



Point of View

Economic and market outlook

1st half-year 2010

January 15, 2010

The main points at a glance

Bonds	→
Equities	↗
Hedge funds	↗

Projections at 6 months

The year that has just begun will be characterized by a continuation of the improvement in the economy. The environment will remain extremely fertile for economic growth, under the combined influence of still-accommodative monetary policies and still-expansionist fiscal policies, at a time when the young shoots of recovery have already sprouted.

However, the same elements that were deemed to be advantages in 2009 (extremely low interest rates, cash injections and massive stimulus plans) will be transformed, as the months go by, into major challenges for the authorities and investors. The withdrawal of all the anti-crisis measures by the central bankers and governments is not likely either to stifle a still-fragile recovery or to allow inflation expectations to get out of control. As for the public finances situation, it now represents a dangerous sword of Damocles hanging over the economic and financial outlook.

The financial markets will therefore be sensitive to such issues in 2010. Apart from these challenges, which will not fail to bring with them their share of volatility, the principal world stock markets should nevertheless benefit generally from the underlying improvement in economic activity. On the other hand, the change of course by the central banks and the fears about the sustainability of sovereign debt will certainly put the bond market to a severe test. Finally, the strengthening of the dollar and the weakening of gold, which both began in December, are in our opinion likely to continue in the course of this year.

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Economy

To summarize our position, we are expecting a return to growth with moderate inflation. More specifically, we are expecting the following trends:

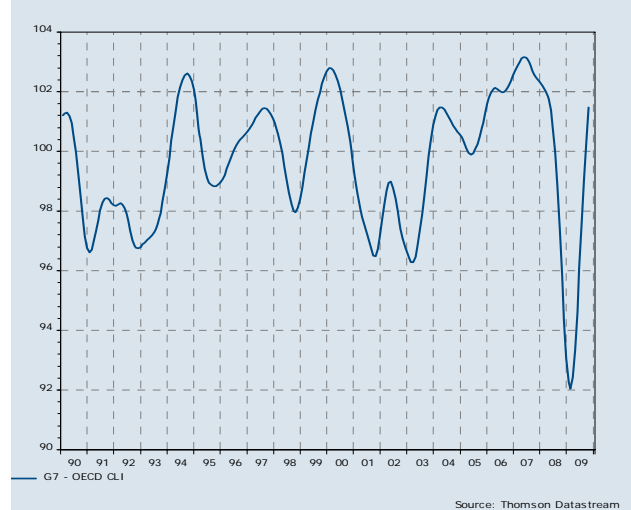
- Consolidation of the economic recovery: economic activity will be supported by an inversion of the inventories cycle, a recovery of production investments, a revival of world trade and an improvement in the outlook for employment. Moreover, the environment will remain favourable in terms of fiscal support and monetary policy, in any case during the first half of the year. In general, we are more optimistic than the consensus: US GDP should grow by about 3% during 2010, that of the euro zone by between 1.5% and 2% and that of Japan by more than 2%. As for the emerging countries, they will regain dynamic growth, in particular in Asia.
- Inflation is back, in a deflationary context: following a marked rebound due to the mechanical effects caused by the fluctuation in energy prices, the consumer price index will return to moderate levels as from this summer, owing to the scale of overcapacities.

In parallel, the financial markets will focus on two main themes which will represent the major challenges of the year 2010:

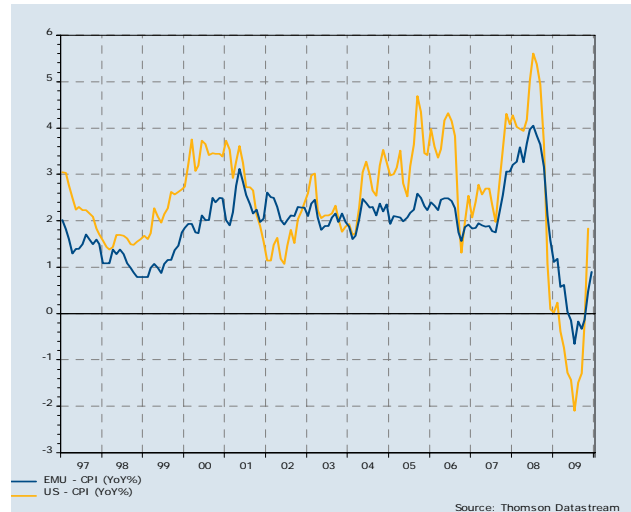
- The principal central banks' strategies for moving out of the crisis: while they will gradually withdraw the unconventional measures put in place during the crisis, the monetary authorities will probably change their tone on interest rates, but without taking action before the second part of the year.
- The worries about sovereign debts: having been put under pressure during the economic crisis, public finances will continue to deteriorate. Tax revenue has obviously plunged during the recession, while expenditure has exploded owing to the social costs engendered by the crisis and the stimulus plans implemented by the governments. We do not foresee any disasters in 2010, but isolated tensions might occur in connection with some States.

Finally, the current environment (excess production capacity, higher unemployment rates, the run-up to the mid-term elections in the United States, support for the export industry from the emerging economies in particular) is still fuelling the political and protectionism-related risks.

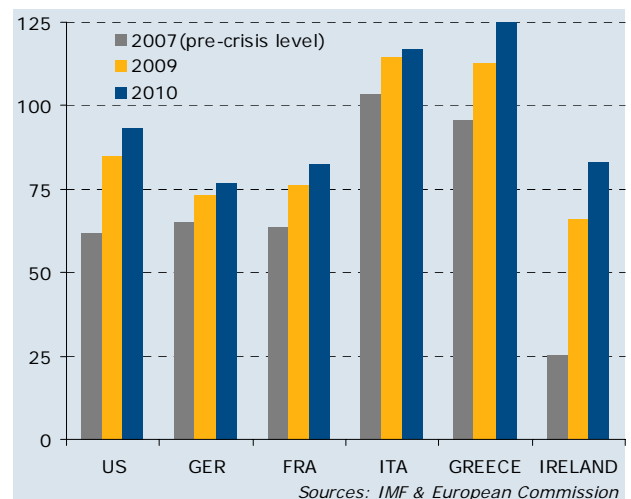
OECD LEADING INDICATOR FOR THE G7



INFLATION RATE IN THE UNITED STATES AND THE EURO ZONE



PUBLIC DEBT AS A PERCENTAGE OF GDP



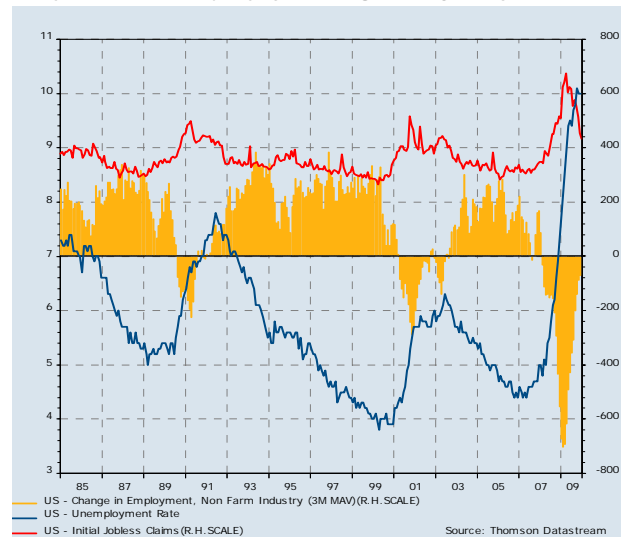
United States

The incipient improvement in economic activity observed in the second half of 2009 will strengthen in 2010. Several factors are in place to guarantee support for economic activity:

- The end of massive inventory reduction: this sudden process is now behind us. The slowdown in inventory reduction, first of all, and then the inventory replenishment will lend valuable support to economic activity over the next 12 months;
- The recovery of residential investment: the stock of unsold houses has decreased sharply in recent years, transactions have increased slightly over the last few months, as have prices. We are therefore expecting a gradual return to normal of residential investments, which will result in a positive contribution to GDP from this component and, above all, will no longer weigh on growth as it did over the last four years.
- The recovery of production investments: after having bottomed out in 2009, they will also recover. While the low level of the production capacity utilization rate will prevent a significant rebound of expansion investments, it is likely that substitution investments and those aimed at increasing companies' productivity will recover more strongly, particularly as companies have frozen the latter since the beginning of the crisis.
- Public spending: the budgetary stimulus plan is still far from being exhausted, even though its impact will fade over time, as is logical.
- Consumption: after a very difficult year, Americans are likely to go back to their good (or, in some people's opinion, bad) habits. They will thus again be delving into their wallets, in particular thanks to the improvement in the outlook on the labor market. Indeed, apart from the volatility of the monthly figures, we consider that the return to employment growth is imminent. All the data available on the labor market (weekly jobless claims, temporary employment, employment "sub-components" of the various leading indicators) point to a reversal of the trend probably by as early as this spring. Questions about the strength and scale of this recovery will not fail to be asked. It is logical that companies' attitude to recruitment is likely to remain cautious in a first stage. Massive use of part-time work, the determination to make new productivity gains, the high rate of structural unemployment and a still-unfavourable environment for SMEs in particular (regulatory uncertainties, still-restricted access to credit) are all factors that point to an undynamic recovery of the labor market. Nevertheless the year 2010 will be characterized by net job creations and

therefore by an increase in the wage bill. This will be enough of a godsend for consumption because this time it will not be driven by credit. In other words, we consider, fairly conservatively in our view, that consumption growth will be roughly equal to that of the wage bill. The improvement in the labor market, the still-very-low level of interest rates and the recent increase in household wealth (the slow increase in the value of real-estate assets and the strong increase in financial assets) will put an end to the phase of forced debt reduction that had been triggered by the outbreak of the financial crisis.

LABOR MARKET INDICATORS IN THE UNITED STATES



The deterioration of employment appears to be coming to an end: jobless claims have declined again sharply, while the rate of net job losses has eased considerably. The unemployment rate has therefore probably peaked.

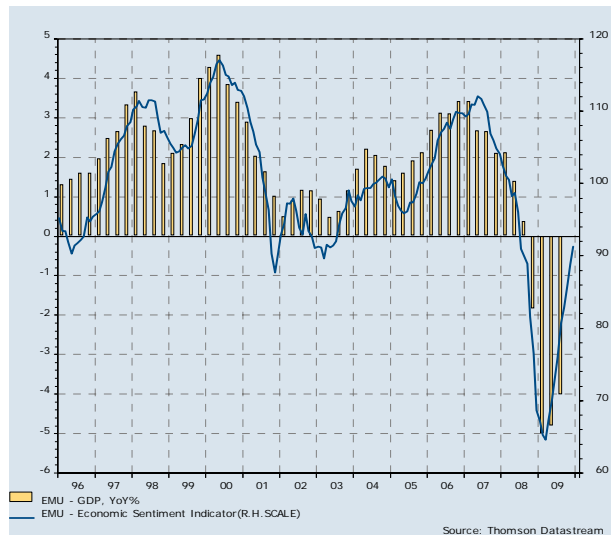
Ultimately the world's largest economy might record a growth rate of about +3% in the course of this year.

As for the US Federal Reserve, it will maintain a very accommodative bias in its monetary policy. It will focus, first of all and progressively, on withdrawal of the unconventional measures (quantitative easing) and then, probably as of next summer, on interest-rate policy.

Europe

The euro zone, which also moved out of recession in Q3 (and already in Q2 as far as Germany and France are concerned) should continue to grow. The different leading indicators are indeed signalling a continuation of the economic recovery. In our opinion, GDP growth will be between 1.5% and 2% in 2010.

ECONOMIC SENTIMENT INDICATOR IN THE EURO ZONE AND GDP



The rise in the leading indicators points to a continuation of the economic recovery.

