

Review, outlook and trends

How the financial and capital markets have evolved and will keep evolving

Executives International, January 2018, Lausanne



NOTENSTEIN
LA ROCHE

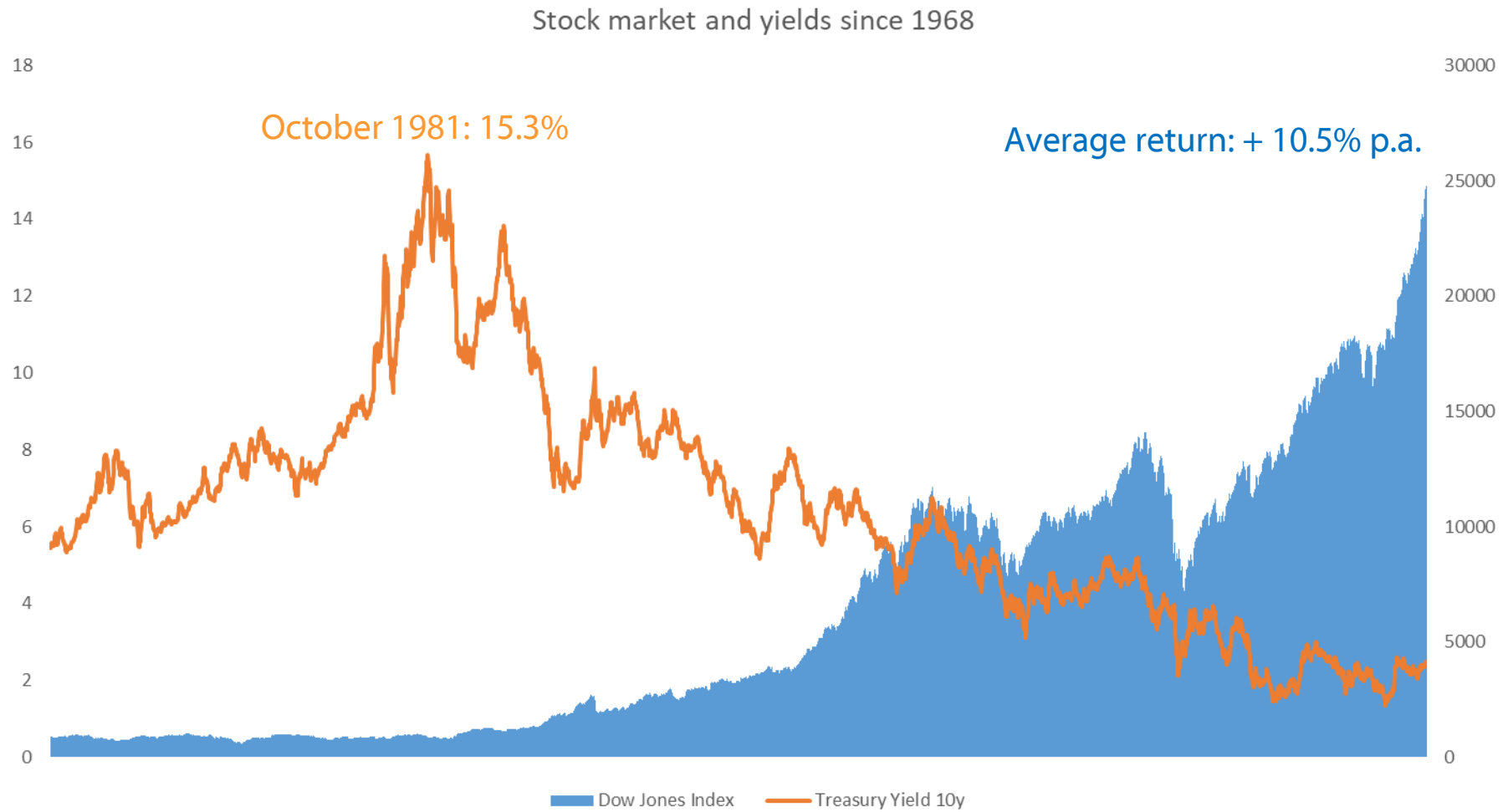
PRIVATE BANK

Agenda

1. Review

2. Macroeconomic climate and investment outlook for 2018
3. New developments and trends in the financial industry

Equities and interest rates since 1968



Composite members Dow Jones Index

Constant evolution

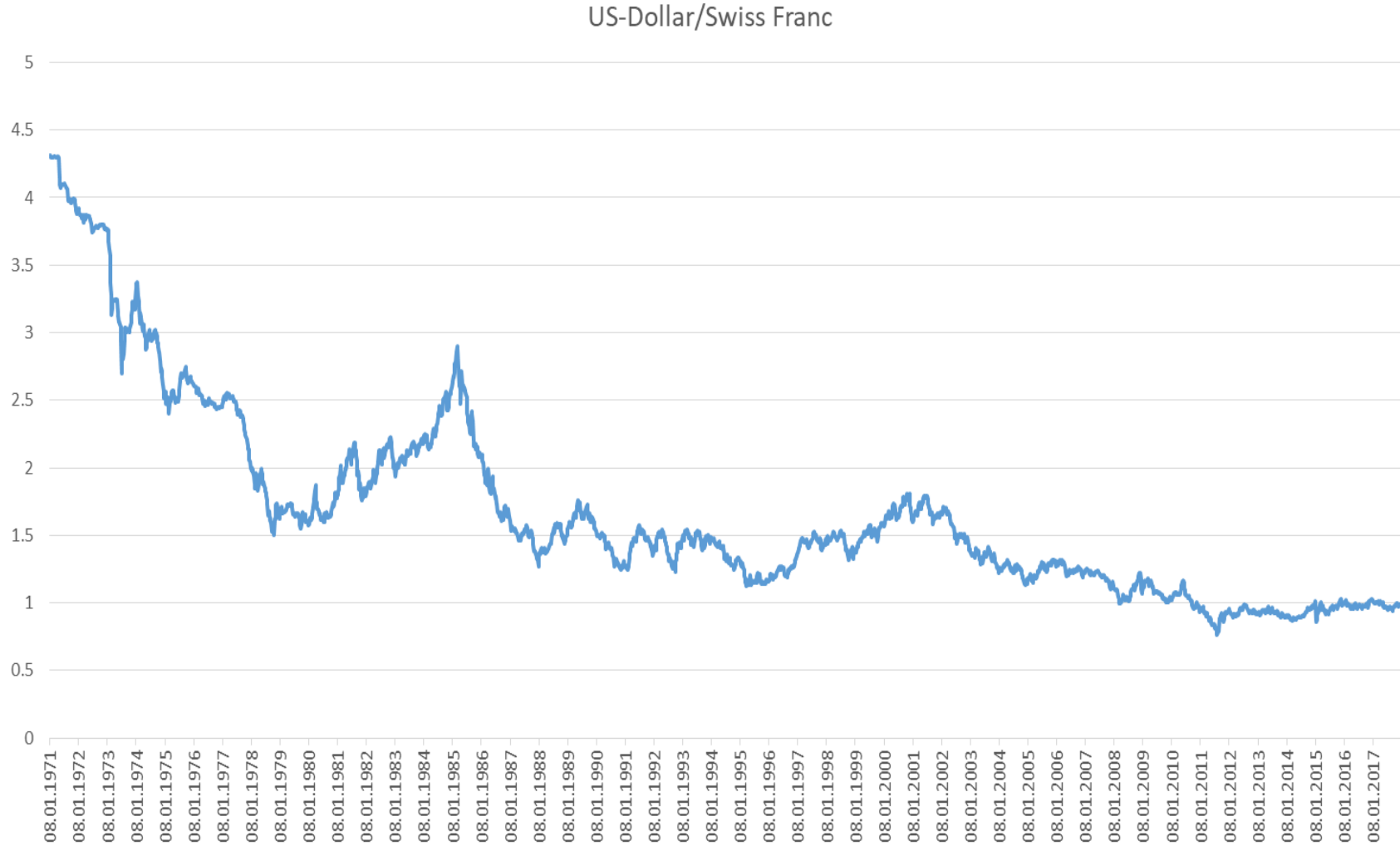
1968	2018
Allied Chemical Corporation	3M Company
Aluminum Company of America	American Express Company
American Can Company	Apple Inc.
American Telephone and Telegraph Company	Caterpillar Inc.
American Tobacco Company	Chevron Corporation
Anaconda Copper Mining Company	Cisco Systems, Inc.
Bethlehem Steel Corporation	E.I. du Pont de Nemours & Company
Chrysler Corporation	Exxon Mobil Corporation
E.I. du Pont de Nemours & Company	General Electric Company
Eastman Kodak Company	Intel Corporation
F. W. Woolworth Company	International Business Machines Corporation
General Electric Company	Johnson & Johnson
General Foods Corporation	JPMorgan Chase & Co.
General Motors Corporation	McDonald's Corporation
Goodyear Tire and Rubber Company	Merck & Co., Inc.
International Harvester Company	Microsoft Corporation
International Nickel Company, Ltd.	Nike, Inc.
International Paper Company	Pfizer Inc.
Johns-Manville Corporation	The Boeing Company
Owens-Illinois, Inc.	The Coca-Cola Company
Sears Roebuck & Company	The Goldman Sachs Group, Inc.
Standard Oil Co. of California	The Home Depot, Inc.
Standard Oil Co. of New Jersey	The Procter & Gamble Company
Swift & Company	The Travelers Companies, Inc.
Texaco Incorporated	The Walt Disney Company
The Procter & Gamble Company	United Technologies Corporation
Union Carbide Corporation	UnitedHealth Group Incorporated
United Aircraft Corporation	Verizon Communications Inc.
United States Steel Corporation	Visa Inc.
Westinghouse Electric Corporation	Wal-Mart Stores, Inc.

Composite members SMI Index

Constant evolution

1988	2018
Adia	ABB Ltd
BBC	Adecco Group AG
Ciba-Geigy	Cie Financiere Richemont SA
Schweiz. Kreditanstalt	Credit Suisse Group AG
Elektrowatt	Geberit AG
Hoffmann-La Roche GS	Givaudan SA
Holderbank	Julius Baer Group Ltd
Jacobs Suchard	LafargeHolcim Ltd
Nestle	Lonza Group AG
Oerlikon-Bührle	Nestle SA
Pargesa	Novartis AG
Pirelli	Roche Holding AG
Rückversicherung	SGS SA
Sandoz	Sika AG
Schweiz. Bankgesellschaft	Swatch Group AG
Schweiz. Bankverein	Swiss Life Holding AG
Schweiz. Volksbank	Swiss Re AG
Swissair	Swisscom AG
Winterthur	UBS Group AG
Zürich	Zurich Insurance Group AG

Swiss Franc really a “hard currency”



