Title Picture
Cracked Eggs, New Mexico, USA
Photo: Roland Gerth

Contents

1 Editorial
   It's about China, not North Korea

2 Economy
   Will China be another Japan?

4 Interest rates and yields
   The calm before the storm?

5 Equity markets
   Chinese stock market becoming more relevant

6 Currencies
   Debt ceiling hangs over greenback

7 Commodities
   Industrial metals: scepticism gives way to optimism

8 Investment Strategy
   «1:1»

9 Market overview
   Economic data and cycles
   Interest rates and currencies
   Equity and commodity markets
   Financial markets and forecasts

Impressum

Issuer
St.Galler Kantonalbank AG
St.Leonhardstrasse 25
9001 St.Gallen
Tel. +41 71 227 97 00
info@sgkb.ch
www.sgkb.ch

Analysts
Beat Schiffhauer, CFA (Economy)
Patrick Häfeli, CFA (Interest rates and yields)
Tobias Kistler, CFA (Equity markets)
Thomas Stucki, CFA (Currencies)
Daniel Wachter (Commodities)
Caroline Hilb Paraskevopoulos (Investment Strategy)

Editorial deadline
August 22, 2017

Release
Monthly
Dear investors,

August saw an escalation of the tensions between North Korea and the United States, with the leaders of both threatening each other with military force and annihilation. The risk of armed conflict involving large-scale loss of life actually occurring is greater than it has been for a long time. Yet the financial markets remain unfazed. Share prices briefly dipped, but quickly recovered. The Swiss franc experienced an initial flurry of safe-haven interest, but within two days this had subsided.

Past experience shows that political crises only affect the financial markets briefly. Unless they have a serious impact on the global economy, they remain local events. The same would be true of a military conflict between the US and North Korea, as long as it did not involve a direct confrontation between the US and China, or the uncontrolled use of nuclear weapons. Neither scenario appears likely.

This is not to say that the North Korea issue does not represent a significant risk for the markets. The balance of power in eastern Asia has already been in flux for some time. China is keen to establish itself as the new power, while the US is loath to relinquish its hegemony over the region dating from the end of the Second World War. The two great powers are in direct confrontation with each other over the status of Taiwan and the dispute over China’s territorial claims in the South China Sea. So far, both sides have exercised restraint, not least because of their economic interdependence.

The current administration in Washington is not characterized by predictability. Unexpected changes are the order of the day. An escalating trade dispute with China can therefore not be ruled out. This would have profound repercussions on the financial markets.

The growth outlook for China would be significantly impaired in such a scenario. One direct effect would be a slump in commodity prices and an economic downturn in the emerging markets. As a result, the growth outlook for the industrialized countries – especially the US – would deteriorate. The «R» word would be on everyone’s lips and share prices would be sent into a tailspin. Interest rates could be expected to plunge. What would happen to the euro and the dollar is less clear, but the Swiss franc and the yen would soar.

It would be a mistake to position portfolios for this scenario. However, we would do well to pay more attention than in the past to the tradability of investments in difficult situations. In other words: better to stick to shares in large companies with good trading liquidity rather than exotic bonds in the OTC market that would be unsellable in the event of a crisis.

Dr. Thomas Stucki
Chief Investment Officer
22 September 1985 is a date that will not mean much to many Japanese. It should, though, for this date marks the origin of Japan’s prolonged crisis. It was on this date that Japan, urged on by the United States, accepted a new financial agreement.

30 years ago, at the USA’s request, the world’s top five economic powers met in New York to discuss global trade imbalances. The meeting had been preceded by a steady appreciation of the US dollar over a period of years, to the accompaniment of a growing expansion of America’s trade deficit, particularly with Japan – at the time an emerging high-growth economy.

