

Asset allocation in 2010: a tactical year

Investment Strategy 2010

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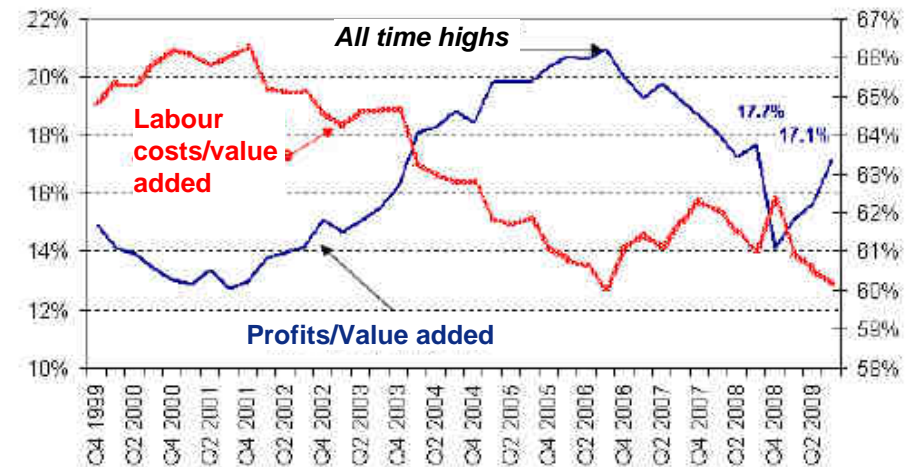
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2010: wrought with uncertainty

2 facts:

- Macroeconomic indicators are once again supporting factors
- Companies repaired balance sheets in 2009

US: Share of value added



Source: BEA - Corporate Sector

2 major uncertainties:

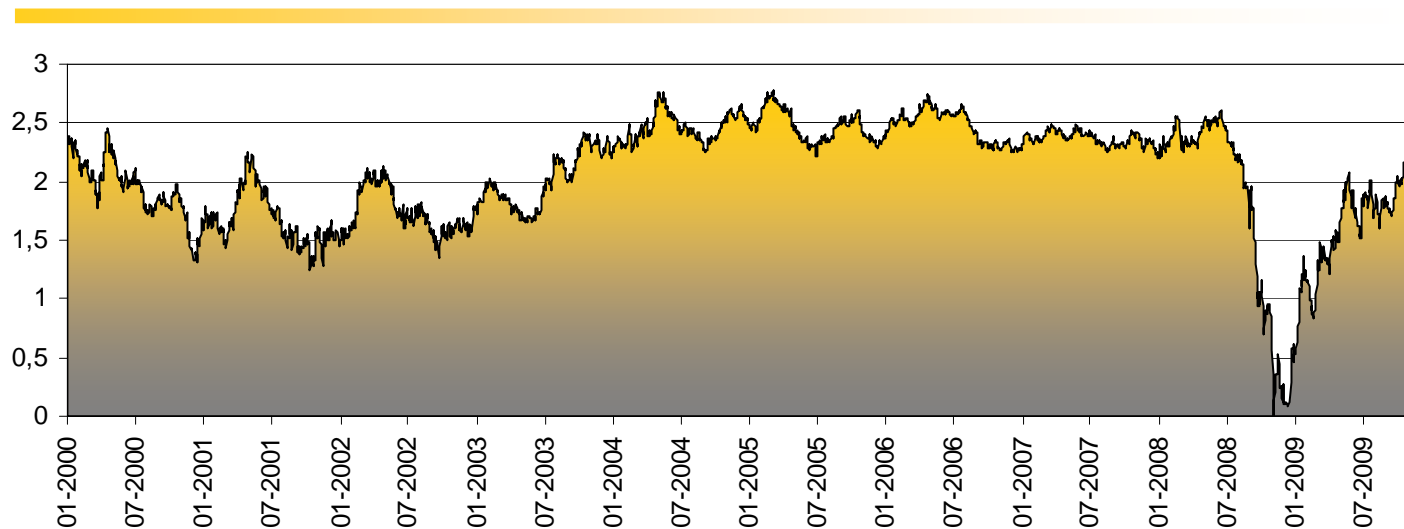
- Will capital investment recover?
- Will the first signs of recovery be wiped out by monetary and fiscal policy changes?

