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Trends



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Yield spreads narrow

PATRICK SÉGAL

In mid-November, just as the European debt crisis was coming to a head, we went out on a limb in this column by saying that yields on the short-dated debt of countries in southern Europe would pull back by the beginning of 2012. As it turns out our lonely forecast was more than accurate: the new issues floated recently by Spain, Italy and even Portugal were snapped up nearly 200 basis points below their peak levels. The reason is that banks' year-end window-dressing had created tremendous selling pressure in bond markets, pressure that has since subsided. Banks now have no choice but to buy the sovereign debt of their respective countries.

We also pointed out in another article how the Bundesbank was lending nearly €500 billion to the PIGS' central banks to finance commercial transactions. To even out trade imbalances within the EU, countries with a surplus have to subsidise countries that are running a deficit. Knowing that, it is easier to understand why the Germans are reluctant to help more. Meanwhile, the austerity measures being taken by many member governments to slash their deficits will gradually reassure investors that a smoother future lies ahead. Stockmarkets even went up after Standard & Poor's deprived France of its AAA status. That is because the lordly judgment, handed down by a ratings agency that in 2008 was still stamping its seal of approval on US subprime mortgages, had already been priced in by investors.

A year ago punters were predicting that equities would return 5-15% in 2011. The fact that their forecast deserves no comment will save us having to make one here. Meanwhile 2012 looks uncertain on every front. In Europe, as the quarters tick by, near-zero growth or at worst a minor recession will keep financial gains in check. Inventories and capital investment are low and consumption is slumping as households put money aside. The only asset class to show any kind of excess is real estate, regarded as a hedge against currency debasement and general jitters.

The US may be experiencing an upturn, but only a very mild one. The easing unemployment rate is due just as much to people giving up looking for work as it is to the creation of new jobs. In other words, the data are improving as job-seekers disappear from the American labour force. The housing sector is still in a deep funk. Consumption will hold up as long as the stockmarket remains on an even keel. The slight pickup in growth is mainly being driven by the government's deficit (10% of GDP) and by zero interest rates. This extreme brand of Keynesianism should make us wary. When the states' and municipalities' liabilities are added in, the public debt stands at 120% of GDP. Worse, with Democrats and Republicans in gridlock in the run-up to the November election, we can expect no improvement in America's public finances until mid-2013 at the earliest. With the 10-year Treasury yield near 2%, a rise to 4% would add several hundred billion dollars to the deficit. And that does not include the growing shortfalls in social security and pension funds. Whether Obama or Romney wins the presidency, the problem will be as colossal as ever.



Economic discipline



© Chappatte, December 2011 *Int'Herald Tribune*

SNB reports a large profit



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With a debt load now exceeding 230% of GDP, Japan is slowly recovering from last year's triple disaster and seeing its exports drop in sync with the economies of China and Thailand, its main trading partners. Growth in the emerging countries has weakened, especially in India. The sharp downturn in China's real estate market casts doubt on the financial condition of numerous Chinese banks that lent in freewheeling style when property values were escalating. Industrial production, too, is also slowing down in the Middle Empire. Finally, while the prices of many commodities have come back down to more normal levels, oil is still expensive and Iran's threat to block shipping in the strait of Hormuz is keeping speculation rife.

2012 should see more adjustment among the major trading blocs. The frenzied, deficit-fuelled expansion that has obtained for so long will gradually become less pear-shaped.

The euro area countries will have to tighten the screws. Germany, the foremost victim of flagging growth among its fellow zone members, will have to show greater generosity by urging the ECB to be

more effective. The French election won't change anything since the government no longer has any leeway left on economic policy. America will no doubt continue to enjoy a bit of a roll energised by the hulking federal deficit, but budget balancing and tax increases will become inevitable after the election. The emerging economies will still have their heads above water but will be swimming much less vigorously. One thing is certain: in the current context currencies will go on losing value gradually. The general debasement will continue, with near-zero interest rates for lenders and long-term inflation for consumers. High-dividend equities and gold should protect investors from the harshest consequences of this scenario. The dollar, which has risen as a result of massive liquidation of euro-denominated assets by US investors, will undoubtedly turn back down as soon as America's problems come back into the spotlight.

PS: Virtue doesn't pay in financial markets. The Vice Fund (which invests in tobacco, alcohol, gambling, etc.) returned 6.5% last year, well ahead of the Ave Maria Catholic Value fund (down 4.87%).

Expectations back in line with reality

FRÉDÉRIC BINGGELI

The outlook is grim and political leaders have at last gauged the magnitude of the problems they face. This should make the markets less unpredictable.

The present crisis is made worse by the fact that until recently, the issues confronting us were unknown to our generation. Admittedly, debt turmoil is not entirely new: Latin America experienced it in the '70s and '80s. But contrary to a claim by Citicorp's then CEO, the problem is that a country can go bankrupt but cannot be liquidated or simply vanish. It is forced to get back on its feet so it can function again.