Japan deregulated too quickly and created false incentives

In the eyes of the US, the dollar’s strength against the yen was mainly due to the strict regulation of the Japanese financial system. The US administration was increasingly concerned about US companies that were no longer able to compete with Japanese rivals. The yen was trading at low levels against the greenback, making Japanese products cheap in the US. In those days, the Japanese yen was not internationally tradable, which meant that the deficit was not balanced by capital flows. Japan finally agreed to gradually liberalize its banking and monetary policy. As a result, the yen appreciated by nearly 60% against the dollar within a year. The year after saw Japanese growth dip by almost 3% as exports crumbled. The Bank of Japan responded by cutting its key interest rates to record-low levels. At the same time, Japan also accelerated the deregulation of its financial system. It liberalized interest rates and increasingly opened up the capital markets. However, it did so without putting in place effective supervisory mechanisms or institutions. Because Japan’s financial sector was not structured efficiently, the rate cut and its positive effects did not filter through to the real economy and instead created false incentives. Rather than investing in capital goods, Japanese companies started using the cheap loans to invest in other Japanese companies or to engage in property speculation. In the absence of an effective supervisory institution, the «mis-directed» interest rate cut and the overhasty deregulation ultimately paved the way for an asset price bubble. When the Bank of Japan quickly raised interest rates in the late 1980s, the bubble finally burst, ushering in a decade of stagnation in Japan.

China in a comparable situation

China is currently in a similar situation to that of Japan before the great crisis. It is generating large trade surpluses, has highly regulated financial and currency markets and is growing at a brisk annual rate of well above 6%. At the same time, it is coming under mounting international pressure to open up its financial markets. However, the growing indebtedness of state-owned and quasi-state-owned enterprises also means that China increasingly needs to attract international capital. At the same time, it lacks sound and efficient mechanisms to enable the population’s high savings rate to be channelled back into the system. Despite good growth prospects, small and medium-
China’s debt reaching worrying proportions

China is breaking new ground

China is breaking new ground in the transformation of its financial market with online banks and peer-to-peer platforms in an effort to improve the efficiency of the financial markets without deregulating on a large scale. Considering what happened in Japan in the 1980s, China is wise not to rush to deregulate the «classic» financial industry too hastily. Deregulation and correspondingly sound supervisory mechanisms can solve the problem of the efficient allocation of capital, but they also increase the risk of a rapid correction as seen in Japan.
Interest rates and yields
The calm before the storm?

Since November 2016, capital market interest rates in the United States, Europe and Switzerland have remained practically static. Has the capital market settled into a new equilibrium, or is this just the calm before the storm?

Last December saw the Fed raise its key interest rate for the second time since the financial crisis, while holding out the prospect of three further rate hikes in 2017, 2018 and 2019. Capital market rates had already priced in this expectation ahead of the Federal Reserve meeting, with yields on ten-year US Treasuries climbing from 1.80% to over 2.40% within a short time. However, interest rates did not just rise in the US: yields in Europe and Switzerland followed suit, mirroring the movement virtually one-to-one.

Little movement so far this year
Since then not much more has happened on the capital market. Now and again, unexpected economic data or statements made by Federal Reserve members have triggered some movement, but these ups and downs have generally been relatively short-lived and small-scale. One such occasion was at the end of June when a speech made by Mario Draghi at the ECB Conference in Portugal briefly pushed up yields in Europe and Switzerland. The ECB President made some unusually optimistic remarks on the economy and the inflation outlook in the eurozone which fuelled speculation over an early end to the ECB’s bond-buying programme. The effect did not last long, though. At the press conference after the ECB’s mid-July meeting, Mario Draghi told investors they would have to wait until the autumn. The ECB’s latest forecasts on the development of the economy and inflation in the eurozone would not be ready until then, he said. The heightened uncertainty in the wake of the US and North Korean sabre-rattling nipped the rest of the upward movement in the bud and yields are now back in their usual sideways band.

