02/2019 QUARTERLY MARKET OUTLOOK

perspectives

IMPRINT
Editor: Bank CIC (Switzerland) Ltd.
Marktplatz 13, P.O. Box
4001 Basel, Switzerland, +41 61 264 12 00
Authors: John James Bayer *(jb)*, Jürg Bützer *(jub)*, Luca Carrozzo *(cal)*, Fabiana Castiglione *(fabot)*, Mario Geniale *(mge)*, Yves Grütter *(gruve)*, Carl Münzer *(muc)*, Robert Olloz *(robol)*, Dimitri Paunov *(paudi)*
Editorial deadline: 12.03.2019

Dear reader

Six-pack

At the height of the euro crisis in 2011, the European Council and the European Parliament negotiated reform of the stability and growth pact. The six legislative measures that were agreed, the so-called six-pack, came into force on 13 December 2011. One of the goals was to penalise breaches of the deficit limit earlier and more directly. Italy was one of the first countries to come close to experiencing the impact of this new mechanism first-hand, but was ultimately able to come to a last-minute agreement. The next candidate this year could be France, as it expects a budget deficit of 4% of gross domestic product for 2019.

In a time when macro-economic balance is still a long way off, these guidelines created by technocrats do not seem to be adequately thought through. How else can you explain the balance sheet of the European Central Bank, which has been massively inflated to support the European economy? We may look back one day and be forced to admit that even the six-pack was a foolish idea.

Mario Geniale
Chief Investment Officer

Economic perspectives

Follow us
on Twitter
@Bank_CIC

The financial markets lost their nerves after the US Federal Reserve increased the key rate for the fourth time in 2018. The combination of restrictive monetary policy, signs of an economic downturn as well as an increase in geopolitical risks led to a collapse on the equity markets in the fourth quarter of 2018.

Risks on the rise

The otherwise strong economic data from Germany saw a recent drop that was worse than expected. Industrial production, for example, dropped by 4.7%, the largest decline since 2009. Overall, it seems that risks for Europe's largest economy are increasing. The EU Commission therefore revised its forecast for GDP growth for the eurozone in 2019 downward to 1.3% – in autumn this figure still stood at 1.9%.

The trade dispute between the US and China also presents risks. Although Xi Jinping and Trump have agreed to a 90-day moratorium, the tariff threats could resume at any time. Investments in China have been scaled back significantly due to this unsettled situation and growth has slowed to levels not seen since 1990.

Global uncertainty is on the rise. The relationship between China and the US remains delicate, Europe is on the verge of an economic slowdown and leading indicators in Switzerland council caution. These are warning signs that are likely to prompt the central banks to curb their loose monetary policy at a slower rate than planned. *(cal)*

Markets

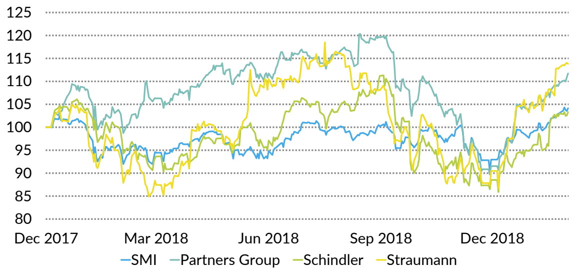
"Central banks are turning into banks for those in need."

The favourable start to the year strongly correlated with the calming statements of the US Federal Reserve chairman regarding future interest rate increases. However, the economic outlook has since deteriorated. While the trade conflict between the two leading industrial nations remains unresolved, the momentum of corporate profits is also weakening. In geopolitical terms, there is little positive news. But investors are confident that central banks will continue to prop up the bull market. *(jub)*

Equities Switzerland

In the current year too, strong earnings growth is expected for Swiss companies, which should bolster the local stock market to post positive returns. Other factors include sustained attractive dividend returns with valuations that are not historically overvalued. Should warning signals of a weakening economy intensify, however, the defensive characteristics of the Swiss stock market will come to bear. We prefer the stocks of the companies **Partners Group, Schindler** and **Straumann.** *(robol)*

