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perspectives

02/2018 QUARTERLY MARKET OUTLOOK

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DEAR READER

Post-honeymoon blues

The 2018 stock exchange year kicked off with price markdowns and a rise in volatility on the stock markets unlike anything we have seen since Donald Trump won the US presidential election in November 2016. As he started to deliver on his promises, the King of Twitter essentially declared the honeymoon with investors over.

On the one hand, financing the shortfalls for the long-awaited tax reform for US companies has been causing headaches for investors, since ultimately it will probably be down to the common taxpayer and the government to foot the bill for the fall in tax revenue by increasing debt. This last concern is probably reflected in higher long-term interest rates, which have made future investments more expensive for businesses and driven current equity valuations downwards.

On the other hand, by introducing protective tariffs for aluminium and steel, President Trump has not only honoured an electoral promise, but also prompted his trading partners to announce potential counter-measures. The initial euphoria in the wake of Trump's election has given way to a tangible sense of disillusionment. Let us hope that the US's erratic and narcissistic leader will not see out his relationship with the markets with a hangover.

Mario Geniale, Chief Investment Officer

Economic perspectives

Interest rates all over the world rose sharply in the first few weeks of the New Year. However, this upward trend actually began back in late 2017. Various key factors have contributed to this, including sound economic data, increased inflation expectations and the fact that the expansive monetary policy pursued by the major central banks is beginning to show signs of a slow decline.

Inflation looming?

The correlation between the performance of bonds and equities is not always the same. Until recently, gains on bonds could be relied upon to cushion the impact of price losses on equities. In early February 2018, however, both asset classes suffered losses at the same time. This was triggered by a sharper than expected rise in salaries in the US, which could lead to an even greater increase in inflation. The fear is that this could force the central banks to press ahead with normalising their expansive monetary policy sooner than planned.

Rising inflation is not necessarily a bad thing per se, however. In the current economic environment, higher inflation expectations tend to reinforce a positive outlook for economic development. A far greater danger would be an unexpectedly sharp hike in inflation, as this could prompt a rapid redistribution of assets, with investors turning to tangible assets.

At the moment, however, we are not anticipating such a scenario. Although, in principle, we are expecting consumer prices to pick up, the increasingly efficient economy (thanks in part to advances in technology) – which is also more globalised and interconnected than ever – should help keep prices down. This will curb the increase in inflation. (muc)

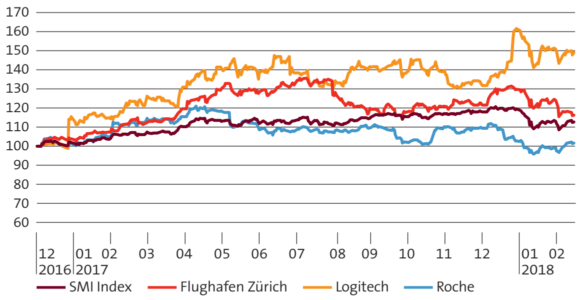
The Markets
"Better to be safe than sorry"

Tensions are rising and investors' nerves are building. The sudden and intense spell of weakness on the stock markets in early February struck a blow to the long-standing bulls of the stock exchange. Fears of inflation and a steep rise in interest rates are a market operator's worst nightmare. Unsurprisingly, the World Bank and leading central banks have countered this with optimistic economic forecasts and reassuring statements. In other words, the general climate on the financial markets is still largely dictated by the central banks and their future interest rate and monetary policies. In light of this, all managers need to bear in mind that it is better to be safe than sorry. (jub)

SWISS EQUITIES

The brighter overall picture in the global economy and the weakening Swiss franc are continuing to boost demand for Swiss goods and services. Local companies are therefore feeling confident and are planning to increase their investment activities by around 8% this year. In addition to strong sales and profit growth, an attractive dividend yield is making Swiss equities an appealing prospect. However, their valuations are significantly higher than the long-term average. With this in mind, we prefer moderately valued, top-quality equities such as **Flughafen Zürich**, **Logitech** and **Roche.** (robol)

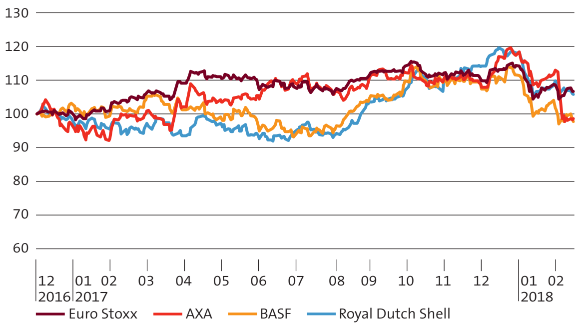
SMI



EUROPEAN EQUITIES

The economy in Europe is humming along nicely, corporate profits are on the up and the ECB is continuing to pump liquidity into the real economy via the financial markets. However, the effectiveness of this massive influx of money is steadily dwindling, slowing down the long-needed restructuring measures of a number of member states in the process. Nevertheless, investors are ignoring the various state problems and political stalemates and are placing their bets on the ECB's expansive monetary policy carrying on indefinitely. We are sticking with our cautious assessment of the market and favouring heavily capitalised global companies such as **AXA**, **BASF** and **Royal Dutch Shell.** (jub)

