

# 2010: under observation

---

Investment Strategy 2010

**Philippe Uzan**

Head of Research and Global Allocation

**Françoise Rochette**

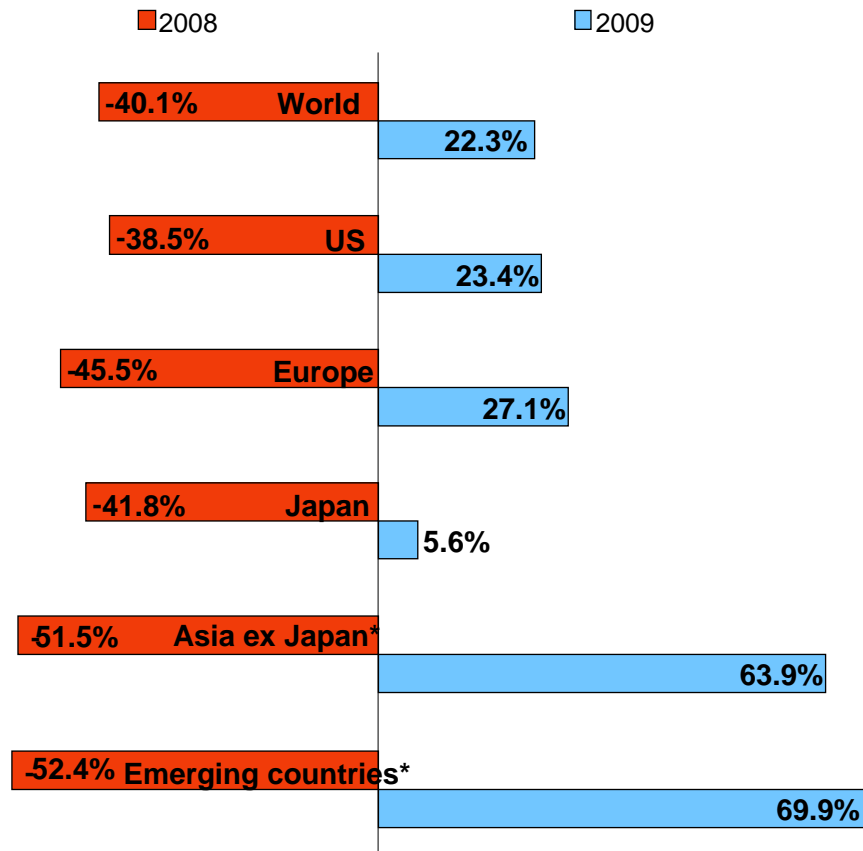
Head of Asset Allocation



**EDMOND DE ROTHSCHILD**  
ASSET MANAGEMENT

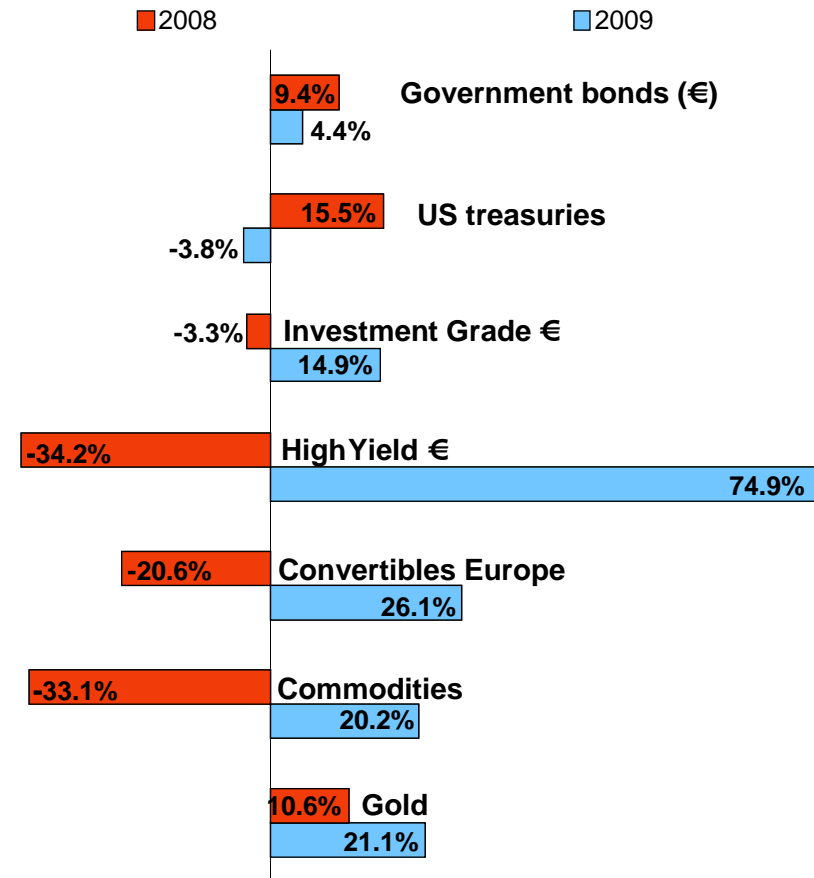
# 2008–2009: 2 years of atypical performance

Performance of principal equity markets in 2008 and 2009  
(in local currency)



\* Performance in €

Performance of other major asset classes in 2008 and 2009  
(in EUR)



Sources : Bloomberg, MSCI, Merrill Lynch, Exane, Reuters

# The economy

---

Investment Strategy 2010

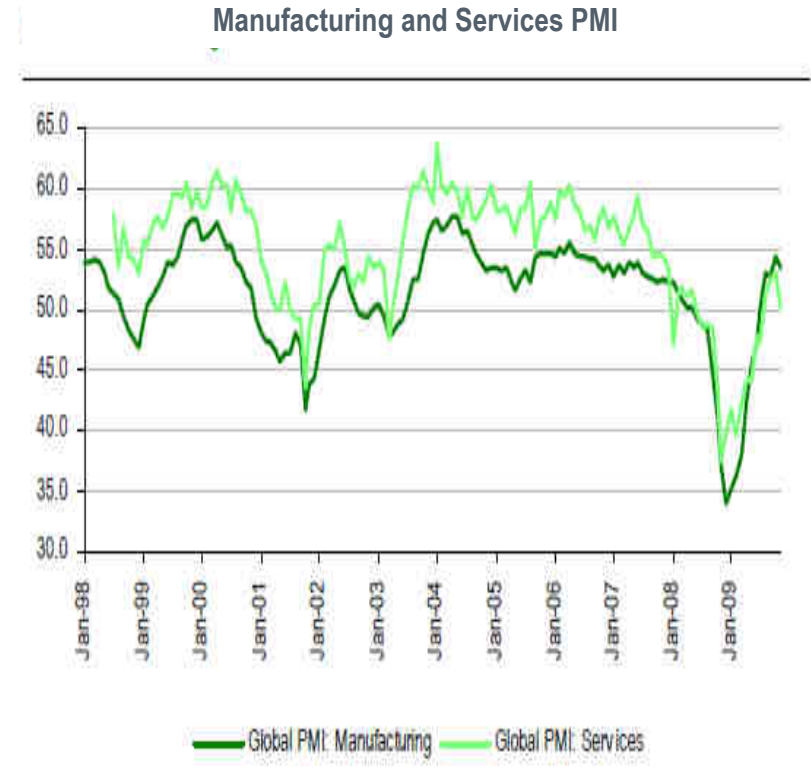


**EDMOND DE ROTHSCHILD**  
ASSET MANAGEMENT

# Growth still recovering, even if the pace has slackened a little

Real GDP growth					
Y/Y%	Historic 1980-2005	Pre-crisis 2004-2007	Crisis 2008	Crisis 2009e	Recover 2010e
<b>World</b>	<b>3.2%</b>	<b>4.8%</b>	<b>3.0%</b>	<b>-1.1%</b>	<b>3.1%</b>
<b>G7</b>	<b>2.5%</b>	<b>2.5%</b>	<b>0.6%</b>	<b>-3.4%</b>	<b>1.3%</b>
<b>Emerging countries</b>	<b>5.9%</b>	<b>9.1%</b>	<b>6.0%</b>	<b>1.7%</b>	<b>5.1%</b>

