

## World Economic Outlook Q4 2012



"Sadi-Schuster"

### **Slowing Global Economy but better Perspective for the Euro**

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- 1 Background
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- 3 Economic policy
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- 5 Investment policy conclusions

## 1. Where is the World Economy heading?

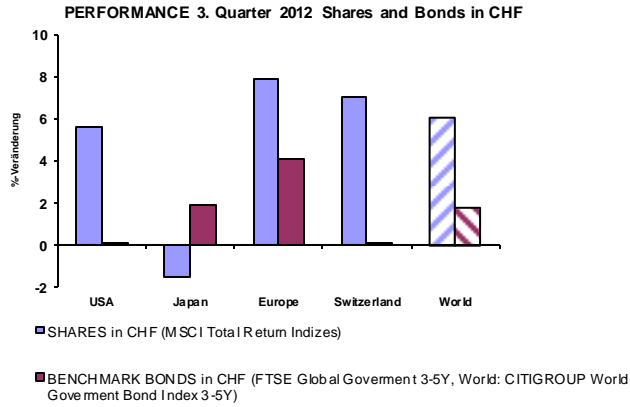
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### In Q3: Great hope for the Euro

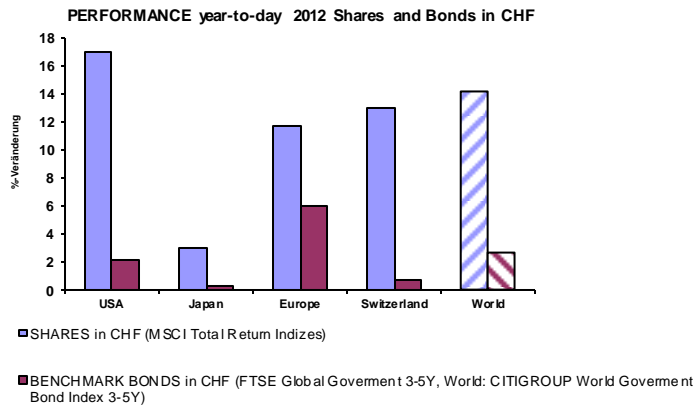
- Shares gain in Q3 more than 7% in CHF and LC
- Shares US +6% in CHF
- Shares J: - 1.5%
- Shares Europe on top with +8% in CHF
- Bonds have a plus of 2% with Europe in the lead with +4%
- Pressure on the SNB eased after the decision of the ECB to buy unlimited bonds
- Worlweite performance in 2012 for shares was excellent with + 14%

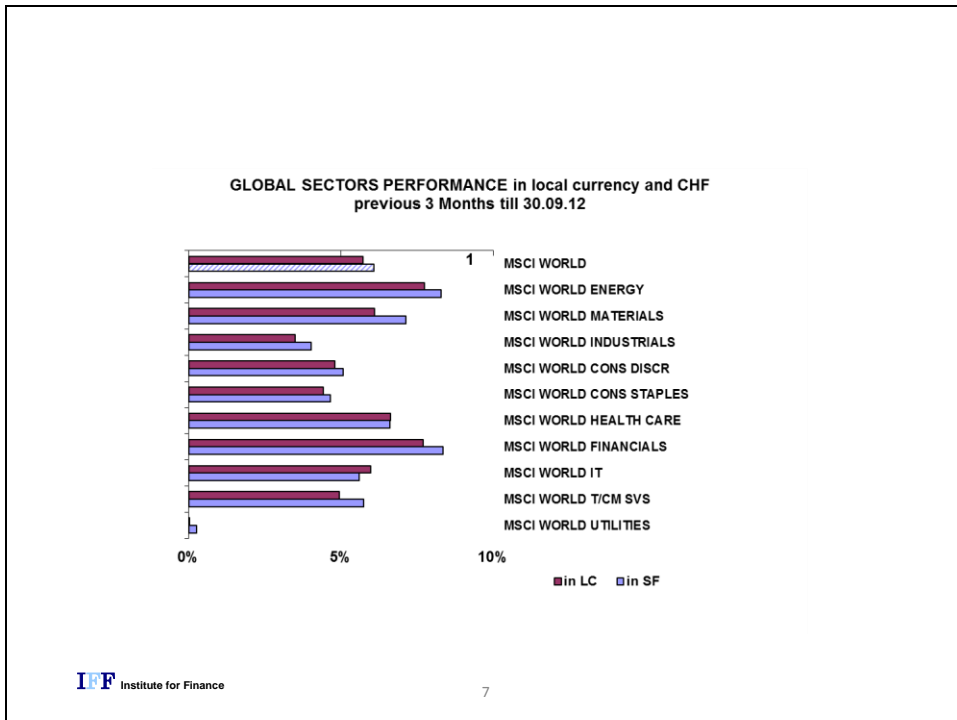
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## ECB is pushing performance forward



## Excellent Performance for shares 2012





## Financials and energy perform best

- All Sectors have a positive performance
- Financials and energy are on top
- Businesscycle sensitive Sectors as industrials and consumer discredionaries perform below average in line with the slowing of the global growth dynamics

# What next?

## The Extreme Euro-Scenarios:

### Worst- and Best-Case

#### Euro-Scenario 1: In the Worst Case: €-Breakup

- Politics is missing the necessary solidarity
- Political unrest is endangering the programs
- Capital flight out of the south
- Flight away from banks
- Liquidity crisis and solvency crisis as a result
- New banking crisis would lead to a credit crunch and recessions
- Euro is breaking apart
- Massive devaluation and high inflation would lead to a massive wealth destruction
- Poor Growth perspective in the north and low inflation or even deflation

## Euro-Scenario 2: In the Best Case:

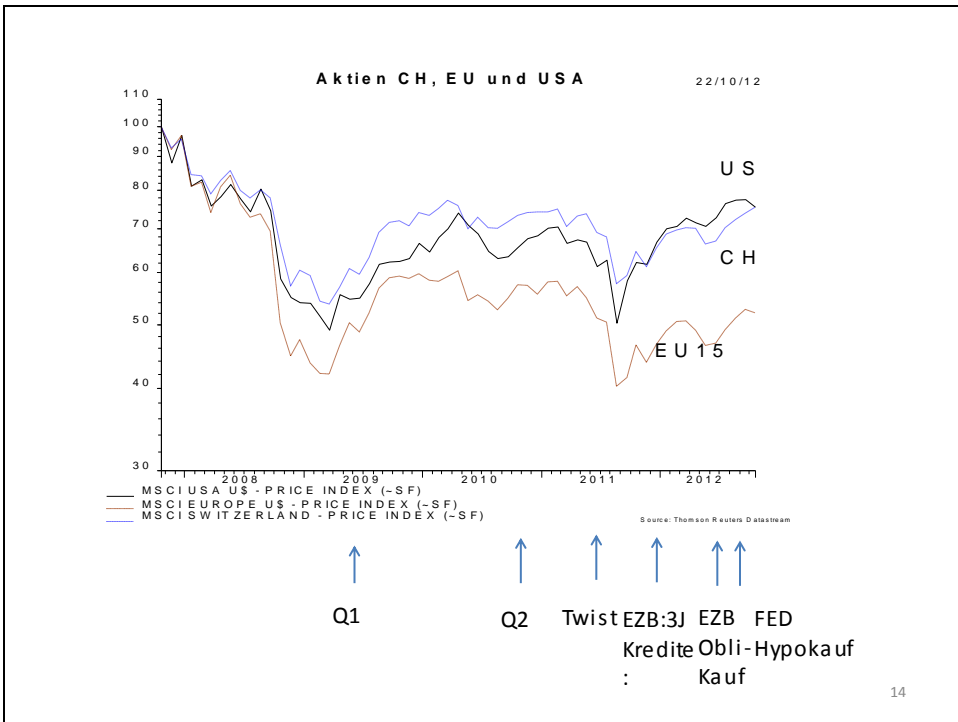
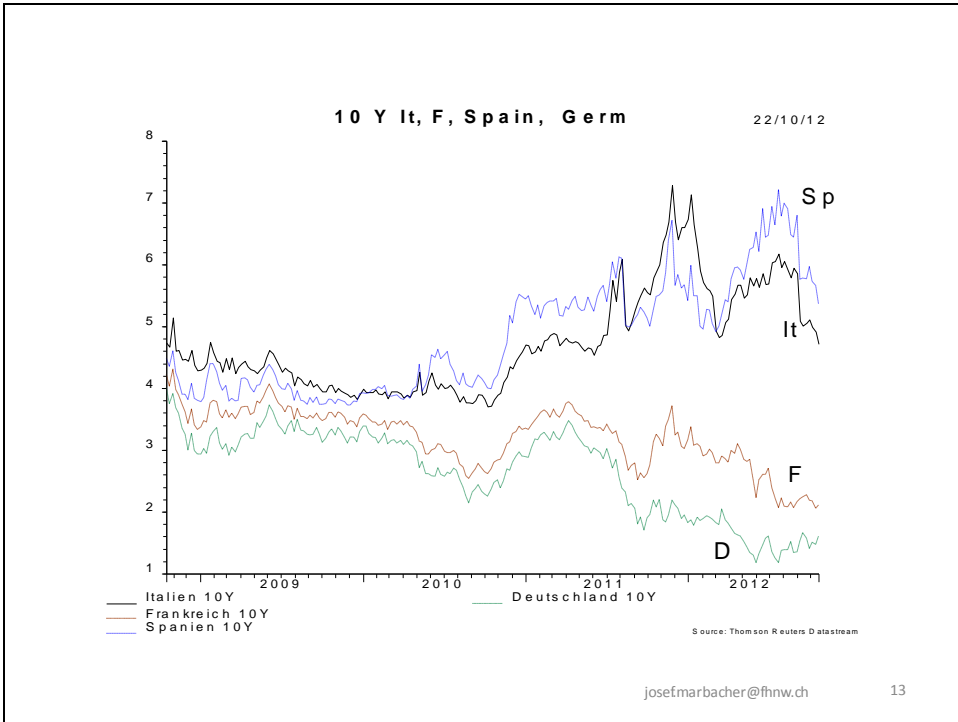
- Europe is deepening its institutional framework in the direction of a fiscal union
- The Stability- and Growth-Pact (ECB and ESM) will help restructure the southern economies (privatisation, more competition, price and wage reductions, migration)
- Vicious cycle will turn in a virtues cycle
- Risk premium will fall under 5 - 6%
- Interest rates and inflation in the north could rise in the 3 to 5% range as a consequence of the socialisation of the debt and the expansionary monetary policy
- The value of the companies should reach a higher level
- Positive wealth effect would induce higher consumption and investments