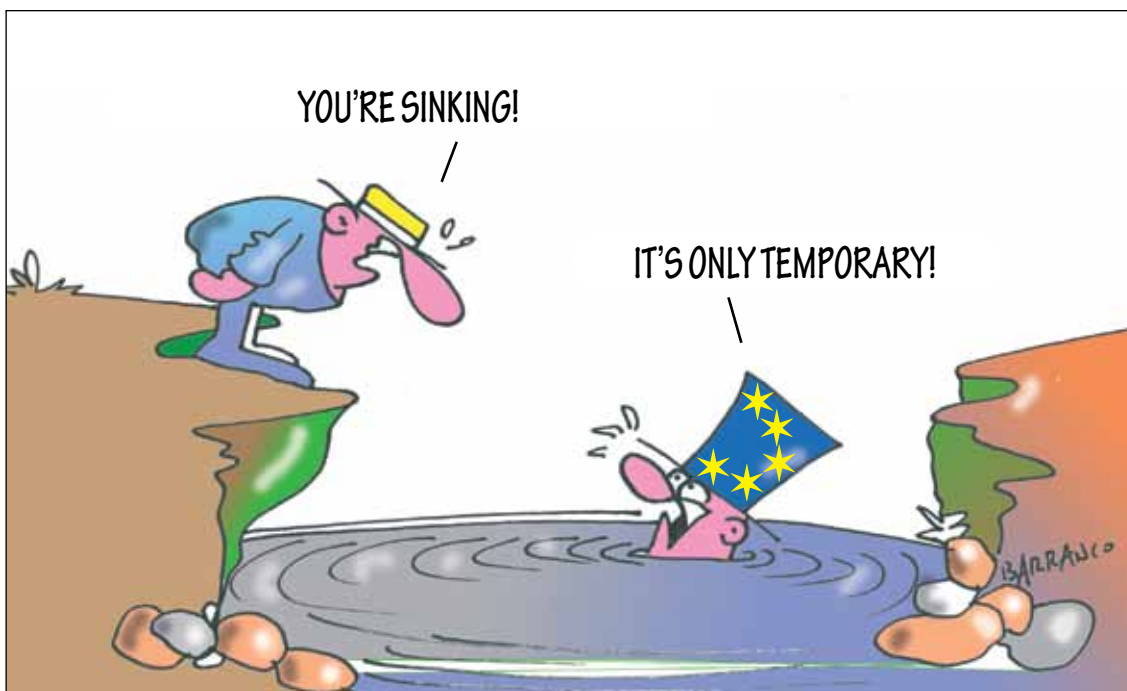
The world came into the 21st century ravenous for consumption, free trade and quantitative growth, without thinking for a minute that individual happiness might lie elsewhere. The United States was leading the charge. The technological revolution had given them a head start and also allowed them to stamp their culture worldwide on a new generation. And

since wanting to impose this way of life was tied in with an imperialistic streak, America under its former president embarked on (failed) conquests that will cost it at least as much as the Second World War. Accommodative monetary policy was needed to pay for them. Ironically, the rock-bottom interest rates meant to keep credit flowing and the economy expanding triggered explosive growth in the emerging countries, causing the price of oil and other commodities to rocket in turn. The devastating 2008 financial crisis, rooted in US subprime mortgages, put a cap on all these excesses. European integration and the euro suffered collateral damage. Monetary union had precluded the members' central banks from acting as lenders of last resort. The only safeguards left were the Maastricht restrictions, which were very soon practically brushed aside by many national governments.

But talking about debt is one thing; we should first of all consider access to credit. Europe is in a tight situation because confidence has evaporated,



2012 holds pleasant surprises in store...



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curbing its members' ability to borrow. For France, defending AAA status as a political objective is sheer demagoguery after 37 years of state budget shortfalls. But when it comes to deficit spending the US holds the lead over the motley cluster of disciplined and undisciplined euro zone members. By reducing its war effort, America will see its expenditure decline sharply. The debate in the election campaign will centre on vital issues and could have a psychological impact on the markets. And lest we forget it, the US is the developed country that stands the best chance of seeing bank lending take off again.

To cut a long story short, America is at a political turning point. It has the means and the historical precedents needed to roll out drastic reforms. Its banking system is not laden with bad debt like Europe's, and in relative terms its federal treasury still has scope to borrow. Finally, the dollar is strengthening—or, better said, the euro is weakening—as the markets start to gauge the magnitude of Europe's predicament and the time it will need to get back on track. While 2012 could hold a pleasant surprise in store on this side of the Atlantic, the prospects for gains in the US are far more enticing. The dollar will probably stay firm and the New York stockmarket should mount a

comeback. A lot of extremely negative predictions have been made about 2012; if we believe them, the outlook for financial assets has rarely been bleaker. Yet one thing is certain: as we head into the new year, expectations have been adjusted to the actual global environment. Only a few profit forecasts on major companies still look a bit overdone. In view of this and the fact that political leaders have realised just how awesome the difficulties facing their countries are, the markets should be less unpredictable. As a consequence investors should become gradually more inclined to take more risks.

The outlook for Switzerland is mixed. Whatever people may think about the news that shook our central bank, the fact that the franc was allowed to strengthen from 1.45 to 1.0749 to the euro will have inevitable consequences on Swiss manufacturing and tourism. The banking sector, which has also been hurt by the strong franc, will be forced to downsize owing mainly to a lack of support from our politicians. Isn't it the role of government to ensure the greater good? Our leaders' disregard for one of Switzerland's leading industries will be felt bitterly by those who are going to lose their jobs. ■

Capitalism in crisis

MARTIN PEARMUND

2011 was a pivotal year in many respects. On the political front the Arab Spring spawned new hope for peoples governed by totalitarian regimes. Here in the West, banks and capitalism in general came under fire from politicians as well as from the general public.