Source : Oddo securities, FMI



Source: UBS

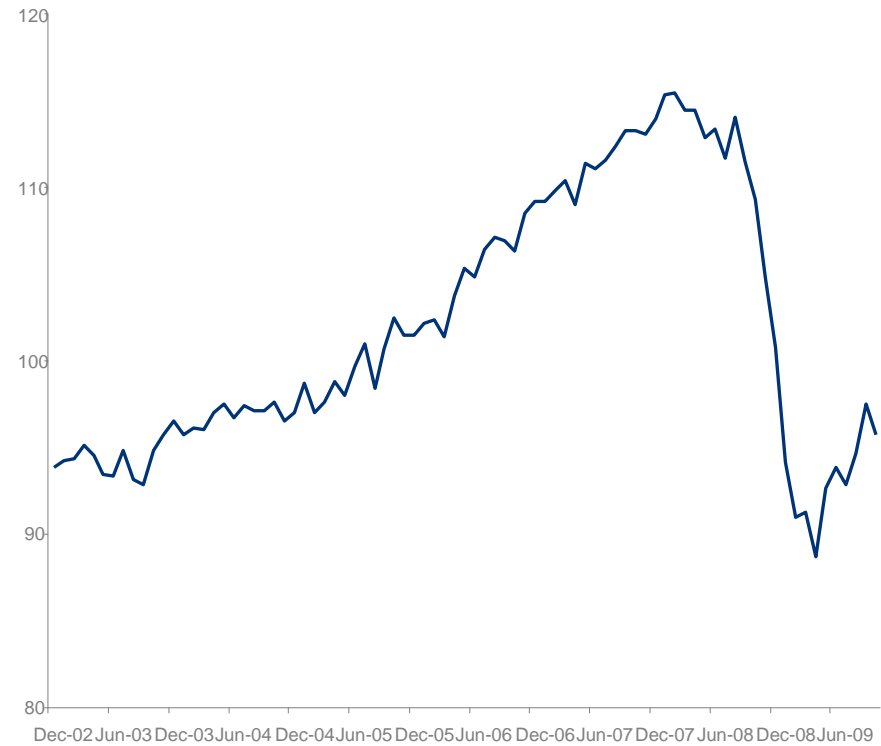
*2009: First decline in global GDP since 1945*  
*2010: Recovery will be rather moderate*

# Developed country indicators...

US: manufacturing ISM new orders



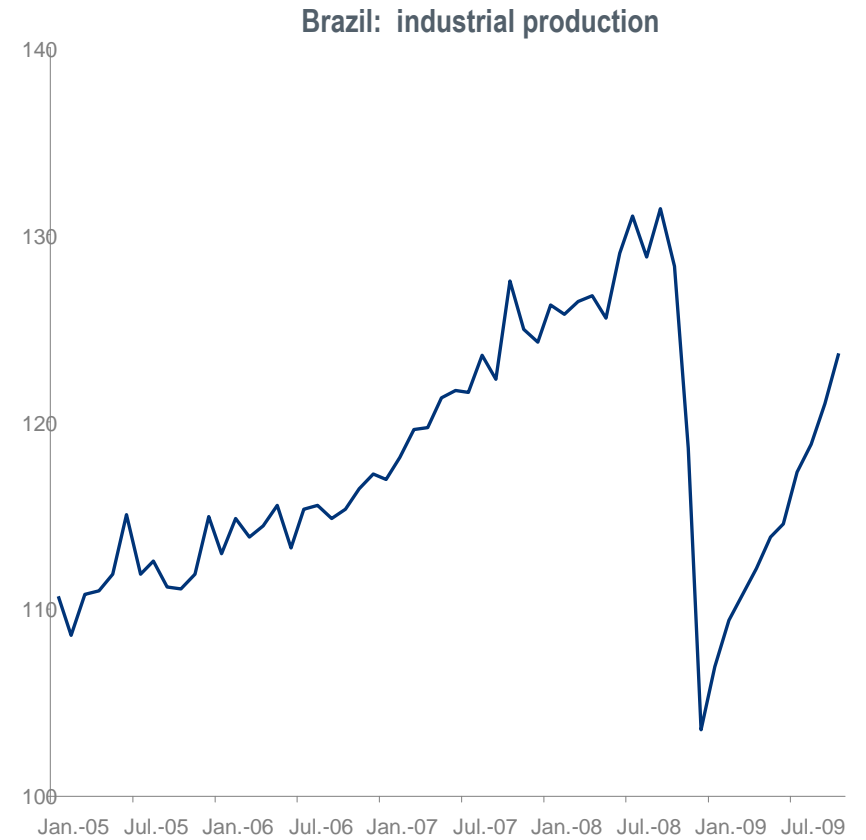
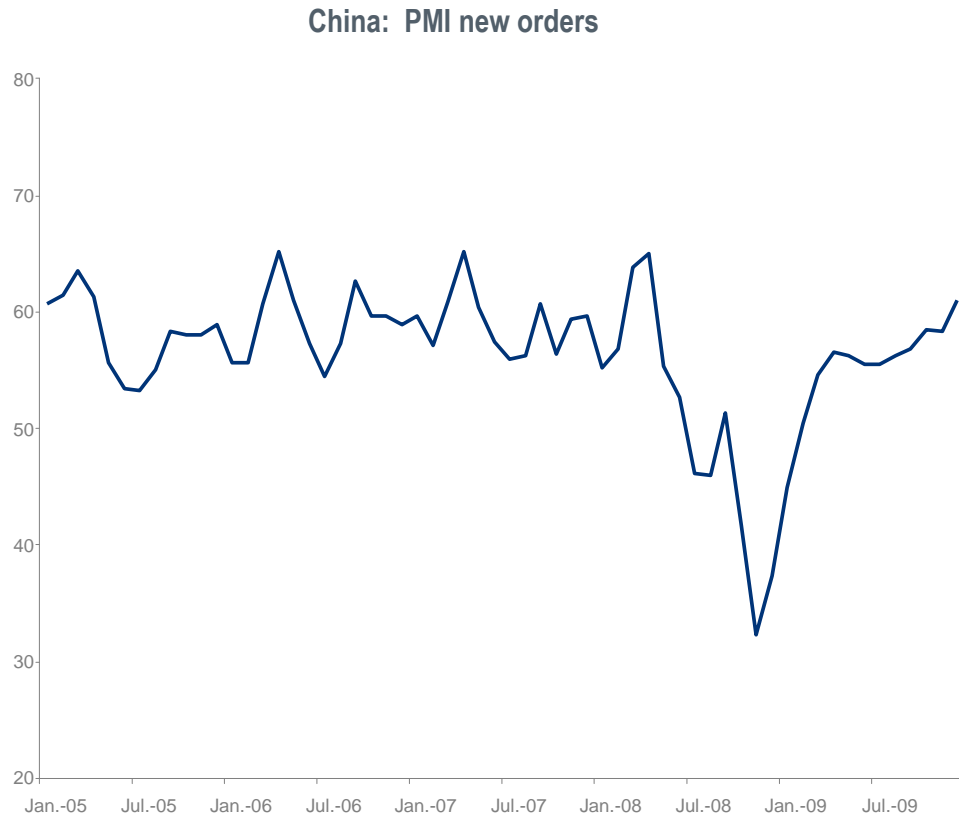
Germany: industrial production