Directional trends in traditional asset classes:

Bonds

- ➔ Two sources of protection: unprecedented steepening in major yield curves and the return to good break-even points on inflation...
- ➔ ... but bond volatility is set to increase as monetary policy tightens in the future

Break-even points on US inflation-linked 10-year



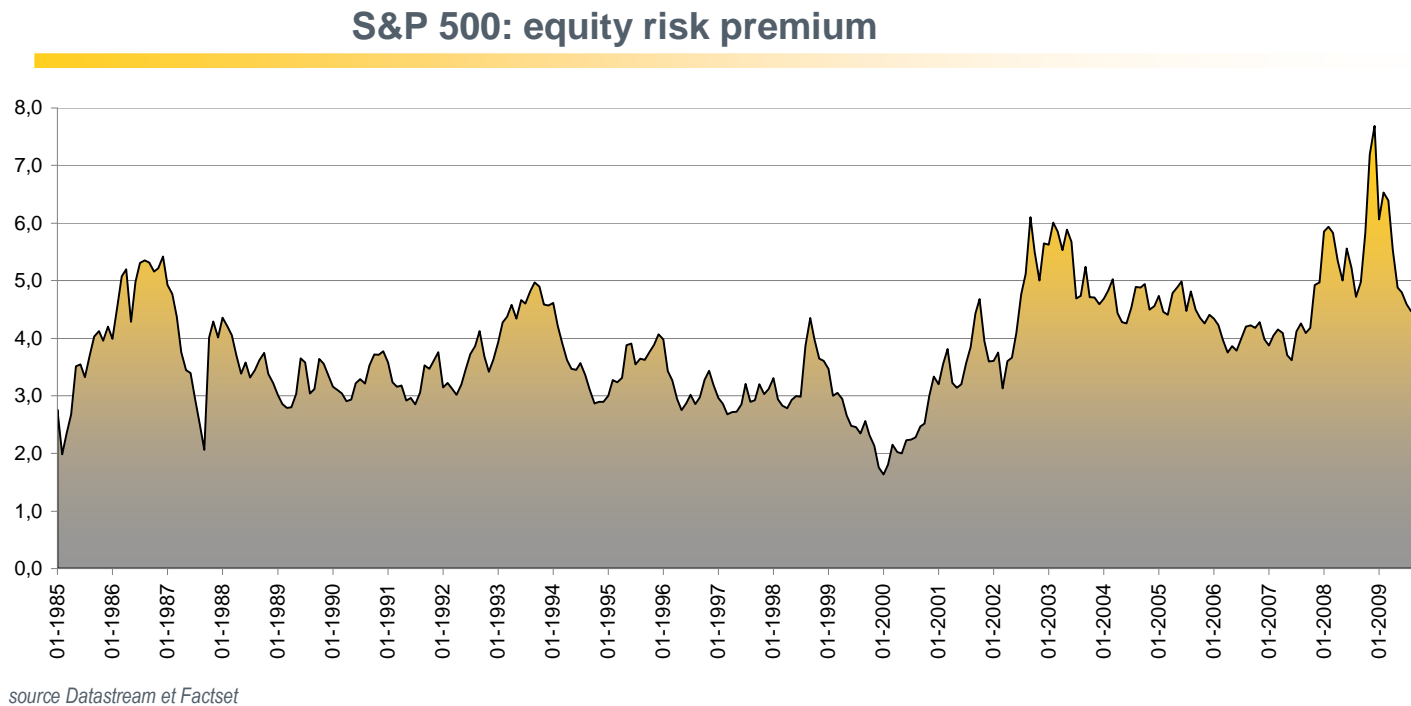
Source Bloomberg

Expected yields in 2010 range from 3% for government bonds to 10% for private high-yield issues

Directional trends in traditional asset classes:

Equities

- Equity markets will continue higher due to low rates and continued contraction in the risk premium



Equities are expected to return between 5% and 10% in 2010

Directional trends in traditional asset classes:

To sum up...

