Market Perspectives

March 2010

Last update: February 26, 2010

GENERALI Investments

Contents

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- ***After a weak start into the year, markets stabilized in February but volatility remained high.***
- ***Key driver of market movements were fears about growing sovereign credit risk. Fundamental factors like activity indicators or company earnings were less decisive.***
- ***For the coming weeks, we expect market anxiety to remain very high. That said, fundamental factors and political developments favor a slight positive drift in our view.***

Following a sharp correction during the first weeks of 2010, markets stabilized in February. On balance, equities rose in the US, Switzerland, and the UK, while slight losses occurred in the euro area and Japan. Likewise, long-term yields rose in the US and the UK, while yields in core European countries like Germany or Switzerland dropped mildly. The latter movements were triggered by safe-haven flows as a result of ongoing concerns about sovereign credit risk, especially in Greece. Apart from rising risk premia investors demand for holding paper from highly indebted euro area economies, this has put the euro under pressure. Fundamental factors like the good Q4 earnings season or the very high growth momentum in the emerging economies moved to the backburner of market interest.

	Growth			Inflation		
	2009	2010f	2011f	2009	2010f	2011f
US	-2.4	2.5	1.8	-0.3	2.0	1.8
Euro Area	-4.0	1.0	1.1	0.3	1.1	1.5
Japan	-5.0	1.7	1.5	-1.3	-0.9	-0.4
UK	-4.8	1.2	1.8	2.2	2.9	2.0
World	-1.2	3.6	3.4	0.5	1.8	2.0

For March, we anticipate political developments to remain key. Above all, there will be an ECOFIN meeting on March 15/16 at which Greece is obliged to present additional efforts to consolidate public finances. We expect Greece to fulfill the requests as failure to do so could result in a reduction of EMU-members' willingness to potencially assist Greece. In our view, there is no choice but to present the additional efforts demanded, not least because failure to do so could result in a further downgrade of Greek government debt. Currently, the sovereign debt rating of Greece is *BBB+* (Fitch), which is already worse than the minimum rating the ECB usually requires for collateral accepted in its regular refinancing operations (on current schedule, the ECB will revert to the minimum rating of *A-* on Jan 1, 2011 which was lowered to *BBB-* in May 2009).

Against this backdrop, we expect the results of the ECOFIN meeting to be supportive for markets. More problematic is the fact that Greece needs to tap capital markets quite strongly soon. For all of 2010, Greece has to refinance € 53 bn of its debt, but € 20 bn in April and May alone. In order to test the market's willingness to absorb this amount of paper, we anticipate issuance in March already. To ensure sufficient demand, the coupon for a 10-year paper is likely to be in excess of 7% (currently 6.6% in the secondary market). Failure to attract investors despite the risk premium offered would aggravate the situation. So far, Greece has insisted that it will be able to solve its financial problems on its own, and no official request for help has been issued to the EU. This could change, if investors were unwilling to buy this spring. Our base case is that additional efforts by the Greek government to reduce its deficit should ensure sufficient demand but uncertainty is high.

Bonds	**Current**	**1M**	**12M**
10-Year Treasuries	3.73	3.80	4.00
10-Year Bunds	3.20	3.30	3.60
10-Year JGBs	1.33	1.35	1.50
Corporate Bonds	**Current**	**1M**	**12M**
IBOXX Corp Non Fin	104	90	80
Forex	**Current**	**1M**	**12M**
USD/EUR	1.35	1.37	1.35
JPY/USD	91	92	105
GBP/EUR	0.88	0.89	0.85
Equities	**Current**	**1M**	**12M**
S&P500	1103	1125	1150
MSCI EMU	84.4	86.1	94.0

Current values = average of last three trading days

Fundamentals supportive

While we expect volatility in financial markets to remain due to sovereign credit risks, we also see a good chance that markets will show a slight positive drift over the coming weeks. For one, while structural problems remain, we anticipate the numerous policy supports still in place to continue to push global growth in H1 2010. Likewise, fears about central bank tightening seem overdone to us. In China, there may be first steps to reign in excessive lending but we do not expect the PBoC to slam on the brakes. Quarterly growth rates in excess of 10% yoy and inflation which has turned from negative in July 2009 (-1.8% yoy) to positive now (1.5% yoy), make reducing an ultra-expansionary stance a necessity. Likewise, the US central bank may have increased the discount rate in February but this is not yet a sign that "true" monetary tightening is imminent. Instead, it is part of a broader effort to unwind the emergency measures which were implemented in response to the crisis. As such, these measures should not prove disruptive for the markets.

On the equity side, we still see a positive earnings revision cycle and valuation levels which are far from being demanding. If political risk can be reduced a bit over the course of the month, equities and corporate bonds would be the main beneficiaries in our view.

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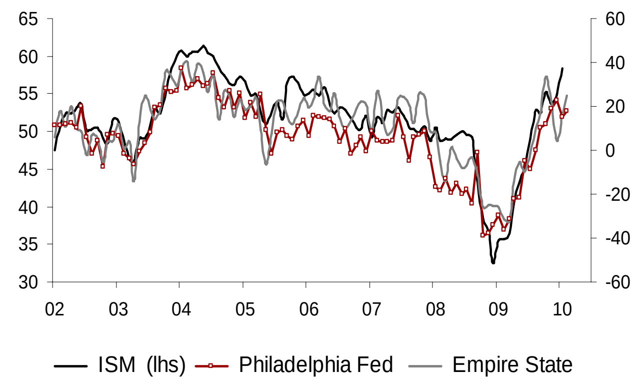
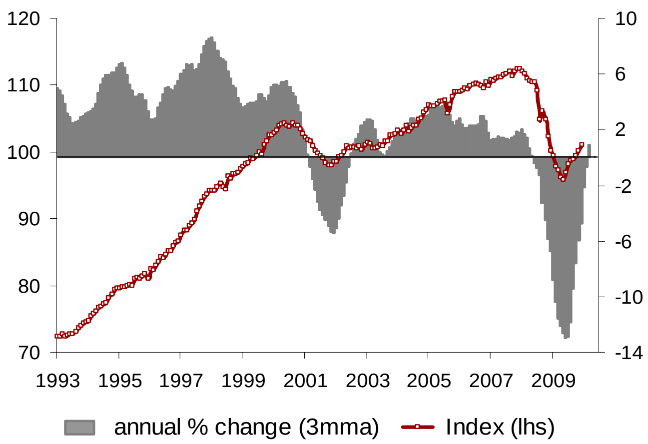
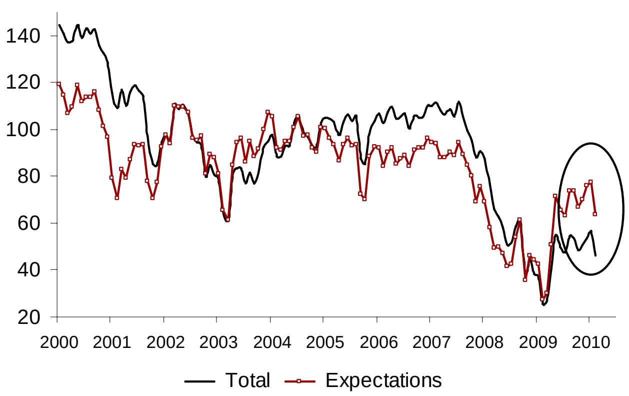
Purchasing Manager Indices
Manufacturing



Industrial Production



Consumer Confidence
Source: Conference Board



- ***Momentum in the US economy continued to be high over the last weeks. That said, labor market conditions – and hence consumer confidence – have yet to improve noticeably. Against this backdrop, there is growing talk of another fiscal stimulus package.***
- ***Despite the recent hike in the discount rate, we do not expect the Fed to raise its Funds Rate until later in 2010. In our view, the Fed has made very clear that a distinction between unwinding of emergency measures and "true" monetary tightening applies.***

Over the last four weeks, momentum of the US economy remained quite high. This is above all true for the manufacturing sector where key sentiment gauges have signaled strong activity at the start of the year (see top chart). Likewise, industrial output rose by 0.9% mom in January (seventh consecutive increase; see middle chart), with manufacturing output up even by 1% mom. The housing sector, pushed by the extension of the tax credit for first-time home buyers, remained fairly resilient as housing starts rose 2.8% mom in January and building permits dropped only slightly from the high level reached in December.

That said, labor market conditions continued to be difficult. Driven by worse-than-normal weather conditions, initial unemployment claims jumped to 496K in late February, up from 442K in the week of February 13. For the upswing to become self-sustaining, labor market conditions have to improve more than last year. In 2009, job shedding was dramatic at the start of the year (-691K in Q1). It came almost to an end during the final months of the year (-69K in Q4). However, labor market conditions are still dire enough for consumer sentiment to be affected quite negatively. In February, the Conference Board's consumer confidence index, which tends to reflect labor market conditions more than other measures, fell to a 10-month low of 46 (Consensus: 55; see bottom chart). Against this backdrop, we expect the US administration to enact another fiscal package geared especially to the labor market. The Senate, for instance, has proposed a measure which would give employers a one-year exemption from paying social security contributions, if they hire long-term unemployed people. That said, in light of the large fiscal deficit, any package will be much smaller than the "ARRA" which was enacted in early 2009 (US$ 787 bn).

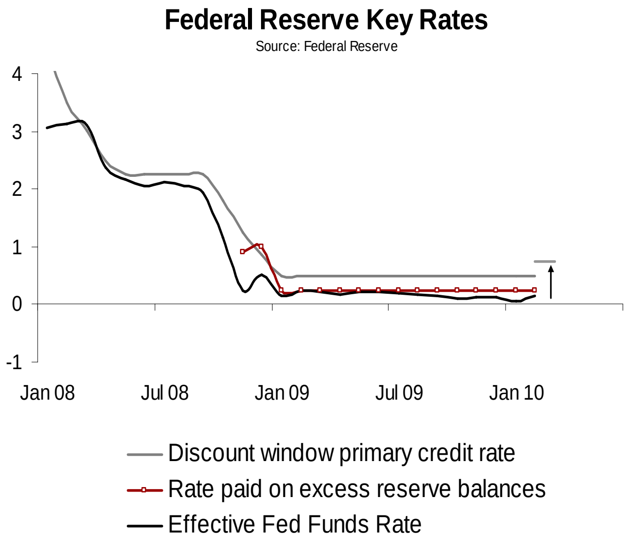
Fed hikes discount rate

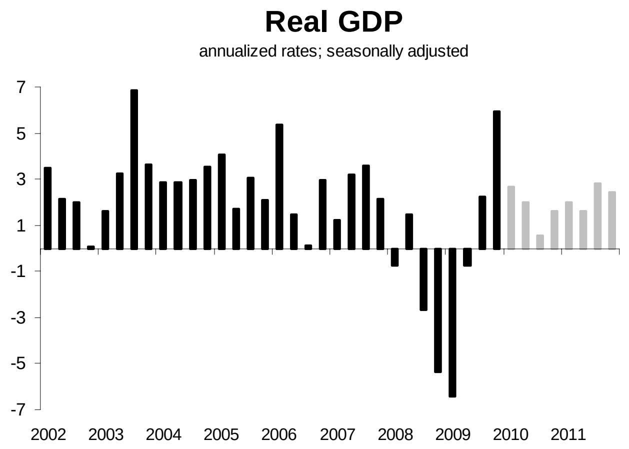
On February 18, the US central bank raised the discount rate from 0.5% to 0.75% (see top chart, next page). This has led to market fears that the Fed could soon start a tightening cycle. We disagree. In our view, the Fed is bending over backwards to explain to the market that the discount rate move is just an effort to unwind the emergency measures which were implemented during the credit crisis. Usually, there is a 100 bps spread between the discount rate and the fed funds rate. This more discernible spread is used in order to encourage commercial banks to borrow in the interbank market and not from the Fed (where a "penalty rate" applies). When liquidity in the interbank market broke down, the Fed had to ensure that banks could borrow at reasonable cost. For this reason, the Fed lowered the spread between the discount rate from 100 bps to 25/50 bps. Now, with the emergency past and commercial bank borrowing from the discount facility low, the spread can widen again. The ultimate goal of the Fed is to establish a band so that Fed Funds Rate will be between "the discount rate above and interest rate on excess reserves below".