Source : Bloomberg

... still point towards an improvement  
in the economy

# Emerging country indicators...

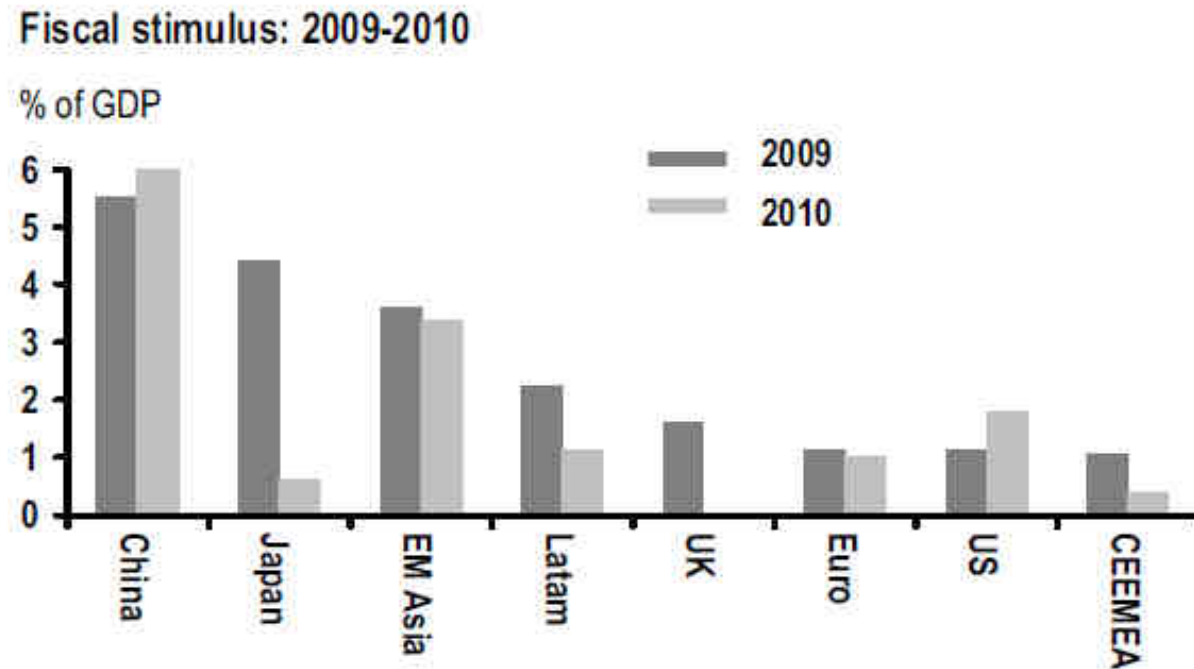


Source : Bloomberg

*... suggest a vigorous recovery*

# Growth engines in 2010

## Public investment



Source : JP Morgan

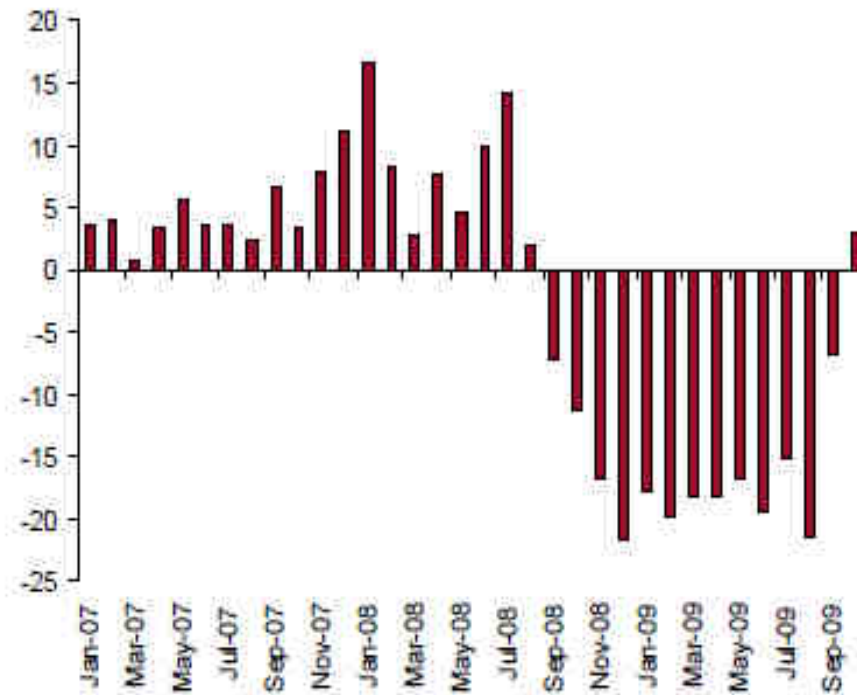
*Public spending will continue to provide support*

# Growth engines in 2010

## Inventories

US: Variation in corporate inventories

\$bn, nominal, latest data is October



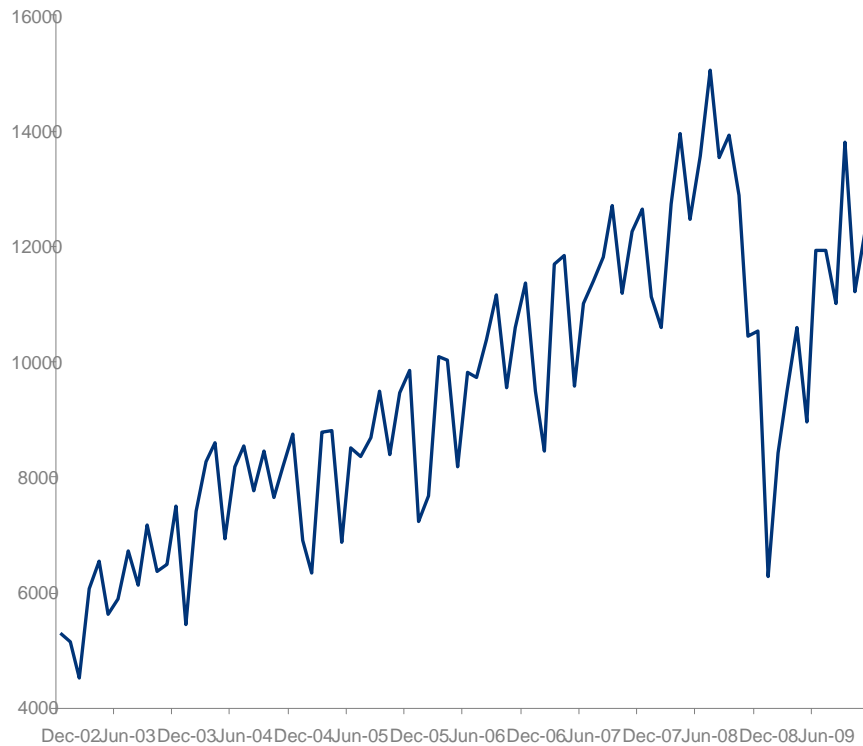
Source: Census, Credit Suisse

*Continued restocking will be a positive for the economy*

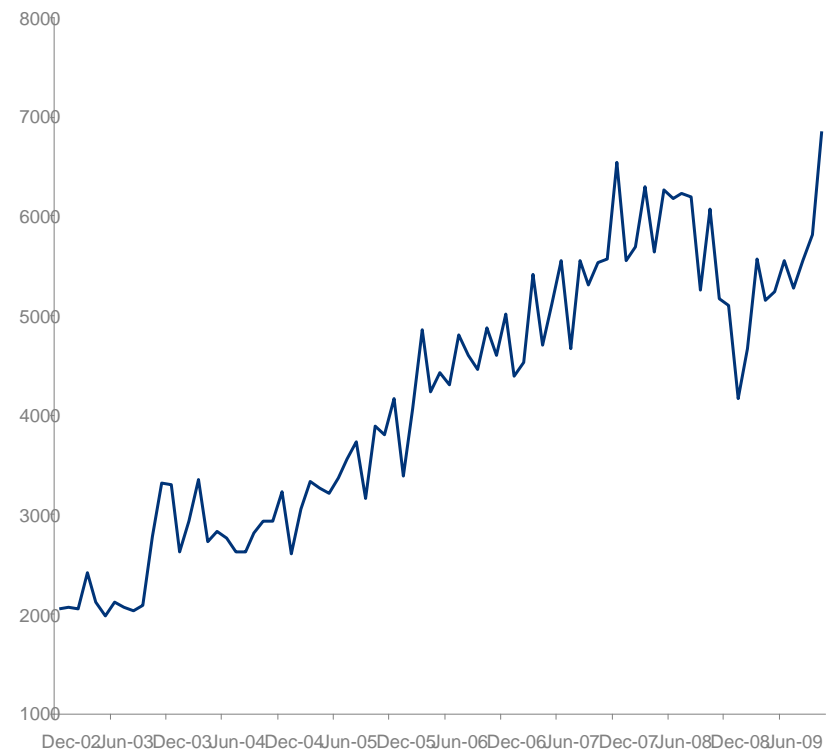
# Growth engines in 2010

## World trade

Japan: Exports to China (\$bn)



US: Exports to China (\$bn)



