November 2010

Market Trends

Summary

Global View

- For the coming four weeks, much in financial markets will depend on the shape and size of additional quantitative easing (a.k.a. “QE2”) in the US. We expect the FOMC to announce relatively moderate purchases of Treasuries.
- Given market expectations for quite decisive action, tailwind for financial markets could thus fall. That said, we do not expect the Fed deci-sion to prove very disruptive as small initial purchases will be accompanied by a pledge to do more, if needed.
- What is more, the Q3 earnings season is off to a fairly good start and incoming macro data are far from signaling a renewed recession.

Equities

- Market went up in the month and now some tactical leading indicators look little stretched.
- That said, a lower than US$ 1tr Fed’s move is now almost discounted. On the contrary, Eps surprises are running higher than expected and the economic cycle is still reassuring against a double dip.
- Attractive valuations and receding investors’ uncertainty should continue to favor equity markets going forward.

Bonds/Fixed Income Strategy

- Whereas benchmark yields traded roughly flat until the mid of October, a noticeable setback drove yields higher over the last three weeks.
- Going forward, we expect the Fed to announce a renewed expansion of its balance sheet. While the exact design of the new quantitative easing is still uncertain, we regard it as the dominant factor for bond markets in the weeks to come. Overall, yields should remain depressed for the time being.
- Our duration recommendation worked out well in recent weeks. Although peripheral bond spreads tightened, our short duration stance led to a moderate outperformance.
- Our trading ideas performed satisfactorily in October. Nearly all existing recommendations were able to increase gains and most recently opened trades have already moved in positive territory.

Currencies

- After a steep decline over several weeks, the US dollar stabilized on second thoughts about the size and impact of a prospective QE2 by the Fed in the second half of October. The euro gained broadly, helped by hawkish ECB comments and rising short-term yields.
- Looking ahead, we expect a modest correc-tion in the US dollar in the short term, which would offer a good opportunity to reduce the stakes in the greenback given our bearish medium-term outlook on the US dollar.

GENERALI Investments

Global View

- ***For the coming four weeks, much in financial markets will depend on the shape and size of additional quantitative easing (a.k.a. "QE2") in the US. We expect the FOMC to announce relatively moderate purchases of Treasuries.***
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- ***What is more, the Q3 earnings season is off to a fairly good start and incoming macro data are far from signaling a renewed recession.***

Last month, we reiterated our buy recommendation for risky assets. Main reason was our belief that growing market anticipation of "QE2" in the US would underpin markets, most notably equities. At the same time, we felt confident that this will keep core yields at depressed levels. Four weeks later we find that this call played out well. In particular, equities in the US and the euro area gained handsomely (around 3.5%). Euro area core yields backed up but this was not a sign of weakness: Easing tensions in peripheral bond markets (the weighted spread declined just over 30 bps), solid macro indicators, and hawkish comments from some ECB officials led the yield on 10-year Bunds almost 30 bps higher. That said, even at this level, yields still appear depressed relative to current growth and inflation figures.

	Growth			Inflation		
	2009	2010f	2011f	2009	2010f	2011f
US	-2.6	2.7	2.0	-0.3	1.6	1.2
Euro Area	-4.0	1.8	1.4	0.3	1.5	1.4
Japan	-5.2	2.9	1.0	-1.3	-0.9	-0.5
UK	-5.0	1.7	1.8	2.2	3.1	2.7
World	-1.0	4.4	3.6	0.7	2.0	1.8

Going forward, much in financial markets will depend on the shape and size of "QE2" in the US. In this respect, we anticipate the FOMC to announce moderate increases on November 3, at least compared to market expectations. Quite a few market observers seem to anticipate new purchase to the tune of US$ 1 to 2 tr. This would be in line with "QE1" adopted in late 2008/early 2009, when the Fed decided to buy a total of US$ 1.7 tr in new mortgage/agency debt as well as Treasuries.

We see mainly two reasons to expect a smaller move this time.

