



FALCON PRIVATE BANK
SWISS PRIVATE BANKING

DR. THOMAS LIPS, CHIEF INVESTMENT OFFICER

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Falcon Viewpoint

FREEFALL COMING TO AN END

Since December 2007 the US economy is in recession. The contraction has accelerated dramatically, especially after the bankruptcy of Lehman in September 2008 and the subsequent freeze of the financial markets. The global banking system was about to collapse, but was saved by the governments around the world. Fear spread that this all would end in a severe depression. Latest fundamental data shows that not only the US economy shrunk by more than 6% in each of the last two quarters, but that Japan, the UK and Germany are having severe problems as well. Is there hope that this free fall will come to an end or will it get worse before a turnaround can occur?

Fortunately there are first signs of a stabilisation, foremost in the US. Leading indicators are rising from their lows, existing home sales are ticking up and inventories have dropped substantially. Some countries in Asia (China, Korea) have weathered the storm quite well and are growing again. Last but not least the stock market has rallied more than 30% since the lows in March, one of the strongest increases in many years.

Is the free fall really ending? Authorities have taken substantial measures in monetary and fiscal policy. They have acted more quickly than they did in the thirties of the last century, but it is obvious that the deleveraging process has to be run its course. Hence, the conclusion is, that most likely the free fall of the global economy is coming to an end, but the return to growth will take more time and will probably not take place before 2010. The markets were ruled by fear until recently. Risk aversion was running high. In the past few weeks this has changed. But still the wall of worry is there to be climbed. More recovery can be expected for corporate bonds, equities, and selected alternative investments. The question later will be, whether central banks can take out the excess liquidity before inflationary pressures start to build. A significant rise in Inflation would eventually be bad news for the financial markets, But good news for real assets such as gold.

Dr. Thomas Lips
Chief Investment Officer

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