The increase in the discount rate is part of the broader efforts to unwind the emergency lending programs. Out of the seven special facilities created, four were closed already (Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, Commercial Paper Funding Facility, Primary Dealer Credit Facility, Term Security Lending Facility). The remaining three are scheduled to expire on March 8 (Term Auction Facility) March 31 (Term Asset-Backed Security Facility ex MBS), and June 30 (Term Asset-Backed Security Facility). However, these efforts are not the same as an outright monetary tightening. For this, the Funds Rate would have to be raised with knock-on effects at the longer end of the government bond yield curve or mortgage rates. To do so, is way too early in our view as too many risks remain. The Fed cited continued improvement in financial market conditions for the hike in the discount rate. For the Funds Rate to be raised, the Fed needs to see more evidence that the economic recovery is firmly established. So far, much of the economic rebound has been the result of the enormous fiscal and monetary policy supports.

Labor market key

For the upswing to have good chances to be self-sustaining, the labor market needs to improve more. To be clear, we do not think that the Fed needs to see the unemployment rate to come down (as was the case in the past) but – at a minimum – the employment numbers need to become sufficiently positive again. For the unemployment rate to stabilize, the number of new jobs needs to rise to around 100K on average per month (Note: Due to the US 2010 Census, the labor market numbers will be highly distorted in Q2 by around 300K per month but a payback will come in Q3). Once, the underlying labor market dynamic has reached the 100K-level, we anticipate the Fed to tighten in order "not to repeat the mistakes of the past" when the Funds Rate was too low for too long. We expect this to be the case around the final quarter of 2010. Another key gauge for possible Fed action is aggregate bank lending. After a record drop in 2009 it is still falling. However, if it were to turn positive, the Fed would need to tighten sooner in order to prevent the liquidity created from becoming inflationary.





Main Forecasts[1)]	2008	2009	2010f	2011f
GDP	0.5	-2.4	2.5	1.8
Consumer spending	-0.2	-0.6	1.5	1.7
Gov. consumption	3.1	1.9	2.0	0.5
Investment	-5.1	-18.3	-1.4	5.4
- residential inv.	-22.9	-20.4	7.0	8.0
- structures	10.3	-19.6	-10.0	1.0
- equipment/software	-2.6	-16.7	0.0	6.0
Inventories	-0.3	-0.6	1.1	0.0
Net trade	1.2	1.0	0.0	-0.2
Domestic demand	-0.4	-2.7	1.3	1.9
Consumer prices	3.8	-0.3	2.0	1.8
Unemployment rate[2)]	5.8	9.5	10.3	10.0
Budget balance[3)]	-3.7	-11.5	-9.5	-7.8
Fed Funds Rate[4)]	0.0-0.25	0.25	1.00	3.50

1) Unless noted otherwise, annual % changes, net trade and inventories: growth contribution to GDP 2) yearly average as %, 3) in terms of GDP, federal deficit 4) as %; year-end

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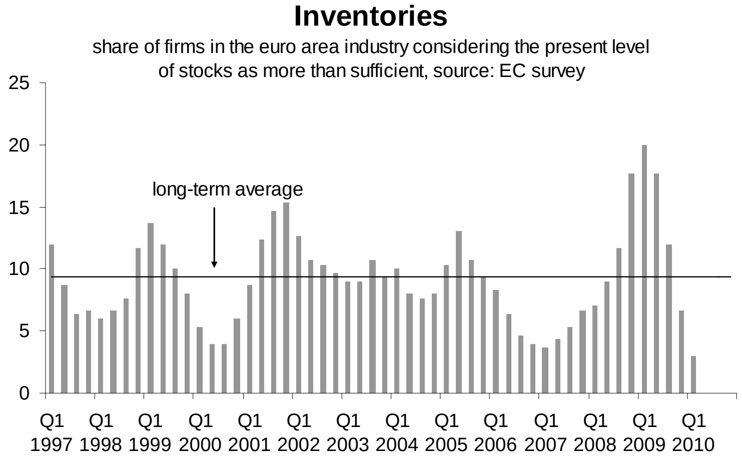
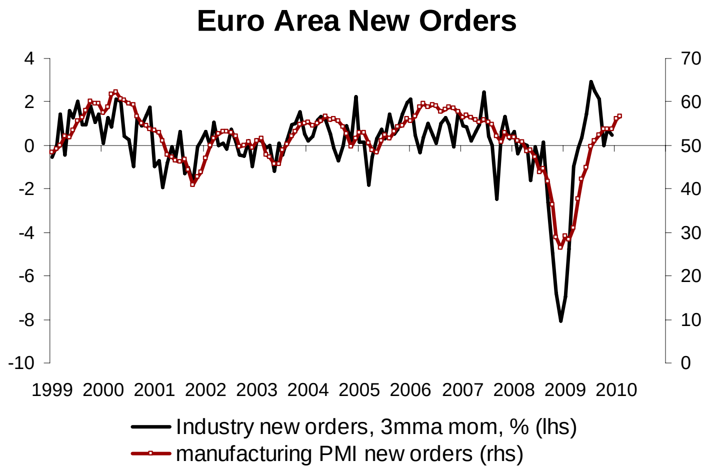
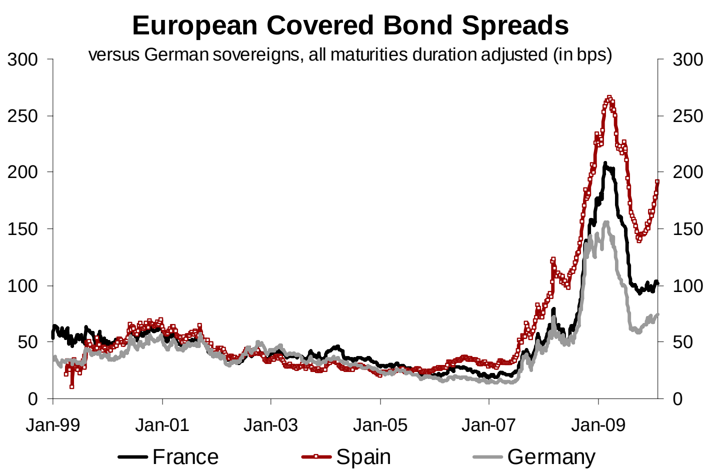






- ***In Q4/2009 GDP grew by only 0.1% qoq, considerably below expectations. We suspect that this is mainly due to further de-stocking. Looking ahead, this should unwind and key indicators should stay at solid levels.***
- ***We presently see no impact from the crisis in Greece on euro area economic activity but there are significant downside risks.***
- ***We lowered our growth expectation for 2010 to 1.0%, down from 1.3% and now expect the ECB to bring its key rate only to 1.25% towards year-end.***

During the foregone month the overall macro newsflow was mixed. Looking back, the flash estimate for Q4 growth came in at 0.1% qoq, significantly below market expectations as well as our forecast of around 0.5% qoq. This poor outcome stands in contrast to the various business activity indicators. A breakdown of GDP components is not yet available. However, according to a first indication for Germany from the statistical office net exports were the only contributors to growth whereas the inventory component fell strongly short of expectations (-1.2 pp growth contribution). Looking ahead, there continues to be plenty of indication that inventories contribute positively to growth. E.g. the share of firms considering the present level of inventories as sufficient has fallen to the lowest level since 1995 in Q1 (see top chart).

Dual economy emerging

Overall, the released macro indicators hint at a split development within the euro area economy. The export-driven manufacturing PMI rose further to 54.1 in February, indicating that activity is expanding at the fastest rate for 30 months. In contrast, the more internal-demand driven services PMI moderated to 52.0. This is also consistent with the latest hard data flow. In December the trade balance improved further (to € 7.0 bn after € 5.3 bn before on a seasonally adjusted basis) whereas the unemployment rate rose to 10.0% and retail sales were flat mom. New order data for the industrial sector were further up by 0.8% mom in December. In Q4 new orders were 1.2% above the previous quarter level although the momentum of this indicator has slowed. However, the continuing increase of the manufacturing PMI new order component is consistent with stronger order activity and hence industrial production in the months to come again. Hence, over the coming months the industrial sector should be the main pillar of growth benefiting from the global growth momentum, the recent weakening of the euro, and support from the inventory cycle. However, the surprising fall of the

Euro Area

German ifo index due to a worsening of the current condition component might herald a weather induced weak spot in February which could impact negatively on industrial production. Anyway, looking further down the road key expectation components on balance hold up at elevated levels - ifo expectations even advanced further - suggesting that economic activity continues to expand.

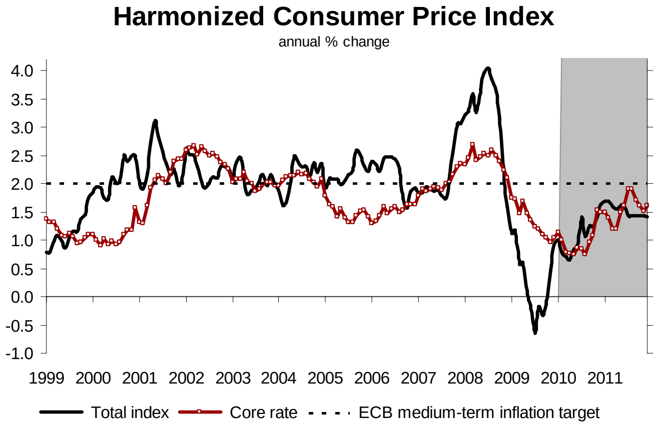
Downward risks from the Greek crisis

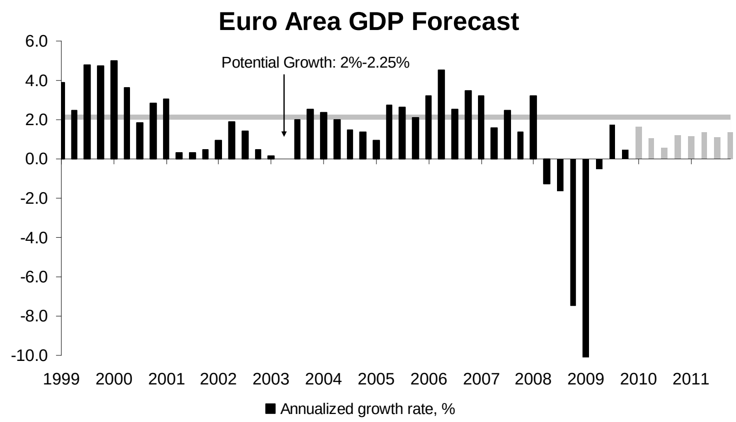
Up to now, the Greek crisis is something that affects the euro area aggregate only via financial markets whereas the real consequences are only felt in Greece. This is not surprising as the share of the Greek economy in euro area GDP is only 2.5%. Therefore, the fall of the Greek manufacturing PMI (to 46.8 in January) should have hardly dampened the corresponding euro area number. Looking ahead, significant direct effects for the whole euro area are only to be expected if the crisis spills over for instance to Spain, Portugal and Ireland (altogether 16% of GDP).

Also, since so far the crisis remains limited to sovereign risk, no widening of corporate bond spreads in response to Bund-Greek spread could be observed. In fact, the 10-year corporate yield level barely changed. However, in Spain covered bonds suffered. This suggests that firms in peripheral economies might indeed suffer from the crisis as a breakdown according to countries is not available. Another potential contagion channel is via owners of Greek debt. According to estimates it represents 10% of the euro area's total bond holdings or 0.5% of the total bank assets. If the crisis would intensify and/ or would be expected to last longer, writedowns would limit banks' ability to provide credit. There is no indication for this yet, according to the latest ECB Bank Lending Survey.

Growth revised down, ECB more hesitant

Because of the surprisingly weak Q4/2009 growth number we revised our 2010 growth expectation down to 1.0%, from 1.3% before. However, at the outset of this year we expect a pent-up effect from the inventory component and look for an acceleration to 0.4% qoq in Q1. Our 2011 forecast of 1.1% is left unchanged. Regarding monetary policy, the recent macro news flow combined with an intensification of the Greek crisis should make the ECB less confident on economic activity. At the last meeting it was already "very alert, very prudent" on economic activity while it should continue to be relaxed about inflation. This should also be reflected in the new staff projections released in March. We now expect the ECB to just start hiking and see the key rate at 1.25% towards year-end.