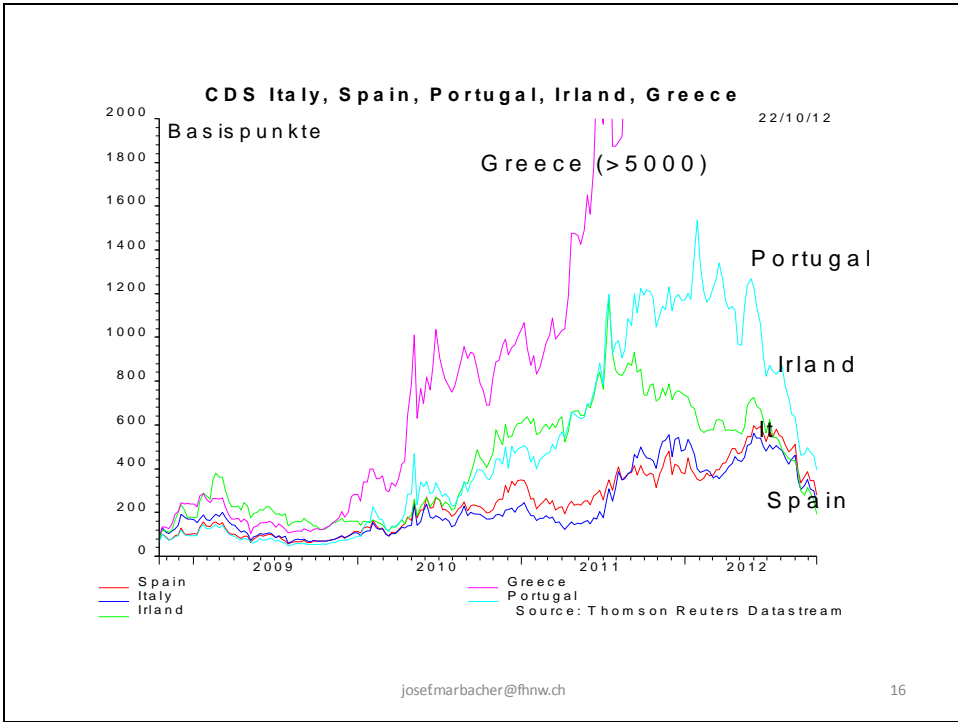
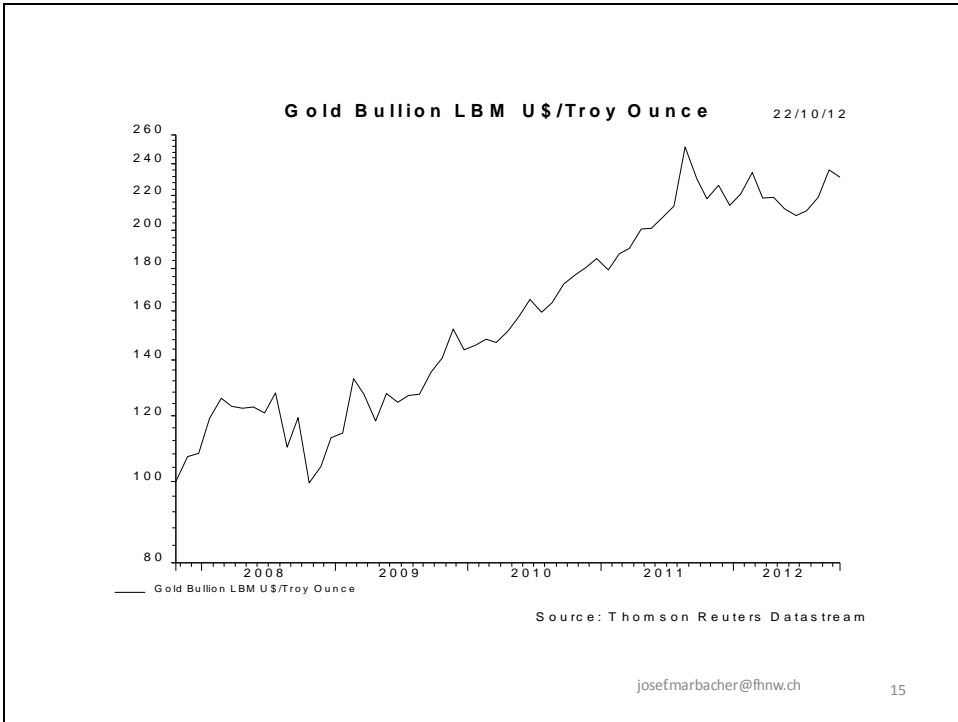
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**The Best Case Scenario has gained momentum with the decision of the ECB to establish the transmission mechanism of the monetary policy (Sept. 6, 2012)**

ECB-Draghi: «We buy Sovereign Bonds...without limit..»



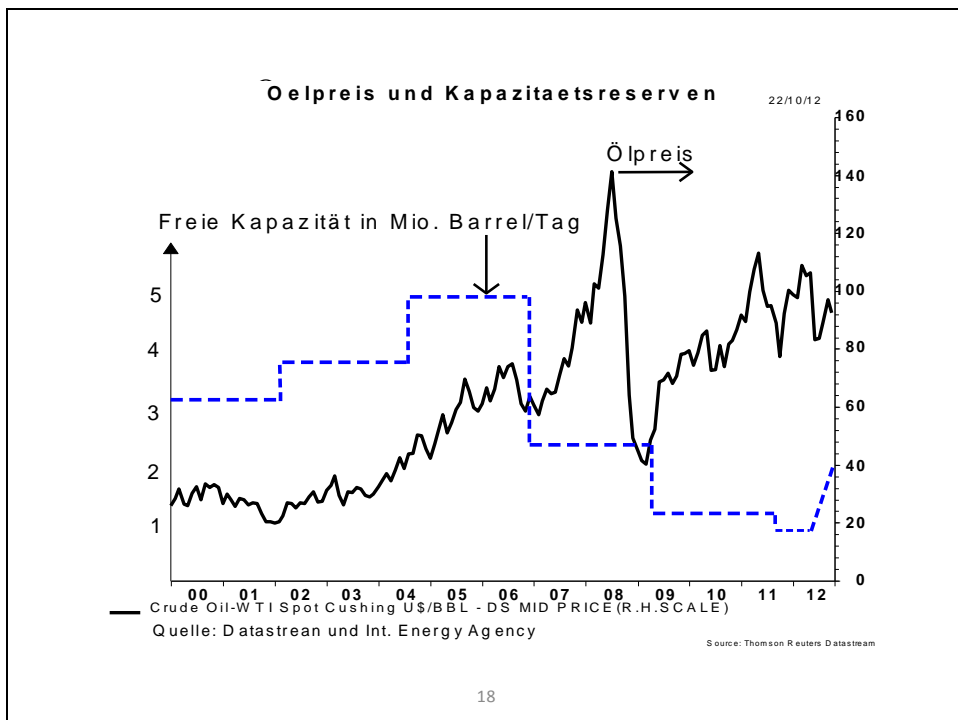


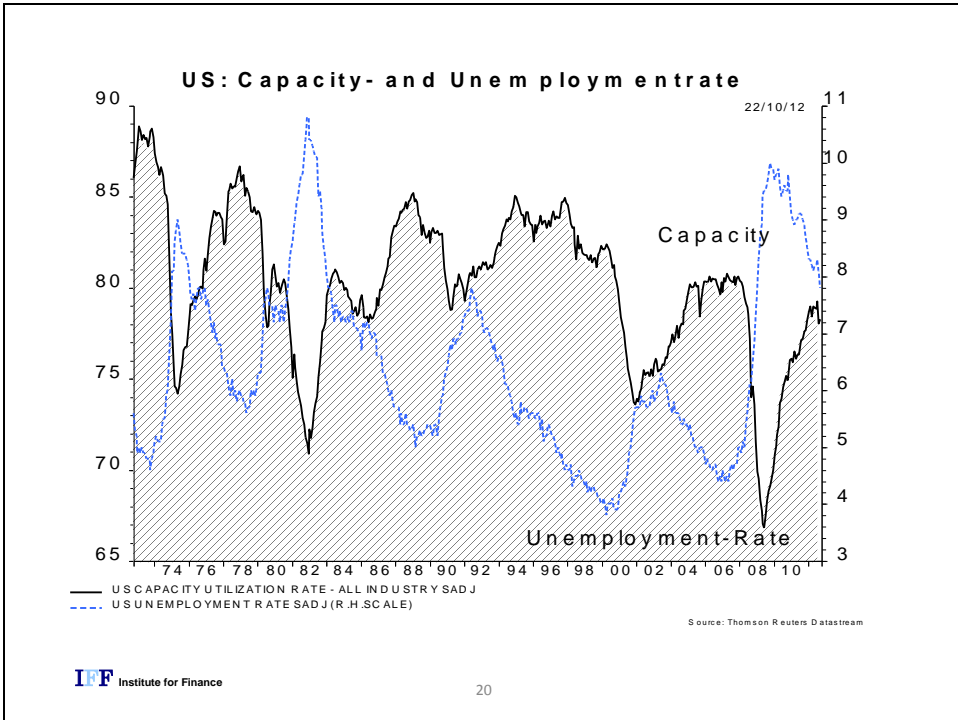
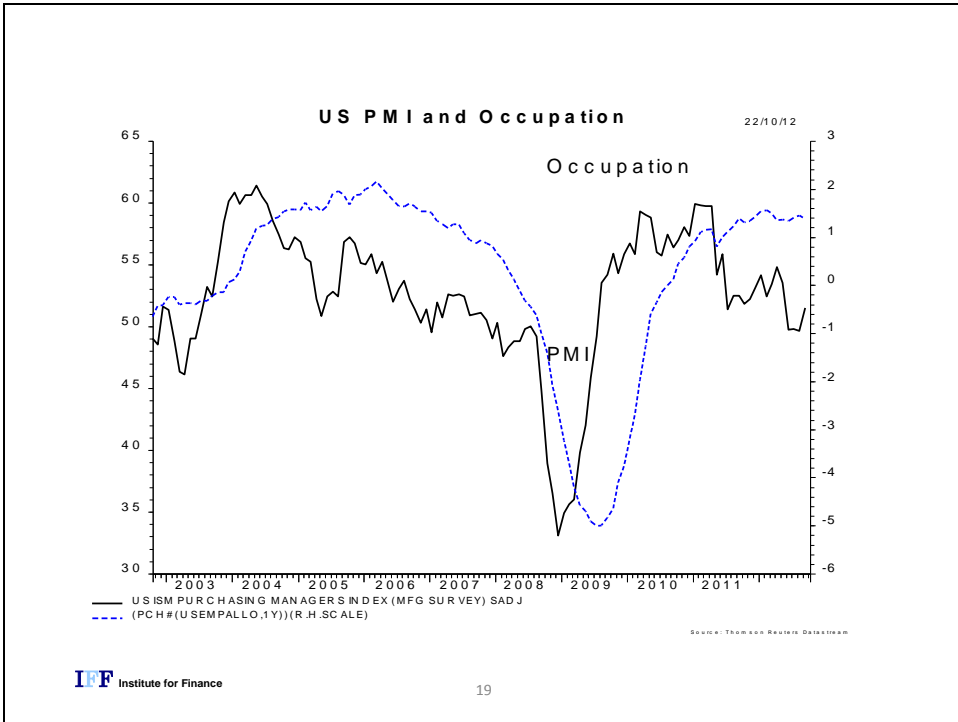


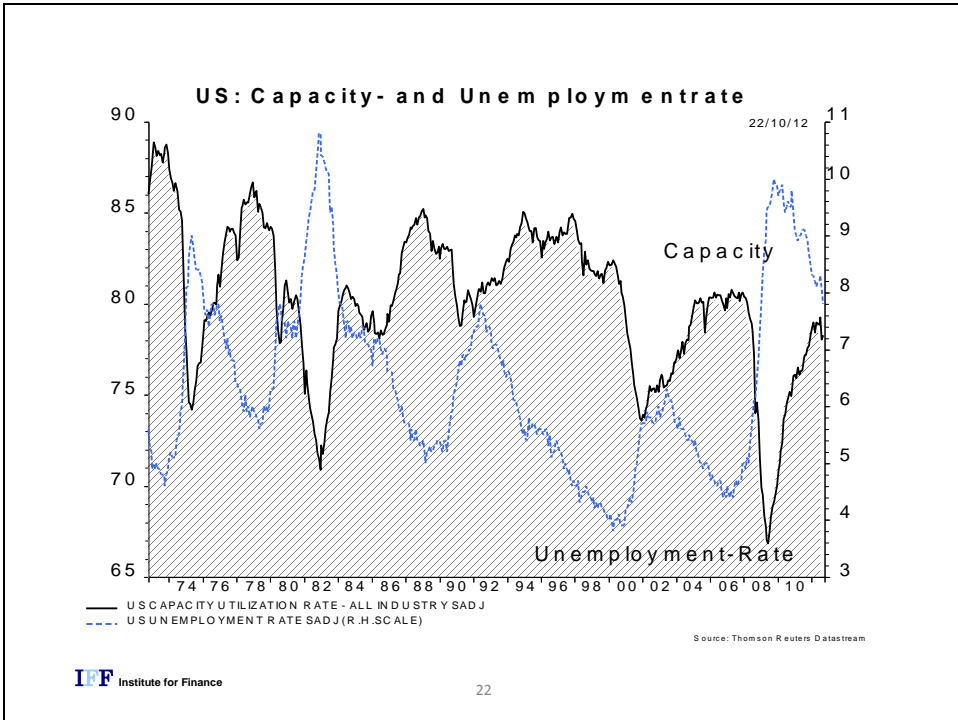
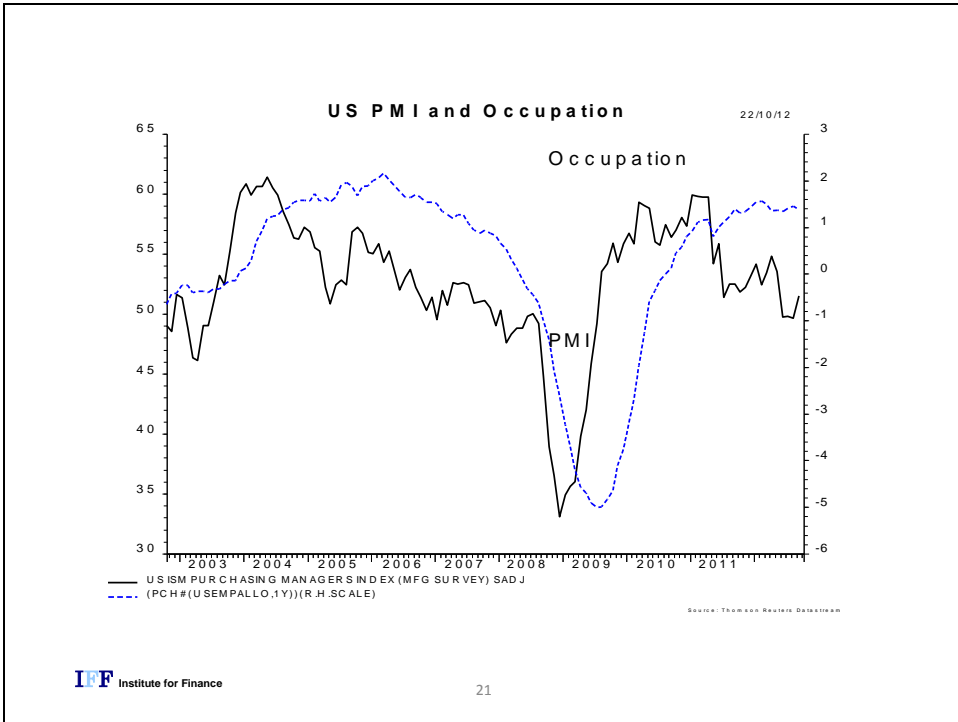
# What next in the business cycle?

