



## What's next for Financial Markets and the Global Economy?

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We are sending you the latest issue of our market newsletter at a time when the future direction for the global economy seems more uncertain than ever. Despite going through a global economic crisis, the magnitude of which has not been seen for many decades, the world has not gone under and we predict that it won't do so in the future. These times remain very challenging in many ways. We are convinced, however, that the current environment presents a unique investment opportunity for the long-term minded investor who does not let his focus shift away from what is really important. We agree that it is all too simple to get lost amidst the confusion of global market and economic upheavals and the ever expanding measures being taken to combat the current crisis. It's easy to get trapped in a state of frustration and endless complaining, but, the returns of the future are made today. A sound investment strategy needs to be based on a detailed view of the global economic system as well as geopolitical and psychological factors that play an equally important role in the decision making process of investors. We have always regarded ourselves as "global macro" managers, taking a very global view on things and identifying various value drivers created internationally. We see today no shortage of opportunities in currency markets, interest rates, equities and alternative investments such as commodities or precious metals.

We sense that global equity markets hit the bottom in March of this year and were not surprised by the market recovery in the last couple of weeks. We realize that a lot of investors are confused by this upward movement in equity prices, especially considering the very bleak outlook for the global economy. But make no mistakes, the economy is one thing, financial markets quite another. Typically, the real economy moves with a time lag of 6-9 months and therefore the current recovery in equity prices is just a sign that the market is anticipating things to get better from here. It's not coming as a surprise that gold could not make further advances towards USD 1'000 because other asset classes have become more attractive on a relative basis, such as equity markets.

It seems that investors these days are polarized as either pessimists or optimists. The pessimists are expecting things to deteriorate further from here, and getting much worse, and the optimists are beginning to see the light at the end of the tunnel. We do not belong to either of those two groups, opting instead to try and take a pragmatic view on things. We firmly believe that the truth is somewhere in the middle of those two extremes. We expect the global economy to improve gradually from here as outlined in our latest market report. We believe that global equity markets can rise another 15%-20% from current levels in the next 12 months, simply because of an anticipated recovery of the global economy. We believe that the liquidity and stimulus pumped into the global economy will help it to recover but at a cost. That cost will likely be increased inflationary pressure in the coming 2-3 years. We are sceptical as to whether or not central banks around the world will manage to withdraw the excess liquidity from the system in a timely fashion once the velocity of money flow has risen. We believe that emerging equity markets and currencies will do very well in the months ahead. For the first time ever the recovery could be lead by emerging markets. The fundamentals for China, India and Brazil look increasingly positive and promising.

Equity investments usually make up only about 30% to 35% of our investment allocations. We invest about 30% of our portfolios in alternative assets such as commodities and precious metals. The rest is usually made up of fixed-income investments and currencies. We believe that a crucial part of a successful investment strategy is the foreign currency management. We keep very low U.S. Dollar exposures because we think a further devaluation of the greenback is imminent and we see a structural weakness for at least a number of years. On the other hand, we see some very interesting opportunities in "commodity backed" currencies such as the Australian Dollar, Norwegian Crowns or the Brazilian Real. We also continue to like gold, other precious metals and commodities. In general, our investment strategy aims to build value in coming months based on the following events and return drivers:

- Global equity markets to recover a further 10-20% until the end of the year
- Global recovery will be lead by emerging market countries
- Further, possibly significant, devaluation of the U.S. Dollar
- Positive fundamentals for "commodity backed" and "surplus" currencies
- Yield curves to remain very low at short end, but rising at long end
- Oil prices to move towards USD 100 again by the end of the year
- Commodity prices to accelerate further from current levels
- Gold to break the USD 1,000 mark and moving towards USD 1,300 in next 12 months

## The Changing Importance of Gold

When we first wrote an article on gold in the 4<sup>th</sup> quarter of 2008, the yellow metal was trading around USD 740. We outlined at that time the reasons why gold had performed so poorly, despite the challenging economic environment. We argued that the reason for the underperformance was due largely to selling pressure from investors who were looking to sell assets in order to generate much needed liquidity. We recommended buying gold at that time and our decision was right, gold prices rose to USD 930 until early February. We received so much feedback on our article and questions regarding the outlook for gold from our clients that we decided to write an update in early February. At that time we noted that we expected gold to break through the USD 1,000 level later this year, but, expect it to remain in a relatively tight trading range of between USD 820 and USD 930. After briefly touching the USD 1,000 mark, shortly after writing this update in February, gold began to move lower and has since then consolidated in a price range between USD 860 and USD 940.