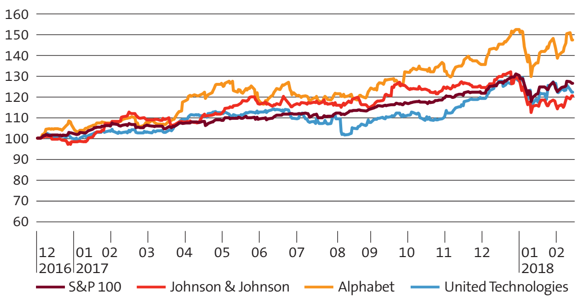
Euro Stoxx 50



US EQUITIES

The American economy is firing on all cylinders: the US tax reform in particular seems to be helping to speed up earnings growth. Earnings are expected to increase by an incredible +20.9% in 2018, with an impressive rise of +10.4% having already been achieved in 2017. So far, so good. In late January, however, the fireworks on the US stock exchanges lost some of their sparkle. So is that it? Is the loss of trust amongst investors due to the punitive tariffs announced by President Trump intensifying even further? Or can the sound fundamentals lift investor sentiment again? Under these circumstances, caution is advised. We recommend sticking with tried-and-tested blue chips in the portfolio, such as **Johnson & Johnson**, **Alphabet** and **United Technologies.** (jb)

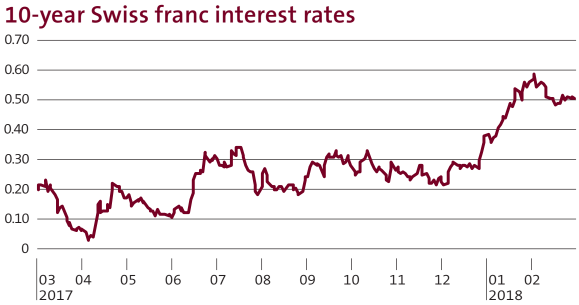
S&P 100



BONDS

Swiss interest rates have risen since the start of the year. The 10-year interest rates jumped from 0.25% to over 0.55%. The same happened in Europe and the US. Interest rates in the eurozone increased from 0.90% to 1.15%, while in the US they even climbed as far as 2.90% or over. This went hand in hand with a rise in consumer prices, sound economic data and increasingly vigorous efforts on the part of the central banks to reduce their expansive monetary policy. We are expecting the ECB to stop buying bonds at the end of 2018 and the Fed to raise interest rates three times over the course of the year. We have also taken advantage of the increase in interest rates at the beginning of this year to buy cheap bonds. In the medium and long term, we are maintaining a cautious approach for bonds, as we are anticipating a steeper interest rate curve as the year progresses. (cal)

10-year Swiss franc interest rates



The Column

Markus Allemann, Head of Special Projects

The great mystery: who are the most powerful of them all?

DEAR READER

Figures like Putin, Kim Jong-un, Erdogan, Trump, Orbán, Merkel, Macron and Berlusconi are the kind of people everyone talks about. They make the headlines every day, are constantly in the media and invariably take advantage of social media too. One thing they all have in common is how they use this channel to demonstrate and reinforce their own power. These people quite often see themselves as more important than they actually are for the world in general and present themselves as such. However, that is up to their own "subjects" – the people who vote for them – to decide, so we prefer to concentrate on self-analysis and self-criticism. Let's start in our own back yard.
What is the situation in Switzerland in terms of who holds the power? Who rules our country and how are they accepted and/or admired by the general public?

Let's start with CC, the number 200 written in Roman numerals – or the initials of Claudia Cardinale, who also comes from Rome. Switzerland's CC, however, is someone else: an architect with a substantial ego and a hefty kick! He is actually rather a bête noire for any football coach, yet he always manages to attract willing new candidates. His chancing of claiming the throne in Switzerland are rather slim – too many false steps!

PV, as in "procès-verbal", meaning "record" in English. Who do these initials belong to? Once praised and worshipped by bankers on all fronts almost like a guru, he now finds himself in a tricky position with little sign of turning it around (that's probably on record too – a criminal record). He has fallen off his throne and his reputation has gone down the toilet – one with no lid or rim.