- Numerous uncertainties at the macroeconomic level
- No bargains left in major asset classes but the trend could continue to benefit from fund flows into risky assets

Volatility should remain high and the risk/return profile could deteriorate

2010: performance will come from tactical allocation

Edmond de Rothschild Investment Managers: forecasts on various asset classes

	Performance 2010e	1 year volatility
Equities		
Equities – Developed countries	5-10%	20%
Equities – Emerging countries	8-15%	40%
Bonds		
Government	2-3%	4%
Investment Grade Credit	5-7%	3%
High Yield	9-12%	8%
Emerging Market Debt	9-12%	7%
Commodities	+	40%
Funds of hedge funds	8-10%	4-6%

Source : EDRIM Gestion, daily volatility on a rolling 12 month scale

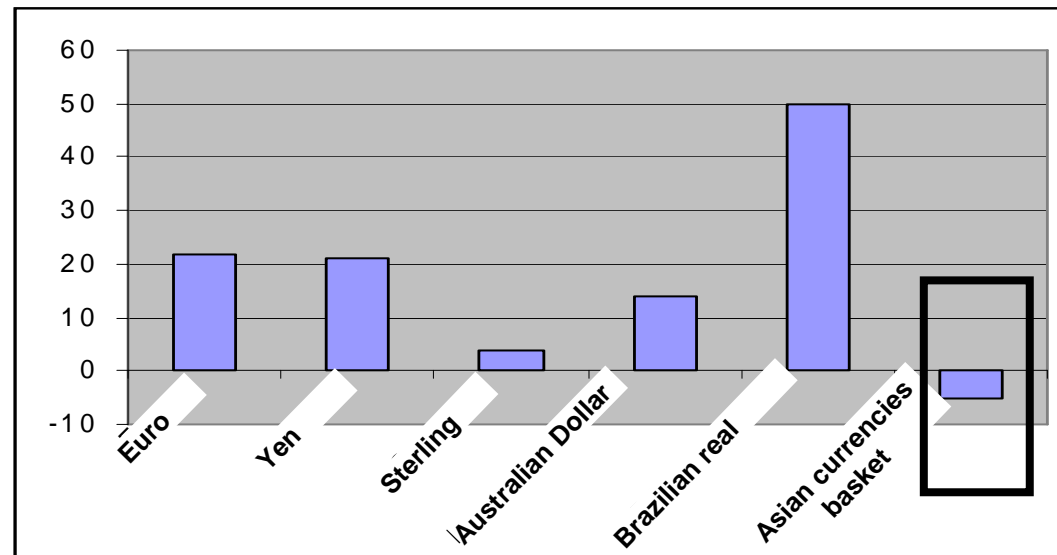
Edmond de Rothschild Investment Managers: opinions on various asset classes

- Markets should deliver reasonable returns in 2010 with exceptional performance from a few asset classes
- Risk is however too concentrated in the same macroeconomic issues which essentially concern developed countries.
- What other opportunities are there?

Investment ideas for 2010: *Upside on Asian currencies*

- For political reasons, Asian currencies alone have not gained ground against the dollar
- And yet, their dynamic economies and property booms require major changes to monetary policy

Over/under valuation of global currencies vs. the dollar



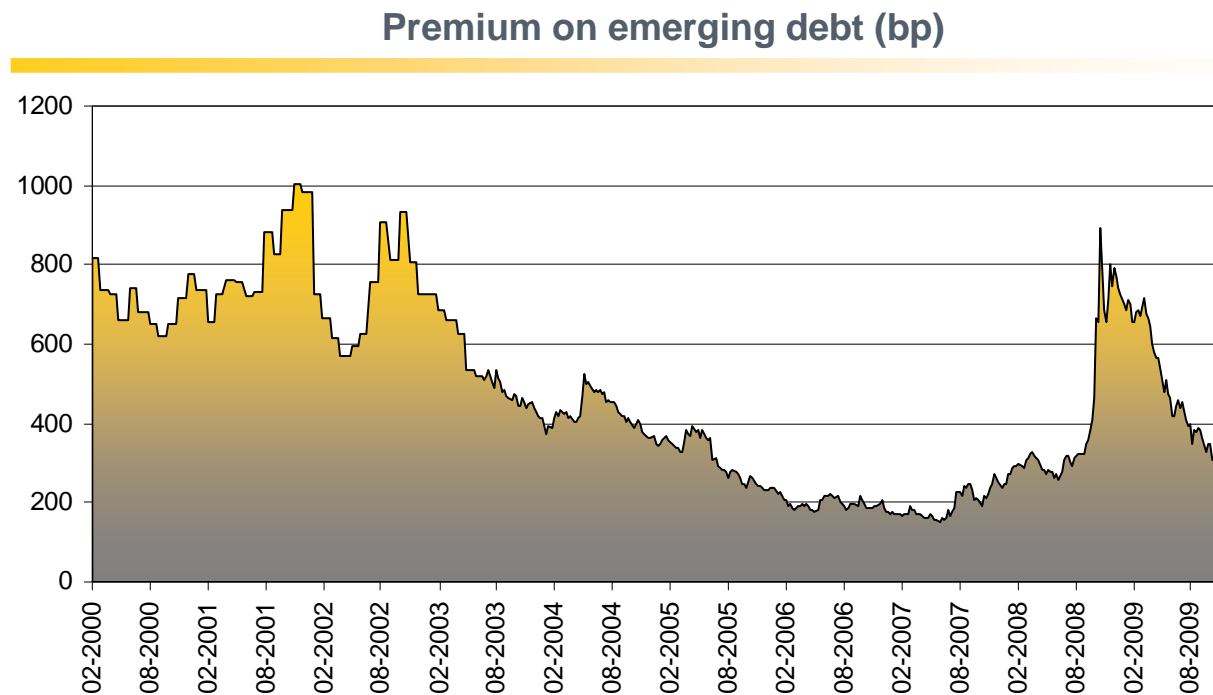
Even compared to the cheap dollar, Asian currencies look attractive!