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Sentiment

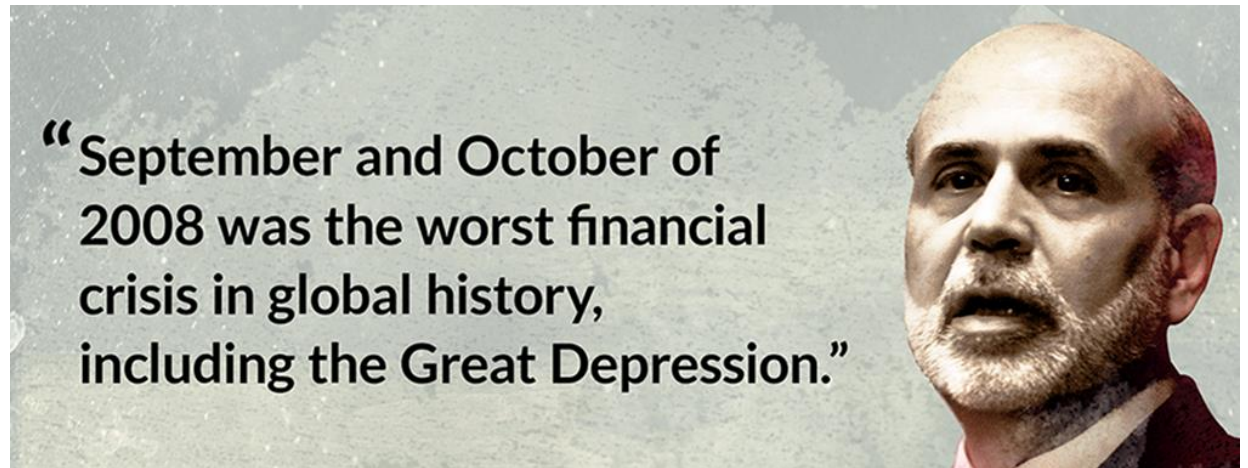
Markets move in cycles

Investor Sentiment During Market Cycles



Current cycle

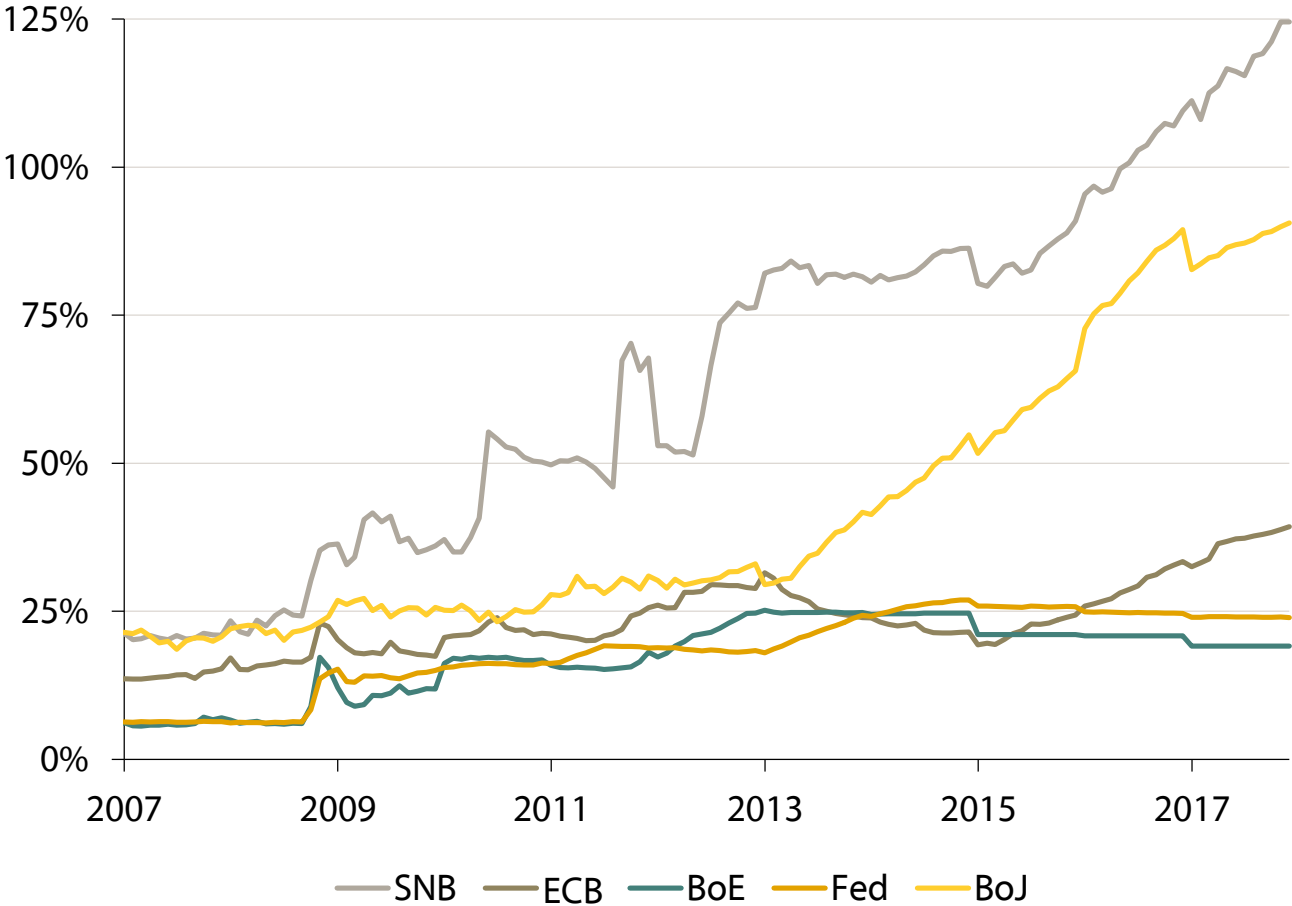
Banking and Euro crisis 2008



On the retreat

Monetary-policy stimulus will further subside

Major central banks' balance-sheet assets as a % of GDP

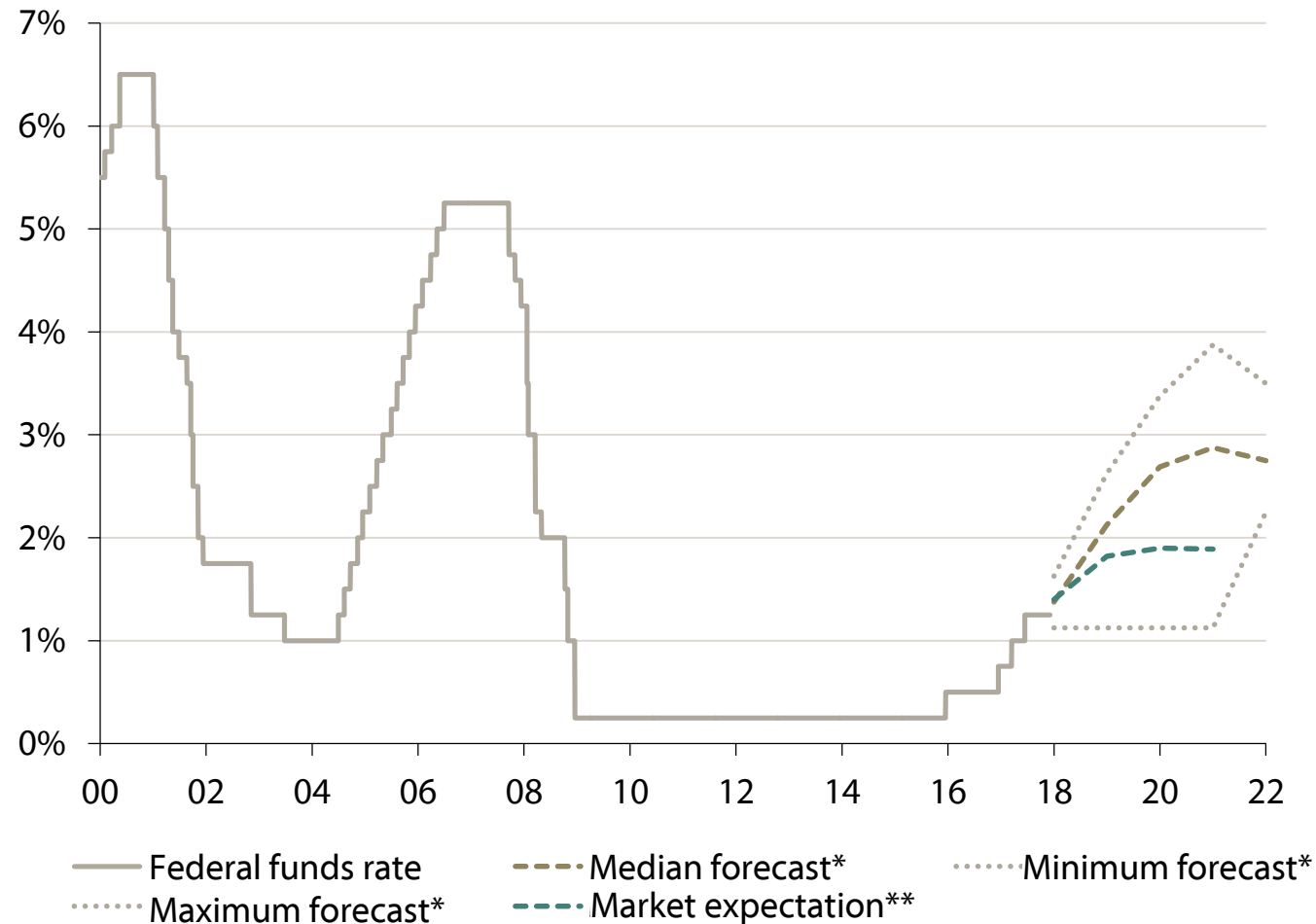


Source: Bloomberg

Is the Fed being underestimated?

