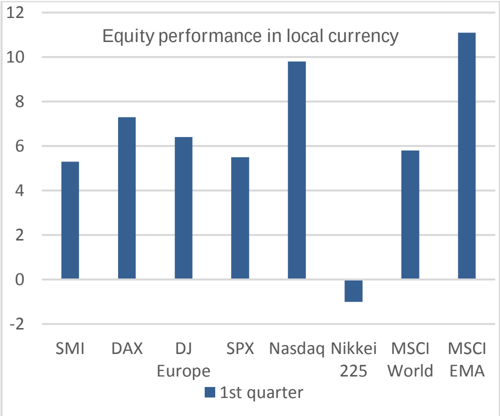
Q1 2017 interim report on investment policy

- Political topics dominated the stage in the first quarter: assumption of office by Trump and his slow metamorphosis from a roaring candidate into a more level-headed president, the implementation of Brexit, the failed swing to the right in the Netherlands, the spectre of Marine Le Pen as the president of France, the resurrection of the SPD with Martin Schulz as chancellor candidate, and Erdogan's heavy-handed battle for more power
- In all of this turmoil, important economic developments went almost unnoticed: the economic recovery proved to be robust in all major economic regions, corporate profits were mostly better than expected for the last quarter of 2016, and inflation rates remained within the target range
- The US Fed increased the key interest rate by 0.25% and announced further steps to prevent inflation. Among the bigger economies, China, rather surprisingly, was the only nation to follow the increase in interest rates in the US
- With the exception of the UK, capital market interest rates trended slightly upwards and the spread for Italian and French government bonds increased a little. Risk premiums for private debtors dropped by some 30 basis points on average
- On the currency front, the yen weakened further and the Australian dollar strengthened by around 5%. The British pound strengthened slightly against the US dollar, which lost ground across the board. Thanks to the Swiss National Bank's support, the CHF/EUR exchange rate remained more or less the same



- Most industrial and precious metals became more expensive, with gold increasing by as much as 8%. Energy prices on the other hand dropped, burdened by high stock levels and growing production output
- The equity markets gained almost 6% compared with the World Index. For once the European markets outperformed the US market, even though the technology-focused Nasdaq firmed by almost 10%. The best performer was the emerging markets with +11%. In sector terms, investors were convinced by technology stocks (+12%) and health care stocks (+8%), while energy stocks lost 5%

Outlook

As the economic momentum is likely to continue on a synchronous course in Europe, the US and Asia, we could possibly see surprisingly strong growth. As a result, positive developments can be expected for corporate profits, which are likely to be better than expected. This would put the high valuation of the equity markets into perspective and lessen the caution of many investors.

Wangs, April 2017

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