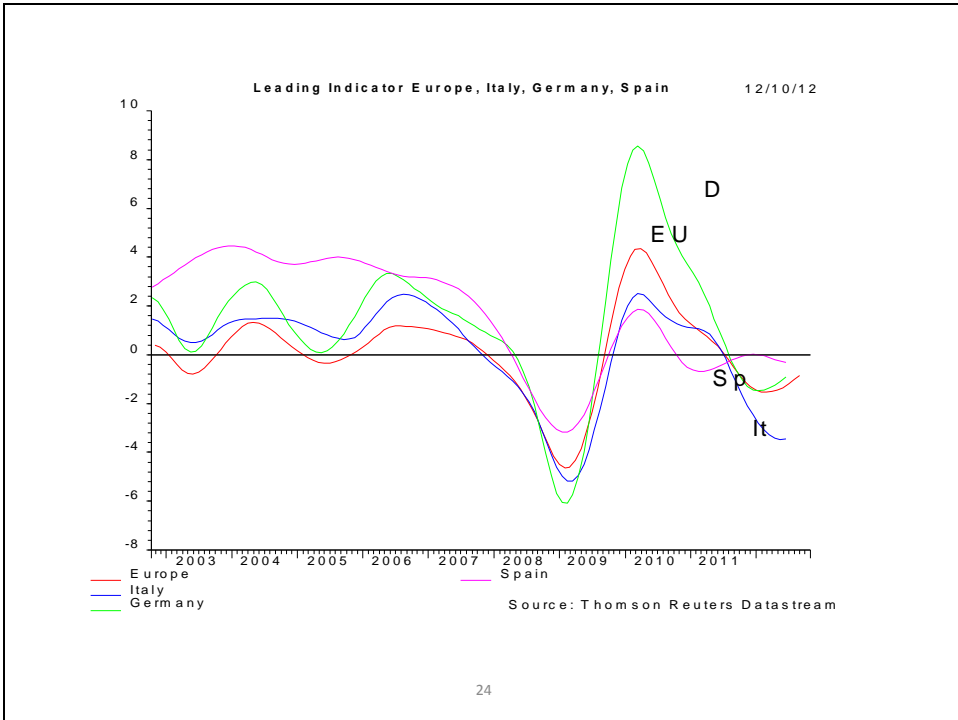
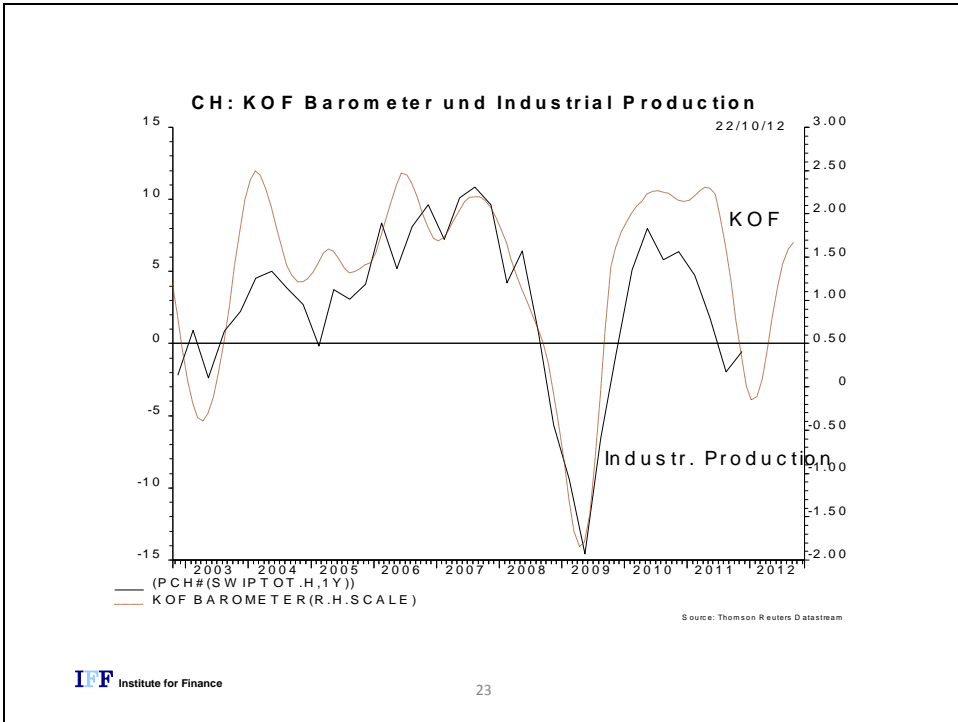
Global slowing expected

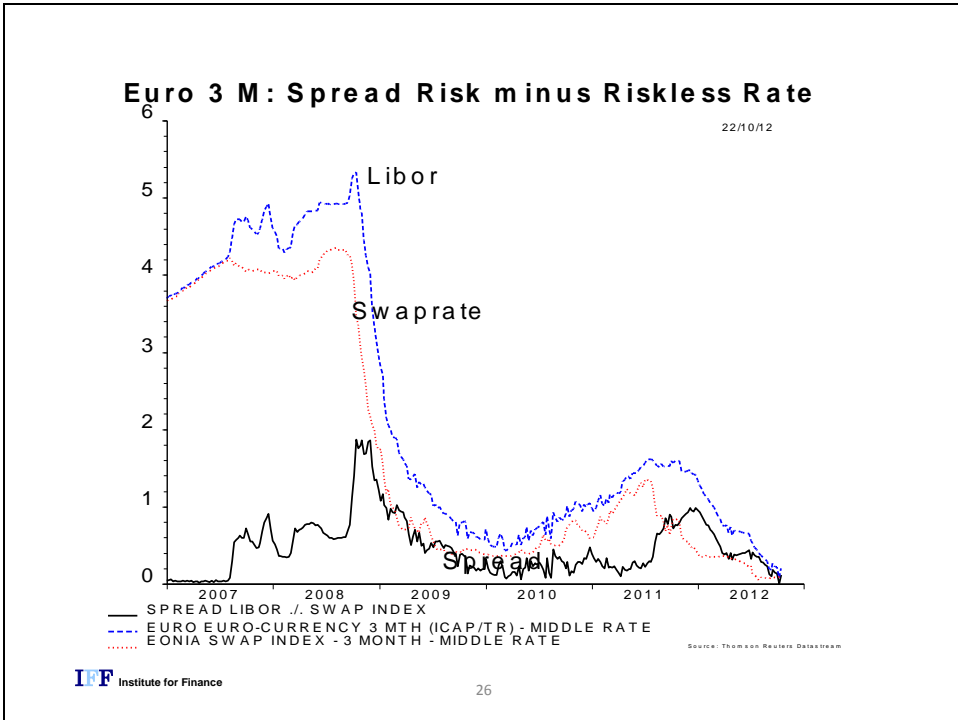
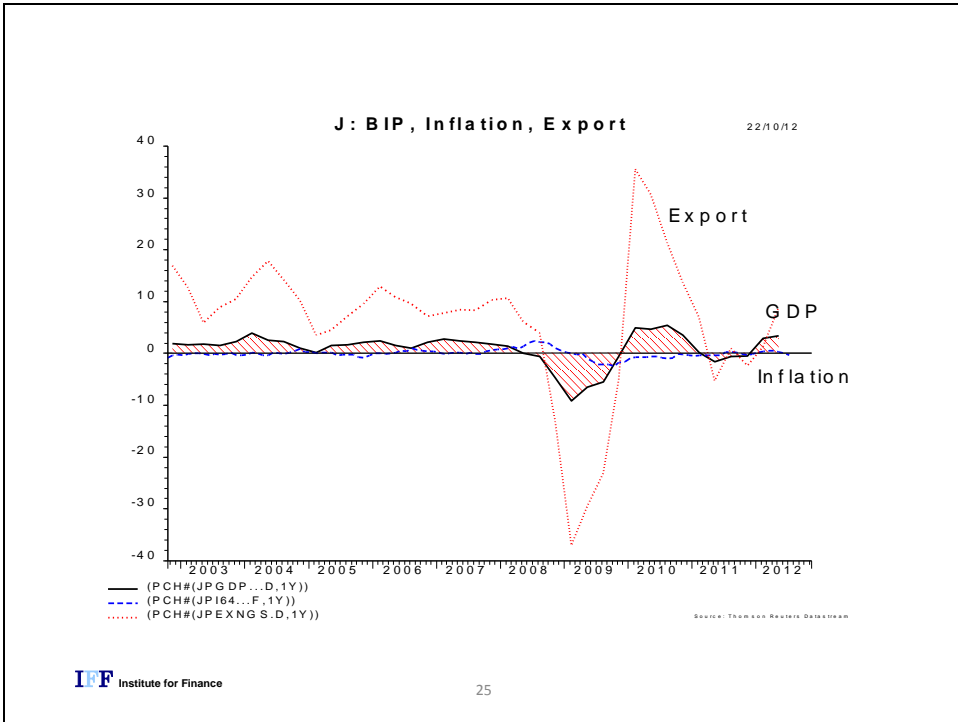
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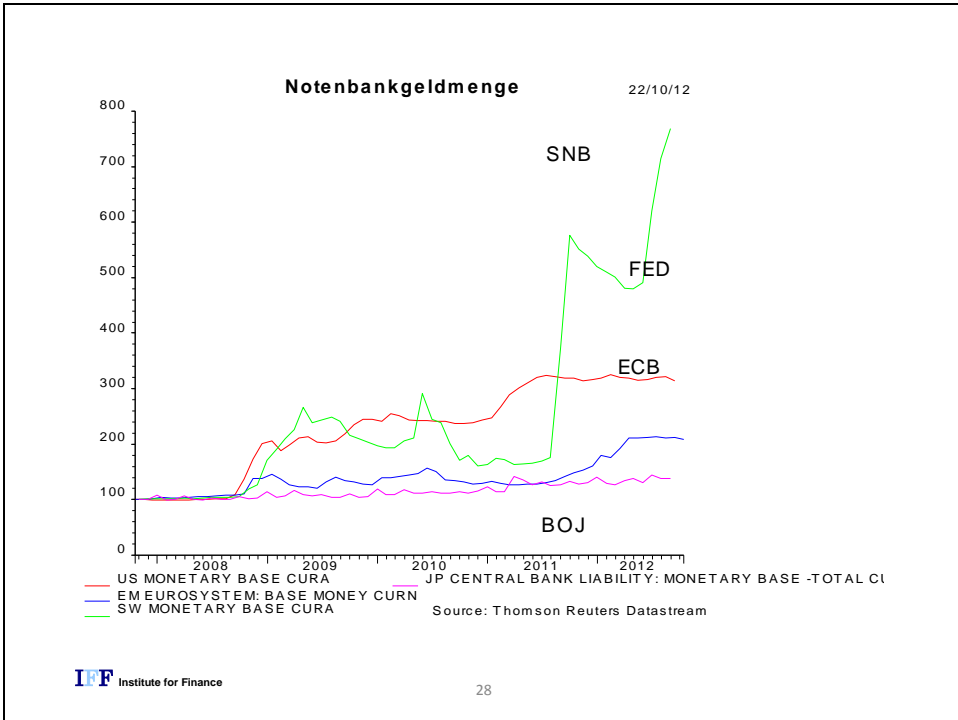
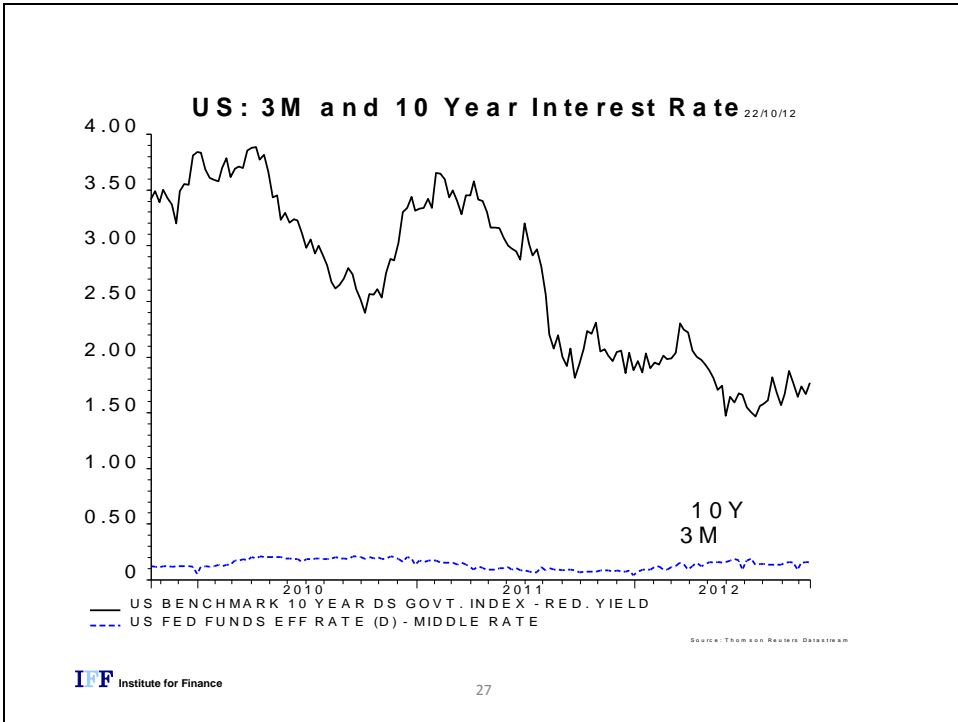


