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perspectives

01/2015 QUARTERLY MARKET OUTLOOK

BANQUE CIC |SUISSE|

DEAR READER

The vast discrepancies between prediction and reality never cease to amaze us: for five years now, for example, interest rates have been scraping rock bottom, and even though everybody knows that this will change again, all announcements to date of an interest rate reversal were premature. Inflation is subdued and is bucking many forecasts by trending more or less downward. Equity markets on the other hand strengthened considerably in 2014 too, even though the constrained forecasts convinced many investors to wait on the sidelines for now. Even Bill Gates, the world's richest man, did not always get it right in his own area of expertise. He is alleged to have said at the beginning of the 1980s: "640 kilobytes (of working memory) is all that any application will ever need." A colossal error in judgement, as we all know today. What does this teach us? Even the most intelligent person cannot foresee what will happen. But we can make financial preparation and provision. With the solid backing of our Group Crédit Mutuel, your goals are at the heart of all we do: a Group that passed the biggest bank test of all times in Europe ("stress test") with flying colours and ranks among the best of the largest European banks with its excellent equity ratio, even under stress. We are in this strong position thanks to our long-term focus and our cautious and circumspect approach. I would like to thank you for your trust and look forward to continuing to offer you solidity and a wide range of services tailored to meet your needs.

Thomas Müller, CEO

Economic perspectives

The global fundamentals are sending a clear message, confirming the diverging trends in the different national economies. The US is defending its position as an economic driving force with robust and sustained growth. This development is supported by an effective monetary policy, the rapid recapitalisation of the banking sector and the shale gas revolution. The OECD thus expects the US economy to grow by 2.2% in 2014 and around 3% in both 2015 and 2016.
The picture looks different in the eurozone, where achieving positive economic growth is an uphill battle. Growth rates of 0.8%, 1.1% and 1.7% respectively are forecast for 2014, 2015 and 2016, with high unemployment rates and the urgent need for governments to economise marring the prospects. Because of the heterogeneity of the eurozone, the individual national economies are not all developing at the same pace. While reforms are ensuring a faster recovery in Greece and Spain, Germany, France and Italy are lagging behind.

Divergent developments in economy and monetary policy

Against this background, the measures taken by the central banks could not possibly be more different: while the US Fed has stopped its bond-buying programme and the markets expect a first moderate interest rate hike in the second half of 2015, the ECB is combating a possible deflation with easing measures. To achieve the objective of price stability (inflation target of 2%), the ECB also has to indirectly promote economic growth, as the first aim can hardly be achieved without the latter. (robol)

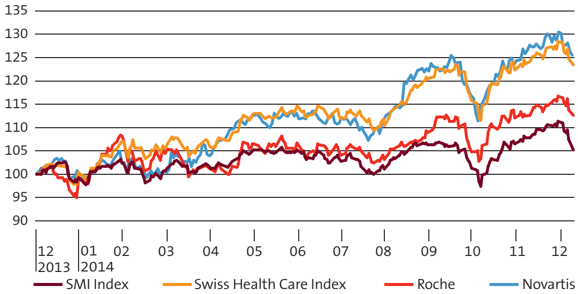
The Markets
"What will happen in 2015?"

An exciting and eventful stock exchange year that left nothing to be desired – except attractive bond yields – has come to an end. The focus once again fell on the equity markets, which were boosted by an unbelievable flood of liquidity coming from the central banks. Investors who always believed in this asset class were rewarded with a handsome performance. What will happen in 2015? Will the central banks continue to nip all signs of a possible market consolidation in the bud? As equities are also supported by the ongoing economic recovery, they are sure to continue to play a central role in the new year. (mch)

SWISS EQUITIES

Recovery in the eurozone remains very sluggish. As the EU is its most important trading partner, this is not exactly conducive to Switzerland as a business centre. The Swiss economy, however, continues to offer solid framework conditions for business enterprises, which in turn has a positive effect on the companies and their share prices. In the current low interest rate environment, dividend-paying stocks such as **Zurich** and **Swisscom** are likely to remain important. As in 2014, we still recommend the pharmaceutical sector for this year, as this is where we identify the greatest potential for growth in the current economic climate. With the two pharmaceutical giants **Roche** and **Novartis,** Switzerland is very well represented in the global race. (mch)

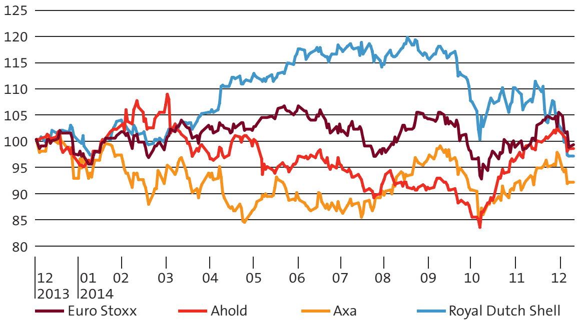
SMI



EUROPEAN EQUITIES

The most recent OECD growth forecasts are not really very optimistic for the eurozone, which is facing a possible stagflation. Against this background, the uninterrupted monetary stimulus packages of the ECB hardly come as a surprise. The reciprocal "sanction spiral" in response to the Ukraine crisis put another brake on the European economy. Nevertheless, equity investments remain popular with investors in the current climate of historically low interest rates. We only partly share in the mostly liquidity-driven stock market euphoria and prefer defensive, financially sound companies paying secure and above-average dividends such as **Ahold** (trading), **AXA** (insurance) and **Royal Dutch Shell** (energy). (jub)

