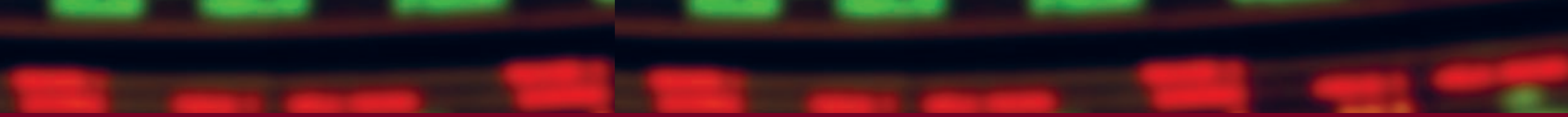


**IMPRINT**
Editor: Bank CIC (Switzerland) Ltd.,
Marketing and communication,
Marktplatz 11-13, P.O. Box 216,
4001 Basel, Switzerland, T 0800 242 124
Authors: René Bachmann (rb), John James Bayer (jb),
Jürg Bützer (jub), Luca Carrozzo (cal), Carole Freléchoux (frc),
Mario Geniale (mge), Yves Grütter (gruve),
Christian Meier (mch), Robert Olloz (robol)
Editorial deadline: 16.09.2015

# perspectives

**04/2015** QUARTERLY MARKET OUTLOOK

CIC BANQUE CIC |SUISSE|

**DEAR READER**

**Shaky hands**

In the past few weeks, equity market volatility has risen to its highest level since the last great euro crisis in 2011. This time, however, it was not caused by the weakness of the euro, but by a sharp downturn in the Chinese equity market. The Chinese equity market, boosted by incentives by the Chinese government, investor flight from the exorbitant real estate market and the purchase of equities on credit, has previously seen exponential growth. As a result, many inexperienced investors – known as "shaky hands" – who had never before experienced an environment of falling prices, were playing in the equity market. When the correction finally came, the need for these investors to sell their equities bought on tick in order to cover their outstanding loans accelerated the price slump. If one compares the development of the Chinese lead equity index with that of the Dow Jones in 1929, one cannot help but be reminded of the bursting of the stock market bubble in 1929, which was followed by the Great Depression.

Some investors are even dabbling in the established equity markets, simply because of a lack of opportunities for returns in the other asset classes. These investors, most of them also "shaky hands", could also liquidate their holdings if the markets should be rattled further.

Mario Geniale, Chief Investment Officer

# Economic perspectives

In spite of growing concerns about the economy of China and other emerging markets, expectations for global economic growth of 3.0% for this year and 3.5% for next year remain intact. The central banks' monetary policies are shaped, however, by regional differences.
While the central banks in most industrialised countries follow an expansionary policy, the US Fed is moving gradually towards a first cautious interest rate increase thanks to the growing economy and stable employment figures in the US. This is supported by the second-quarter upswing in the US economy of 3.7% compared to the previous quarter and the monthly labour market improvement of around 200,000 jobs.

## Global economic growth remains intact in spite of concerns about the emerging markets

The eurozone's economy is recovering slowly, albeit at a varying pace. While Spain and Germany were the most important drivers of growth for the euro countries with quarter-on-quarter growth rates of 1.0% and 0.4% respectively, Italy disappointed with a slight plus of 0.2% and economic activity in France stagnated. The monetary measures by the European Central Bank are strong enough, however, to generate noticeable growth in the coming quarters.
The Swiss economy remains burdened by the strong franc, but the first shock wave following the scrapping of the euro floor is clearly losing momentum and real GDP has increased by 0.2%. Growth was supported by private household consumption, state expenditures and investments. (robol)

# The Markets

## “Investors have to prepare themselves for a stormy autumn”

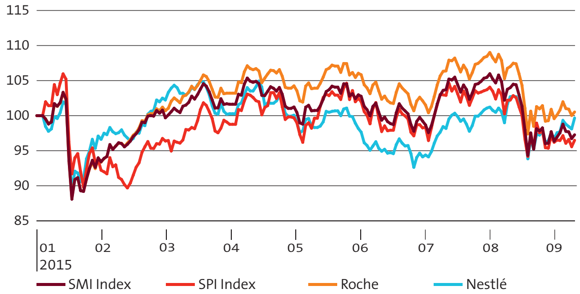
Follow us on Twitter @BanqueCIC twitter

**In 2015, three topics influence(d) the mood of investors and thus the direction of the equity markets: Greece, China and the strategy of the US Fed. After the “Grexit spectre” was banished in Europe, the “crouching Chinese dragon” abruptly spoilt the good mood again. Not without good reason. Chinese economic growth is continuing to slow down, leaving the local equity market in turmoil. And what does the Fed do? Given the rise in currency turbulence, the US Fed has further delayed the oft-announced implementation of a more restrictive monetary policy. In any case, investors have to prepare themselves for a volatile and stormy autumn on the equity markets. (jub)**

