

An aerial photograph of a winding asphalt road on a steep, green mountain slope. The road has several sharp turns and is dotted with small cars. In the middle of the road, there is a large, multi-story building with a light-colored facade. The surrounding landscape is rugged with rocky outcrops and patches of green vegetation. In the background, more mountain peaks are visible under a clear sky.

Vontobel

Investors' Outlook

Shaken, not stirred

April 2025
For US, Canadian and Latin American Clients

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Shaken, not stirred



—
Dr. Pascal Köppel
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Dear readers,

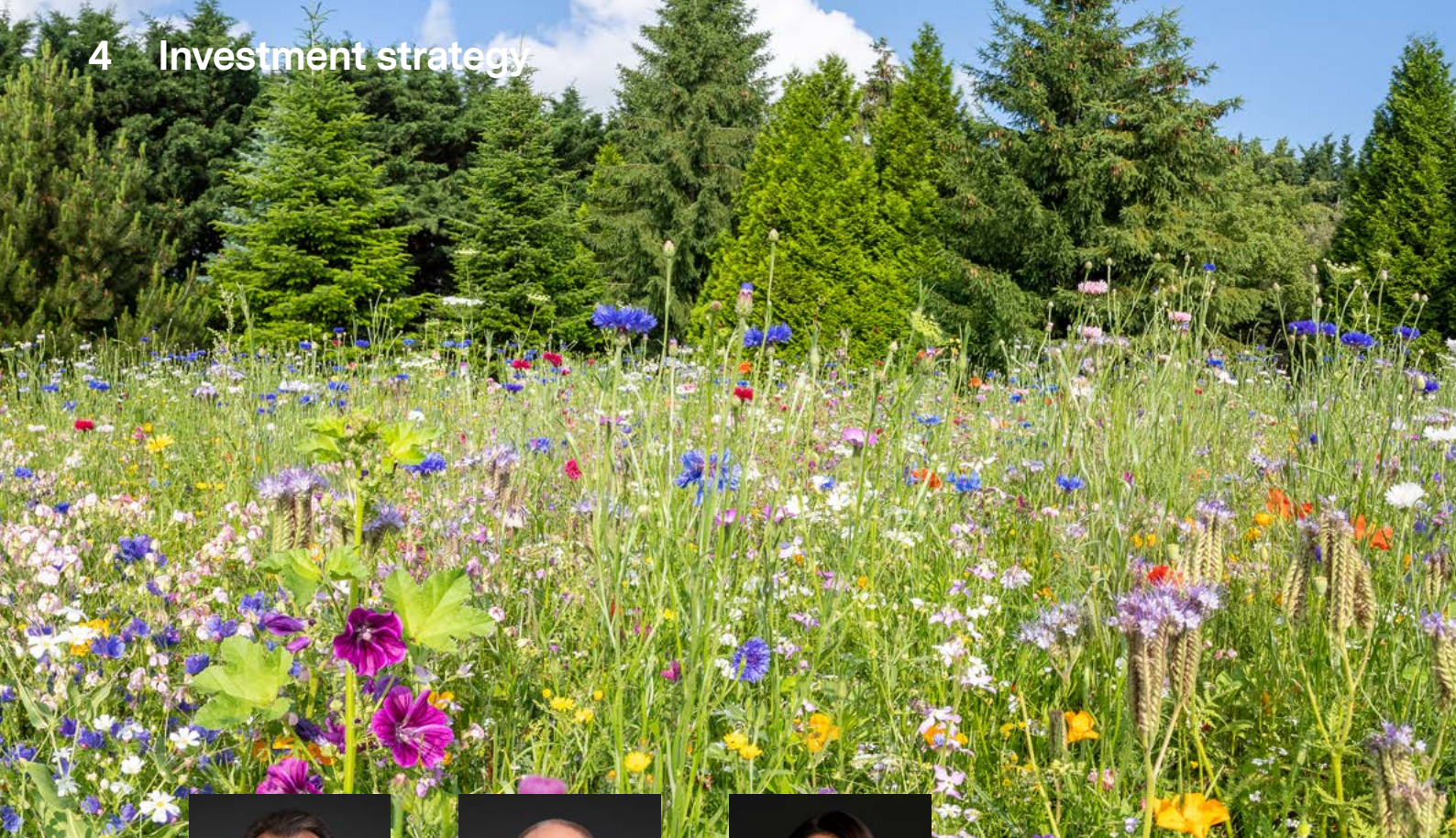
Market volatility has increased substantially over the past months and especially the last week with significant equity price declines around the globe. Trade tariffs and country retaliations remain the key focus and the expected fallout of economic growth and impact on corporate earnings are dominating market sentiment. The market was negatively surprised about the size and breadth of the tariffs. Moreover, the expectation that the Federal Reserve would promptly intervene was dashed when Fed Chair Jerome Powell suggested a more cautious approach towards interest rate cuts for the time being. Powell said that even though it is assumed tariffs will create a one-off inflation shock, the inflation increase could be sustained for longer. Equity markets, fixed income markets and currency markets are pricing in a mild recession in the quarters ahead.

