SYZ & CO Banque

Point of View

October 28, 2009

The main points at a glance

Bonds	→
Equities	↗
Hedge funds	→

Projections at 6 months

The recovery of the global economy is proceeding as expected. The rebound of the advanced economies is looking more clear-cut, even though it remains fragile. In the emerging countries the recovery of economic activity appears to be less laborious. In some economies, notably in Asia, the return to growth is even taking place very dynamically.

On the financial markets, the increase in the risk appetite has resulted in a further weakening of the dollar. This movement, which is not surprising in itself, is nevertheless beginning to be troublesome. Medium-to long-term government bonds have also suffered from the lull in financial tensions. As for short-term bond issues, they remain protected by the absence of inflationary pressures, which is validating the still very accommodative lines being taken by the principal central banks. Finally, the stock markets have continued their upward path, even though at the end of the period investors turned out to be more demanding, despite the publication of quarterly earnings results that were generally higher than expected.

Economy

Markets

Asset allocation

This document is based on information collected until the Monday preceding publication.

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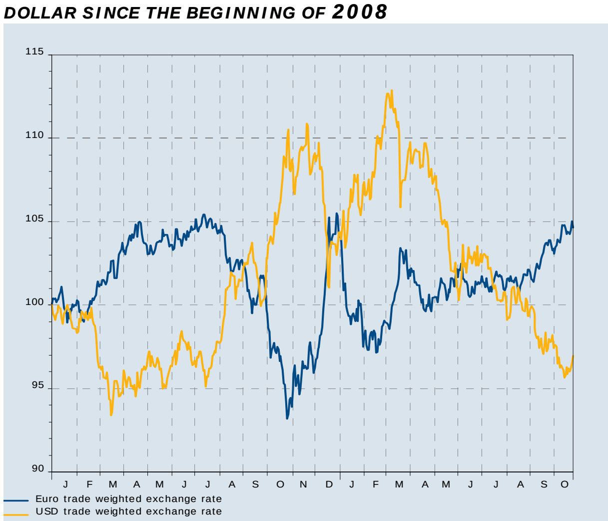
Economy

The slide in the dollar has continued, reaching the psychological barrier of 1.50 against the euro. This trend has been broadly based, with the greenback having lost 14% against its benchmark basket (trade-weighted exchange rate) since March 9. The consequences of this weakening are beginning to be felt. First of all, through the intrinsic (and negative) link between the dollar and the oil price. Second, because the slide in the dollar is further hindering the fragile recovery of the European and Japanese economies. Finally, since it is also bothering countries whose recovery is more dynamic but whose currencies have appreciated even more against the greenback. In this respect Brazil's decision to tax foreign capital investments in order to combat speculative appreciation of the real (and its financial market) is symbolic and might be replicated by other emerging countries. For the time being, however, we are not really concerned about the weakening of the greenback, particularly as it reflects mainly the decrease in risk aversion (after all, this movement is correcting the strong appreciation seen in the dollar after summer 2008). The important thing is that this downward trend should not accelerate, since a sudden drop would create the feeling of a loss of control of the US currency, which would be harmful for the whole of the financial system.

In the meantime the economic recovery continues in line with expectations: a rebound in activity in the United States and Europe, but with some signs of vulnerability, and a dynamic recovery in certain emerging countries, in particular those in Asia.