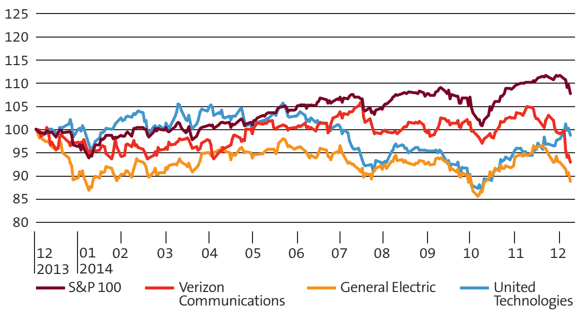
Euro Stoxx 50



US EQUITIES

When preparing the outlook for the fourth quarter, we scented the potential of an imminent correction. As we have seen, this correction actually occurred, only to then send share indices shooting to new highs again. Because of its solid macro indicators, the US economy remains the driver of the global economy. The negative impact of the stronger dollar is actually overcompensated by the current weak oil prices, which pose a challenge to crude oil companies. The only question that remains is whether the stock exchange will continue to party. The air may be getting thinner, but as long as the central banks continue to pump liquidity into the market, the road to the top will remain unhindered. The shares of **Verizon Communications**, **General Electric** and **United Technologies** are particularly attractive. (jb)

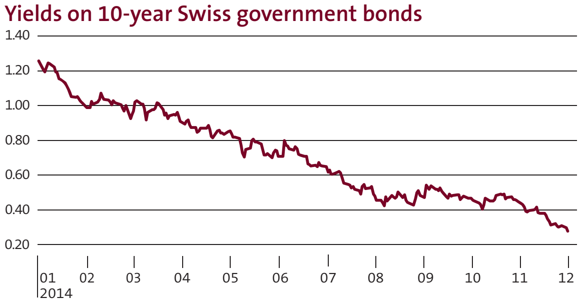
S&P 100



BONDS

The bond markets did very well in the fourth quarter. Yields on ten-year German and Swiss government bonds dropped to all-time lows. The current strength of the bond markets is explained by rumours that the European Central Bank might launch a bond-buying programme. It has been seen in the past that yields tend to drop sharply before the announcement of a quantitative easing, just to rise again owing to demand for high-risk securities with a higher yield. Bonds of peripheral countries in particular benefited from the rumours emerging from Mario Draghi's kitchen. Yields on Italian and Spanish government bonds dropped to three- and four-year lows. We believe that the planned measures could potentially boost higher-yield bonds. (cal)

Yields on 10-year Swiss government bonds



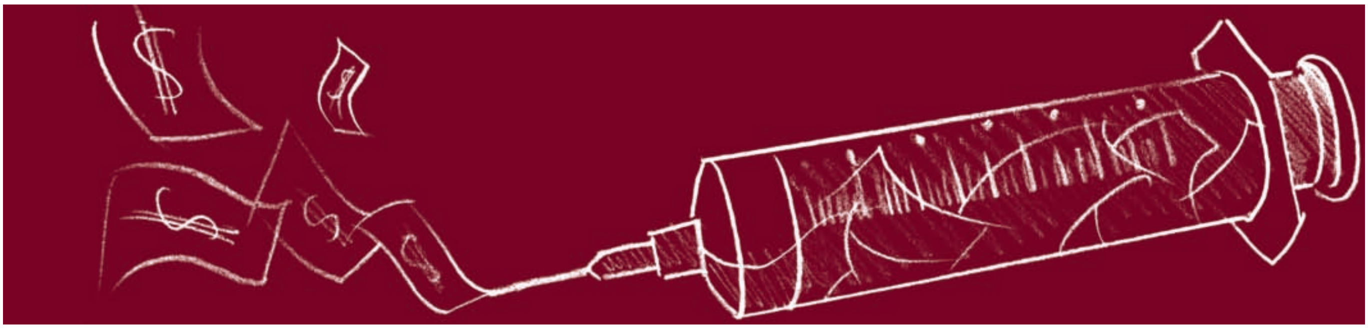
The Column

with Mario Geniale, Chief Investment Officer

The mother of all bubbles

DEAR READER

The era of being accommodating and weak-willed is drawing to an end. The international financial markets undoubtedly remain tense given the difficult global economic situation and the empty state coffers of many industrialised nations. A lack of innovation coupled with a lower-than-average increase