Where do we go from here? There is significant uncertainty surrounding the evolution of level and breadth of trade tariffs. This evolution in combination with the investor, consumer and business reaction thereto will determine the economic and market impact.

We see three key scenarios for the outcome in trade tariffs for the upcoming weeks and months:

- **Base case:** some reduction in tariffs after bilateral negotiations with individual countries but with certain tariffs remaining in place. There will be some negative economic impact, likely leading to a lower economic growth path and with more economic fallout in the US. A global recession is possible depending on the success of negotiations to lower tariffs.
- **Negative case:** Tariffs are not reduced or are increased even further as a response to retaliations. The result would likely be a deep recession. This will lead to further equity underperformance, but with investment grade bonds holding up as central banks will come through with interest rate cuts and investor flight to safe(r) assets.
- **Positive case:** After short-term market volatility the majority of the (new) tariffs are removed and risky assets like equities can recover. Through fallen confidence among consumers and producers economic growth may well move lower but without significant impact on corporate earnings.

We continue to believe that the base case scenario is the most probable, with the outstanding question being the effectiveness of negotiations in reducing tariffs. With significant dispersion in potential outcomes, diversification remains essential. Investors should be prepared for additional near-term downside as the S&P 500 is pricing in not more than a mild recession. Investment grade bonds can benefit from negative growth risks while gold can continue to profit from general uncertainty. Equity market volatility will likely remain high in the short-term. Even though longer-term opportunities will arise, we currently see a neutral allocation to equities as justified, while remaining overweight in investment grade bonds and gold.



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Tariff driven markets

Economic uncertainty remains relatively high and regional trade policies are having quite a significant impact on asset prices around the globe. Nonetheless, the overall underlying economic environment had become more balanced, with fiscal stimulus supporting growth in Europe. However, due to high uncertainty and market volatility, the economic outlook has shifted down significantly.

The changed outlook for growth together with some corrections in overvalued assets (US dollar, US equities) has led to a severe setback in US equities since the start of the year. On the other hand, equities advanced in the first quarter in other regions, primarily Europe and Switzerland, but declined as the global economic outlook worsened due to the tariff announcements.

Despite the rising volatility, investor interest in Europe has picked up this year. Germany, which was once the fiscal scourge of Europe, has agreed to reform its constitutional

debt brake, paving the way for a multi-billion euro spending spree. Investors are now significantly overweight in the region. In our view, it is important to evaluate the attractiveness on a single name basis and select the companies that will likely benefit. In that sense, we remain selective with regard to European stock allocation.

Gold continues to benefit from the elevated level of uncertainty, persistently reaching fresh highs. It has proven to be an excellent diversifier; in the ongoing uncertain environment, we believe it can continue to provide diversification in a broader portfolio context. With the increased impact of government policy, we think it remains vital to diversify across assets and regions with exposure to different currencies. High quality investment grade bonds with longer duration can provide protection against significant downward economic growth risks.

Turn to page 5 for the details of our current tactical allocation stance.

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT		
	significantly	slightly		slightly	significantly	
1 Liquidity	→					We are keeping a significant underweight in liquidity, as we see scope for bonds to outperform versus cash.
2 Bonds					↗	The outlook for high-quality fixed income bonds increased our supportive view with a moderately upward sloping curve and decent real yields. We remain overweight in investment grade (IG) credit. We continue to prefer high-quality (investment grade) bonds and remain underweight in high-yield credit. In our opinion, companies with weaker balance sheets and a greater reliance on external borrowing are more vulnerable in a deteriorating economic outlook, and bond prices and spreads over higher-quality bonds do not sufficiently compensate for this risk.
3 Equities			↘			As the overall economic growth risks have risen substantially, we have neutralized our equity position via closing the US equity overweight. We continue with a relative trade with an overweight in Switzerland versus the United Kingdom.
4 Commodities / Gold			→			We continue to hold a positive view on gold. The yellow metal rallied strongly in 2023 and 2024, and got off to a strong start in 2025 too. Heightened geopolitical uncertainties and ongoing strategic purchases of gold, especially by central banks in emerging markets, continue to represent positive drivers.

