

## INVESTMENT FLASH

November 2011

### KEY TAKE-AWAYS

- **Global equity markets rallied in October – the first month of gains in six. However, as long as the European sovereign debt crisis is not resolved, global markets will remain volatile and unpredictable.**
- **The US dollar is the only “safe haven” currency left. The BoJ intervened in the currency markets to aggressively weaken the Yen, and the SNB removed the Swiss franc from that list in September when it pegged the CHF to the fledgling EUR.**
- **We recommend to remain under-invested as long as European technocrats continue to manipulate the markets. However, there are plenty of opportunities for short-term traders who are able to accurately predict the next moves by the major governments.**

### Basis:

- Back in October, we said that the risk to our somber view was on the upside, that the markets may undergo a sharp rebound when sentiment was so negative. The S&P 500 gained more than 10% in October, which was the largest monthly advance in U.S. equities in almost 20 years. Europe and Asia were both up over 7%, while emerging markets rebounded by 13% after a sustained retreat.
- China's third-quarter GDP was up 9.1% from a year earlier, which was slower than the 9.5% in the second quarter and 9.7% in the first quarter. Double-digit growth figures from China may be a thing of the past, but the current growth figures are still substantial and are derived from a much larger base compared with a decade ago.
- The intervention by the Bank of Japan showed it meant business this time. However, the trend is not on its side. With all major currencies yielding close to zero, currencies abroad have lost their allure and the Japanese are repatriating their funds back home.
- New ECB president Mario Draghi showed much needed pragmatism in his first week at the helm by slowly bringing interest rates to a level that will support growth in the Mediterranean countries. This is a clear departure from the Trichet days when containing inflation was the primary objective.
- The proposals for Europe including a voluntary “haircut” of 50% on Greek debt held by banks, an obligation for banks to increase their Tier 1 capital ratio to 9% (from 7%) and an increase in size of the European Financial Stability Facility (EFSF) address some of the issues. However, they do not solve the root of the problem: reckless spending by European politicians to expand the welfare state.
- The reaction of European technocrats after (former) Greek prime minister Papandreou suggested to ask his people to choose between pest and cholera, was particularly shocking for us as Swiss citizens who are used to vote on every single issue. Needless to say, the combined political weight of the troika, the French technocrats and the East Germany-educated Chancellor Merkel to preclude a democratic decision was too much for the Greek pundit to bear. But by proposing to ask his people to support his emergency package, Papandreou eventually secured the backing of the opposition party. While detrimental to his presidency, this move will likely be seen by historians as extremely clever and in the strong interest of Greece.