Main Forecasts[1)]	2008	2009e	2010f	2011f
GDP	**0.5**	**-4.0**	**1.0**	**1.1**
Consumer spending	**0.4**	**-0.9**	**0.0**	**0.8**
Gov. consumption	**2.0**	**2.5**	**2.3**	**1.4**
Total fixed investment	**-0.7**	**-10.7**	**-0.8**	**2.1**
Inventories	**0.2**	**-0.6**	**0.2**	**-0.1**
Net trade	**0.0**	**-1.0**	**0.5**	**0.1**
Domestic demand	**0.5**	**-2.4**	**0.3**	**1.2**
Consumer prices	**3.3**	**0.3**	**1.1**	**1.5**
Unemployment rate[2)]	**7.5**	**9.4**	**10.1**	**9.7**
Budget balance[3)]	**-1.7**	**-7.4**	**-8.3**	**-7.5**
ECB refi rate[4)]	**2.50**	**1.00**	**1.25**	**3.00**

1) unless noted otherwise, annual % change, net trade and inventories: growth contribution to GDP, 2) yearly average as %, 3) ratio of budget balance to nominal gdp, 4) as %; year-end

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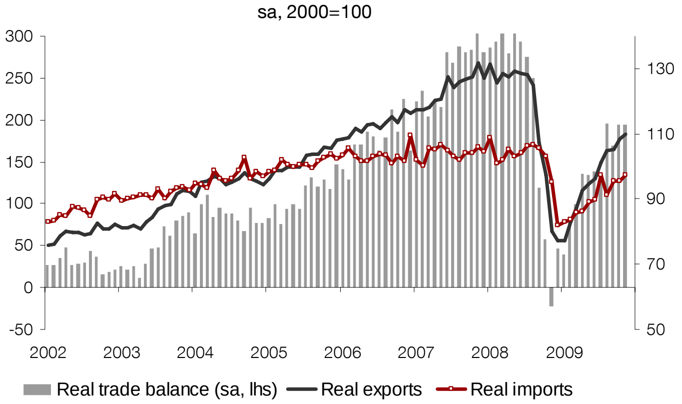
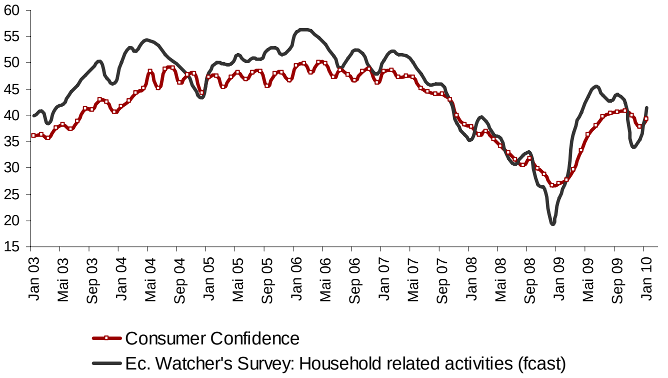
Real Exports & Imports



Japan: Consumer Confidence and Economy Watcher's Survey



Main Forecasts[1)]	**2008**	**2009e**	**2010f**	**2011f**
GDP	-1.2	-5.0	1.7	1.5
Consumer spending	-0.6	-1.1	1.6	1.1
Government consumption	0.2	1.7	0.9	0.9
Investment	-2.8	-14.2	-2.3	2.0
Inventories	-0.4	0.3	0.1	0.1
Net trade	0.2	-2.0	0.1	0.1
Domestic demand	-1.4	-3.3	0.6	0.6
Consumer prices	1.4	-1.3	-0.9	-0.4
Unemployment rate[2)]	4.0	5.2	5.6	5.2
Budget balance[3)]	-5.4	-10.4	-10.2	-11.4
Overnight rate[4)]	0.10	0.10	0.10	0.50

1) unless noted otherwise, annual % changes, net trade and inventories: growth contribution to GDP 2) yearly average as %, 3) in terms of GDP, general government 4) as %; year-end

- ***GDP growth surprised on the upside with 4.6% qoq annualized. However, we expect growth to slow significantly in Q1.***
- ***Exports were buoyant in January and are likely to trend up further although the momentum could slow somewhat.***
- ***Despite the strong deflation the BoJ seems to hold its monetary policy stance constant.***

According to the first print, Japan's GDP grew by 4.6% qoq annualized in Q4 2009. Growth benefited significantly from international trade as exports rose by 21.7% qoq annualized while imports slowed back to 5.3% qoq. Thus, net exports contributed nearly a half to the total GDP result whereas private and government consumption as well as non-residential investments shared the rest. Capital expenditures saw its first rise in seven quarters, however, we expect a downward revision in the second estimate on a limited basis (not comparable with Q3 which started with 4.8% and is now revised to 0%). Nominal GDP increased by 0.9% qoq annualized, stressing again the severity of the deflation in Japan.

Exports benefit from Chinese New Year

As far as the latest monthly indicators are concerned, exports continued their strong upward trend in January with an increase by 6.9% mom. However, this result was likely boosted by front-loading deliveries ahead of the Chinese New Year as most of this impulse came from Asian countries. Looking forward, we expect exports to continue to trend up although the February result will probably see a payback. Imports are likely to catch up after the poor result in Q4, so that net exports should contribute significantly less to Q1 GDP. Exports pushed up IP growth to 2.5% mom in January but will – according to the METI survey – diminish by -0.8% in February and 1.6% in March. All in all, we expect the IP development to basically parallel exports with some more strains from private demand. In this respect, private consumption growth is likely to diminish in Q1. Although consumer confidence and household related activities in the Economy Watchers Survey denote that private consumption responds positively to the prolonga-tion of fiscal support, household income remains under severe pressure. We expect the impact of government subsidies for durable consumer goods to fade before fresh fiscal support later in Q2 will lead to a recovery in private consumption. Therefore, downward pressures on core-core inflation which again receded by 1.2% yoy in January will remain strong while the headline inflation will tend to narrow further. The BoJ seems to intent to look through the soft patch in Q1. However, political pressures are increasing so that some politically motivated compromise might be on the cards.

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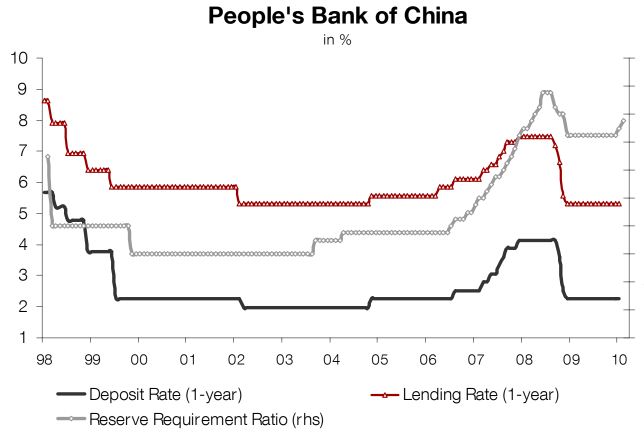
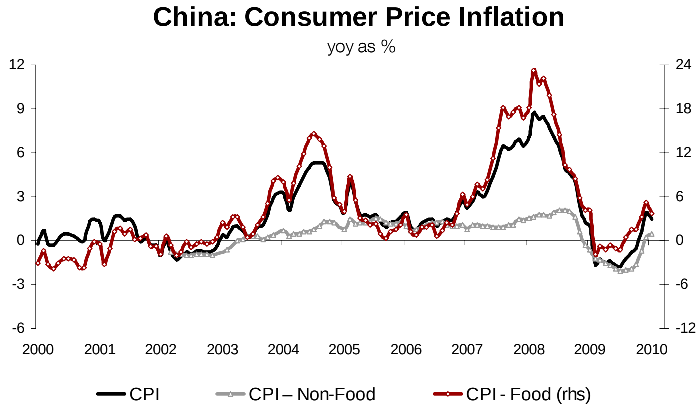
- ***The People's Bank of China raised the reserve requirement ratio for the second time and more moves are expected before a hike in the benchmark interest rate will follow in Q2.***
- ***Inflation remained subdued in January while trade data confirmed the strong jump in December.***

The People's Bank of China raised the reserve requirement ratio by 50 basis points in mid February for the second time this year. The move came just ahead of a week long holiday for the Chinese New Year, thereby obviously timed as to minimize the direct market impact. However, the hike reflects the buoyant increase in new yuan loans which soared by 1.39 tr yuan in January, the third largest amount on record. The strong rise in new loans means that 18.5% of the total target for 2010 have already been depleted, and the central bank clearly intends to steady this development. Overall, monetary policy is likely to continue withdrawing support given the overheating fears, strong exports (which lead to a more rapidly closing output gap), and the political will to fight inflation expectations. Mean-while, the consumer price inflation dropped back to 1.5% yoy in January after 1.9% in December. We expect inflation to accelerate again in February as there are typically price increases in the New Year holiday season and will conversely drop back in March. Nevertheless, the general price trend seems to be up, the more so as the producer price index rose by 4.3% yoy of late. However, inflation is likely to remain manageable over the course of the year. Monetary policy will take that into account, and given the more rapidly closing output gap, there is a case for withdrawing support but not for an abrupt shift. We expect further reserve requirement hikes before the central bank will raise the benchmark interest rate in mid Q2.

Export remained upbeat in January

As usual in January, China publishes only a limited set of macro data leaving out industrial production, investments and retail sales. However, trade data were published and confirmed the buoyant rise in December as sustainable amid only a small drop on month on month view. Nominal exports increased by 21.0% yoy, while imports grew a whopping 85.5% yoy. These high yearly rates are to a large extent the result of significant base effects. On the import side, these effects have already reached their maximum in January, on the export side it will follow in February. In addition, some support likely came from the Chinese New Year holiday as deliveries usually get frontloaded. This has also been felt in Japan and – where data are available – with China's neighboring countries as well.





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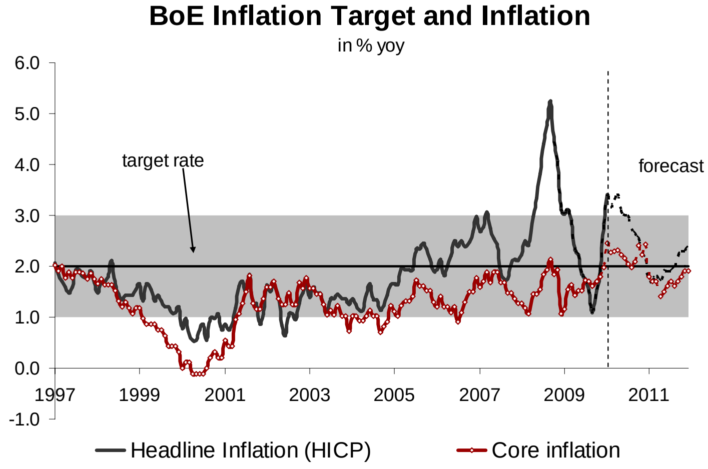

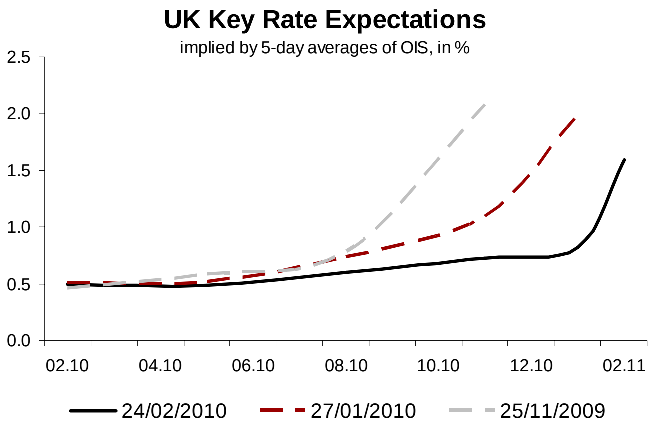

Main Forecasts[1)]	2008	2009e	2010f	2011f
GDP	0.6	-4.8	1.2	1.8
Consumer spending	0.9	-3.1	0.2	1.2
Government consumption	2.6	1.9	0.1	-0.8
Investment	-3.5	-13.9	1.1	3.8
Inventories	-0.3	-1.4	0.5	0.4
Net trade	0.4	0.9	0.2	0.3
Domestic demand	0.2	-5.1	1.1	3.4
Consumer prices (HICP)	3.6	2.2	2.9	2.0
Unemployment rate[2)]	5.7	7.7	8.0	7.6
Budget balance[3)]	-5.0	-13.0	-12.4	-9.5
Base rate[4)]	2.00	0.50	1.00	2.50

1) unless noted otherwise, annual % changes, net trade and inventories: growth contribution to GDP 2) ILO, yearly average as %, 3) in terms of GDP, general government 4) as %; year-end

- ***Economic indicators from February highlighted the gradual but fragile recovery of the British economy.***
- ***Inflation surged to 3.5% in January, and we expect price pressures to remain high for longer than discounted by consensus.***
- ***Ongoing rather high inflation and the bleak prospects of near-term fiscal consolidation lead us to expect the BoE to start monetary tightening in Q4 by 50 bps, earlier than currently discounted by markets.***

Economic indicators have highlighted the ongoing, but fragile recovery of the British economy. While the manufacturing PMI hit a 15-year high at 56.7, supported by a strong new-orders component, growth in services slowed sharply with the corresponding PMI falling by 2.3 points to 54.5. Retail sales contracted by 1.8% mom in January, but a surprisingly strong reading of the CBI distributive trade survey for February suggests that much of the weakness in January may be due to the effects from the VAT hike and cold weather. We do not see a relapse into recession, but expect a recovery below consensus estimates this year and next.

