

July 13, 2010

The main points at a glance

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Projections at 6 months

The optimism generated by the acceleration of growth at the end of 2009 had given way in recent weeks to the fear of a relapse of the global economy. Finally, the scenario that is emerging appears to be taking a middle road: economic activity is continuing to expand, but at a slower rate than what was observed in the previous quarters. The dissipation of the temporary factors that allowed production to recover - initially in the emerging countries, then in the United States and finally in Europe - is likely to result in a slowdown of the dynamic in the second half of 2010. Nevertheless the global economy is still showing a positive trend, led by the emerging economies. The IMF is now expecting global growth of 4.6% in 2010 (compared with 4.2% previously). The dynamism of China, India and Brazil means that these economies are still the main engines of global growth. The United States should return to their potential growth rate. As for Europe, its prospects are being strained by the tax consolidation trend, which will weigh on domestic demand, but it will be able to rely on exports to drive its growth.

Now that investors have taken this environment into account, it has led to a decline in the risk aversion that had peaked at the end of June. The stock markets rallied prior to the publication of the 2nd-quarter corporate earnings results.

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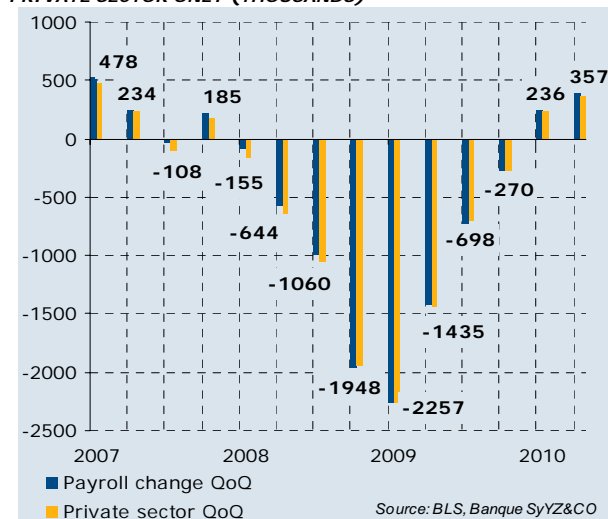
Economy

United States

The economic statistics published at the beginning of the month have tempered the wind of pessimism that had been stirred by a number of indicators published in June. The strong recovery phase observed until the second quarter is in the process of giving way to less high growth, driven by the improvement in the fundamentals. This slowdown is not an advance sign of a relapse of the economy. It is merely the logical consequence of the state of progress of the economic cycle, characterized as it is by the dissipation of the catching-up effects - in terms of investments and inventories - and the phasing-out of a number of tax support measures for economic activity put in place specifically to revive growth.

The trend in employment over the month of June is significant in this respect. While the statistics were affected by the significant changes in the number of temporary government jobs connected with the census (-208,000 in June following +400,000 in May), the trend in private-sector employment remains in line with what can be expected of a still-convalescing economy. Thus the private sector created 83,000 jobs in June, taking to 593,000 the number of jobs created in the sector in the first half-year. Although there is still a long way to go to make good the 8.2 million jobs shed in 2008 and 2009, the trend is nevertheless soundly positive, as is also illustrated by the new weekly jobless claims, which since the beginning of the year have been moving at a level reflecting moderate growth of recruitment.

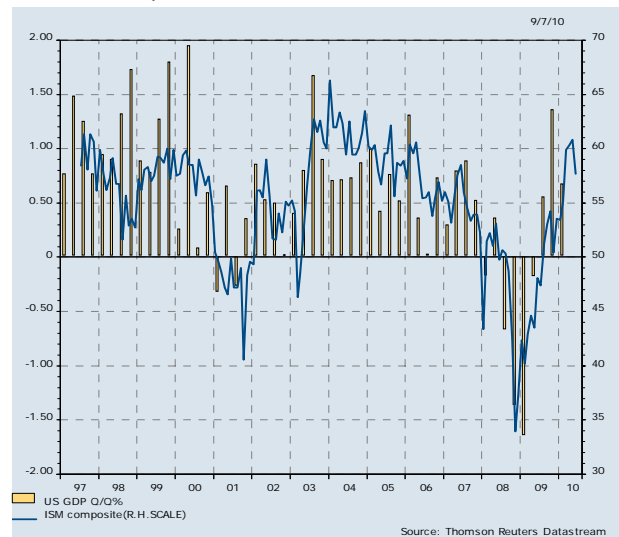
QUARTERLY CHANGE IN THE TOTAL PAYROLL AND IN THE PRIVATE SECTOR ONLY (THOUSANDS)



Nearly 600,000 jobs created in the first half of 2010.

