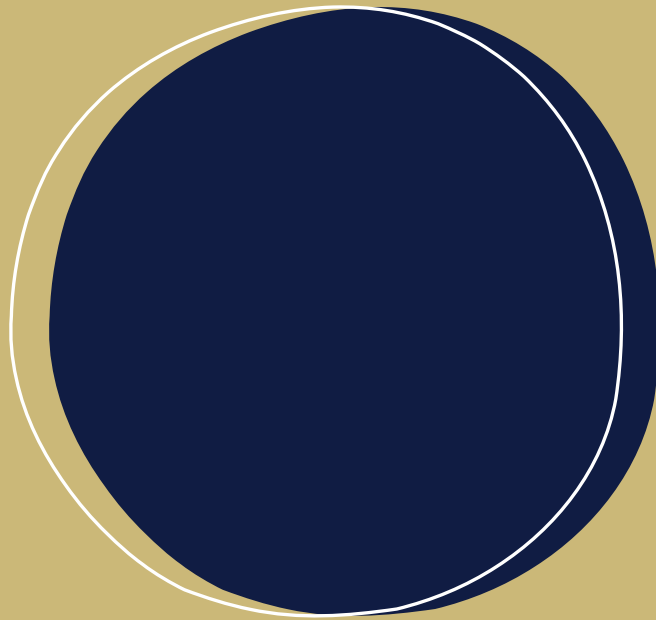


News from the financial markets

Greece rescued; time to take some profits

March 16, 2010





Greece rescued; time to take some profits

Bernd Hartmann, Senior Investment Strategist

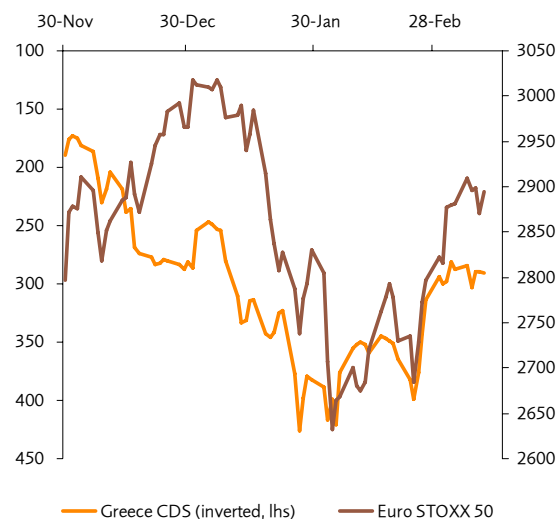
We have sold our EuroStoxx 50 position at a sizeable profit. Starting today, Greece will officially receive bilateral support from the euro zone if, when and as necessary. In response to the news, the euro is trading hesitantly at present but the equity markets have returned to a level that reasonably reflects the fundamentals. We remain favorably inclined vis-à-vis stocks and continue to overweight them in managed portfolios. Above all in terms of the US labor market, there soon could be some positive surprises in the cards. Market uncertainties regarding Great Britain could prevail at least until the lower house elections have taken place.

Greece is hardly a mood-determining factor anymore. We considered the equity market correction at the beginning of the year to be exaggerated (see February 5 issue of News from the financial markets: "Sovereign debt worries dominate market action") and recommended that active, risk-tolerant investors exploit that opportunity. In our portfolio management mandates, we tactically added to equity positions in the assumption that earnings expectations would be buoyed by a satisfactory solution to Greece's budget problems.

Since then, investor fears have eased – as can be seen in the plunging premiums for credit default swaps (CDSs) on Greek government paper. The general mood among investors has also improved noticeably: the markets are no longer in oversold territory. And not least of all, the finance ministers of the EU states voiced their firm commitment to supporting Greece financially. We therefore have taken profits today on the gains recorded in

recent weeks and are reducing our tactical overweighting.

Credit default swap (CDS) premiums vs. the equity market



Sources: VP Bank, Bloomberg

Positive surprises are possible

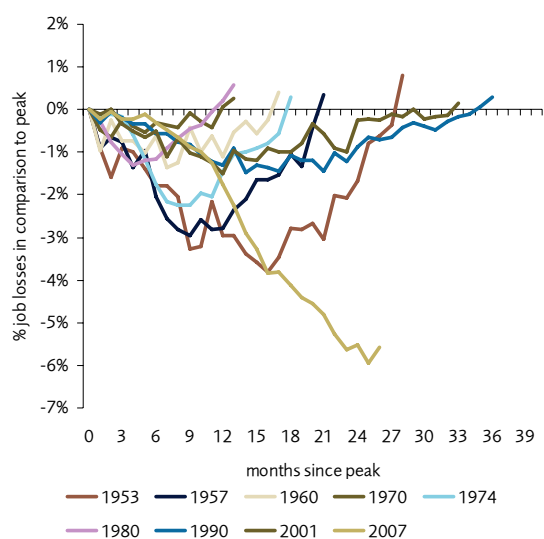
Equally spoken, we are sticking by our opinion that the cyclical bull still has some wings. Given the recent recovery, however, the air on the upside might be getting a bit thin.

The equity markets have already priced-in a great deal of upbeat economic and corporate earnings news. Undervaluations have been largely erased, and the recent improvement in various leading indicators is now likely to time-out for a while. Nonetheless, shares could continue to profit from anticipated earnings gains down the road.

Developments in the USA still harbor the possibility for a surprise or two: here, the

employment situation could potentially give the markets a further boost. Talk is currently about a "jobless recovery" in which companies create only a pittance of new jobs even though their earnings are on the rise. However, during the recent recession, American companies cut jobs like never before in order to protect their free cash flow. But by having trimmed their workforces to the bone, they are hardly in a position today to handle their current order flow and will therefore be forced to hire new laborers. If this turnaround in the US job market is confirmed in the weeks ahead, equities can be expected to react positively.