Central bankers could wrong-foot the market

US federal funds rate



Source: Bloomberg

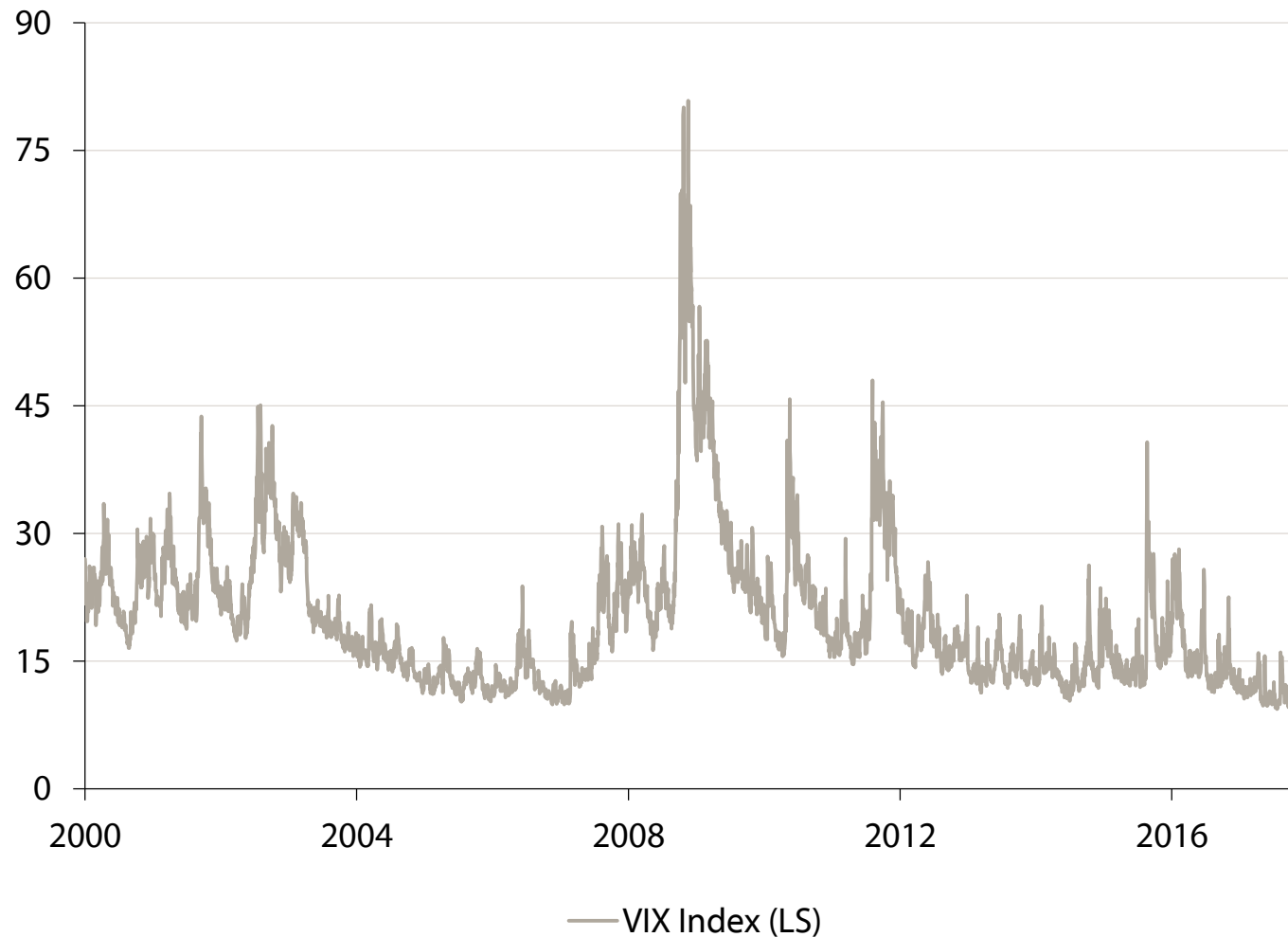
*FOMC

** Based on overnight index swaps

Little movement

Record-low volatility

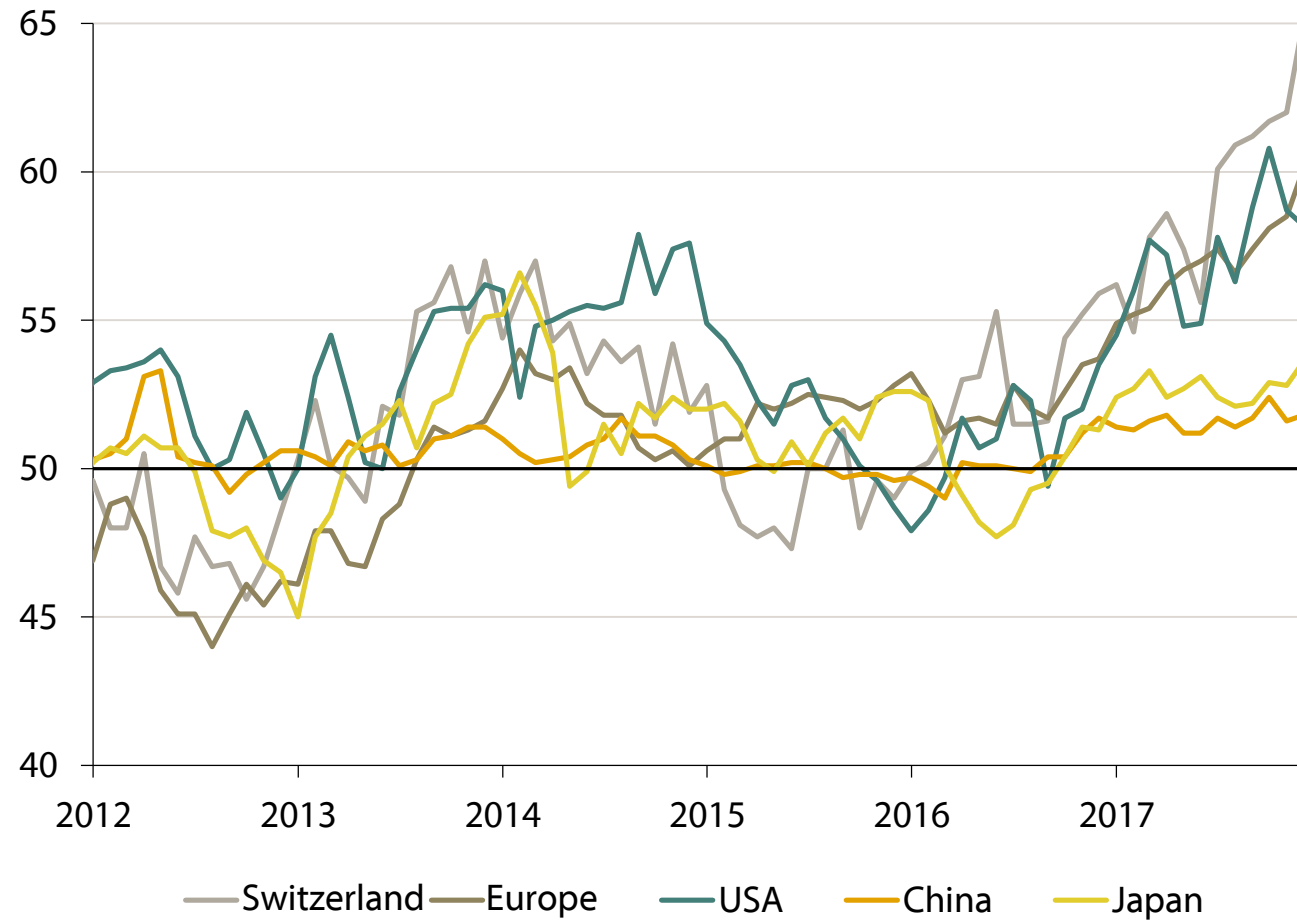
Stock volatility



Sentiment at its peak

The synchronous global economic expansion continues

World purchasing managers' indices

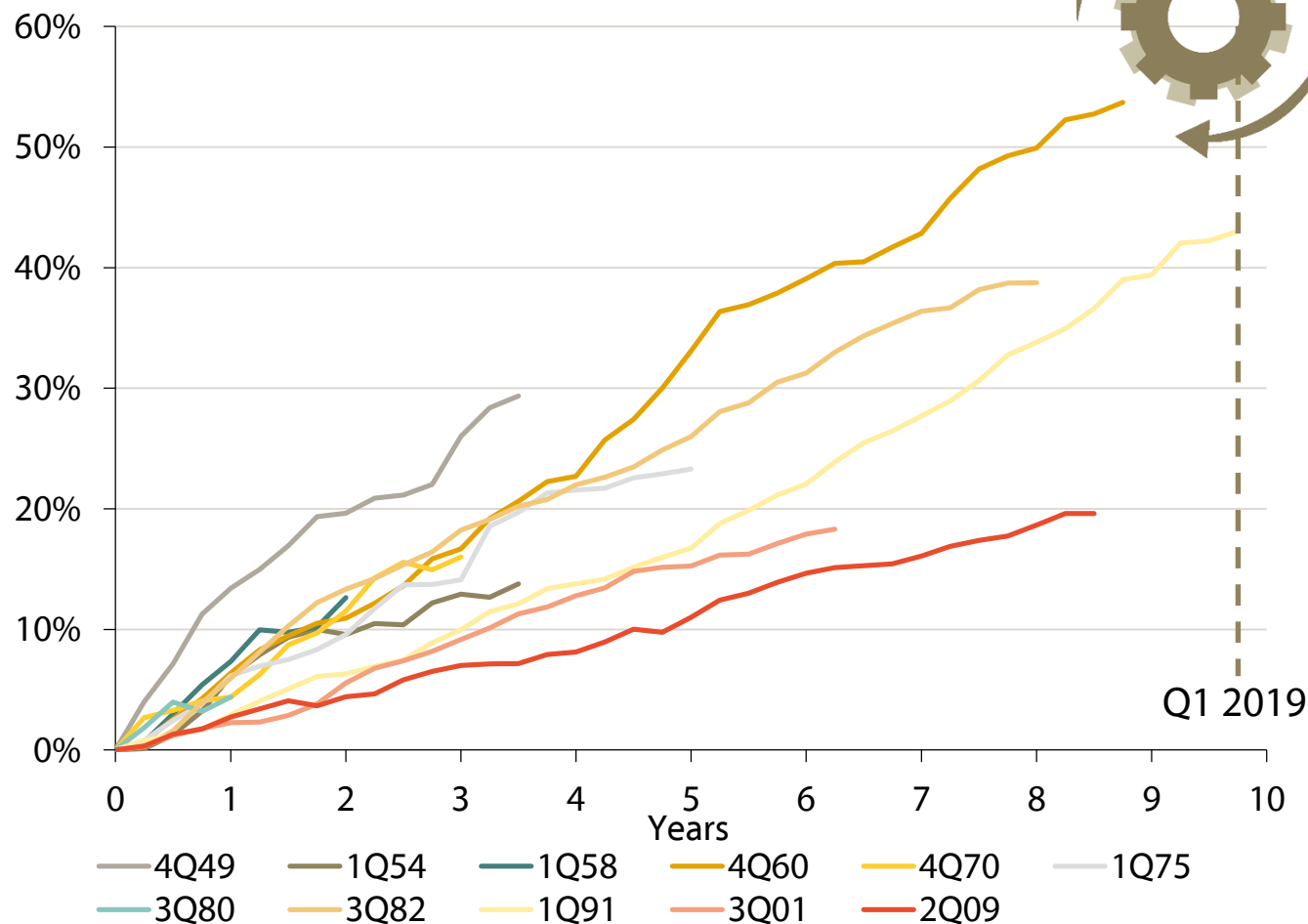


Source: Bloomberg, Markit

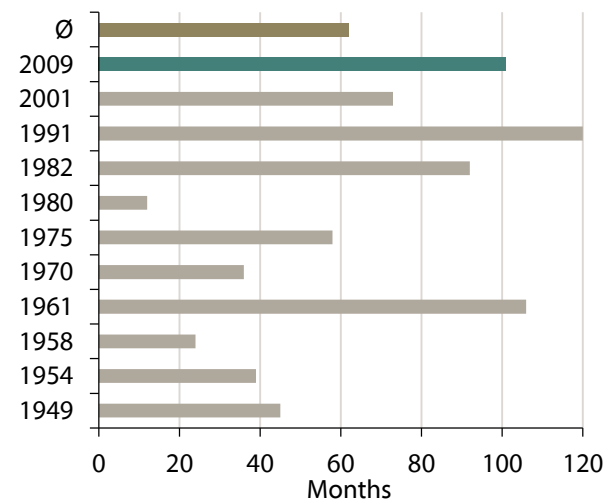
Longest expansion of all time?

The US growth engine is slowly starting to overheat

US expansion phases since 1949



Length of US expansion phases

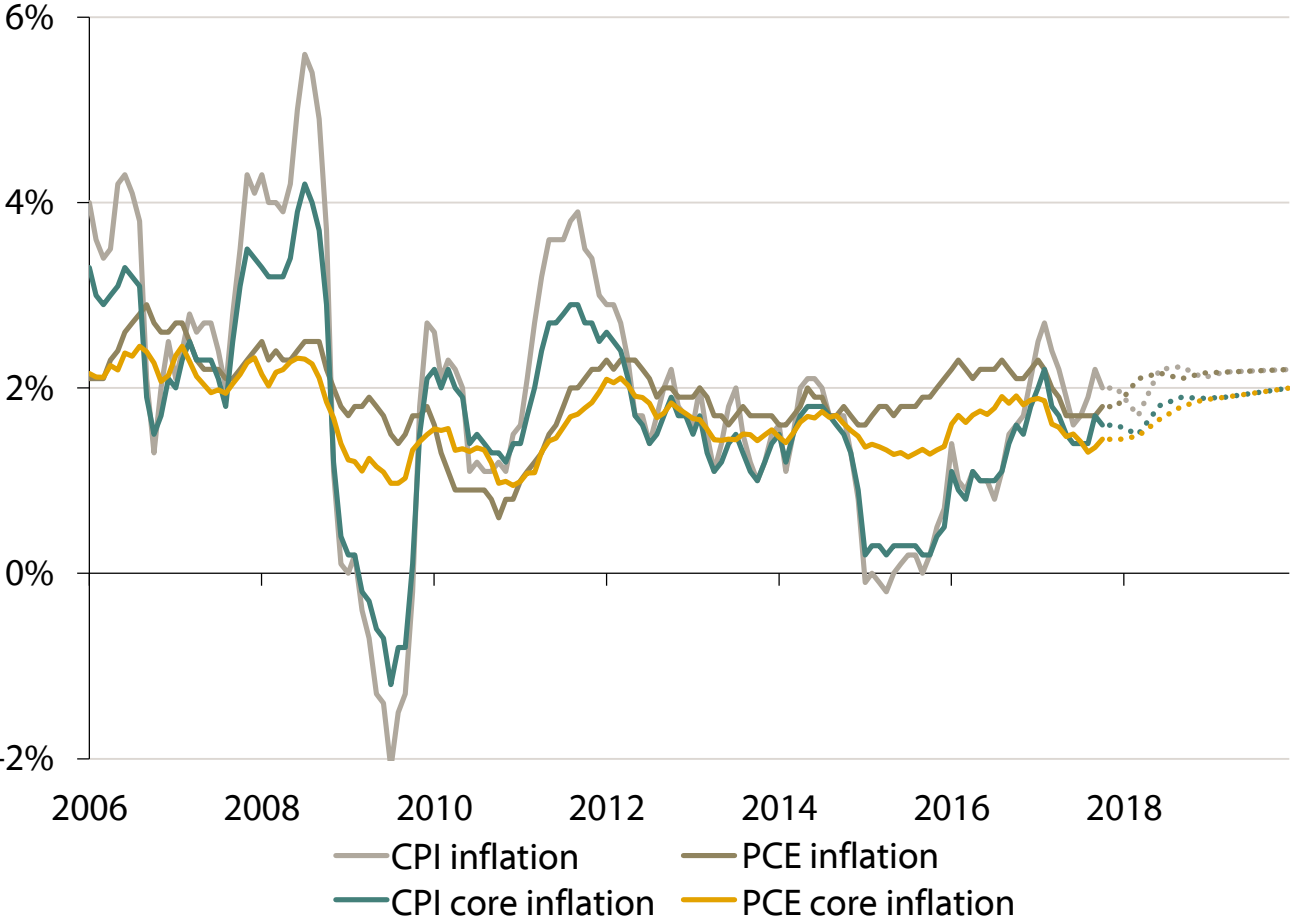


Source: Bloomberg

On the quest for 2%

Inflation stubbornly remains below central banks' targets

Headline and core inflation in USA (YoY)

