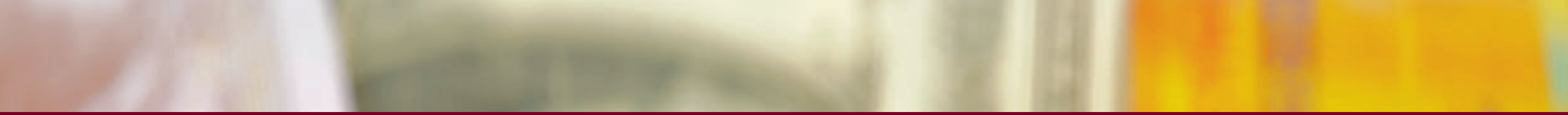

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perspectives

04/2017 QUARTERLY MARKET OUTLOOK

CIC BANQUE CIC |SUISSE|

DEAR READER

Euro OK – everything OK?
Since the euro has significantly exceeded all expectations this year – not just against the US dollar, but against the Swiss franc and most other major currencies too – those who are forever predicting its demise have been forced to put their hopes for a speedy end to the single European currency on hold to a certain extent. Is the euro's new-found strength due to a substantial improvement in the situation in Europe? Or is it more down to the partly self-induced problems going on in the countries using the other currencies? After all, President Trump with his "fake news" has not exactly done much to boost confidence in the US dollar as a global reserve currency. A weaker dollar actually seems to be playing into the president's hands in terms of his efforts to stimulate US exports. On the other hand, the British pound is still suffering due to the lack of clarity surrounding the long-term impact of the UK's exit from the European Union. And last but not least, our currency guardians are capitalising on the current uncertainties and continuing their opportunistic efforts to promote a further weakening of the Swiss franc. A stronger euro could cause the recovery of the heavily export-oriented European economy to falter. Given that the problems in Europe are nowhere near being solved, it is debatable whether the stronger euro will do the continent any good.

Mario Geniale, Chief Investment Officer

Economic perspectives

The eurozone economy is continuing on its upward rise. In addition to solid growth in Germany and improved prospects in France, countries such as Spain, Portugal and Ireland have also finally seen some encouraging development. Early economic indicators point to a high level of commercial activity, while consumer confidence – a key indicator of development in private consumption – has shown positive progress over the past few months. Only inflation is still falling short of the mark, remaining below the target set by the European Central Bank (ECB) of just under 2%. Nevertheless, the messages being received from the ECB suggest that an adjustment of monetary policy is in the offing, albeit a cautious one.

Europe's economy enjoying the summer

There is a clear trend on the currency markets, with the euro appreciating sharply against the US dollar in recent months. There are many reasons for this: aside from the easing of political tensions following the French elections, the pleasing economic development in the first half of the year and the positive signs continuing to come from various economic indicators, growing scepticism towards the US government and doubts surrounding the practicability of Donald Trump's political objectives are also likely to have had an impact on the EUR/USD exchange rate.

While the strong euro will probably tend to hamper export growth for the eurozone in the second half of the year, Swiss foreign trade may well benefit from the weaker Swiss franc and the eurozone's economic recovery. We expect economic growth in Switzerland to reach 1.5% in the current year.

In summary, the political risks in Europe have diminished, but the major structural problems affecting the currency union and its member states remain unresolved. If these problems continue to be swept under the carpet, it could take a while yet for the positive momentum to gather pace. (muc)

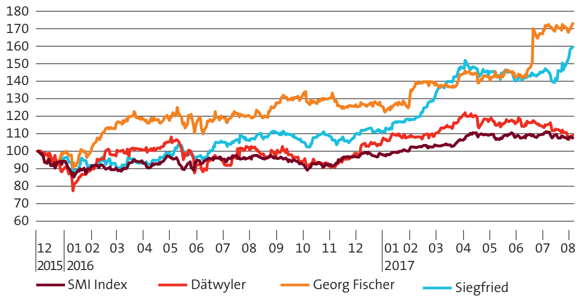
The Markets
“Gains lead to more gains”