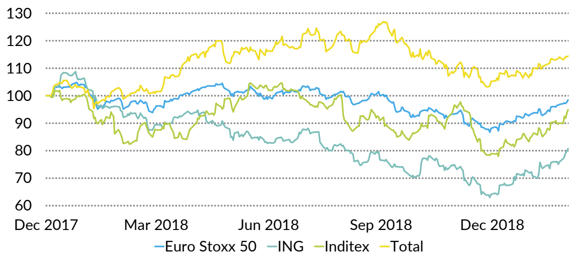
SMI



Equities Europe

The politics and economy of ailing Europe have given fodder for negative headlines. At odds with one another, the EU is showing Great Britain the cold shoulder in the Brexit negotiations. The economic engine is sputtering under the weight of the trade dispute. In light of this disappointing outlook, the ECB has been forced to maintain its expansive monetary policy. We are maintaining our cautious market assessment and are focusing on companies like **ING, Inditex** and **Total** for a defensive portfolio. *(jub)*

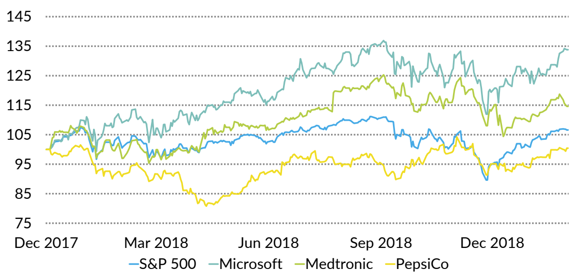
Euro Stoxx 50



Equities US

The partial shutdown of the US government, the trade dispute with China and a clear decline in global economic momentum have left their mark on US economic indicators. Despite this, the US continues to boast a robust economic trend. Although the earnings growth figures expected for 2019 are below the growth rates of the previous year, they are still in the high single-digit range. This scenario promises a solid run on the US stock market. **Microsoft, Medtronic** and **PepsiCo** are interesting stocks in this market. *(jb)*

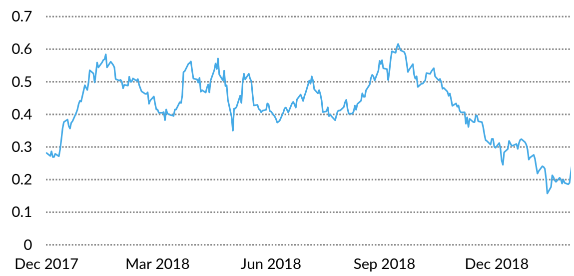
S&P 500



Bonds

The yield descent that started in October 2018 has continued into the New Year. Political uncertainties, a fading economic outlook and the current situation of inflation were the driving factors behind this trend. A normalisation of monetary policy in Europe is thus likely to take its time. Due to a downward trend in credit premiums and the positive development in bonds, we recommend taking profits on riskier positions – for example those with a longer duration or higher credit risk. *(muc)*

10-year Swiss swap rates



Column

Customer orientation generates added value

In order to be able to offer our customers added value, we have to understand them. It's important for us to be familiar with their situation and be aware of how they think and function. This is the only way we will be able to think from their point of view.

A woman recently contacted us on the recommendation of one of our customers. At the first meeting she told us she'd come into an inheritance, presented the inheritance certificate and said she wanted to invest the entire amount she had inherited with the aim of doubling its value within the next five years.

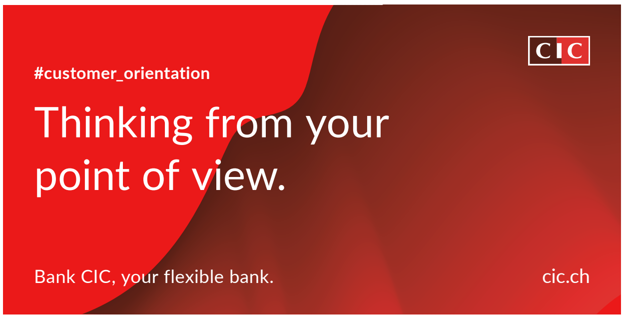
We started by conducting a strategy interview with her. The main aim here was to find out about her situation, her plans, her needs and her objectives and then to arrange these on a timeline. Using our holistic consultation approach, we didn't just focus on her finances but also on her personal and professional situation.