TRADE-WEIGHTED EXCHANGE RATE OF THE EURO AND THE DOLLAR SINCE THE BEGINNING OF 2008



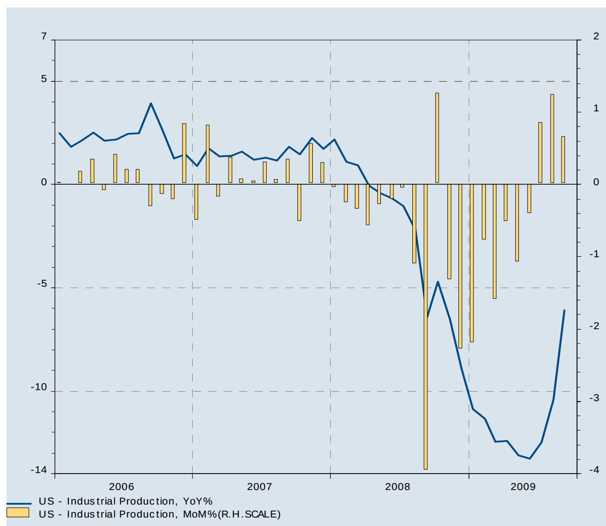
Communicating vessels: the trend in the euro and the dollar is symmetrical, with the two currencies having returned to their levels of the first half of last year.

United States

The latest economic statistics have blown hot and cold. In general terms, they signal a recovery of the cycle; but at the same time they reveal the fragile nature of the current economic environment.

The pleasant surprises concern the industrial activity indicators. The confidence indicators, first of all, with the publication of the first two regional surveys for the month of October (the leap in the New York Empire Manufacturing and the soundness of the Philadelphia Fed) and the Conference Board's leading indicators, which have been rising significantly for six months. Then the industrial production figures, with an increase in September (+0.7%) and an upward revision for the two previous months. Thus the trend in industrial activity is becoming clearer, with a turnaround point in June and then three months of growth, amounting to a cumulative rebound of 2.8% in the course of the third quarter. In view of the orientation of the leading indicators, the good outlook for exports (recovery of the global economy and a weak dollar) and the inventory cycle (which will soon be favourable), we consider that the recovery of industrial activity will extend at least until the beginning of next year.

CHANGE IN INDUSTRIAL PRODUCTION (ANNUAL AND MONTHLY CHANGE)



After falling almost uninterruptedly for 18 months, industrial activity recovered between July and September.

The less encouraging news concerns the real-estate sector and retail sales. The drop in the latter (-1.5% in September) reminds us of the importance of the artificial stimulus at a time when the car scrapping bonus programme for the purchase of a new car has come to an end, while the labour market is far from providing the necessary impetuses to US consumers. As for real estate, the stagnation of housing starts

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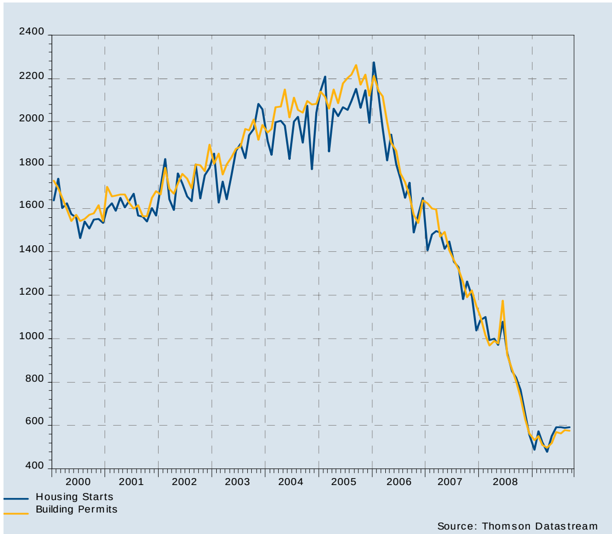
and building permits since June was confirmed in September, thus pointing to a difficult recovery of the sector following the marginal rebound seen last spring. The strong increase in sales of existing houses (+9.4% in September) does not invalidate this theory, because the trend in this – volatile – series is biased both by the forced sales of houses subject to distraint orders and by tax credits for first-time home buyers. Moreover, the imminence of the end of this plan to revive real estate, which should expire on November 30, is sapping home builders' morale, as is borne out by the drop in the sentiment indicator of the National Association of Home Builders. Despite some supporting factors (low mortgage rates and more affordable prices), real-estate demand may well thus remain anaemic for several quarters: as for consumer spending, the recovery of the labour market will be decisive in restoring this sector's momentum.