Source : EDRIM Gestion

Investment ideas for 2010:

Debt markets outside the OECD

- Developed countries are likely to see their credit ratings downgraded. There is less risk in emerging countries because of their growth rates
- Better management of monetary policy in emerging countries and the introduction of local debt markets has sharply reduced the cost of debt. Its risk has also declined as governments are now less dependent on international capital flows

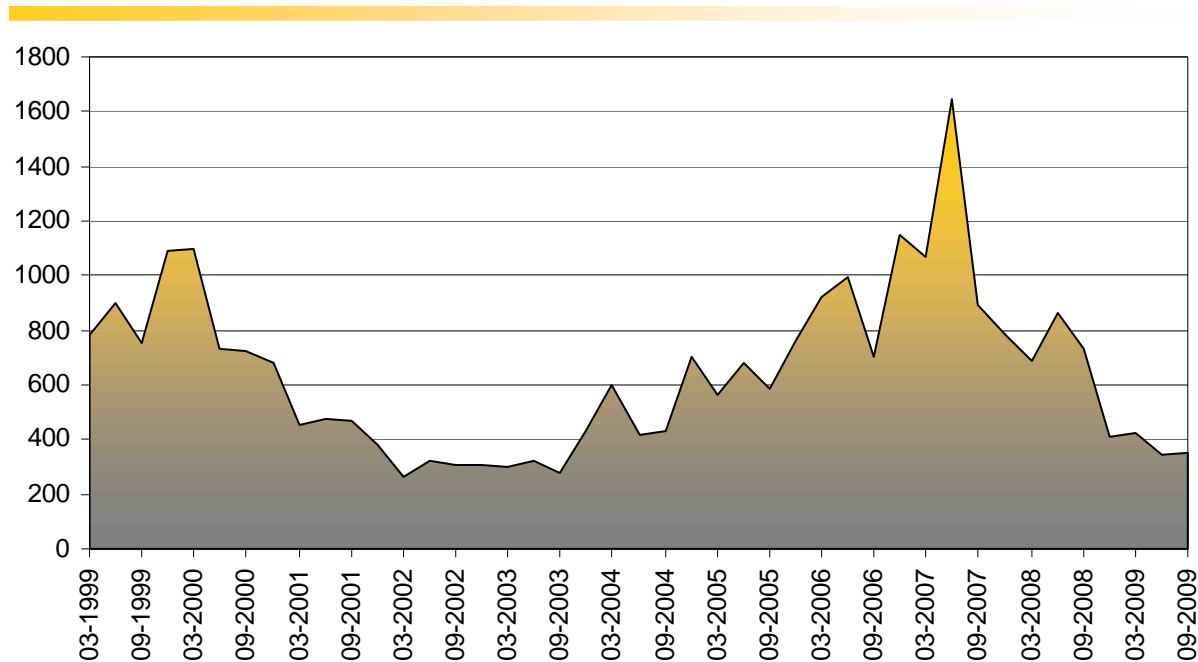


Source : Bloomberg

Investment ideas for 2010: *Resumption in M&A*

- ➔ Margins are recovering and companies have abundant cash
- ➔ To maintain margins, companies will focus on external rather than internal growth