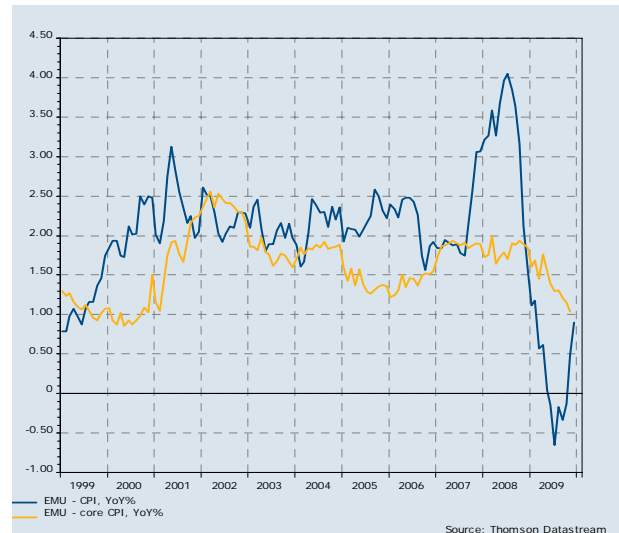
The supporting factors are similar to those in place in the United States: the reversal of the inventory cycle, the recovery of investments, and the budgetary stimulus measures. Household consumption, on the other hand, will be more gloomy, not only on account of the Europeans' traditionally more cautious attitude but also because of a labour market that has not yet reached its turnaround point. We foresee that the unemployment rate will not stabilize before the summer, thus further depressing consumer spending for another few months. In contrast, the contribution from foreign trade will increase. While domestic demand will remain fairly anaemic, exports will firm up again thanks to the rebound of the global economy, and will do so irrespective of the current level of the euro.

The recovery of the European economy will not, however, be able to conceal the divergences between the different member states of the monetary union. As a cyclical economy, Germany should benefit from fairly brisk growth. The labour market, which has held up very well until now, might nevertheless experience a more difficult period owing to the scheduled end of "Kurzarbeit" (this system allows companies to easily resort to

short-time work to prevent jobs from being lost). On the strength of its automatic stabilizers, the French economy will also be up among the leaders of the pack this year. On the other hand, the environment will remain very difficult in other countries like Greece and Spain, which are having difficulty in pulling out of the recession.

Like the FED, European Central Bank will continue to withdraw its extraordinary measures before coming to grips with conventional monetary policy. In Frankfurt there will probably not be a change of course before the end of the year either: in view of a core inflation rate that will remain sustainably low, interest rates will only be raised towards the end of the year at the earliest.

INFLATION RATE AND CORE INFLATION RATE IN THE EURO ZONE



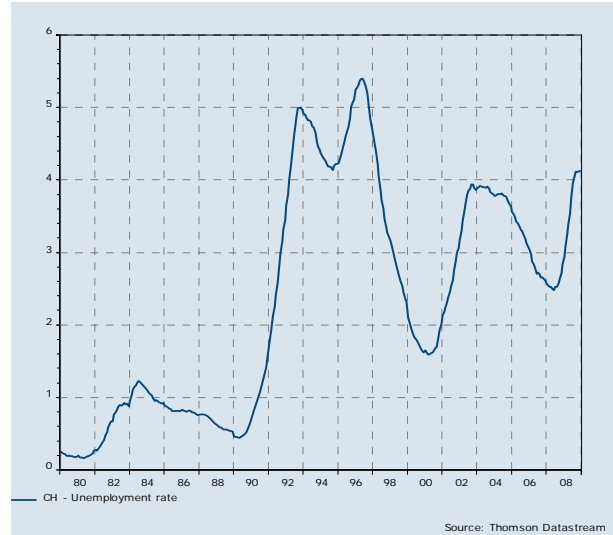
Apart from a mechanical increase that will end quickly, the trend in the inflation rate is not likely to worry the ECB.