It turned out that she had recently fulfilled a long-held dream: together with her husband she had opened a Bed & Breakfast, having given up her job as a doctor for this purpose. She said that the business was going well but that she was constantly having to draw money from her inheritance since the income generated was not covering the costs. The former doctor also told us that she didn't want to take any risks because her inheritance gave her a secure back-up for the B&B project. The analysis quickly revealed that the investment she originally wanted to pursue was not in line with her goals.

> "Thinking from our customers' point of view is our day-to-day business."

We didn't simply offer her a product or mandate in line with her original ideas. On the contrary: we put ourselves in her position and set out to her the benefits and drawbacks of the planned investment. Did she really want to invest everything she had inherited? Was she prepared to take on a major risk in the hope of gaining a higher yield? Would she really be able to do without liquidity – and the flexibility this would give her? Her response to all these questions was a definite "No", and she herself realised that her original plan didn't suit her situation at all.

We showed her a number of alternative investment strategies and she then decided to invest only a part of her inheritance. She concluded a discretionary mandate with us which was in keeping with her risk capability and risk tolerance. The mandate means that investment decisions are delegated to our experts, who ensure the client's capital is managed professionally. This gives the client plenty of time to take care of running her B&B. In order to give her sufficient liquidity and therefore flexibility, a significant sum is to be kept on a current account until the B&B is self-financing. The final result was an investment with a much reduced risk – as compared to the client's original idea – along with improved liquidity and appropriate diversification of her assets, all tailored to the client's individual needs.



Greater customer orientation doesn't come about by shaking someone's hand for longer: it derives from more detailed examination of you, your company and your plans. After all: our uppermost goal is to optimise your finances. Our entrepreneurial approach, personal and holistic consultation and individually tailored solutions are what make us unique.

Thinking from our customers' point of view is our day-to-day business. By examining the client's situation, objectives and needs in more detail, we found the best solution for her. After all, customer satisfaction is the be-all and end-all as far as we are concerned.

Yves Grütter
Branch Manager Basel

The column reflects the personal opinion of the author.

In brief

Thematic investments

Investments in specific areas that align with clients' personal lifestyle are on the rise. After the collapse of Internet stocks at the turn of the century, many shied away from investing in single sectors. But today, asset managers increasingly add themes such as "healthy living", "video gaming" and "new mobility" to the product range. Of course, such thematic investments involve a certain level of volatility and boom and bust risk. Nevertheless, these investment forms give investors the chance to steer their capital towards societal trends that they believe in and feel an affinity for. *(paudi)*

Springboard to success

The International Circus Festival YOUNG STAGE Basel will be taking place for the eleventh time from 10 to 14 May 2019. Bank CIC has been Presenting Partner of the festival for two years and has recently extended this partnership by three years. With our commitment to the festival we are promoting the next generation of professional artists. Once again this year, the festival will have a supporting programme of various outdoor spectacles. Additional information and tickets are available at **cic.ch/en/young-stage**. *(fabot)*

Stellar result in 2018

Bank CIC increased its profit by 25% to CHF 29.3 million in 2018, achieving its best result in its 109-year history. We were able to make significant increases in all sources of revenue, although the main drivers of earnings growth were documentary transactions and our offering in the area of mergers and acquisitions, in addition to the interest income. Total assets also increased by 10.1% to CHF 9.3 billion thanks to strong growth in client deposits. We are very pleased with this stellar result which would not have been possible without the trust of our clients. The 2018 annual results are available at **cic.ch/annualreport**. *(fabot)*

Current interest rates

in CHF, as at 01.04.2019

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.
Negative interest can be charged regardless of the balance (except for savings account and retirement provision accounts).
Conditions for clients domiciled abroad upon request
The latest interest rates and conditions can be found at **cic.ch.**

Bank CIC (Switzerland) Ltd.
Basel, Fribourg, Geneva, Lausanne, Lugano, Neuchâtel, Sion, St. Gallen, Zurich