Capitalism is the only system that has helped to improve living standards democratically in recent decades. To say it is responsible for the current situation to me seems an oversimplification, especially considering the period of unprecedented prosperity that we have just come through. The technological revolution that drove that prosperity was itself riding on venture capital and the stockmarket via IPOs. On the other hand, that capitalism focused entirely on short-term profit may have reached its limits is probably true. If the only way to boost earning power is to offshore jobs to low-wage countries, then we have run into a dead end. When society exists to preserve banks that are too big to fail and not the other way round, then as the great bard said there is something rotten in the state of Denmark. This facet of

globalisation is largely to blame for the jobless recovery in countries that have hollowed out their manufacturing sector, and for the resulting current-account imbalances between many industrialised countries and China. In America the imbalance reached 3.1% of GDP in the fourth quarter of 2011. With hindsight some companies are beginning to realise that relocating too much of their substance abroad is counterproductive. General Electric, for example, having been plagued by lower productivity and logistical problems rooted in intercontinental supply chains, is reinvesting in domestic production facilities. If numerous other players were to follow suit, trade gaps between the developed and emerging countries could be partially bridged.

Meanwhile, though, capitalism stands accused of all kinds of social and environmental transgressions and of milking society rather than nourishing it. Capitalism is in crisis and has to reinvent itself.

Without necessarily resorting to the creative destruction advocated by the Austrian economist

Capitalism is in crisis and needs to be reinvented



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Joseph Schumpeter, the notion of value creation has to be reassessed and adapted to the 21st century. Michael E. Porter, a Harvard professor who helped to pioneer strategic analysis and wrote the bestseller *Competitive Strategy, Techniques for Analyzing Industries and Competitors*, delved into this issue in a recent article¹. He thinks the solution lies in implementing a new value-creating strategy not only for companies but also for society at large. This would consist in satisfying the needs of everyone concerned: customers, shareholders, employees, suppliers and the community. By fostering ties with stakeholders near at hand, firms contribute to local economic development and thereby recover the role that was usurped from them in the mad rush to globalise. An approach based on training and on developing local expertise often results in productivity gains and even innovation. Such benefits lead in turn to entry barriers that make investment far more profitable long term than chasing after low wages. Although this may all appear utopian, multinational corporations such as Nestlé, Unilever, Google, Intel, IBM, Johnson & Johnson and even Wal-Mart have espoused Professor Porter's holistic strategy. Also called «value sharing», it has demonstrated its usefulness and goes a lot further than cultivating a good conscience by giving to charity.

Management experts are not the only ones promoting this approach. The state of California, famous for its Silicon Valley and innovative start-ups, has just adopted a new legal structure for companies called the «benefit corporation»². The main purpose of this type of firm is to pursue a long-term strategy that benefits society in general and has social and environmental objectives in addition to aiming for a return on investment. Patagonia, a sports clothing retailer, became the first benefit corporation in early January.

Another pioneering investment approach is called «impact investing». Here the idea is to buy into companies whose prime objective is to have a substantial positive influence on society and/or the environment while providing investors with a return. The Edmond de Rothschild foundations support such enterprises, mainly through their strategic holding in a fund called Impact Investment Partners. This ground-breaking vehicle invests in companies in India that can claim a beneficial

impact on healthcare for low-income families but also have performance targets close to those of private equity.

After the dotcom boom and the drive to globalise, these novel approaches could help to spur a new growth cycle that would see the pendulum swing back towards more balanced development. Clearly they are consistent with investment themes ranging from population ageing and the related care to food, obesity-driven medical costs and environmental services driven by urbanisation.

These new brands of capitalism could also prove useful in the search for solutions to certain fundamental needs, e.g. for environmental protection and the eradication of poverty. Companies could be given incentives to come up with economical ways to fight pollution or help the needy. The late CK Prahalad, who fathered the BOP (bottom of the pyramid) concept and taught management at Michigan Business School, is a well-known writer on this subject³.

Governments these days are taking the easy way out, for example by taxing polluters, without looking for other alternatives that create more value for society. It is much harder to set up an appropriate regulatory framework that would make it possible to properly value public goods such as clean air and water.

One of the basic objectives of capitalism is to allocate financial resources efficiently. If it is guided by clear-sighted, forward-looking legislation and well-thought-out incentives, it can continue serving the development of mankind. The difficulty resides in implementing these measures and adapting them to new circumstances. Let's hope that our political leaders will have the judgment needed to overcome the obstacles. The changing perception that can already be seen within some multinational companies provides scope for optimism.