First, recent comments from Fed officials made the "case for further action" but none hinted at a large move. Above all, Fed Chairman Bernanke expressed some concerns regarding the size of "QE2" on October 15. In particular, he noted that "one disadvantage of asset purchases relative to conventional monetary policy is that we have much less experience in judging the economic effects of this policy instrument which makes it challenging to determine the appropriate quantity and pace of purchases […]". Given these ambiguities, we would be surprised to see the Fed releasing a program that lives up to the ones adopted in 2008/09 when the financial crisis was in full swing and in the US economy in deep recession.

And this is exactly the second reason not to expect a very large move. Quantitative easing is a non-standard policy tool which carries large risks like surging inflation expectations, market questions on central bank independence, or even the build-up of new asset price bubbles. As such it should probably be used in times of utter economic and financial distress, like in March 2009. Now, however, the picture is different.

While the recovery may be one of the weakest in modern post-war history, the US economy has officially escaped recession in mid-2009. Tensions in money markets have eased, just like bank lending standards. The risks associated with too much quantitative easing and the improved economic and financial environment favor a measured, i.e. stepwise, approach to "QE2" in our mind.

While uncertainty around the final number is quite high, we now expect the Fed to announce purchases of around US$ 100 bn to 150 bn between quarterly forecast meetings. This would amount to a yearly total of US$ 500 bn or 3.8% of all outstanding US public debt.

Bonds	**Current**	**1M**	**12M**
10-Year Treasuries	2.62	2.65	3.00
10-Year Bunds	2.50	2.55	2.90
10-Year JGBs	0.90	0.95	1.20
Corporate Bonds	**Current**	**1M**	**12M**
IBOXX Corp Non Fin	110	105	100
IBOXX Corp. Sen Fin	136	132	115
Forex	**Current**	**1M**	**12M**
USD/EUR	1.39	1.37	1.45
JPY/USD	81	82	87
GBP/EUR	0.88	0.86	0.82
Equities	**Current**	**1M**	**12M**
S&P500	1185	1200	1270
MSCI EMU	89.8	90.8	95.2

Current values = average of last three trading days

If our assessment of a moderate approach proves correct, this could lead to some initial market disappointment. That said, we do not expect large disruptions for financial markets.

Above all, the measured approach we expect will almost surely be accompanied by a pledge to do (much) more, if needed. Second, the in-coming macro data favors an ongoing upswing, not a relapse into recession. Finally, the Q3 earnings sea-son is off to a good start with guidance more constructive than anticipated and positive earnings surprises reaching more than 70%. Hence, we recommend to stick to a moderate overweight in risky assets at the expense of government bonds.

Equities

- ***Market went up in the month and now some tactical leading indicators look little stretched.***
- ***That said, a lower than US$ 1tr Fed's move is now almost discounted. On the contrary, Eps surprises are running higher than expected and the economic cycle is still reassuring against a double dip.***
- ***Attractive valuations and receding investors' uncertainty should continue to favor equity markets going forward.***

Performance backup

Equities posted a positive return of 3% (MSCI World). US and European performances were almost balanced as we expected. In particular US equities compensated their valuation premium with a lower dollar and a more dovish monetary policy. Like one month ago, investors showed their appetite for growth choosing the NASDAQ (+5,4%) and the DAX together with Russia, China and Emerging Europe (all near +6,2%). All these countries presented appealing triggers in the month. US IT stocks for example are the most exposed sector to sales made outside US. They have also plenty of cash in their balance sheet and are also cheap. Russia is one of the cheapest countries in the world. Finally, China surprised markets with a rate hike but also with a higher than consensus GDP number.

