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perspectives

04/2016 QUARTERLY MARKET OUTLOOK

CIC BANQUE CIC |SUISSE|

DEAR READER

The Campaign (or spoilt for choice)
The 58th presidential elections will be held in the USA on 8 November. Hillary Clinton could become the US's first female president ever, whereas, if Donald Trump were elected, he would be the first president to have been fought against almost to the same degree by both the Democratic and Republican political establishment. If the one candidate has been characterised in the election campaign primarily by a murky email affair and the questions surrounding her state of health, the other candidate has regularly provoked voters with his manner and sometimes highly abstruse ideas.
On the one hand we have a Secretary of State who has been a player on the political stage for many years, but who does not really have any clear profile or programme, and on the other hand we have an entrepreneur who undiplomatically rips into his opponents and totally ignores the customs of US politics. We are fortunate that we do not have to vote.
But if elected as president, both of them, Clinton as well as Trump, would surround themselves with good advisors and would thus be able to more or less successfully steer the fortunes of the world's economic engine and police. But sometimes it is the president who has to make enormously important decisions quickly and under the greatest of pressure, and this is where I would clearly vote for lack of profile rather than erratic rant.

Mario Geniale, Chief Investment Officer

Economic perspectives

The late summer season started for the US economy with the annual meeting of the Fed in Jackson Hole. The main topic continues to be the next increase in US interest rates from 0.25% to 0.5%. The solid labour market, the economy and consumer price trends increasingly speak for an increase in interest rates in 2016.

While the US is already talking about interest rate hikes, interest rates remain historically low in the eurozone. Although Europe's economic data is showing the first signs of improvement, it will still be a while before the relaxed monetary policy of the European Central Bank (ECB) has an effect on the economy.

Back to normal

The main topic for the Swiss economy is still the strong franc. The Swiss National Bank is doing everything it can to keep the Swiss franc above 1.08. Economic confidence in Switzerland is stagnating, as are the economic forecasts.

In spite of the excitement caused in the first half by the British referendum on leaving the European Union, it seems with hindsight that the outcome did not have quite the impact on the economy that was expected. Brexit led to short-term uncertainty, but the situation did not escalate into a political conflagration. Consumer and economic expectations for the eurozone and Switzerland have already returned to normal.

The last big economic topic for the year will be the US presidential election in November. Surveys indicate that the business-friendly candidate Hillary Clinton is the front runner. We think that surprises are unlikely. (cal)

The Markets

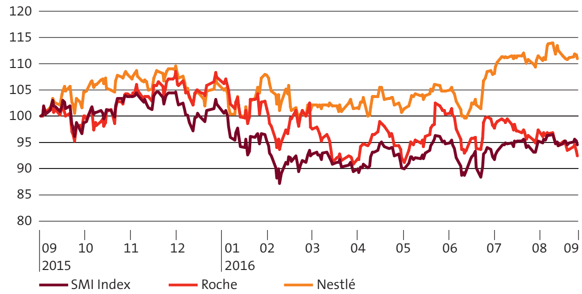
“Equities remain relatively attractive.”

Thanks be to the leading central bank! Stock market indices continued to fly high, particularly in the US, in spite of weak commodity prices, the unsolved banking crisis in Italy, the Brexit shock and countless complex geopolitical challenges. The financial markets continue to benefit from the zero interest rate environment and ample liquidity. No trend reversal is in sight. Although the US Fed is still thinking about a long overdue interest rate hike, it worries that this might have a negative effect on exchange rate relations, the financial markets and the global real economy. As the parameters have not really changed, equities remain relatively attractive and the global liquidity glut continues to be an important catalyst for company takeovers and mergers. (jub)

SWISS EQUITIES

In spite of their rather defensive character, Swiss equities have performed almost on a par with their European counterparts so far this year. Uncertainties about the British decision to leave the EU are dampening the economic recovery in Europe, and because of its close economic ties with Europe, are also affecting demand for Swiss products. Local firms are nevertheless experiencing organic growth. In the current environment of persistently low interest rates, Swiss equities are popular with an attractive dividend yield of 3.4% on average. We favour **Roche** and **Nestlé**, which are also broadly diversified internationally. (robol)