The unemployment rate in fact fell to its lowest level in nearly one year in June, at 9.5%, under the combined effect of the drop in the number of jobless and a decrease in the number of persons who regard themselves as available to take a job, following the strong increase observed from January to April. Here again, the windfall effect connected with the census has probably inflated these statistics and the recent trend appears to be merely a return to normal in this area.

ISM COMPOSITE INDEX (20% ISM MANUFACTURING/80% ISM SERVICES) AND QUARTERLY CHANGE IN GDP



Despite their recent decline, the ISM indices are still reflecting clearly positive GDP growth

The trend in the economic-activity indicators also illustrates the transition that the US economy is undergoing between the rebound initiated by temporary factors and the expansion based on a durable improvement in the fundamentals. Following a sharp rebound at the end of 2009 and beginning of 2010, industry is logically recording a moderation of its growth rate, which is resulting in a decrease in the ISM index following the all-time high reached in April. Nevertheless it should be emphasized that the index remains at a level still synonymous with strong expansion, with a continued increase in production but also in new orders and jobs. In this respect, industry's contribution to the recovery of recruitment since the beginning of the year (+136,000) is all the more significant in that the sector has seen an almost-uninterrupted structural decrease in the number of its workers since the end of the 1990s. It is a reflection of the dynamism that has characterized the global manufacturing industry since the second half of 2009.

The return to expansion in services has been less sudden and later, as is logical in view of the less cyclical nature of the sector. However, it was very real during the first half of 2010, reflecting the

gradual setting in motion of the virtuous circle of consumption/employment. Like the ISM manufacturing index, the June drop in the ISM services index does not impair the positive trend that characterizes the sector. The level of the index remains in line with continued expansion in the coming months, even if the increase in employment is still not very brisk.

In the light of these indicators, it therefore clearly emerges that the US economy is not in the process of having the ground swept from beneath its feet and that the growth dynamic has indeed been set in motion. It appears to be equally clear that this trend is set to slow down in the second part of the year, owing to the disappearance of the "boosting" measures that were behind the recovery. It seems logical that a still-convalescing economy will not regain too quickly its cruising-speed growth rate. Other paths are possible between strong growth and a relapse...

Europe

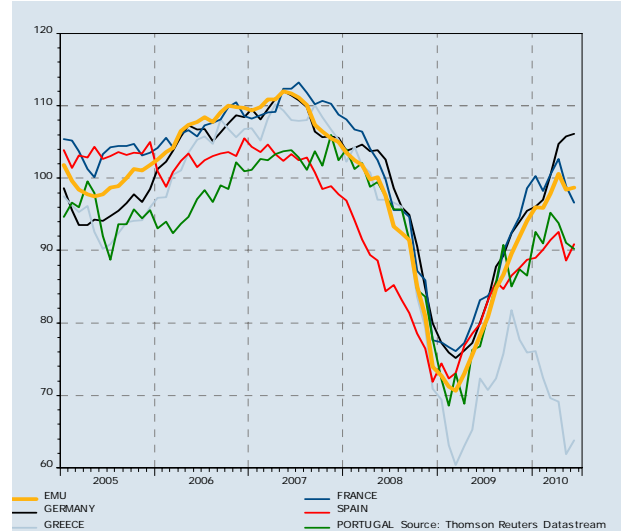
The sovereign debt crisis weathered in recent months and its consequences in terms of economic policies had somewhat eclipsed the good news about economic activity during the second quarter. Yet following a still-weak first quarter, growth appears to have indeed recorded a significant acceleration during the spring, with Europe at last joining the global recovery movement that had already begun in the emerging economies one year ago.

Germany is clearly depicting itself as the engine of European growth, thanks to the competitiveness of its industrial sector, which is enabling it to fully benefit from the increase in Asian and US demand. Thus industrial production again showed a strong increase in May, driven not surprisingly by capital goods, which are benefiting from the recovery of corporate investment at the global level. Orders placed with factories also remain very favourably oriented. The dynamism of Germany's industrial sector is also illustrated by the foreign-trade statistics: both exports and imports increased strongly during the month of May, to return nearly to the levels that had prevailed before the financial crisis plunged the world into recession. The increase in imports reflects companies' growing needs relating directly or less directly to this export dynamic: they too have to replenish their inventories, invest and produce in order to meet demand.