Attention focuses on the Fed and the ECB
However, it will soon be time for the central banks to take some important decisions. On the one hand, the Federal Reserve members will need to determine when to start only partially refinancing maturing bonds and thus when to gradually start scaling back the Fed’s balance sheet. They will also need to be clear about whether they wish to stand by their plans for a third rate hike despite some fairly disappointing inflation figures. We think the Fed will already announce the start of its balance sheet reduction this September and expect the next US interest rate hike to come in December. The positive US economic outlook still favours further rate rises and thus slightly higher capital market yields. The members of the European Central Bank will likewise have no alternative but to take their next step in the near future. We expect the ECB to end its bond purchases in the first half of 2018. Moreover, discussion of the ECB’s first rate hike can be expected to start towards the middle of 2018, and this too will push up interest rates in Europe and Switzerland.
Equity markets
Chinese stock market becoming more relevant

This year, the emerging markets are back on investors’ radar. Since the beginning of the year, the newly industrialized countries covered by the MSCI Emerging Markets index have gained nearly 20% in Swiss franc terms.

Investors’ attention is once again focusing specifically on Chinese stocks, which have gained as much as 30% since the beginning of the year. Mainland Chinese stocks gained added momentum – notably after index provider MSCI announced that some would be included in its indices.

China’s stock market
Some 3,300 companies are currently traded on the two mainland Chinese bourses. Around 2,000 are traded in Hong Kong, but only about half of these are from China. About 80 more companies are listed on US stock exchanges via ADRs. After eliminating dual listings, the Chinese stock market comprises around 4,300 stocks with a market capitalization of USD 10 trillion. One of the characteristic features of the Shenzhen stock exchange is its lack of integration into the global financial system and the fact that it is dominated by local private investors.

How to invest?
Much of the growth in the emerging markets comes from global companies. Companies such as Nestlé generate a large proportion of their sales in emerging markets, but are listed on the stock markets of developed countries. For individual investors, the simplest approach is to focus on investing in emerging markets equities, or Chinese equities via active or passive funds.

What points should be borne in mind?
It is important for investors considering a passive investment in the MSCI China index to realise that the volatile technology and finance segments account for more than 60% of the index. Many companies are state-controlled and their strong export bias also makes them dependent on economic developments in the industrialized countries. The two stocks with the strongest representation in the index are the technology companies Tencent and Alibaba, which have a combined weighting of 30%.
Debt ceiling hangs over greenback

The debt ceiling of USD 19,860 billion set by the US Congress was reached this March. The US Treasury will be able to delay taking out new debt until early October. By then at the latest, the administration could be forced to shut down or we could even see a US default. If Congress were unable to bring itself to raise the ceiling by then, it would be a disaster for the dollar.

To make matters worse, by the end of September the budget for the new financial year needs to be passed by Congress and signed off by the President. Donald Trump can be expected to use the impending shutdown of the administration to press for cash to fund his campaign promises such as the Mexican border wall.

Relentless rise in debt
America’s debt is rising inexorably. At the end of 2005 it came to USD 8,000 billion. Since then, it has more than doubled and now stands at the current upper limit of USD 19,860 billion. There is no change of trend in sight. The debt ceiling therefore needs to be raised at regular intervals. It was last raised in November 2015.

Shades of 2011
In the summer of 2011, the debt ceiling became a hostage to US domestic politics. The Republicans controlled the House of Representatives, while the Democrats held the Presidency and had a majority in the Senate. Eager to position themselves for the 2012 presidential election campaign, the Republicans refused to compromise. Fears of a US default with consequences that would be difficult to control sent the financial markets into a tailspin and the dollar fell sharply. It was not until 2 August – the date of the expected default – that the Senate agreed to a compromise that provided for budget cuts of USD 2,400 billion over ten years as a quid pro quo for the higher debt ceiling. Standard & Poor’s nevertheless downgraded the United States’ credit rating from «AAA» to «AA+».

Temporary solution likely
Both the financial markets and the dollar have so far responded calmly. After the experiences of recent years, they do not expect Congress to risk a default. Given their majority, it will be difficult for the Republicans to blame any chaos on the Democrats. What is more, the 2018 mid-term elections are already looming. The only big unknown this leaves is how Donald Trump will behave. It is therefore quite possible that currency investors’ nerves could yet be frayed and the turmoil surrounding the dollar could increase in September.