“Trumponomics” – President Trump’s economic agenda – continue to show no sign of making headway. On a political level, too, the president’s attacks at home and abroad are doing little to help build trust. Yet in spite of this, equities across the world are still riding high. The ECB and the Bank of Japan (BoJ) have created a safety net with their doggedly pursued low interest rate policy. The US Fed, too, has been keeping investors in their comfort zone by deferring interest rate hikes. This has put the global economy back on course for growth, caused corporate earnings to skyrocket and kept the takeover carousel turning. However, the necessary structural adjustments and efforts to reduce the mountain of debt are still being held up. The French saying “La hausse amène la hausse!” (“Gains lead to more gains”) still holds true – but watch out if Draghi and Yellen leave the party! (jub)

SWISS EQUITIES

The euro has appreciated significantly in the past few months and is the strongest it has ever been compared to the Swiss franc since the minimum exchange rate was scrapped in January 2015. The relative weakness of the Swiss franc should have a positive effect on profits for Swiss businesses. Small and medium-sized enterprises with a large proportion of exports to the eurozone particularly stand to benefit from a stronger single European currency. Another factor worth mentioning is Switzerland’s solid Swiss foreign trade figures, which recently hit a new record high. This is benefitting export-oriented companies such as **Dätwyler**, **Georg Fischer** and **Siegfried**. (robol)

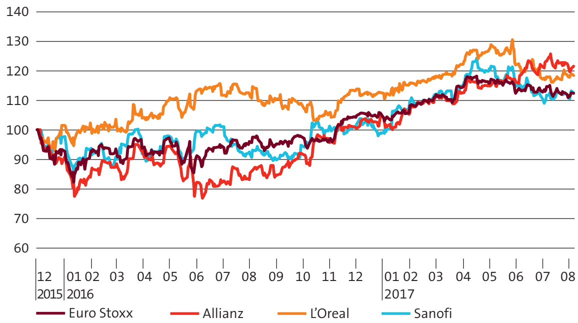
SMI



EUROPEAN EQUITIES

At first glance, everything seems to be going very smoothly in Europe, especially since concerns about a breakup of the eurozone ahead of upcoming elections have dissipated and the economy is, generally speaking, on an upward trajectory for the first time in a long while. A more in-depth analysis, however, reveals that there are cracks in the surface. Emmanuel Macron is already bogged down in a backlog of reforms, the Brexit negotiations appear to be descending into trench warfare and the national structural reforms called for by Mario Draghi are being put on the back burner. The ultra-expansive monetary policy has become largely ineffective and there is no sensible exit strategy in place. We are therefore anticipating some autumnal storms on the European stock exchanges and have taken a defensive approach to our stock selection, opting for **Allianz**, **L’Oreal** and **Sanofi**. (jub)

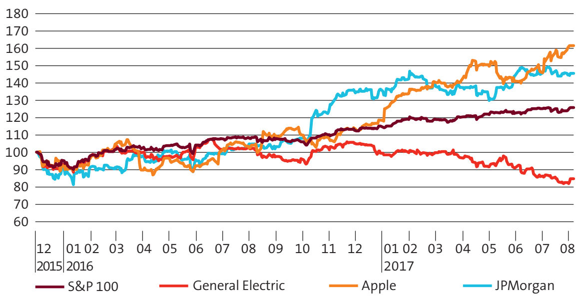
Euro Stoxx 50



US EQUITIES

Things are continuing to hum along nicely for the American corporate groups on the S&P 500 Index. In the second quarter, for instance, they once again achieved double-digit profit growth at around 11%. However, the earnings momentum does not seem to be moving beyond this level. Although most of the fundamental data shows solid growth, the question is how much longer will this last? Has the US equity market reached its peak? The debate surrounding the debt limit, outstanding reforms, upcoming interest rate hikes and various other factors could swiftly tip the balance in terms of investor sentiment. Under these circumstances, high-quality stocks such as **General Electric**, **Apple** and **JPMorgan** count for a lot. (jb)