A view to a ceasefire

A partial ceasefire would offer some conflict resolution. However, a certain degree of uncertainty would still persist. The most optimistic scenario for this year would involve the signing of a comprehensive peace deal that ensures long-term stability. This would bring more significant economic benefits for Europe. However, such an agreement could take time to materialize.



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

We have identified five main economic channels through which a resolution to the conflict could impact Europe:

1. Energy—lower prices

Lower energy prices are arguably the most important economic benefit for Europe that could result from a ceasefire. Following the invasion, energy prices in Europe spiked amid supply disruptions and a rising geopolitical risk premium. Although prices have since stabilized, they remain above their pre-invasion average for both consumers and producers (see chart 1).

Although it may be tempting to price in a resumption of pipeline flows, this is a politically and economically delicate dance in our view. Some pipelines have been damaged and most European leaders have expressed their reluctance to depend on Russian pipeline gas again. US LNG purchases may remain an interesting alternative for Europe.

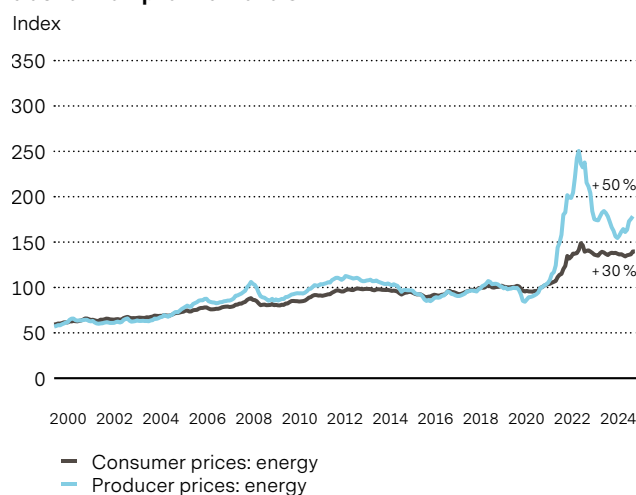
2. Reconstruction—investment in rebuilding Ukraine

After energy, the reconstruction of Ukraine is a major focus. Rebuilding war-torn areas will require significant investment, with estimates ranging from USD 155 billion¹ to USD 486 billion² over a 10-year period. The final cost will depend on how much territory Ukraine ultimately retains, given that much of the destruction has occurred in Russian-occupied regions. Most analysts therefore estimate annual reconstruction spending to be closer to USD 10 billion to USD 20 billion.³ This is equivalent to roughly 0.5–1 percent of the EU's current annual construction spend.

3. Defense spending—shifts in European military spending

Another area drawing increasing attention is defense. In early March, the EU proposed a plan to ease fiscal rules, unveiling a EUR 800 billion initiative to strengthen military

Chart 1: European prices have pulled back but remain above their pre-war levels



Source: LSEG, Vontobel; as of March 19, 2025.

¹ Source: Kyiv School of Economics, published February 12, 2024. kse.ua/about-the-school/news/155-billion-the-total-amount-of-damages-caused-to-ukraine-s-infrastructure-due-to-the-war-as-of-january-2024/

² Source: World Bank, published February 15, 2024. www.worldbank.org/en/news/press-release/2024/02/15/updated-ukraine-recovery-and-reconstruction-needs-assessment-released

³ Source: Goldman Sachs estimates. publishing.gs.com/content/research/en/reports/2025/02/13/ee6a5151-45a7-478d-9075-7f373d1befb6.html (log-in required)

capabilities. Shortly after that, Germany announced a EUR 500 billion plan to expand its infrastructure and military spending. European defense spending could rise towards 3 percent of GDP over the next two to three years (see chart 2). If this defense-related capital expenditure is geared toward domestic military production, it could provide a fiscal boost that acts as a tailwind for European economic growth.

4. Confidence—improved sentiment

The outbreak of the war in early 2022 led to a sharp decline in euro area consumer confidence, coinciding with heightened geopolitical uncertainty and rising inflationary pressures. Confidence levels linked to Ukraine have since rebounded and geopolitical risk has eased. Nonetheless, they have not yet returned to pre-war levels and savings rates remain elevated. If a ceasefire is reached, it could imply a slight increase in confidence, potentially supporting consumer spending (see chart 3).

