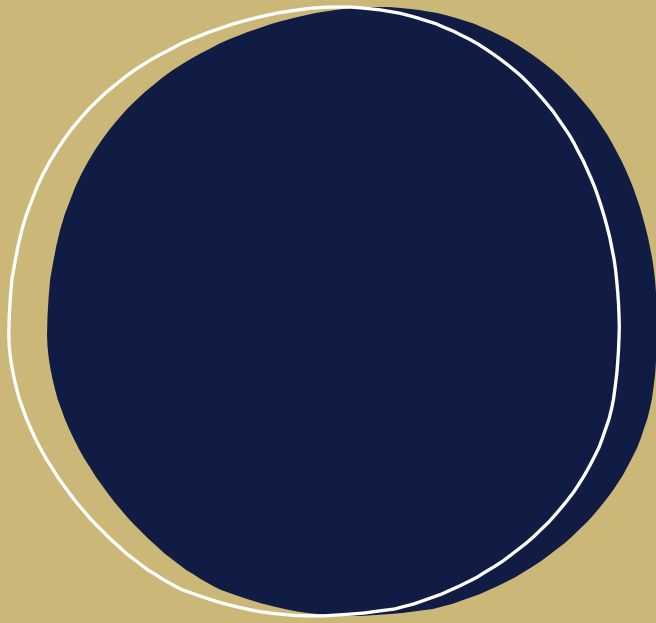


# News from the financial markets

Equity markets overcome the debt crisis

May 28, 2010





## Equity markets overcome the debt crisis

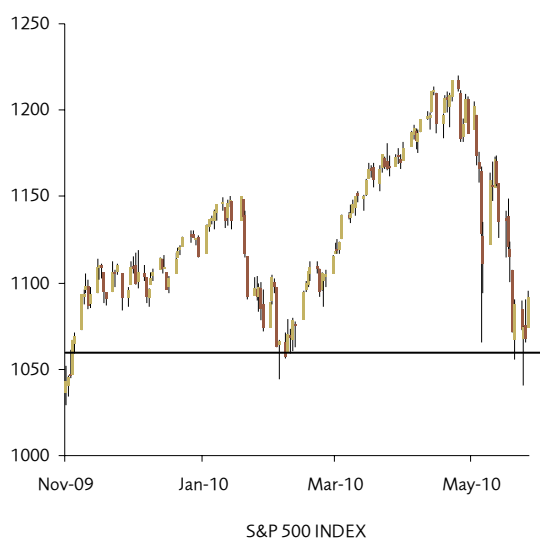
Bernd Hartmann, Senior Investment Strategist

We are sticking with our macroeconomic outlook. Accordingly, equity prices are currently too low. The market now appears to be settling, with the euro zone's future weakness priced in. We are raising the equity weighting in order to take advantage of a recovery, but are proceeding selectively.

### A late but important reaction

In early May, we reduced our equity weighting in response to the European Union's poor crisis management. Since then, the euro countries have approved a rescue package. Even more important, in our view, was the ECB's decision to purchase government debt. Over the past several days the euro zone countries have put together various austerity packages and, in some cases, approved them already.

S&P and 1060 level



Source: VP Bank, Bloomberg

### Equity markets settle down

The New York equity market, the world's largest, reacted relatively late to the European crisis. In the meantime, however, the U.S. market has become oversold. Last Tuesday evening, despite exceptionally poor market parameters, a key support level in the S&P 500 was regained. In last week's down market, Europe fared better than the United States for the first time since January 2009 – a further sign of stabilization.

As equity markets continue to settle down, company-specific factors will increasingly come to the fore. These factors remain favorable. Thus despite the uncertain future, in the past month analysts raised their corporate earnings estimates more than at any time in the past five years, with one exception.

Earnings estimate revisions



Source: VP Bank, Thomson Datastream

### Unchanged macroeconomic outlook creates opportunities

The dynamic global economic environment provides the market with further support. We have long expected relative weakness in the euro zone. Benchmark interest rates will therefore remain low well into next year. At this time, we do not see any escalation in the debt crisis.

The environment is thus favorable for equities. Following the most recent correction and the first signs of settling markets, a few market entry investment opportunities exist for active investors with an appetite for risk.

### Selective approach to market selection

We recommend a discriminating approach to market selection. Within Europe, we favor the German equity market, even through other markets fell further:

- German large caps are heavily export-oriented. Among European companies, they benefit the most from the euro's weakness, as their products become more competitive abroad.
- The austerity measures within the euro zone have not affected Germany as much as the other countries on the periphery.
- The Germany equity market index includes a significant proportion of manufacturing companies, namely 57%. The number of consumer goods companies is correspondingly small.
- German companies benefit from their international competitiveness. Unlike other European countries, this competitiveness has increased significantly in recent years thanks to the moderate wage growth policies.

Clients who already have sufficient European exposure may alternatively choose to build up positions in the United States. This market has also recently settled.

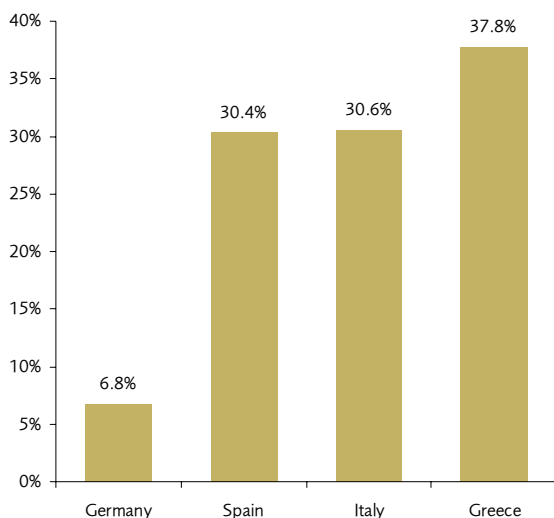
### Implementation recommendations

For clients seeking to develop positions in the German market, we recommend the iShares Dax-ETF (ISIN: DE0005933931). This is the oldest Dax index fund, which has the narrowest spreads and fully replicates the index. Alternatively, we recommend individual German stocks on our Best Buy list: Siemens, Fresenius and Allianz. For investors whose home market currency is not the euro, we recommend hedging the currency position. To develop tactical equity positions in the U.S. market, the iShares S&P 500 ETF (ISIN: IE0031442068) is a cost-effective and liquid solution.

### Conclusion

We are sticking with our macroeconomic outlook and market assessment and are taking advantage of the market settling trend to invest. For our discretionary management mandates, we increased the equity weighting from neutral to overweight. For the Swiss franc and euro mandates, this increase was made through the German equity market (DAX). For the U.S. dollar mandates, we purchased U.S. equities. Our active advisory clients can also play the equity market recovery through the above-mentioned products.

European wage trends (2000-2009)



Source: VP Bank, ECB

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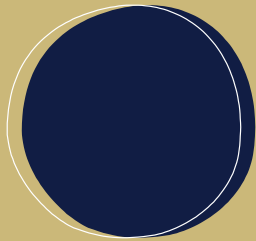
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