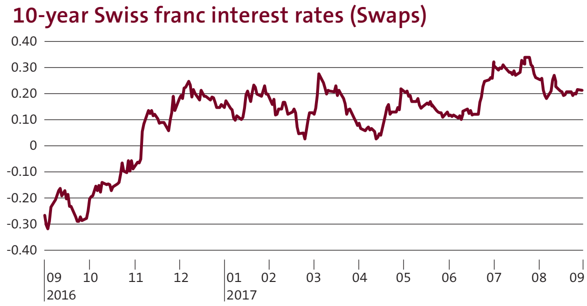
S&P 100



BONDS

The bond markets picked up again in the third quarter. The recent resurgence in demand was triggered by the rows surrounding Donald Trump and Kim Jong Un. The uncertainty this created made bonds once again seem like a safe haven. We believe that bond investors will shift their focus back towards the central banks in the autumn. While the ECB will continue trying to prepare the markets for a reduction in the current programme, the Fed will be faced with the task of cutting back the USD 4.5 billion balance sheet without upsetting the markets. We recommend reducing interest rate risk, taking care not to lose sight of credit risk in the process. (cal)

10-year Swiss franc interest rates (Swaps)



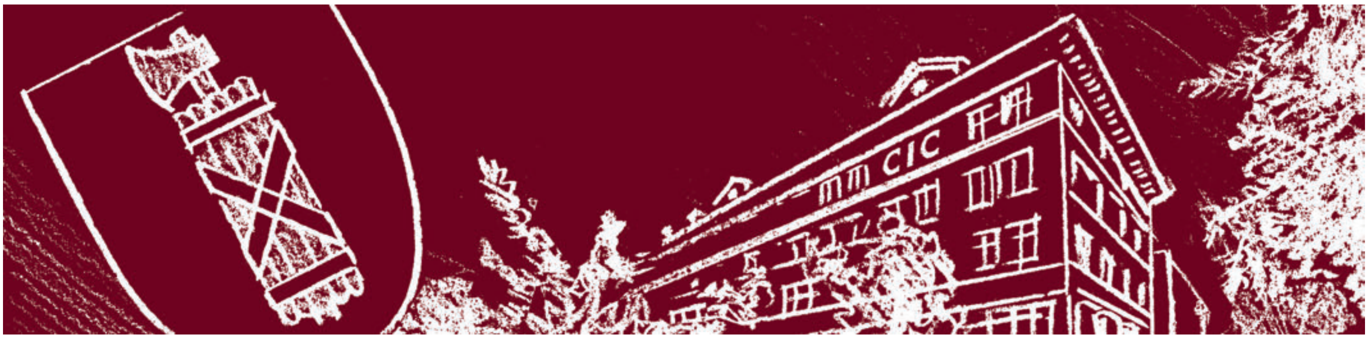
The Column

by Franz Osterwalder, Head of Branch St. Gallen

Silent witnesses

DEAR READER

If you happen to stop on the corner between Poststrasse and Hintere Schützengasse in St. Gallen and take a moment to glance upwards, you will see the name Ed. Sturzenegger emblazoned in upper case lettering



along the façade above you. The "Ed." stands for Eduard, founder of the long-established locally based textile business Ed. Sturzenegger AG, who steered his company to international success with its exquisite gowns and Appenzell-style hand embroidery. He also supported hard-pressed embroiderers in Eastern Switzerland and gave the city of St. Gallen an art collection featuring some prestigious works. I imagine that those letters have been hanging on that façade since the early 1920s, since it was around this time that the fashion house moved into these premises. They bear witness to a splendid century-long tradition of working with textiles, to a sense of character and to an entrepreneurial spirit rooted in St. Gallen. I am fascinated by this and find myself gazing up in awe.

We recently moved into the third floor of this building, which is steeped in history and suits our character perfectly. Banque CIC (Suisse) can trace its roots back to the Franco-Prussian War over 140 years ago. At the time we were a newly established institution, lending our support to businesses in Alsace after every other bank had pulled out of that market. This helped make us what we are today. We are still bucking the trend in the banking world towards consolidation and concentration. We are continuing to grow, honing our expertise in the areas that meet our clients' requirements and stepping in where we think we can offer clear added value. On 1 September 2017, we opened our ninth branch in St. Gallen.