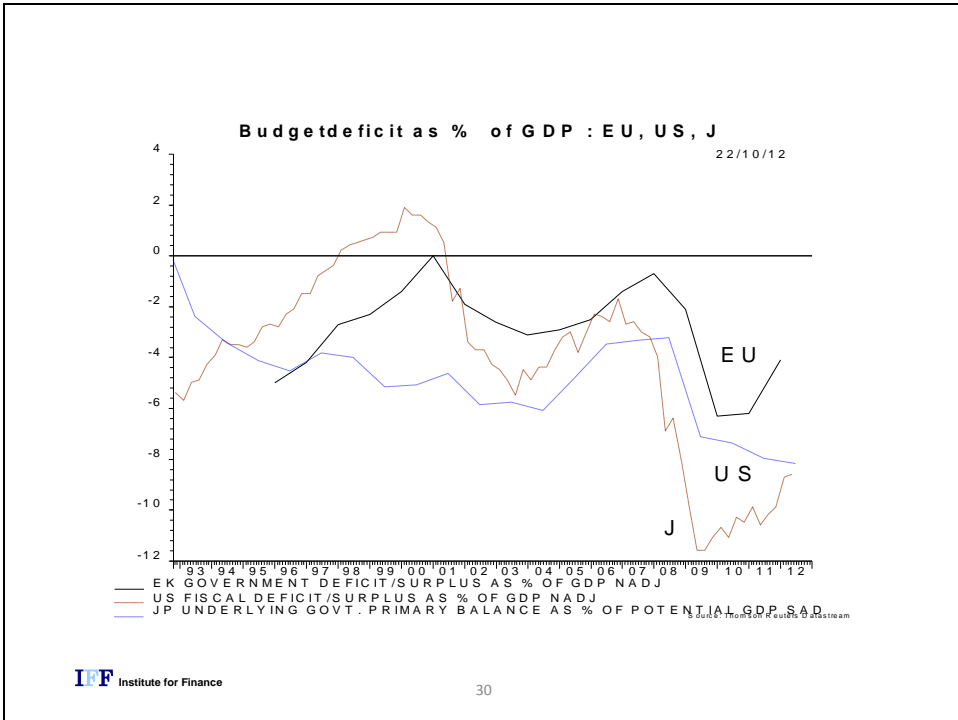
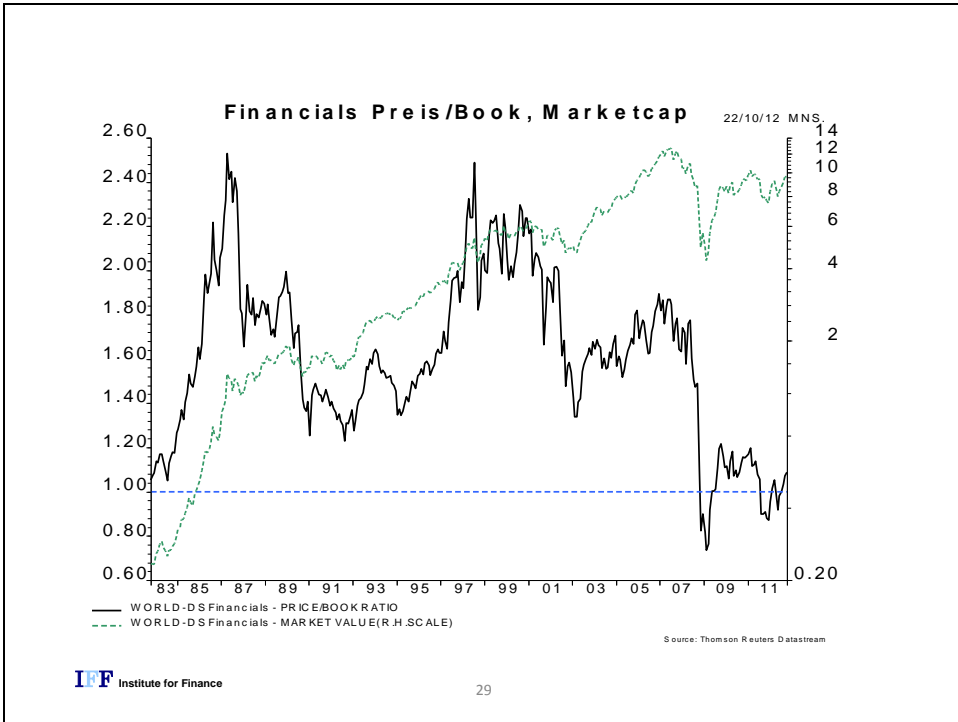


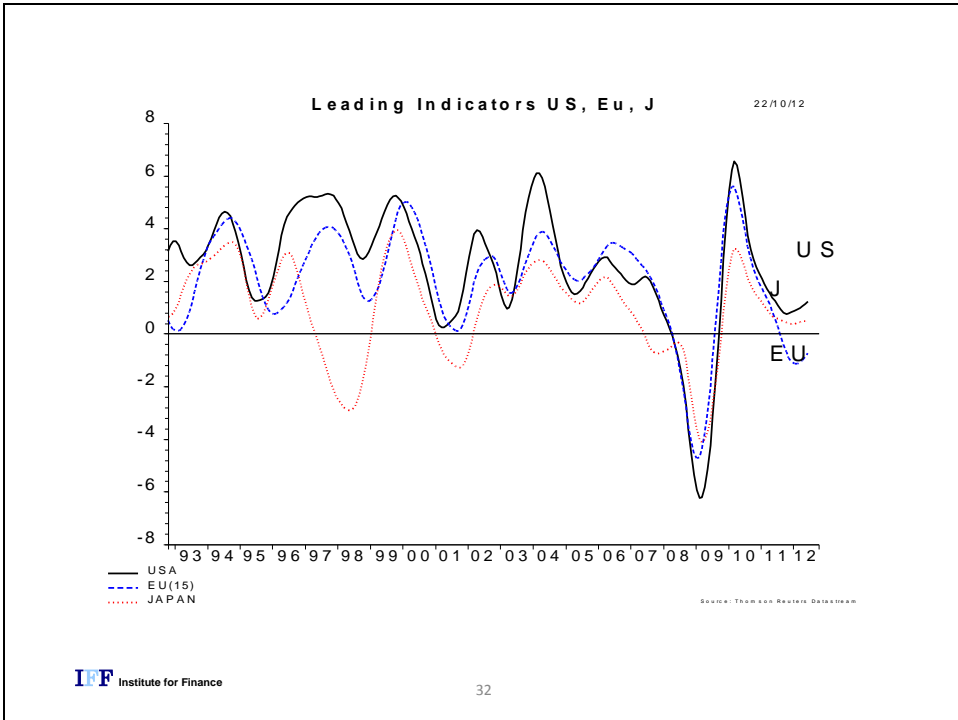
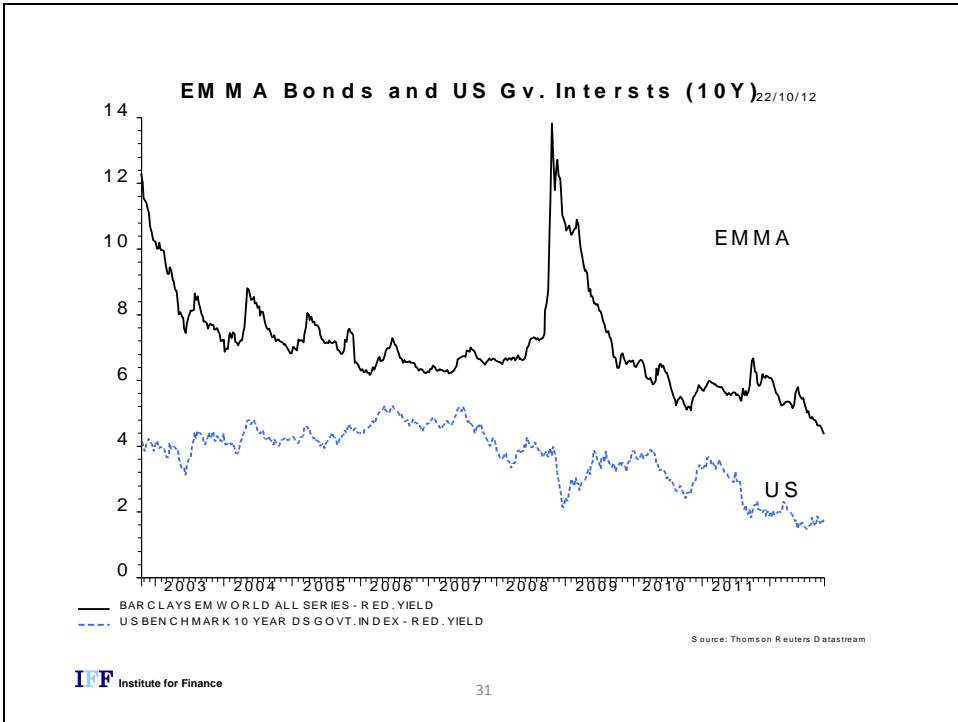