Inflation to remain sticky

Despite our muted view on economic activity, we are still more concerned about inflation than consensus. Headline inflation rose to 3.5% yoy in January. While much of that spike is indeed due to the January VAT hike and energy prices, we deem a substantial part of the inflation pressures structural. There is growing evidence that aggregate supply has been hurt rather strongly. Measures of capacity utilization have trended higher while unemployment remained relatively low compared to the 6% drop in output during the recession. Moreover, rising inflation expectations and the effects from the weak sterling should have a lasting effect on prices in our view. Overall, we expect inflation to average 2.9% this year (cons.: 2.5%) and 2.0% (1.7%) next.

BoE unlikely to resume QE

In February, the MPC decided to stop Gilts purchases, but governor King highlighted that “it is far too soon to conclude that no more purchases will be needed”. This declaration of a pause in QE was exactly in line with our forecast. Going forward, though, we do not expect the BoE to resume its Gilts purchase program. Inflation expectations are likely to rise further while the labor market and capacity utilization rates should continue to stabilize. Meanwhile, recent opinion polls suggest a hung parliament after the elections due in spring, and this would make a front-loaded fiscal consolidation less likely. A further extension of QE would thus risk destabilizing the inflation outlook. Indeed, we are currently looking for first key rate hikes by 50 bps in Q4, earlier than currently discounted by markets.

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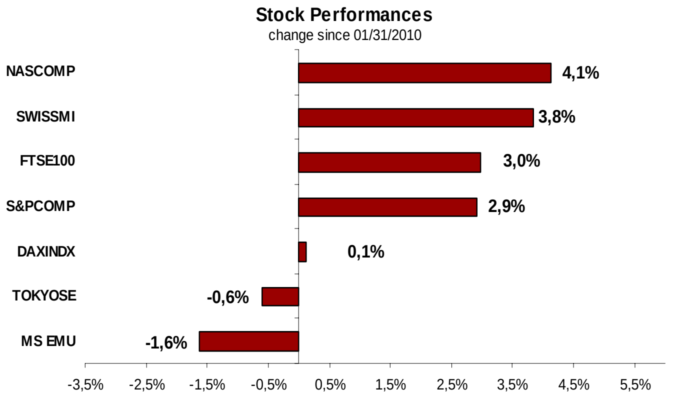
- ***Europe in particular suffered in the last month. Confidence in the recovery is uncertain, but GDP numbers as well as inventory potential should maintain the economic scenario at least in line with our December constructive outlook.***
- ***Valuation is appealing and more relative to bonds. Japan deserves an outperforming potential as signaled by our quantitative ST models. Emerging markets are starting to be cheap, but our sensation is that monetary policy could weigh on their relative performance for a while. We expect positive returns in the coming month.***



Some performance back-up

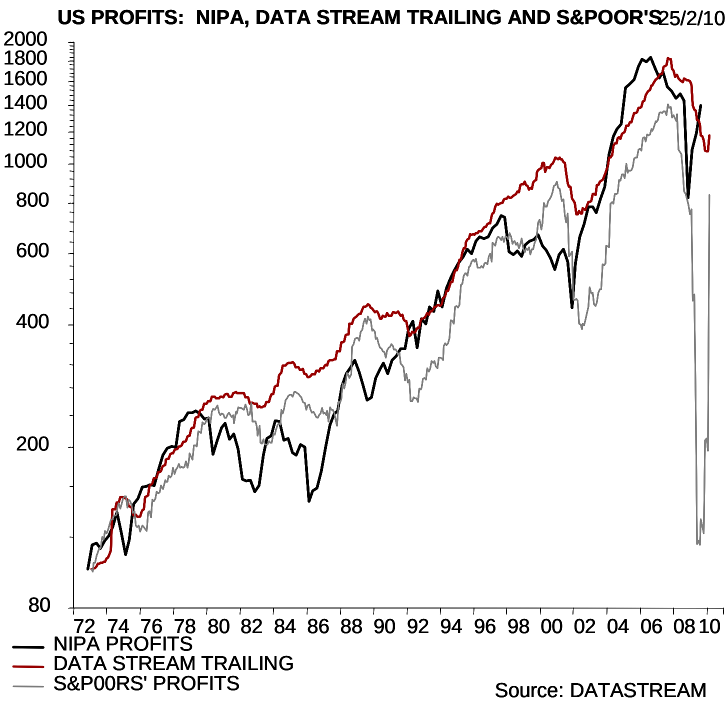
Equity returns were positive in the last month but not in the euro area (-1,6%). Underlying Triggers are always sovereign risk (Spain -6,3%) and Chinese (+1,6%) tighter monetary policy, but now also some uncertainty on growth. Namely, US consumer confidence took a hit and internal demand in Europe, as well in Japan, remains weak. The dollar appreciated by 2% and commodities were up by 7%. But 10-year rates remained almost flat as corporate spreads did (only high yield widened by 13 bps on average in US and in Europe). Best sectors in Europe were basic material, food, household and insurance, while auto, retail and software underperformed. On the contrary, US industrials, discretionary (auto, media and multi-line retail) outperformed, together with material, insurance and Tech. Clear difference was the perception of a more vibrant internal demand vs. the euro area. Here ULC are still high and from now on big companies are in the process to cut jobs at the expenses of a weak labor market, which for the time being will weigh on the consumers' confidence. On the contrary, after massive job cuts, US productivity is now stellar and the process has not come to an end yet. This is reflected in the high claims data, mirrored by the latest weak consumer confidence.

Consensus eps estimates (IBES): changes (%) since last OTAC	
24-feb-10	12m fwd eps
MSCI USA Automobiles	58,0%
MSCI USA Banks IG	23,5%
MSCI USA Cap Gds	6,3%
MSCI USA COMM/PROF SER	0,3%
MSCI USA Cons Dur/App	10,3%
MSCI USA Div Fin IG	3,4%
MSCI USA Energy IG	4,1%
MSCI USA Fd/Bev/Tob	0,6%
MSCI USA Fd/Drug Rtl IG	1,1%
MSCI USA H/C Eq/Svs	-0,1%
MSCI USA H/H Pers Prd	-0,5%
MSCI USA Consr Svs Ind G	4,3%
MSCI USA Insurance IG	1,1%
MSCI USA Materials IG	10,3%
MSCI USA Media IG	5,4%
MSCI USA Pharm/Biotec	1,9%
MSCI USA Real Estate IG	6,4%
MSCI USA Retailing	4,7%
MSCI USA Software	5,8%
MSCI USA SemiIG	22,8%
MSCI USA T/Cm Svs IG	-3,5%
MSCI USA Tch H/W/Eq	15,3%
MSCI USA Transpt	7,3%
MSCI USA Utilities IG	0,4%
MSCI U.S.A	5,2%

What's happening

US market is near November levels, while Europe came back to the ones of September and Japan even lower than that. The recovery is giving stop-and-go signals while some extraordinary monetary measures are being pulled off. China is tightening, sovereign risk is increasing and banks are always under possible government's revenge.

But during these months the market cleaned itself: Investors sold aggressively companies which reported badly or had uncertain guidance. That said, in average the reporting season was good. We expect the continuation of this trend also in Q1. US 12m months forward earnings moved up by 5% since mid-December. Auto sector forecast gained 58%, banks 23% and IT above 10%. GDP in the US was growing strongly in Q4 and as a consequence, also NIPA profits did. If we build a Fed model with these ones, we find there is still value in the index.



Source: DATASTREAM

Equities

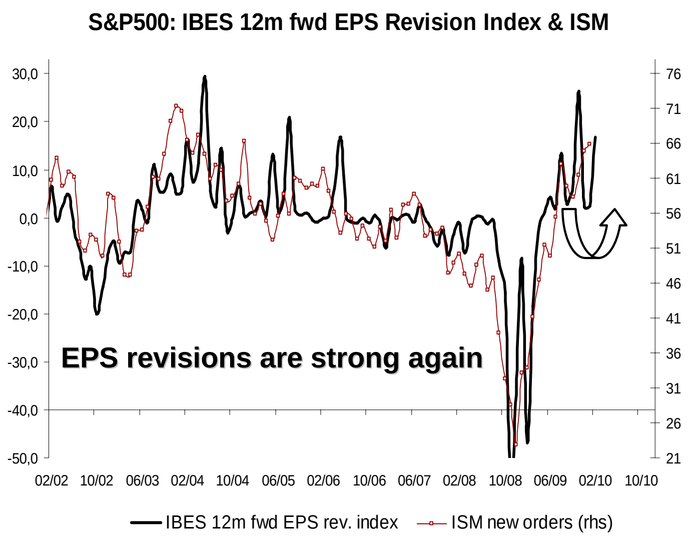
Short-term models	Current Index	Regression I	Regression D	Fair Value	Fair Value 2	Current average valuation	Current average up/downside
Weights		25%	25%	25%	25%		
S&P 500	1,073.63	**1,056**	951	1,142	**1,063**	**1,053**	**-1.9%**

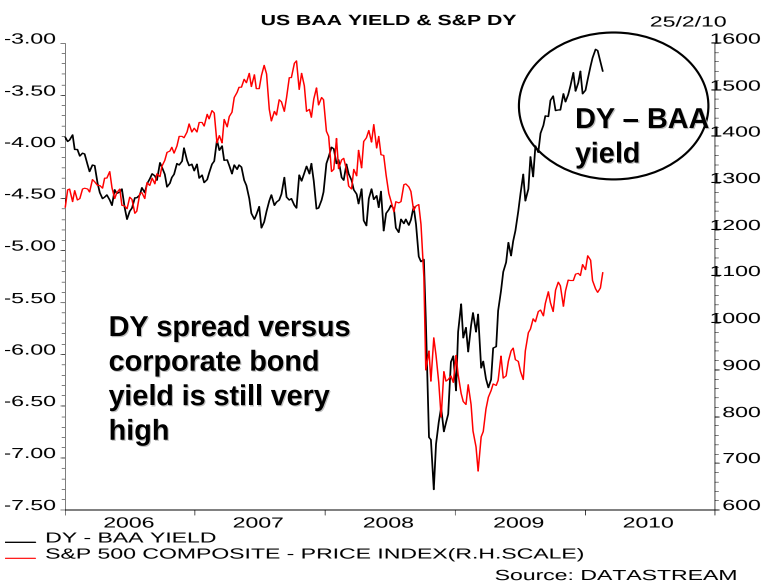
Short-term models	Current Index	Gordon 3 stage DEV	Eurostoxx D	Fair value	Fair value 2	Current average valuation	Current average up/downside
Weights		25%	25%	25%	25%		
MSCI EMU	82.54	**85**	81	**89**	**83**	**84**	**2.2%**

Short-term models	Current Index	Regression I EPS before goodwill adjusted	Regression D	Regression D alter		Current average valuation	Current average up/downside
Weights		50%	25%	25%			
FTSE 100	5,143.05	**5,237**	4,804	4,999		**5,069**	**-1.4%**

Short-term models	Current Index		Regression D			Current average valuation	Current average up/downside
Weights			100%				
SWISSMI	6,381.82		6,190			**6,190**	**-3.0%**

Short-term models	Current Index	Regression I eq2	Regression D			Current average valuation	Current average up/downside
Weights		50%	50%				
TOPIX	884.84	1,005	1,031			**1,018**	**15.1%**





In the chart on the bottom of the previous page you can see NIPA profits (overall economy) are leading S&P ones (500 firms). The trend is still up and NIPA still do not even incorporate Q4 and Q1 GDP numbers.