In the United Kingdom, the economic recovery will be strewn with obstacles. The continued deterioration of the labour market, the still-very-high level of household debt, the increase in VAT, ineffectual fiscal support measures and the anticipations of fiscal tightening to contain the explosion of public debt (in fact, a downgrading of the rating of British sovereign debt cannot be ruled out) are all factors that will weigh on household spending. Investments, for their part, will recover with difficulty in an environment rendered difficult by a stricken banking sector. The Bank of England will maintain an extremely cautious approach, being more preoccupied with the anaemic level of economic activity than with the risks of inflation. All in all, we are anticipating a GDP increase of around +1.5%.

The economic outlook is improving in Switzerland. The Swiss economy, which has also been hit by the

economic crisis, is well-placed to continue its expansion. The recovery of exports (the sector remains very competitive despite the strengthening of the Swiss franc over the last 18 months), a very expansionist monetary policy and the excellent management of public finances: these are the factors that encourage us to anticipate GDP growth of about 2%. This figure could have been better without the probable continuation of the rise in unemployment, which will slow down private consumption.

TREND IN THE UNEMPLOYMENT RATE IN SWITZERLAND



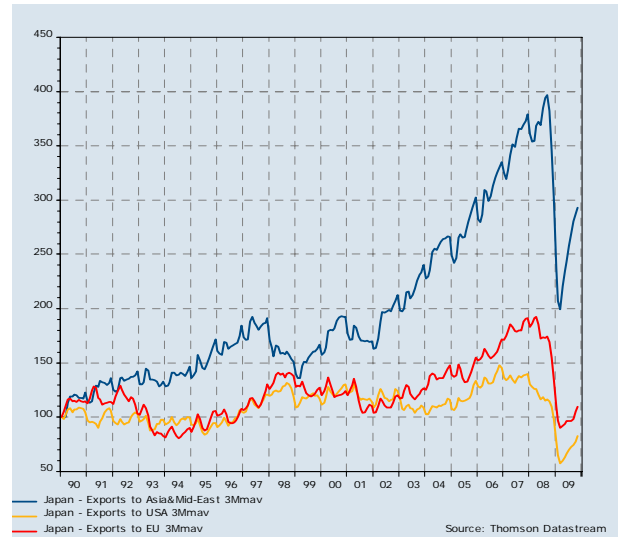
Despite the recovery that is under way, the increase in the unemployment rate will slow down household spending.

Japan

Following a sudden drop in activity (Japan's GDP fell by -8.6% between Q2 2008 and Q2 2009), the world's second-largest economy has embarked on a fairly marked rebound. A natural correction due to the amplitude of the decrease, the economy's very cyclical nature and unprecedented fiscal and monetary measures have revived economic activity. The momentum inherited from the end of last year, coupled with the strong recovery observed in Asia, is thus putting Japan back on the rails of stabler growth. In this respect, during last autumn China took over from the United States as the principal country to which Japanese products are exported.

Despite a fairly significant increase in GDP (of about +2.5%), 2010 will be marked by several sizeable challenges: the debt explosion (which is drawing close to 200% of GDP), the strength of the yen and the persistent nature of deflation, which discourages consumption and investment.

JAPAN'S EXPORTS BY REGION (IN VALUE, BASE 100 IN 1990)



The rebound of activity in emerging Asia is allowing Japanese exporters to regain some of the ground lost during the crisis.

Emerging economies

Rising demand from the developed countries, an increase in commodity prices, a return to normal of the situation on the financial markets: the environment is also growing more favourable for the emerging countries, strengthening their economic recovery. Particularly as, compared with the advanced countries and unlike in recent decades, the emerging economies are generally in better financial shape (fewer public or private debt problems), a banking sector that is emerging from the crisis relatively unscathed, while taking advantage of a return of foreign direct investment flows.

Nevertheless the exit from the crisis will continue in a disorganized manner. The recovery promises to be strong in the Asian economies, driven by China's dynamism and India's soundness. Latin America also appears to be well-positioned to perform well, with Brazil as its motor. In contrast, the situation still seems to be critical in central and eastern Europe. The imbalances of some countries (notably the Baltic states) and Russia's structural problems mean that this region is still vulnerable.