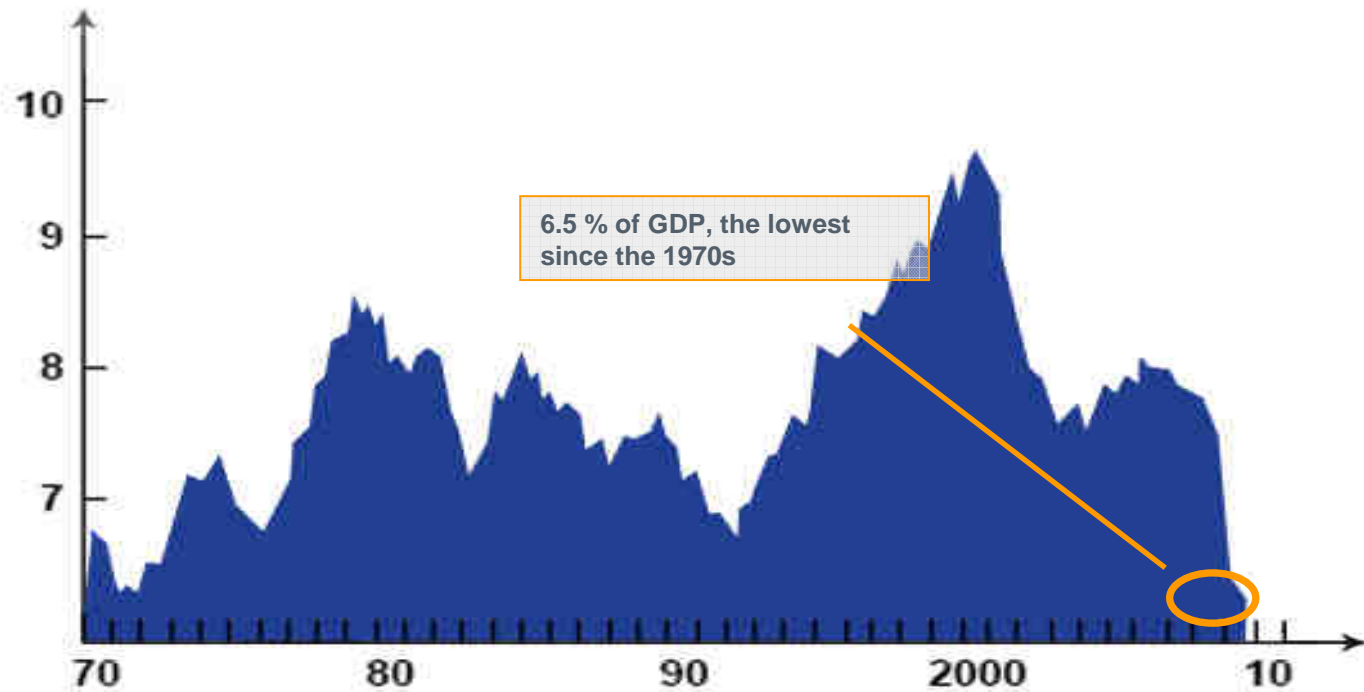
Source : Bloomberg

*Emerging economy recovery is helping exports from developed countries*

# Growth engines in 2010

## Private investment?

US: Investment as % of GDP



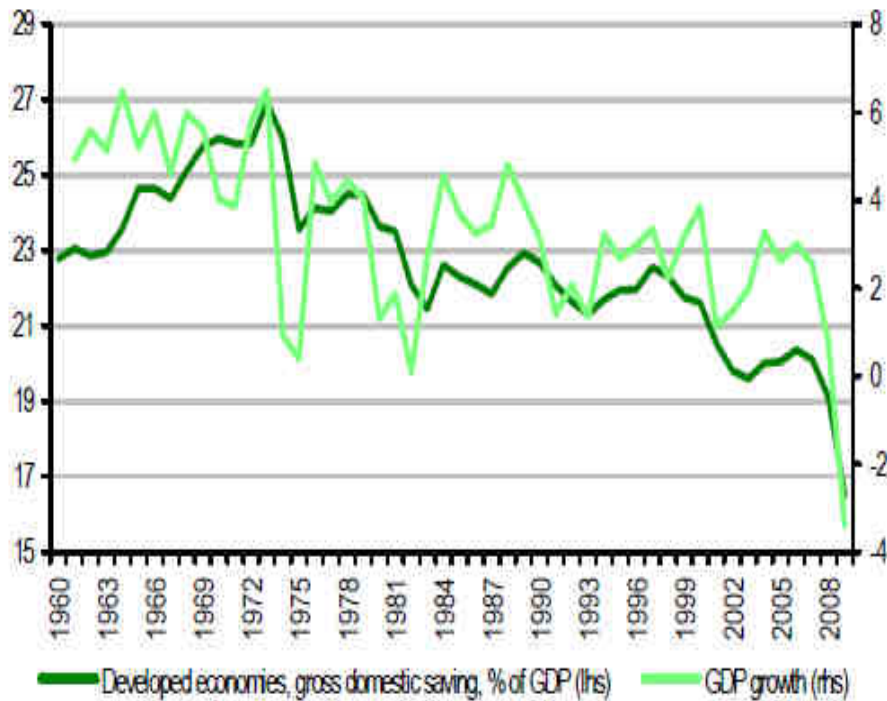
*A good surprise cannot be ruled out*

Source : BCA Research

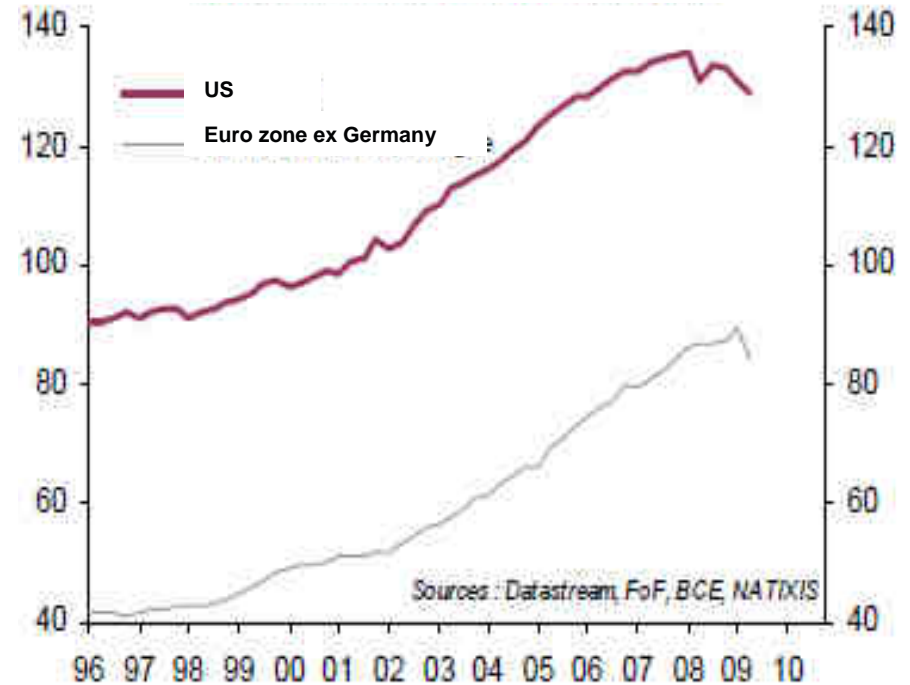