in productivity in the global context and spending not geared towards future growth thus led to structurally weak economic growth. As long as the ECB continues to intervene with ever new measures aimed at stabilising the financial markets, long overdue reform efforts could go on being postponed indefinitely. A bit like adopting the tactic of letting the needle go back to the start and the song play over. Meanwhile, however, the needle has become worn out and the hissing sound can no longer be ignored. In Italy, Spain and even France, the governments are trying to push labour market and social services reforms through parliament. Reforms, mind you, which would have been unthinkable just a few years ago. Although citizens continue to protest, their voice is not as loud as before. It is tempting to assume that even they have doubts as to whether their complaints will ever be heard. The realisation that painful cuts are necessary to restore the ailing national economies to long-term health is slowly but surely gaining ground in the wider population. That is partly the reason why the Italian and French governments, following a more or less polite intervention by the European Commission, have once more revised their latest budget targets and significantly reduced the deficits by more than originally planned.

Now that the US economy has been let out of rehab, its European counterpart finds itself only just coming round in intensive care. And Janet Yellen and Professore Mario Draghi, both assistant doctors turned senior physicians, are prescribing very different doses of medicine.

Liquidity injections and pep talks as Valium for the markets

While Doctor Yellen is able to fall back on homeopathic medicine, Super Mario is still required to administer the full dose – and possibly even more – to combat economic thrombosis. What both these "therapists" have in common are their mantra-like appeals to the conscience of the various protagonists on the financial markets. In this way, they have succeeded in convincing the markets that interest rates, both short and longer-term, should remain low for the foreseeable future.

The Fed will raise its short-term interest rates in 2015, unless a new large-scale crisis breaks out against all expectations. The European Central Bank will follow in its footsteps, with a longer delay than usual. Doubts may be cast as to whether we will actually have to wait a few more years for this to happen, as some economists predict, owing to the rapid pace of change in the macroeconomic environment. On the other hand, it will certainly not be possible to keep interest rates at this artificially low level forever. The central banks will then leave no stone unturned in attempting to deflate this "mother of all bubbles" in a controlled manner.

The end of the exaggeration phase is normally heralded by "overshooting". The nonsensically low interest rates in Europe are an indication of just how imbalanced the interest markets have become. An adjustment will take place, though not without side effects. This interest turnaround will not be accompanied by continually rising interest rates and neither will the changes be gradual in nature, as the central banks will not be able to prevent sudden spikes on the interest markets at all times. Professional investors must therefore actively manage their bond portfolio allocation over the coming years to ensure that the yield on this asset class does not end in tragedy – or should that be "Draghi-dy".

The column reflects the personal opinion of the author.

As Chief Investment Officer, Mario Geniale is responsible for the investment policy of Banque CIC (Suisse). The certified asset manager and financial expert has many years of experience in portfolio management and consulting. Mario Geniale is a member of the Management Board.

Pillar 3a: account or securities?

How much do you earn on a risk-free investment? Less than 0.5%. If you compare this figure to the performance of the Swiss stock market (SMI), which strengthened by more than 20% in 2013 and by around 8% to date this year, you can see the opportunities offered by an investment savings plan. Time is the most important ally of securities investments. The average expected long-term return on equities is between 6% and 9%, and on bonds between 1% and 3%. Both can be better than the interest paid on bank accounts of around 2% over the past ten years. To smooth out the risk of fluctuations, we recommend a lengthier investment horizon of at least five years. Investment savings plans offer this decisive advantage, thus presenting an interesting risk/opportunity ratio: as someone saving for retirement, you usually have a very long investment horizon. The opportunities for returns remain the same over time, while the risk of fluctuations fades in importance over the years.

Over the long term, Banque CIC (Suisse) not only gives you the best interest on your pension assets, but is currently the only bank to offer its clients a range of 24 different retirement funds from five different providers. Just answer the simple questions on our website www.wertschriftensparen.ch to find out which retirement fund best suits your investor profile. Based on your personal needs and your willingness to accept risks, you determine your exposure and the type of retirement fund or funds in which you wish to invest. Decide on your strategy today and take advantage of the exclusive opportunities offered by our open investment savings plan.
You can find all the information you need on this unique offer from Banque CIC (Suisse) at www.wertschriftensparen.ch. (cos)

ECB's 2014 stress test: encouraging result for the Crédit Mutuel-CIC Group

The cooperative Crédit Mutuel-CIC Group received a very pleasing ranking in the biggest banking audit of all time carried out in Europe. It was rated as one of the safest banks in Europe.
Even assuming an adverse scenario in which the economy almost collapses, Crédit Mutuel-CIC has a capital buffer of almost EUR 18.7 billion and a strong equity ratio (Common Equity Tier One CET1) of 12.91%, which is well above the ratio of 5.5% required by the ECB. More at www.cic.ch/neuigkeiten.

Current interest rates in CHF

(as at 01.01.2015)

For savings and pensions	**Private clients**	**Business clients**
Savings account	0.600 %	no offer
Investment account	0.500 %	0.250 %
3a retirement account	1.600 %	no offer
Vested benefits account	1.250 %	no offer

For day-to-day use		
Private account	0.125 %	no offer
Current account	no offer	0.125 %

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.