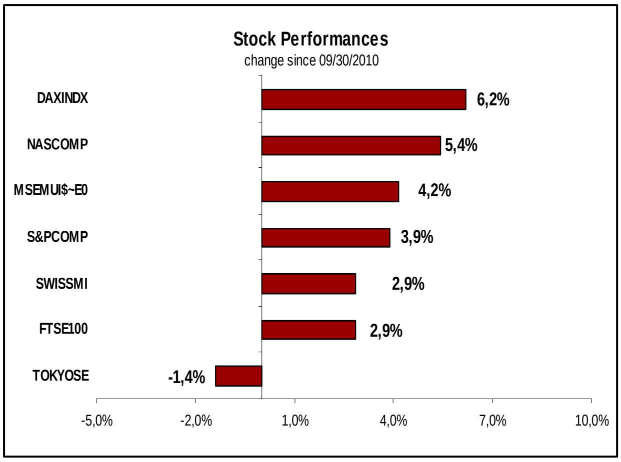
Here the government showed once again to be fully controlling the economic momentum. In the end, the monetary move looks like being disciplined while growing at a still satisfactory rate. Commodity prices backed the equity move once again while interest rates and corporate spreads remained almost unchanged. So far they don't represent a threat for equity valuation. Japan was again the wild card (-1,4%). The Yen strengthened by nearly 3% while the economic momentum is deteriorating. In theory, given the huge valuation discount, a declining growth momentum would not represent a major drag.

However, given the indecisive policy of the government with respect to the yen, Japan remains under pressure for the time being.

That said, is our conviction that, given the number of threats the yen is currently facing (Fed's QE2 primarily), the BoJ from now on will be more inclined to buy JGBs in the market. However, this will not offset the government's inaction.

The view

In September we bought equities due to: 1) clues of a continuation of the economic sub-par trend without re-cession even adopting a scenario which sees a slow-ing economic momentum, 2) peripherals and Europe in general having made some fiscal progresses and internal demand, while still weak, giving timid signals of life, 3) seeing positive loan growth too, 4) US dis-posable income being stable (with low inflation and subdued bond yields, households should maintain a decent real purchasing power).



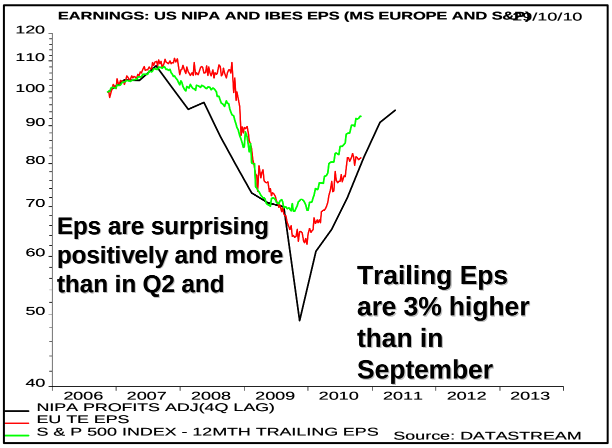
5) Our Earnings models see Q3 as a bottom of the earnings momentum. In September we expected Q3 EPS surprises to be lower than in Q2. However this has already been priced in by the markets. In absolute terms, EPS should continue to go up thus backing current LT valuations which remain very attractive. The risk of our scenario is still represented by a declining momentum of growth like the one we had starting from 2004 till the current crisis started. ULC are already low, and margins should go up more slowly than consensus expects.

Recent considerations and news flow

So we didn't buy equities due to Fed's QE; we know for more than a year that the Fed is market friendly, supportive in any forms it decides. We will pay back this additional liquidity in the market but not short term. Recently, investors are discounting QE2 being not too pronounced, like near US$ 500 bn but lower than US$ 1 tr. That said, what is important is the attitude of the Fed to do more if necessary and this statement should be confirmed.

Latest UK tough fiscal measures mean a better long-term equilibrium and a more pronounced BOE attitude towards the QE. In the credit market, data backed a positive loan growth, in Europe especially.

The Beige book revealed some growth improvement: “modest growth” instead of the precedent “wide spread signs of deceleration”; Consumptions now “flat to moderately positive”; Lending from “stable to down slightly on net” to now “ stable at low levels but there were some districts reporting demand slightly picking up”. Lastly the US real disposable income should remain stable till the end of the year due to a moderate wage growth compensated by low inflation and unemployment benefits renewal. Finally, Bush’ tax cuts in a way or another should be renewed for at least one year (200bn = 1% GDP).