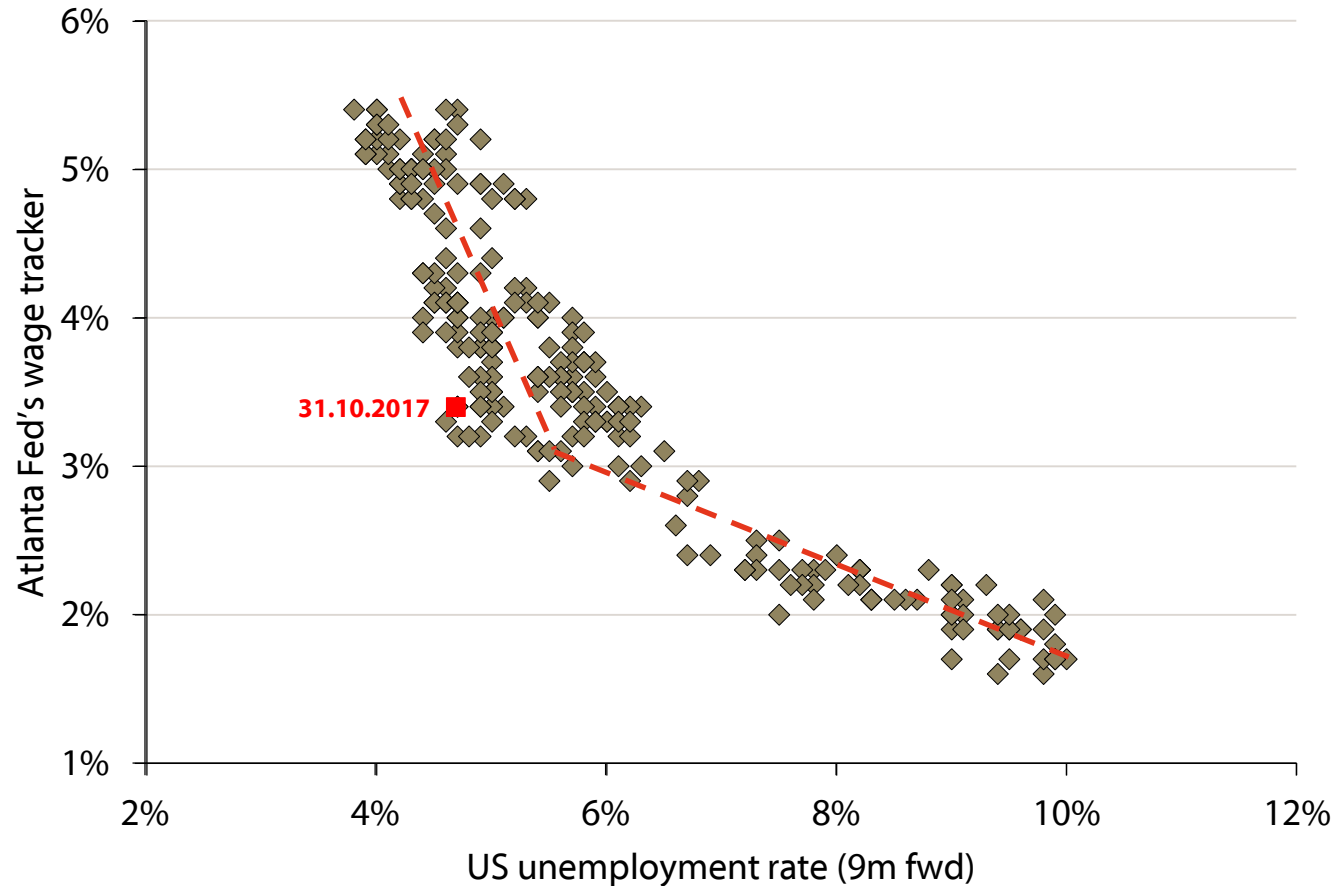


Source: Bloomberg

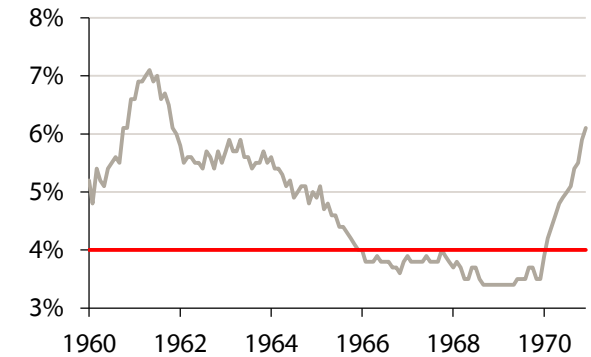
Will the Phillips curve stage a comeback in 2018?

Tight labour market portends rising inflation pressure

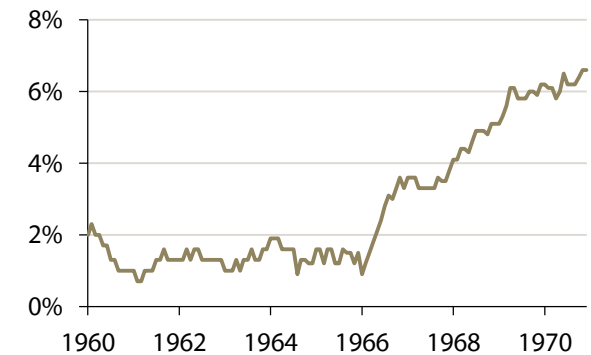
US Phillips curve since 1997



US unemployment rate during 1960s



US core inflation rate during 1960s

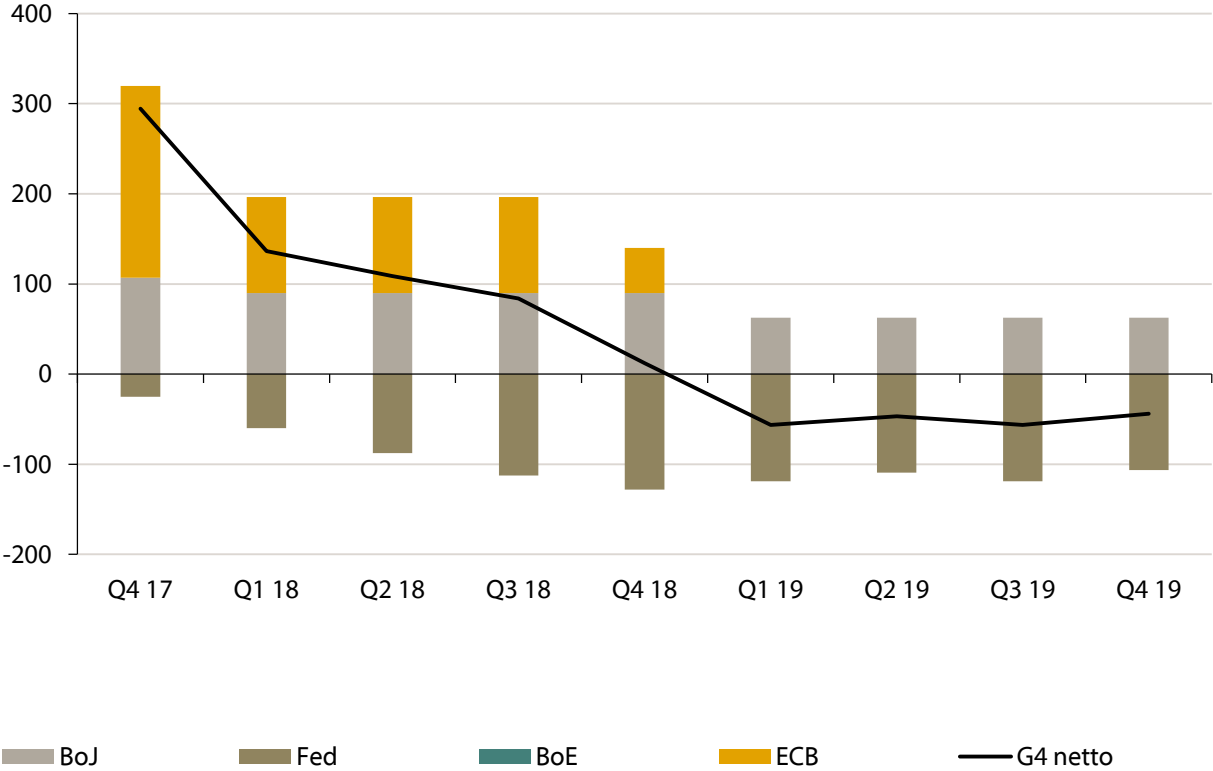


Source: Bloomberg

On the retreat

Monetary-policy stimulus will further subside

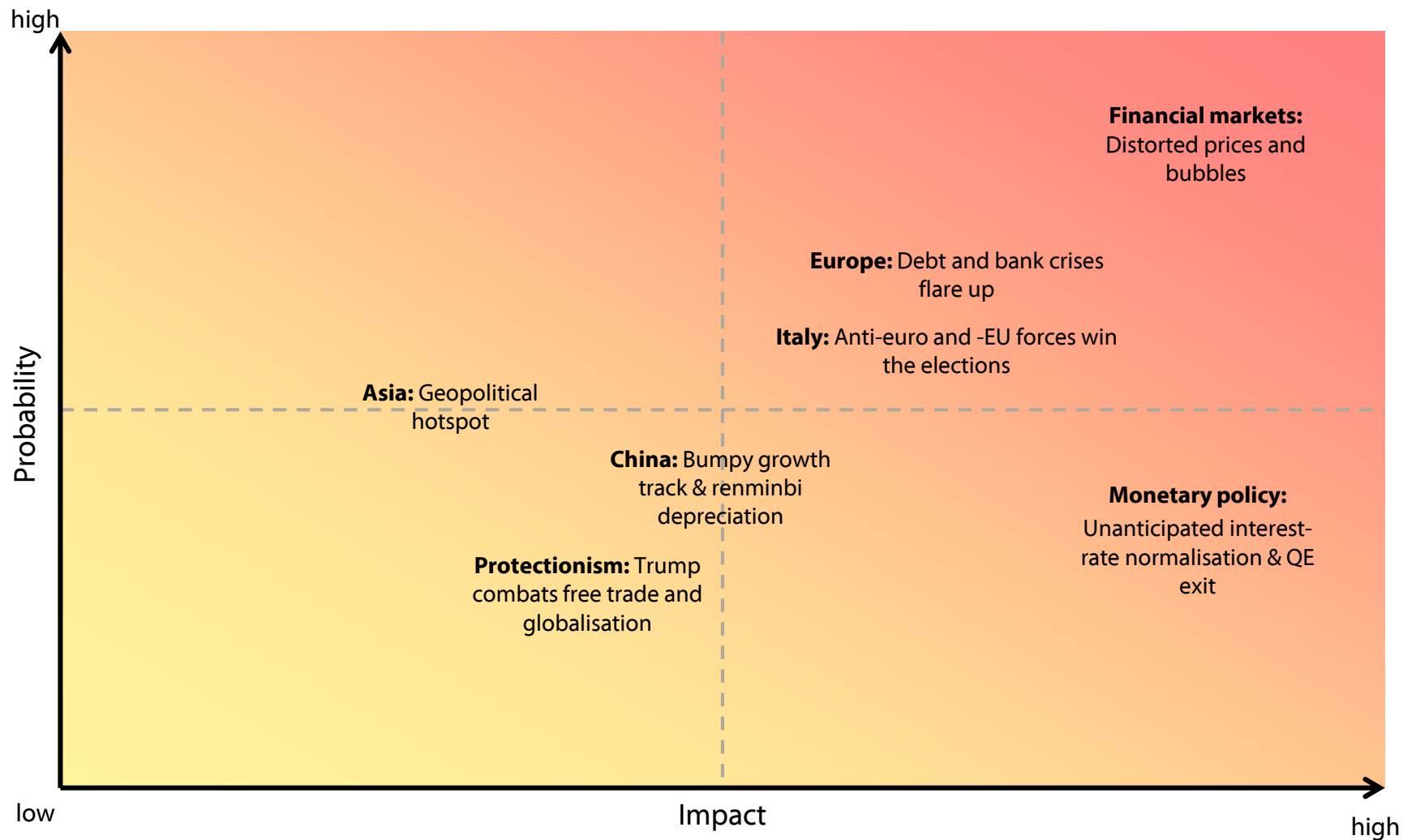
Securities purchases by central banks, in USD billion



Source: Bloomberg

Trump, China, Italy...