# Growth engines in 2010

## Consumption?

Savings rate in developed countries vs GDP growth



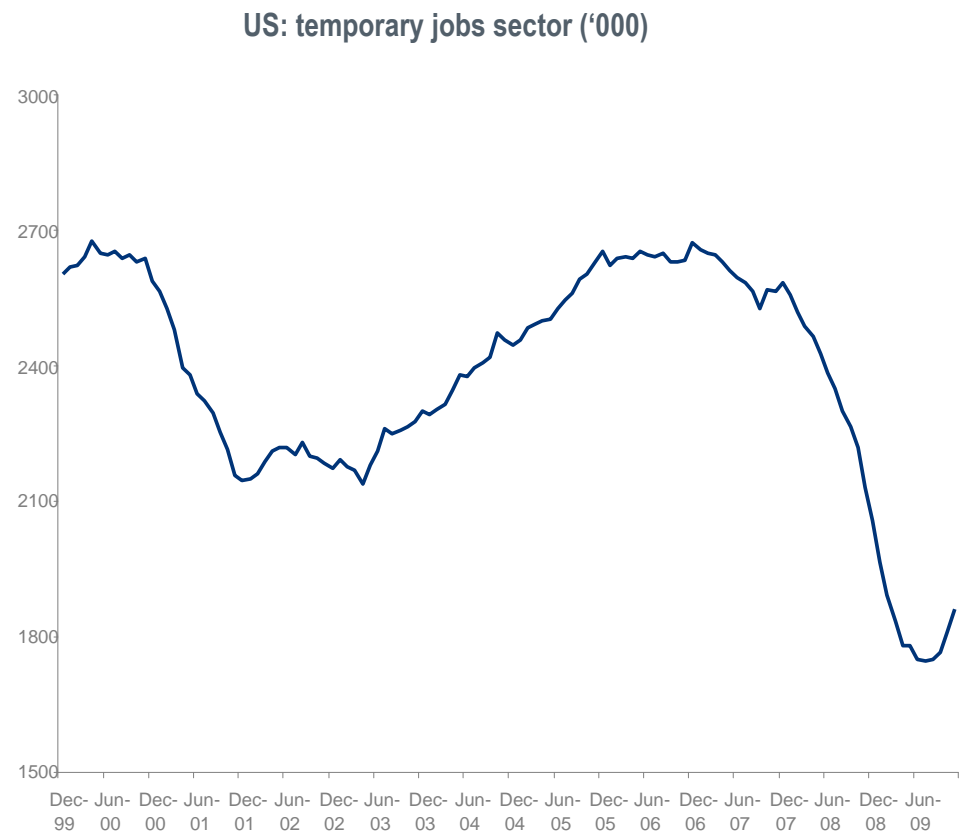
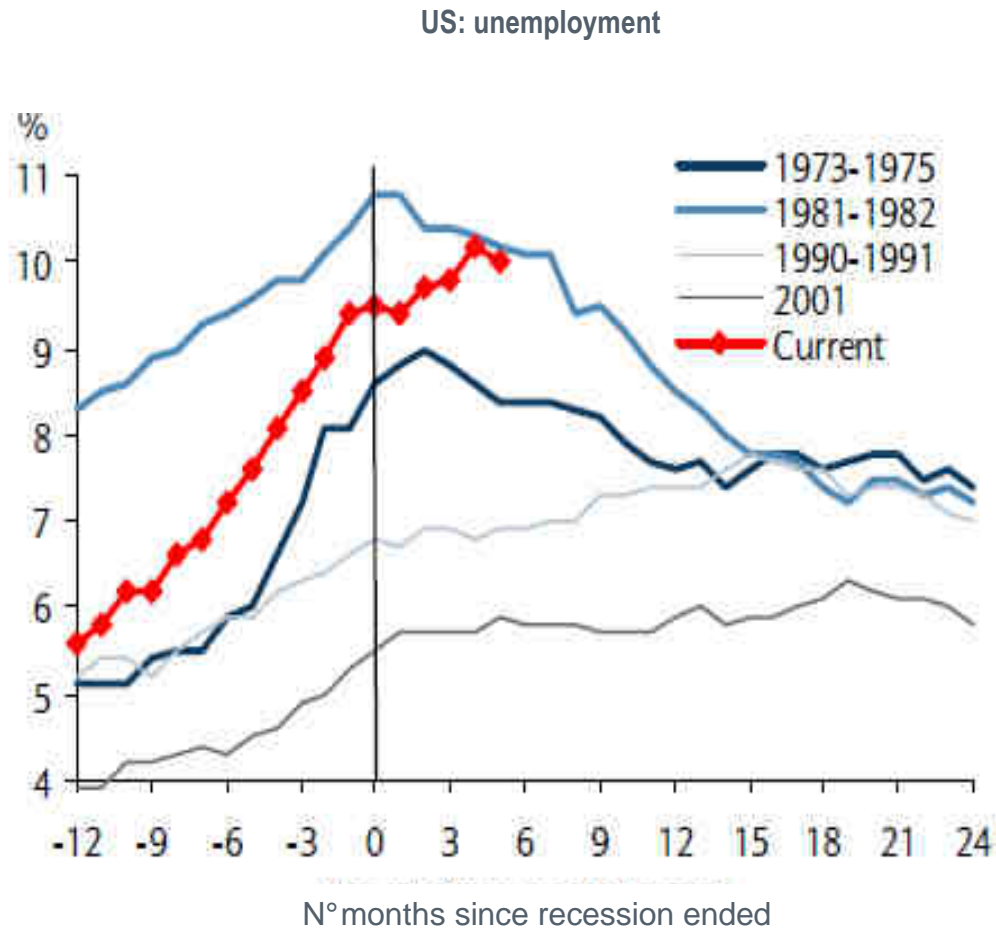
Household debt (% of NDI)



Source: IMF. Data for 2009 are IMF forecasts.

Households still heavily in debt but...

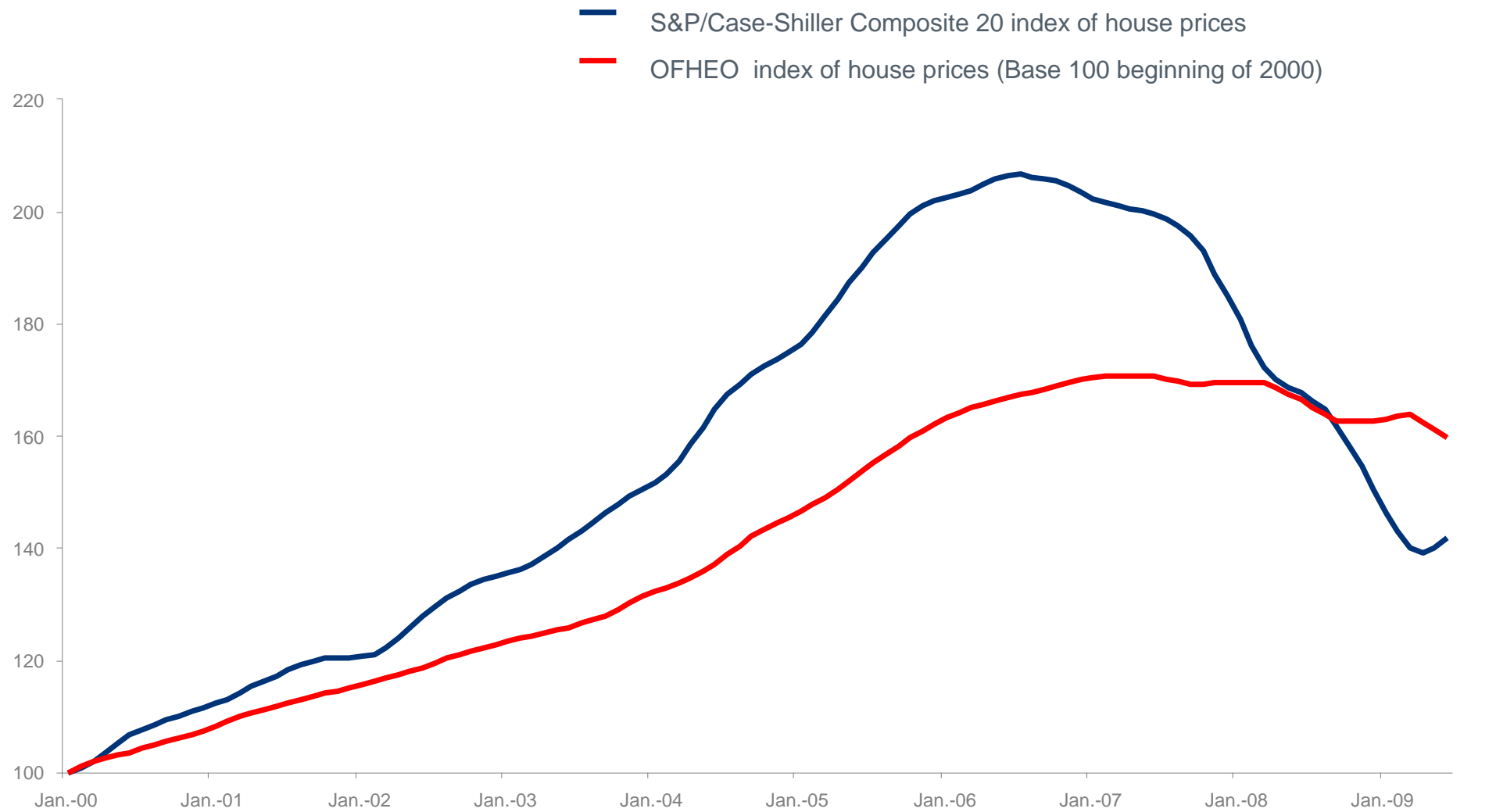
# Unemployment starting to stabilise in the US...