### SWISS EQUITIES

The Swiss equity market was very volatile in the past few months, both for large caps and for SMEs. Mostly disappointing economic data from China and falling Asian equity markets caused a number of price slumps. We are generally taking a neutral position to Swiss companies because, while they are benefitting from a stronger US dollar, they are also suffering from a weak euro. On the other hand, Swiss companies are receiving positive support from the slowly improving European economy. We mostly prefer large companies with healthy balance sheets and attractive dividend yields (>3.0%), such as **Nestlé** or **Roche**. (mch)

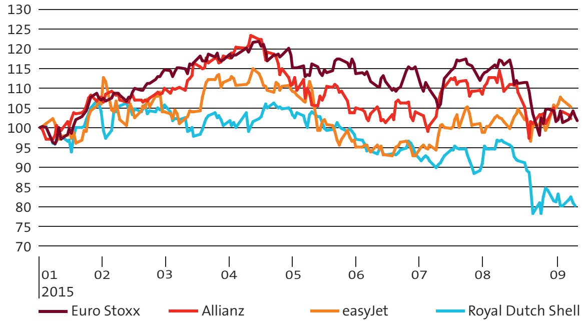
SMI




### EUROPEAN EQUITIES

Following a brilliant start to 2015, the fireworks on Europe’s exchanges have almost died down. Although the eurozone economy is slowly improving and Greece was “saved” (for now) at the last minute, the spell of weakness in China – an important European trading partner – will have a negative impact on corporate figures. Even though it is true that equity securities remain relatively attractive in the current low interest rate environment, upside potential is limited in the face of latent political and economic problems. Our stock selection focuses on financially sound corporations such as **Allianz**, **easyJet** and **Royal Dutch Shell**. (jub)

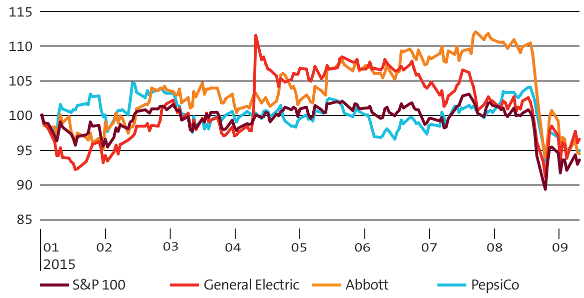
Euro Stoxx 50




### US EQUITIES

The US economy is going in the right direction. Even though all signs are pointing towards growth, the strengthening US dollar and low oil price have the effect of a half-engaged handbrake. The US Fed would like to announce the first interest rate hike, but is currently waiting out the downturn in the emerging markets led by China. Although the bull run on the main S&P 500, Dow Jones and Nasdaq indices has been ongoing for almost three years, shares are not expensive compared to actual and expected corporate gains, but they are also not cheap. We continue to prefer tried-and-tested shares and recommend **General Electric**, **Abbott** and **PepsiCo**. (jb)

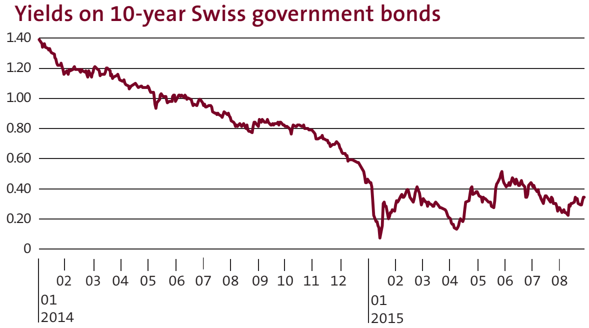
S&P 100




### BONDS

Following the strong increase in interest rates in the first half of the year, interest rates trended downwards in the third quarter. Yields on the broad Swiss bond market dropped from 0.50% to less than 0.25% at times. In spite of the strong turbulence on the equity markets, bonds – usually seen as a safe harbour – did not perform better than average. We see this as proof that bonds at current yield levels are too expensive. We remain positive about bonds with a higher credit risk, as these also perform well in an environment of rising interest rates. We are also keeping an eye on the expected inflation in the eurozone and are ready to exploit the opportunities offered by **inflation-linked bonds**. (cal)

Yields on 10-year Swiss government bonds



# The Column

with Yves Grütter, location manager Basel

## Via the Way of St. James to Banque CIC (Suisse)

**DEAR READER**

After 20 years with the same employer – interesting years during which I learnt a lot – I felt by the end of 2014 that the time had come to try something new. Over the years I had built up a structure that I liked, and the paths I took were all known to me and met my need for professional and financial security.


So at the end of last year I took a leap of faith and handed in my notice of termination of my employment contract. I am accepting a new challenge with Banque CIC (Suisse) and I feel good doing so. Why? It is not the bank's image, its attractive offices in the most beautiful Renaissance building in the city, nor even its more than a century-old tradition. No. What decided me was the personal encounters I had had with representatives of the bank. People make the difference. The things I picked up during a discussion with my new line manager convinced me and gave me the certainty that I had chosen a good path.