Equities Europe

Mainly triggered by hopes for another flood of fresh liquidity by the Fed, also European equities were able to continue the last upward move, which already started at the end of August. Over the last month the MSCI EMU added another 2.5%, while the DAX Index was up comparably strong with 4.7%.

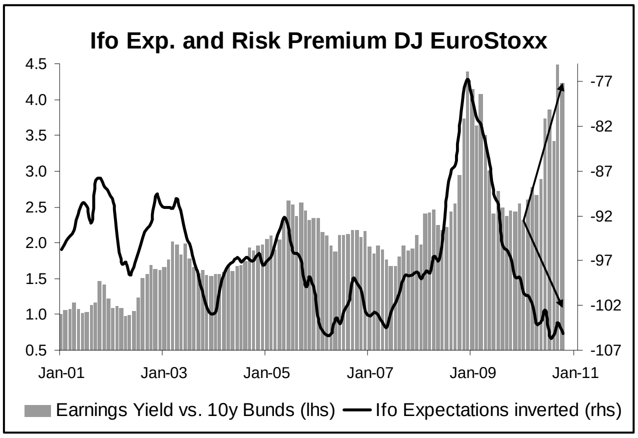
Macro data were quite supportive as well. Both, the PMI manufacturing and the PMI services index for Germany surprised clearly on the upside in October, recovering above the levels one month before and telling about ongoing robust growth. Also the results of the ifo survey were quite compelling. While business conditions came in mainly in line with analysts’ forecasts, the expectations component (see chart) fueled European equities. The index recovered markedly to 105.1, thereby nearly reaching the historical highs of August and dampening fears for an upcoming economic slowdown.

Another positive reporting season so far

For this reasons it was at least less surprising that the companies’ reports for Q3 in most of the cases clearly S&P 500 companies have already published their results for the last 3 months, mainly the earnings figures clearly surprised on the upside with 236 companies (or 82%) beating expectations so far. Within the DJ EuroStoxx 50 also a clear majority of 86% (12 out of 14 reporting companies) were able to beat consensus forecasts.

With Q3 figures coming in better than market expectations and only a few companies giving a cautious guidance so far the overall reporting season is in our view again clearly supportive. As a result we do not expect the 12m forward earnings trend, which hold up well over the last month (see chart; DJ EuroStoxx +0.7%), to roll over in the near future.

Although markets have already improved considerably over the last two months and risks are rising for a probable pullback, markets currently get much positive impetus not only from macro but mainly from company data as well. Taking also into account less attractive investment alternatives on the fixed income side (see chart) and the remaining high risk premium for equities, we would recommend to stay overweight in equities for the time being.



Equities – European Sectors

Over the last four weeks, within the MSCI Europe notable outperformers were Semiconductors and Materials, followed by Telecoms and Autos. On the other hand, underperformers were somewhat mixed: Healthcare and Food & Beverage, but also Banks, Retailing and Software lagged the market.

Concerning 12 Months Fwd earnings revisions, in the last month downward revisions continued for the MSCI Europe, pushing total market expectations down by a modest 0.3%. This was mainly a result of the reduced profit outlook for Software and Food & Beverage.

Also Capital Goods and Autos got downward earning revisions, albeit from higher levels. On the other side, Retailing, Tech Hardware and Banks dominated the upgrades.

Sector recommendation

Based on our models, we have the following:

Upgrade of Tech Hardware and Semiconductors (from 0 to 1): These sectors show positive signals in terms of Relative Value, Relative EPS and in comparison with Corporate Bond Yields. Tech Hardware is one of the cheapest sectors from a valuation standpoint (Semiconductors are relatively fairly valued); the catalyst is the recent positive news flow from Nokia (near the Christmas Season) and from the Semi US players (Soxx is 10% below its peak in April while Nasdaq is making new highs), their exposure to fast-growing segments (automotive, PC, handsets) and the positive correlation with the US dollar.