The commonly held view is true. Earnings are doing their job, the labor market is slowly recovering and the inventory contribution has still to be seen. What is missed is the confidence in the recovery. In other words risk aversion is leading the market more than data. After 2003 the ISM only moved lower (above the expansion level) but that was not enough to stop a multi-year market rally. Current risk premia are still high at this stage of recovery.

To summarize:

global economy is expanding, so far not losing momentum,

Q4 earnings season markedly better than expected and due to our positive growth expectations for Q1 2010 another positive earnings season is on the cards, EPS revisions are also turning up again,

- Valuations remained quite comfortable in absolute and very supportive in relative terms,

- bond market yields are trending more or less sideways and are expected to do so also in 2010,

- no change of US and Euro central banks policy within the next 6 months,

- Still low corporate spreads (lower refinancing costs),

- skepticism concerning equities is rising.

Japan short-term and long-term view

Short-term Japanese equities suffer the weak internal demand momentum (as for Europe) and the deflation issue. On the other side, our ST models are giving encouraging signs of a potential outperformance in the next 1-3 months (see chart on the top). Longer-term issue: For many years Japanese firms spent too much in capex to feed their export but margins suffered and now they are near half their peers in the US and Europe. This is due also to high depreciation charges and much poorer spending in promotion and advertising. Now, companies are inclined to reverse this trend and longer term this could help margins to recover beyond current expectations. Like Europe did many years ago, outsourcing should increase bringing down the capex/sales ratio, therewith helping structural higher margins (Europe gained 2% margin from 2002 to 2009's cyclical low). On the other hand, more investments in promotion and advertising should help gaining consumers' interest, pricing power and at the end building additional goodwill. Toyota's problems will help as the company will need to invest massively in its brand. The government is also very much inclined to increase services' productivity, which represents another reason of current low capital returns. It's a long-term trend but nevertheless encouraging.

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- ***Due to another sharp drop in early February initiated by rising insecurity about Greek financial stability, European equities failed to reach positive returns over the last month.***
- ***The reporting season was again slightly supportive, underpinning earnings revisions.***
- ***European equities should continue their moderate recovery due to positive growth expectations and moderating risk premiums.***

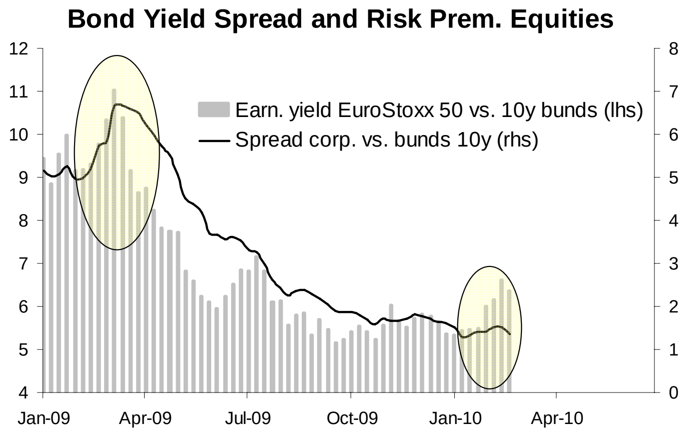
Before equities started the expected recovery in February, markets slumped again at the beginning of the month due to rising uncertainty about the financial stability in Greece. While the yield spread between corporates and bunds remained quite stable during this turmoil, the risk premium for equities (earnings yield based on 12m forecasts versus 10-year bunds) widened significantly (view chart). In our view, the correction on equity markets was overdone and we expect markets to recover further in the coming weeks. Our scenario is mainly based on the assumption of an ongoing robust global growth in Q1, triggering hopes for another positive earnings season. Indications for ongoing growth within the European manufacturing sector came from the ifo expectations index, which rose – although slightly – for the 14th consecutive month and from the PMI manufacturing, reaching a clear expansionary level of 54.1 in February.

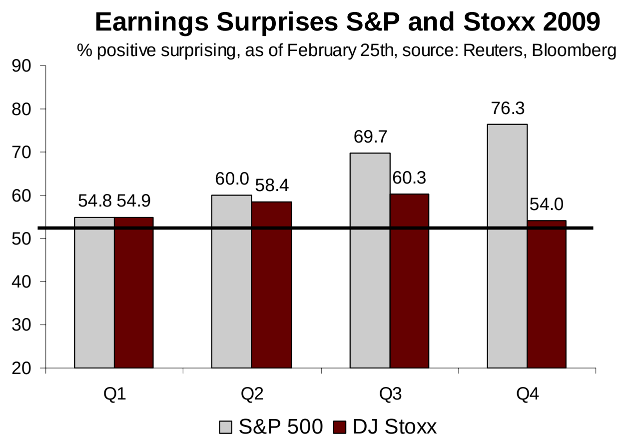
European big caps did better

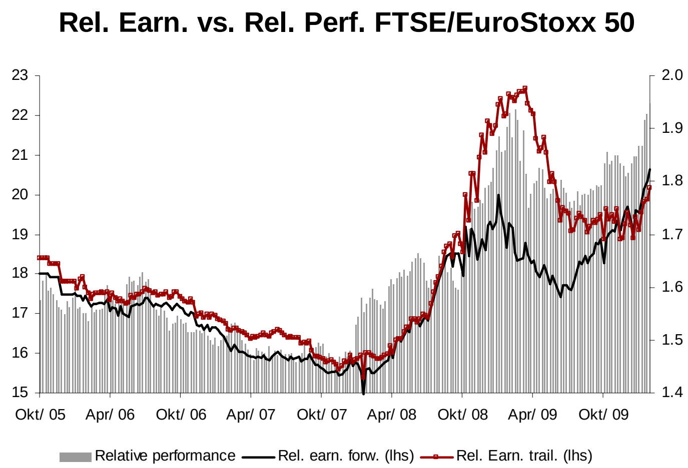
After 55% of the DJ Stoxx companies have published their results for Q4, the trends from the end of last month have been widely confirmed. In contrast to the US, where 76.3% of reported earnings came in higher than expected, European companies were hardly able to beat analysts' profit forecasts with a majority of only 54%. But concentrating on European big caps, the difference gets less obvious. The rate of positive surprising companies for the DJ EuroStoxx 50 amounts to 64.7%, probably indicating the more global network for inputs and selling activities. But even here, the sales results were more or less disappointing. The share of companies beating sales expectations currently amounts to only 36.7%.

FT earnings look comparably favorable

We expect European equities to continue its upward movement over the next weeks, fueled by mainly robust economic growth data. Within the European markets relative earnings for the FT look promising (see chart), thereby underpinning the positive relative performance since Q3 2009. Based on a very positive reporting season with the share of positive surprising companies reaching nearly 76%, we expect UK equities to continue to outperform after the strong start into 2010.







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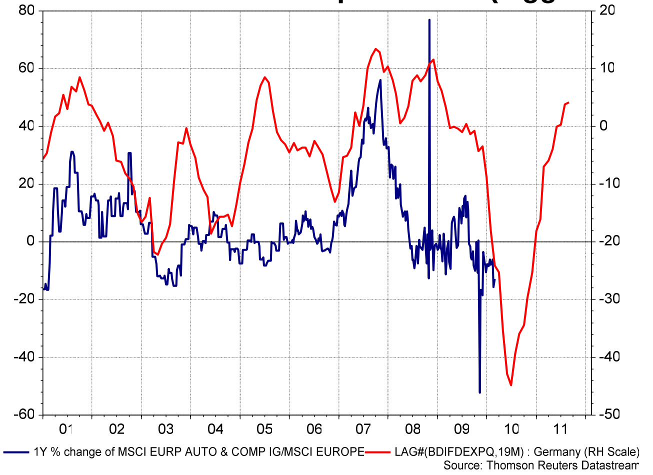
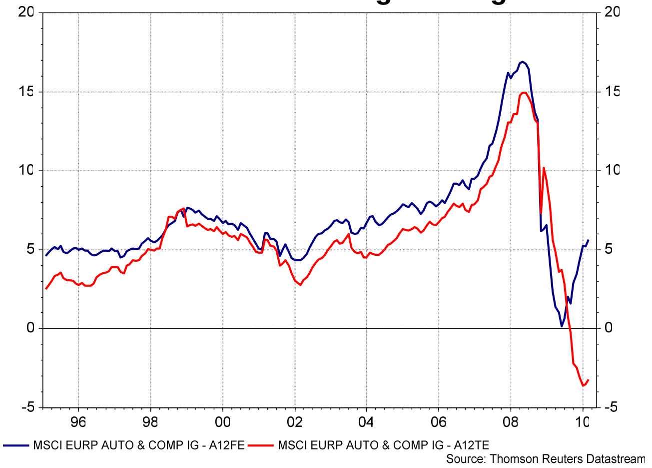
Sector relative and Ifo Expectations (lagged 19M)



Forward and Trailing Earnings



Sector Overview MSCI Europe

as of February 23rd, 2010

	Price -4w	Earnings[3] -4w	PER 12m forward	% Discount to hist. average
Autos and Components	-14.3	11.2	15.1	3.7
Banks	-12.1	5.0	11.3	2.5
Capital Goods	-7.2	3.2	13.8	5.4
Commercial Services	-4.8	1.7	15.2	15.1
Consumer Durables	-6.4	4.4	16.8	-8.9
Diversified Financials	-10.4	-3.9	8.8	25.8
Energy	-6.7	0.4	9.7	24.0
Food / Bever. / Tobacco	-1.6	1.4	14.5	7.7
Food / Drug Retailing	-3.3	-0.1	13.0	18.1
Healthcare	-2.3	2.5	16.5	16.0
Household Pers. Products	-4.7	2.3	17.5	30.9
Consumer Services	-2.0	3.0	13.9	11.5
Insurance	-5.9	0.8	8.3	33.6
Materials	-8.4	8.0	12.6	-0.3
Media	-6.1	0.0	11.5	53.4
Pharma / Biotech	-3.5	1.1	10.9	39.4
Real Estate	-6.5	1.0	16.3	12.5
Retailing	-1.7	2.0	14.5	8.9
Software / Services	-7.0	0.9	15.0	48.0
Semiconductors	-0.5	23.5	16.5	50.9
Telecommunication	-4.7	0.5	9.7	83.1
Technology Hardware Techn.	0.5	2.1	13.2	46.6
Transportation	-10.2	4.2	15.9	-8.8
Utilities	-6.5	-0.4	10.8	23.9
MSCI Europe	-6.7	2.1	11.5	23.4

Source: Thomson Reuters Datastream
[3] expected earnings 12m forward

- ***After having remained directionless for nearly two months, European earnings 2010e were upgraded by 1.2% over the last month and by 1.6% over the last three months, triggered by the positive Q4 reporting season in the US and Europe.***

European earnings upgrades for 2010e over the past month are primarily driven by three sectors: Materials, Autos and Semiconductors. The trend is clearly similar to the one visible at the global sector level. All three sectors saw upgrades of more than 3%, with Materials benefiting most on the back of the rise in commodity prices. Personal & Household Goods and Chemicals also posted decent upgrades over the past month. In constrast, only five sectors saw downgrades of their 2010e earnings, among them Energy, Diversified Financials and Insurance.

As of 25/02 the MSCI Europe lost 1.91%. The outperforming sectors were Consumer Services, Food&Beverage, Healthcare Equipment and Insurance; the underperforming sectors were Autos, Transportation, Retailing and Tech Hardware.