Stable conditions despite political uncertainty
The controversy surrounding the debt ceiling will not have any lasting impact on the dollar. What will be more important will be whether the euro can benefit from speculation over a change in the ECB’s monetary policy – and, if so, for how long.
Commodities
Industrial metals: scepticism gives way to optimism

After going nowhere for several months, metal prices have recently started to rise again. In August, the industrial metals index significantly outperformed the other subsectors. It has been an eventful year for industrial metals. After initially maintaining the previous year’s momentum, they subsequently lost ground again amid a noticeable decline in investor optimism. At the beginning of the third quarter, nickel was trading 10% lower than in January, for example, while aluminium, copper and zinc trod water. With the publication of robust economic data, optimism on industrial metals returned. The global economy is heading for stronger growth, with the second quarter seeing the highest growth rate for more than two years.

Zinc climbs to 10-year high
One development that stood out in August was the price trend on the zinc market. Zinc is not one of the most actively traded metals compared with copper or aluminium, but it is a much sought-after commodity for use in protecting steel and iron against corrosion. With the recent rise, the price of zinc has almost doubled since early 2016. A number of factors have contributed to this. The closure of several large mines had a positive impact on the supply side. According to the International Lead and Zinc Study Group, the zinc market had already been largely in a deficit phase in the previous years – with demand exceeding production. However, this did not lead to a sustained rise in zinc prices and 2015 even saw prices slump by one third. One reason for this was the high level of inventories, which first had to decline significantly. In the meantime, stocks on the London Metal Exchange LME and the Shanghai Futures Exchange (SHFE) have fallen to their lowest levels since 2008. However, the recent price rise was also very much driven by speculation, particularly in China. The restrictions on trading in zinc futures which the SHFE in Shanghai introduced in August are an initial sign of this.

China and investors as drivers
The supply situation on the zinc market remains tighter than for many other base metals. As the trend of the «Bloomberg Industrial Metals Index» shows, the upside price momentum is broad-based, but was previously accompanied by extensive speculative buying. Copper and aluminium are trading at three-year highs, for example. At the same time, the improvement in global economic conditions suggests that demand for metals should increase. However, our longer-term focus is primarily on developments in China, which is a big producer and the main consumer of many commodities. The government in Beijing is aiming to modernize China’s economic structure and is increasingly trying to get the country’s credit risks under control. At the same time, China is keen to reduce its overcapacity in the commodity and industrial sectors. The speed and thrust of these efforts will have correspondingly large knock-on effects on industrial metals prices.
Apart from the odd fly in the ointment, the stock markets have been performing positively in recent weeks. All has been quiet on the interest rate front too, although the central banks did cause some movement in the foreign exchange market. The big picture on the markets remains balanced: a solid economic situation on the one hand and geopolitical risks on the other.

The stock markets turned in a respectable performance in July and remained stable in August. In terms of the economic situation, it is striking to note that the markets are starting from the same positive position as previously. The outlook for the eurozone is promising and US economic data have also improved in recent weeks. Retail sales in particular were unexpectedly brisk, propelling the stock markets higher. Another positive point to note is that corporate earnings are rising again. These factors carry considerable weight and provide a sound base for the equity markets. Another point worth noting is that weaker stock market trading days are invariably followed by a counter-reaction – a clear sign that investors around the world still see potential in equity investments.

And those flies in the ointment?
The flies in the ointment stem from geopolitical factors. We are keeping a close watch on the conflict surrounding North Korea. On the one hand, there is the sabre-rattling and hostile posturing between the United States and North Korea. On the other hand, there is the question of China’s role. China is a major trading partner of North Korea and does not have an interest in a military conflict between North Korea and the United States. This makes China a player in this confrontation. And there are economic realities at stake here: an escalation of the conflict between North Korea and the United States could put Sino-US trade relations on hold. This would have negative knock-on effects around the globe, and would therefore also affect the stock markets. As we expect the hostile posturing to subside in favour of efforts to arrive at a diplomatic solution, we see the rise in risk aversion as a temporary development. We do not see this as a reason for a sustained stock market downturn. The negative economic consequences are unlikely to materialize.