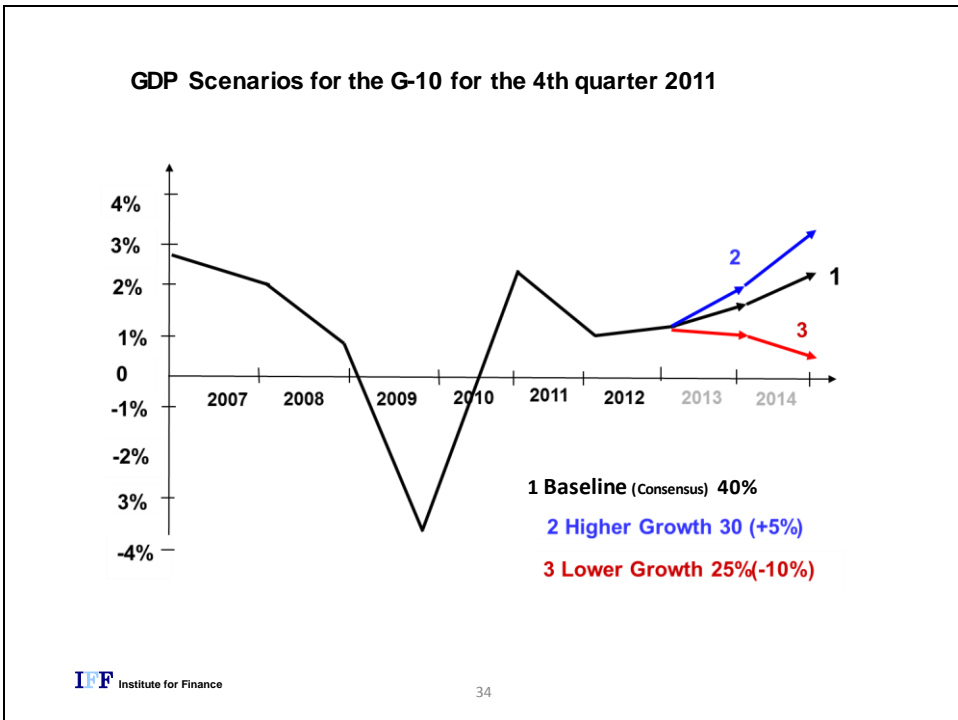
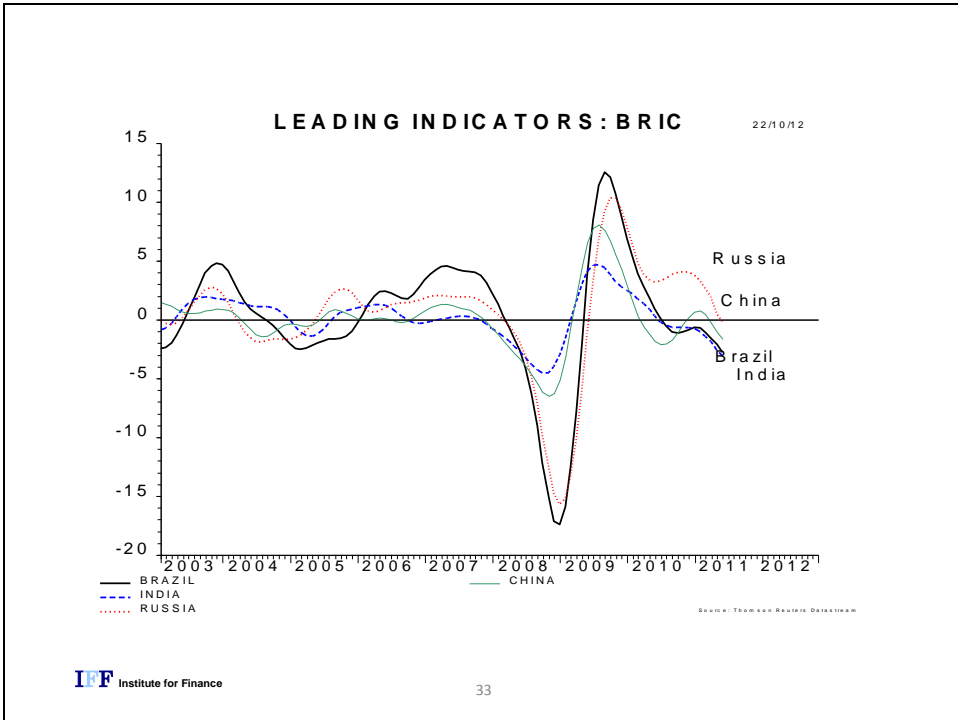










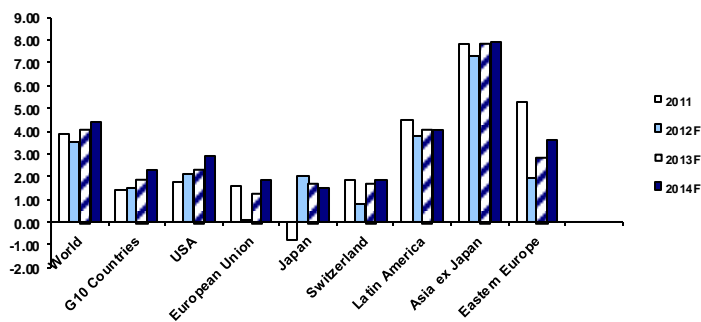


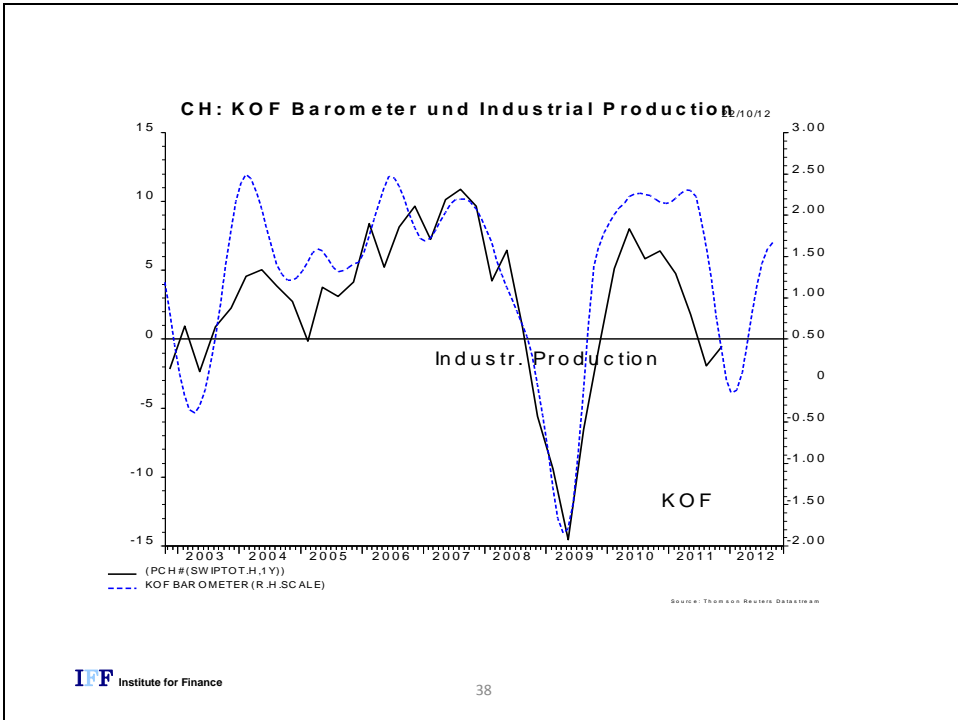
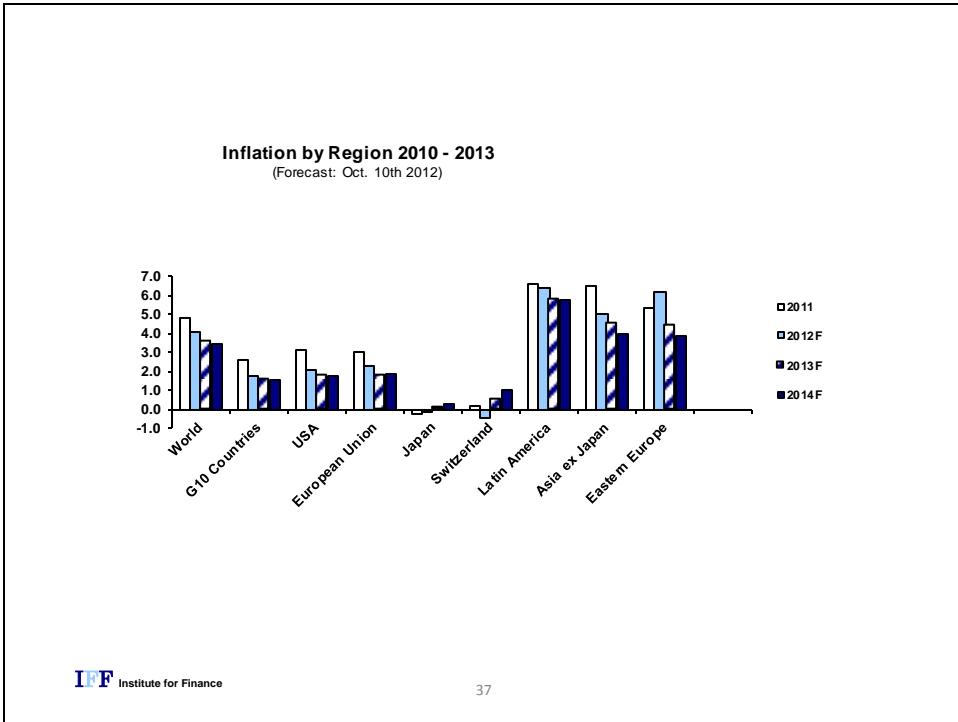
### Global GDP and Inflation Forecast (10.10.2012)

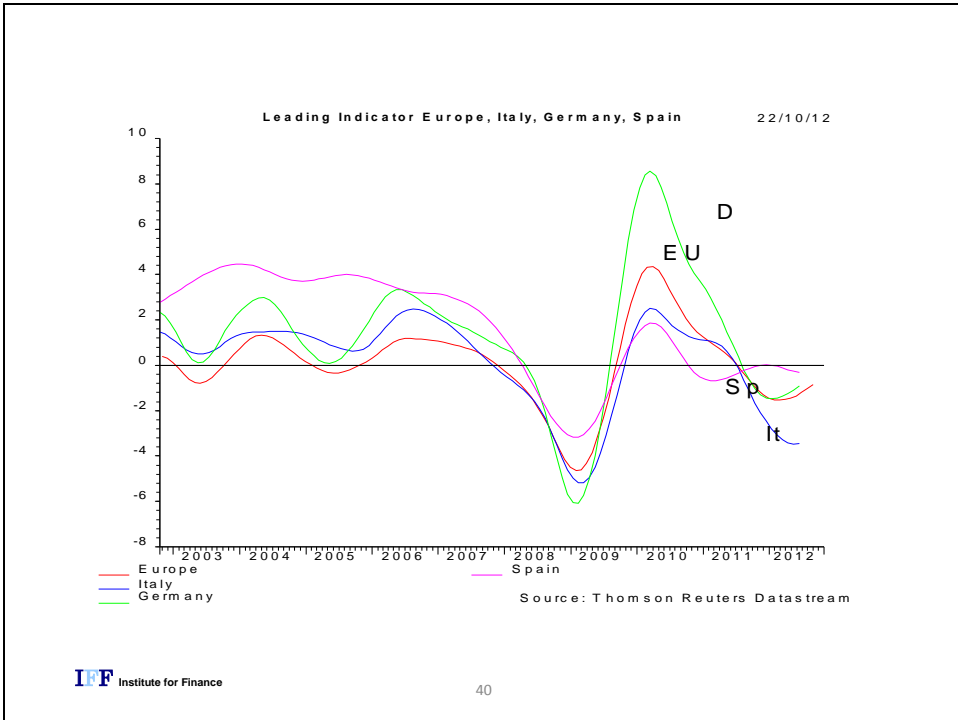
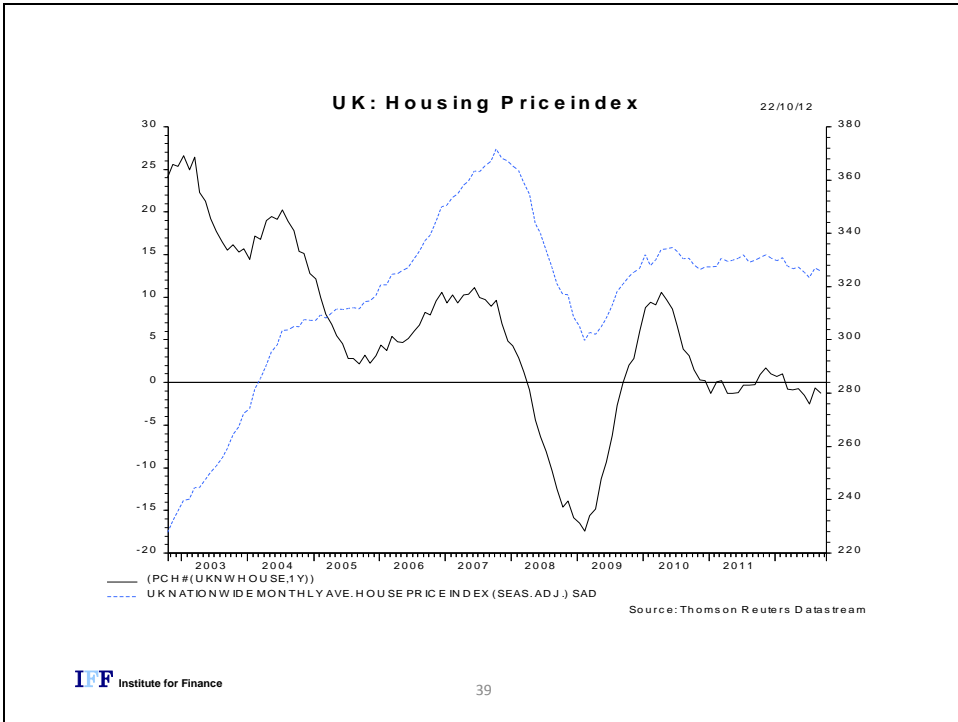
	GDP REAL %YOY				CPI %YOY			
	2011	2012F	2013F	2014F	2011	2012F	2013F	2014F
World	3.85	3.53	4.07	4.36	4.8	4.0	3.7	3.4
G10 Countries	1.38	1.50	1.90	2.28	2.6	1.8	1.6	1.6
USA	1.74	2.11	2.37	2.91	3.1	2.1	1.9	1.8
European Union	1.62	0.03	1.28	1.85	3.1	2.3	1.8	1.9
Japan	-0.75	2.04	1.71	1.53	-0.3	0.0	0.0	0.3
Switzerland	1.85	0.81	1.73	1.84	0.2	-0.5	0.5	1.0
Latin America	4.52	3.75	4.09	4.09	6.6	6.4	5.9	5.8
Asia ex Japan	7.83	7.34	7.89	7.89	6.5	5.0	4.6	4.0
Eastern Europe	5.26	1.92	2.89	3.57	5.3	6.2	4.5	3.9