Sector scoring system

We analyzed sectors from three major points of view: Firstly, the sector relationship with macro leading indicators (IFO and ISM), the earnings momentum (relative EPS strength and relative EPS revision index) and finally "long-term" valuation (PE and PB relative gap versus history).

Additionally, we looked at the past trends of sectors at the same current point of the cycle relative to ISM, Fed funds and yield curve.

The best ranked sectors are Tech Hardware followed by Energy, Pharma and Media.

The worst ranked sectors are Banks, Consumer Durables, Materials and Food&Beverage.

All the other sectors are neutral-weighted.

The biggest change relates to Autos, that goes to Neutral from Buy. While the macroeconomic environment remained strong, this sector did not show the expected cyclicality (it did not follow the ifo expectations), because of the end of incentives and a possible peak in demand. This pressure on the topline is potentially very harmful, because of the high leverage (both financial and operating) of this sector.

Nonetheless, consensus expected earnings are continuing to climb, but in our opinion these could be too optimistic.

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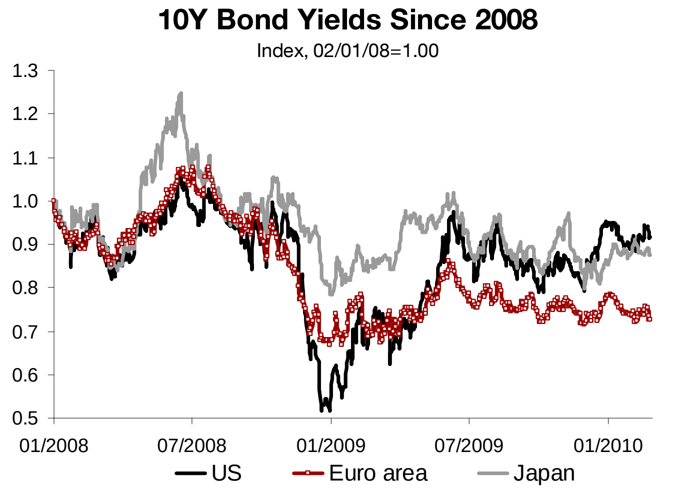
- ***While US long-term yields went up in the course of February euro area long-term yields were flat as concerns about the sustainability of Greece's public finances lingered.***
- ***Going forward, both in the US and in the euro area yield curves are expected to shift upwards as the current safe haven flows should unwind somewhat in light of a forecast relief about EMU peripherals.***
- ***Our short duration stance did fairly well until the mid of February. However, the last leg down in yields hurt our performance. Nevertheless, we stick to our recommendation to be shorter than the benchmark duration.***
- ***The performance of our trade recommendations in February was mixed. While the overweight of EMU countries against Bunds did mostly well the expected curve flattening has not set in yet and short-dated Greek bond spreads re-widened in the second half of February.***

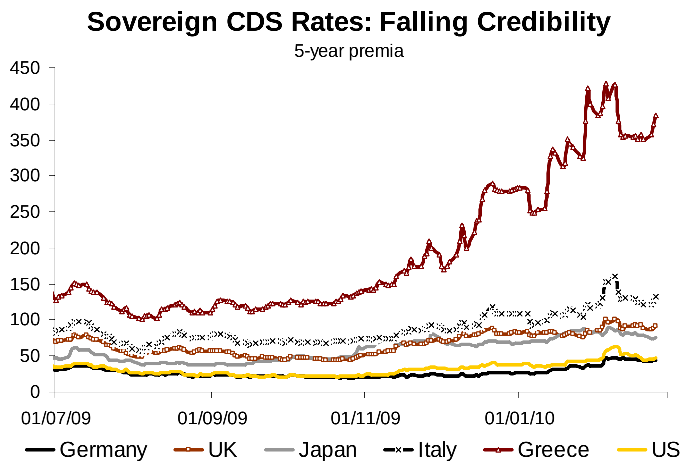
Sovereign risks remained the dominant topic on bond markets in February. CDS premia of EMU peripherals were stable and even retreated somewhat until the mid of February. During the last days of the month, however, they re-widened again. A similar pattern applies to core countries. Since fall 2009 the encompassed risk premia in international yields have increased significantly. We regard the deterioration of public finances as the main driver for this development. As there is no quick fix of the problem and public debt will stay elevated in the years to come, we expect these premia to remain higher than in the foregone years. This should contribute to moderately rising yields in the coming years.

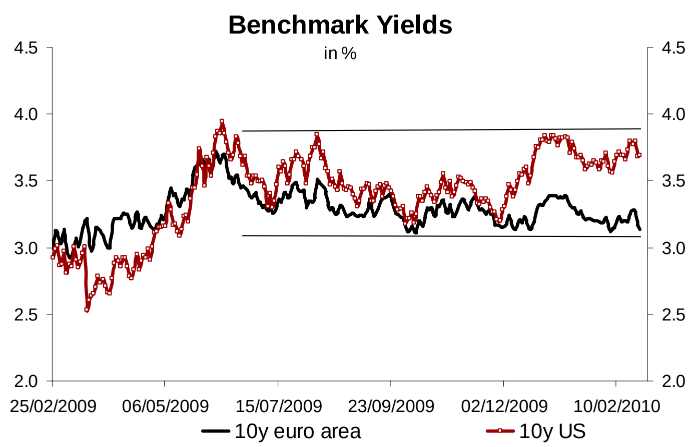
Consequently, and also driven by the surprising discount rate hike by the Fed, long-dated yields in the US are up by around 10 bps to 3.73% since the end of January. By contrast, 10-year benchmark yields in the euro area are roughly flat. We trace this development largely back to flight to quality flows. In the current situation Bunds benefit from ongoing concerns about the sustainability of Greek public finances. What is more, in recent weeks other EMU peripherals were also burdened by intensifying safe haven flows.

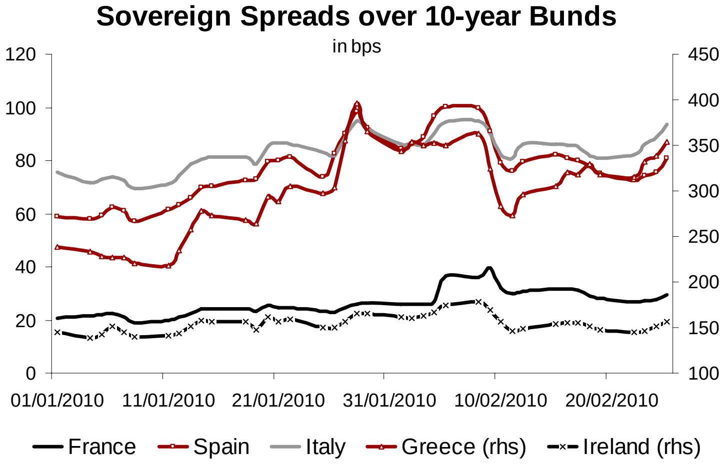
EMU peripherals the focal point of markets

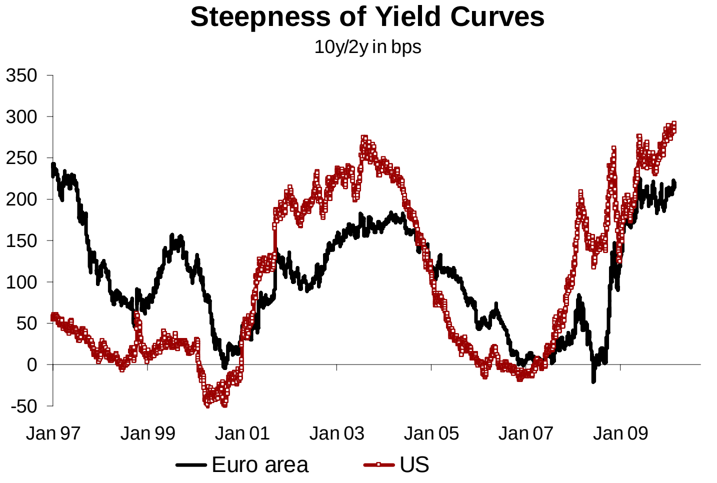
On balance, EMU peripheral spreads tightened somewhat in February. While the Greek government presented a consolidation plan that was endorsed by the European Commission other peripheral countries were able to issue bonds that were well received. Overall, we are still not out of

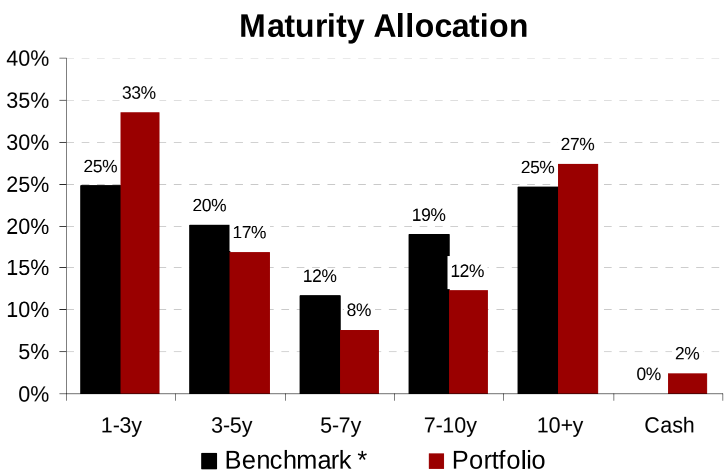












* JPMorgan EMU Government Bond Index

the woods and the situation is expected to remain volatile. Nevertheless, the general trend for EMU sovereign spreads in the coming weeks should be downwards. First, the general environment including the benign inflation picture, the low yield environment and the forecast stabilization of equity markets is still intact. Second, Greece is expected to issue a new bond presumably in March. This should prove that it still has access to funds and should lead to a significant decrease in priced default probabilities, particularly at the short end of the curve. Third, the forthcoming ECOFIN meeting should be received positively. Although more details about financial help are rather unlikely, Greece is likely to present more consolidation measures and the ECOFIN will be eager to leave no doubt that Greece will be supported if worst comes to the worst. This is not only aimed at Greece but should be positive for other EMU peripherals as well.

Summing up, we forecast a bumpy road ahead but markets are forecast to become more and more aware of the unlikelihood of a default or restructuring of debt of any EMU peripheral near term. Hence, notwithstanding an ongoing high volatility we expect some stabilization in March.

In contrast, international core markets should continue to be characterized by a low volatility and rising yields. The postponement of key rate hikes mainly in the euro area appears a little bit overdone and the stabilization of EMU peripheral spreads should particularly drive up the Bund yield. What is more, the US and core countries in the euro area like France and Germany are expected to issue bonds unabated. We have repeatedly pointed to the massive bond supply of these countries in 2011. All in all, 10-year benchmark yields have leeway to rise by up to 10 bps on a one-month view. At the short end of the curve the scope is even higher as the 2-year Bund yield is on a historical low and the 2-year Treasury yield has already fallen 30 bps since the start of the year.

Our portfolio

The friendly bond market environment supported our portfolio in February. We earned 1.22%. However, the performance of the benchmark was marginally better (4 bps). Until recently, we even outperformed the benchmark but the latest drop in yields hurt as we had recommended a shorter duration. Overall, the best performing maturity class was very long-dated bonds which gained nearly 2% over the foregone month. The shorter the duration the worse the yield was. However, even very short-dated bonds gained nearly 0.7%.

Going forward, we continue to recommend a short duration. The 10-year benchmark yield is close to the lower bound of the trading range and, as outlined above, the current assessment of a postponement in market expectations of the first ECB rate hike well into 2011 appears overdone. Nevertheless, the high carry at the long end of the curve and the expected tightening of EMU peripheral spreads remind us to act not too aggressively. All in all, we suggest a duration of 5.89 years (compared to a benchmark duration of 6.18 years). The shock return of all maturity classes should be negative. This cannot be compensated by the carry. Hence, all maturity classes should yield a negative return on a one month view. As a consequence, we hold a little more than 2% of our portfolio as cash. To benefit from the expected flattening of the curve and to prevent a too short duration we overweight very long-dated bonds as well. All in all, our barbell strategy should yield a negative return of -0.18%, thereby outperforming the benchmark by 2 bps.

