



Has the euro debt crisis peaked or only just begun?

The fourth quarter was once again entirely dominated by the euro's predicament and efforts to stop the debt crisis spilling over into the core euro nations. Initially, the announcement that the "EFSF" rescue package would be extended and the euro stability pact toughened up helped the markets to make a dazzling comeback in October. The sharp recovery was again short-lived, however. This time, the opening salvo came in the form of (former) Greek premier Papandreou's declaration that he would allow the people to vote on the package of reforms. Coming just days after the "voluntary" debt haircut in Greece's favour, the plan seemed like a very poor misstep. It found correspondingly little support, and had to be abandoned a short time later. Despite the ECB's reduction in key interest rates, the markets subsequently developed their own downward momentum, not least owing to the uncertainty caused by the expected recapitalisation of European banks and government changes in the PIIGS states. The markets remained jittery until the end of November, when leading central banks joined forces to flood the markets with liquidity, and record sales were recorded on "Black Friday" in the USA. When this report went to press, this raft of events had generated a positive quarterly result for most stock markets (SMI +4%, DAX +3%, Dow Jones +8%). Results for the year are deep in the red across the board, however. Only those who consistently put their money on defensive stocks (i.e. health care or food & beverage) can draw any form of "satisfaction" from this year. Once again, it paid off – for us too – to say thanks, but no thanks, to banking equities. There were also a few noteworthy developments on the bond market. Many were surprised in November at the lack of interest in the German bond auction. This was an unmistakable sign that the crisis had reached the heart of Europe. After all, the Spanish bond auction in December achieved considerable success. All in all, however, yields on longterm "riskfree" bonds remained very low. There was no sign of a major revival in gold after its price crash in September. This was also linked to the trend in the US dollar, which benefited from the lack of any "QE3" programme and from two rate cuts in the euro zone (USD +3% vs. EUR; +3.2% vs.

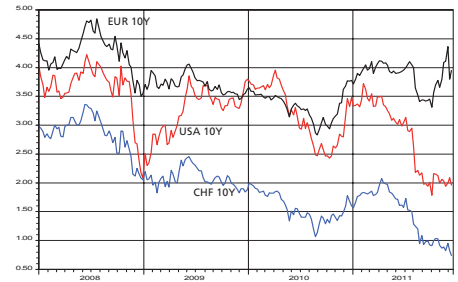
CHF in Q4). Meanwhile, as expected, it was all quiet on the EUR/CHF front.

Thin volumes and persistently high volatilities make things very clear: we are not out of the woods yet. 2012 will be another unsettled year – and probably a decisive one for Europe. One solution does seem to be within reach, however. A new EU treaty should force budget delinquents to exercise more discipline. It thus represents a step towards fiscal union. Without the support of the ECB, however, it will be challenging to escape the suffocating pressure of the existing mountains of debt – especially since the rescue packages alone are only buying time, and recession in Europe appears inevitable. The ECB is thus likely to intervene with more rate cuts, and may well lend further impetus at a later date simply by printing money. In the USA, uncertainty about the path of recovery remains considerable. China is also very nervous as it waits for the real estate bubble to burst. We nonetheless believe that these regions will be able to keep their economies on track in 2012. So what is to be done in such uncertain times? We counsel being as broadly diversified as possible, underweighting equities and the EUR (vs. USD) for now, steering more or less clear of long-term government bonds in view of potential debt haircuts and negative real interest rates, and instead investing in corporate bonds with shorter durations. We also continue to favour equities in companies with healthy balance sheets, strong business models and high dividends. It is still too early to consider banking stocks. Furthermore, it is hard to understand why gold should lose its shine in a climate of financial repression. We thus continue to invest in the yellow metal, even if the Fed's current monetary policy reticence is likely to impact positively on the USD and therefore negatively on the gold price. "QE3" remains very much a possibility in the medium term. By contrast, the CHF has little option other than to depreciate against the EUR and USD.

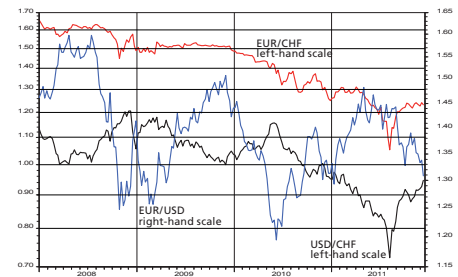
We wish you every success in 2012!

Privatbank IHAG Zürich AG

Interest rates 2008/2011 (10-year)



Currencies 2008/2011



Equity indices

01.01.–19.12.2011, in local currencies

SMI	5'768.0	-10.4%
DJ Stoxx 50	2'272.5	-12.1%
DAX 30	5'670.7	-18.0%
FTSE 100	5'365.0	-9.1%
CAC 40	2'974.2	-21.8%
S&P 500	1'205.4	-4.2%
Dow Jones	11'766.3	1.6%
NASDAQ	2'523.1	-4.9%
Nikkei 225	8'296.1	-18.9%
Hang Seng	18'070.2	-21.6%
DJ Global Titans USD	221.8	-11.8%

Global sector trends

Dow Jones Sector Titans 01.01.– 19.12.2011, in USD

Health Care	5.1%
Food & Beverage	1.4%
Retail	-2.4%
Travel & Leisure	-2.6%
Personal & Household Goods	-2.8%
Technology	-5.1%
Media	-6.7%
Telecommunications	-7.3%
Energy	-9.5%
Industrials	-11.3%
Composite	-11.8%
Utilities	-16.5%
Chemicals	-16.7%
Financial Services	-18.1%
Insurance	-19.5%
Automotive	-21.3%
Construction	-26.5%
Banks	-28.4%
Basic Resources	-30.7%