Dealing with temporarily higher inflation is not such a bad problem, certainly better than having to fight deflation or even worse chronic deflation. We believe that while investors bought gold in the recent past for safety reasons, that gold will be seen more as an inflation hedge going forward from here. For the future development of gold we expect the following:

- Trading within narrow range (USD 860 – 950) for the remainder of Q2
- Move towards and eventually breach of the USD 1,000 mark in Q3/Q4
- Increased demand as an inflation hedge in the coming 12 to 18 months
- Increased demand from the jewelry industry and central banks
- Increasing supply/demand shortfall supporting higher price levels
- Gold price to move towards USD 1,400 towards next 12 to 18 months

We expect this upwards movement of gold to take place in an economic environment of increased economic growth, rising interest rates and inflation, further recovery of equity prices and an overall normalization of the global financial system. This de-pressuring of the global economic/financial system should yield increased money flows to emerging markets and “commodity currencies” such as Australian

## Market update

### PRICES AS PER MAY 14<sup>TH</sup> 2009

Global Equity Indices	Last Close	YTD %
Swiss Market Index	5374	-3.07
Swiss Performance Index	4529	-0.84
Eurostoxx 50	2365.3	-3.43
German DAX Index	4736.2	-1.56
FTSE 100	4425.9	-0.21
CAC40 Paris	3171.3	-1.43
Standard & Poors 500	908.4	0.59
Dow Jones Industrials	8469.1	-3.5
Nasdaq 100	3178.1	-1.28
Nikkei	9340.5	5.43
Topix	888.8	3.46
Hang Seng	2348	18.4
All Ordinaries	3842.5	6.98

Government Bond Yields 10Y	Last Close	YTD %
USA	3.2	22.56
EUROPE	3.5	-6.4
U.K.	3.8	10.72
SWITZERLAND	2.4	-7.89
JAPAN	1.4	10.48

Libor 3 Months	Last Close	YTD %
USA	0.9	-36.62
EUROPE	1.29	-55.37
U.K.	1.4	-48.74
SWITZERLAND	0.4	-37.5
JAPAN	0.53	-37.35

Exchange Rates	Last Price	YTD %
US Dollar / Swiss Franc	1.102	3.36
Euro / US Dollar	1.3602	3.52
US Dollar / Japanese Yen	96.08	6.11
Euro / Swiss Franc	1.505	0.46
Pound Sterling / Swiss Franc	1.6765	10.01

Commodities	Last Price	YTD %
Crude Oil	58.85	26.99
Gold	926.1	5.1

Alternative Investments	Last Price	YTD %
Tremont Hedgeindex	351.08	-0.85
Goldman Sachs Commodities	410.5	10.5
LPX Private Equity	56.49	18.42
Global Property	249	-1.2

Dollar and Norwegian Crowns. We expect to see significant outflows from the U.S. Dollar and an increasing trend towards global diversification of global currency reserves. This is caused by most central banks looking to reduce their U.S. Dollar specific risks, a trend that might go on for several years to come. This move would give further evidence that the U.S. Dollar is losing its status as the singular global reserve currency. In our opinion, the share of global currency reserves held in U.S. Dollar could fall by almost 20% in the next 3 years. This structural rebalancing will support the devaluation of the U.S. Dollar, which has started already, and could result in a corresponding devaluation of 20% or more against other major currencies.