5. Migration trends—the return of Ukrainian refugees

As of January 2025, approximately 4.3 million Ukrainian refugees were registered under the EU's temporary protection program, with the majority residing in Germany and Poland.⁴ Studies suggest that their presence has modestly increased the EU's labor supply and potential economic output by 0.2–0.3 percent so far, while also contributing to higher public spending.⁵ If refugees return to Ukraine, this trend could (partially) reverse. Survey data

indicates that about 11 percent have already returned, with another 35 percent planning to do so if the war ends.⁶

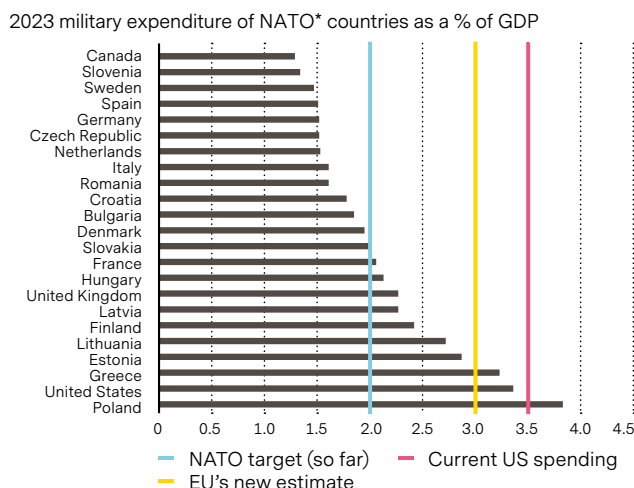
The impact for European equities

Looking at the potential implications for markets and European equities, the correlation between various market segments and the chances of a ceasefire⁷ reveals that the construction and materials sectors have the strongest positive relationship.

In terms of valuation, European Monetary Union (EMU) equities have risen sharply, now trading above their pre-war price-to-earnings (P/E) ratios. However, they are still trading at a discount relative to US equities, although this valuation gap has narrowed significantly since the start of the year. A large portion of the gains appears to be driven by increased optimism about European growth, fueled by higher military spending, fiscal initiatives and hopes for a ceasefire.

- ⁴ Source: Eurostat, as of March 2025. ec.europa.eu/eurostat/statistics-explained/index.php?title=Temporary_protection_for_persons_fleeing_Ukraine_-_monthly_statistics
- ⁵ Source: The Centre for Economic Policy Research (CEPR), published October 14, 2024. cepr.org/voxeu/columns/macroeconomic-implications-recent-surge-immigration-eu
- ⁶ Source: The Ifo Institute, published October 18, 2024. www.ifo.de/en/press-release/2024-10-18/quarter-ukrainian-refugees-want-settle-abroad-permanently
- ⁷ Source: Goldman Sachs research. publishing.gs.com/content/research/en/reports/2025/02/13/ee6a5151-45a7-478d-9075-7f373d1befb6.html (log-in required)

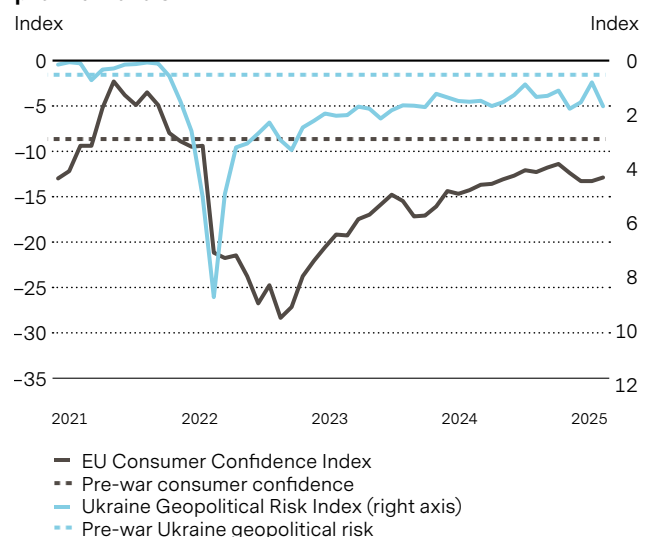
Chart 2: Europe is stepping up its defense spending



*North Atlantic Treaty Organization. Military alliance established in 1949, consisting of countries from North America and Europe, aimed at collective defense.

Source: LSEG, Vontobel; as of December 31, 2023.

Chart 3: Consumer confidence remains below pre-war levels



Source: LSEG, Vontobel; as of March 20, 2025.

A tale of two bond markets



—
Philipp Wartmann
Senior Investment Adviser,
Vontobel SFA

US and German treasury markets are usually closely correlated, given that they are both substitutes as highly liquid benchmark curves. However, these correlations are no longer as strong and the spread between the two 10-year bond yields has declined substantially (see chart 1). What is behind this and does it offer an investment opportunity?