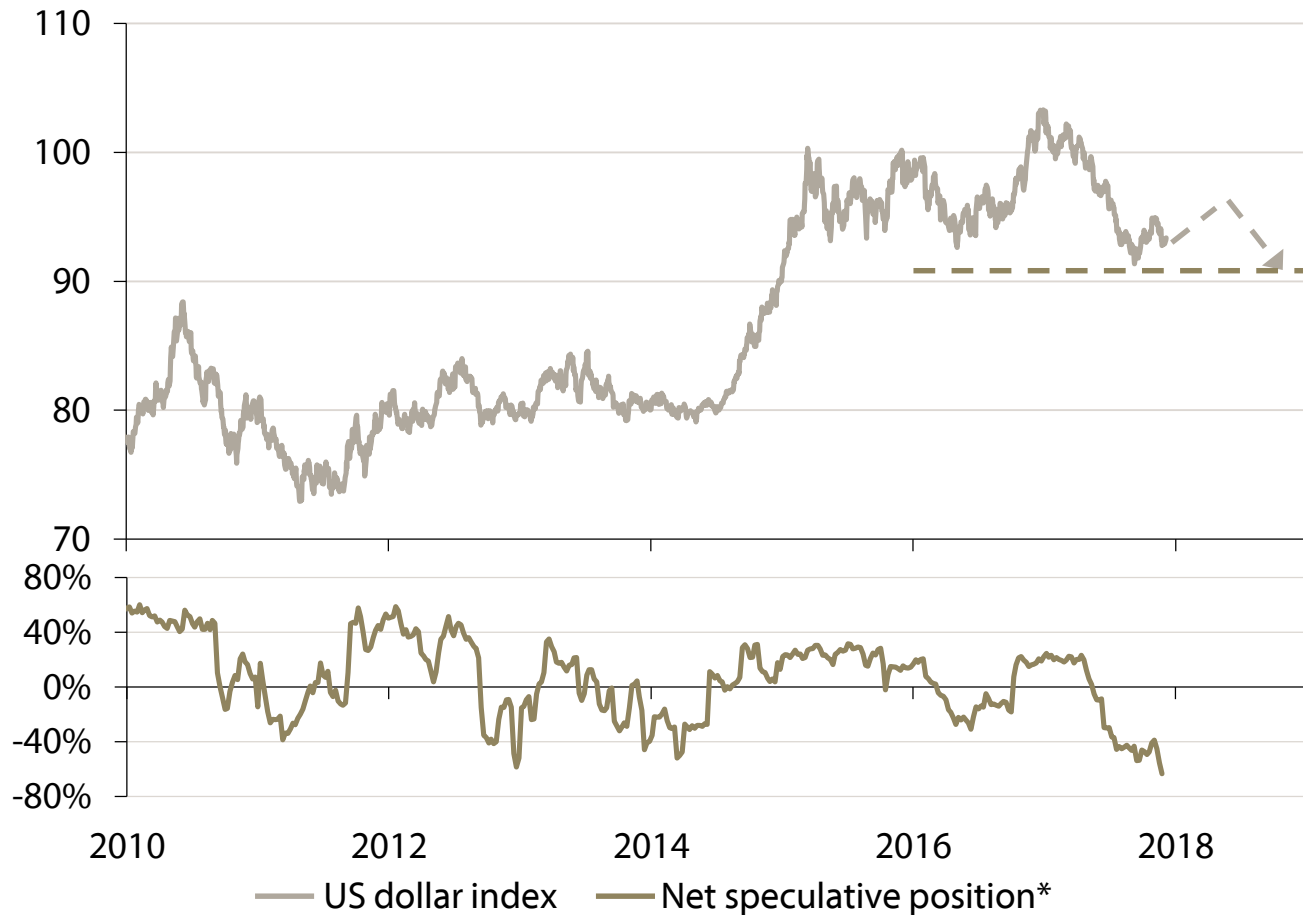
2018 on the risk radar screen



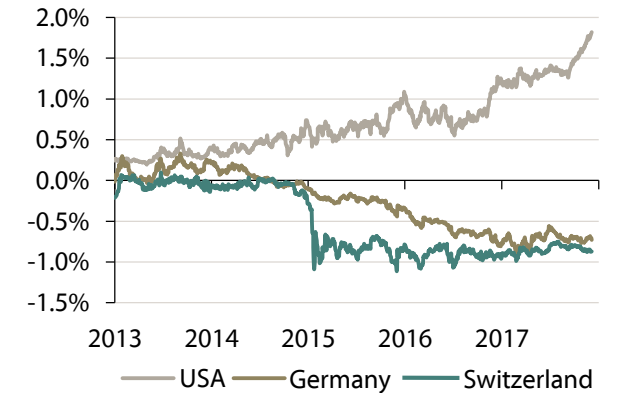
Dead cat bounce?

The greenback may have formed a long-term top

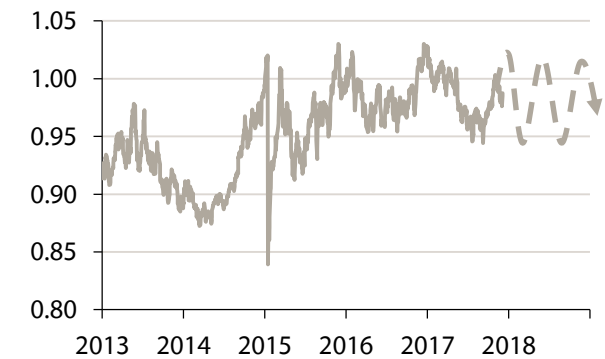
US dollar index and speculative positioning



Yield on 2-year government bonds



USD/CHF



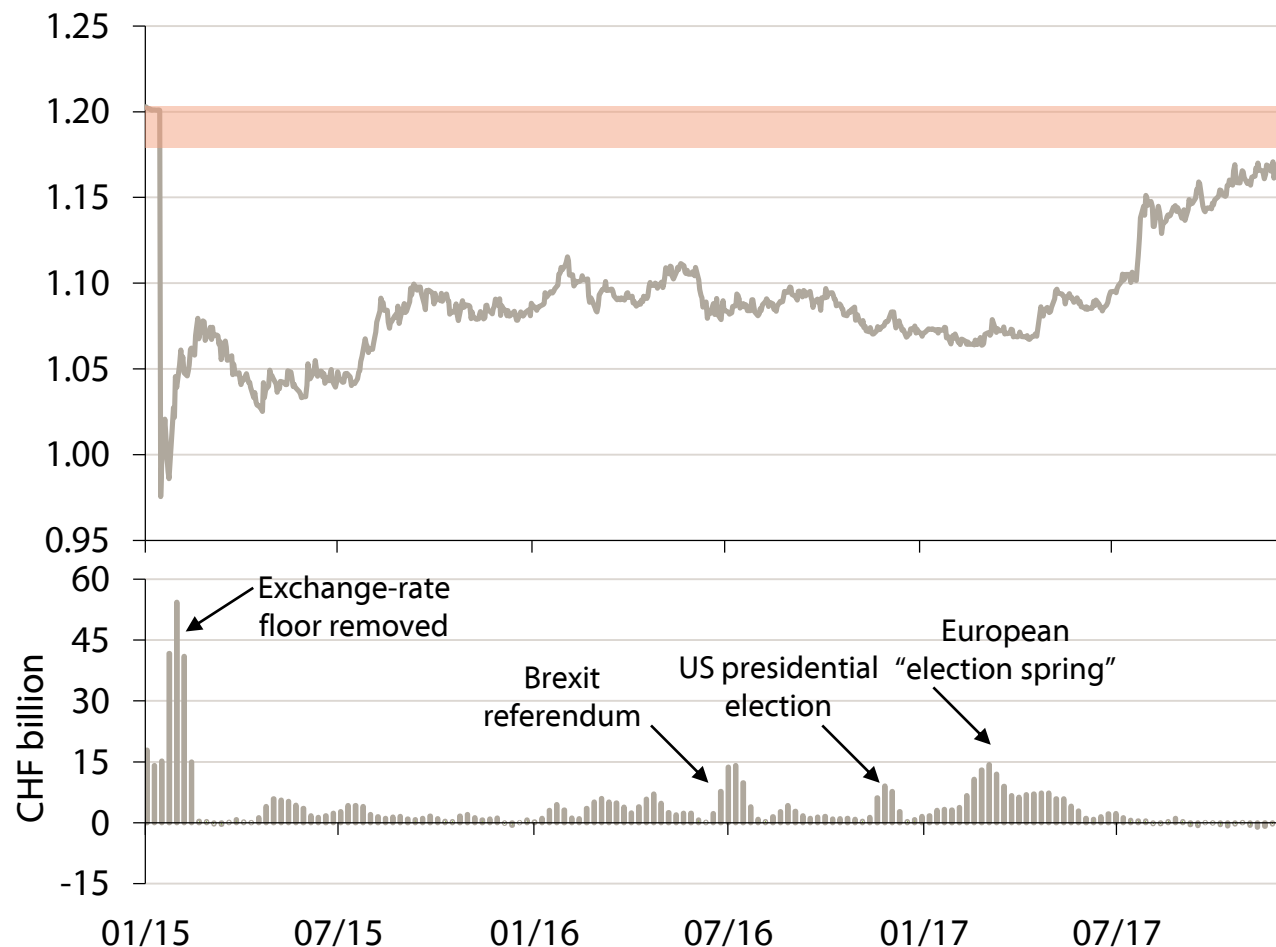
Source: Bloomberg

*expressed as deviation from 5-year average (as a % of open contracts)

Former exchange-rate floor in sight

Euro likely to face selling pressure at 1.18-1.20 against the franc

EUR/CHF exchange rate and Swiss National Bank interventions (4-week change in SNB sight deposits)



