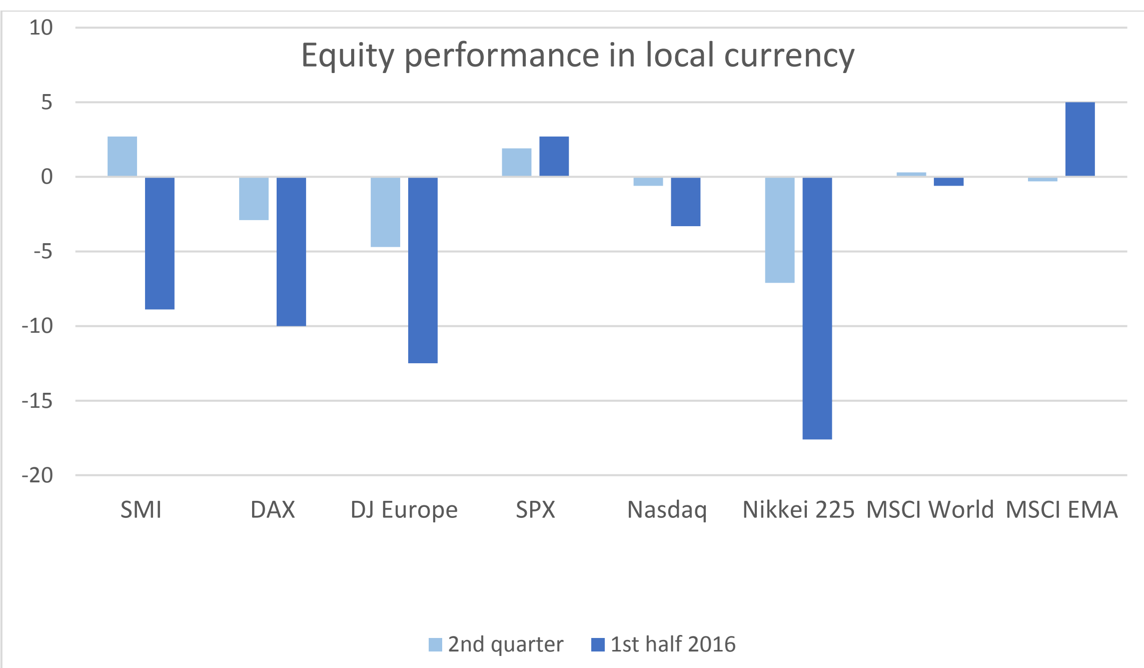
Q2 2016 interim report on investment policy

BREXIT – The surprising outcome of Britain's vote on leaving the EU dominated events on the global financial markets in the second quarter of 2016.

- The flight to safe harbours continued and government bonds with a good credit rating were in demand. The interest rate for ten-year German government bonds dropped into negative territory (-0.13%) for the first time, and comparable US government bonds returned less than 1.5% for the first time in four years. Precious metals also improved strongly, with gold firming by around 7%.
- The oil price recovered to USD 50 as global supply tapered off (fracking in the US) and political uncertainties (Nigeria, Venezuela and Iraq) led investors to fear breaks in production.
- At minus 8% to the USD, the British pound was one of the losers on the currency market, while the yen remained under upward pressure (around 10% on the US dollar). The trade-weighted US dollar and EUR-CHF exchange rate changed only marginally.
- Measured against the World Index, equity market performance was virtually unchanged, but there were considerable regional differences. Italy lost some 10% while the US, UK and Switzerland were up slightly. The defensive character of the SMI supported a positive performance. Although pharma stocks experienced a slight global recovery, technology stocks were weaker because of the disappointing profits announced by the sector giants. The emerging markets dropped slightly, with the continued bull run in Brazil sounding a positive note.



The state of the global economy in the middle of the year is cautiously optimistic as the aggressive low interest rate policies are not working as expected in either Europe or Japan. The normalisation of monetary policy in the US is constantly postponed as the decision-makers continue to have their doubts either about the health of the national or the international economy. As there is much less likelihood of an interest rate hike in the coming months, low interest rates will continue to dominate the most important investment currencies for some time still. This hampers the upward potential of the US dollar, which could aggravate competitive devaluations.

The effects of Brexit are many-sided and unclear. Economically, the UK will bear the brunt of the decision. The political dimension of the referendum is multi-layered and leaves room for speculation about the future of Europe. The US has a presidential candidate in the person of Trump who is sceptical towards an open and globalised world. On balance, geopolitical uncertainties are growing again and can be expected to visibly dampen investors' risk appetite for some time to come.

Wangs, July 2016