

June 30, 2010

The main points at a glance

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Projections at 6 months

After a phase of vigorous acceleration, the growth dynamic is marking time in the United States, reviving the fears of a relapse of the global economy. In the face of this situation, two opposite approaches are being adopted in the developed countries. The European countries, having had their fingers burnt by the sovereign debt crisis that has recently shaken the south of the continent, are hurrying to put in place plans to restore order to their public finances, so as to absorb the record deficits accumulated during the crisis and to reverse the upward trend in their debt. The United States, for its part, is worried about a premature withdrawal of the budgetary support measures for economic activity, which would jeopardize the global recovery. In particular, that country is afraid that Europe may not participate in the recovery of demand and may rely on growth of its exports. These divergences clearly emerged at the G20 summit that was held in Toronto on June 26 and 27. They illustrate the fears that persist about the economic outlook and about the different countries' ability to manage the post-crisis phase. On the other hand, if there was one measure that did not arouse any controversy, it was China's decision to ease the exchange rate system of the yuan. A few days before the G20 meeting, the authorities decided to allow the resumption of a trend of slight and gradual appreciation against the dollar, following the pause observed since 2008.

While waiting for the publication of earnings results, the stock markets continue to move in line with the fears over the macro-economic outlook.

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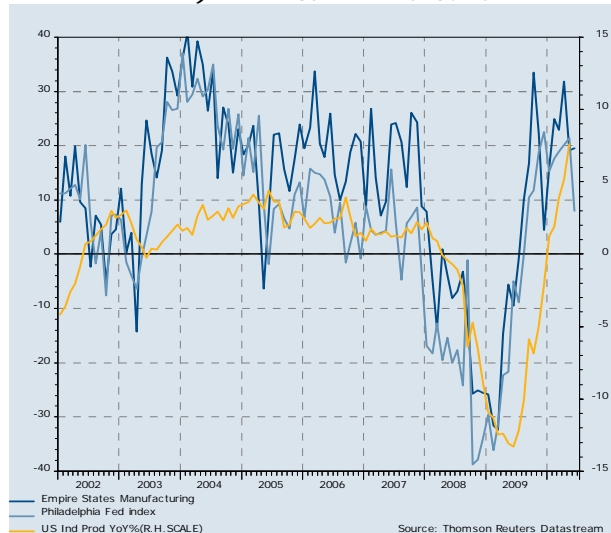
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Economy

United States

The US economy is entering a new phase of the economic cycle. The end of 2009 and the beginning of 2010 had been marked by a vigorous recovery of industrial activity, which was boosted by the rebound of global growth, the revival of corporate investment and inventory replenishment. Since the middle of the second quarter, this catching-up movement following the halt caused by the 2008/2009 recession, is gradually being transformed into a growth of activity due to the increase in final demand, with the result that the economic indicators are constantly improving from month to month. The decline in a number of these indicators over the last few weeks is arousing some concern about the sustainability of US growth. The picture painted by the recent statistics is far from worrying, however, and simply reflects the return to normal of growth in economic activity.

REGIONAL MANUFACTURING ACTIVITY INDICES (NEW YORK AND PHILADELPHIA) AND INDUSTRIAL PRODUCTION



While continuing to increase, industrial production is likely to mark time in the near future, in the wake of the activity indices, following the strong acceleration over the last 12 months.

Thus the publication of the regional manufacturing industry indicators, which were lower than expected and sharply down in the case of the Philadelphia Fed index, has given rise to doubts about the soundness of industrial activity. Yet these indicators reflected only a slowdown in the growth rate, which had reached highs during the first few months of the year. They all remain at levels synonymous with an expansion of activity. Similarly, durable goods orders posted their first decline in May over the last six months, but this decrease stems from a drop in

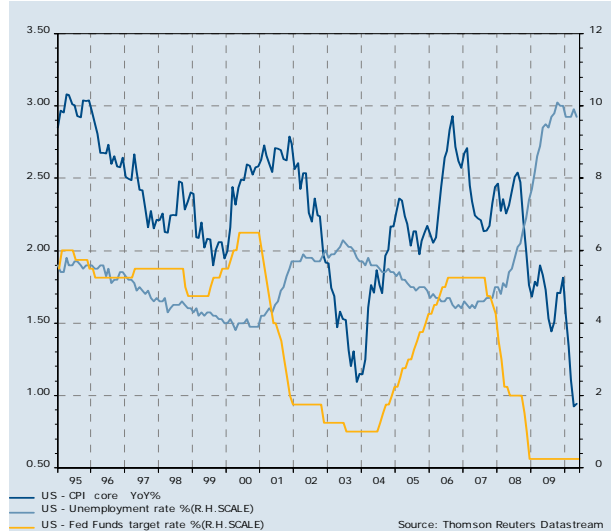
aircraft orders, which are very volatile. Orders of machinery, electronics and even cars continued to increase, reflecting the continued growth of corporate investment.

