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perspectives

02/2017 QUARTERLY MARKET OUTLOOK

BANQUE CIC |SUISSE|

DEAR READER

You never know
how things will turn out. Before the British referendum on leaving the European Union in June last year, the markets were running scared with different scenarios and their negative consequences. People were talking about an immediate domino effect on other countries wanting to leave the EU, the need for the EU to renegotiate existing agreements and the general collapse of the EU. They predicted turmoil on the markets with stock markets collapsing and a weaker pound. Apart from the devaluation of sterling, none of these fears came true. On the contrary: the Euro Stoxx stock market index is now around 10% higher than at the time of Brexit.
And when it seemed possible that Trump might be elected as the new US president, the pundits feared the worst and forecast considerable corrections to the stock markets. But the stock market crash stayed away and stock prices have been climbing steadily for months.
The doomsayers will have a field day again with the different events on the political agenda for 2017, such as the upcoming presidential election in France and the parliamentary elections for the Bundestag in Germany.
Maybe we should draw a lesson from last year and be more careful about election forecasts and their impact.

Mario Geniale, Chief Investment Officer

Economic perspectives

The euphoria about the economic measures announced by Donald Trump is continuing. The promised fiscal stimulus programme includes higher state expenditure and tax cuts, which have led to a rise in consumer prices. The combination of an extremely relaxed monetary policy and what is known as “Trumpflation” is having an effect in the US, Europe and also in Switzerland. Since Trump won the election, consumer prices in the US have risen by more than 2%. Europe is also seeing the first inflationary trends with consumer prices in the European Union climbing to their highest level since 2013. The positive momentum is also affecting Switzerland where prices have increased noticeably, but the consumer price increase is still only slightly more than 0%.

Slumbering political risks in Europe

Political uncertainty increased greatly in 2017. Macroeconomists are mainly focusing on the elections in France, Italy and Germany. We expect the economy in the eurozone to grow by 1.5% in 2017.
As the US economy is likely to benefit from the measures promised by Trump, we expect economic growth of 2.5%. But first the current high expectations of the economy have to be confirmed.
After growth rates for Switzerland were slightly positive in 2016, we expect a small increase in them and are forecasting economic growth of 1.5%. The development of the euro-Swiss franc exchange rate will be crucial here. We believe, however, that the Swiss National Bank will do everything it can to keep the Swiss franc on course. (cal)

The Markets

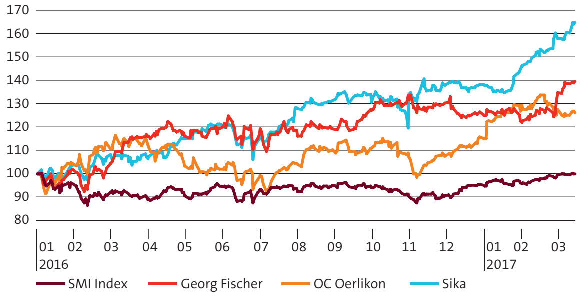
"The takeover carousel keeps turning."

Donald Trump is keeping politicians, businesspeople and media workers everywhere in the world on the hop with his situational decrees and statements. Much attention is paid to issues such as import penalties, the relaxation of the Dodd-Frank rules and pricing agreements in the US pharmaceutical industry. On the one hand the US Fed has carried out a "cosmetic" interest rate increase, and on the other the ECB under Mario Draghi is keeping the "money floodgates" open, even though politicians and businesspeople are increasingly questioning the economic benefits of the massive bond buyback programme. And thus most things stay as they are: the enormous liquidity pool is supporting the stock markets and keeping the takeover carousel turning! (jub)

SWISS EQUITIES

Against the background of rising stock markets and a positive outlook for the global economy, Swiss equities also started the new year on an encouraging note. The stock market is currently caught between the conflicting poles of the chances for higher sales and profit growth and the risks associated with Brexit, the upcoming elections in Europe and the unpredictability of the Trump administration. Mid-cap cyclicals with solid balance sheets posting organic growth promise the best potential. From their ranks, we prefer stocks such as **Georg Fischer**, **OC Oerlikon** and **Sika**. (robol)

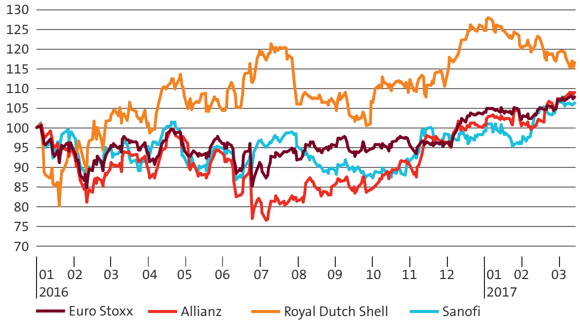
SMI



EUROPEAN EQUITIES

The European financial markets are increasingly uneasy about the presidential election in France scheduled for spring. There are other (long-standing) problems such as the upcoming Brexit negotiations and the umpteenth financing round for ailing Greece. But there are also some rays of economic hope: the German economy is continuing its recovery and the rest of the eurozone is also getting spring fever. We continue to favour equity investments in well-capitalised global companies such as **Allianz**, **Royal Dutch Shell** and **Sanofi**. (jub)