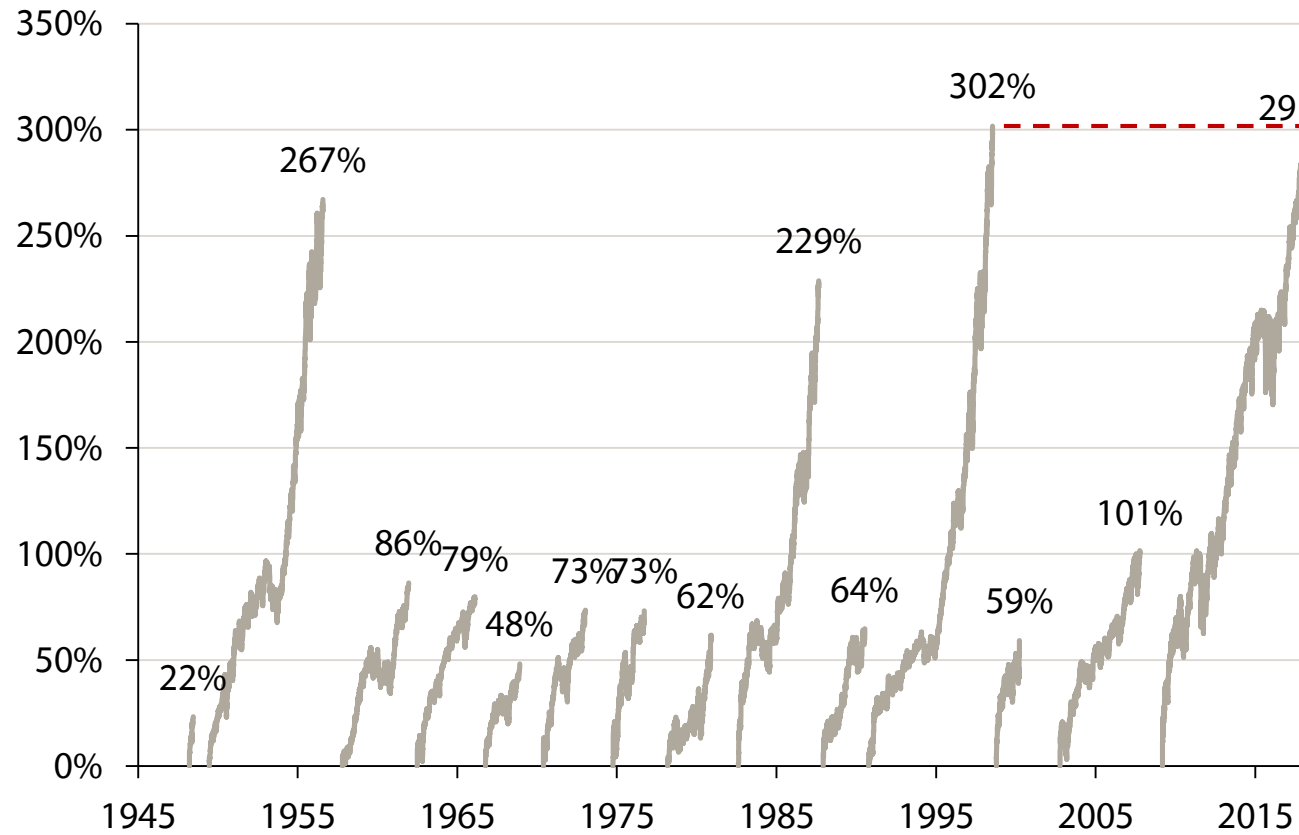
Source: Bloomberg, Swiss National Bank

*Real exchange rate based on producer prices (PPI)

Soon the strongest bull market since 1945

Just 3% away from the record

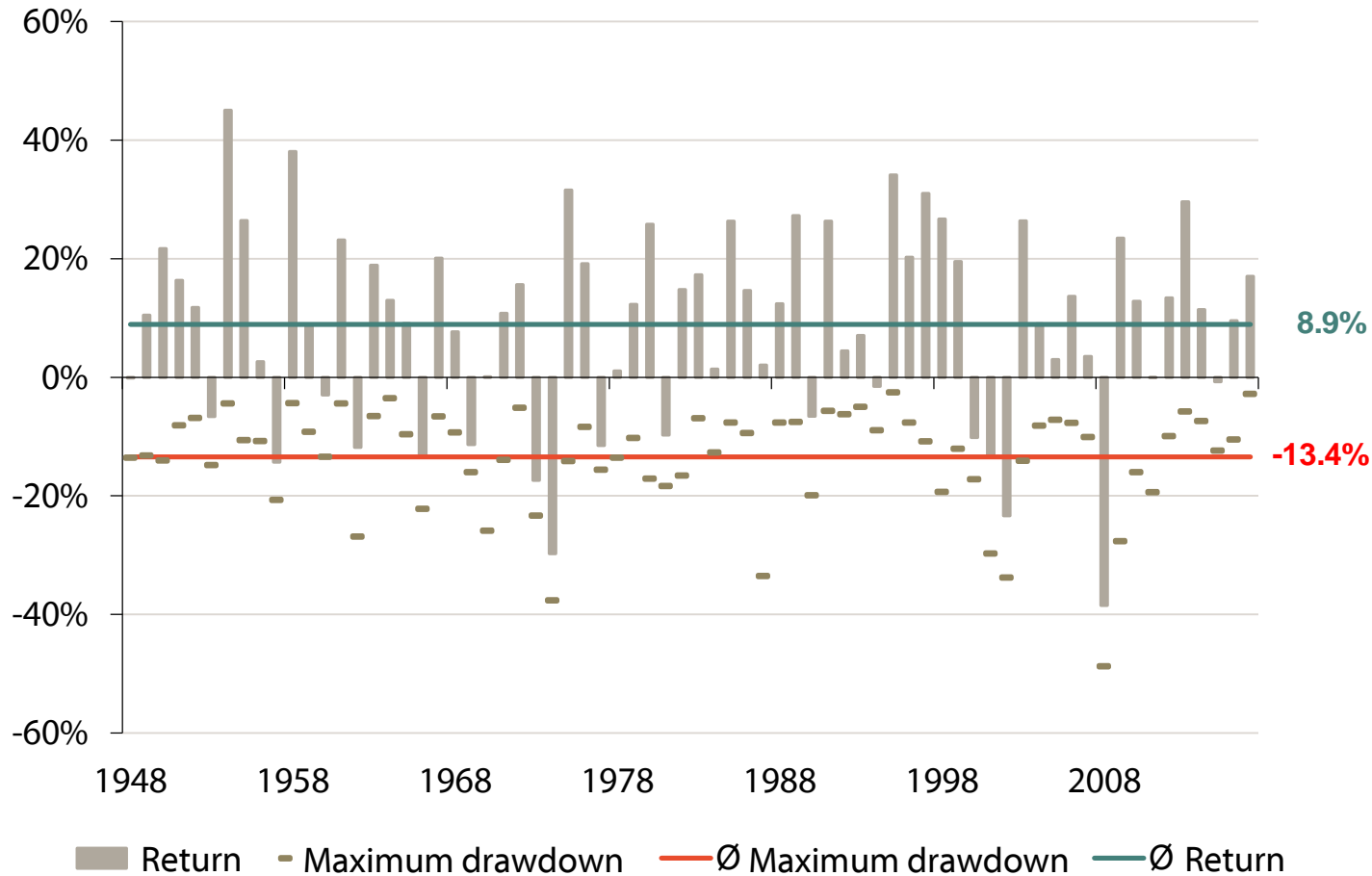
Bull markets in the S&P 500 index



2017 was an outlier

Drawdowns of 10% are more the rule than the exception

Annual returns* vs. maximum drawdowns over the S&P 500 index's history



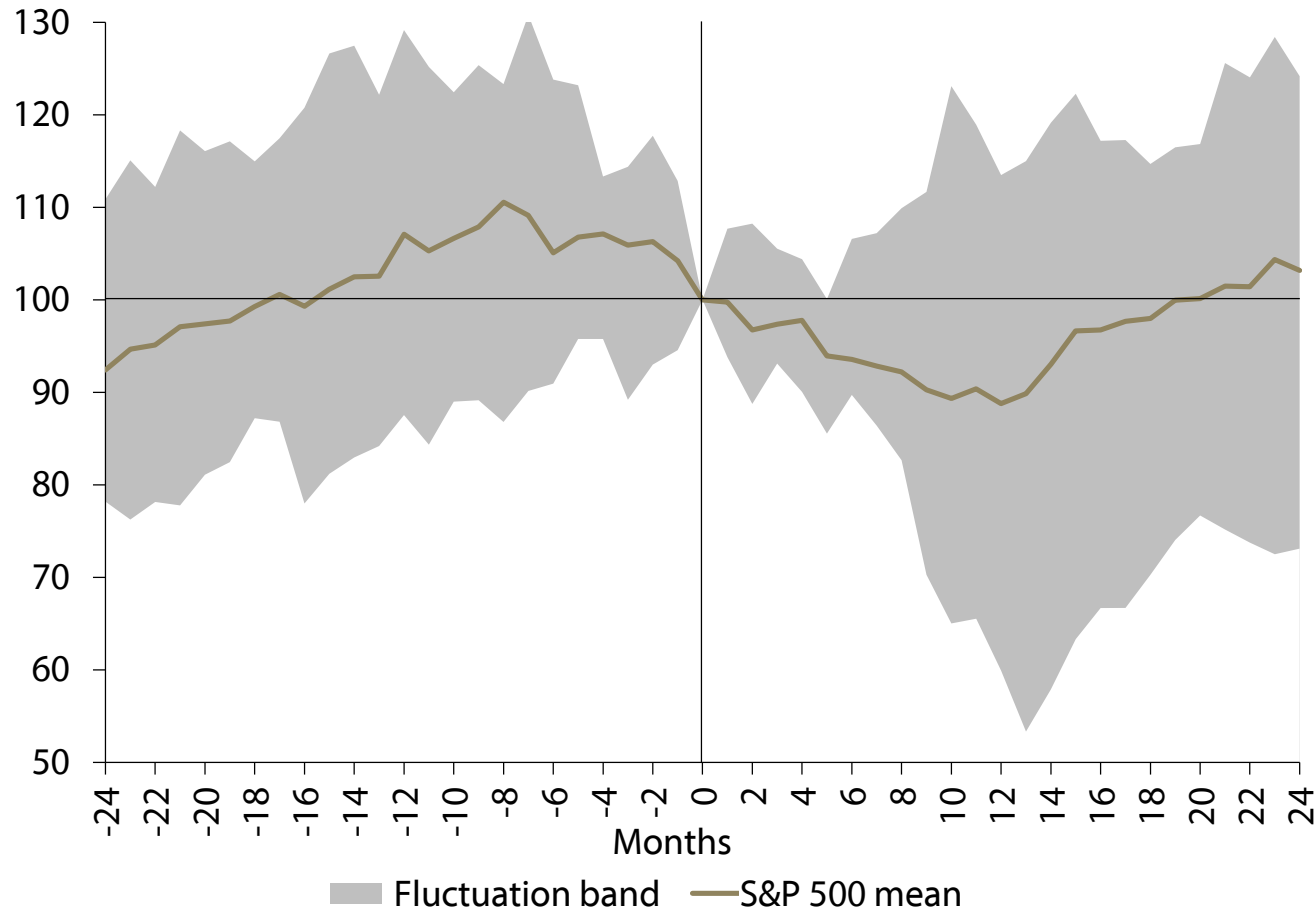
Source: Bloomberg

*Excluding dividends

In the final stage of the bull market?