The US 10-year yield has dropped by close to 40 basis points this year, compared to the German yield, which increased by about 35 basis points (see chart 1). This unusual disconnect is due to the fact that both markets are facing different macro drivers. The downside growth risk scenario in the US is currently dominating and the equity market sell-off is leading to a flight to safety in the US. In Europe, the positive growth story dominates as does the financing of that story via higher debt.

That said, high correlations between the markets will likely return in the medium-term. We find European government bonds more attractive again, as the yield difference to US government bonds have narrowed. In the process, Swiss yields have also risen somewhat, despite

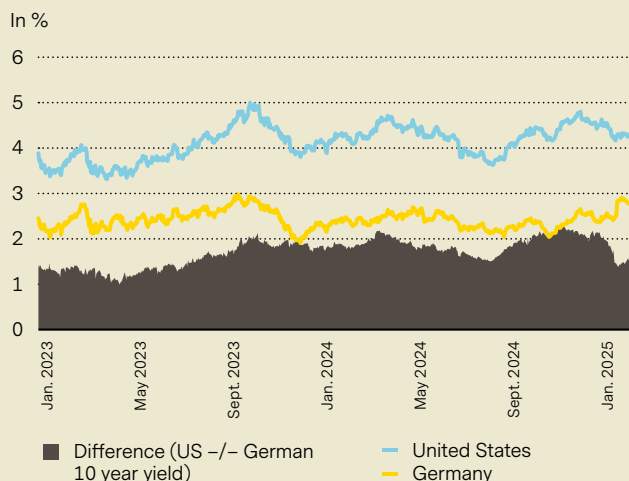
very low debt levels and debt servicing costs. German fiscal conditions will remain strong, with the debt ratio expected to rise from about 60 to 80 percent. However, the interest paid on the debt (currently 0.5 percent of GDP versus 4.2 percent in the US) will likely remain low in an international comparison.

Some corporate spread widening but fundamentally well supported

As US economic uncertainty heightened and equity markets came under pressure, credit spreads widened too. However, these spreads remain quite tight in a historical context and certainly in comparison with equity market volatility (see chart 2). Rating trends remain favorable with more upgrades than downgrades in February. The new IG bond supply remains healthy as well, largely driven by ETF inflows of USD 23.5 billion year-to-date. The worsening economic outlook will probably continue to contribute to wider spreads, but as growth expectations fall and probability of Fed rate cuts increase in combination with flight to safety, the underlying government bond yield should decline. High quality IG bonds with longer duration should still be able to provide positive total return. We have upgraded our IG bond allocation further.

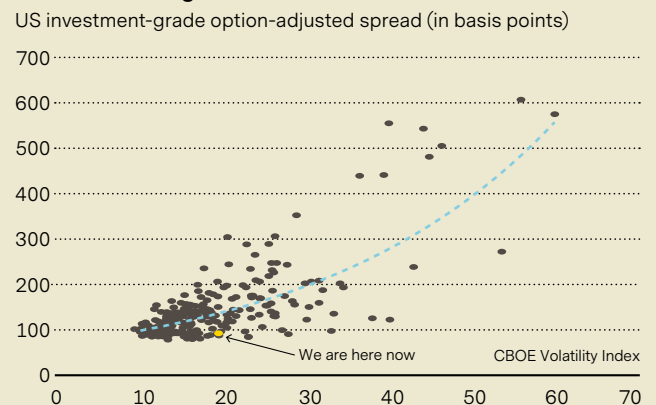
Within the US IG sectors, we continue to favor bonds issued by utility companies. Data centers' power consumption for GenAI will remain a key driver for the sector and bond issuance is expected to remain relatively high. We expect continued robust demand for new bonds with the prospect of better earnings growth resulting in improved credit metrics for the industry in 2025.

Chart 1: US and German 10 year government bond yields



Source: Bloomberg, Vontobel SFA

Chart 2: Credit spreads remain tight despite recent widening



Source: LSEG, Vontobel; as of March 20, 2025.

Is American exceptionalism in trouble?



—
Susanne Knorr
Head Managed Solutions,
Vontobel SFA

March was shaping up to be the worst month for US stocks since 2022, with continued divergence in performance compared to other regions, particularly European and Chinese stocks. The strength of US equities, propelled by the Mag7 and a strong US dollar, has been scrutinized. In the first week of April, has growth risks increased sharply, equities took another severe hit. Is “American exceptionalism” in trouble? We do not believe so.