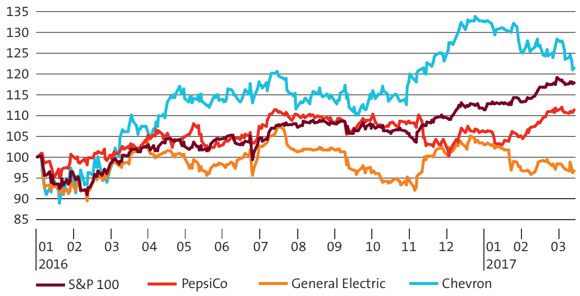
Euro Stoxx 50



US EQUITIES

The US stock exchanges have expanded into new spheres. Could this be igniting the spark for the next level? Although practically all economic indicators are promising robust economic growth and the current earnings reports for US companies mostly outstrip expectations, high share prices, future interest rate increases, rising wage costs and the expected strengthening of the US dollar could put a brake on this ascent. Caught up in the ongoing Trump euphoria, investors also seem to be ignoring the prediction that profit growth will stagnate in the second half of the year. **PepsiCo**, **General Electric** and **Chevron** offer opportunities in this environment. (jb)

S&P 100



BONDS

The Swiss bond markets have not yet found a clear direction this year. The fact remains, however, that the Swiss franc is trending stronger against the euro again in view of the upcoming political uncertainties in Europe. The SNB has already stepped up its intervention on the currency markets. If the currency should strengthen further, Swiss interest rates will come under pressure again. We believe that the trend of rising interest rates will continue, barring any unforeseen exogenous shocks on the financial markets. Our focus still falls on bonds with short maturities and higher yields. (muc)

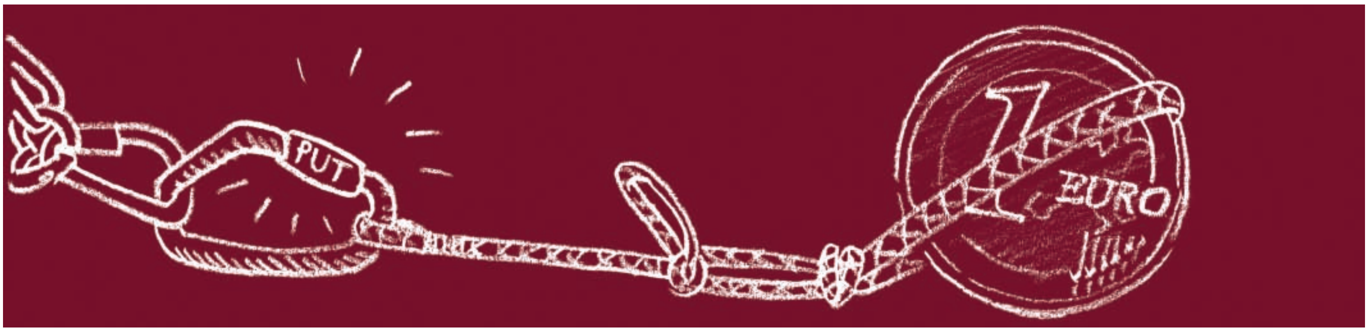
10-year Swiss franc interest rates (Swaps)

The Column

with René Bachmann, Head of Foreign Currency Management

Currency shock, and then?

DEAR READER



I still remember a client interview in 1986 which left a permanent impression on me. As a 21-year old forex trader for client transactions at a Swiss bank I had to explain to a private client why he had received much less in Swiss francs upon selling the IBM shares which he had bought for Swiss francs on the Swiss stock exchange at the beginning of 1985, even though he had earned more than 20% (in USD) on these shares. The answer shocked him deeply: he had lost an epic 35% on the USD/CHF exchange rate in just one year! He thus had a net loss of almost 20% on his investment, and his client advisor seemingly did not warn him of the currency risk. What a mistake!

Many private investors abandon their portfolios to their “currency fate”.

