

PRESS RELEASE

## Partial recovery in early 2009 through massive government programmes - despite current global recession

SAL. OPPENHEIM PRESENTS CAPITAL MARKET OUTLOOK FOR 2009

- *Global economy endures synchronous recession; extended stimulus packages needed*
- *More profit warnings for Q4; estimates for 2009/2010 20-30% too high*
- *Positive share performance in first half of year following rocky start*
- *Doubt over sustainability will slow down shares in second half of year*
- *Use weakness of Q1 to build up positions in selected sectors: infrastructure, steel, chemicals, agriculture, utilities and insurance*
- *Partial recovery by the summer: DAX could reach 5700-6100 (Euro Stoxx 50: 3000-3200); however, there is risk of declining share prices in second half of year*

FRANKFURT, 10 DECEMBER 2008

The outlook of Sal. Oppenheim jr. & Cie on capital market development in 2009 is shaped by the global recession. Triggered by the USA, the global economy is currently experiencing the deepest slump on the international financial markets and in the global economy in general for decades, as a result of the financial and real estate crisis. There is also a noticeable weakening in growth in the emerging markets, partly due to global deleveraging. Dieter Pfundt, personally liable partner at Sal. Oppenheim jr. & Cie., explained at today's press conference in Frankfurt: "As a result of the collapse of Lehman Brothers and numerous other banks and insurance companies, market players have become extremely risk-averse. This almost brought first of all the money market, and subsequently also the lending and capital markets to a standstill."

As a consequence, the real economy is now suffering a massive decline particularly in the automotive, capital goods and real estate sectors, accentuated further by a distinct and involuntary inventory increase. In this environment, a bout of layoffs on the labour market will follow next year.

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## HUGE BUNDLE OF MONETARY AND FISCAL POLICY MEASURES REQUIRED

However, the economic slump is expected to reach rock-bottom at the end of the year. The shock in the real economy which exceeded all predictions will force governments and central banks to supplement the measures already announced with further interest rate cuts, stabilising action and additional stimulus packages in order to absorb the decline in demand by providing public sector support, as well as to stabilise the banking sector with further aid programmes. "We need a massive bundle of fiscal measures, as monetary policy can only deliver a diluted effect," said Pfundt. The very aggressive monetary and fiscal policy, which will be well in excess of 2% of GDP p.a. in the US and China, is not likely to bring about economic stability until the second half of 2009 at the earliest.

## EARNINGS FORECASTS MUCH TOO HIGH FOR EURO STOXX 50 AND DAX

As a result of the economic slowdown, the series of negative company announcements and profit warnings from industrial companies, and reports of losses from banks will continue well into the spring of 2009. Dr. Wolfgang Sawazki, Head of Equity Research at Sal. Oppenheim, explained: "We expect more unpleasant surprises – particularly regarding industrial stocks, manufacturers of durable consumer goods and luxury goods, chemical companies and automotive stocks." Furthermore, the pronounced decline in world market prices for commodities and surplus manufactured goods is likely to result in considerable depreciation on increased inventories. "Our earnings forecasts for the DAX have already plummeted by almost 40% and those of European companies by over 30% for 2008," said Dr. Sawazki. The expected lack of repeated write-downs on securities is the only thing that makes the 2009 figures seem more favourable. On the other hand, the operating results will continue to fall substantially for at least the first half of the year. Sal. Oppenheim expects that the current earnings forecasts for the Euro Stoxx 50 and DAX are around 20-30% too high for 2009 and 2010. "The capital markets will still be marked by great uncertainty at the beginning of the year because of this," worries Dr. Sawazki.

However, a large part of the economic slowdown is already visible in share prices and credit spreads. With respect to this, Sal. Oppenheim experts do not share the widespread opinion that shares are cheap. Matthias Jörss, Head of Equity Strategy at Sal. Oppenheim had this to say on the matter: "This only applies on the basis of excessive earnings forecasts, but not if one takes a long-term view of shares in relation to GDP growth." Nevertheless, Sal. Oppenheim also ultimately expects listings to increase since main risk premiums for corporate bonds can also be expected to level off somewhat from current record levels. "The massive government support will play an important role in this process in the first half of the year. Looking at the case of Japan in the 1990s, we see that the stock market

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reacted to nearly all fiscal packages even if they did not turn out to be sustainable." Furthermore, price gains also followed the massive quantitative easing of Japanese fiscal policy. Since the US has implemented significantly more aggressive fiscal as well as monetary policy than Japan did during the nineties, investors can expect to see a temporary cyclical recovery during the first six months. What is more, the negative effects from outflows and liquidation of hedge funds, as well as general investor withdrawal from risky or illiquid investments (equities, structured products, industrial bonds, emerging markets) are likely to gradually peter out.

## TEMPORARY MARKET RECOVERY IN THE FIRST HALF OF 2009

For this reason the experts at Sal. Oppenheim recommend using a potential weakness in January/February, to build up a share exposure and temporarily rotate selected industrial stocks from defensive sectors in cyclical and commodity-intensive industries that are high in cash-flow and dividends, such as basic resources (steel), and chemicals. Utilities and insurance stocks are also attractive. In anticipation of economic stabilisation as a result of massive government bailouts and sustained high volatility, the Bank expects considerable market recovery in the first half of the year, which could raise the DAX up to 5700-6100 points and the Euro Stoxx 50 to 3000-3200. In contrast, due to discussions arising about the sustainability of a politically-driven upswing, the DAX could drop to 4800-5400 points and the Euro Stoxx 50 to 2600-2900 during the second half of 2009. Sal. Oppenheim considers the following, among others, to be attractive equity investments with positive double-digit performance expected: ABB, Allianz, Bayer, CEZ, RWE, Philips, Österreichische Post, Merck, Syngenta and Vodafone. Oppenheim's top second-tier stocks include Andritz, Demag Cranes, Fraport, Rhön Klinikum, Puma, Roth&Rau and United Internet.

## ECONOMISTS EXPECT RECESSION TO CONTINUE IN 2009

The economic stabilisation expected to start in the second half of 2009 is unlikely to turn into a self-supporting sustainable upturn, as was previously the case. Continued risk reduction in bank balance sheets, the consolidation process of national budgets to be implemented at a later date, the elimination of capital gains realisations as consumption driver, falling employment rates and a reversal of a currently very aggressive monetary policy will not permit any significant recovery to be sustained in the next two years.

Overall, the Bank's economists forecast a major economic slump in the fourth quarter of 2008 followed by an economic low at the end of the year, and a continuation of the recession during the first half of 2009. Norbert Braems, chief economist at Sal. Oppenheim, explained: "Economic output is expected to decline

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in the US as well as in Europe by considerably more than 1% over the year as a whole." In addition to a downturn in the real estate sector, investments and private consumption are also declining. "Not only the US, but also some European countries will suffer from rising unemployment, the necessity of debt relief and negative asset price effects. Only gradually can this be offset by increasing government demand. In the medium term, the decline in commodity prices and the expected stabilisation in the US real estate sector are likely to result in positive effects," said Braems.

The central banks should take full advantage of the scope provided by the weak economy and the related heavy decline in inflation rates to adjust interest rates and lower key rates in Europe to around 1.5% and bring US key rates down to 0%.

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