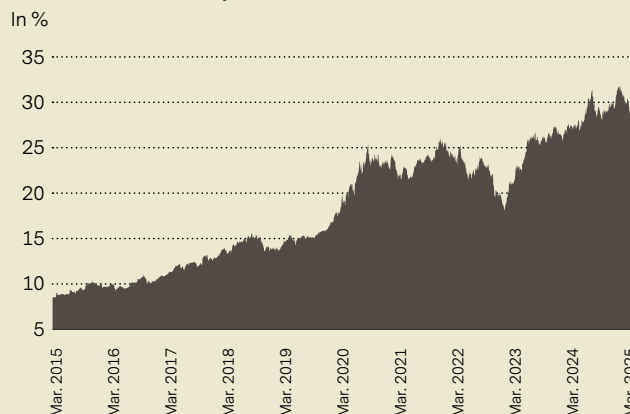
The S&P 500 Index hit a record high in late February before dipping into correction territory due to increasing uncertainty surrounding the US administration's policies and the Fed's willingness and ability to cut rates. Concerns revolved around the potential impact of tariffs on GDP growth. Weaker consumer confidence, delayed capex and stickier inflation fueled fears of the US tracking toward a recession. The absence of short-term catalysts for US stocks, major AI breakthroughs in China, Europe's declaration of substantial defense and infrastructure spending, and lofty US valuations have provided key tailwinds for the strong resurgence in investor interest, with European

and Chinese markets benefitting the most. Signs of bottoming out in activity and enhanced economic sentiment, buttressed by a further normalization in policy rates, have contributed to this rotation.

The US tech sector, particularly the Mag7, which make up almost a third of US market capitalization, has come under pressure (see chart 1). The cyclical economic risks have risen substantially, causing a repricing of valuations and earnings growth risks. Most large US tech stocks continue to shine fundamentally, and we believe the current sell-off in US equities will take its cues from the tariff war or, more broadly, from a more dovish Fed stance.

It is not uncommon for tech stocks to experience 10 percent corrections, especially during adoption stages, as seen with IT and telecommunications in the mid-1990s. At present, these firms are still making substantial capital investments in what are likely to be groundbreaking new technology platforms. They are supported by strong cash flow, unlike the debt-driven scenario of 2000 (see chart 2). Technical indicators hint at a potential bottom formation, but a trigger is required to confirm this and the fundamentals need to remain stable. Looming tariffs, stagflation risks and shifting expectations around Fed policy will probably keep equity markets volatile in the near term. In summary, although cyclical vulnerability remains in focus for now, we are confident that the long-term drivers of US stocks and investments related to AI remain intact.

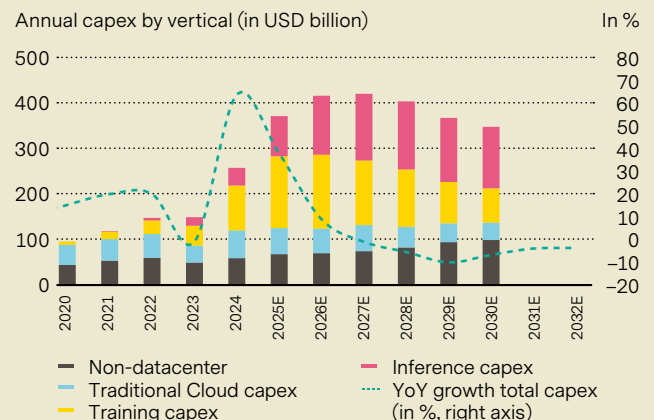
Chart 1: Share of Magnificent 7* in the overall S&P 500 market cap



*Apple, Microsoft, Nvidia, Amazon, Tesla, Alphabet and Meta.

Source: Bloomberg, Vontobel; as of March 21, 2025.

Chart 2: Capex at major global hyperscalers*: focus to shift on inference datacenters**



*Microsoft, Meta, Alphabet, Amazon, Oracle, Apple, Alibaba, Tencent

**Inference datacenters focus on processing and delivering real-time predictions based on trained models, while training datacenters are dedicated to the computationally intensive task of building and updating those models.

Source: Bloomberg, Vontobel; as of March 21, 2025.

Another record for Gold



—
Christoph Windlin
Deputy Head
Investment Management,
Vontobel SFA

Commodity performance has been mixed and gold continues to be a strong outperformer. It reached another new record, having broken through the USD 3,000 barrier.

Crude oil fell another 5 percent as the Organization of the Petroleum Exporting Countries and its allies (OPEC+) announced its plans to gradually unwind some of its voluntary production cuts starting in April. The prospect of higher supply coincided with fears that demand may be weaker than expected this year as the economic outlook worsens. There was some geopolitical price support for oil, such as tension in the Middle East and the expiration of a US export license granted for Venezuelan oil. However, both effects were short-lived. With rising OPEC+ output and downside risks to the demand side, oil prices will probably stay capped in the mid-USD 60s to the low USD 70s range. The main upside risks still stem from geopolitical risks.