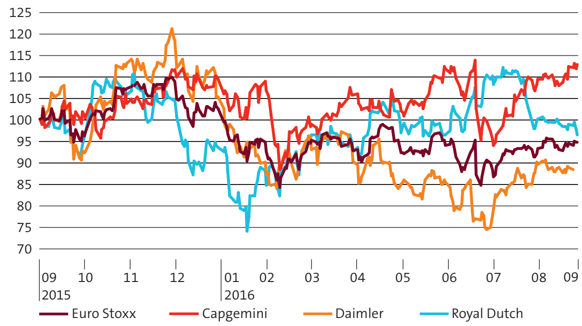
SMI



EUROPEAN EQUITIES

At first glance, the European stock exchanges disappoint in a regional performance comparison. But investors have no reason to complain. As was widely expected, the ECB under Mario Draghi prevented a serious crash with interest rate cuts and expansive quantitative easing (QE) programmes. Europe has been stuck in a rut for many years, both politically and economically. This results in limited upside potential. The equity focus falls on well-capitalised global companies: **Capgemini**, **Daimler** and **Royal Dutch**. (jub)

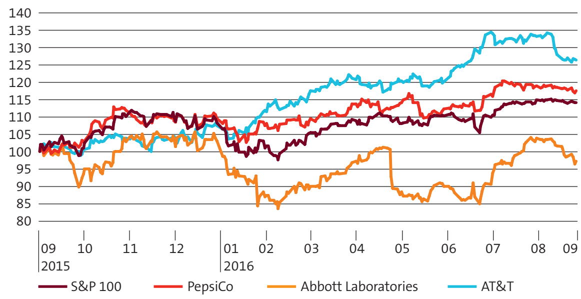
Euro Stoxx 50



US EQUITIES

The overall impression of the US economy is strong, but signs of diminishing productivity are causing furrowed brows. So is the paragon of virtue not doing quite so well? A look at the US stock markets gives the lie to this train of thought: all-time highs have been exceeded. Are investors (too) carefree? The Fed’s interest rate hike which is poised over the markets like the sword of Damocles and high stock prices make for an unhealthy combination that contradicts higher valuations in the long term. This supports a defensive portfolio approach. Suitable stocks include **PepsiCo**, **Abbott Laboratories** and **AT&T**. (jb)

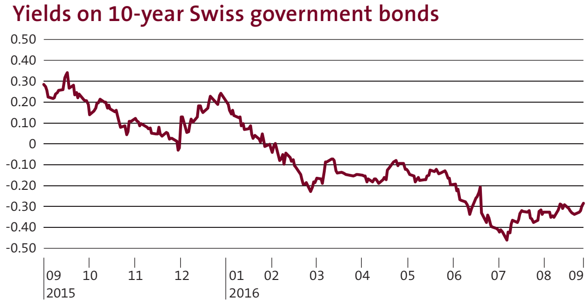
S&P 100



BONDS

Swiss interest rates rose slightly in the third quarter, particularly at the short end of the yield curve, which further flattened the overall interest rate curve. Brexit added short-term volatility to the interest rate markets, but the impact was short-lived. Rising core inflation in the eurozone and the continued economic recovery in the United States could lead to higher interest rates in the medium term. We believe that the trend towards ever longer maturities and ever lower coupons for bonds is risky, and advise bond investors to consider applying active duration management and hedging part of the interest rate risk in their portfolios. (muc)

Yields on 10-year Swiss government bonds



The Column

with Reto Bornhauser, Relationship Manager Key Clients

Desperately seeking successors – Generation Y are not interested

DEAR READER

One would think that sons and daughters would love to take over the family business from their parents, particularly as this seems to be the easiest way to become a managing director or business owner.

Succession within the family is also the preferred option when it comes to company transfers. Entrepreneurs would like to hand over their business to their children. Their life's work does not end up in the hands of a stranger, continuity is guaranteed, their children have a future and there is no need to look for an external successor – a process that can be rather frustrating. Transferring the business to the employees (a management buyout) could also be an option here. The third option is the sale to another company and/or a private equity company.

The Generation Y now prefer to do their own thing.

But it is succession plans that focus on family outsiders (MBO or sale) that have gained in importance in the past few years. The self-assured Generation Y, i.e. young people born between 1980 and 1998, want to do their own thing. Most students who come from a family with its own business have very little interest in taking over the company, as was confirmed by a study carried out by the University of St. Gallen ("Coming Home or Breaking Free", 2016). Only 0.9% of Swiss students whose parents manage a family business want to join the management team directly after university.

The reasons can be found in social change. Compared to their predecessors in Generation X, today's young people attach much more importance to the personal development of the individual than to financial incentives. This is not because the younger generation lacks entrepreneurial drive or interest. On the contrary, the study shows that children from families successful in business do wish to become actively engaged, but not necessarily in their parents' company.

