

PRESS RELEASE

Mildly positive outlook: Plentiful liquidity overshadows exaggerated hopes for growth

SAL. OPPENHEIM PRESENTS ITS OUTLOOK ON THE CAPITAL MARKETS FOR 2010

- *Cyclical recovery in the real economy continues; however, leading indicators point to slowing momentum in the revival. Hopes for the economy and growth are too optimistic and carry potential for disappointment*
- *Corporate earnings forecasts for 2010 appear too high*
- *However, market participants' plentiful liquidity remains positive driver for equity markets*
- *Sal. Oppenheim expects sideways movement with a positive underlying trend driven by liquidity and "mini cycles" – DAX year-end target: 6,350*

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The outlook of Sal. Oppenheim jr. & Cie. on capital market development in 2010 is moderately optimistic. Clear recovery is evident in the emerging markets of Asia and Latin America, which are buoyed by extensive governmental stabilisation programmes, and also in industry-related economic indicators. However, major burdens are impending, including in particular loan defaults, which typically see a substantial rise late in the economic cycle. Measured against the recovery in industry-related indicators and compared with earlier cycles, corporate loans and US consumption, which is vital to a global upturn, have been unusually slow.

Dieter Pfundt, personally liable partner at Sal. Oppenheim explained, "The high level of debt among US consumers coupled with strained banking figures are hampering the swift transition hoped for from the economic stabilisation initiated by policymakers to a self-sustaining recovery." The rapid increase in public debt in the US and Europe has exerted additional pressure, which is likely to curb the longer-term growth momentum of the global economy beyond the current cycle.

Sal. Oppenheim expects the healthy growth in emerging markets in Asia and Latin America to continue next year. "Since the emerging markets' absolute share of world GDP is still low, their positive contribution towards the stabilisation of the world economy is however somewhat less than publicly perceived," pointed out Head of Equity Strategy Matthias Jörss. Europe and the US have a much higher priority for the export-heavy German industry. "Many of our key trading partners

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have not recovered as well as Asia and Latin America – this especially applies to eastern Europe,” said Jörss.

EARNINGS FORECASTS NEED TO BE REVISED DOWNWARDS

Given the moderate economic and growth outlook, consensus expectations regarding the development of corporate earnings next year are still very high. Analysts currently forecast an average year-on-year increase in earnings of 21 percent for companies listed in the EURO STOXX 50, and as much as 48 percent for DAX companies. On the other hand, the current consensus estimate for nominal GDP growth in the G7 area is just 3.3 percent. Carsten Werle, Head of Equity Research, explained, “Even if we take into account that there is often an above-average increase in earnings following a recession, we consider earnings growth on this scale to be too optimistic. We therefore see a need for a substantial downward adjustment to be made in the course of the reporting season for Q4, i.e. in the first quarter of 2010.”

Oppenheim Research considers the valuation of the market to be largely fair. Momentum is currently largely equivalent to the average since 2001/2002, the beginning of the low interest phase. “Of course there are considerable differences within the market,” noted Dr. Ralf Zimmermann, Senior Strategist at Sal. Oppenheim. “Cyclical companies from the chemicals, industry/engineering and automotive sectors tend to be more expensive. Defensive sectors such as pharmaceuticals, telecommunications and utilities seem inexpensive by comparison,” he said.

LIQUIDITY REMAINS KEY DRIVER

Money supply growth remains at an historic high at both international and regional level. The low interest rate will force households to reduce their high present level of demand deposits and invest more in risk assets. Matthias Jörss elaborated, “This plentiful liquidity should serve to provide continued support for the markets and more than compensate for the disappointments caused by exaggerated growth expectations in the market.”

VOLATILE SIDEWAYS MOVEMENT WITH POSITIVE UNDERLYING TREND

Overall, the equity strategists at Sal. Oppenheim thus do not expect any further rallies on the equity market – instead seeing the market in a volatile sideways movement with a mildly positive underlying trend. They predict an index level of around 6,350 for the DAX at the end of 2010, and around 3,100 for the DJ EURO STOXX 50.

Looking back on this year, Werle explained, “The point of (re)entry into the equity market in 2009 was particularly important, and favouring high-beta securities during the rally mostly paid off.” The performance of a large number of equities

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became disconnected from company-specific development. Oppenheim Research is increasing its focus on the selection of individual equities and solid bottom-up analysis for 2010, as a more sideways movement of the market is expected for the first six months of the year in particular, and because fluctuations in the macroeconomic indicators will trigger smaller, temporary mini cycles rather than bringing about long-term changes in the trend. "Superior stock-picking qualities will be rewarded in 2010," predicts Werle.

Given their more conservative outlook on the economy and the markets, the strategy experts prefer undervalued defensive equities with stable and visible cash flow, predominantly from the healthcare/pharmaceuticals, telecommunications, utilities and household goods sectors. Other favourites include insurance and technology. Key investment issues at single-stock level for 2010 will be high and secure dividends, above-average operational business relations with growth markets in Asia and Latin America and a revival of M&A activities. Sal. Oppenheim's top recommendations for 2010 include Allianz, Bayer, BNP Paribas, Deutsche Post, France Telecom, GDF Suez, L'Oréal, Nokia, Philips, Roche, RWE and Telefónica. In terms of small caps, the Bank sees attractive risk/reward profiles for Air Berlin, Conwert, Demag Cranes, Deutsche Euroshop, Postbank, GEA, Hannover Rück, Kontron, Steria, Symrise and United Internet.

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