Global mergers and acquisitions (USDbn)

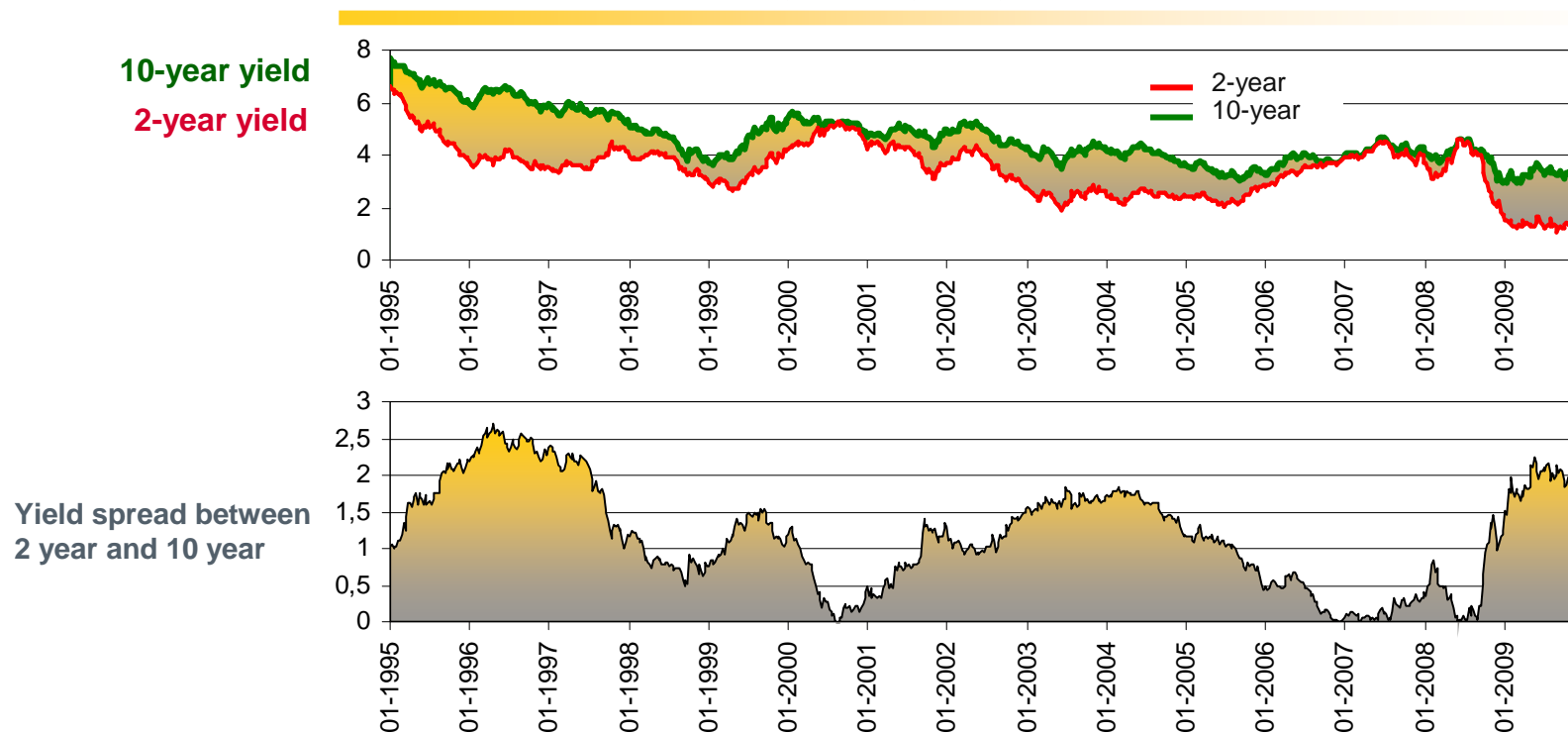


Source : Bloomberg

Investment ideas for 2010: *Yield curves flattening*

- ➔ There will be considerable yield curve opportunities once central banks start to tighten monetary policy

Germany: 2-10 year yield curve (%)



source Bloomberg

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