(1): *Creating Shared Value* by Michael E. Porter and Mark R. Kramer in *Harvard Business Review*, Jan.-Feb. 2011

(2): *Firms with benefits* in *The Economist*, 7 January 2012

(3): *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* by CK Prahalad, Wharton School Publishing, 2009

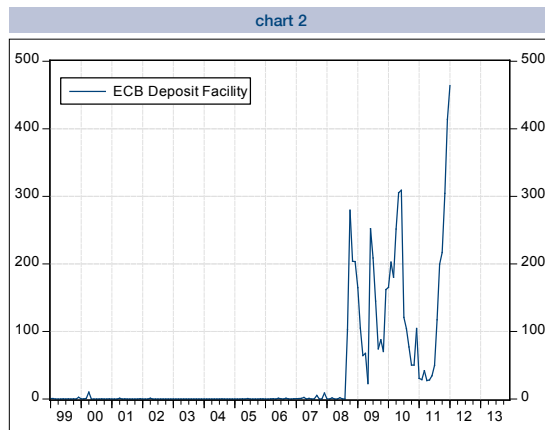
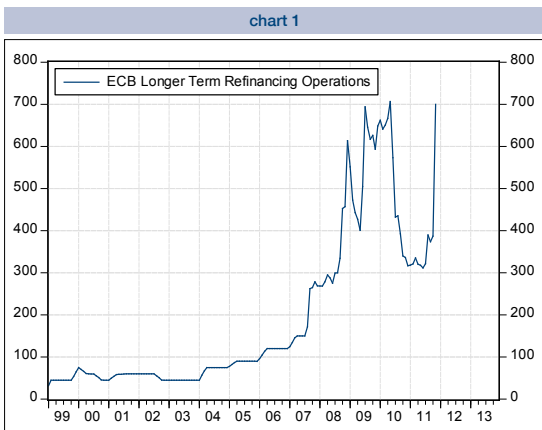
The European debt crisis: ECB tries bribing banks to buy sovereign debt

BRUNO JACQUIER

In November we published a short study on the sovereign debt crisis, with a view to explaining the situation to investors. Two months on we think it would be useful to re-examine our conclusions in light of the latest political, economic, monetary and financial developments. We will try to be as clear and concise as possible.

The European Central Bank in December implemented an unconventional monetary policy measure. It lent massively and generously to banks across the Continent, granting them a total of €489 billion over three years. It will conduct the same type of move again in February. The interest rate on these loans, applicable ex post, will be the average of the rates charged on short-dated operations over the period. If the ECB does not raise its minimum refi rate, this cash will cost 1% a year.

To put it bluntly, cash in the euro area is confined to a closed circuit. Banks are borrowing from the ECB but prefer to park their surplus liquidity with the central bank rather than lend it to each other or to companies and consumers. The fact that lending institutions are sitting on piles of cash is clear proof that they have no appetite for Euroland's sovereign bonds. European leaders were hoping that the ECB's massive loans would whet this appetite, but they have not. The debt



In all, long-term refinancing exceeded €700 billion in December (see chart 1). Since then Euroland banks have been parking some €450 billion overnight with the central bank daily (see chart 2). The interest rate on these deposits is a paltry 0.25%, but they are ultra-safe so they are being snapped up eagerly. This reflects the deeply dysfunctional state of the interbank credit market.

market remains under stress and yields on the securities of struggling governments are far too high (see chart 3), making it impossible for them to balance their budgets.

So the ECB is treating the patient's symptoms but not the disease itself. Its efforts mitigate the risk of a banking system collapse but fail to tackle the





European debt problem head-on. In plain English, **the crisis will only be licked when we know who the Italian government can count on to buy all of its bonds.** Until this issue is addressed and until a major financial institution prevents the yields on solvent countries' debt from shooting up in periods of panic, the euro area will go on being convulsed. In the meantime Germany tried to reassure investors by issuing a new series of 10-year Bunds. The auction was a muted success: it netted €5.14 billion, a shade more than the initial objective of €5 billion. **Like last year, finding buyers for sovereign bonds remains a tough task.** Yet Euroland governments will have to raise \$1.232 trillion this year (see chart 4). Add in €324 billion to cover their current deficits (see chart 5) and the total is a whopping €1.55 trillion. The only good news is that the 2012 borrowing requirement was estimated last year at €1.736 trillion and is thus down a bit. On the other hand, the bond market is under more stress now than in 2011.

As a consequence, strong upside pressure on sovereign yields will very probably continue to plague the euro area. **It will be felt** not only by countries with a high debt-to-GDP ratio or an inflated credit rating (see chart 6), but also **by those that sell two-thirds of their debt securities abroad, as in the case of France and Belgium** (see chart 7). On that score Italy and Spain are far less vulnerable, even compared with Germany.

To reduce the proportion of bonds owned by foreigners and thereby mitigate the risk of these investors selling their holdings massively in a panic situation, **the European authorities should resort to what economists call «financial repression».** This is one of the only four ways that exist to solve the public debt crisis (see chart 8).

We mentioned this concept in our earlier study but did not have room to develop it. Let's examine it further now. First of all we should remember that a country's public debt represents its accumulated