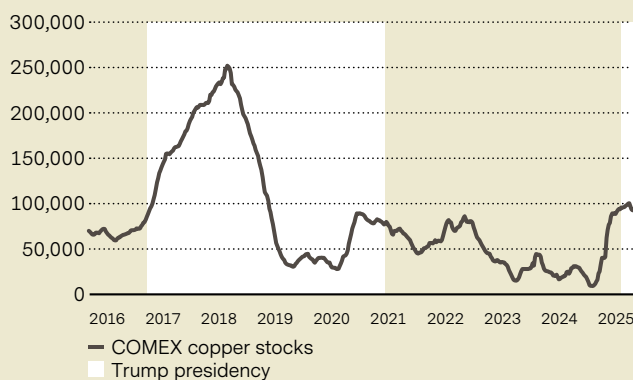
Industrial and precious metals have performed well. The rally in industrial metals was supported by trade uncertainty among manufacturing producers (e.g., steel, aluminum, copper). This led to a disconnect in many markets

as traders rushed to ship metals to US warehouses (see chart 1). The new stimulus measures by China also supported industrial metals, even though it focused mainly on boosting private consumption (not the housing market, which is a key determinant in the demand for metals). Europe's planned stimulus (e.g., infrastructure, defense) could lead to higher demand for metals. However, it may take several years for this impact to feed through.

Gold was again the star in the commodities universe. It broke through the psychologically important USD 3,000 per ounce barrier in mid-March, propelled by (geo)political and trade uncertainty as well as a weaker US dollar. Even though the price level may seem stretched, the factors that support gold continue to persist. These factors are sustained geopolitical uncertainty, downside risk to interest rates and sustained central bank physical demand. In addition, gold has proven to be an attractive diversifier in a broad portfolio. Despite the higher price, the latest available data suggests that central bank demand remains positive (see chart 2). This demand is more of a strategic nature (diversifying central bank reserves) and as such is less sensitive to the price level.

Chart 1: Trade war fears led to a massive rerouting to US warehouses

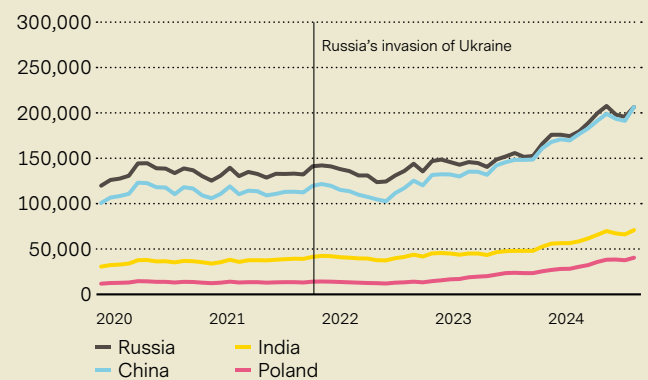
Inventory volume (in tons)



Source: LSEG, Vontobel; as of March 2025.

Chart 2: Strong central bank appetite for gold (for now)

In million USD



Source: LSEG, Vontobel; as of January 2025.

The dollar has given up some of its gains



—
Dr. Pieter Jansen
Chief Investment Strategist,
Vontobel SFA

Growing market concerns about the US economic outlook have recently contributed to weaker US equities and a weaker US dollar. As a result, the US dollar has depreciated relative to other key currencies since the start of the year. Even though normally the dollar is a currency that benefits from flight to safety flows, it is unlikely it will be the case this time with the US at the epicenter of the economic uncertainty and the role that a weaker dollar can play in reducing US trade deficits.

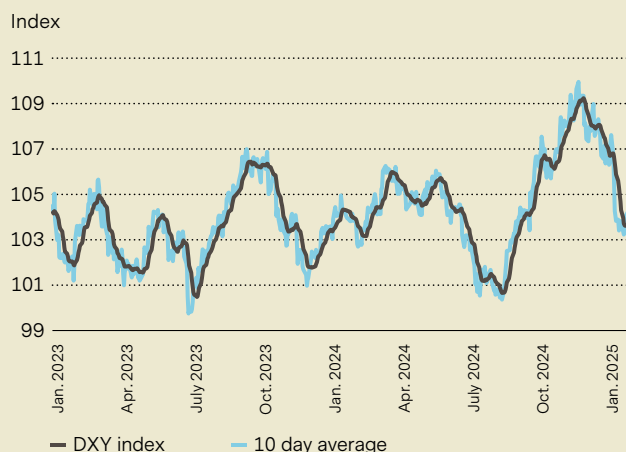
After an impressive US dollar rally that lasted from late September until mid-January (+9 percent), the greenback has given up most of these gains by the end of March (–5 percent) (see chart 1). Both the uptrends and downtrends were driven by US economic and monetary policy expectations. In the process, some of the US dollar overvaluation has been corrected, similar to what we have observed in US equities.