Housing starts and building permits since 2000

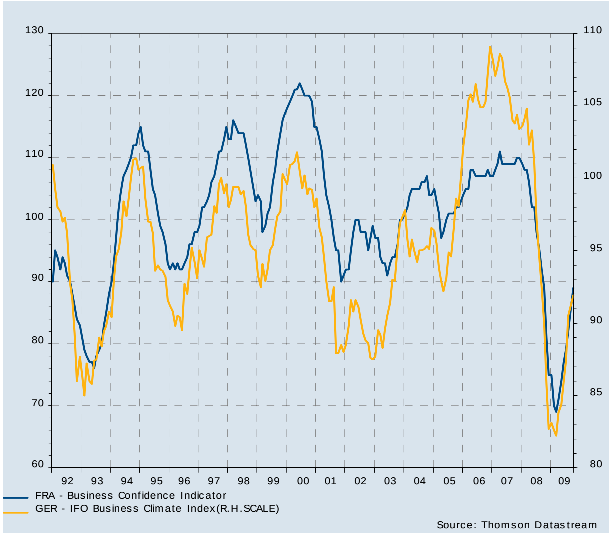


The hesitant rebound of real-estate activity suggests the extent to which the economic recovery is not mature

Europe

As in the United States, the news from industry is good. On the real activity front, industrial production increased again in August (+0.9%), thus taking its cumulative progression to +3.2% since the weak spell seen in April. As far as the leading indicators of the cycle are concerned, they are all continuing to rise, strengthening the expectations of GDP growth during this half-year. The PMI indices for the euro zone have further gained ground by simultaneously reaching – for the first time since May 2008 – a point above the 50.0 threshold (PMI manufacturing at 50.7 and PMI services at 52.3). In Germany and France the national surveys (the IFO business climate index and the business confidence indicator respectively) improved for the seventh consecutive month: while they still stand at below their historic average, they have reached a level well above their March low.

Confidence surveys of French and German industrialists



The rebound of the confidence indicators continues, even though their level is still low from a historical perspective.

The further decrease in the consumer price index in September (from -0.2% to -0.3% year-on-year) may well be the last: the base effects due to the variation in energy prices will mechanically engender an increase in the inflation rate over the next few months. According to our forecasts, inflation will return to positive territory by November at the latest and will reach about 1% by January 2010. Unless there is a considerable increase in energy prices (a scenario that we do not endorse), the inflation rate will remain within a relatively narrow band during the first half of next year (0.8% to 1.3%), with the again-positive contribution from commodity prices being offset by the slight decline in core inflation. In other words, they are levels that should enable the European Central Bank to hold interest rates at 1%, particularly as the appreciation of the euro is proving to be doubly "restrictive" (it is lowering the prices of imported products and slowing down the recovery of the export industry.)

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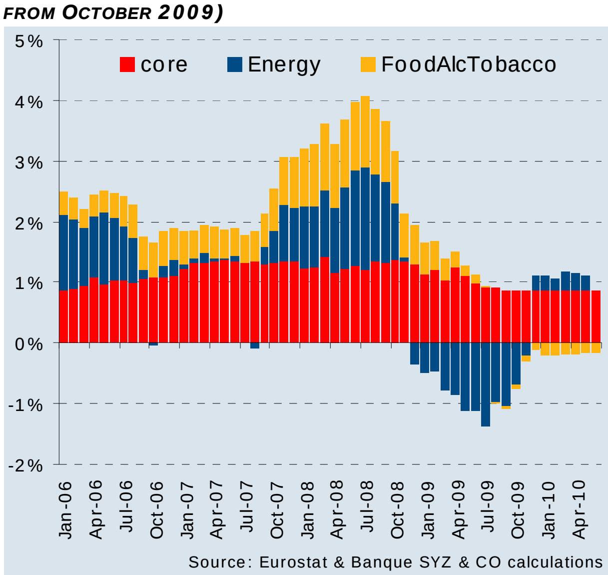
Contribution of the different components to the trend in the consumer price index in the Euro zone (forecast from October 2009)



The contribution from energy prices will soon become positive, but should remain moderate over the next few quarters.