Downgrade of Pharmaceuticals and Healthcare Equipment (from +1 to 0): Even if these sectors continue to be extremely cheap on a long-term view, recent bad performance and negative reporting news flow have deteriorated many of our monitors (in particular Relative Value and Relative EPS); in addition, the uncertainty surrounding pipelines and M&A is increasing.

Regarding **Capital Goods**, the positive reporting news flow is at risk of a temporary correction in leading indicators (that typically leads the earning revisions). The sector is technically stretched and revisions are already correcting, so we wait for a weakness in order to upgrade it.

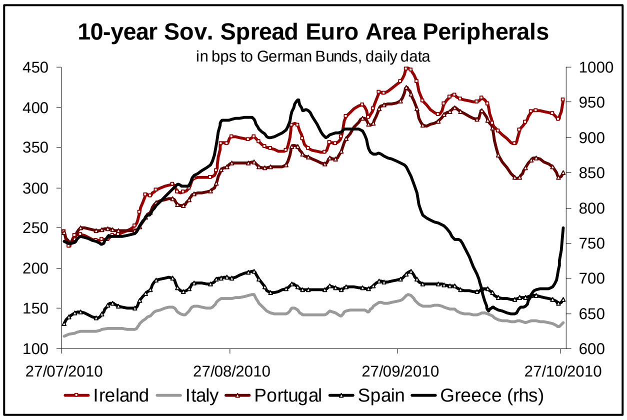
Bonds/Fixed Income Strategy

- ***Whereas benchmark yields traded roughly flat until the mid of October, a noticeable setback drove yields higher over the last three weeks.***
- ***Going forward, we expect the Fed to announce a renewed expansion of its balance sheet. While the exact design of the new quantitative easing is still uncertain, we regard it as the dominant factor for bond markets in the weeks to come. Overall, yields should remain depressed for the time being.***
- ***Our duration recommendation worked out well in recent weeks. Although peripheral bond spreads tightened, our short duration stance led to a moderate outperformance.***
- ***Our trading ideas performed satisfactorily in October. Nearly all existing recommendations were able to increase gains and most recently opened trades have already moved in positive territory.***

With the exception of short-dated US Treasury yields, yields increased across the board in October. Driven by solid economic data and the conviction that the Fed will adopt a measured approach of quantitative easing, yields rose noticeably. While we forecast increasing yields in the last Market Perspectives, particularly in the euro area the movement was much more pronounced than expected. The 10-year Bund yield rose 22 bps to 2.50% (our expectation: 7 bps to 2.35%). Moreover, at the short end of the curve the 2-year yield climbed above the 1% threshold and reached the highest level since March. Among other things, this was driven by the sharp fall in excess liquidity in the euro area and hawkish comments from ECB member Axel Weber who asked for an end to the sovereign bond purchases. His remarks were also interpreted as a preparation of a forthcoming rate hike by the ECB. Consequently, the 2-year euro area benchmark yield rose nearly 20 bps to 1.03%.

Remarkable tightening of peripheral spreads

Peripheral bond markets performed well in October. Particularly in the first half of October Portuguese and Greek spreads came in significantly. Greek bonds were driven by new deficit data which showed that the budget deficit shrank by 30% compared to 2009, rumors about an extension of the EU/IMF loans beyond 2013, successful auctions of T-bills and positive comments from Moody’s. Later on, profit taking set in, not least due to news that the deficit and debt figures for 2009 will have to be revised upward once again. Nevertheless, the weighted average of 10-year peripheral bond spreads narrowed by more than 30 bps to 225 bps in October.