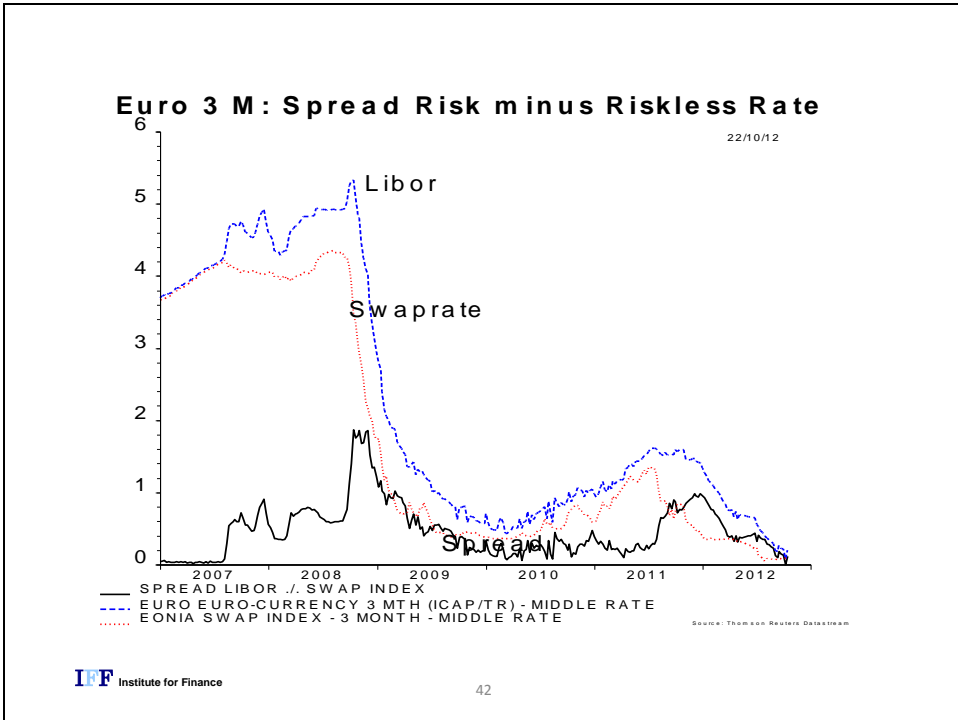
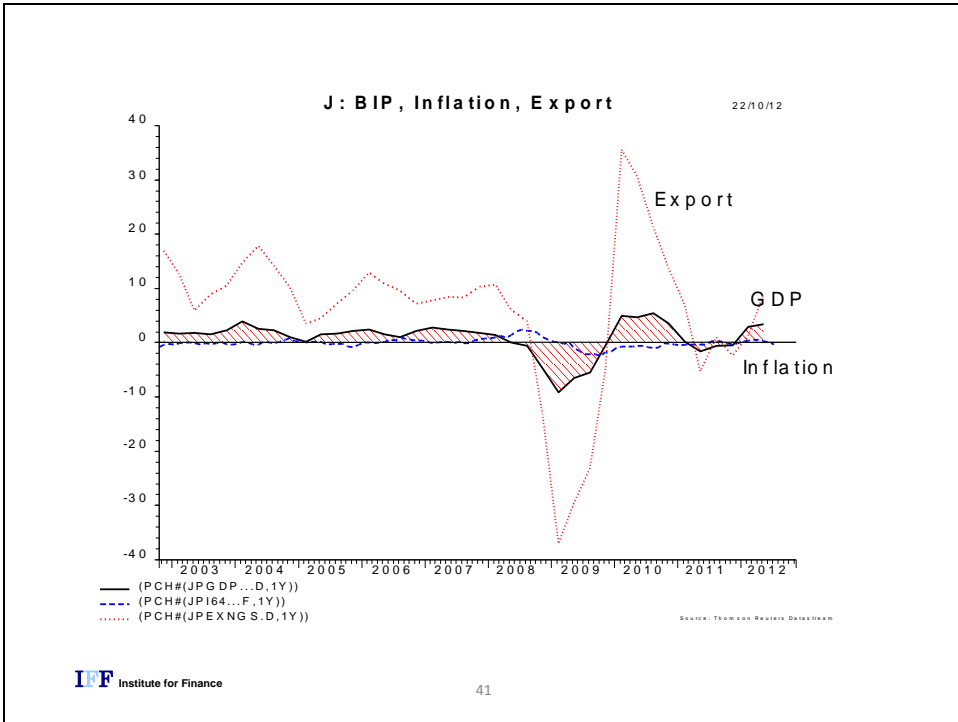
Source: Datastream (Länder: IMF/Eg. Schätzung)

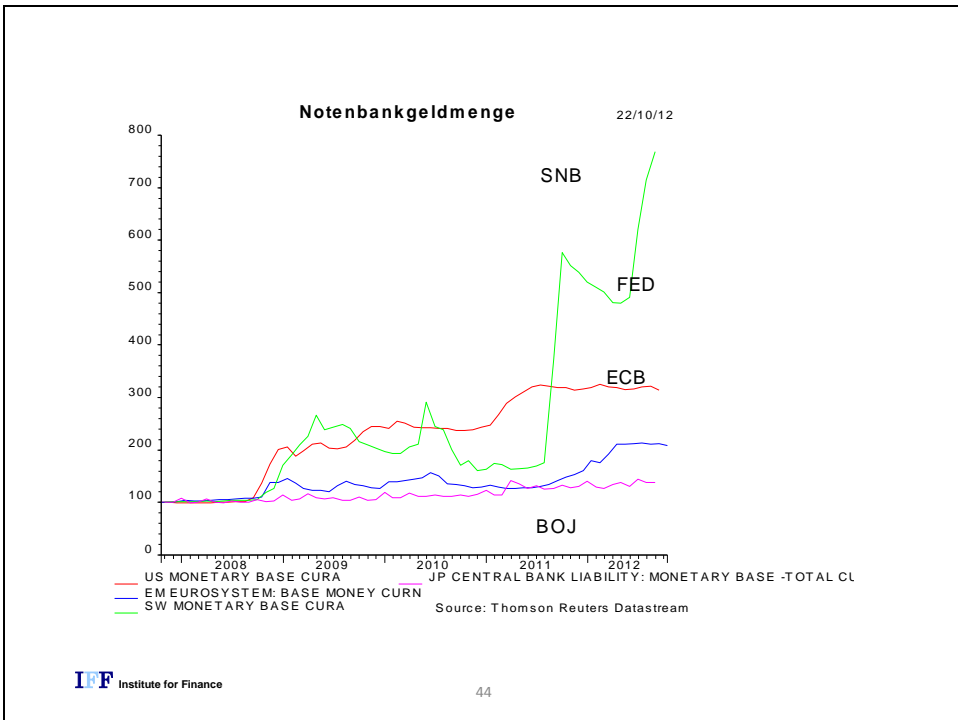
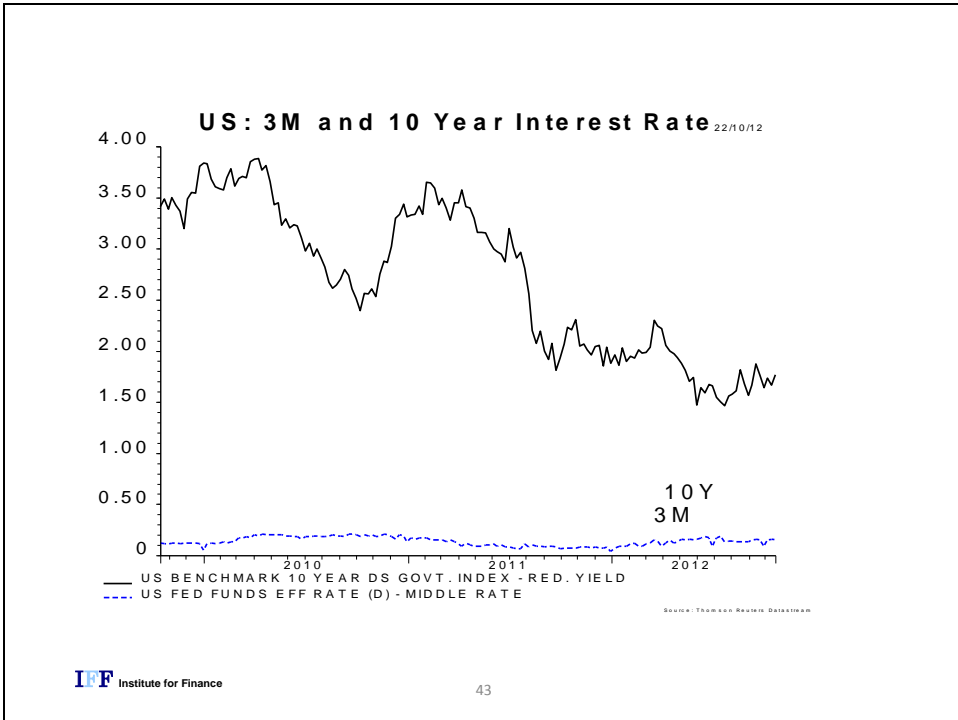
Real GDP by Region 2011 - 2014  
(forecast: Oct. 10th 2012)

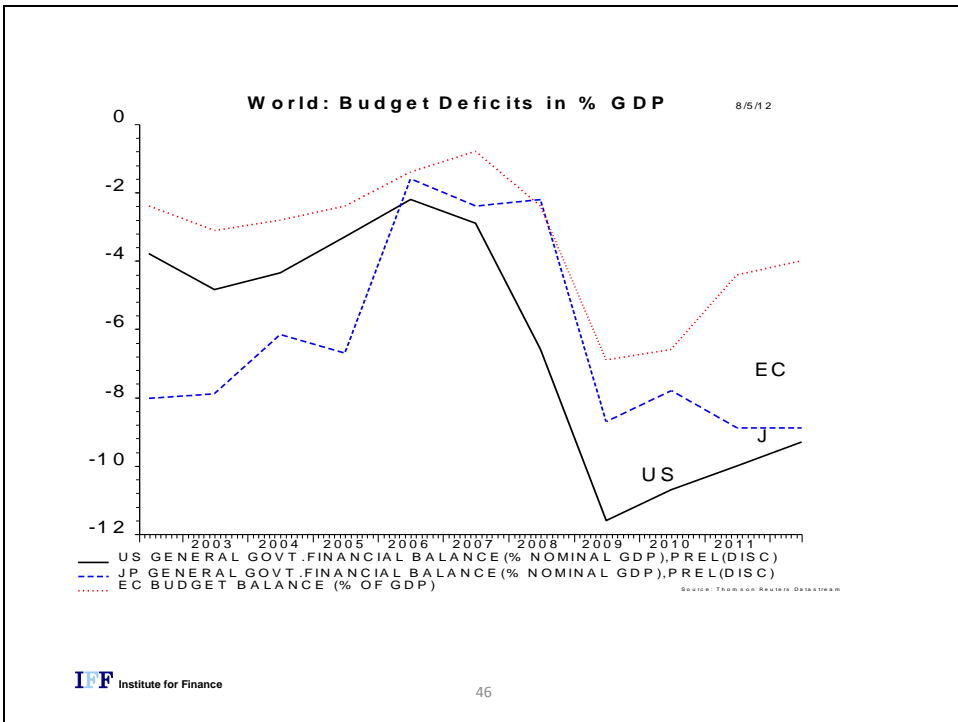
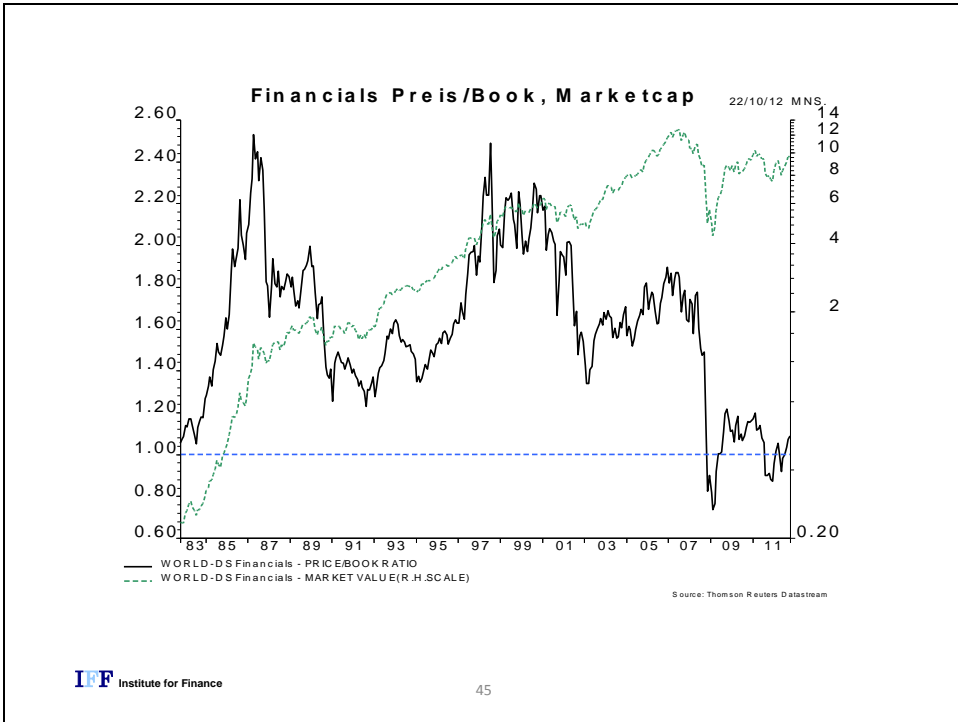