For some time, the euro/US dollar pair lacked momentum. Conditions were not favorable for a stronger euro and the currency drifted. But that has been changing. The euro was significantly undervalued versus the US dollar (see

chart 2). Even after the recent euro appreciated versus the US dollar, it still remains clearly undervalued on a purchasing power parity basis (approximately 10–12 percent).

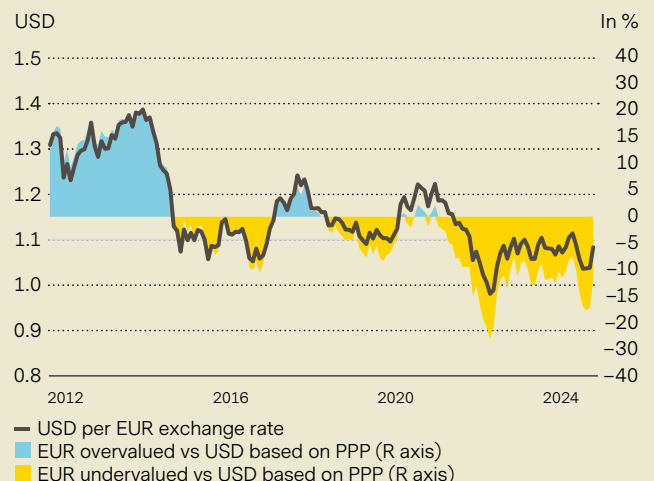
Currencies can be misaligned for a long time, with a trigger often needed for a correction. This year, the triggers have come from both sides of the Atlantic. On the one hand, investors have become more concerned about growth in the US, while the positive growth story in Europe has increased the interest of global investors and induced capital inflows into European equity markets.

Chart 1: Trade weighted US dollar index



Source: Bloomberg, Vontobel SFA

Chart 2: Valuation of USD versus EUR



Source: Bloomberg, Vontobel SFA

12 Forecasts

Economy and financial markets 2024 – 2026

The following list shows the actual values, exchange rates, and prices from 2024, as well as consensus forecasts for 2025 and 2026 for gross domestic product (GDP), inflation/inflationary expectations, key central bank interest rates, 10-year government bonds, exchange rates, and commodities.

GDP (IN %)	2024¹	CURRENT²	2025 CONSENSUS	2026 CONSENSUS	
Global (G20)	3.0	2.9	2.6	2.6	
Eurozone	0.9	0.9	0.9	1.2	
USA	2.8	2.5	2.2	2.0	
Japan	0.1	1.1	1.2	0.9	
UK	0.9	1.4	1.0	1.4	
Switzerland	1.3	1.6	1.3	1.5	
Australia	1.0	1.3	1.9	2.4	
China	5.0	5.4	4.5	4.2	

INFLATION	2024³	CURRENT⁴	2025 CONSENSUS	2026 CONSENSUS	VONTOBEL VIEW IN 2025⁵
Eurozone	2.4	2.3	2.2	1.9	↓
USA	3.0	2.8	2.9	2.6	↓
Switzerland	1.1	0.3	0.5	0.8	→

KEY INTEREST RATES (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (deposit rate)	3.00	2.50	1.97	1.88	→
USD (Fed funds rate, upper bound)	4.50	4.50	4.40	3.90	↓
CHF	0.50	0.25	0.20	0.20	→

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
EUR (Germany)	2.37	2.79	2.67	2.75	↑
USD	4.57	4.23	4.37	4.31	↓
CHF	0.33	0.72	0.52	0.56	→

FOREIGN EXCHANGE RATES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
CHF per EUR	0.94	0.96	0.95	0.97	↑
CHF per USD	0.91	0.88	0.89	0.89	↓
USD per EUR	1.04	1.08	1.06	1.10	↑

COMMODITIES	2024	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS	VONTOBEL VIEW IN 12 MONTHS⁵
Brent crude oil, USD per barrel	75	72	73	72	↓
Gold, USD per troy ounce	2,625	3,042	2,800	2,710	↑
Copper, USD per metric ton	8,768	9,988	9,400	9,700	↓

¹ Subject to revisions (e.g., potential revisions to 4Q data)

² Latest available quarter

³ Subject to revisions

⁴ Latest available month, G20 data only quarterly

⁵ ↑ above consensus, → in line with consensus, ↓ below consensus

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