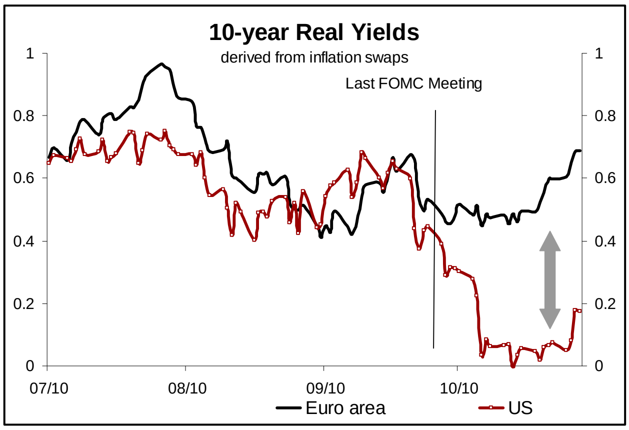
Going forward, we see less leeway for tighter peripheral spreads. While the search for yield will drive investors further down the credit curve, the ECB is likely to increase purchases again if necessary (despite the comments from Axel Weber) and the existence of the European

Financial Stability Facility should put limits to any potential spread widening, we see some headwind for peripheral bond markets further down the road.

In the weeks to come, governments will present the budget and funding plans for 2011. This can trigger some disappointment as the growth forecasts for next year may be revised downwards. Moreover, some consolidation fatigue may arise which can lead to a renewed deterioration of sentiment towards peripherals. In addition, the recent comments in the run-up to the EU summit indicate some disappointment potential. Given the conflicting views among the European leaders with respect to the restructuring of the stability- and growth pact, we would not be surprised to get an outcome below market expectations.

Moreover, we regard the implied bond market volatility as a good indicator for market's risk appetite. While the volatility has come down somewhat recently, a further decrease is unlikely as the uncertainty about the effect of quantitative easing and the growth prospects should remain high. All in all, we forecast the weighted average of peripheral bond spreads to remain around the current level in November.

We continue to prefer medium-dated Italian bonds and short-dated Greek bonds which can be held until maturity and are covered by the bailout umbrellas.



Benchmark yields to remain on depressed level

The direction of benchmark yields will mainly be determined by the quantitative easing approach of the Fed. It is remarkable that despite the recent increase in nominal yields the real yield (at least in the US) has even fallen to historical lows. The talks about quantitative easing have already triggered a significant increase in inflation expectations. Given the Fed's dual mandate higher inflation expectations and lower real yields are welcomed and this strengthens our believe that the US central bank will deliver on November 3.

As we have highlighted in the US section, we regard a flexible and open approach as most likely. This should ensure that yields will remain on a low level. All in all, we forecast nominal yields to creep only marginally higher in November.

Our portfolio

The increase in yields triggered a negative bond return of -0.4% in October. Merely very short-dated bonds yielded a positive return. All other maturity classes showed losses, the longer the duration the higher the losses. As we had expected an increase in yields, we recommended a short duration stance. However, our cautious approach (-0.38 years) was not aggressive enough. Therefore, we generated only a minor outperformance of 1 bp in October.

Although we forecast yields to creep slightly higher in November which implies a duration shorter than the benchmark, we decide to recommend a neutral duration in the weeks to come. Therewith, we like to express our view that volatility will remain high and the increase in yields should remain very limited. In this scenario active weights are unlikely to pay off, hence, investors should remain close to the benchmark. However, to earn the carry and in light of our expectation that peripheral bond spreads should not widen noticeably, we still recommend to underweight Bunds.

Overview of trading ideas

To seize opportunities we opened three relative value trades in October. First, at the beginning of the month we recommended buying long-dated Austrian bonds versus German ones as the spread was attractive given the healthy fundamental situation of Austria. Second, we see value in medium-dated Belgian bonds as the underperformance of Belgian bonds should draw to a close. By now, political risks should be priced, the fundamental situation remains sound and the spread level of 70 bps is the highest of the core countries.