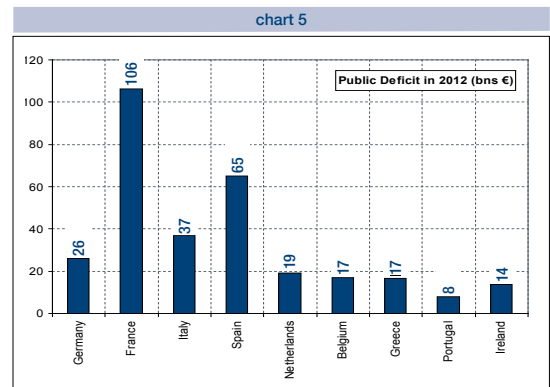
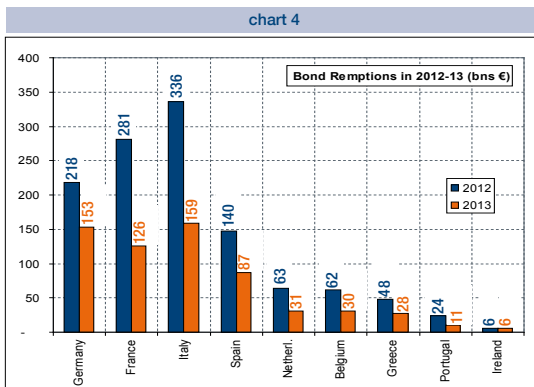


chart 6

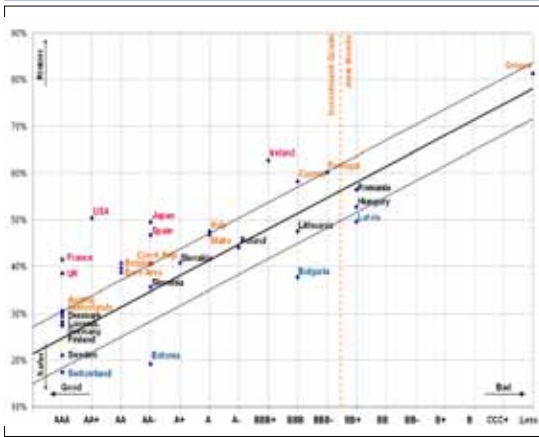
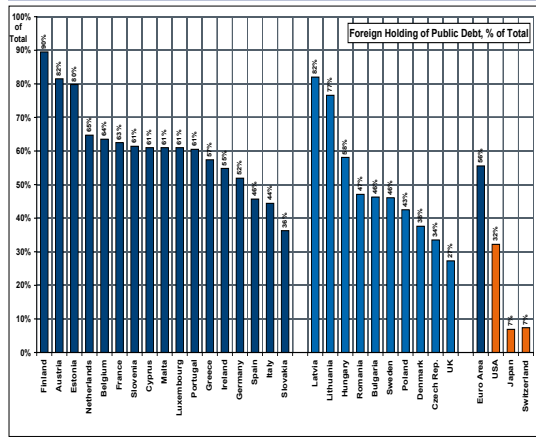


chart 7



deficits and interest, and that four variables can have a positive impact on its debt-to-GDP ratio (see chart 9). Of these, economic growth is endogenous, meaning that it cannot be influenced directly and arbitrarily as it depends from the trends in other factors. By contrast the other three variables -the public deficit, interest rates and inflation- can be controlled. The deficit and interest rates are subject to government decisions, while interest rates and inflation are subject to monetary policy decisions.

quality bonds, by which was meant gilts. Likewise the portfolios of UK pension funds have to contain 30-year debt securities and, as it happens, Britain is one of the very few countries to issue such paper. The British authorities are therefore able to kill three birds with one stone: the proportion of gilts owned by non-residents is low (see chart 7); the 30-year yield is also relatively low (see chart 10); and the average maturity of UK sovereign debt is the longest of any developed country (see chart 11). Since interest rates are lower than they would

chart 8

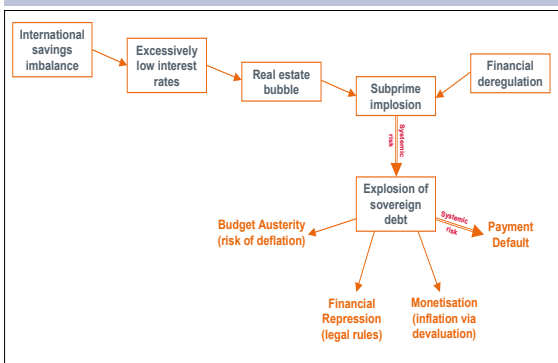


chart 9

➤ **Public debt is accumulated public deficits plus interest:**

- $debt_t = debt_{t-1} \times (1 + \text{int. rate}) + \text{deficit}_t$
- $GDP_t = GDP_{t-1} \times (1 + \text{real growth rate}) \times (1 + \text{inflation rate})$

➤ **Thus, the 4 main variables are:**

- economic growth
- public surplus/deficit.
- interest rates
- inflation

Endogenous variables: economic growth, public surplus/deficit.
Exogenous variables: interest rates, inflation.

«Financial repression» may have a Philistine ring to it, but the idea is quite simple. It is linked to the interest rate variable in economists' equations and consists in forcing domestic financial actors to buy sovereign debt by passing a law or introducing tax incentives. The aim is to drive down the countries' sovereign yields. The UK has used this stratagem for years. In 2009 British banks were told to increase their allocation to top-

be in a totally competitive market, on the face of it this system amounts to a tax. Creditors receive less interest than they would normally have asked for, so in practice they are transferring wealth to the state. But a «levy» like this represents a huge benefit for the government that implements it. Unlike taxes on income, profits and consumption, it is stealthy and opaque, making it much easier to ram through parliament.