Markets

Equities

After having hit rock bottom right at the beginning of last year, 2009 was marked by a return to quiet conditions. The numerous measures put in place on both sides of the Atlantic succeeded in arresting the downward spiral and restoring confidence.

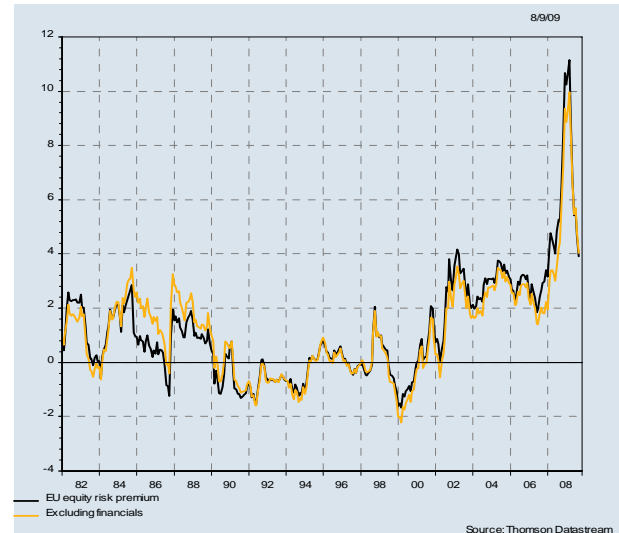
2010 will be a year characterized by convalescence. The continuation of the stimulus plans at the global level and a low-interest-rate policy should support the markets in a first stage. Beyond that point, some fears might re-emerge. Household debt will weigh on the recovery of consumption. The unemployment rate is likely to remain high over the whole of the year, although jobs may start to be created as of the first half of 2010. But the main risk will come from anticipations of a tightening of interest rates and from the possible withdrawals of liquidity from the system, while growth will remain fragile. The year might thus turn out to be volatile.

After having managed their costs well in 2009, companies are likely to post an increase in their sales this year, benefiting from a favourable base effect and the improvement in the economic panorama. The restructuring measures and a further reduction of indebtedness will have a disproportionately high impact on net earnings. Attractive valuation levels compared with bonds and a virtually zero yield on cash in 2010 continue to speak in favour of equities this year. However, we are expecting a more volatile environment than in 2009.

Within our portfolios, we recommend a broad diversification of sectors. Defensive stocks should be given preference in view of low valuation levels in both absolute and relative terms (compared with cyclicals) and they will allow periods of turmoil to be negotiated without too many ups and downs. We are still in favour of certain cyclical shares in view of their performance time-lag and still-attractive valuation levels, particularly in the metalworking industry.

As in 2009, we consider that the major geographical areas should achieve relatively similar performances in local currencies. We remain positive about the emerging countries, which benefit from low indebtedness and a higher growth profile. But there again, selectivity will be key.

RELATIVE VALUATION* OF EUROPEAN EQUITIES COMPARED WITH GOVERNMENT BONDS SINCE 1982



European equities are still benefiting from attractive valuation levels, particularly when compared with bonds. But beware of marked disparities between sectors.

*Share price/earnings – expected yield on the 10-year German government bond

Bonds

The trends observed on the bond markets in December 2009 might well be a foretaste of what will happen this year. The reversal of the economic cycle and the anticipations of an interest-rate hike will continue to weigh on the performances of fixed-income securities. Thus a new phase has probably begun, characterized by a degree of nervousness over the central banks' withdrawal strategy, as they are obliged to arbitrage between the risks of an early interest-rate hike and those of inflation getting out of control. Their credibility depends on this trade-off.