Characteristic Numbers of Benchmark and Optimized Portfolio

Maturity Class	Modified Duration	Current Yield	Coupon Return	Rolldown Return	Shock Return *	Benchmark Weights	Portfolio Weights
1-3y	1.84	1.95%	0.32%	-0.15%	-0.01%	22.57%	22.57%
3-5y	3.63	2.42%	0.29%	-0.09%	-0.05%	20.08%	20.08%
5-7y	5.24	2.90%	0.31%	-0.07%	-0.09%	12.06%	12.06%
7-10y	6.97	3.51%	0.33%	-0.04%	-0.15%	19.18%	19.18%
10+y	12.99	3.99%	0.37%	-0.04%	-0.37%	26.11%	26.11%
Cash	n.a.	0.80%	0.07%	n.a.	n.a.	0.00%	0.00%
Benchmark	**6.51**	2.99%	0.33%	-0.08%	-0.15%		
Portfolio	**6.51**	2.99%	0.33%	-0.08%	-0.15%		

* Forecast 1-Month Horizon

Third, we prefer Finnish bonds versus French bonds. We do not rule out setbacks in the process of reforming the French social system. Moreover, the Finnish macroeconomic situation is impressive. The debt level remains below 60% and the growth rate will be above the euro area average in 2010 and 2011.

Ultimately, we regard key rate hike expectations and the drop in excess liquidity as factored in. Given our believe in a moderate increase in long-dated yields, the 2-year/10-year spread should trend upwards.

We closed our call for tighter euro area swap spreads at a level of 60 bps with a gain of 22 bps. Finally, we adjusted the target and the stop loss of our buy recommendation for medium-dated Italian bonds as the target was reached.

Current Trading Recommen-dations	Initiation Date	Start Level	Target	Stop Loss	Current Level	Gain/ Loss
Buy Greece 03.2011/Sell Germany 12.2011	28.01.2010	389 bps	150 bps		585 bps	1.88 %
Buy NL 07.2020/Sell France 04.2020	31.05.2010	-5 bps	-35 bps	-10 bps	-10 bps	0.37 %
Buy Italy 06.2014/Sell Germany 04.2014	31.05.2010	171 bps	90 bps	135 bps	122 bps	2.28 %
Buy France I/L 07.2015/Sell France 04.2015	26.08.2010	1.22 %	1.9 %	1.35 %	1.49 %	0.7 %
Buy Brazil 07.2014/Sell US 09.2014	30.09.2010	107 bps	65 bps	135 bps	78 bps	1.03 %
Buy Bund 2y/10y steepener	06.10.2010	146 bps	165 bps	135 bps	153 bps	7 bps
Buy Austria 03.2026/Sell Germany 01.2024	06.10.2010	63 bps	40 bps	80 bps	53 bps	0.57 %
Buy Finland 09.2017/Sell France 04.2017	06.10.2010	0 bps	-10 bps	5 bps	0 bps	-0.12 %
Buy Belgium 09.2015/Sell Germany 10.2015	27.10.2010	70 bps	50 bps	80 bps	70 bps	0.02 %

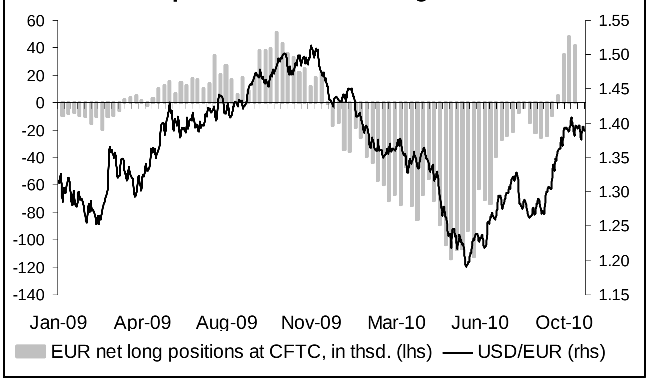
Currencies

- *After a steep decline over several weeks, the US dollar stabilized on second thoughts about the size and impact of a prospective QE2 by the Fed in the second half of October. The euro gained broadly, helped by hawkish ECB comments and rising short-term yields.*
- *Looking ahead, we expect a modest correction in the US dollar in the short term, which would offer a good opportunity to reduce the stakes in the greenback given our bearish medium-term outlook on the US dollar.*

In October, the US dollar (USD) continued its marked decline initiated in September, falling by more than 2% in trade-weighted terms. The decline was concentrated to the first half of the month, with the dollar temporarily reaching levels around 1.41 USD/EUR at the mid of the month.