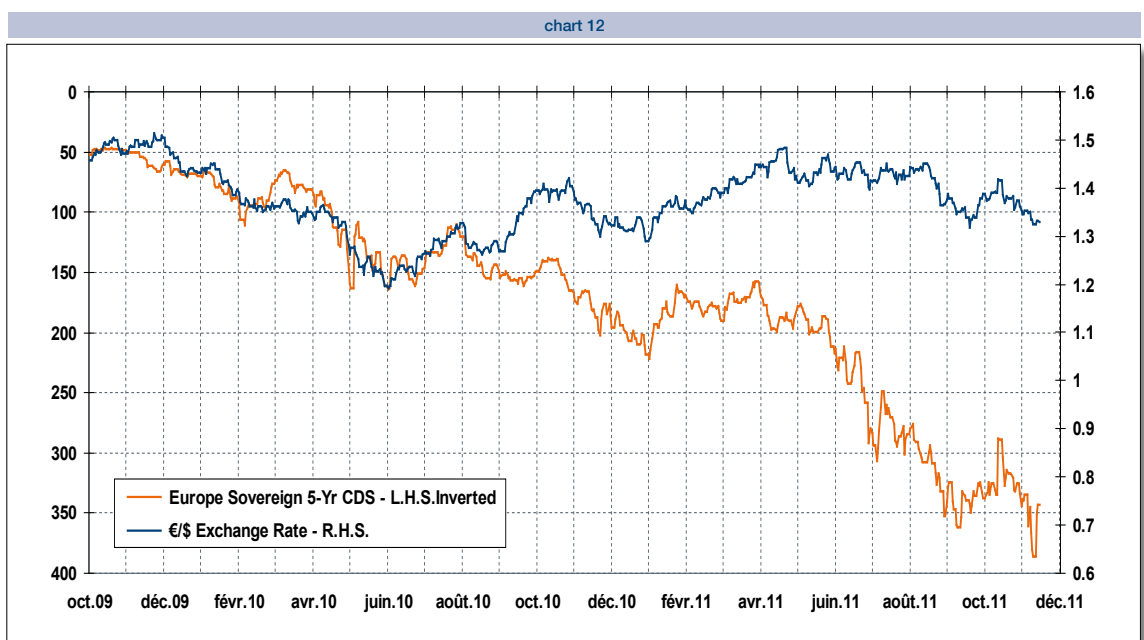
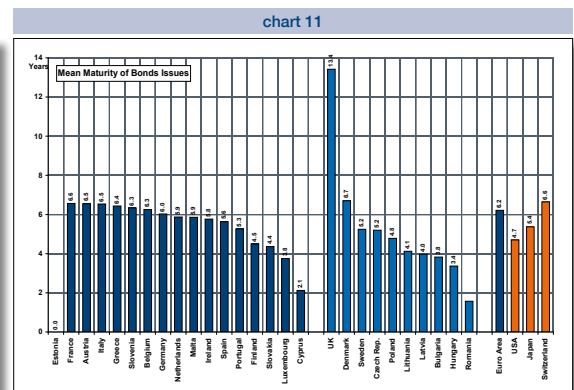
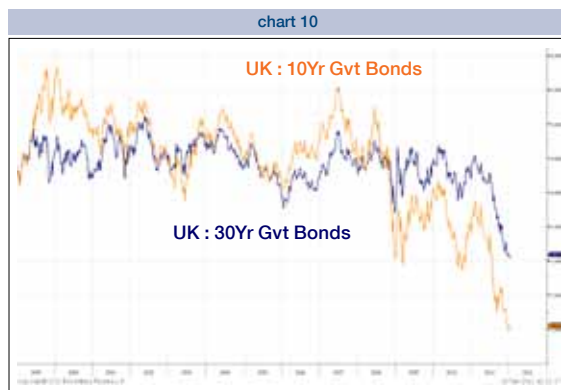


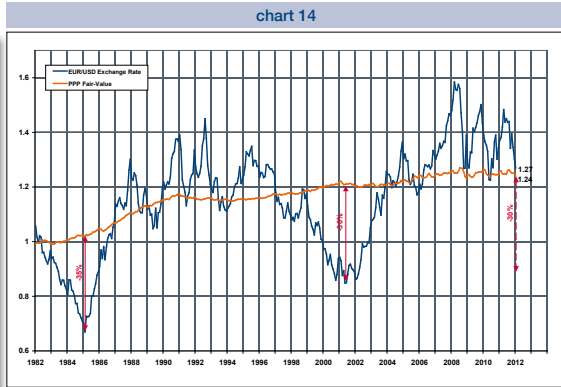
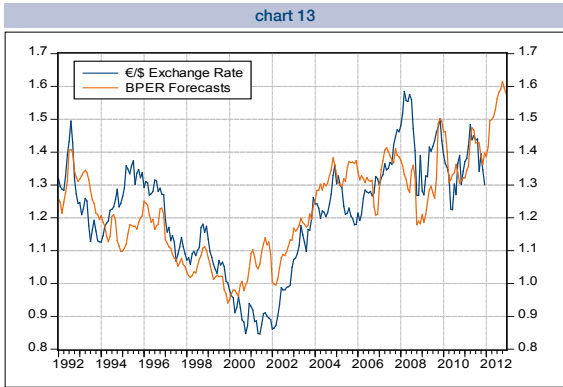
Governments in the euro zone would be well advised to steal a page from Britain's playbook and indulge in financial repression. By goading banks and insurance companies to buy European debt, they could capture private savings to cover part of their borrowing requirement. This would help keep interest rates at a much lower level than at present in a totally open, unfettered market. **It would moreover be far easier for governments to impose austerity programmes and for the ECB to monetise debt.**

Proof of a correlation with the threat of contagion lies in the rising price of 5-year credit default swaps, a kind of insurance against the risk of European banks going belly up (see chart 12). The Continent's political and monetary authorities will have to take «real» action if they do not want to see banks fall like dominoes owing to write-downs on their bond portfolios. Until calm is restored in the sovereign debt market, no other move will work. We are hopeful that the necessary decisions will be taken in the current half.

