

- ▼ USA: No solid foundation for homes
- ▼ Turbulence: Demonstrations in Greece
- ▼ Stocks: Buy Transocean

part

partners' view

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|-----------------|------------------|---------------|---------------|-------------|--------------|--------------|----------------|-------------------|------------------|-------------------|-------------------|
| January<br>1/10 | February<br>2/10 | March<br>3/10 | April<br>4/10 | May<br>5/10 | June<br>6/10 | July<br>7/10 | August<br>8/10 | September<br>9/10 | October<br>10/10 | November<br>11/10 | December<br>12/10 |
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# Politics and business

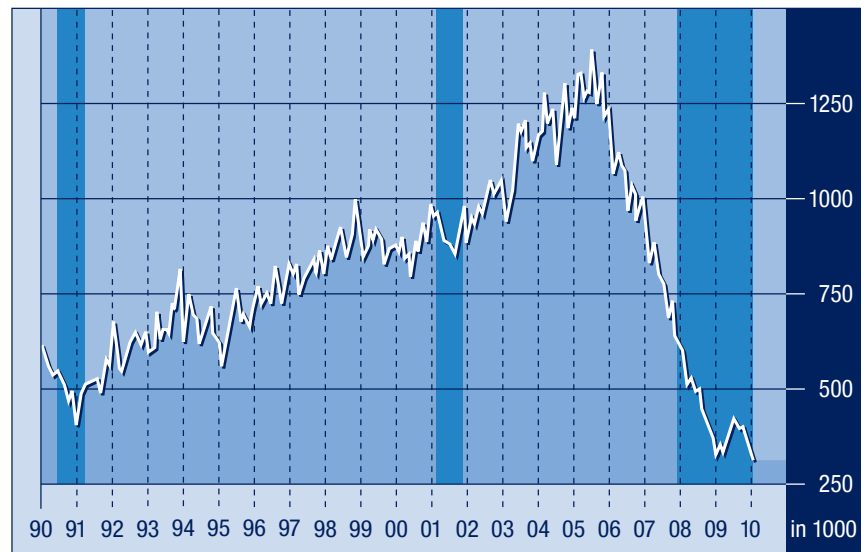
**The US labor market is stabilizing at a low level. Still no recovery in housing. Europe has its own rift.**

For once, the often-quoted and closely monitored US labor market could harbor a positive surprise. Both the jobless rate (currently at 9.7 percent) and job cuts in nonfarm payrolls turned out to be better than expected. Because the weather can have a strong impact on the labor market at least temporarily (for example in the construction industry), broader fluctuations in the winter months should not be overestimated. An improved labor market is the foundation of every recovery, because everything that is produced eventually has to be sold. But consumers need an income to be able to consume.

## Housing has not bottomed out

Apart from with their incomes, American consumers also used to pay for their expenditures by taking out mortgage loans and refinancing their properties. They would typically drain the appreciation of their owner-occupied homes every year with a higher mortgage and then immediately spend the difference. But the housing market has long become an economic burden in the USA that induced numerous bankruptcies among lending institutions. The sale of newly built homes in the USA recently fell to an all-time low (see graph). There are no signs of bottoming out in the housing market, a sector that has been battered for years. Plummeting 11 percent, YOY home sales

**New home sales in the USA (annualized)**



in January literally collapsed and now stand at an annualized level of 309,000 units.

The market for existing homes also fell dramatically in January.

## Europe's rift

The discussions revolving around European problem children Greece, Portugal, and Spain illustrate the predicament of the European Union as it struggles to politically integrate its members. The citizenry's mentalities, tax systems, working hours, social security instruments – in many domains, the countries are autonomous and in some instances exhibit vastly disparate attitudes. As a sweeping generalization: the farther south the member nation, the greater the emphasis on carefree

living. The sun, warmth, and beaches in the Mediterranean region stand in contrast to discipline and rigorous workweeks in the North. This engenders a different perspective on politics and business. This phenomenon exists in Switzerland, too, and it is called the "Röstigraben", a figure of speech that expresses the differences in mentality between the southern and northern parts of the country in political and economic issues. A case in point: unemployment is always higher in the French-speaking than in the German-speaking regions of Switzerland. Nonetheless, federalism is one of the key mainstays for peaceful coexistence in a shared economic area with a unified currency, be it Switzerland with its Swiss franc or Europe with the euro.