Risks and opportunities evenly balanced
On balance, there are opportunities for the equity markets. These are plain to see and can be summed up as the positive economic outlook, monetary policies which remain as expansionary as ever and good news from companies. On the other hand, the geopolitical risks are fuelling a sense of uncertainty. They are difficult to forecast and difficult to classify because of their highly complex nature. We are taking account of this unpredictability by not increasing our equity allocation. However, given the crucial importance of the economic situation in driving stock market performance, there is no urgent need to scale back positions either.

Conclusion: We are not making any adjustment in terms of asset classes. We are maintaining a balanced equity allocation and shall also be retaining the convertible bond allocation.
Market overview
Economic data and cycles

Data as of 22 August 2017; Source: Bloomberg, Graphics: own illustration

Economic trend in industrialized countries

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP qoq, annualized, previous quarter</th>
<th>GDP qoq, annualized, current</th>
<th>Inflation rate yoy, previous quarter</th>
<th>Inflation rate yoy, current</th>
<th>Unemployment rate, previous quarter</th>
<th>Unemployment rate, current</th>
<th>PMI, previous quarter</th>
<th>PMI, current</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>1.0% 0.9%</td>
<td>0.4% 0.3%</td>
<td>3.3% 3.2%</td>
<td>57.4 60.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>2.0% 2.1%</td>
<td>2.2% 1.7%</td>
<td>4.4% 4.3%</td>
<td>54.8 56.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.9% 2.2%</td>
<td>1.9% 1.3%</td>
<td>9.4% 9.1%</td>
<td>57.0 57.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>3.2% 0.8%</td>
<td>2.0% 1.7%</td>
<td>5.8% 5.7%</td>
<td>59.5 59.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Macro scenario

- Switzerland: PMI survey figures signal a positive trend over the coming months. The resurgent euro is providing the economy with some welcome stimulus, allowing the SNB to pause for breath.
- USA: The US economy is performing well, but the recovery is coming to an end. Inflation is weak.
- Eurozone: Economic activity in the eurozone is robust and will continue to improve.
- Germany: The outlook is still very good, but the actual figures are less positive. We are optimistic, but will be keeping a close watch on developments.

Economic trend in emerging markets

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP yoy, previous quarter</th>
<th>GDP yoy, current</th>
<th>Inflation rate yoy, previous quarter</th>
<th>Inflation rate yoy, current</th>
<th>Unemployment rate, previous month</th>
<th>Unemployment rate, current</th>
<th>PMI, previous month</th>
<th>PMI, current</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6.9% 6.9%</td>
<td>1.2% 1.4%</td>
<td>4.0% 4.0%</td>
<td>50.4 51.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>6.7% 5.6%</td>
<td>3.0% 2.4%</td>
<td>-</td>
<td>-</td>
<td>50.9 47.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>-2.5% -0.4%</td>
<td>4.1% 2.7%</td>
<td>7.5% 8.2%</td>
<td>50.5 50.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>0.5% 2.5%</td>
<td>4.1% 3.9%</td>
<td>5.3% 5.1%</td>
<td>54.8 53.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Macro scenario

- China: China's growth is in stability mode in anticipation of this autumn's People’s Congress. Decision-makers are keen to avoid creating unnecessary uncertainty in the run-up to the event.
- India: India was well on track. However, the introduction of a nationwide Goods & Services Tax is fuelling concern among managers.
- Brazil: The Brazilian economy is still failing to gain traction. President Temer’s position has also been badly dented. This is weakening the government and slowing down important reform projects.
- Russia: Russia has bottomed out. The economic situation is showing signs of improvement.
Interest rates and currencies
Data as of 22 August 2017; Source: Bloomberg, Graphics: own illustration

Key interest rates for selected central banks

Switzerland: Attention is still focusing on the strong franc despite its recent fall in value. Swiss inflation remains as low as ever.
Outlook: The SNB is sticking to negative interest rates and will actively intervene in the currency market.