A euro that was bought ten years ago is now worth almost 35% less. These examples show how important it is to be aware of the currency exposure of your portfolio. Diversification in the investment strategy to minimise risks has been a mantra for many years, which makes sense. But many private investors abandon their portfolios to their “currency fate” (just remember 15 January, 2015, when the EUR/CHF floor was scrapped) or just hope for the best. Many studies have shown that foreign currencies do not generate a positive return in the long term, and mostly just increase the volatility (fluctuations) of a portfolio. It is also more or less impossible to forecast the medium to long-term development of currencies.

It is often said that currency hedging does not pay off. I cannot go along with this line of thought from the perspective of Switzerland. The costs of professional hedging are marginal and can definitely be justified if you consider the substantial risk potential. Many investors are looking for security: with a currency hedged portfolio the risks are considerably reduced and so investors will definitely sleep better.

The timing of currency exposure is underestimated.

Forward exchange and currency option transactions are a good way of hedging your portfolio against currency losses. If you buy a PUT option you pay an advance premium, but this covers you against any loss in the value of your investment currency. At the same time you will benefit from any increase in the value of the investment currency and you can let the option expire upon maturity (opportunity profit). There are also zero cost strategies (risk reversal) where no premium has to be paid, but this limits your potential gain. With a forward transaction, you fix the price in advance and calculate with fixed values.

In my opinion the timing of currency exposure is underestimated. Often, as is seen from the above example, investors do not think about or pay too little attention to the exchange rate when they buy a share and then buy the foreign currency at a bad time. You should therefore keep an eye on the exchange rates in your investment universe.

Uncertainty will continue to rise.

If there is suddenly an opportunity to buy a currency cheaply, for whatever reason, such as the British pound after the Brexit decision in June 2016, you can buy an investment in the UK for less money. This improves your chances of a currency gain and/or reduces the risk of a currency loss.

The abolition of the EUR minimum rate (“SNB shock”), Brexit and the election of Trump as president of the US show how quickly and violently the situation can change on the currency markets. I can only say one thing is certain when looking ahead: Uncertainty will continue to rise. Find out about the currency risk of your investments and take advice on suitable solutions. The same instrument is not necessarily right for every investor.

The column reflects the personal opinion of the author.

René Bachmann is responsible for currency trading at Banque CIC (Suisse). He has many years’ experience in this area and has been with the bank for twenty years. René Bachmann is a member of the Management Board.

In Brief

Overview of topical themes

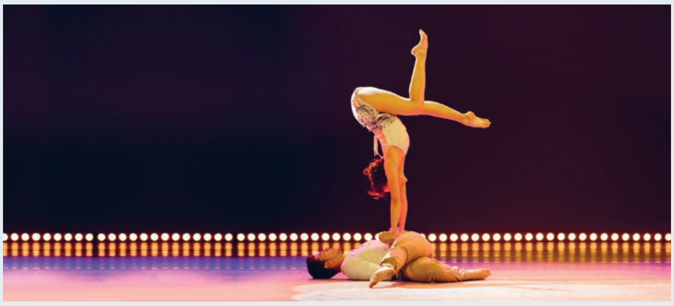
Protection against inflation is growing in importance

Global inflation is becoming a topic again. Inflation is on the increase in the United States, the eurozone and in Switzerland. The past few months saw a noticeable upswing in the general economic mood as well as the oil price. This is joined by signs that the central banks are slowly distancing themselves from their extremely relaxed monetary policy. If this is combined with the fact that growth forecasts for this year are quite positive, inflation is likely to rise further. Investing in what is known as inflation linkers is a way to protect yourself against inflation losses. Inflation linkers are bonds that protect the real value of the invested capital. Your client advisor would be happy to explain this interesting alternative to you. (muc)

Good outlook for emerging markets

A current study by PwC (PricewaterhouseCoopers) states that the population growth and productivity seen in emerging market countries such as Nigeria, Vietnam, India, Bangladesh, Pakistan and the Philippines mean that these countries have the biggest potential for growth until 2050. The BRIC countries are expected to grow faster than the developed world over the next two decades, after which they will drop back to the average for the developed countries, which is around 2.5% per year. We mainly invest in liquid and regulated markets with an indirect or direct connection to them, in particular Brazil and India. (frc)

Banque CIC (Suisse) is the new presenting partner of YOUNG STAGE



YOUNG STAGE, the internationally renowned and largest circus festival in Switzerland, is a springboard for a future professional career for young artists from all over the world. World-class shows attract thousands of visitors every year. As presenting partner for YOUNG STAGE 2017 we are looking forward to helping passionate people achieve their dreams of peak performance and support the entrepreneurial efforts of the festival manager, Nadja Hauser. Find out more at www.cic.ch/youngstage.

Current interest rates in CHF

(as at 01.04.2017)

For savings and pensions	Private clients	Business clients
Savings account	0.200%	no offer
Investment account	0.150%	0.050%
3a retirement account	0.650%	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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