The equity market usually peaks 3 to 12 months before a recession

US stocks before and during recession periods*



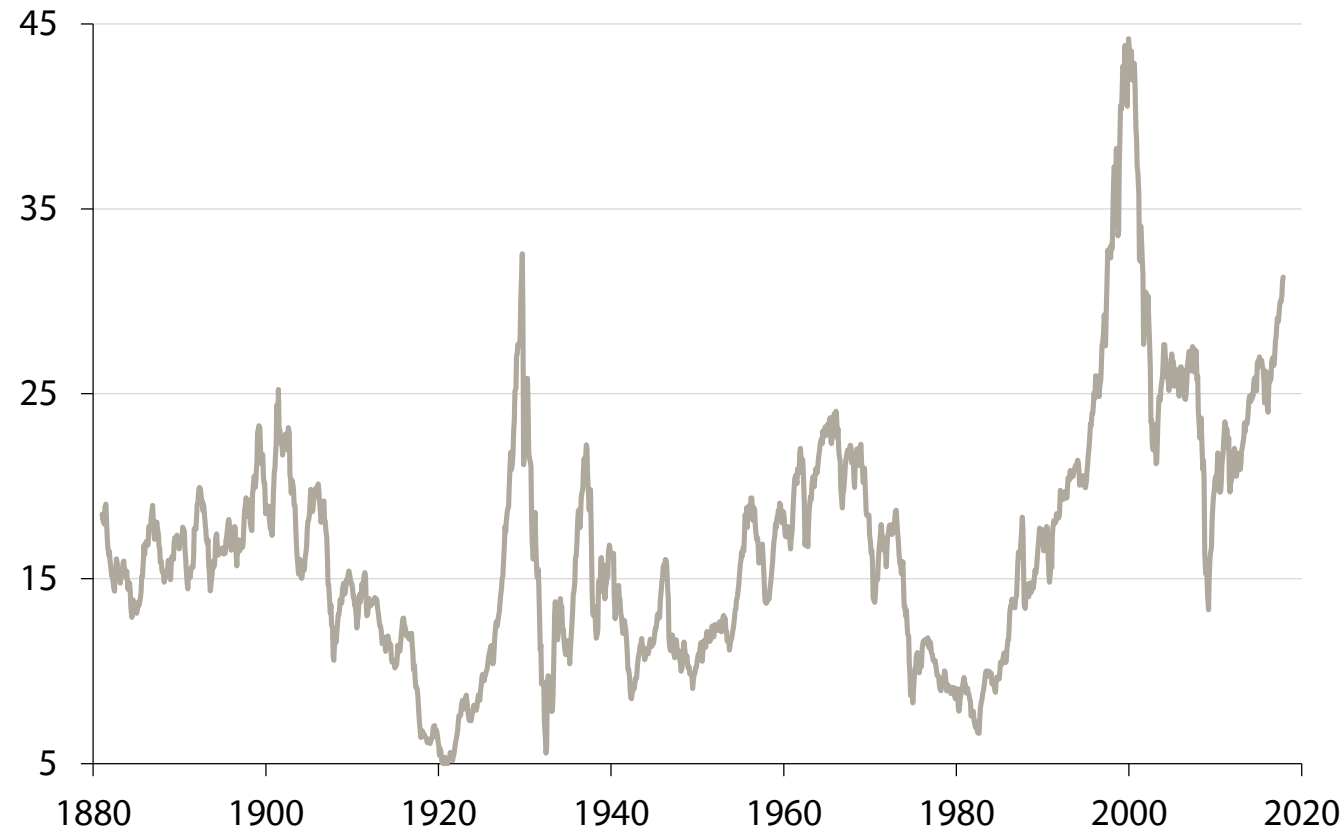
Source: Bloomberg

* Dec. 69, Nov. 73, Jan. 80, Jul. 81, Jul. 90, March 01, Dec. 07

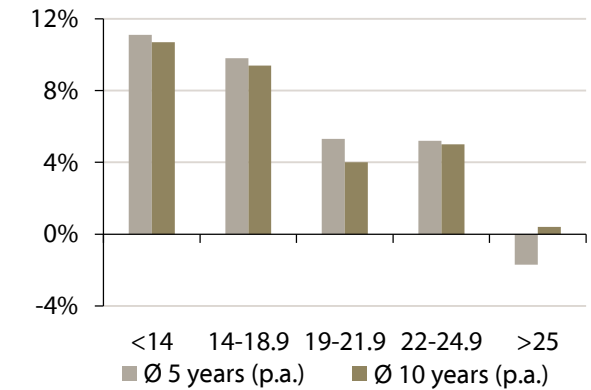
Valuations leave little upside leeway

Investors must content themselves with lower long-term returns

Shiller price-to-earnings ratio*



Equity valuation* vs. future real return



S&P 500 index price-to-sales ratio



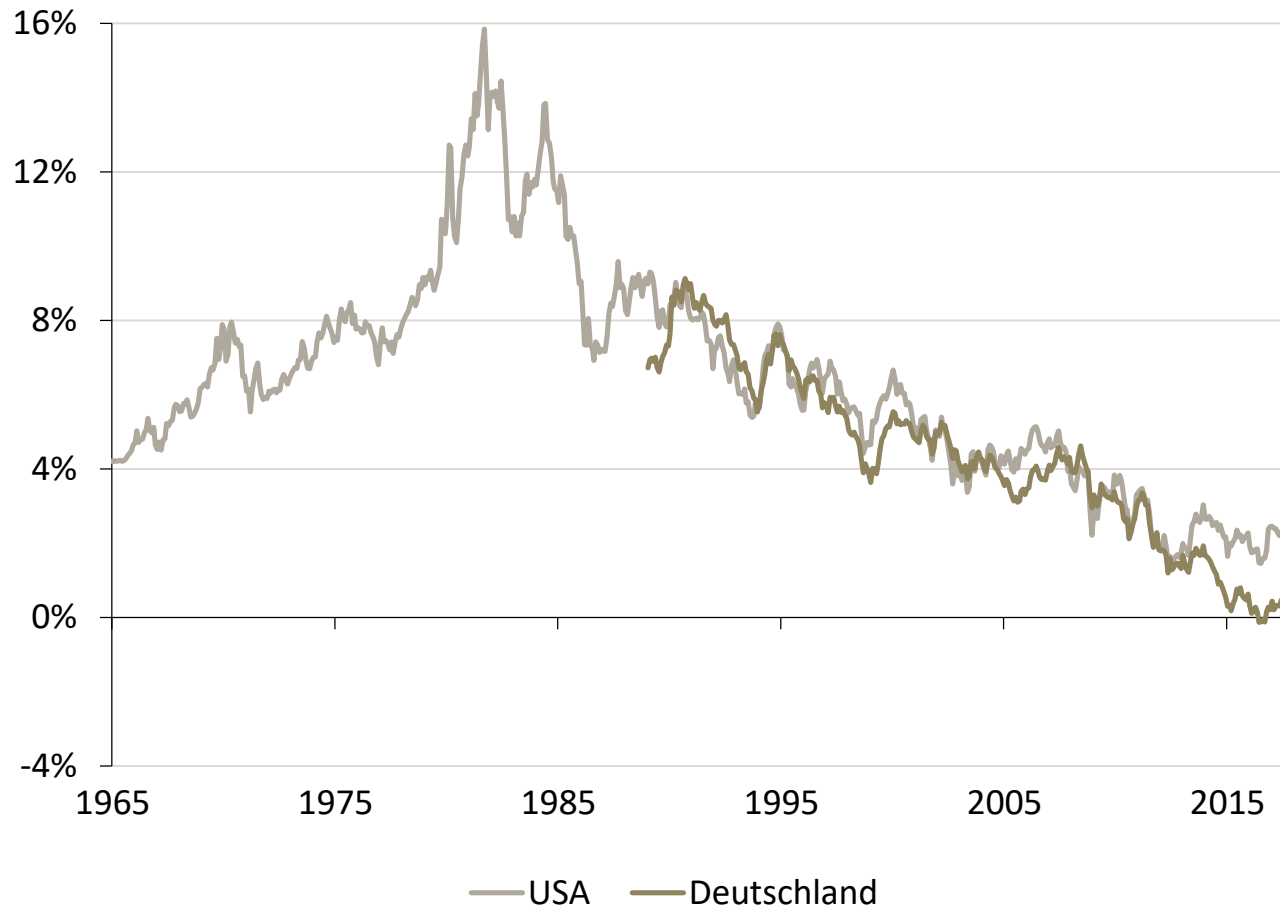
Source: Bloomberg, BCA

*Cyclically adjusted price-earnings ratio (CAPE, P/E10)

Little yield, mounting risk

35-year bond bull market at its end

Yield on 10-year government bonds



Source: Bloomberg

*Bloomberg Barclays Series-E Govt. 7- to 10-Year Bond Index

Summary

The end of the bull market is approaching

- The actual bull market was driven by monetary policy, QE and ultra-low (even negative) interest rates
 - The current economic cycle is one of the longest in history
 - The market sentiment is somewhere between excitement and euphoria
 - The end of the liquidity flood is approaching (Fed balance sheet already shrinks)
- We expect the current bull market to continue into 1H18
- Investors should use this window to de-risk and take profits
- Places to hide: Cash, high-quality Bonds, Gold, Alternative Investments

Historical stock market sell-offs

Gold, Cash and Treasuries offer protection

	Start	End	S&P 500	U.S. Treasuries	Gold
1987 crash	8/25/87	10/19/87	-33.2%	-7.2%	5.0%
Iraq invades Kuwait	7/17/90	10/12/90	-17.6%	-0.4%	7.6%
Asia crisis	10/7/97	10/28/97	-6.2%	0.0%	-4.6%
Russia/Long-Term Capital Management crisis	7/20/98	10/8/98	-18.7%	5.3%	1.2%
Sept. 11	9/10/01	10/11/02	-22.3%	11.2%	16.6%
Global financial crisis	10/11/07	3/6/09	-54.5%	15.8%	25.6%
2010 euro zone crisis and flash crash	4/20/10	7/1/10	-14.5%	4.5%	5.1%
U.S. sovereign debt downgrade	7/25/11	8/9/11	-12.3%	3.6%	7.8%
Taper tantrum	5/22/13	6/24/13	-4.8%	-2.0%	-6.4%
China worries	8/18/15	2/11/16	-11.8%	3.5%	11.5%
Average			-19.6%	3.4%	6.9%