Eurozone: Inflation has edged up slightly, but remains low. Positive expectations on the economy.
Outlook: Key interest rates set to stay low for now. The expected announcement of the end of the bond-buying programme will probably come before the end of the year.

USA: The domestic economy points to rate rises, but inflationary pressure is only picking up slowly.
Outlook: The Fed will continue to raise interest rates – one more hike by the end of the year. Balance sheet reduction will start soon.

Capital markets: yields on individual 10-year government bonds

Switzerland: Negative interest rates, low inflation and demand for bonds are keeping interest rates low.
Outlook: Interest rates to rise slightly in medium term in step with eurozone.

Eurozone: The economic recovery is becoming noticeable. «Tapering» will begin before the end of 2017. An initial ECB rate hike will be on the agenda toward mid-2018.
Outlook: The debate over the ECB’s first rate hike will push up interest rates next year.

USA: Positive economic prospects. Wage pressure firming slowly. Other interest rate hikes will follow.
Outlook: Rising medium-term yields due to rate-hiking cycle and reduction in the size of the Fed’s balance sheet.

Currencies: rates for selected currency pairs

EUR/USD: There has been a broad-based improvement in the economic outlook for the eurozone, and the euro is also gaining support from the debate over the ECB’s monetary policy.

USD/CHF: The currency market has grown accustomed to the Fed’s tighter monetary policy. The US administration’s unclear policies are clipping the dollar’s wings.

EUR/CHF: Market expectations of an adjustment to the ECB’s monetary policy, coupled with the brighter economic outlook are giving the euro a boost. The SNB will welcome a weaker Swiss franc, but will not be making any changes to its monetary policy.
Equity and commodity markets

Data as of 22 August 2017; Source: Bloomberg, Graphics: own illustration

Equity markets for selected regions (indexed)

Outlook:
- The stock markets remain robust.
- The outlook for earnings is positive.
- In Europe at least, uncertainties arising from political events are receding into the background again.
- The solid underlying trend looks set to be punctuated by high share price volatility and negative phases.

In general:
- Valuation ratios have increased during the course of the year.
- Valuations are above the average for the last 10 years.

Outlook:
- All markets show positive earnings growth.
- Europe and the Emerging Markets currently have the strongest forecast earnings growth.

Valuations: estimated P/E ratio for selected regions and markets

Commodity markets: Price trend for oil and gold

Oil price: OPEC will also be reducing its production quota in the second half of the year. This news is not sufficient to push up the oil price.

Outlook: High global inventories and a rebound in US oil production will prevent any substantial price rise for now.

Gold price: After a sluggish phase at the turn of the year, gold has found its feet again.

Outlook: The headwind on the foreign exchange front (dollar strength) is easing. Higher US interest rates coupled with a moderate rise in inflation limit the potential for the gold price.
## Financial markets and forecasts