For the euro zone as a whole, confidence remains at a high level, which the last few weeks have in the end dented only slightly. Thus the European Commission's economic sentiment index rebounded in June following a decline in May and remains close to its highest level in two years, which it reached in April. The trend on the labour market is also

improving gradually, although there are still disparities within the euro zone, but the overall unemployment rate is reaching a ceiling at 10%. Here too, Germany is notching up the best performances with a decrease in the number of unemployed for the 12th consecutive month and an unemployment rate at virtually its lowest level in eighteen years.

ECONOMIC SENTIMENT INDEX OF THE EUROPEAN COMMISSION (EURO ZONE AND SELECTED COUNTRIES)



Although the divergences in the euro zone remain considerable, with Germany displaying its good health while the southern European countries are suffering from the debt crisis, confidence in the euro zone is not weakening.

This recovery of growth, which is likely to result in a significant increase in the euro zone's second-quarter GDP, is based largely on external demand, while domestic demand and in particular consumption remain weakened by the still-high level of unemployment and unused production capacity. Consequently this increase in activity is not resulting in price tensions and inflation remains at a low level (1.4% in June, below the ECB's inflation target). The European Central Bank can therefore focus on ensuring that the European financial system functions properly and on the gradual withdrawal of the exceptional support measures put in place in 2009. Thus the arrival at maturity of the EUR 442 billion one-year financing operation at the beginning of July was followed by operations having a shorter maturity (three months), a stage in the normalization of the commercial banks' financing conditions. In the end this transition went off smoothly, giving a reassuring indication about the state of Europe's financial system.

In the United Kingdom, the recovery of activity is continuing, and is still being led by the industrial sector: manufacturing production rebounded in May

the following the drop recorded in April; although the PMI manufacturing index declined slightly in June following two record months in April and May, it remains at a level synonymous with strong expansion. Activity in services also continues to grow, although at a less brisk rate, and has been slowing down for a few months, whereas domestic demand remains weakened by the level of unemployment and the promises of austerity made by the government. In this environment, the Bank of England has decided to leave its extremely accommodative monetary policy unchanged (its key interest rate is fixed at 0.50%), whereas the prospects of weak growth seem to indicate that the price tensions which have appeared in recent months will be dissipated.

The Swiss economy remains characterized by impressive dynamism. The activity indices still stand at an extremely high level. The unemployment rate continues to fall and reached 3.7% in June, its lowest level in one year. At the same time the strength of the Swiss franc is helping to contain any price tensions and inflation even slowed down significantly in June, from 1.1% to 0.5%. While the currency's rapid appreciation movement may well weigh on the competitiveness of Swiss companies in the coming months - and might be behind a fall-off in this fine dynamic - the situation is for the time being ideal in terms of economic policy: growth of activity is causing unemployment to fall and supporting consumption without causing any tension on prices. Did you say "Goldilocks economy"?

Japan

Since the departure of Junichiro Koizumi in 2006, the Archipelago has had difficulty in endowing itself with a strong political leader capable of initiating the important economic reforms the country needs. Thus only a few weeks after he was appointed, the Prime Minister, Mr Kan, has had to face a clear-cut defeat of his party at the elections for the Upper House of Parliament. Although this defeat does not automatically imply the departure of the Prime Minister (he is appointed by the Lower House, where his party still has a comfortable majority), it sounds the death knoll of the ambitions to restore order to public finances, which Mr Kan has expressed in recent weeks. The tax consolidation will have to wait for the next Prime Minister...

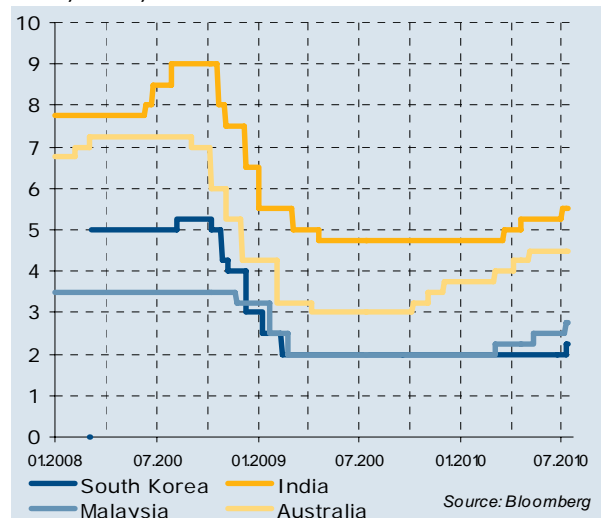
Emerging economies

The emerging economies continue to be the front runners in the global economic cycle, a few months ahead of the developed countries, led by the United States. Thus the manufacturing activity indicators, which had peaked at the end of 2009/beginning of 2010 in China and Brazil, have since then lost

ground owing to the dissipation of the catching-up effect connected with inventory replenishment. A prelude to the reversal observed recently in the US and European activity indices. However, these indices continue to reflect an expansion of activity at a brisk and now-sustainable pace.