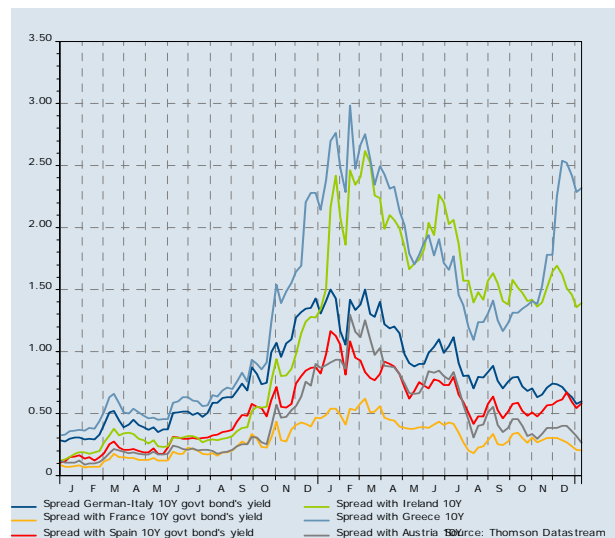
Moreover, the increase in public debt is liable to amplify the perception of the risks involved in sovereign issuers (even those which until recently were deemed to be safe investments). In this respect the recent period has also provided examples of what the next few months might have in store for us: a widening of interest-rate spreads between the countries that are controlling their finances best and those in which the sustainability of public finances appears to be more dubious.

As far as corporate bonds are concerned, we consider that their yields are no longer very worthwhile compared with other asset classes, as the improvement in economic activity has already been fully anticipated.

In geographic terms, euro-denominated bonds should again outperform those in dollars, especially

for the short- to medium-term maturities. The ECB is unlikely to raise its key interest rates before the Fed. In this respect it is likely that the central banks will delay their interest-rate hikes as much as possible, since the consequences of a premature tightening are potentially more harmful (risks of a relapse into recession and triggering a deflationary spiral, as in Japan at the beginning of the 1990s) than the converse. In other words, the monetary authorities will act only when they have irrefutable proof of a sound recovery (the key lies in the United States' employment figures) which will push up inflation expectations and, through a ricochet effect, long-term interest rates. That is why we continue to favour maturities of less than five years, at least initially. Subsequently it will certainly be necessary to extend the length of the maturities, on the one hand, and to give preference to cash or floating-rate bonds, on the other, because the change of direction by the central banks will engender a flattening of the yield curve.

INTEREST-RATE SPREADS BETWEEN CERTAIN EURO-ZONE COUNTRIES



The new year might still see some turbulence in this segment, considering the fears over sovereign debt.

Exchange rates

Like the bond markets, the recent past might be an interesting laboratory for the trends likely to develop this year. The signs of an imminent improvement in US employment have probably also marked a turning point for the dollar. Symmetrically, the upsurge in tensions over the quality of the debt of certain European States (in particular Greece) has weighed on the exchange rate of the single currency.

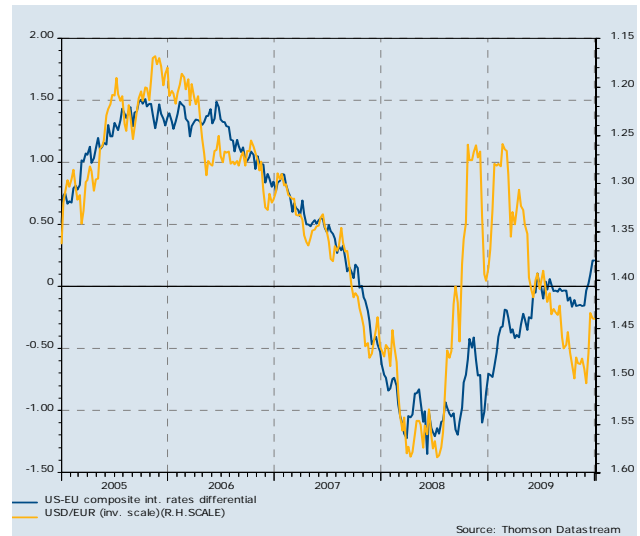
The dollar is thus likely to be supported by cyclical factors, despite some fairly fragile fundamentals in

absolute terms (current-account deficit, trade deficit and sharp increase in public debt) but no longer necessarily in relative terms. Its appreciation will take it to a range of 1.30 to 1.40 against the euro in the course of 2010.