Source: BLS, Haver Analytics

Source : Bloomberg

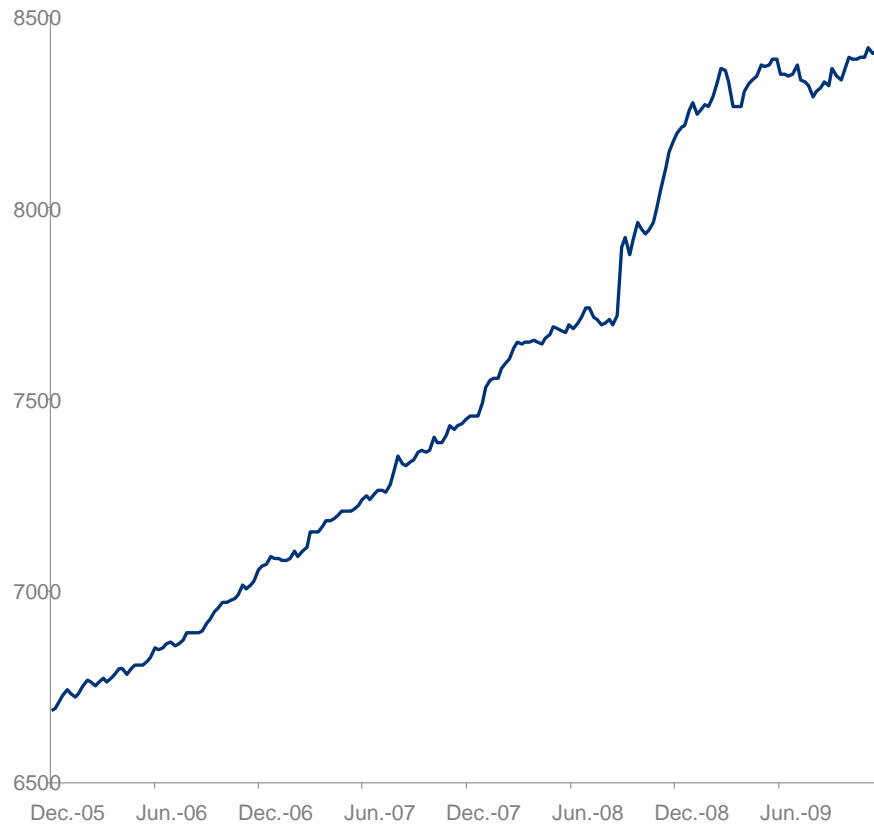
## ...and so is the residential property market



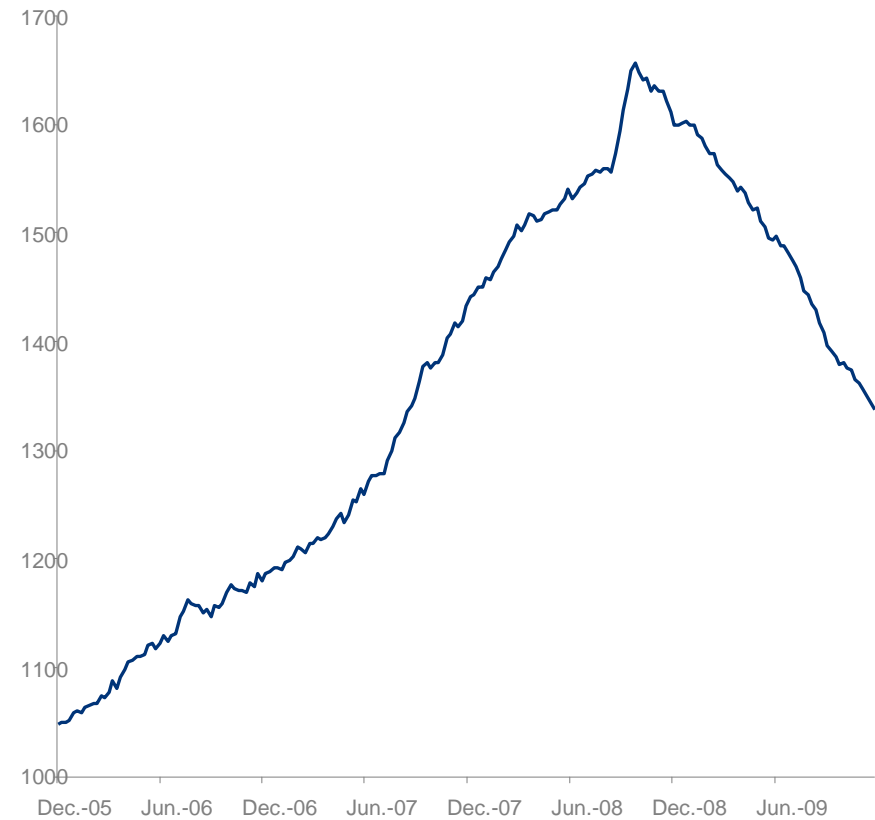
Source : Edmond de Rothschild AM

# Abundant liquidity but circulation struggling

US: M2 Money supply (\$bn)



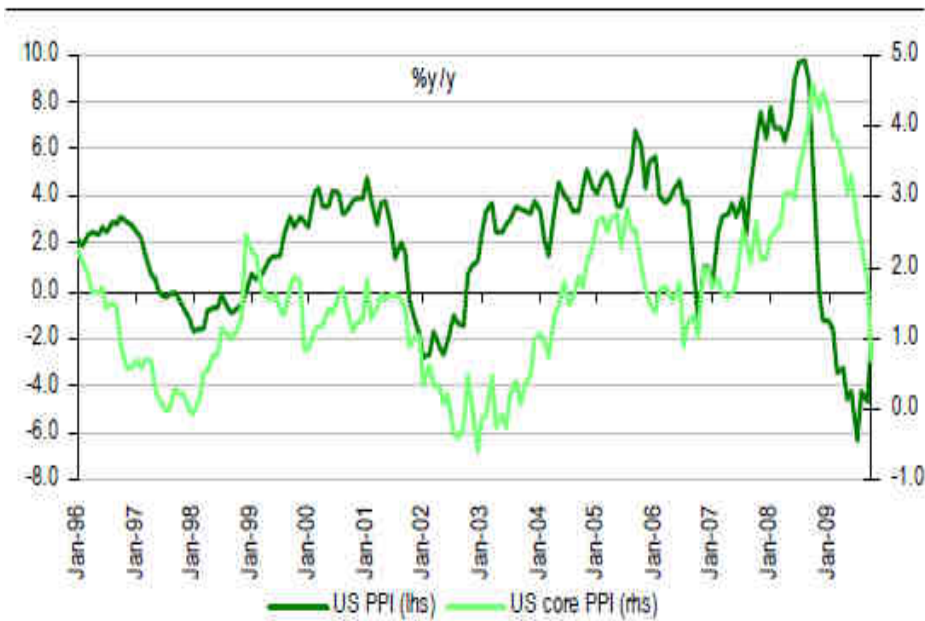
US: Outstanding bank loans to companies (\$bn)



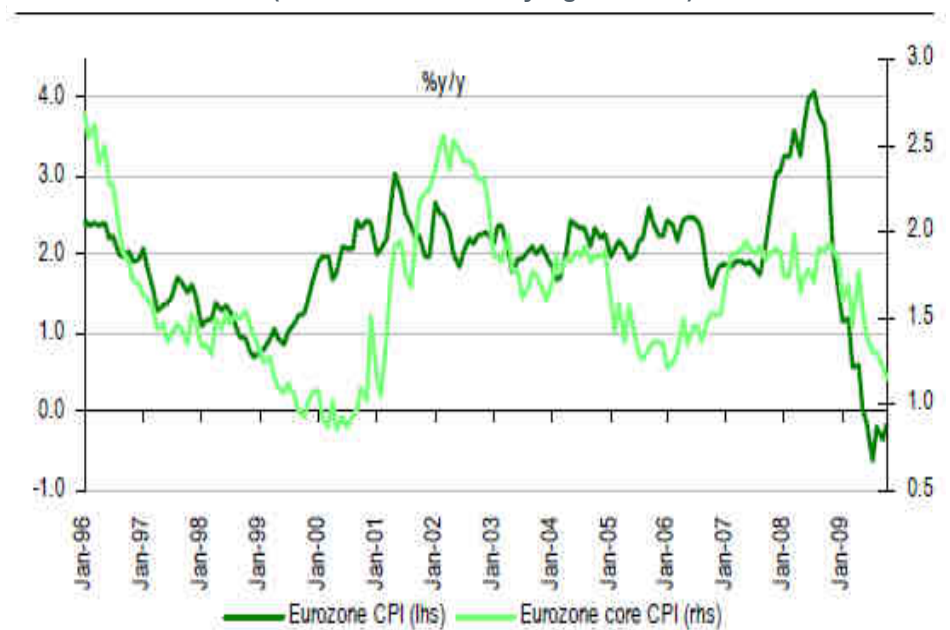
Source : Bloomberg

# Inflation expected to remain under control in US and in the Euro zone

US: producer prices (inflation and underlying inflation)



Euro zone: consumer prices (inflation and underlying inflation)



