung Sparen 3 of Bank CIC and asked for my advice. Since interest rates of 3% seem to be a thing of the distant past, I suggested that she consider a 3a investment savings plan since the prospects are considerably higher than with a 3a account. The only question is: "With which provider?" Her house bank will probably only be able to offer her a proprietary retirement fund. For this reason, I recommended she visit the website **wertschriftensparen.ch**.

There she can see an investment savings offering and flexibly choose from over 30 retirement funds offered by six renowned providers. The selection process is guided by her personal risk capacity and expected investment horizon. She can choose from passively or actively managed funds with an equity allocation of up to 75%. The funds listed even include sustainability funds, which invest the managed assets according to ecological and social criteria. After entering her preferred investment strategy (from conservative to dynamic) and the investment policy (passive, active or sustainable), my niece found the right retirement fund for her.

By opening her first Pillar 3a account, she is taking her retirement planning into her own hands at an early stage – and with a Pillar 3a investment savings plan, she is even optimising her savings at the same time.

My Pillar 3a tips

1. Start paying into a 3a account early to benefit from the annual tax deduction.
2. Make payments to the account at the beginning of the year and benefit from the preferential interest over the entire year.
3. Open several 3a accounts so that you can make staggered withdrawals and lower the tax progression.
4. Invest in securities if your investment horizon is four years or more to increase your return opportunities.
5. Invest your money in stages to be ideally diversified.
6. As a general rule of thumb: the longer the investment horizon, the higher the retirement fund's equity exposure should be – taking into consideration your personal risk profile.

My insider tip
Bank CIC will waive the flat fee.*

* Valid for initial fund subscriptions made by 31 December 2018.

Stefan Kron
Head Product Management / Pension Foundations

The column reflects the personal opinion of the author.

In brief

CIC US Smart Cap Portfolio

Boosted by strong corporate results, the US stock markets continue to soar unhindered to new all-time highs. For investors who find a direct investment too risky at this high level, we recommend the actively managed certificate "CIC US Smart Cap Portfolio" (CH0372807328). This invests in mid-cap US companies and combines two smart methods of analysis: fundamental company analysis that forms a framework, and our mathematical price analysis for the "fine tuning". This mix allows us to act quickly to exploit market fluctuations. A concept that pays off: the certificate outperformed the strong US equity market by around 5% in September 2018 and posted a performance of approximately 14.3% for the period from 1 January 2018 to 5 September 2018. *(goste)*

Bringing smiles to children's faces at the hospital

We are organising a charity event on 31 October and 14 November 2018 to benefit the Theodora Children's Charity. Around 60 of our employees will volunteer and transform the monkey house at the Basel Zoo into a fun obstacle course for children. Donations will be collected for the foundation and we will double the final amount received. Sign up your child at **cic.ch/theodora-charity/registration**.

The volunteer days were initiated by the Basel Banking Association to celebrate its 100th anniversary. We are using this occasion as an opportunity to initiate a longer-term commitment to the Theodora Children's Charity. We will support the foundation for three years and are very happy to give joy and laughter to thousands of children across the country receiving medical treatment. Find out more at **cic.ch/commitment** and **theodora.org**. *(fabot)*

Current interest rates

in CHF, as at 01.10.2018

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**.

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