Let's now turn to the euro. In a new twist that began amid signs that the debt crisis might spill over into solvent countries like Italy and France, the single currency has been falling.

Once the debt crisis has been defused, the euro will surge. Sadly there is a good chance that Europe's leaders and central bank will only opt for a radical solution when they have their backs to



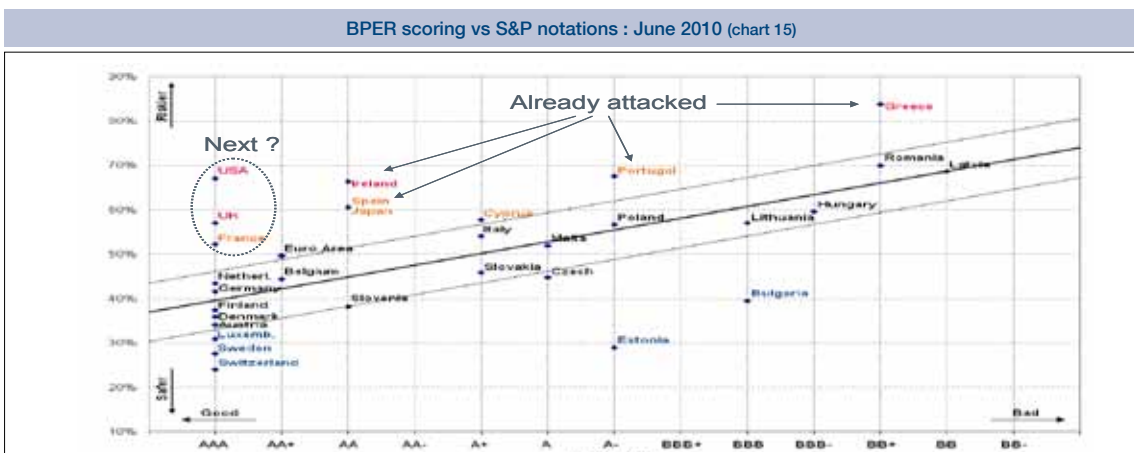


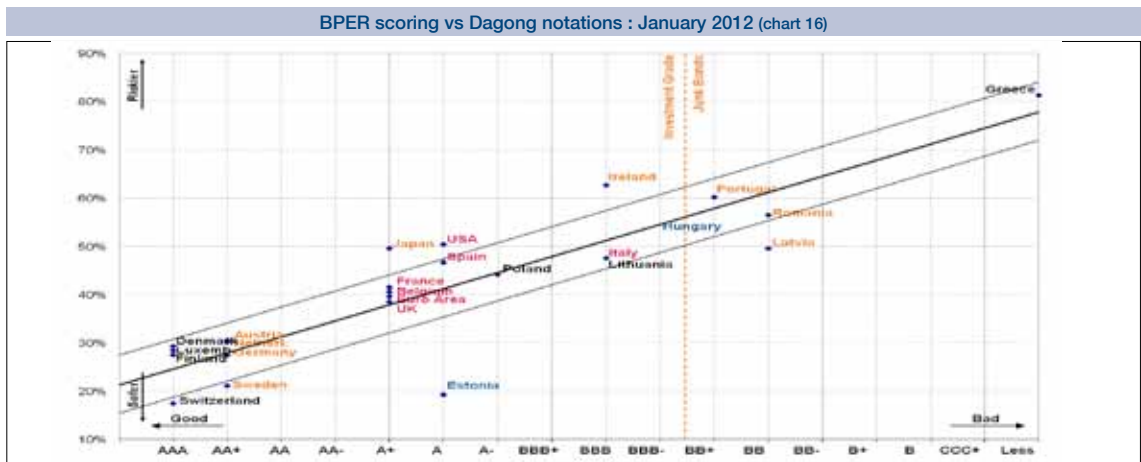
the wall. That is what happened in 2008, when the US administration allowed Lehman Brothers to go bankrupt before finally taking coordinated, effective action with the Federal Reserve and other governments. **Thus, the single currency could very well fall below 1.25 against the dollar before bouncing back to the 1.52 target suggested by our econometric model (see chart 13).**

The only contingency that would prompt us to change our view on the euro's prospects would be for European leaders to let the monetary and financial system implode or for the ECB to decide to monetise European debt. There is no doubt that in either case the single currency would tumble. It might even reach parity with the dollar, 30% below its long-term fair value. It already traded at that level in 1985 and again in 2001. Yet the alternative scenario of debt monetisation seems highly improbable as it would run counter to the ECB's articles of association, to statements

by the ECB president, Mario Draghi, and to the German constitution.