Source: UBS/OEF/Haver/Bloomberg

# Interest rates and Currencies

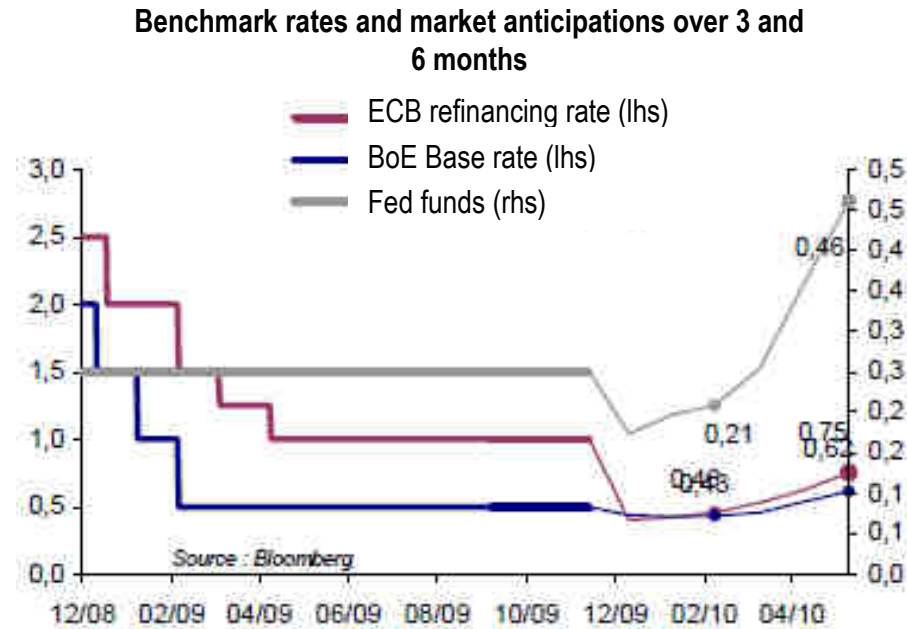
---

Investment Strategy 2010



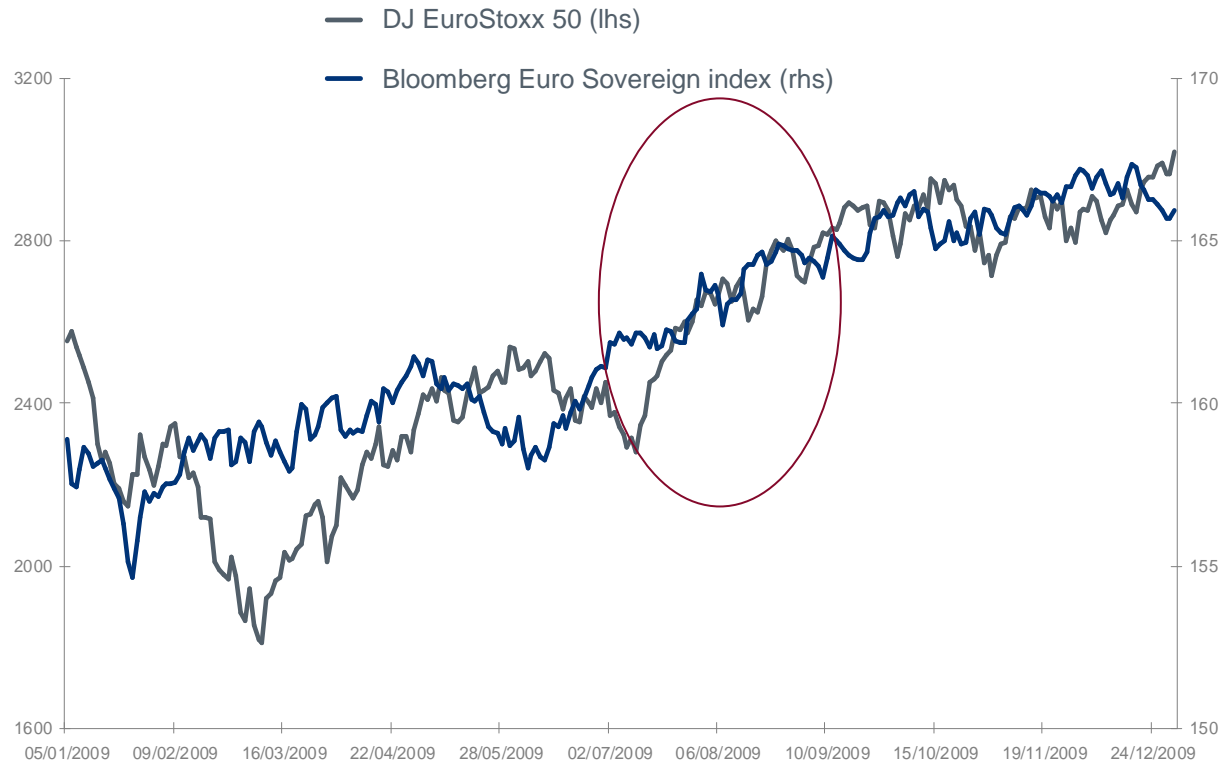
**EDMOND DE ROTHSCHILD**  
ASSET MANAGEMENT

# Short rates: stable up to the summer then very gradual increase



Our forecasts for end 2010	
FED	1.25%
ECB	1.5%
BoE	1.5%
BoJ	0.1%

# Government bonds



Bonds have risen with equities since July despite signs of economic recovery

We view current levels as asymmetrical

Vulnerable to any fears of central bank action, real or supposed

*Tactically sell the highs*

Source : Edmond de Rothschild AM

# Government bonds



So far, government issuance has met with keen demand (central banks, commercial banks etc)

But buyers could start to insist on better rates especially from countries that might be downgraded: Greece, Ireland (in just a few weeks, spreads have risen 110bn and 50bp compared to 10-year Bund). UK and US? (spreads of +35 and +50bp).

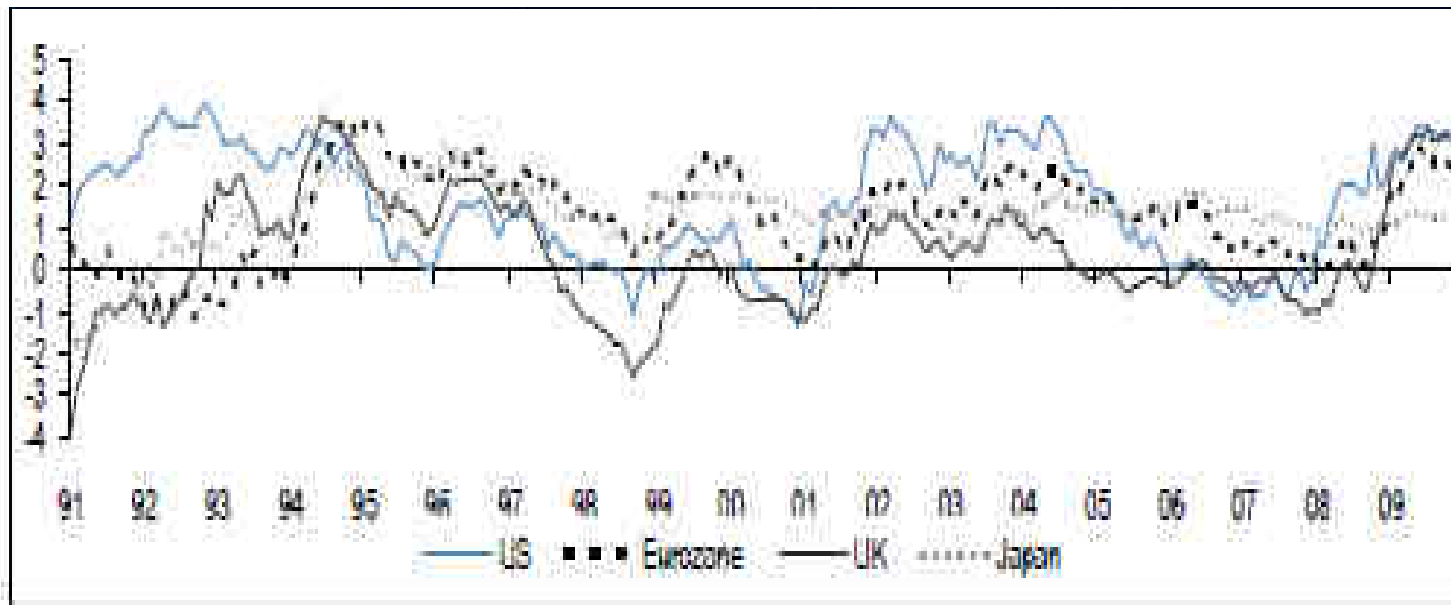
Real rates are historically low

*Tactically sell the highs*

Source : Bloomberg

# Government bonds

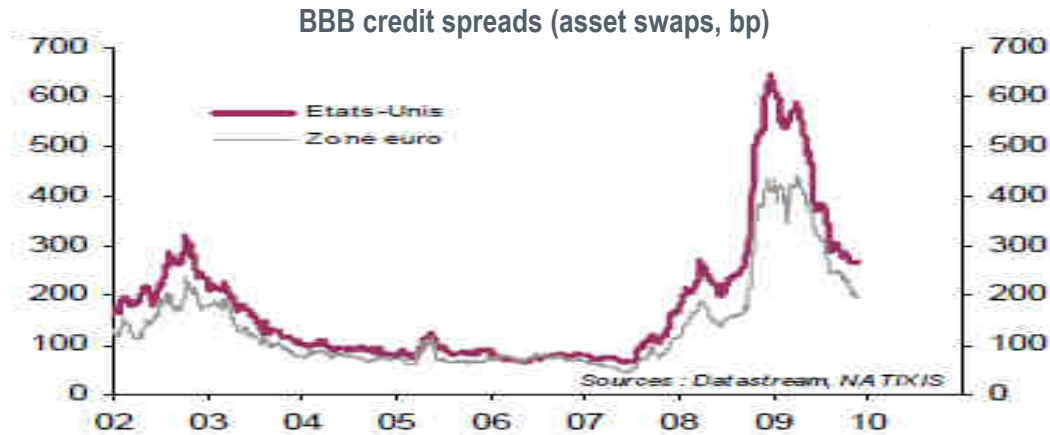
Yield curve in principal currencies  
(yield on 10 year bonds – money market)



