

PRESS RELEASE

A two tier market offers opportunities

SAL. OPPENHEIM PRESENTS EQUITY STRATEGY OUTLOOK 2008

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- *Global economy to slow down considerably in 2008, with growth capacity increasingly focused on the emerging markets, commodity-rich and oil producing companies, and on domestic demand in Germany and Europe*
- *Increasing risk of a global economic slump if the financial crisis continues*
- *Corporate profits in Europe to rise moderately again in 2008 and 2009*
- *In the base scenario, low valuation will enable considerable share price gains on the stock market; price increase to a DAX level of 8400 and a EuroStoxx 50 level of 4550 possible in the course of the year*
- *Preference for defensive growth stocks in the short term, varied recovery in financial stocks in the course of the year*

According to Sal Oppenheim jr. & Cie. analysts, the international capital markets will remain in a consolidation phase for the next few weeks. The extent of the economic slowdown, particularly in the USA, the required adjustments in the financial industry and the impact of these adjustments on the ability of many companies and consumers to find sources of financing are among the factors giving rise to uncertainty. As a result, the US dollar will not only remain vulnerable in the short term, but will also gradually start to have a negative impact on corporate profits.

“Market normalisation and adequate risk differentiation in the financial sector is unlikely to be possible until the required transparency has been created with the publication of the imminent annual financial statements in the first quarter”, explained Dieter Pfundt, personally liable partner at Sal. Oppenheim, at Oppenheim Research’s press conference held today in Frankfurt to unveil the capital market outlook for 2008.

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OPERATING PROFITS TO CHART ONLY A VERY MODEST INCREASE IN 2008 AND 2009

The real estate and financial crisis in the US triggered by the explosion in oil and commodity prices means that a recession scenario for the economy cannot be ruled out for the first time in years. This, in turn, would have a considerably negative impact on exports from Asia and Europe. Furthermore, the uncertainty on the European money and lending markets has been hindering large-volume transactions for several weeks.

In light of the gloomier growth prospects, Oppenheim Research expects only a very moderate increase in long-term operating profits in 2008 and 2009. Nevertheless, a number of factors, including the tax reform in Germany, the success of numerous consolidation measures (e.g. at Bayer and Linde) and restructuring measures (e.g. at Siemens and Daimler Benz), combined with the abolition of one-off write-downs in the financial industry due to market imbalances will have a positive effect next year. Dr. Wolfgang Sawazki, Head of Equity Research at Sal. Oppenheim, explained, "We expect net profits in the corporate sector in Germany and Europe to continue to rise on the whole. We expect the DAX to rise by 8%, and the EuroStoxx by 5% in 2008. In the first quarter of 2008, however, negative earnings revisions are to be expected initially."

GERMANY AS AN INTERESTING INVESTMENT LOCATION FOR INTERNATIONAL CAPITAL

This means that substantial price potential will be opened up on the stock market in the course of the year, lifting the DAX to 8400 and the Euro Stoxx 50 to 4550 by the end of the year in the positive base scenario. As a result, Germany will remain an interesting investment location for international capital despite the current dollar-related problems. This will be helped along by the high industrial leverage towards the investment needs of the emerging markets, and the positive impact of tax and social security reforms, as well as a favourable real estate market environment.

This forecast is based on a low stock market valuation (P/E 2008: 12) compared with alternative asset classes, a further increase in corporate profits, expectations of a normalisation in the risk perception of market participants and support from the expansive monetary policy pursued by the Federal Reserve. Furthermore, investors in DAX stocks can once again expect a record volume (increase of around 20% to approx. €40 billion to €45 billion) for share buy-backs and dividends.

These factors indicate that, on the whole, 2008 will be a divided stock market year in many respects. "The spectrum of opinion has rarely been as wide with respect to performance and the factors that drive prices", explains Matthias Jörss, head of

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Equity Strategy at Sal. Oppenheim. “Initially, there is a risk that further indications of an economic slowdown and the publication of the write-downs required in the financial sector for 2007 will place a further burden on the market before it can recover again in the form of a soft landing at a later date when confidence grows”, said the equity strategist.

DEFENSIVE GROWTH STOCKS WITH STABLE CASH-FLOW GROWTH FAVOURED

This environment will favour defensive growth stocks with stable cash flow growth and visibility in the first instance. The stocks include those from sectors such as Healthcare, Personal & Household Goods and Telecommunications. Driven by the normalisation of the overall situation on the lending markets, numerous financial stocks will have substantial price recovery potential in the course of the year thanks to the low valuations across the sector. “At present, stock market participants in this sector do not have sufficient transparency to make the right selection”, said Dr. Sawazki. Furthermore, many mid caps suffered exaggerated price losses at the end of 2007 after being forced to reduce their risk and deleverage. These companies include, for example, Andritz, Demag Cranes, Douglas, Centrotec, Solarworld and Stada. Furthermore, the bank’s top recommendations for 2008 include ABB, Adidas, Allianz, Bayer, Henkel, Merk, OMV and RWE.

SLIGHT RECOVERY IN THE US ECONOMY FROM THE SECOND HALF OF 2008

The base scenario for the stock market strategy presented assumes continued sufficient global economic growth of at least 4.5% despite a substantial slow down, compared with growth of 5.2% in 2007. The core growth regions will remain the oil-producing and commodity-rich countries, as well as the emerging markets of China and India. Norbert Braems, Chief Economist at Sal. Oppenheim, explained, “Developments in these two countries will go some way to compensating for the marked growth slowdown in the USA. We expect to see a slight economic recovery in the US from the second half of 2008, supported by the implementation of an expansive monetary policy by the Federal Reserve.”

In Europe and Germany, the international economic burdens, the rise in oil prices and the weak dollar will weaken growth to below 2% (compared with 2.6% in 2007). However, rising domestic demand, propped up by increased employment, falling incidental wage costs and tax relief may be able to compensate for this development in part. “The ECB is only likely to move sideways with its interest rate policy, because high inflation would make it difficult to pursue a more expansive course”, said Braems.

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