CB, as in the French payment system "Carte bleue". He has money and sees power as his natural calling: now it is time for his daughter, unintentionally but also answering a call, to embark on the path to the highest position of power in Switzerland. As for his chances of seizing the throne, he has already been there and was deposed.

RF, like football manager Rolf Fringer. He isn't the RF we're talking about here though – the one we have in mind is a global superstar, known by everyone. Number one at every level. Father of two sets of twins to follow in his and his wife's footsteps! He is arguably the top candidate for Switzerland's crown.

SE, the symbol for the chemical element selenium. There is also a kind of chemistry – something mystical – about the songs of our next contender. They have a certain "je ne sais quoi", or as he would put it in Swiss German: he "weiss nid, was äs isch"! He is a German speaker who has achieved international success primarily in French. We would put his chances of acceding to the throne at 50%, with a bit of help from the French-speaking population!

MG, like the British sports car brand. This man has all the strength and drive of a car like a vintage MG. But he has something more too: he has luck on his side, yet he is the only acknowledged king in Switzerland – albeit the "king" of Swiss wrestling. He is still a reigning champion, so his crown is safe for now – but watch out for risks of falling!

EK, as in "Eigenkapital", or "equity" in English. After all, this woman is a known quantity – the daughter of a former Vice Chairman of the Swiss National Bank. She was once highly regarded and greatly respected by the people of Switzerland. Unfortunately, she gambled away everything she was worth in a phone call and had to give up her claim to the throne immediately. As for her chances of reclaiming it, there is no sign of any comeback.

CIC, as in "culpa in contrahendo". This acronym comes from Roman legal doctrine and is associated with the duty to act in good faith. Banque CIC (Suisse) operates precisely with this in mind and has no claims to power or to any throne. Its aim is to establish itself as Switzerland's most popular bank based on its efficiency, quality, conviction and acumen. Banque CIC (Suisse) would happily welcome all of the candidates mentioned above into its realm as customers, along with anyone else looking for the same service.

We are doing things the Swiss way: while Banque CIC (Suisse) may claim the banking crown, the throne is left for candidates like Christian Constantin, Pierin Vincenz, Christoph Blocher, Roger Federer, Stephan Eicher, Matthias Glarner, Elisabeth Kopp and any others.

Markus Allemann is Head of Special Projects at Head Office in Basel.

The column reflects the personal opinion of the author.

In Brief

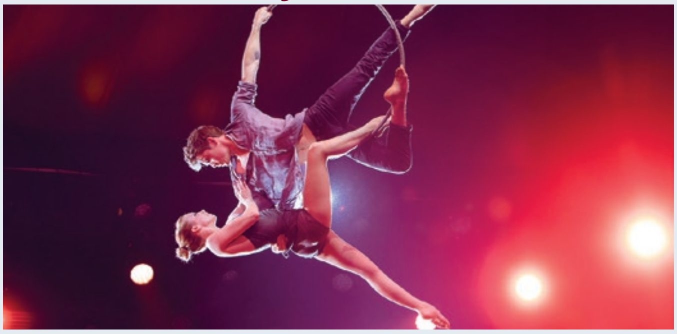
In vino veritas

In recent years, the term "alternative investments" has broadened in scope so that today it even covers investments in wine. Standards for such investments have now also been established on the market. Investors therefore have an alternative option to physically buying bottles or barrels. Companies such as the Wine Source Group have started offering AIFMD-compliant funds that enable investors of all sizes to benefit from price developments on the wine market. According to the Credit Suisse Global Investment Returns Yearbook, the average return on an investment in wine has been almost 4% per year since 1900. In comparison, returns on global equities were a little higher than 5%, while returns on global bonds were around 2%. Cheers! (paudi)

A new look for Banque CIC (Suisse)

In mid-April, we will be unveiling our brand new look. Our updated image epitomises the growth strategy of our bank. It clearly demonstrates what we stand for and what sets us apart. The logo and name have only been slightly modified, but the design and website have been completely revamped. The new look will be available for all to see from 17 April 2018. Visit us at www.cic.ch.

YOUNG STAGE celebrates 10th anniversary



The International Circus Festival YOUNG STAGE Basel will be taking place for the tenth time from 11 to 15 May 2018. Under the slogan "Basel goes Circus", the festival will be celebrating its tenth anniversary with a programme of spectacular outdoor performances in Basel's city centre on Saturday, 12 May and Sunday, 13 May, 2018. Banque CIC (Suisse) will be supporting the anniversary activities this year and will once again be acting as the festival's Presenting Partner. We are looking forward to enjoying a wide-ranging programme. There will be 25 artists taking part in the festival, including one from Switzerland: Gianna Sutterlet from Yverdon will be showcasing her skills on the teeterboard as part of a trio. Find out more about our involvement at www.cic.ch/youngstage.

Current interest rates in CHF

(as at 01.04.2018)

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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