In spite of a couple of health concerns I decided in spring 2015, before starting my job with Banque CIC (Suisse), to walk the Pilgrim's Road (Camino trail) from León to Santiago de Compostela. As an inexperienced and definitely unfit hiker I wanted to walk the 320 km trail in 15 days. Walking 20 km or five hours on average per day seemed quite realistic to me. I visited a specialist hiking store, patiently listened to their advice, and bought what I thought was the necessary equipment. With a 7 kg backpack and much excitement and anticipation I flew to Madrid and from there to León, the starting point of my Camino trail.

> "Paths are made by walking."

The following days on the Way of St. James consisted of getting up early, walking, eating, finding accommodation, doing the laundry, enjoying the gift of time and nature, and getting to know interesting people. True to life there were very happy days, moments of suffering (blisters, tendonitis, ...), days on which I energetically walked more than 40 km, and days when my body told me to stop after 20 km. The distance from my everyday life had a cleansing effect and I enjoyed my slow progress and growing awareness of what was going on around me and inside me. I realised again that modesty is an important virtue and that it takes very little in life to give me moments of happiness. With the right attitude and a positive approach I also enjoyed the cold and rainy days, always gaining something precious along the way. The decision to walk the Pilgrim's Route was the right one and I was very proud to see the magnificent cathedral of Santiago de Compostela after 11 days. On my return flight to Basel I decided to walk the full route after my retirement. But until then I have another mission.

We take care of business for our clients. This is not only the motto of Banque CIC (Suisse), but also a sentiment that is very important to me. Thinking and acting in an entrepreneurial manner also means taking new paths. In this sense I am looking forward to my new challenge and invite you to do the same. Come to Banque CIC (Suisse) and find out what it means to be given entrepreneurial support. I look forward to meeting you.

Buen Camino!

The column reflects the personal opinion of the author.

Yves Grütter is the location manager at the head office in Basel in charge of the core client business with companies, entrepreneurs and private individuals in Switzerland. Yves Grütter looks back on a career of 20 years in managerial positions in the corporate client business with various Swiss banks.

# In Brief

Overview of topical investment themes

## Investments in pension funds: what are your real risks?

The majority of Swiss pension funds are based on the BVG 25 index, which is considered to be representative of a conservative investment without excessive risk. This index is made up of 65% bonds, 20% equities, 10% real estate and 5% alternative asset classes. Foreign currencies are limited to 30%. If the markets are turbulent, the performance of the portfolio can fluctuate significantly on a daily basis. Which are the investments that contribute most strongly to these fluctuations? In one year, more than 75% of these fluctuations were caused by variations in the exchange rate. More than 75%! The exchange rate hedge might lose you a few points in performance, but it will allow you to sleep peacefully. Particularly if you opt for a management strategy that avoids excessive risk. (frc)

## Foreign currencies: buy on the sound of cannons

Global growth is paralysed. A more or less covert devaluation race is in force worldwide, with the aim of stimulating the domestic economy. The currency war is becoming increasingly intense. At the same time, the Fed is trying to normalise its interest rate policy, which will create problems for the emerging countries in particular. Due to this and also due to the weak price of oil, the commodity currencies have been hit particularly hard. Why the euro should be considered a safe haven in this situation is anyone's guess. However, we are sticking to the facts and thus draw the following conclusions for investors: continue to exploit the strength of the euro to reduce your EUR positions and invest in USD for example. Commodity currencies are equally interesting for medium- to long-term investments. Just remember the saying: "buy on the sound of cannons". (rb)

## We take care of right real estate financing for you

When it comes to real estate financing we not only offer different mortgage models, but also building loans and land loans. Thanks to our flexible mix of conditions and comprehensive range of products and services, we are able to address your specific needs. As your committed partner we remain at your side throughout the entire purchase and construction process, until the successful conclusion of your private or commercial real estate project.

## Current interest rates in CHF

(as at 01.10.2015)

| For savings and pensions | Private clients | Business clients |
|---|---|---|
| Savings account | 0.400% | no offer |
| Investment account | 0.300% | 0.150% |
| 3a retirement account | 1.000% | no offer |
| Vested benefits account | 0.500% | 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 or the Principality of Liechtenstein.
3a retirement offer for clients domiciled in Switzerland or the Principality of Liechtenstein and Swiss domiciled abroad.
Current conditions and rates of interest can also be found at www.cic.ch.

CIC BANQUE CIC |SUISSE|

The bank for private and business clients

Basel, Fribourg, Geneva, Lausanne, Lugano, Neuchâtel, Sion, Zurich

T 0800 242 124
**www.cic.ch**

**DISCLAIMER** The expected returns and estimated risk are not reliable indicators of future profits or future risks. The effective returns can deviate significantly from these values, and past positive performance is no guarantee of future returns. The conditions contained in this document are purely indicative and subject to amendment at any time. Bank CIC (Switzerland) Ltd. gives no guarantee as to the reliability and completeness of this document and rejects any liability for losses which may result from its use.