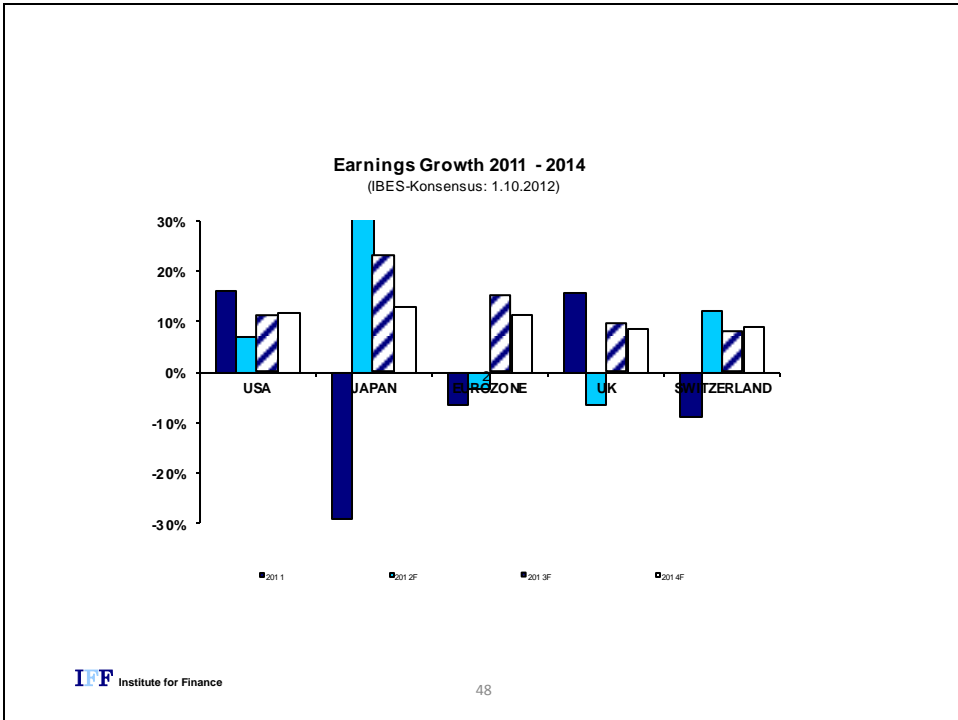
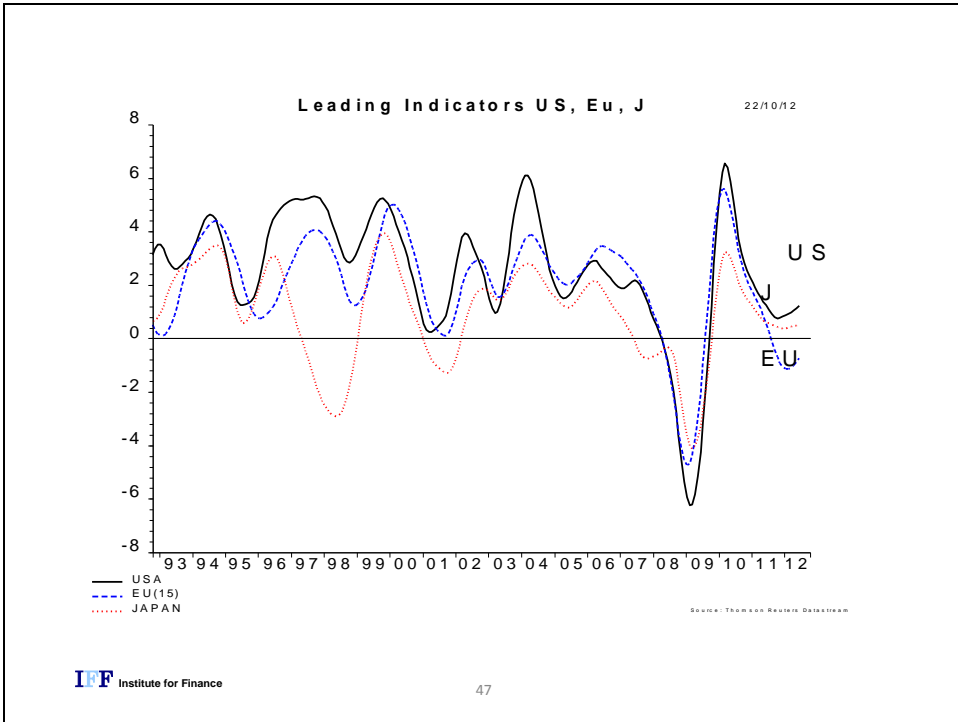




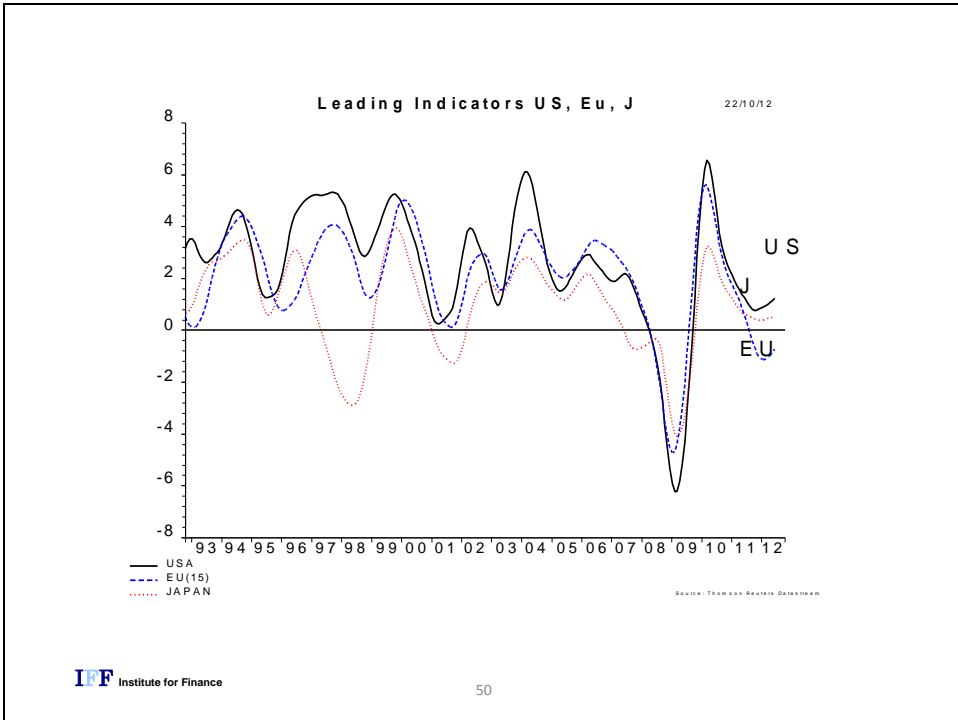
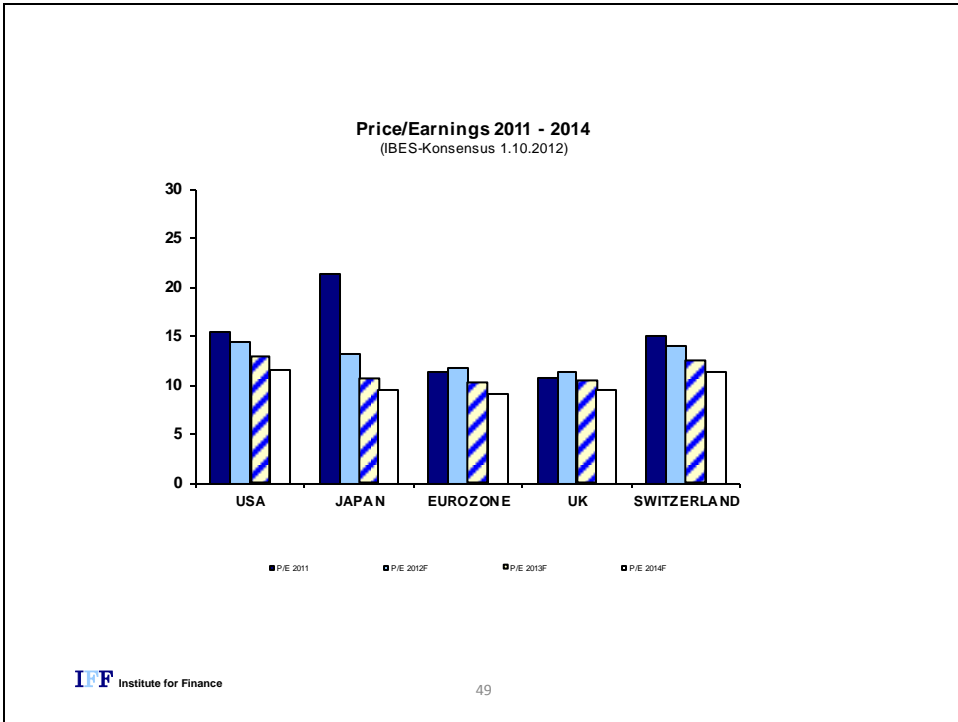