We see a great deal of potential in Eastern Switzerland. St. Gallen offers an excellent quality of life and, as a lively business centre, it has attracted highly specialised and innovative SMEs in particular. We offer an interesting alternative specifically geared towards both them and discerning private clients. We are also keen for clients in Eastern Switzerland to enjoy easier and more direct access to our services. We believe in the importance of personal contact and interaction and are happy to sit down with our clients and find the best solution together. Bearing in mind the fact that our advisory services encompass both private and commercial finances and span all phases of life or the entire business life cycle, we always cultivate a very close relationship with our clients. Being close at hand helps us with this.

> "Never change a winning team"

We are starting out in St. Gallen with an established team of staff who are familiar with the local area and work well together. As they say, you should never change a winning team. I am therefore very pleased to be joined here at CIC by investment specialist Markus Blaser, private banker Christoph Zürcher and assistant Laila Hertli. I have worked closely with them in Premium Banking at Migros Bank and between us we have cultivated a network based on long-standing partnerships and deep relationships. We are now keen to build on this together.

Banque CIC (Suisse) won me over with its unique business model as a private bank amongst the universal banks. Here the emphasis is on keeping in close proximity to clients, catering completely to their requirements and following a genuinely entrepreneurial approach. Within these walls in St. Gallen – these silent witnesses to the past, undoubtedly imbued with the spirit of entrepreneurship – we will continue to grow and provide a proven alternative for our discerning clients in Eastern Switzerland. We recognise the potential of our region. So now let's show you what we have to offer.

The column reflects the personal opinion of the author.

As head of the St. Gallen branch, Franz Osterwalder is responsible for the financial affairs of companies, entrepreneurs and private individuals in Eastern Switzerland. He has been working in various managerial roles in the financial industry since 1999 and holds an Executive Master's degree in Financial Planning and Consulting from FHS St. Gallen University of Applied Sciences.

In Brief

Overview of topical themes

Selection of retirement funds with **75% equity component**

Harmonising Swiss payments

The way payments are transacted in Switzerland is to be harmonised by the end of 2020, bringing them into line with the new international standard ISO 20022. This project is geared towards standardising and simplifying payment processes, which will primarily affect companies. The DTA standard for electronic payment instructions is set to be replaced by the new XML format in mid-2018. The new QR invoice is also being brought in from 2019 onwards to replace the current payment slips and mandatory IBAN usage will be introduced by 2020. Make sure you check with your IT partners in good time to see what technical modifications will be needed to transfer data using the new formats for payment transactions. We have summarised all the important information for you at at www.cic.ch/harmonisation-pt. (sam)

Looking forward to your retirement?

In Switzerland, 43% of people say that they have never looked into investment savings plans before. It is therefore high time they paid a visit to www.wertschriftensparen.ch. Here, in just three minutes, you can find out why an investment savings plan could be a worthwhile option for you too and what you need to bear in mind. After all, interest rates are still low, which means the outlook for yields in pillar 3a assets is modest, especially if the entire pension assets are held in one account. We would advise pension account holders to invest part of their assets in retirement funds once pension assets of CHF 10,000 have been saved and to invest part of the annual 3a deposits as follow-up investments in retirement funds. We can help you to find the right retirement fund at www.wertschriftensparen.ch. We have done our bit to put you on the right path to retirement, now it's your turn. (krs)

Banque CIC (Suisse) is expanding

In September 2017, Banque CIC (Suisse) opened its ninth branch in St. Gallen. For years we have been expanding our reach across Switzerland and we are delighted that we now have this opportunity to continue on our path of growth in the economically active and attractive region of Eastern Switzerland. We have also stepped up our operations in Zurich and Lugano and moved into larger premises in September. In addition to this geographical growth, we are constantly developing our product range, including offering a variety of specialist services in areas such as corporate finance, private equity and factoring. Visit us at www.cic.ch.

Current interest rates in CHF

(as at 01.10.2017)

For savings and pensions	**Private clients**	**Business clients**
Savings account	0.200%	no offer
Investment account	0.150%	0.050%
3a retirement account	0.550%	no offer
Vested benefits account	0.250%	no offer
For day-to-day use		
Private account	0.030%	no offer
Current account	no offer	0.000%

Savings account/3a retirement account: offer for clients domiciled in Switzerland. Current conditions and rates of interest can also be found at www.cic.ch.

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