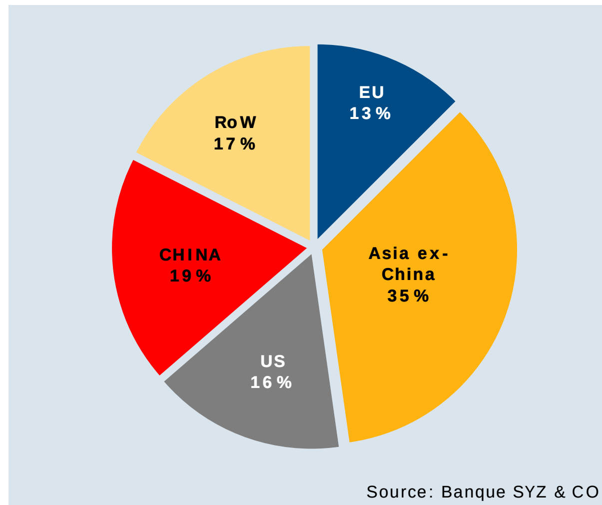
In the United Kingdom, GDP again contracted during the third quarter (-0.4% at a quarterly rate). It is the sixth consecutive decrease, making a cumulative drop in activity of -6%. The British economy, which is suffering from severe imbalances (heavily indebted households, the correction on the property market and the stricken financial sector) is not yet managing to pull out of recession, which is reviving the possibility of a further extension of the Bank of England's assets repurchase programme (which has reached GBP 175 billion).

Swiss exports are recovering. After having fallen sharply during the first part of the year, they recovered slightly in the third quarter (+0.7% in real terms compared with Q2). On the other hand, imports have again declined (-1.0% during the third quarter). The contribution made by foreign trade to Q3 GDP should thus be positive. Nevertheless the decrease posted by foreign trade over the last year remains very marked (-15.9% for exports and -10.3% for imports, in real figures).

Japan

Japan's foreign trade has followed a slightly different trajectory: after a rebound during the spring, the increase in exports has run out of steam. In September they declined (-0.8%) for the third consecutive month. This trend reflects a fairly difficult environment, given the strength of the yen and a global recovery driven above all by domestic stimulus plans. Fortunately for Japan, the proximity of China is having a favourable effect. Exports to that country rebounded considerably between Q1 and Q3 2009 (+47%), thus making China the leading export market for Japanese products. Over the first nine months of this year the Asian Giant attracted in overall terms 19% of the products exported by the world's second-largest economy, compared with 16% during the same period of last year.

Geographic distribution of Japanese exports between January and September 2009



Penalized by the strength of the yen, Japanese exporters can at least take advantage of a favourable geographical location, as Asia is currently the best-performing region in economic terms.

Emerging economies

Asia is clearly the most dynamic continent, as is borne out by the publication of the growth figures for China and South Korea.

In the latter country GDP grew by +2.9% over the third quarter (which would be equivalent to about +12% at an annualized quarterly rate…). The South Korean economy has thus quickly recovered: following a drop of -5.1% in Q4 2008 and a stabilization between January and March (+0.1%), economic activity had already shown signs of vigour in Q2 (+2.6%). This recovery might prompt the Central Bank of Korea to raise its interest rates in the near future (which had been cut from 5.25% to 2% between September 2008 and February 2009).