Thus the decline in these indicators should not be interpreted as a signal of a relapse of the US economy, but rather as a sign of a stabilization of growth in activity at a pace compatible with the increase in final demand. One should not expect the ISM manufacturing index to remain at around 60, (a level which it has only attained - briefly - on very rare occasions). A decline in this nationwide activity indicator, in the wake of the regional indicators, would not be fundamentally worrying as long as it remains higher than 50, the level above which the sector is growing. Nor should one expect the almost-uninterrupted growth in industrial production to continue (ten increases over the last 11 months), as it has risen by 7.6% over the last 12 months, its highest rate of increase since 1998. Thus following a strong rebound, the industrial sector will regain an expansion rate more in line with its long-term potential. It is not a relapse!

The US economy remains marked by the consequences of the recent recession, however. The real-estate sector in particular remains fragile and the statistics for the month of May have highlighted the important role played by the government bonus in the improvement observed until then. With the end of the incentive programme, house sales and house building starts have posted a sharp decrease. However, one should not neglect the restructuring that has been made possible by the implementation of this bonus. The level of inventories of new houses still stands at a low. That of existing house stocks is still having difficulty in decreasing at a time when real-estate seizures continue to drive the market. However, whereas prices have fallen markedly, interest rates are at a very low level and the recovery of employment is under way, while the (very) gradual recovery of the residential real-estate market seems set to continue during the second half-year, once the backlash of the discontinuation of the government bonus has been digested.

The risk of a relapse of the US economy is also limited by the possibility that the Fed has of keeping its monetary policy at an extremely accommodative level without departing from its two mandates - low inflation and a low unemployment rate. In fact, the consumer price index fell by 0.2% in May owing to the drop in gasoline prices, reducing inflation to 2.0%. The inflation rate, excluding energy and food prices, on which the Fed focuses, has for its part remained at its lowest level in more than 40 years (0.9%), illustrating the lack of tension on prices, at a time when the unused production capacity in industry remains substantial and the unemployment rate is still close to 10%.

UNEMPLOYMENT, CORE INFLATION AND THE FED FUNDS TARGET RATE



No inflation, a high unemployment rate... The Fed has every reason to maintain an ultra-accommodative monetary policy.

In the absence of an inflationary risk, the Federal Reserve can therefore maintain its extremely accommodative policy in order to support economic growth and thus further the decline in unemployment. That is what it stated at the end of its last monetary policy meeting, explaining that the environment justified an exceptionally low level of its key interest rate for an as-yet unspecified duration.

Europe

Following the maelstrom of the preceding weeks, the end of the month of June was marked by a measure of a return to quiet conditions in the euro zone. Of course, the worries about the financing of the southern European countries' debt persist. Some vigorously-denied rumours have intimated that Spain might have recourse to the European credit facility put in place at the beginning of the month. The revelations of the growing difficulties that Greek, Spanish and Portuguese commercial banks are experiencing in financing themselves in the market remind us that the situation is far from having been resolved. However, whereas the main euro-zone economies have announced (more or less concrete) fiscal consolidation plans, it now appears to be time to wait and see. To wait and see a possible exacerbation of the crisis if Spain were to end up calling on the aid provided by the European Union and the IMF. To wait and see also the real impact of the economy plans on public finances, on the one hand, and on economic activity, on the other.

As far as the economic publications are concerned, the latest statistics have confirmed the dynamism of activity in industry. As in the United States, this sector is benefiting from the return of global growth and in particular from the increase in investment, in both the emerging countries and the United States. Companies' inventory replenishment is also helping to drive the increase in production. Finally, the depreciation of the euro (-15% against the dollar since the beginning of the year) is lending the sector additional support, which in turn is enabling it to experience very steady growth in the second quarter of 2010.

For example, new orders posted a 0.9% increase in April, which was logically thanks to the orders placed with German industry, but also in the Netherlands, Portugal and Italy. On the other hand, France, Greece and Spain are not (yet?) participating in the recovery of industrial activity. For the euro zone as a whole, orders placed with industry were up by 22.1% over the last 12 months, their highest growth rate of the last 10 years.

NEW ORDERS PLACED WITH INDUSTRY, INDUSTRIAL PRODUCTION AND PMI MANUFACTURING INDEX



Following a strong recovery, growth of activity in industry will stabilize in the second half of 2010.