# Currencies and interest rates

## Pound sterling under pressure amid election polls. Speculators bet on weak euro. SNB ready to intervene.

The British pound is exposed to considerable downside pressure. Both versus the US dollar and the Swiss franc, sterling dropped to a 12-month low (see graph). One worrying aspect is an election survey that questions a victory by the conservative Tories, so far believed to be a given. The interest-rate outlook is also a burden. The Bank of England will continue to pursue its ultra-expansive monetary policy for a long time. When interest rates in the US dollar, the euro, and the Swiss franc will probably have long risen by the end of 2010, England will still be struggling to achieve an economic turnaround with a lending rate of 0.5 percent. Of course, a deteriorating interest spread will not attract new investors.

### Greece's deficit

When Greece vowed to cut its state deficit with tax hikes (gasoline, alcohol, tobacco, VAT), new taxes (luxury goods), annuity freezes, and pay cuts in public-sector jobs, the financial markets were jubilant, and the EUR 5 billion Greek government bond floated the day after the announcement was oversubscribed threefold (EUR 16 billion). The risk premiums versus German or French government issues instantly contracted. But those directly affected by these moves in Greece have a different take on the situation than the financial markets do. Strikes and havoc-wreaking demonstrations clarify that the practical implementation

of the suggested savings plan will be more difficult than it seemed on paper. Nonetheless, Greece's package of measures as well as the positive reactions of many European politicians are likely to calm the forex markets down somewhat.

### Seeds of discord

Many speculators are trying to further weaken Europe's single currency with aggressive euro shorts. It is doubtful that Greece will actually fracture the eurozone. Accounting for merely 2.6 percent of the EU's total economy, Greece hardly has the stature to tip the scales. And while often called to mind, the other problem candidates – Spain, Ireland,

and Portugal – are much less indebted than the USA whose deficit-plagued currency has been perceptibly appreciating for some time now. Despite all this, the euro has dropped to a 12-month low versus the Swiss franc. There are no signs that the Swiss National Bank (SNB) is about to intervene, even though an SNB spokesperson recently said: "We will continue to resolutely counteract an exaggerated appreciation of the franc versus the euro." When the euro last dropped to under CHF 1.46, the SNB aggressively purchased euro. Subsequently, the currency appreciated by nearly six percent within just a few days.

### Pound weakness (versus the Swiss franc)



# Financial markets

**Pharma stocks are consolidating while bank stocks are gainers. Interesting entry-level point in oil service stocks.**

Because of the economic upswing in Asia (China, India), the demand for oil remains unbroken. The search for new reservoirs and the maintenance of existing ones have prompted ever greater investments in the oilfield service industry. Schlumberger and Transocean, the best known corporations in this segment, recently suffered from the burden of major M&A moves (Schlumberger) or from disappointing earnings (Transocean, see graph). In the medium and long-term view, the industry is a good investment.

## Bank stocks

In March, the equity markets recovered from their weak start into 2010. Liquidity is still flowing into stocks as setbacks instantly trigger buys. Sector rotation is very prominent,

## Transocean



however. Novartis and Roche, two major pharma players, had to relinquish their front runner roles. Investors rediscovered bank stocks: UBS and CS advanced by 25 percent within a month. However, these sentiment purchases should not be overrated. The “clean slate” strategies of political parties, double-taxation agreements with the USA, automatic data exchange, and the abolishment of bank secrecy are just some examples of friction that could be a drag for bank equities. The dividend plays in the telecom sector also trended well. France Telecom, Deutsche Telekom, Vodafone, and even Swisscom were buoyed by buys and consequently recovered from their February lows. Investors who project a weakness of the dollar should go for commodity stocks. At any rate, the losers portrayed in the last issue of partners’ view (Xstrata, Petrochina, Petrobras or Freeport) have meanwhile already recovered again. The trend in precious metals is disparate. The price of an ounce of silver has rebounded noticeably from its February low, but gold has been hovering around USD 1100 per ounce for months. However, it is only a question of time and of priorities before government debt and its effects shift gold into the focus of investors again.

## Last but not least

“Those who do what their brokers suggest might as well ask their barber if they need a haircut.”

*Warren Buffet*

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