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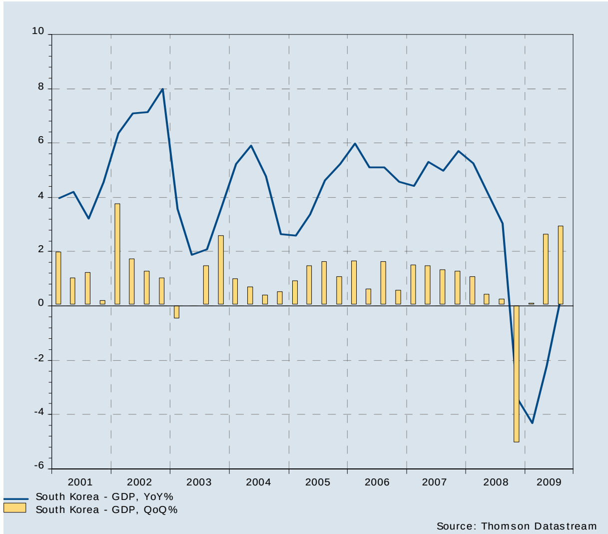
GDP growth in South Korea (year-on-year and quarter-on-quarter)



Following a sudden drop, the Korean economy has rebounded considerably during the last two quarters.

The slowdown in the Chinese economy is now only an unpleasant memory. GDP increased by 8.9% in Q3 (annual rate), marking an acceleration since the "low" of the cycle (+6.1% in Q1) and the last quarter (+7.9%). The stimulus package put in place by the government is resulting in some impressive growth rates for fixed capital investments (+33.3% between the first nine months of 2008 and the first nine months of this year), industrial production (+13.9% between September 2008 and September 2009) and retail sales (+15.5% over the same period). This dynamism is also reflected in lending activity, which is still progressing at a steady pace. Since the ground is now favourable for a possible overheating of the Chinese economy, the Central Bank might decide in the near future to tighten the monetary policy conditions.

Finally, Brazil has just put in place a 2% tax on incoming capital (purchases of shares and bonds), in order to slow down speculative investments and the strong appreciation of its currency. Between the beginning of March and the evening on which this measure was announced (October 19), Brazil's Bovespa share index had gained about 85% while the real had increased by 30% against the dollar. Apart from the debatable effectiveness of such a measure, this decision highlights once again the difficulties emerging countries face when their currencies appreciate too markedly or when a surge that is considered excessive occurs on their financial markets.

Markets

Equities

The second part of the month of October has proved to be more mixed on the international stock markets. Although the economic indicators have continued to point towards an improvement of activity, the main focus of attention has been on micro-economic news. The operators, who have become demanding following the dazzling increase in the indices since March, turned out to be finicky despite some good overall results. They thus steered clear of Goldman Sachs and Credit Suisse following the publication of some excellent earnings, anticipating that the flow of positive earnings revisions would dry up. Only the combination of better-than-expected results, raised guidance and optimistic messages for 2010 now engenders a positive reaction on the stock markets.

Trend in the food sector since the beginning of the month of October

Food shares, which have been driven by a series of good results, stood out over the month. The good visibility of earnings results combined with low valuation levels have contributed to the sector's re-rating.

In terms of sectors, we have witnessed a return of enthusiasm for the food sector, which has been supported in particular by good results published by both Nestle and Danone. Oil stocks benefited from the increase in the oil price and low valuation levels. A contrario, banking and insurance shares recorded a decrease over the period. We continue to prefer the latter to the former in view of low valuation levels. As for technology stocks, the transatlantic rift has further widened, with US companies posting some excellent results (Amazon, Apple, Microsoft),