### **Changing Regulatory Framework**

While we are overall relatively optimistic on the recovery of global growth in the coming two years, we are more worried about the longer-term implications of the changes going on politically and especially geopolitically. People should make governments and not the other way around, but, in times of crisis people will always look for guidance and support from leaders – that’s where the game gets dangerous. The recent battle against offshore financial centers has almost become a “holy war” for many governments. They are holding the “tax oasis” (as they are called in Europe) responsible for just about anything they can think of in an attempt to shift attention away from the real problems. People only start to notice an oasis when all of the rest around it is plain desert. The recent war against tax havens is not addressing the real problems that many governments have, most of them are unable to deal with the challenges that globalization brings. Every country in the world is free to make its own policies, be it in the area of banking secrecy, tax system or other questions. Unfortunately, the witch hunt that is happening now is not fixing the real problems. Governments increasingly are using and abusing their growing influence and power to undermine the privacy and self-responsible behavior of its people in an attempt to create a fair and social system for everybody. Much to our surprise, the U.S. is about to take a leading role in this development. The increased taxation of corporations and the middle class combined with a series of regulatory measures are totally against the original values and principles the U.S. was built on. Government officials have stated again and again that they have an interest in a strong currency. We simply cannot believe that to be true. With the country carrying such a huge debt burden it would be foolish to wish for a stronger currency. This would make the real value of debt even higher. The devaluation and the stronger inflationary pressure might actually be a blessing for the U.S. because it allows for an orderly reduction of its debt. No one in government can say that officially, however, as it would drive even more investors away and/or increase the required rate of return.

It is obvious that the current developments will only result in an even faster shift of economic power towards Asia, which is going to become the world’s main economic hub in the next two decades, resulting in a truly multi-polar world.

### **The Future for Swiss Banking**

The recent adjustments to Switzerland’s banking secrecy were widely covered in international media. Unfortunately, many don’t understand the issues properly and this has created a lot of confusion lately. The change to the banking secrecy means that Switzerland will exchange information but that the banks will only provide information if concrete and justified requests are made. This means that any foreign government or governmental body would need to provide sufficient evidence that a client has committed tax evasion or tax fraud. Many people believe now that this was not the case in the past, which is in fact not true. In fact, the exchange of information also happened in the past, if a specific and justified demand was made. Switzerland made it clear that it will also not allow “fishing” expeditions by foreign governments in the future and continues its commitment to protect client’s privacy. The difference that Swiss law makes is that it regards tax evasion and tax fraud as being two separate issues. Tax fraud has always been a criminal matter, but tax evasion only a civil matter. Both of these issues are criminal matters in most countries. The government made it clear that the differentiation will still be made for Swiss citizens. This reflects the fundamental difference between Switzerland and many other currencies. The fundamental trust that the government gives to people to make correct tax filings is the basis of the country. In our view the total transparency and full information exchange between government and banks would destroy this solid and fundamental trust basis. People are making the

government and not vice versa and therefore governments should not be allowed to spy into private matters of its people. Many countries today, unfortunately, take a different approach and aim for more control over its people, causing very severe long-term consequences in our view. The totalitarian assault on so-called tax havens seems to be the wrong solution and attempts to direct the attention away from the real problems. The fundamental principles of Swiss banking secrecy, which have certainly contributed to Switzerland's success as a financial center, therefore remain intact. However, it would be wrong to think that the banking secrecy is the primary reason for the prospering banking industry. Switzerland's unique historic background and reputation for neutrality and stability have been equally important. With these key advantages, Switzerland remains one of the top financial centers of the world.

### **About Alpine Atlantic Global Asset Management AG [www.alpineatlantic.com](http://www.alpineatlantic.com)**

**The company is an independent asset management company located in Zurich, Switzerland. The company offers "turnkey solutions" for offshore asset management, asset protection and banking, helping its clients to diversify assets globally.**

**Daniel Zurbrügg is the Managing Partner of the company. In his 20 year long career he managed assets for the Philip Morris Group and Compagnie Financière Richemont. Prior to joining Alpine Atlantic he was the head of asset management for Zurich based private bank "Bank Frey & Co. AG".**