As for the Swiss franc, it is likely to remain strong at least as long as the fears about the financial soundness of certain European countries continue to highlight Switzerland's excellent control of its public finances. After all, the Swiss franc has only served as a safe haven for 18 months: first, in order to provide protection in a period of financial upheaval and currently in response to sovereign risk. But when the improvement in the outlook for European growth encourages the ECB to change its tone, the Swiss franc might lose ground to stand at about 1.55 against the euro at the end of the year.

Among the other currencies, we are particularly positive about the Norwegian crown (dynamism of domestic demand, increase in inflation, rising interest rates, excellent fundamentals in terms of public finances and current-account balance), the Brazilian real (monetary policy credibility, size of the domestic market, its diversified economy and political stability) and the Korean won (strong rebound of activity, dynamism of exports, monetary tightening cycle in sight, low unemployment rate).

INTEREST-RATE DIFFERENTIAL BETWEEN THE UNITED STATES AND THE EURO ZONE AND USD/EUR EXCHANGE RATE



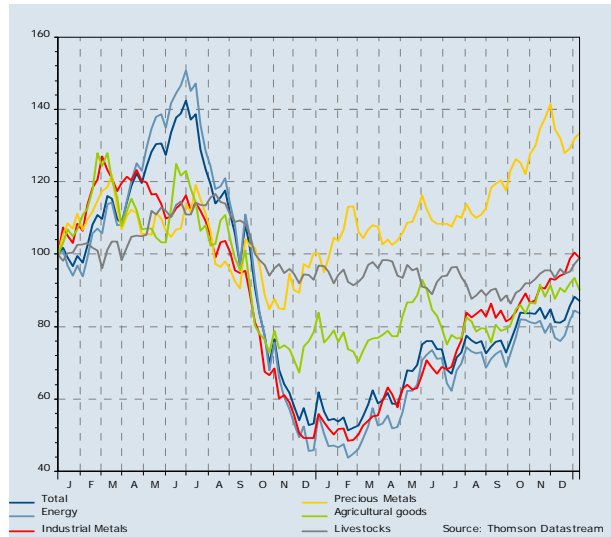
The economic factors, which will be accompanied by an increase in US interest rates, will benefit the greenback.

Commodities

Following a breakneck rise in its price during the year 2009 (about +30%), the ground appears to have become a little less fertile for gold. The easing of the financial tensions, the recent rebound in the dollar, the rise in interest rates (which increases the opportunity cost of holding the yellow metal) and the gradual withdrawal of the liquidity injected into the system by the principal central banks (which should render less likely the spectre of inflation getting out of control) are developments that are likely to weigh on the gold price. It is nevertheless true that gold appears to offer protection against possible extreme scenarios (notably in connection with the fears about the management of public debt or inflation getting out of control) which would not fail to revive its attraction.

As far as oil is concerned, it is likely to move in a relatively narrow band compared with 2007 (the oil price rose by about +60%), 2008 (+55% until the beginning of July and -75% subsequently) and 2009 (+113%). Global demand growth will not wipe out the surplus supply that has accumulated since mid-2008 and should therefore not exert any particular pressure on prices. On the other hand, we are more positive about industrial metals, which will fully benefit from global economic growth.

TREND IN COMMODITY PRICES SINCE 2008



The year that has just started might be favourable for industrial metals, which are notoriously very cyclical.

Asset allocation

Given the factors described above, we have decided to leave our asset allocation unchanged.

The allocation grid for a medium-risk profile in euros, **valid on January 11, 2010**, is given below.

Allocation grid for a “medium” risk profile in euros

Bonds		40%
	Short-term bonds	40%
	Long-term bonds	0%
Equities		28%
	Europe	12%
	United States	10%
	Japan	3%
	Emerging countries	3%
Alternative investments		20%
Gold		3%
Structured products		2%
Cash		7%
TOTAL		100%