Overview of trading ideas

Our trading recommendations did fairly well in February. Bunds underperformed against most EMU markets and swap spreads tightened further. What is more, our recommendation to overweight Ireland 04/2020 versus Portugal 06/2019 was closed with a profit of nearly 1% as the upward revised stop loss was triggered.

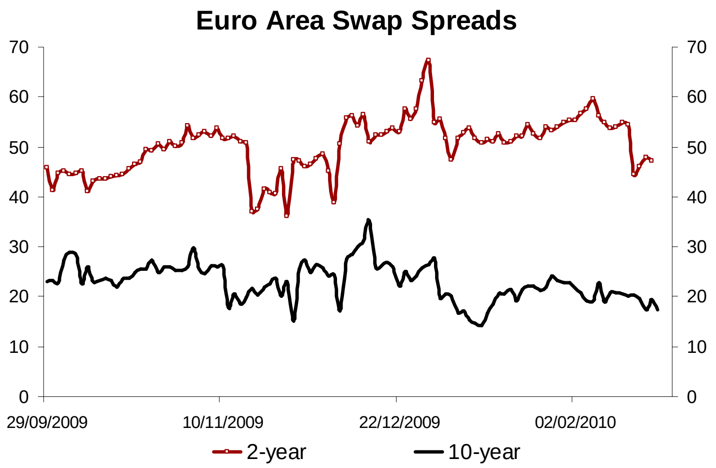
However, the ongoing downward movement of the short end of the curve came as a surprise to us. Hence, the stop loss of our US flattening trade was triggered (loss: -18 bps). We opened a new flattening trade in the euro area (buy Germany 01.2020/sell Germany 12.2011). To make the trade duration neutral we recommended a hedge ratio of 1:0.22 and to ensure cash neutrality we invest the remainder at the overnight rate.

So far, our newly initiated trades at the end of January have not performed as forecast. The transatlantic spread widened in light of the unexpected discount rate hike by the Fed and the Greek curve is still flat signaling concerns about an imminent default. However, we stick to our recommendations and await a better performance in March.

Characteristic Numbers of Benchmark and Optimized Portfolio

Maturity Class	Modified Duration	Current Yield	Coupon Return	Rolldown Return	Shock Return *	Benchmark Weights	Portfolio Weights
1-3y	1.85	1.42%	0.33%	-0.21%	-0.17%	24.79%	33.47%
3-5y	3.70	2.35%	0.31%	-0.12%	-0.34%	20.03%	16.87%
5-7y	5.34	2.83%	0.30%	-0.07%	-0.48%	11.73%	7.62%
7-10y	6.93	3.53%	0.34%	-0.05%	-0.59%	18.87%	12.27%
10+y	12.39	4.28%	0.37%	-0.02%	-0.65%	24.58%	27.33%
Cash	n.a.	0.34%	0.03%	n.a.	n.a.	0.00%	2.45%
Benchmark	**6.18**	2.87%	0.33%	-0.10%	-0.44%		
Portfolio	**5.89**	2.70%	0.33%	-0.11%	-0.40%		

* Forecast 1-Month Horizon



Current Trading Recommendations	Initiation Date	Start Level	Target	Stop Loss	Current Level	Gain/Loss
iBoxx 5-7yr: Buy Germ. Covered/Sell Germ. Sov.	19/05/2009	83 bps	30 bps	60 bps	37 bps	46 bps
Buy Austria 07.2015/Sell Germany 07.2015	26/05/2009	56 bps	15 bps	45 bps	28 bps	1.75 %
Buy EUR 10-yr/30-yr flattener	25/06/2009	85 bps	65 bps	95 bps	75 bps	10 bps
Buy EA 10-yr swap spread	25/06/2009	28 bps	10 bps	40 bps	22 bps	6 bps
Buy EA 2-yr swap spread	28/08/2009	52 bps	35 bps	65 bps	50 bps	2 bps
Buy Belgium 03.2015/Sell Germany 10.2014	08/10/2009	46 bps	25 bps	60 bps	49 bps	0.06 %
Buy France 10.2019/Sell Germany 07.2019	08/10/2009	34 bps	15 bps	45 bps	26 bps	0.77 %
Buy Italy 03.2020/Sell Germany 07.2019	08/10/2009	88 bps	70 bps	100 bps	97 bps	-0.39 %
Sell 2-yr US Treasuries	30/11/2009	0.68 %	1 %	0.5 %	0.84 %	16 bps
Buy Greece 03.2011/Sell Germany 12.2012	28/01/2010	389 bps	150 bps		481 bps	-0.84 %
Buy US 11.2019/Sell Germany 01.2020	28/01/2010	44 bps	20 bps	60 bps	54 bps	-0.76 %
Buy Germany 01.2020/Sell Germany 12.2011	11/02/2010	216 bps	190 bps	230 bps	225 bps	-0.17 %

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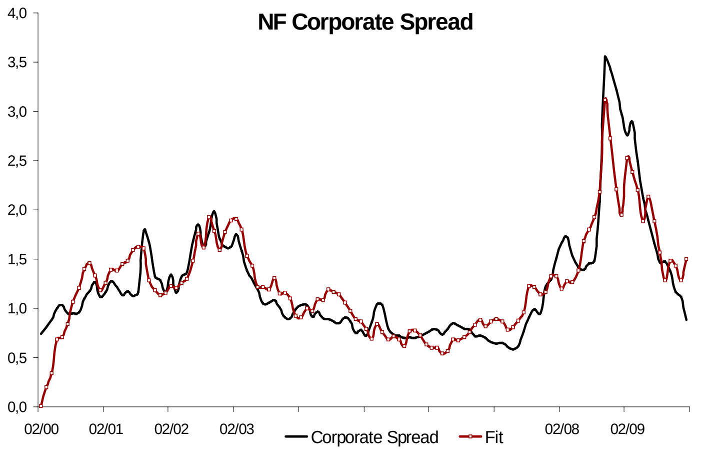
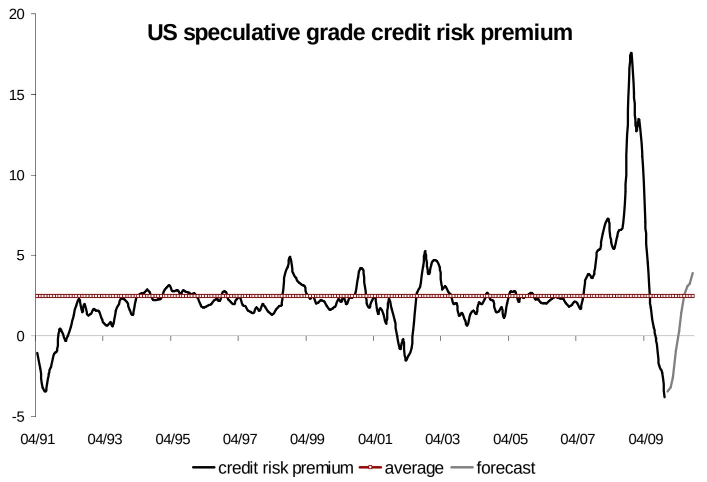
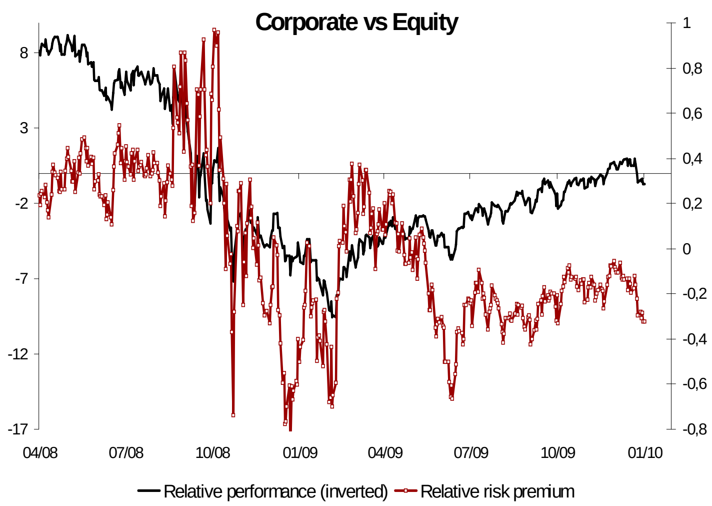
Corporate Bonds







- ***We stick to the notion that a spread level below 100 bps is still testable and sustainable. This should be achieved when volatility settles and issuance comes back to the market.***

Spreads widened to 105 from 96 bps since the last month. The upward swing of spreads was the first meaningful one since June 2009. But against a considerable negative movement of the equity market, the downward swing of corporate bonds prices was far more contained. This occurrence is meaningful as far as it confirms the positive macro fundamental backdrop of credits.

For the time being we remain confident that macro and micro conditions will remain supportive. The main drivers which are likely to stay favorable will continue to be the monetary environment from a macro perspective and the improving free cash flows and the reduction of corporate leverage from a micro perspective.

Besides, we would outline that world financial conditions are benefitting corporate debt rather than public debt. Note that against a backdrop of the ongoing crisis of peripheral spreads, corporate spreads proved very resilient.

The reporting season has been supportive and, as the global recovery unfolds, albeit along a path which could be far from linear, it is reckoned to be of help for company stocks and bonds going forward.

But monetary expectations will be crucial for the financial arena in the upcoming 2010. In this respect the road of central banks to the implementation of the exit strategies will have to cope with the vulnerability of public finances specially at the periphery of EMU. Beyond the decision of the Federal Reserve to rise the discount rate, money rates will be left low: What the market is expecting on that, is testified by the fact that yield curves continued to steepen after the Fed move.

In this respect we retain that monetary policies will continue to be supportive in three directions; maintaining equity volatility low, easing credit conditions and finally enabling corporate bond yields to crowd-out core government bond yields.

On a micro perspective declining default rates, free cash flow richness, deleveraging are all factors preserving corporate creditworthiness. Investors are still cash-rich and risk appetite is there. Nevertheless, there will be no major supply until the broader market settles as issuing now means paying a premium for volatility risk. As many times already happened this factor could prevent spreads to tighten further, but as soon as primary activity comes back the whole market should benefit again.

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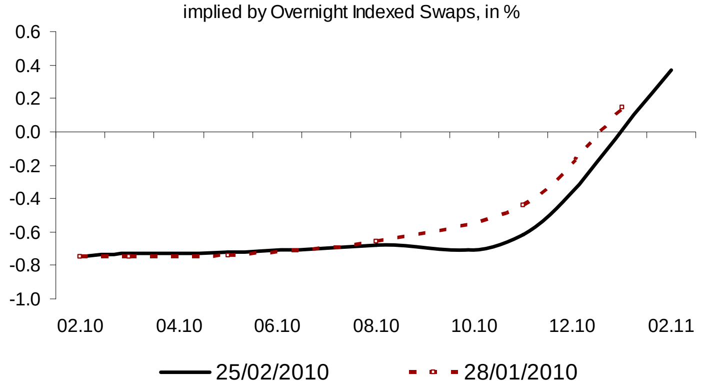
- ***Due to lower risk aversion we expect the dollar to rise against the yen but to reverse some of its recent gains against the euro.***

Over the foregone month the euro fell further against the US dollar, in contrast to our expectation. With a current reading of 1.35 USD/EUR the euro lost 6 Cents. The dominating driver was once again concerns about Greece. The Ecofin meeting in mid-February did not result in concrete aid for Greece or some form of bail out guarantee thereby disappointing market expectations. Hence, the topic continued to weigh on the euro. Most recently, these concerns were amplified after S&P communicated that it may cut Greece's rating one or two notches within a month. Looking ahead, the next Ecofin meeting on Mar 15/16 will be important. We expect some positive appraisal of the recent Greek consolidation steps and some more concrete statements on potential aid for Greece. The second driver were speculations on the timing of key rate hikes in the US as the Fed announced a petering out of their emergency lending measures. However, in his testimony before Congress Bernanke painted a less positive picture on the US economy and said that he expects ultra low rates to continue. The ECB did not pre-commit itself in a comparable way. In sum, reduced need for safe haven flows and the postponement of the first Fed key rate hike should help the euro near term.

