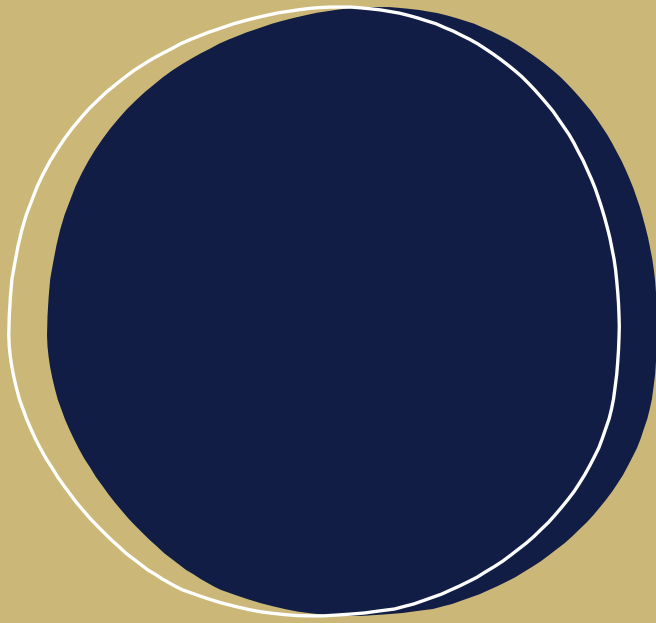


News from the financial markets

New lows in the equity markets

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New lows in the equity markets

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The global equity markets are testing the lows they hit in November. We are going on the assumption that the support lines could be recaptured. Nevertheless, we remain neutrally positioned.

Mistakes of the Obama administration

The markets were highly disappointed with the recent remarks of Treasury Secretary Timothy Geithner. The government's proposals remain too imprecise and the new "public-private partnership" concept too obscure to convince investors of their merit. In a nutshell: Why should a private investor put his/her money into such a partnership?

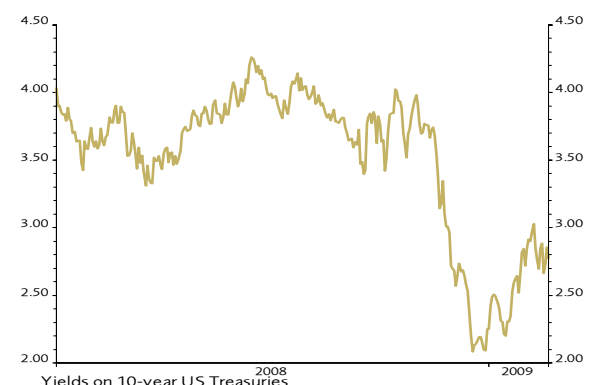
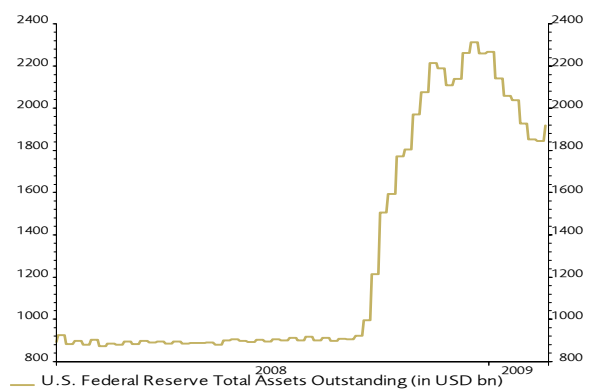
To make matters worse, the Fed for now at least has distanced itself from the plan to buy Treasuries in the near future as a means of lowering yields and boosting liquidity in the system. That is consistent with Ben Bernanke's testimony before Congress in which he noted that an eye has to be kept on the Fed's balance sheet.

We consider the lack of clarity in the bank rescue package as well as the slowdown in money supply growth to be grave political mistakes that will probably have to be corrected. Above all, the money supply "multiplier effect" is in no way far along enough to halt the decline in asset and consumer goods prices.

Markets are consternated

Meanwhile, investors have become so uncertain that the equity markets ended last week close to or already at their November 2008 lows. Yields on sovereign debt fell, gold is again nearing its record high, and the dollar has gained strength.

FED total assets; S&P 500; yields on 10-year Treasuries



Sources: VP Bank, Thomson Datastream

For now, we are not reducing our exposure

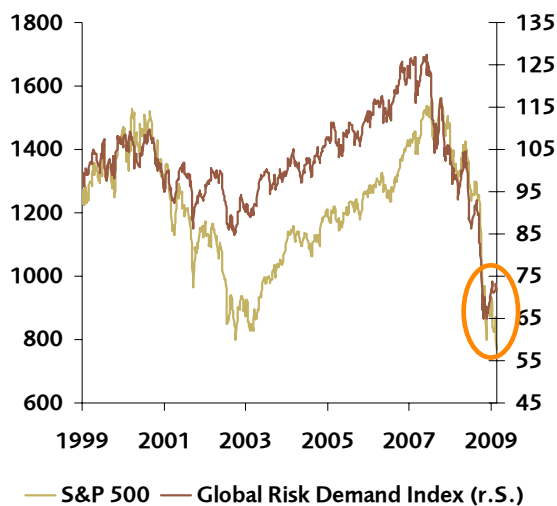
For the time being, we stand behind our positioning. The global recession has probably almost reached its full intensity at this point. We are therefore going on the assumption that the support lines could be recaptured in relatively short order. If not, further losses loom at least from a technical point of view.

Without a doubt, the wave of negative news (weak corporate earnings, doubtful creditworthiness of Eastern European borrowers, and disappointing economic data) has heightened even more the degree of uncertainty caused by the vagueness of America's economic policy. Once again, financial services stocks have placed the greatest burden on the stock indices.

That being said, we are also observing the first positive developments:

- Risk aversion among investors has stabilized. For example, the market for corporate bonds is back in gear. Even huge issues, such as Roche's USD 16 billion tranche for financing the takeover of Genentech, are being absorbed in the market without problem.

Risk appetite and the US equity market



Sources: VP Bank, Thomson Datastream

- In contrast to last autumn, the TED spread (i.e. the difference between EUR interbank money market rates and the yield on T-bills) has not deteriorated this time around. Although CDS spreads (the premium paid to hedge against potential defaults) have risen, they are not at new highs. In other words, the market is viewing the stress in the financial system and the probability of a major default as being less than was the case last November.
- The tide of negative corporate news is likely to ebb given the fact that the reporting season has already reached its zenith.
- Moreover, based on relative strength readings, the markets are once again in oversold territory.

The bottom line:

The downside dynamic could run out of steam in the near future, even though a sustainable trend reversal in the equity markets is not yet in sight. Thus for the time being we are sticking with our neutral exposure to equities and our fundamentally defensive country-specific allocation that is overweighted in favor of the USA, Pacific and Swiss and to the deficit of Europe and the emerging markets. Equally spoken, the limited upside potential for stocks currently leads to corporate bonds and convertibles offering a better risk/reward ratio.

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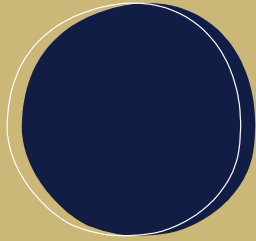
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