Historical comparison of labor market trends

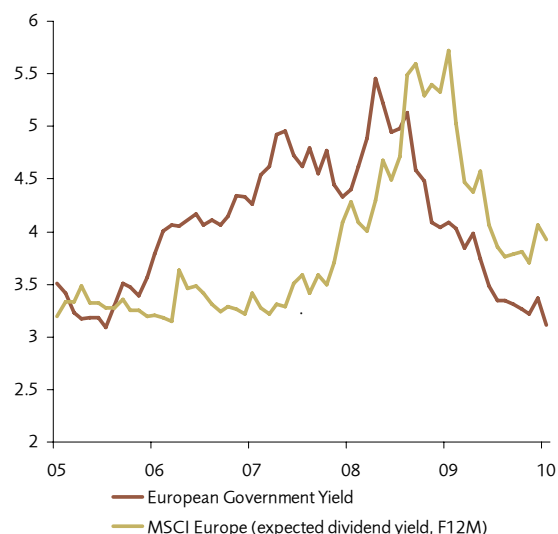


Sources: VP Bank, Datastream

Shares are preferable over bonds

Within a portfolio context as well, shares remain interesting. The risk premiums on equity investments – compared to those on government as well as corporate bonds – lie above the historical mean. Alone the anticipated dividend yield on distributions from European stocks this year surpasses the average return on corporate bonds.

Government bonds and dividend yields



Sources: VP Bank, Datastream

The bottom line:

As we anticipated, the easing concern about Greece has led to a recovery in the equity markets. We have taken that opportunity to reduce the tactical overweighting in our portfolio management mandates and simultaneously book profits on those positions.

Investors who also placed their bets on a short-term bounce in the equity markets are well advised to follow step in this regard. Uncertainties surrounding the outcome of elections in Great Britain could potentially make it more difficult for the government to introduce urgently needed savings measures – but yesterday's commitments from euro zone finance ministers do not extend to Great Britain. Given this rather wobbly setup, equity market weakness cannot be ruled out.

The VP Bank Group

Verwaltungs- und Privat-Bank Aktiengesellschaft is a bank domiciled in Liechtenstein and is subject to the Liechtenstein Financial Market Authority (FMA), Heiligkreuz 8, PO Box 279, LI-9490 Vaduz, www.fma-li.li.

Verwaltungs- und Privat-Bank Aktiengesellschaft

Aeulestrasse 6 - LI-9490 Vaduz - Liechtenstein
Tel +423 235 66 55 - Fax +423 235 65 00
info@vpbank.com - www.vpbank.com - VAT No. 51.263 - Reg. No. FL-0001.007.080

VP Bank (Schweiz) AG

Bahnhofstrasse 3
P.O. Box 2993
CH-8022 Zurich
Switzerland
Tel +41 44 226 24 24
Fax +41 44 226 25 24
info.ch@vpbank.com

IFOS Internationale Fonds Service Aktiengesellschaft

Aeulestrasse 6
LI-9490 Vaduz
Liechtenstein
Tel +423 235 67 67
Fax +423 235 67 77
ifos@vpbank.com

IGT Intergestions Trust reg.

Aeulestrasse 6
LI-9490 Vaduz
Liechtenstein
Tel +423 233 11 51
Fax +423 233 22 24
igt@vpbank.com

VP Bank (Luxembourg) S.A.

Avenue de la Liberté 26
LU-1930 Luxembourg
Luxembourg
Tel +352 404 770-1
Fax +352 481 117
info.lu@vpbank.com

VPB Finance S.A.

Avenue de la Liberté 26
LU-1930 Luxembourg
Luxembourg
Tel +352 404 777 383
Fax +352 404 777 389
vpbfinance@vpbank.com

VP Bank and Trust Company (BVI) Limited

3076 Sir Francis Drake's Highway
Road Town, Tortola
VG-British Virgin Islands
Tel +1 284 494 11 00
Fax +1 284 494 11 99
info.bvi@vpbank.com

VP Vermögensverwaltung GmbH

Theatinerstrasse 12
DE-80333 Munich
Germany
Tel +49 89 21 11 38-0
Fax +49 89 21 11 38-99
info@vpvv.de, www.vpvv.de

Verwaltungs- und Privat-Bank Aktiengesellschaft Hong Kong Representative Office

Suites 1002-1003
Two Exchange Square
8 Connaught Place
Central - Hong Kong
Tel +852 3628 99 99
Fax +852 3628 99 11
info.hk@vpbank.com

VP Wealth Management (Hong Kong) Ltd.

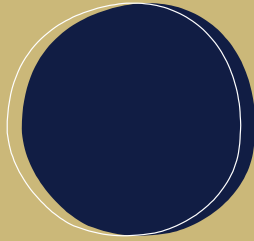
Suites 1002-1003
Two Exchange Square
8 Connaught Place
Central - Hong Kong
Tel +852 3628 99 00
Fax +852 3628 99 55
info.hkwm@vpbank.com

VP Bank (Singapore) Ltd.

9 Raffles Place
#42-01 Republic Plaza
Singapore 048619
Tel +65 6305 0050
Fax +65 6305 0051
info.sg@vpbank.com

VP Bank (Switzerland) Ltd. Moscow Representative Office

World Trade Center
Entrance 7, 5th Floor, Office 511
12 Krasnopresnenskaya Emb.
RU-123610 Moscow
Russian Federation
Tel +7 495 967 00 95
Fax +7 495 967 00 98
info.ru@vpbank.com



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