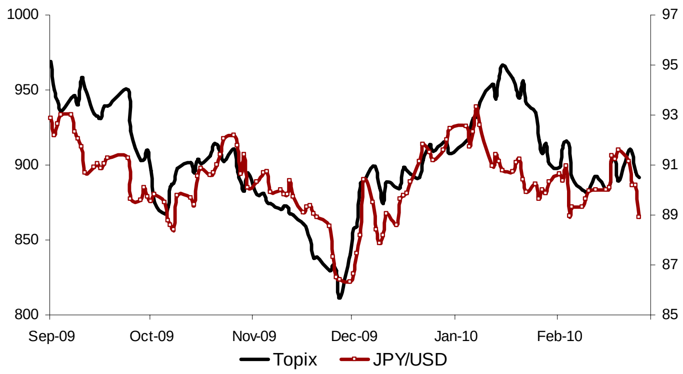
Yen to react on lower risk aversion

Over the course of February the yen meandered between levels of about 89 JPY/USD and 91.5 JPY/USD, showing on net no lasting direction. While during the first week of the month the Japanese currency saw a new bout of appreciation due to rising fears in connection with Greek sovereign debt and some weaker than expected macro data, international risk aversion receded thereafter. Consequently, the yen started to depreciate. This tendency was significantly accelerated when the Fed raised its discount rate, leading to speculations of an early tightening of US monetary policy. This drove the yen up to levels of 91.5 JPY/USD, only to reverse course in the last third of the month. Of late, the exchange rate ended where it had started. Over the coming month, news on Greek austerity plans as well as the end of the fiscal year in Japan will probably exert most influence on the yen. On net, we expect risk aversion to calm down again, thereby giving room for a renewed depreciation. Moreover, GDP growth is expected to cool down in Q1. However, the move is likely to be small as there are typically – balance sheet motivated – repatriation flows ahead of the end of the fiscal year. Thus, the yen is likely to depreciate slightly towards levels of 92 JPY/USD.

Difference in Key Rate Expectations US - Euro-Area
implied by Overnight Indexed Swaps, in %



TOPIX and JPY/USD



Currency Relation	Current 26/02/2010	Change 2009	Change 2008	Change 2007
USD/EUR	1.36	-2.9%	-5.1%	11.8%
JPY/USD	89	-1.4%	-17.7%	-6.5%
JPY/EUR	121	-4.5%	-25.6%	3.9%
USD/GBP	1.53	4.6%	-30.3%	1.5%
GBP/EUR	0.89	-7.2%	32.2%	8.9%
CHF/EUR	1.46	-1.7%	-10.6%	3.0%

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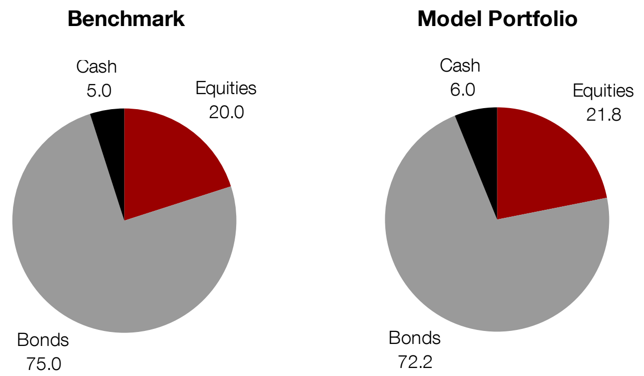
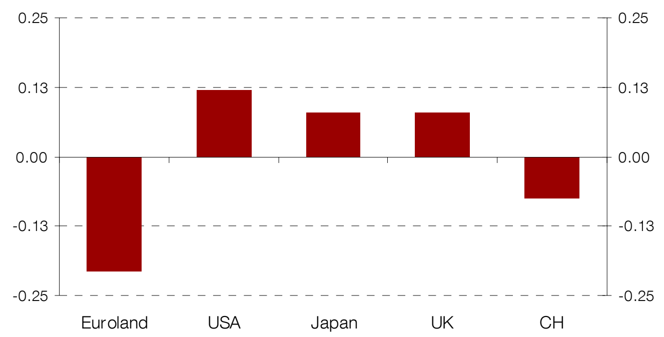
Asset Class	Benchmark	Current Allocation	Previous Allocation
Equities	*20.0*	*21.8*	*22.2*
Bonds	*75.0*	*72.2*	*71.6*
Cash	*5.0*	*6.0*	*6.2*
Equities, Euroland	12.0	**13.1**	*13.1*
Equities, US	3.0	**3.3**	*3.4*
Equities, Japan	2.0	**2.2**	*2.3*
Equities, UK	2.0	**2.2**	*2.4*
Equities, Switzerland	1.0	**1.1**	*1.1*
Bonds, Euroland	45.0	**41.9**	*40.4*
Bonds, US	11.3	**11.5**	*12.0*
Bonds, Japan	7.5	**8.0**	*8.3*
Bonds, UK	7.5	**6.7**	*6.6*
Bonds, Switzerland	3.8	**4.1**	*4.4*
Cash	5.0	**6.0**	*6.2*

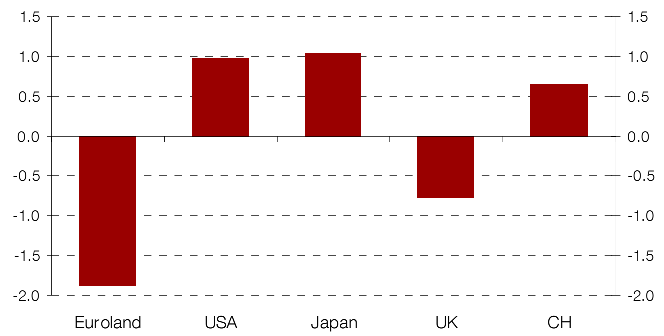
Asset Classes



Equities - Regional Structure



Bonds - Regional Structure



- ***Although we once again had a quite mixed development on financial markets, it paid to be overweighted in equities.***
- ***As the effect of selecting the right market still dominates the one resulting from choosing the right asset class, a moderate allocation stance remains advisable.***
- ***As we still see some limited upside potential over the course of the next month – for equities as well as for long-term yields – we basically stick to our last month's recommendation.***

In the course of March the development on financial markets remained comparably heterogeneous like in the proceeding two months. Amongst equity markets we can find the best and the worst performer within our complete asset universe. Despite the large dispersion in performance of more than 600 bps between these two markets (UK and Japanese equities) the average equity return was clearly superior to the average bond return. Thus, being overweighted in equities definitely led to an outperformance of the model portfolio compared to the benchmark.

Although last month's final performance outcomes on equity markets were fairly wide spread the patterns of movement were quite similar. Anyway, the market developments on equity as well as on bond markets resembled a roller coaster ride. We started into February with markets moving in the expected directions, followed by a short period of significant correction fully reversing the optimal allocation stance and bottoming out after the first week of February. Henceforward, markets recovered bringing our model portfolio's relative performance back into positive territory.

Despite the repeated most recent downward corrections on the markets, we consider a general moderate upward trend still intact. We expect the positive fundamentals like the solid global growth momentum and good company earnings to still dominate worries about monetary tightening and an upcoming banking regulation in the US.

In such an environment of expected slightly rising equity markets and bond yields, we renew our recommendation to moderately overweight equities at the expense of bonds. Hence, the resulting portfolio structure for March does not differ substantially from the February's one.

On the currency side we expect some potential losses for the EUR-based investor in all non-EUR-denominated assets. Especially investments in JPY should not be done in an unhedged way.

Forecast Tables

Growth

	2008	2009	2010f	2011f
US	0.5	-2.4	2.5	1.8
Euro Area	0.5	-4.0	1.0	1.1
- Germany	1.3	-4.9	1.3	1.3
- France	0.3	-2.2	1.3	1.3
- Italy	-1.0	-4.9	0.7	1.1
Non-EMU	0.6	-4.8	1.3	1.9
- UK	0.6	-4.8	1.2	1.8
- Switzerland	1.8	-2.2	1.2	1.2
Japan	-1.2	-5.0	1.7	1.5
Asia ex Japan	6.6	5.1	7.4	7.3
Central/Eastern Europe	4.2	-5.9	3.5	3.5
Latin America	3.9	-2.5	4.0	3.7
World	**2.5**	**-1.2**	**3.6**	**3.4**

Inflation

	2008	2009	2010f	2011f
US	3.8	-0.3	2.0	1.8
Euro Area	3.3	0.3	1.1	1.5
- Germany	2.7	0.3	1.6	1.4
- France	2.8	0.1	1.3	1.5
- Italy	3.4	0.8	1.4	1.8
Non-EMU	3.3	1.6	2.3	1.8
- UK	3.6	2.2	2.9	2.0
- Switzerland	2.4	-0.5	0.7	1.0
Japan	1.4	-1.3	-0.9	-0.4
Asia ex Japan	6.1	0.9	3.1	3.5
Central/Eastern Europe	10.6	7.7	6.2	6.5
Latin America	7.3	5.3	6.5	6.4
World	**3.9**	**0.5**	**1.8**	**2.0**

Financial Markets

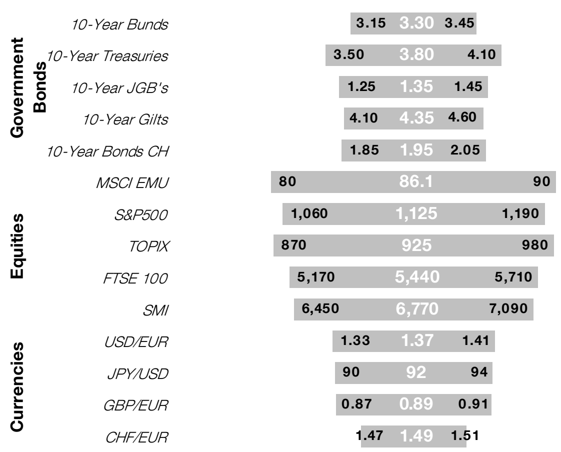
3-M Money Market Rates	**24/02/10***	**1M**	**12M**
USA	0.12	0.10	1.20
EUR	0.35	0.40	1.70
JPN	0.12	0.15	0.15
UK	0.49	0.55	1.50
SWI	0.25	0.30	0.90
Bonds	**24/02/10***	**1M**	**12M**
10-Year Treasuries	3.73	3.80	4.00
10-Year Bunds	3.20	3.30	3.60
10-Year JGBs	1.33	1.35	1.50
10-Year Gilts	4.16	4.35	4.50
10-Year Bonds SWI	1.88	1.95	2.40
10-Year Swap Spread	**24/02/10***	**1M**	**12M**
USA	9	12	20
EUR	21	16	20

* average of last 3 trading days

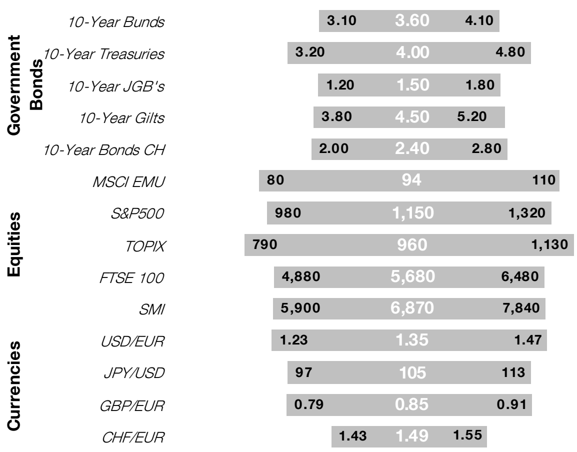
Corporate Spreads	**24/02/10***	**1M**	**12M**
IBOXX Corp. Non Fin	104	90	80
Forex	**24/02/10***	**1M**	**12M**
USD/EUR	1.35	1.37	1.35
JPY/USD	91	92	105
JPY/EUR	123	137	158
USD/GBP	1.54	1.66	1.76
GBP/EUR	0.88	0.89	0.85
CHF/EUR	1.46	1.49	1.49
Equities	**24/02/10***	**1M**	**12M**
S&P500	1103	1125	1150
MSCI EMU	84.4	86.1	94.0
TOPIX	904	925	960
FTSE	5337	5440	5680
SMI	6675	6770	6870

Forecast Range*

1-Month Horizon



12-Month Horizon



*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5 year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the 1 month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

Imprint

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