Industry's dynamism should enable the euro zone to display growth of close on 2% for 2010 as a whole. In particular, the second quarter appears set to be particularly brisk, notably in Germany. The dynamic should then slow down during the second part of the year, while remaining clearly positive. The trend in the purchasing managers' indices in the month of June foreshadows this trend. The PMI manufacturing and services indices have both declined marginally (from 55.8 to 55.6 and from 56.2 to 55.4 respectively) but remain well above 50 and therefore indicate continued expansion. Although budgetary austerity may well affect domestic demand as of the second half of 2010 and more

certainly in 2011, the euro zone should be able to rely on external demand to continue to grow.

In the United Kingdom, the government has presented its public finances recovery plan, which aims to reduce the budget deficit from 11% of GDP today to 1.1% in five years' time and thus to reverse the upward trend in the debt/GDP ratio by a time horizon of 2015/2016. To do so, annual public expenditures will have to be cut by GBP 32 billion, which represents an average cut of 25% for all the ministries with the exception of health, defence and education. Moreover, additional income of GBP 8 billion is expected from the scheduled VAT increase in 2011 (from 17.5% to 20.0%), the increase in capital gains tax for high incomes and a tax on the banks, which alone is supposed to yield GBP 2 million per annum.

This plan orchestrates a withdrawal of the State from the economy, which is likely to affect short-term growth. In return, the rate of corporation tax will be gradually lowered in order to support the expansion of the private sector by improving its competitiveness. While the government's determination to restore order to the country's public finances is a reassuring signal at a time when the United Kingdom was running one of the largest public deficits among the developed countries, this plan's impact on growth is also likely to be considerable. The government is expecting a moderate 1.2% increase in GDP in 2010, to be followed by +2.3% in 2011 and +2.8% in 2012, but the weakening of domestic demand might lead to even slacker growth.

In this environment, the slowdown seen in inflation in May - to 3.4% following a peak at 3.7% in April - is probably the beginning of a sustainable movement that will take the inflation rate towards the Bank of England's 2% target. The central bank should thus be able to maintain a very accommodative monetary policy for a long period, which will help the economy to withstand the backlash of the tightening of budgetary policy.

Japan

Having become Japan's fifth Prime Minister in five years, Mr Kan has swiftly presented a tax consolidation plan aimed at putting the Archipelago's public finances back on the straight and narrow. Japan's public debt has indeed peaked at more than 200% of GDP, with a budget deficit that exceeded 10% of GDP in 2009. Although the scale of domestic savings had made it possible to finance this abyss-like debt until then, the ageing of the population - which is leading retirees to draw on their savings - is threatening this "balance". Consequently Prime Minister Kan has set his government two objectives. The first appears to be rather vague and is not

(yet...) accompanied by specific measures. It involves reducing the primary deficit by half (before payment of interest on the debt) by 2015 and of eliminating it by 2020. The second, in contrast, is more immediate and signals Japan's determination to at last get to grips with its public debt problem. Mr Kan has committed himself not to increase the government debt issues between now and 2011, which implies immediate efforts to reduce the deficit. A buoyant macro-economic environment, with growth driven by industry and exports to the rest of Asia in particular, makes this adjustment envisageable.

Emerging economies

In the absence of major economic statistics, the economic news of the emerging countries has above all been marked by China's decision to allow its currency to resume the appreciation trend against the dollar which had been shelved for two years owing to the financial crisis and the global recession. This announcement, made only a few days before the G20 was held, has enabled China to silence the growing criticism of the yuan's undervaluation. The yuan-dollar parity remains largely under the authorities' control, however, and the yuan appreciated by only 0.5% against the dollar during the first week of this new system.

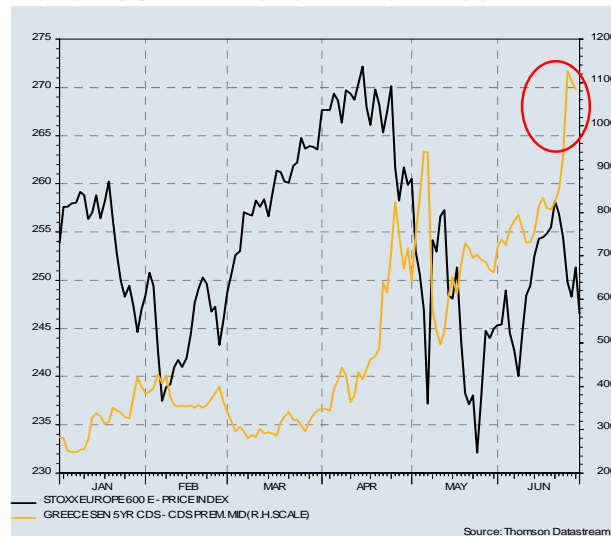
The yuan's appreciation brings some benefits for the Chinese economy, by allowing for a reduction in the price of imports, which is favourable for the expansion of domestic demand and at the same time attenuates imported inflationary tensions. However, this movement will only be very gradual, in order not to jeopardize the exporting sectors, which are essential to the economy's growth. At the end of the day, the symbolic nature of this decision by China is much more important than the direct impact it might have on global imbalances.