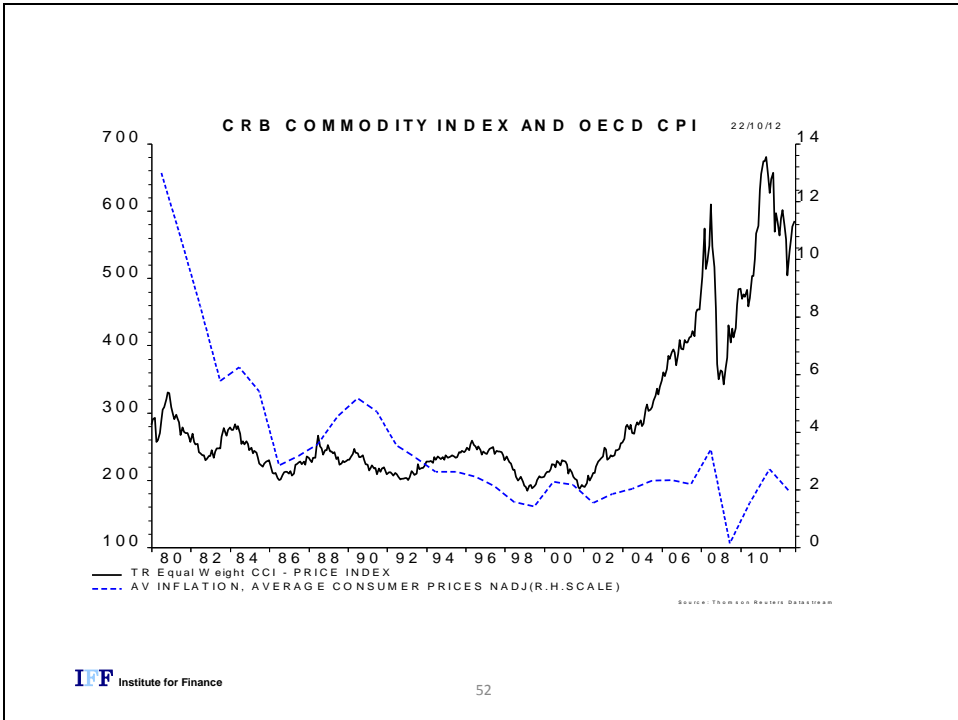
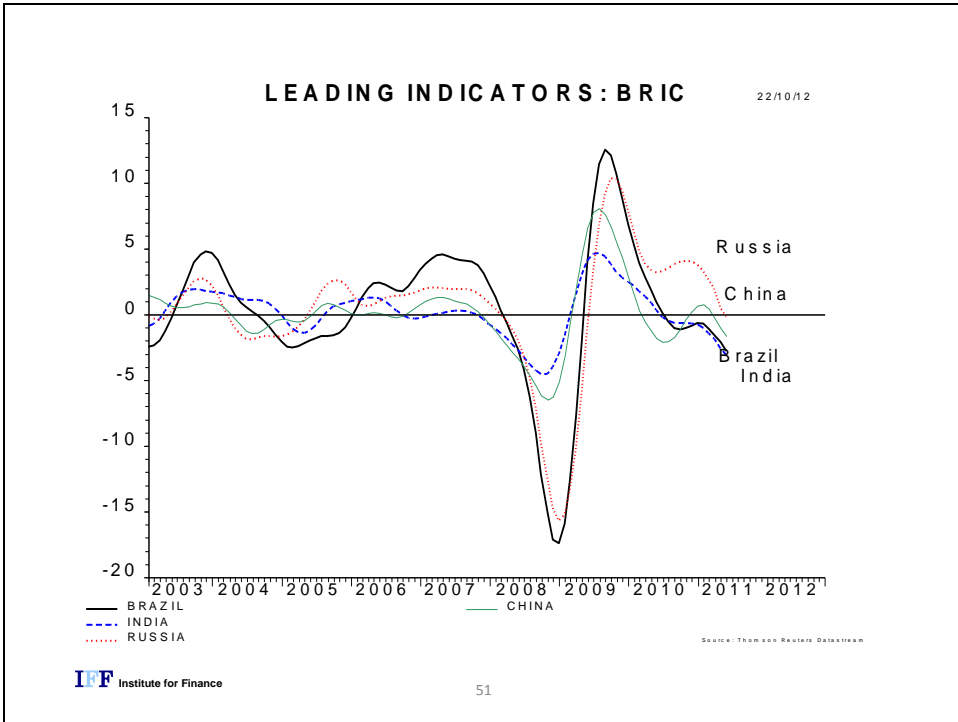


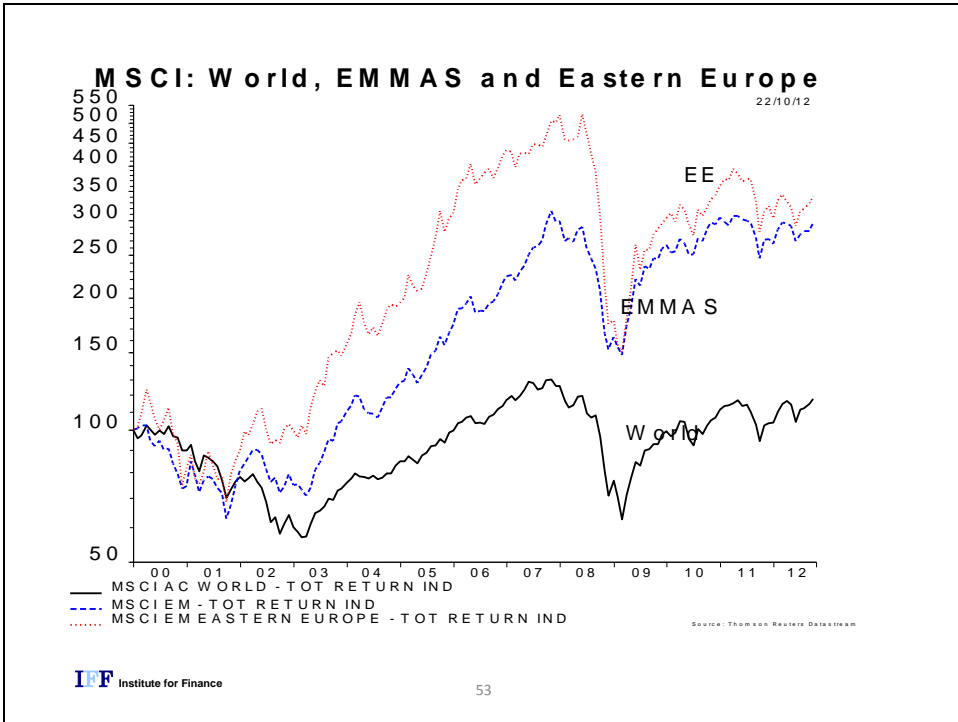




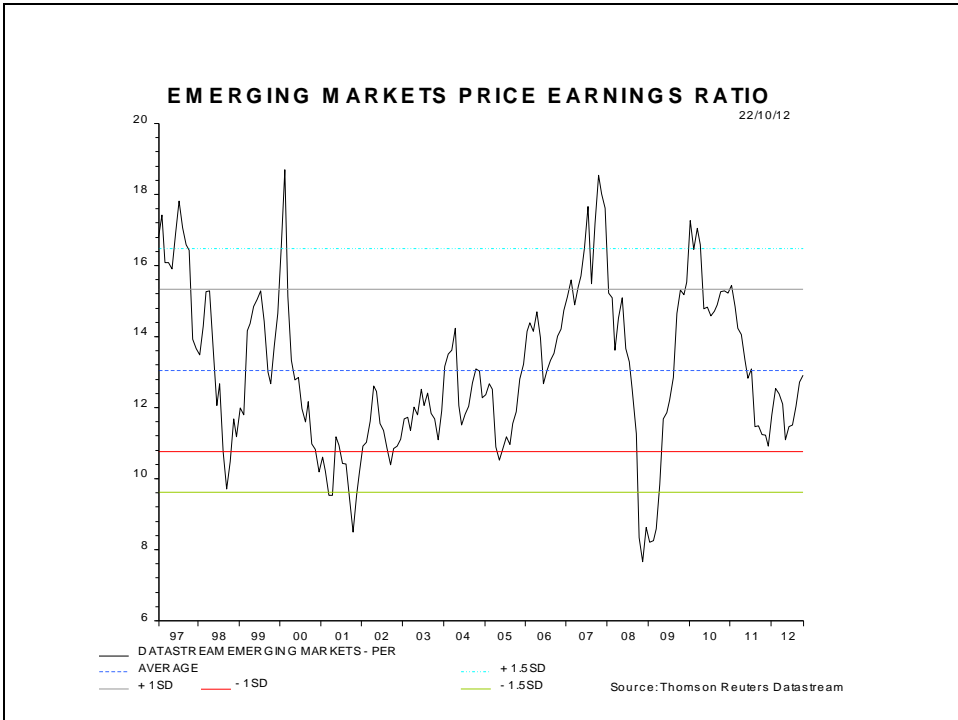


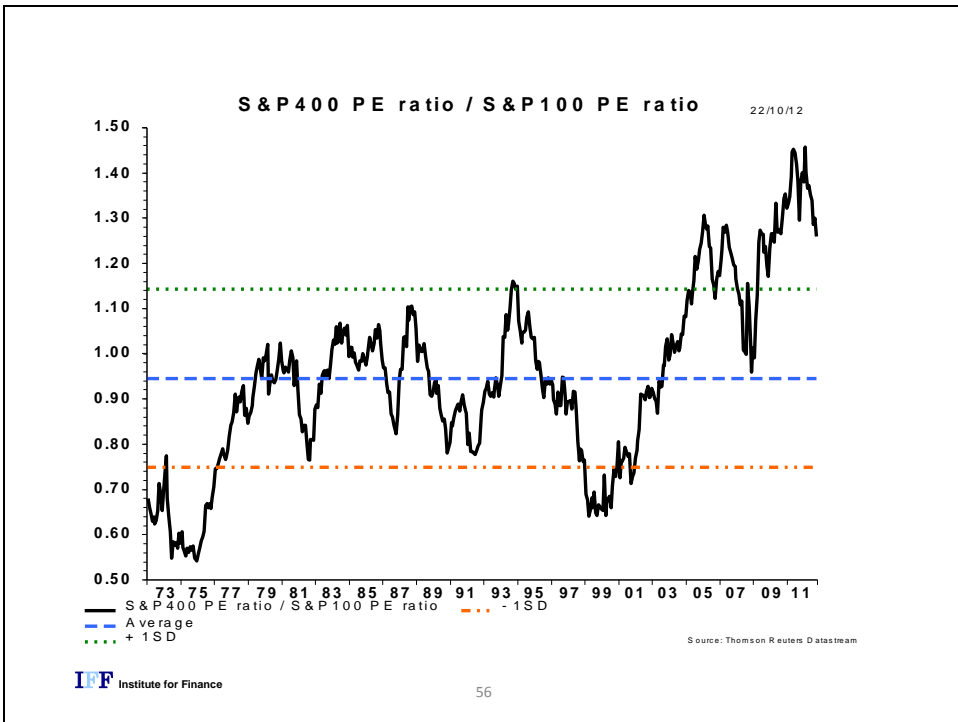
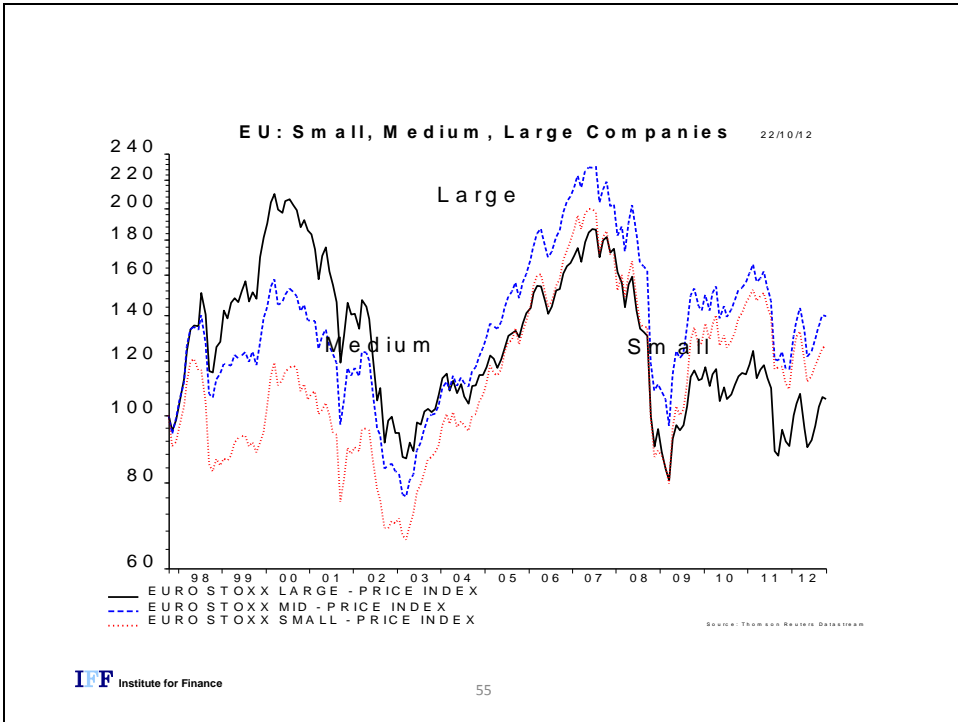






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## INVESTMENT POLICY CONCLUSIONS 4th Q 2012

(Oct 12 2012)

### ASSET ALLOCATION

**Shares:** Set shares from clearly underweight to slightly overweight position (3rd quartil)

**Bonds:** Keep duration at the lower end of the band. Use Cash as the duration manager (Indexfunds have fixed duration)

**Real Estate:** Keep on neutral position

### EQUITIES

Set **European** from medium underweight position to slightly overweight position at the expense of the US and Japan. Quit European diversification-deviation. Shift the resources from D, F, GB and the Northern Countries to the southern countries (Greece, Portugal, Ireland Spain and Italy)  
set the Swiss position to neutral. Overweigh Europe and EMMAS on the expense of the US and J on an overweight position.

**Sectorallocation:** Set the financial sector from medium underweight position to slightly overweight. Overweight the defensive sectors at the expense of the high Beta values

**Small and Mid Caps:** Keep them in favour of large caps in underweight position.

### BONDS

**Bond durations:** Keep duration at the lower end of the band.

**Set European bonds** from sharp underweight (lower quartile) to slightly underweight on the expense of the US and CH

No need for hedging (SNB-Put at 1.20 CHF/Euro)

Keep Overweight position of Corporate bonds at the expense of Government Bonds. Keep high yield bonds on neutral.

### CASH

Cash is reduced in favour of shares but is still in overweight position at the expense of Bonds.