Furthermore, the emerging countries, to which should be added the developed economies that are closely linked to them, have already entered a phase of economic-policy normalization. Thus most of the central banks have begun to raise their interest rates again, the latest to do so being that of South Korea. The Indian and Malaysian central banks, for their part, have continued a cycle that already began a few months ago. This return to normal of monetary policies is a reassuring signal of those economies' health. If the authorities decide to withdraw the monetary policy support, it is because the need is no longer felt...

KEY INTEREST RATES OF THE CENTRAL BANKS OF SOUTH KOREA, INDIA, MALAYSIA AND AUSTRALIA



The interest-rate raising cycle began in Asia, and for the emerging economies and those closely linked to them, such as Australia or Canada.

Markets

Equities

Following a chaotic performance in June, the international stock markets have regained some colour in July. A series of favourable economic data and the publication of the first details about the forthcoming bank stress tests in Europe have restored a semblance of calm to the markets.

Some good news from Germany as well as the raising of the International Monetary Fund's global growth expectations, which rose from 4.2% to 4.6% for 2010, generated a burst of optimism on the markets. At the same time the European institutions announced some clarifications about the "stress tests" to which the banks will be subjected as of the end of July. The regulatory authorities have extended the scope of investigation by including 91 banks and by covering the sovereign debt crisis. Thus the tests comprise a discount of 16% to 17% on Greece's debt compared with the current levels. For Greek 10-year bonds, this implies a 60% discount on face value. This effort to be transparent has been well perceived by the market, particularly as the current president of the European Union has pointed out that "the necessary measures" will be taken to help recapitalize the weakest banks, if necessary.

TREND IN THE EUROPEAN BANKING SECTOR COMPARED WITH THE DJ STOXX 600 SINCE THE BEGINNING OF JUNE



European banking shares rebounded in July. The publication of the stress tests at the end of the month should bring more transparency and reassure the operators.

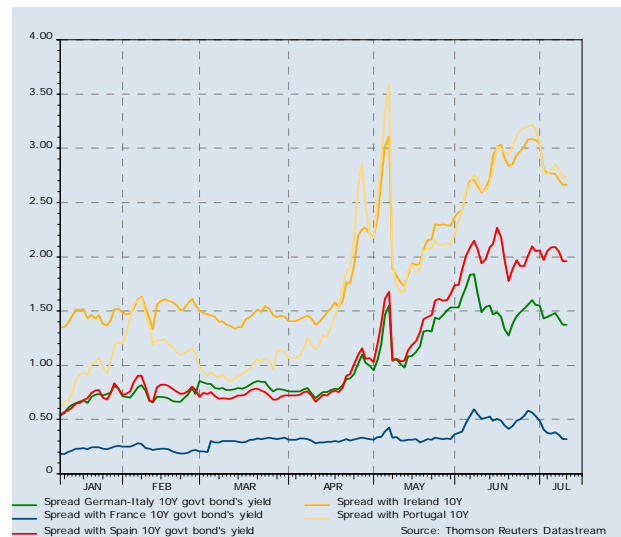
With the opening of the corporate earnings season this week, micro-economic news will return to the forefront. While the valuation levels remain

attractive and the base effects rather easy, the operators will be paying close attention mainly to the comments made by the company heads and to their forecasts for the second half-year. The publication of the bank stress tests at the end of the month might in turn influence the market sentiment.

Bonds

The beginning of July was marked by a decrease in risk aversion. The capacity of the European financial system to digest the shortening of the ECB's long-term financing operations and an easing of fears about a relapse of the global economy caused a slackening of interest rates on the bonds of risky issuers, and on corporate bonds. At the same time the benchmark issuers, which had benefited from the flight to quality, recorded a slight rebound of their interest-rates. Thus the interest rate on 10-year German bonds rose from 2.54% to 2.67% before stabilizing at around 2.60%. In the United States the 10-year rate returned to above 3%, while in Japan it rebounded following its low at 1.07% to return to 1.16%.

