

PRESS RELEASE

Economic "spring fairytale" to end in summer – volatile correction and sideways trend until the end of the year

SAL. OPPENHEIM PRESENTS ITS OUTLOOK ON THE CAPITAL MARKETS FOR THE SECOND HALF OF 2009

- *Global economic recession reaches rock-bottom at turn of 2008/2009; Stabilisation programmes taking effect; Corporate earnings forecasts down by almost 60%*
- *Interim recovery on the equity markets to peter out in the third quarter; increase in negative signals and overblown recovery expectations will lead to corrections; DAX could reach 5300-5500 in the summer; DAX year-end target: 4500-4800*
- *Medium-term downshift in growth as several years needed to rectify imbalances*
- *Banking crisis persists: from securities losses to cyclical credit defaults*

FRANKFURT, 17 JUNE 2009

Sal. Oppenheim jr. & Cie.'s outlook with regard to the development of the capital markets in the second half of 2009 continues to be shaped by considerable tension and major global imbalances. Shored up by the massive government aid programmes, however, global economic activity was already coming out of the trough in the first quarter. "Despite signs of recovery over recent months, especially in the emerging markets, economies and capital markets are not yet in the clear," explained Dieter Pfundt, personally liable partner of Sal. Oppenheim, during the presentation of the Bank's capital market outlook in Frankfurt. "Large parts of the global economy are still in recession. The medium-term growth outlook can at best only be considered as moderate, as it will take several years to rectify the imbalances."

The economic analysis performed by Sal. Oppenheim shows clearly that most capacities will remain underutilised for a number of years, even if a recovery takes hold. "We expect monetary and fiscal policy to be neutralised over the next few years by way of interest rate and tax increases," said Norbert Braems, Chief Economist at the Bank. Growth will also be stemmed by the fact that many real estate and consumer goods

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markets are not expected to stabilise in the near future. Experts at Sal. Oppenheim predict that the US and European economies will stabilise in the latter half of 2009 after the unusually severe recession in the first half. The full-year forecast for the USA, Germany and the euro area is thus -2.6%, -6% and -4% respectively. From 2010, a renewed positive but low growth rate of 1% is expected.

While demand is regaining stability, particularly with the end of a sharp inventory cycle, the substantial government aid programmes and low interest rates, investment and exports have been dampened. Due to its extreme dependency on exports and industry, the German economy has slumped more than the average, with the result that the unemployment rate in the country is continuing to rise.

RETURN TO PREVIOUS EARNINGS LEVELS IN THREE TO FOUR YEARS

In the course of this severe recession, corporate earnings forecasts in Germany and the rest of Europe have dropped by almost 60% from their pinnacle in 2007. "A large number of industrials have been hit even harder," explained Dr. Wolfgang Sawazki, Head of Research at Sal. Oppenheim. "Barring a number of late-cycle companies, such as energy plant constructors, operating results in many sectors will have hit a low by the end of the first half of the year," Dr. Sawazki continued. Owing to major restructuring programmes, inventory write-downs and goodwill amortisation following large-scale acquisitions, however, figures are expected to fall by a further 20% to 30% by 2010. A return to previous earnings levels is therefore only likely to happen in three to four years' time.

"This trend is being partly fuelled by the regulatory environment in the banking sector, which has been continuously deteriorating due to the introduction of a retention in securitisation, higher capital requirements, and disclosure of what were previously off-balance sheet risks," explained Carsten Werle, Head of the Banking Team and soon to be Head of Equity Research. "Moreover, the weak economy will mean that German and European banks will have to endure an increasing number of credit defaults. An end to the banking crisis is therefore definitely not in sight," warned Werle. A second wave of corrections is expected before the year is out.

OVERBLOWN RECOVERY EXPECTATIONS MEAN RISKS FOR THE SECOND HALF OF THE YEAR

Against this backdrop, strategy experts at the Bank expect the interim recovery on the equity markets predicted for the turn of 2008/2009 to peter out in the third quarter. In the short term, however, the DAX could increase to somewhere in the region of 5300 to 5500 points. This will be helped by the corporate reports due for the second quarter, which are expected to show a sequential improvement in the US in particular, as well as by the consistent rise in leading economic indicators

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and the ongoing widespread underweighting of equities in many investors' portfolios.

Nevertheless, the resurgence on the equity markets is not set to last. "A string of factors, including a lack of demand for the reinvestment of appropriated dividends, the recent decline in the US dollar and the interest rate rise, will be burdensome," forecast Matthias Jörss, Head of Equity Strategy at Sal. Oppenheim. According to Jörss, a more important factor is that a deflationary debate in view of underutilised global capacities may ensue – not least given the considerable decline in wage increases in the USA. At the same time, key leading indicators, such as the US purchasing managers' indices and Ifo business outlooks are set to exceed the recovery peak, which will lead to further medium-term earnings revisions," explained Jörss. "As we saw in Japan in the 1990s, the equity market follows the trend set by the leading indicators, which means that we will encounter share price risks as the half-year progresses," the equity strategist continued.

DEFENSIVE STOCKS WITH STABLE CASH FLOWS ARE BACK IN THE SPOTLIGHT

According to Sal. Oppenheim analysts, medium-term recovery potential has been overestimated. Growth will be hampered in the medium term mainly by the neutralisation of imbalances that have arisen. At present, this includes the very expansive monetary and fiscal policies, which are balanced out by interest rate and tax increases, higher US consumer leverage combined with a lower saving rate and restrained lending by banks as well as the trend towards greater regulation and state intervention. A surprising upshift in economic activity owing to a positive inventory cycle can only really be expected for one or two quarters. However, significant capital increases absorb liquidity, and the valuation gap displayed by many investment instruments has swiftly closed up again due to price recovery.

For the second half of the year, the strategy experts therefore predict a volatile correction and sideways trend from 4200 to 5800 points for the DAX and 2100 to 2700 points for the Euro Stoxx 50. The equity strategists put the year-end level at 4500 to 4800 points for the DAX and 2250 to 2400 points for the Euro Stoxx 50.

The rally in cyclical commodity and industrial issues as well as bank shares will peter out in this environment," explained Sawazki. "Over the course of the year, investors are instead likely to return to more defensive stocks with stable and visible cash flows from the healthcare and pharmaceuticals, household goods, agriculture, utilities and telecommunications sectors."

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Sal. Oppenheim's top recommendations for the second half of the year include Allianz, Bayer, Crédit Agricole, Daimler, Deutsche Post, GDF Suez, Hannover Re, Philips, Roche, RWE, Schneider Electric and TNT. In terms of small caps, the Bank favours Celesio, RhönKlinikum, Qiagen, United Internet and Verbund.

Characters: approx. 8,000

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