Closing prices as of 22 August 2017; Source: Bloomberg; Forecast: SGKB

<table>
<thead>
<tr>
<th>Key interest rates</th>
<th>12 Months ago</th>
<th>3 Months ago</th>
<th>Current</th>
<th>Forecast 3 Months</th>
<th>Forecast 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNB</td>
<td>–0.75 %</td>
<td>–0.75 %</td>
<td>–0.75 %</td>
<td>–0.75 %</td>
<td>–0.75 %</td>
</tr>
<tr>
<td>ECB</td>
<td>0.00 %</td>
<td>0.00 %</td>
<td>0.00 %</td>
<td>0.00 %</td>
<td>0.00 %</td>
</tr>
<tr>
<td>FED</td>
<td>0.25 % – 0.50%</td>
<td>0.75 % – 1.00%</td>
<td>1.00 % – 1.25 %</td>
<td>1.00 % – 1.25 %</td>
<td>1.75 % – 2.00 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital market yields</th>
<th>12 Months ago</th>
<th>3 Months ago</th>
<th>Current</th>
<th>Forecast band 3 Months</th>
<th>Forecast band 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-year Conf.</td>
<td>–0.52 %</td>
<td>–0.09 %</td>
<td>–0.13 %</td>
<td>–0.05 % – 0.15 %</td>
<td>0.30 % – 0.50 %</td>
</tr>
<tr>
<td>10-year German Bund</td>
<td>–0.10 %</td>
<td>0.41 %</td>
<td>0.40 %</td>
<td>0.55 % – 0.75 %</td>
<td>1.00 % – 1.20 %</td>
</tr>
<tr>
<td>10-year Treasury</td>
<td>1.55 %</td>
<td>2.28 %</td>
<td>2.21 %</td>
<td>2.40 % – 2.70 %</td>
<td>2.70 % – 3.00 %</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Currencies</th>
<th>12 Months ago</th>
<th>3 Months ago</th>
<th>Current</th>
<th>Forecast band 3 Months</th>
<th>Forecast band 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR/CHF</td>
<td>1.0891</td>
<td>1.0915</td>
<td>1.1387</td>
<td>1.10 – 1.15</td>
<td>1.07 – 1.12</td>
</tr>
<tr>
<td>USD/CHF</td>
<td>0.9633</td>
<td>0.9760</td>
<td>0.9681</td>
<td>0.94 – 0.99</td>
<td>0.93 – 0.98</td>
</tr>
<tr>
<td>EUR/USD</td>
<td>1.1305</td>
<td>1.1183</td>
<td>1.1762</td>
<td>1.14 – 1.19</td>
<td>1.12 – 1.17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodities</th>
<th>12 Months ago</th>
<th>3 Months ago</th>
<th>Current</th>
<th>Forecast band 3 Months</th>
<th>Forecast band 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil (WTI, USD per barrel)</td>
<td>48</td>
<td>51</td>
<td>48</td>
<td>40 – 50</td>
<td>45 – 55</td>
</tr>
<tr>
<td>Gold (USD per oz)</td>
<td>1338</td>
<td>1251</td>
<td>1285</td>
<td>1200 – 1300</td>
<td>1200 – 1300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity markets</th>
<th>YTD</th>
<th>Valuation (est. P/E)</th>
<th>Current Index</th>
<th>Trend last 3 Months</th>
<th>Trend last 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P500 (local currency)</td>
<td>11.0%</td>
<td>18.8</td>
<td>2453</td>
<td>🔄</td>
<td>🔄</td>
</tr>
<tr>
<td>EuroStoxx50 (local currency)</td>
<td>7.5%</td>
<td>14.6</td>
<td>3456</td>
<td>🔄</td>
<td>🔄</td>
</tr>
<tr>
<td>SMI (local currency)</td>
<td>12.0%</td>
<td>17.8</td>
<td>8964</td>
<td>🔄</td>
<td>🔄</td>
</tr>
<tr>
<td>MSCI Emerging Markets in USD</td>
<td>26.7%</td>
<td>13.6</td>
<td>1073</td>
<td>🔄</td>
<td>🔄</td>
</tr>
</tbody>
</table>
Disclaimer: The information contained on this Recommendation List and specifically the descriptions of individual securities constitute neither an offer to purchase the securities nor an invitation to engage in any other transactions. All of the information contained in this document has been carefully selected and obtained from sources that the Investment Center of the St.Galler Cantononal Bank AG fundamentally believes to be reliable. Opinions or other representations conveyed in this document are subject to change without notice. No guarantee is assumed as to the accuracy or completeness of the information. St.Galler Cantononal Bank AG is regulated and supervised by Swiss Financial Market Supervision Authority FINMA, Einsteinstrasse 2, 3003 Berne, Switzerland, www.finma.ch.