Markets

Equities

The stock markets continue to be characterized by a switchback movement. The revival of the fears over sovereign debt in Europe and more particularly over Greece's debt (where the cost of protection against the risk of default has reached a maximum) has dented the newly-regained optimism. The good economic news from China and the government's decision to allow the yuan to appreciate - which were initially welcomed by investors - have quickly given way to elements of concern. In particular, the downward revision of US GDP in Q1, some unengaging remarks from the Fed and dismal data from the US real-estate sector. Finally, since the G20 meeting held last weekend in Toronto gave rise to only few concrete measures, it will have had a limited impact on the market trend.

TREND ON THE EUROPEAN STOCK MARKET AND COST OF PROTECTING GREEK DEBT SINCE THE BEGINNING OF THE YEAR



Revival of stress on the markets: the five-year CDS on Greek debt has set a new record. In parallel, the European market has fallen, reflecting the return of the fears over southern Europe's sovereign debt.

In an environment of persistent economic uncertainty, the defensive sectors have continued to stand out. It is worth noting the good performance over the month of food, retailing and healthcare shares. Conversely, investors have steered clear of the stocks most closely linked to the level of economic activity, in particular construction shares, which are being affected by the bad US real-estate statistics. The financial sector has looked hesitant, in view of the lack of visibility over forthcoming new regulations. Finally, the energy sector has continued to disappoint, weighed down by the BP affair.

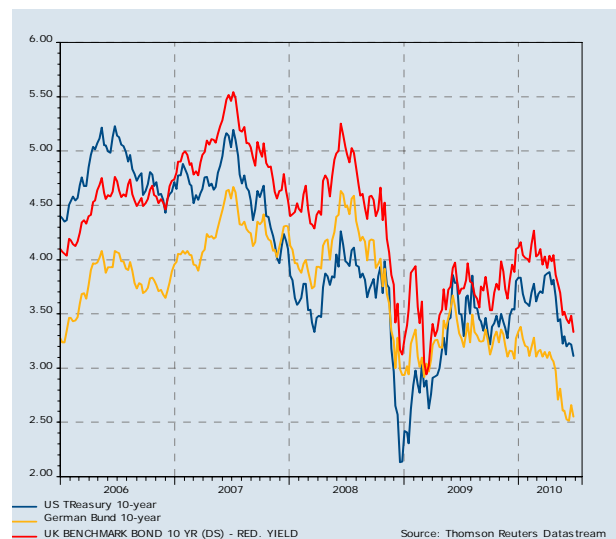
The markets are likely to continue to move in a narrow band over the next few weeks. The operators will be waiting for the upcoming publication of the earnings results to take the temperature again. At the same time the economic statistics on both sides of the Atlantic will be scrutinized with particular care - mainly those relating to employment - in order to assess whether the economic recovery is firmly anchored.

Bonds

On the bond market, the two main trends observed over the last few weeks continued during the second half of June.

On the one hand, the fears over global growth and the risk of a relapse of the US economy continue to drive the flight-to-quality movement, which is benefiting the bonds of the States deemed to be the least risky. Thus German long-term interest rates have hit new all-time lows (2.51% for the 10-year bond) and US interest rates have fallen to a low not seen for more than one year, at 3.08%. The British tax consolidation plan has also allowed for a clear-cut easing of yields, with the United Kingdom's 10-year interest rate falling to 3.3%.