A fateful turn of events for Swiss family companies, but also for the Swiss economy as a whole – currently, 75% of Switzerland's more than 300,000 companies are family companies that employ more than 60% of the total workforce. And the number of entrepreneurs who are approaching retirement age is also growing. According to the latest study by the University of St. Gallen and Credit Suisse on company succession ("The challenge of generation change", 2016), more than half of SME chief executives today are aged between 50 and 65 and are due to retire soon. They belong to the baby boomer generation, while their successors belong to generations with lower birth rates.

So if, on the one hand, Generation Y now prefer to do their own thing and these age groups grow substantially more slowly, but on the other hand every fifth SME is planning a succession within the next five years, the challenge of finding successors is growing, not only for company owners but for all of us.

When I look at the latest figures and see that more than 400,000 jobs will be handed over to the next generation by 2021, which is equivalent to around 10% of all employees in Switzerland, it seems to me even more important to remind young people of the value of companies with a long tradition and explain to them that they can also grow in an established company and contribute their start-up spirit to the family business. Not only for the sake of the individual companies, but also for the entire Swiss economy.

Business owners are well advised to start the succession process as early as possible.

As a business owner, you should therefore start motivating your children to take over the company and prepare them for their new role at an early stage. Also keep your eye on the alternatives. There is no one-size-fits-all solution. Business owners must choose the path that is best for them, their family and their company, whether this is within the family or external succession planning.

However, you are well advised to start the succession process as early as possible. It is often difficult to find an external successor and financing is also a hurdle that should not be underestimated. Request an appointment with your bank at the very start of the process, clarify the documentation that you need and examine the different options carefully.

The column reflects the personal opinion of the author.

Reto Bornhauser is a Relationship Manager at Banque CIC (Suisse) and has been supporting entrepreneurs and companies in Switzerland for more than 25 years in all the development phases of their complex financial plans, from foundation through expansion to succession.

In Brief

Overview of topical themes

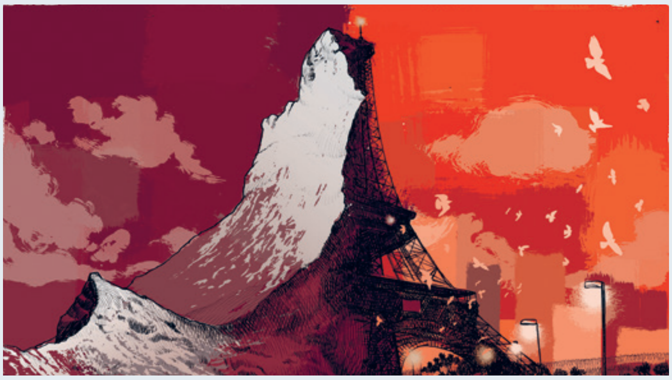
Battery boom – energy storage is the key to our future

Electric cars, e-bikes, drones and household solar plants are driving the demand for batteries. The energy revolution and growing digitisation are increasing the need to store electricity. Researchers are working intensively to find new technologies that make it possible to store energy for longer. The battery market is growing very fast, and battery technology has seen enormous changes. Is this the new global megatrend? If so, it is also a very interesting field for investors: www.cic.ch/batterie-boom. (jub) (mch)

Silver is undervalued

Precious metals such as silver and gold have trended extremely positively in 2016. It is interesting that for a long time silver trended less positively than gold, whereas now it shows great potential of outstripping gold. A historical comparison shows: The relationship between the price of silver and gold has seldom been as low in the past few years as it is currently, which means that silver is now around 70 times cheaper than gold. We anticipate that the gap between the prices for both precious metals will narrow once again in the future. Thus investing in silver offers an interesting opportunity at the moment, in particular as an alternative to gold. (muc)

Stress test 2016: Crédit Mutuel retains leading position



Solid as a rock, Crédit Mutuel has been rated by the European Banking Authority (EBA) as one of Europe's ten most secure banks in its 2016 stress test. Even assuming a dramatic economic slump, Crédit Mutuel has a healthy equity ratio (Common Equity Tier One CET1) of 13.54%, which is well above the ratio of 5.5% required by the ECB. This positive result once again showcases the financial strength and solidity of the banking group, which also includes Banque CIC (Suisse). More at www.cic.ch/stresstest.

Current interest rates in CHF

(as at 01.10.2016)

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.
Current conditions and rates of interest can also be found at www.cic.ch.

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