SPREADS ON 10-YEAR BOND INTEREST RATES BETWEEN GERMANY AND ITALY, FRANCE, SPAIN, IRELAND AND PORTUGAL



With the decrease in risk aversion, the interest rate spreads in the euro zone have narrowed.

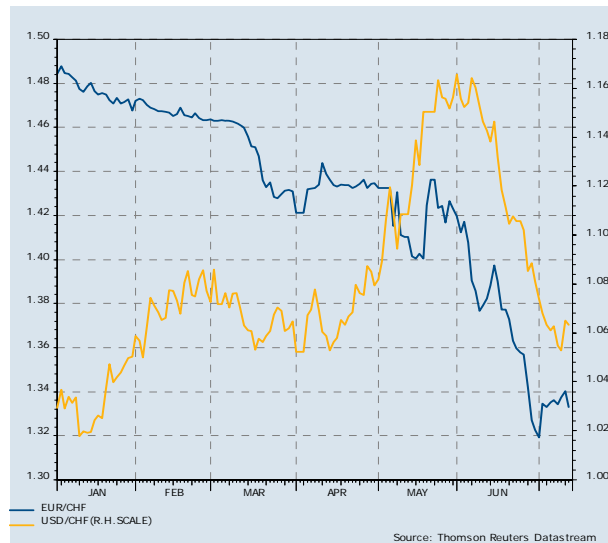
Before the publication of the stress tests conducted on the European banks (July 23), investors appear to consider that the outlook for the countries threatened by a debt crisis has improved slightly. However, this sentiment remains fragile and contingent upon the forthcoming maturity dates going off smoothly. In particular, the return of Greece to the capital markets for the first time since the emergency rescue plan launched by the European Union and the IMF at the beginning of May

will constitute a thermometer of investor sentiment about the efforts made in recent months by the Greek state to restore order to its finances. The way in which the financing operations conducted by Spain proceed will serve as another indicator of market sentiment about the situation of Iberian finances.

Exchange rates

The revival of investors' risk appetite has also been manifested on the foreign-exchange market by a decline in the Swiss franc following the very strong appreciation recorded in June against the euro and the dollar (+7% approx.). After having reached an all-time high against the European currency (EUR/CHF 1.3074 in a trading session), the Swiss franc declined slightly to return to above 1.33.

EURO AND US DOLLAR AGAINST THE SWISS FRANC SINCE THE BEGINNING OF 2010



The Swiss franc appreciated significantly in June, driven by its safe-haven status. Since the beginning of the month it has posted a slight correction.

However, the recent appreciation movement of the Swiss currency is based not only on the franc's status as a safe haven. The fundamentals of the Swiss economy (dynamic growth, low debt) justify the strengthening of the currency, which is in fact not excessively overvalued in terms of purchasing power parity. In this respect the slight decline observed since the beginning of July is not the harbinger of a trend reversal, but rather reflects a consolidation of the swift movement seen in the previous weeks. A return of risk aversion, caused in particular by a rebound of worries over the situation in the euro zone and its financial system, would, on the other hand, be likely to revive the appreciation of the Swiss franc, which therefore appears more likely to resume its appreciation trend than to weaken over the coming months.

As for the euro, it has rebounded against the dollar to reach 1.27, buoyed by the easing of the fears over the financial situation in the euro zone and the encouraging economic statistics from Germany.

The yen, for its part, reached a seven-month high against the dollar (at USD/JPY 87.52), buoyed by the flight-to-quality movement before falling back to around 88.50.

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 July 12, 2010**, is given below.

Allocation grid for a “medium” risk profile in euros

Bonds		35%
	Short-term bonds	35%
	Long-term bonds	0%
Equities		30%
	Europe	12%
	United States	11%
	Japan	3%
	Emerging countries	4%
Alternative investments		18%
Gold		5%
Structured products		2%
Cash		10%
TOTAL		100%

On the other hand, we have decided to alter the currency exposure of the Swiss-franc accounts in order to take account of the recent factors that tip the balance of risks in favour of a continued appreciation of the Swiss currency.

Thus **the net currency exposure of the Swiss franc accounts is now as follows** (the previous allocation is in brackets):

LOW risk profile:	CHF 84% (77%)	EUR 8% (13%)	USD 8% (10%)
MODERATE risk profile:	CHF 79% (71%)	EUR 11% (17%)	USD 10% (12%)
MEDIUM risk profile:	CHF 75% (69%)	EUR 13% (16%)	USD 12% (15%)
HIGH risk profile:	CHF 73% (67%)	EUR 14% (17%)	USD 13% (16%)