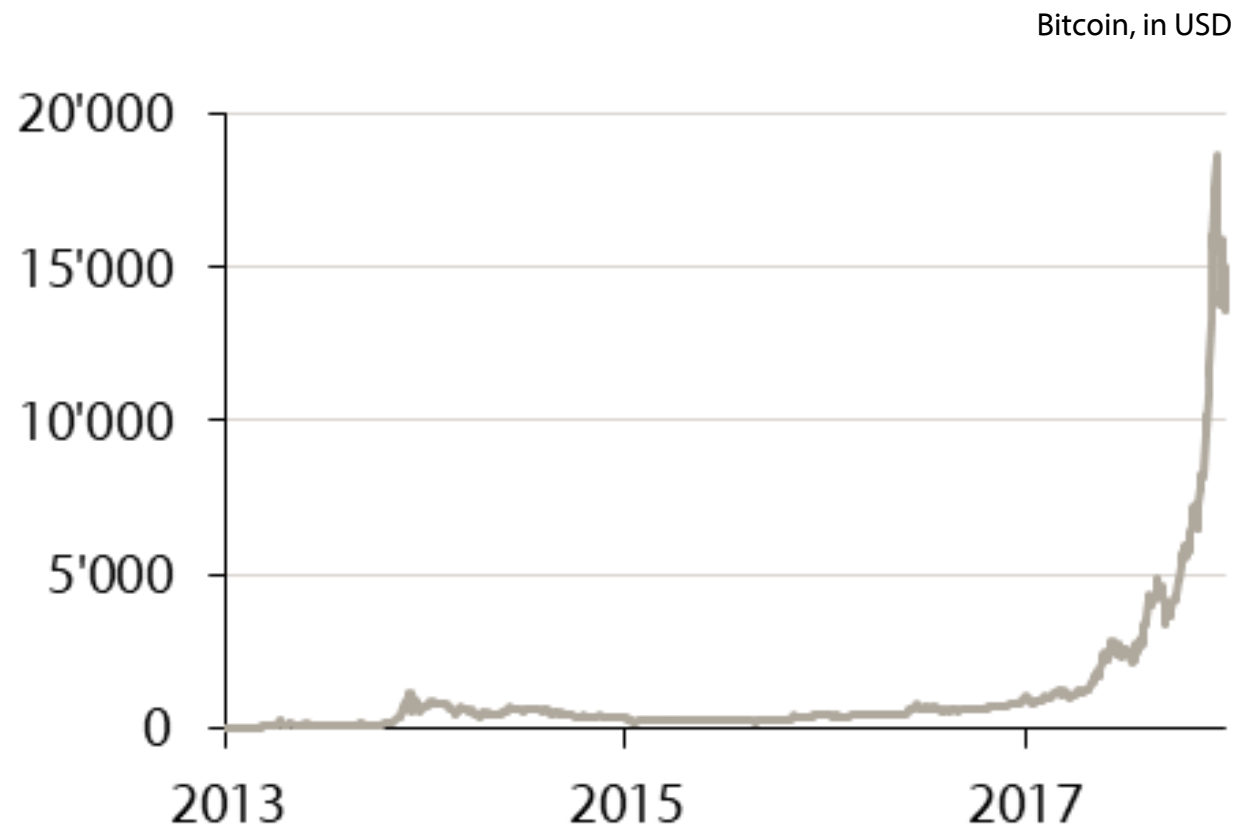
Source: Bloomberg

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The trouble with bubbles

Bitcoin eclipses them all

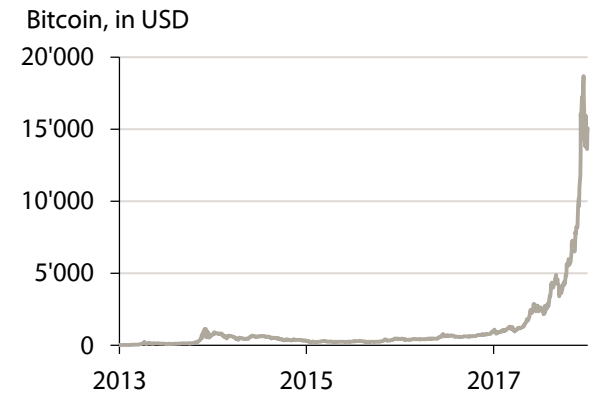
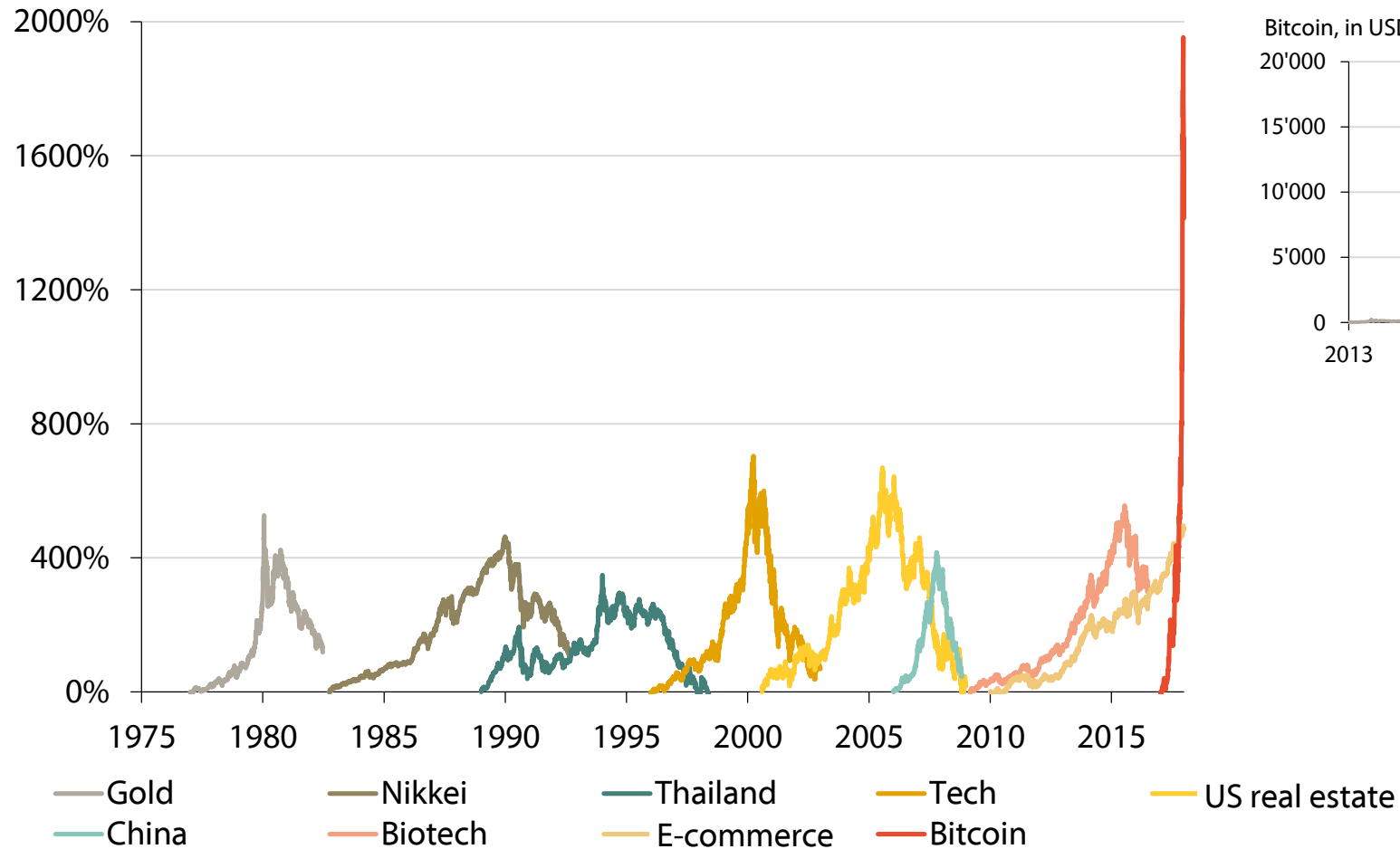


Source: Bloomberg

The trouble with bubbles

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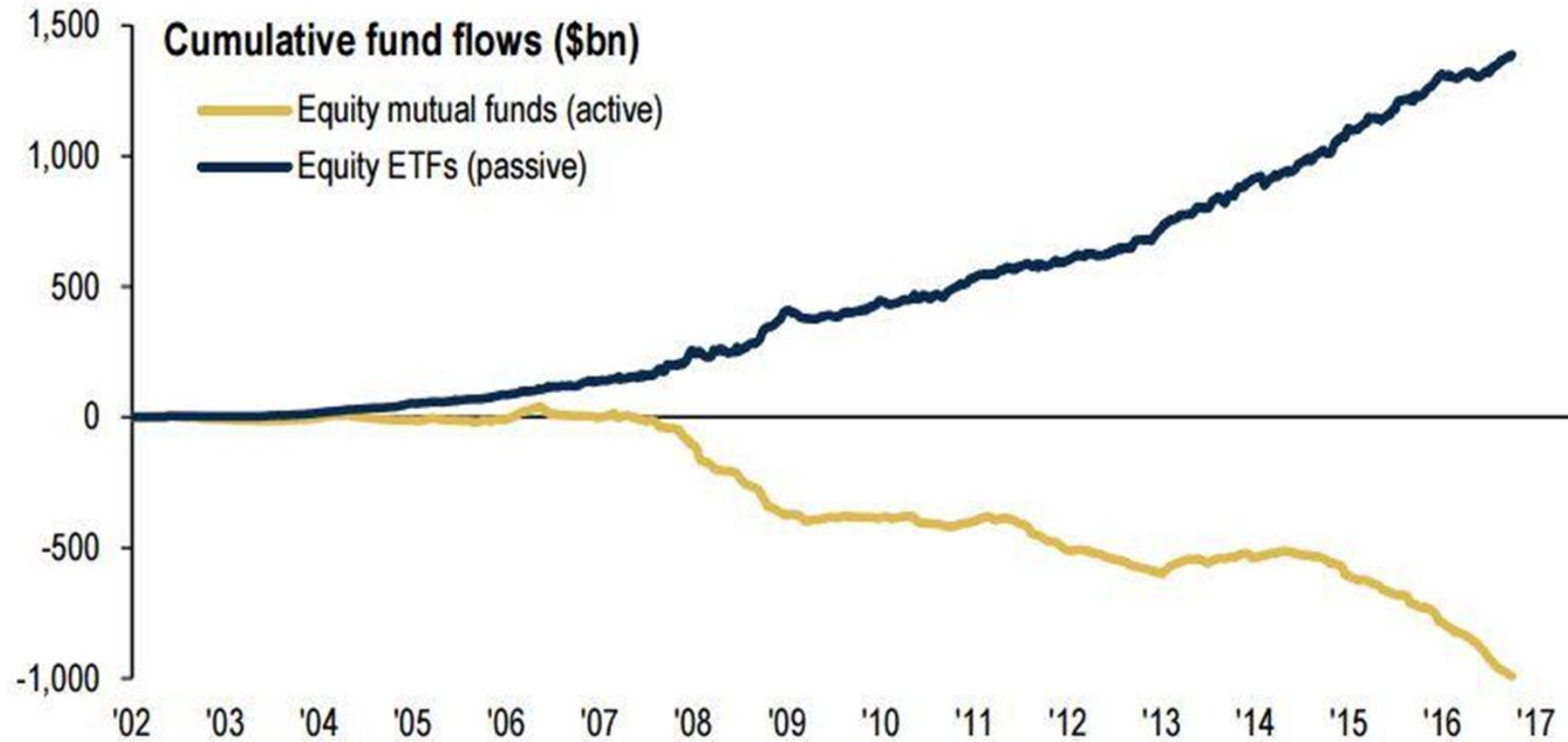
Financial bubbles over the passage of time



Source: Bloomberg

Active vs. passive investing

No market efficiency without active management



Source: BofAML Global Investment Strategy, EPFR Global

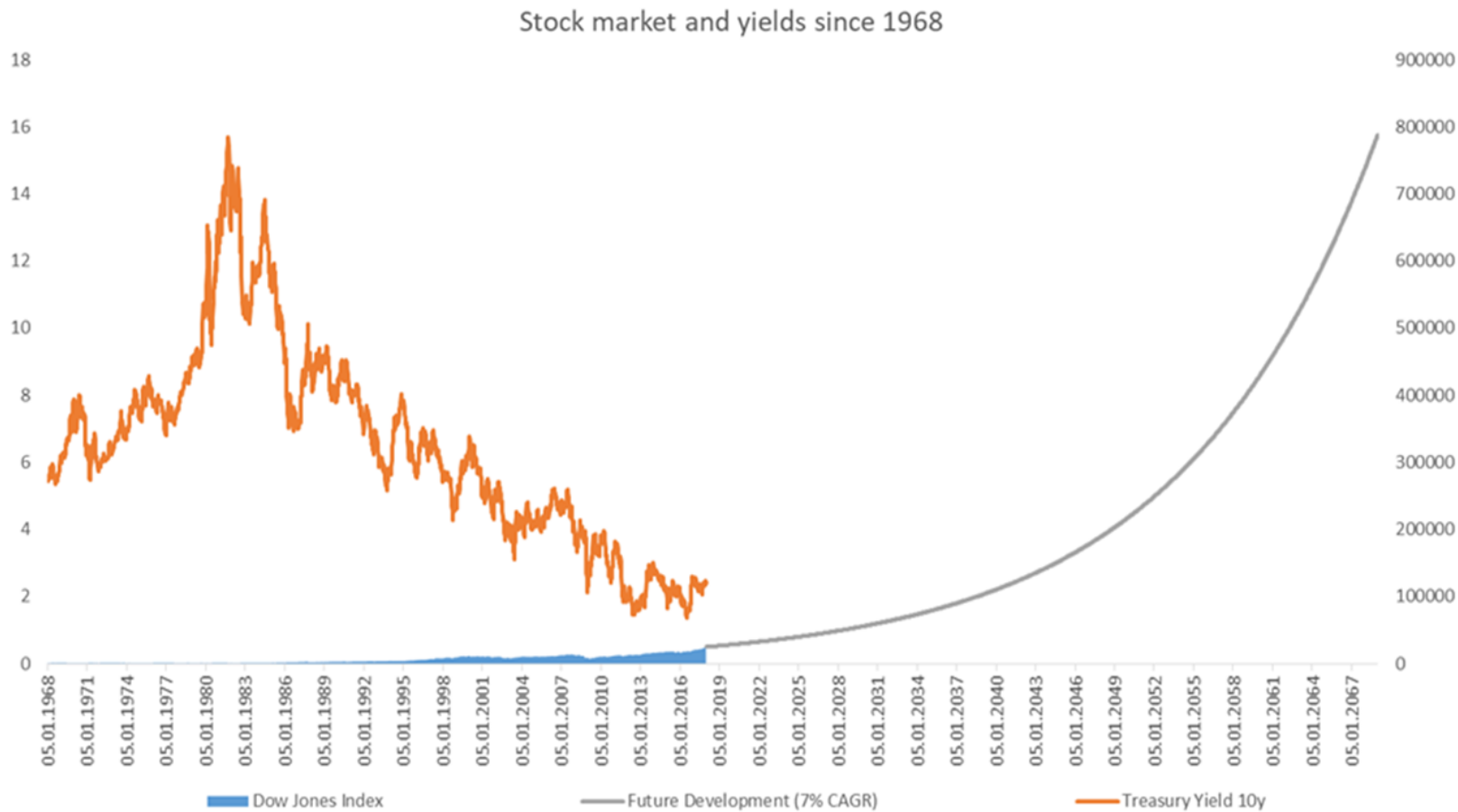
Robo-Advisors

Not the future in private banking...



Dow Jones at the end of 2068

Dow at 788'000 points



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