While European leaders dither, their countries' sovereign debt securities continue to be downgraded. The imminent cut in France's rating will be very bad news for the rest of the euro area. Yet it is certain to come; the only question is when. In January 2010, after conducting an econometric study that scored sovereign risk, we noted that some European countries were bound to come under considerable pressure. In addition to the already infamous PIGS (Portugal, Ireland, Greece and Spain), we sounded the alarm on Italy, Cyprus, Belgium, France and the UK and, outside Europe, on Japan and the US (see chart 15). Our warning that America stood to lose its triple-A rating was regarded by some as irresponsible, yet it happened. Of the countries just listed, **only France and the UK have not been downgraded though then as now their public finances do not justify the maximum credit rating.**





When our scoring of sovereign risk is considered alongside the one drawn up China’s Dagong ratings agency (see chart 16), the picture takes on greater meaning and gives rise to four major observations:

- 1- Greece is doomed to default. There is no way out (at least no conventional way), regardless of all the austerity plans the government puts in place.
- 2- Ireland, Portugal and Cyprus are ostensibly in the same situation, albeit with a reprieve that will save them for a few extra quarters. But here again, default is inevitable.
- 3- Spain, Italy, Belgium and, outside Europe, the US and Japan will all see their debt downgraded further.
- 4- France and, even more so, the UK will see their ratings lowered as well—gradually but substantially.

The markets are already pricing in these considerations: the credit spread between 10-year

French government bonds and same-dated German Bunds reached 190 basis points on Nov. 16th, the highest level since the late ‘80s (see chart 17).

The loss of France’s triple-A rating will not only increase the government’s debt servicing bill but also make it harder for the EU as a whole to address the present financial crisis. The European Financial Stability Facility will no longer be considered AAA and will thus find it more difficult to raise money. That could force Germany to provide more assistance, thereby weakening its credit rating in turn. On the other hand, the progressive downgrading of European governments’ debt is prompting leaders to speed up implementation of the reforms that the EU needs so badly. So to that extent it is helping matters.

A new year has kicked off but it does not mark a fresh start for the euro area, which continues to be dogged by the problems of 2011 and 2010.



Economic forecasts

GDP growth and contributions to global expansion (BPER estimates)

Country	GDP 2010	GDP 2011 BPER Estimates	GDP 2012 BPER Estimates	Country weights	Contribution 2011
United States	2.8%	1.5%	2.2%	23.1%	0.51%
Canada (IMF estimates)	3.2%	2.1%	1.9%	2.5%	0.05%
Euro Area	1.9%	1.5%	-0.2%	19.3%	-0.03%
United Kingdom	1.8%	0.8%	-0.2%	3.6%	-0.01%
Switzerland	2.7%	1.7%	0.7%	0.8%	0.01%
Russia	4.0%	4.7%	4.5%	2.3%	0.11%
Japan	4.7%	-0.6%	1.3%	8.7%	0.11%
China	10.4%	9.2%	8.0%	9.3%	0.75%
India	10.1%	7.5%	7.0%	2.7%	0.19%
Brazil	7.5%	3.5%	4.0%	3.3%	0.13%
Mexico	5.5%	4.0%	3.5%	1.6%	0.06%
Others (IMF estimates)	6.8%	6.8%	6.3%	22.6%	1.41%
WORLD	4.8%	3.6%	3.3%	100%	3.3%

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Comments

- The GDP growth rates shown above are final for 2010. Projections for 2011 and 2012.
- Each country's weighting has been translated into US dollars and is based on the principle of purchasing power parity, which takes account of differences in prices and standards of living.
- The countries are ranked by the size of their economy, in decreasing order.
- Contributions to global growth are calculated as follows: the GDP growth of each country is multiplied by its size, with the total adjusted to the aggregate weighting of the countries listed. The sum of the contributions works out to 3.3%, a good estimate of global GDP growth for the current year.
- The list is limited to the 10 countries that contribute most to world economic expansion.

Tactical allocation (%)

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CHF PORTFOLIO

Asset class	Switz.	Europe	UK	USA	Japan	Asia/other emerging regions	Commod.	Precious metals	Sundry or global	Total
Short-term	2									2
	5									5
Fixed income	19	2								21
Equities	10	0		4		5				19
Directional hedge funds		5								5
Nondirectional hedge funds	25									25
Property	6								7	13
Commodities, Precious metals							0	10		10
Total	67	7	0	4	0	5	0	10	7	100

EUR PORTFOLIO

Asset class	Switz.	Europe	UK	USA	Japan	Asia/other emerging regions	Commod.	Precious metals	Sundry or global	Total
Short-term		8								8
		5								5
Fixed income		19							2	21
Equities	6	4		4		5				19
Directional hedge funds		5								5
Nondirectional hedge funds		25								25
Property									7	7
Commodities, Precious metals								10		10
Total	6	66	0	4	0	5	0	10	9	100

USD PORTFOLIO

Asset class	Switz.	Europe	UK	USA	Japan	Asia/other emerging regions	Commod.	Precious metals	Sundry or global	Total
Short-term				8						15
				5						5
Fixed income				21						21
Equities	6	0		8		5				17
Directional hedge funds				5						5
Nondirectional hedge funds				25						25
Property									7	7
Commodities, Precious metals								10		10
Total	6	0	0	72	0	5	0	10	7	100

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