Source : JP Morgan

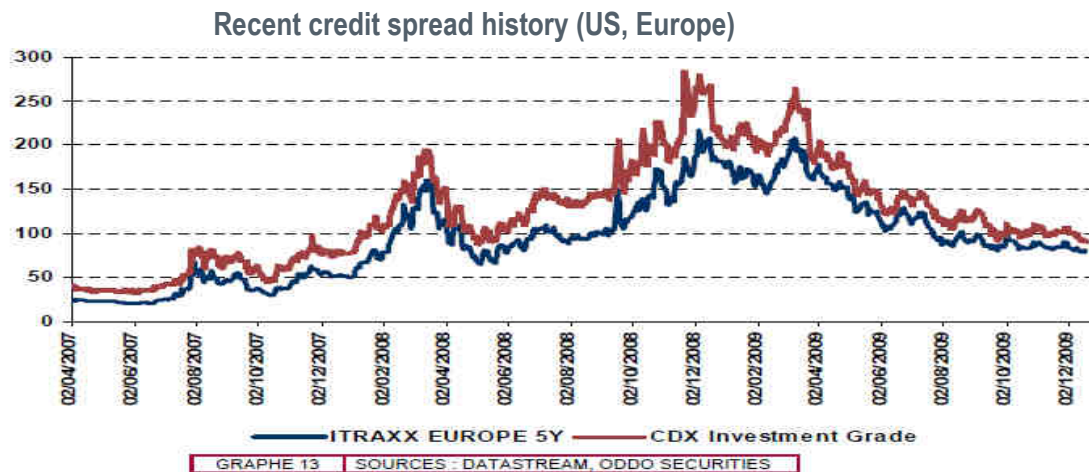
*Focus on strategies geared to a flattening of the yield curve over the medium term*

# Credit



Sharp contraction in spreads accompanied by very high new issue volumes.

They could fall back while remaining attractive, but private bonds are becoming more vulnerable to higher government rates.

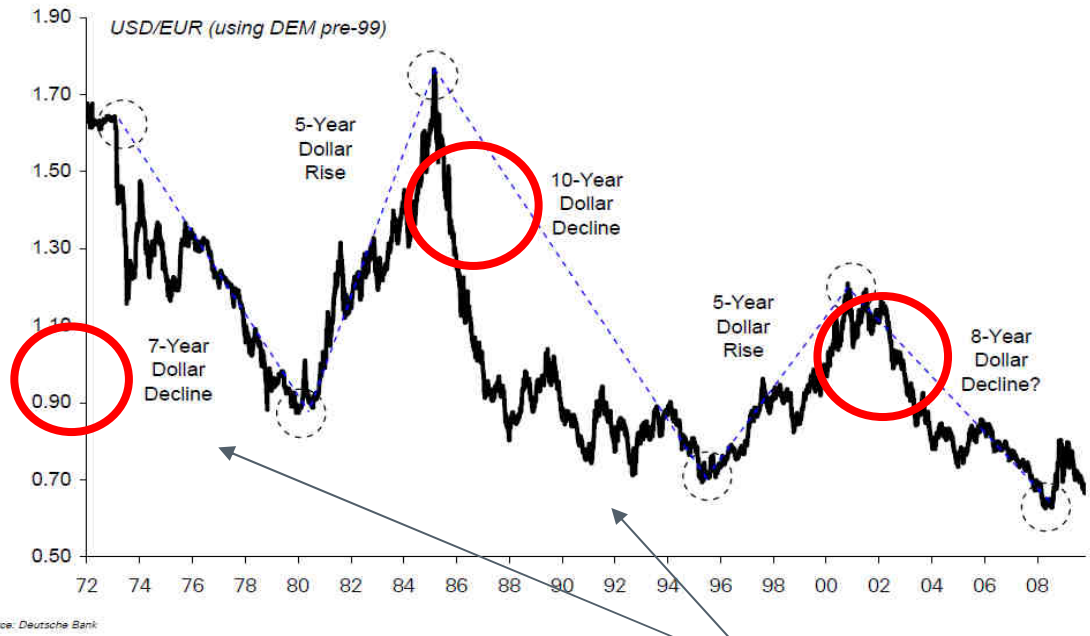


*Hold positions for the yield  
Start to hedge sensitivity*

# Currencies

Over the medium term, dollar undervaluation should be corrected.

Dollar should also benefit from **lasting support** when the FED embarks on its crisis exit strategy.



*The dollar should continue to recover in 2010 both against the Euro and the Yen*

Higher rates+  
Improvement in current deficit+  
Valuation beyond 20% /PPP limits

# Disclaimers (1/2)

---

## Equity risk:

- Asset prices can move on investor anticipations and entail a risk for share prices.
- The funds' performance will depend on the companies selected by the asset management company.
- As the funds do not have any guarantee or protection, the capital initially invested might not be restituted in full..
- The free float on small and mid cap stocks is reduced; market moves are consequently more pronounced and faster than with large cap stocks.
- Operating conditions and supervisory standards on emerging markets may differ from those on major international stock markets, so price moves may sometimes be faster and larger (Saint-Honoré Chine, Selective Recovery, Saint-Honoré Brésil, Commosphere, Goldsphere).

## Exchange rate risk:

- Fluctuations on currency markets may entail changes in the fund's net asset value which might have a negative impact on the fund's performance.

## Interest rate risk:

- Limited to debt securities and money market instruments that may represent part of the funds' assets.

## Credit risk

- The funds may also represent credit risk if an issuer of bonds or money market instruments cannot honour his commitments.

*Details on the principal risk associated with funds mentioned in this document can be found in the funds' full prospectuses which are available on request from Edmond de Rothschild Asset Management or at [www.edram.fr](http://www.edram.fr). Edmond de Rothschild Asset Management is listed in the French Commercial and Company Register under n°332,652,536 R.C.S. Pa ris*

## Disclaimers (2/2)

---

*Past performance is not a reliable indication of future returns and is not constant over time.*

*Disclaimer: The data, comments and analysis in this bulletin reflect the opinion of the Edmond de Rothschild Group and its affiliates with respect to the markets and their trends, regulation and tax issues, on the basis of its own expertise, economic analysis and information currently known to it. However, they shall not under any circumstances be construed as comprising any sort of undertaking or guarantee whatsoever on the part of the Edmond de Rothschild Group or its affiliates. All potential investors should consult their service provider or advisor and exercise their own judgement on the risks inherent to each investment and its suitability to their own personal and financial circumstances. Edmond de Rothschild Asset Management is listed in the French Commercial and Company Register under n°332 652 536 R.C.S. Paris*

*The subscription to, or acquisition of, shares in these UCITS either directly or through any third party, is reserved to investors listed in article 413-2 in the General Regulations of the French Financial Market Authority (AMF). When subscribing for the first time to one of these UCITS, investors must state in writing that they have been duly forewarned. The aforementioned UCITS are exclusively designed to be sold to people residing in France. This document may not be construed as an offer to buy, sell or promote shares in the aforementioned funds in a jurisdiction other than France. None of the products and/or services may be offered to any persons if the law of their home country or any other country that might concern them or the product or the service so forbids. For example, the products and services are not available for sale in the United States or in any of its territories or possessions. Nor may they be distributed to US corporate bodies or physical persons or to US citizens or British citizens. The Edmond de Rothschild Group and its affiliates accordingly advise any interested persons to ensure that they are legally authorised to subscribe to the aforementioned products and/or services prior to any investment.*