10-YEAR GOVERNMENT BOND INTEREST RATES OF THE UNITED STATES, THE UNITED KINGDOM AND GERMANY

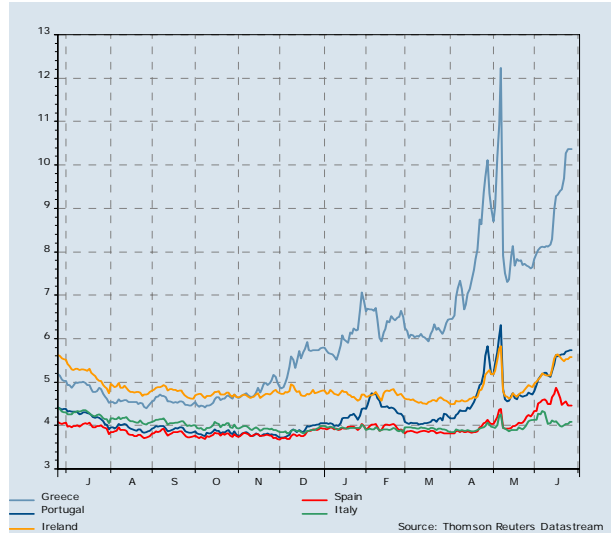


The flight-to-quality movement continues to drive down the interest rates of good issuers.

Furthermore the fears over the debt of Greece, Spain, Ireland and Portugal have triggered new tensions on the yields of those countries' bonds. Thus the 10-year Spanish rate peaked at 4.88%, while the Greek 10-year rate has returned to above 10%. Portuguese interest rates have also firmed, exceeding the level of Irish rates. In the middle of this environment, the Italian interest rates displayed

stability, at a time when the situation in the Peninsula is giving rise to less concern.

10-YEAR INTEREST RATES ON GREEK, PORTUGUESE, IRISH, SPANISH AND ITALIAN GOVERNMENT BONDS



Interest rates on PIIGS government bonds, through which the crisis erupted, continue to grow firmer.

Thus in an environment of fears about growth and risk aversion, only issuers deemed safe are therefore attracting investors, resulting in significant performance divergences on the bond market.

Exchange rates

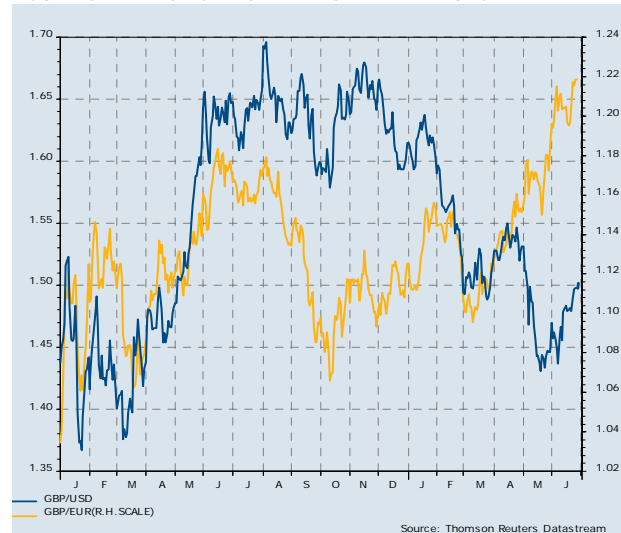
The euro stabilized against the dollar during the second half of June, following the 15% decrease recorded since the beginning of the year. The European currency has moved at around EUR/USD 1.2350, taking a break in a depreciation movement that appears set to continue over the coming months.

Against the Swiss franc, on the other hand, the depreciation of the European currency has speeded up significantly, with the euro falling to a new all-time low against the Swiss currency (EUR/CHF 1.336). The announcement by the Swiss National Bank that it was stopping its systematic interventions has paved the way for a catching-up movement, whereas the appreciation of the Swiss franc had until then been limited by the very costly

interventions in the foreign-exchange market. In practice, these interventions, which were initially intended to prevent the Swiss franc from appreciating, only slowed down the trend with some difficulty, and at what price! For the record, the cost had reached CHF 70 billion in May, causing a 50% surge in the SNBs reserves in a single month... The Swiss franc is now 10% up against the euro compared with the beginning of the year.

The pound sterling, for its part, has benefited from the announcement of the economy plan presented by the government, which has eased the fears over government debt and has had a knock-on effect on sterling-denominated assets. Thus the British currency returned to above GBP/USD 1.50, a high not seen for almost two months. Against the euro, the pound even set a high not seen since the end of 2008, at GBP/EUR 1.2215.

POUND STERLING AGAINST THE DOLLAR AND EURO



The pound sterling has strengthened recently, driven by the announcement of the public finances recovery plan.

Finally, the yen strengthened against the dollar, returning to below the level of USD/JPY 90. China's decision to ease its foreign-exchange system has led to only a very weak appreciation of the yuan against the dollar (+0.5% in one week) but it has caused the other Asian currencies to firm up.

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 June 28, 2010**, is given below.

Allocation grid for a “medium” risk profile in euros

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