

Weekly Report

Fraudman Sachs ?

Words starting with gold are undeniably more attractive than if they should start with an F, such as fraud. That could be easily interpreted as an F for fail and could lead to an F for flop, but in ancient times would most certainly have inflicted an F for flagellation. While the maxim "innocent until proven guilty" has to be adhered to, investors operate as usual with probabilities of future outcomes and decided therefore to get rid of the Goldman Sachs positions. Profit maximization is a lauded mantra on Wall Street and GS has brilliantly executed in this respect. The SEC allegations touch the delicate point of potential conflicts of interests. While legally difficult to prove, the fact that GS knowingly withheld information in respect to the role of Paulson not just in the asset selection process but also in relation to the tranches he intended to place bets on, make GS morally a loser - even if the investment bank should win on the "material" factor. As such, the reputation risk is enormous. The fact that GS is also under scrutiny in other regions of the world and might have helped in masking budget deficits of fiscally troubled countries, such as Greece, does certainly not help obtaining a clean record. We expect GS to lose market share as a direct consequence of its actions and would abstain from investing in this company even after the sharp drop in prices. The ramifications for the financial sector are important. The scandal increases the hostility against financial institutions even more, will accentuate regulatory reforms and will lead to soaring legal costs and liabilities. Reforms are now highly likely to include strict rules on derivatives and hedge funds.

Foreign Exchange

Not without sarcasm, the volcano eruption of one trouble spot (Iceland) is hindering a crucial meeting in another conflict (Greece): Representatives of the IMF and the EU should have discussed a further step in the standby bailout with Greek officials, but were impeded by air traffic problems. Fortunately, not all achievements in modern engineering are inoperative: phones still work and debates seem to occur presently. There is indeed a high probability that the bailout may soon be activated, which would finally calm down markets and offer some support to the EUR short term. As stated in the past, we do not expect the currency to strengthen much over the 1.37 level against USD, however, as a more dynamic US economic development should soon change the perspective in relation to interest rate differentials. US Retail sales rose 1.6 % after an upwardly revised increase of 0.5 % the previous month and positive growth ex autos and gas offered just a further indication that economic growth becomes increasingly self-sustained.

	Short-term trend	Last
EURUSD	→	1.3466
USDCHF	→	1.0646
USDJPY	↑	92.260
GBPUSD	↑	1.5313

Fixed Income

Just as Iceland was meant to have obtained the previous status of a fisherman's island situated far up in the north, the country staged a powerful comeback. Its lava sputtering volcano achieved what frequently striking air-traffic controller and cabin personal did not: a total grounding in Europe. 313 airports are affected. The costs are estimated at \$ 200 million per day. The outlook is most unclear as the period and the strength of eruptions are impossible to forecast. The last eruption of the Eyjafjallajökull volcano reportedly lasted over a year. Suddenly, unlimited mobility is no longer granted and the fragility of globalization has been revealed. The obvious losers are airlines, but many industries dependable on air-traffic goods are also affected. But what could have been a more symbolic gesture than to cover Europe, which is perceived to lack other world regions' economic dynamism, with a thin layer of ashes? Remedies to solve fiscal problems in Southern Europe, reform pressures in the important financial sector and now serious transportation limitations will all additionally affect an already lackluster economic environment.

	Forecast end 10	Last
US 10y T %	4.80	3.78
Fed funds	2.00	0-0.25
Bund 10y %	4.00	3.07
ECB rates	1.25	1.00

Stocks

Despite expected negative ramifications from the SEC probe into GS, we keep our positions in Bank of America (BAC) and Citigroup (C). Both banks exceeded expectations by far. Importantly, BAC demonstrated improving credit trends, which are expected to further progress over the year. Capital markets and investment banking businesses have performed well, while core consumer and commercial businesses are still in a recovering phase. Citigroup showed significant progress towards its goal of sustained profitability and financial strength with revenues growing 26 % sequentially for Citi Holdings and continued signs of improvements in credit. Consumer loan delinquencies declined. In Europe, we established a position in Roche (ROG VX) for certain strategies. 1Q 2010 sales performed strongly with pharmaceuticals growing 10% in local currency and diagnostics rising by 9 %. Full results will only be presented on July 22nd. Over the next five years, Roche plans to deliver top quartile sales growth within the pharmaceutical peer group and above market sales growth in diagnostics. Six new products are intended to be launched by then.

	Forecast end 10	Last
S&P 500	1230	1186
NASDAQ	2450	2456
DJ STOXX 600	270	266
SMI	7000	6804