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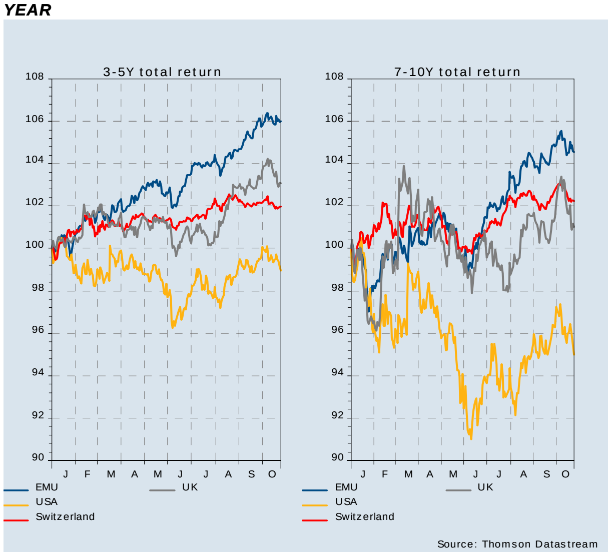
while companies in the European listing are constantly disappointing (Nokia, Ericsson).

It is still early to be able to predict a real change of trend, but we are observing to a certain extent a return of risk aversion, as is illustrated in particular by the much better performance of defensive shares over the last few weeks. Similarly, the market segments with a higher beta such as emerging shares or small- and medium-sized enterprises have been neglected in favour of blue chips. We have taken advantage of this situation to strengthen some sectors that had built up a performance time-lag over the year such as pharmaceuticals, utilities or telecoms. The second wave of results should set the tone and influence the way in which the markets will continue to move until the end of the year.

Bonds

The prospect of an inflation rate that will remain low indicates that monetary policy is likely to remain accommodative, thus limiting the risks of a correction on short maturities. In this segment, only bonds denominated in pounds sterling have suffered, in particular owing to statements made by the Governor of the Bank of England suggesting that the – very low – key interest rate would have to be raised one day.

Trend in the bond market since the beginning of the year



The central banks' determination to keep interest rates very low in the absence of inflationary pressures is continuing to protect short-term bonds.

In the medium- to long-term tranche, the recent increase in interest rates forms part of a double logic: on the one hand, the easing of tensions on the financial markets and the adoption of a marginally more risky attitude, in line with the increase in share prices; on the other, some fears that public finances might get out of control following the emergency assistance provided to boost economic activity. All in all, the recent movement merely corrects the easing of interest rates that took place towards the end of the month of September.

Exchange rates

The slide in the dollar has continued, breaking through the symbolic threshold of EUR 1.50. While it is of course penalizing industries that export to the United States, we do not think the depreciation of the dollar is an abnormal phenomenon. It reflects the lull on the financial markets and the determination displayed by the FED to leave its interest rates very low. Furthermore, we should bear in mind that the euro-dollar exchange rate had already reached 1.60 in the course of last summer. Thus unless there is a significant return of risk aversion, a sustained appreciation of the greenback appears to be increasingly unlikely. On the contrary, the gradual increase in interest rates that is emerging in some economies may well revive the carry trade phenomenon, thus further weighing on the dollar. As is quite logical in such an environment, the depreciation of the greenback might nevertheless become worrying if it were to accelerate: as often in these circumstances it is not so much the level that poses problems but rather the speed of movement.

The pound has undergone some quite volatile movements over the last two weeks. After a spell during which it appreciated, driven by the statements made by the Governor of the Bank of England, it fell back again at the end of last week following the disappointing third-quarter GDP figure.

As for the Australian and New Zealand dollars, they continued to appreciate against a background of rising commodity prices and anticipations that monetary policy may become more restrictive.

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Asset allocation

Given the factors described above, we have decided to leave our asset allocation unchanged.

The allocation grid for a medium-risk profile in euros, **valid as at October 26, 2009**, is given below.

Allocation grid for a "medium-risk" profile in euros

Bonds		**37%**
	Short-term bonds	37%
	Long term bonds	0%
Equities		**34%**
	Europe	14%
	United States	13%
	Japan	2%
	Emerging countries	5%
Alternative investments		**20%**
Gold		**4%**
Structured products		**2%**
Liquidity		**3%**
TOTAL		**100%**

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