At the same time, speculative market positioning against the dollar rose further. Net long positions on the euro reached the highest level in the last 12 months. The euro strengthened further on hawkish comments by ECB officials, while the Swiss franc (CHF) and the British pound (GBP) weakened on growing concerns about the strength of the recovery in these economies.

Speculative Positioning on EUR



Main driver for the broad based sell off in the dollar were ongoing speculations about the Fed's prospective announcement on QE2. These concerns, however, went somewhat in reverse since mid October on second thoughts by market players about how strong the actual announcement and market impact could be. In a Flash Update sent out on Oct. 12th, we had warned against the increasing risk of markets discounting too much of QE.

We found that the discount on the dollar was temporarily at similar altitudes as in March 2009 when

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the Fed had announced an extension of its asset purchase program by US$ 1,150 bn. Since the prospective announcement in November will likely be more moderate, we had warned against a setback.

Strong QE2 discount on dollar partially unwound

We find evidence that this correction has happened recently to a larger extent. The dollar slightly strengthened despite an increase in short-dated Bunds yields by more than 20 bps (and a similar widening of the transatlantic spread).

This movement alone has the potential to pressure the USD lower by around 2% against the euro. Second thoughts on QE2, but also the surprising key rate hike by the Chi-nese authorities have more than offset these pressures on the greenback. It terminated the last month only with modest losses at levels around 1.38 USD/EUR, roughly in line with our forecast.

Looking ahead, the current QE2 discount on the dollar is widely consistent with consensus expec-tations of a QE2 volume of around US$ 500 bn. There is much uncertainty about what the Fed will eventually decide on, but we do not have a base for a strong directional USD/EUR change on this issue any longer. We do, however, see the risk of a moderate setback to the euro. A main driver for the recent strength of the single currency against many other currencies has been an apparently more hawkish stance by the ECB, which raised medium-term key rate expectations for the euro area. We do not expect the ECB to carry us much further in this regard near term. On the contrary, the single currency may suffer from a renewed focus on potential intra-European disaccord. The agreement by the German and French leaders on avoiding automatic sanctions to breeches of the deficit limit bears the potential to raise doubts about the long-term fixing of the European debt crisis.

Bearish medium-term outlook for the US dollar

In the short term, we thus see the euro trending slightly lower again, not only against the greenback but also against the CHF and the GBP. With regard to the USD and the CHF we expect any relative euro weakness a good opportunity to rather sell forex exposure rather than to raise the stakes.

We have repeatedly argued that the greenback is likely to depreciate in the medium term with mounting US fiscal consolidation needs and external rebalancing forces likely to come more into the focus.

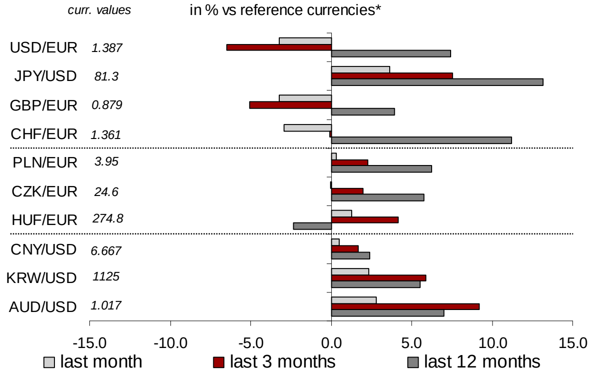
Given the sharp movements over the past weeks, we have adjusted our 12-month target to 1.45 USD/EUR from 1.38 previously, with the risks tilted towards an even weaker US dollar. Any further correction of the USD/EUR towards 1.35 would thus appear a good opportunity to short the greenback in our view

Adjustments in our 12-month forecasts

We also adjusted our 12-month target for the JPY/USD lower to 87, reflecting a slower return to fair value and longer USD weakness. For the CHF, by contrast, we have raised the corresponding target to 1.40 CHF/EUR on evidence that the economic outperformance in Switzerland compared to the euro area could correct more swiftly.

In a new trade recommendation initiated in early October, we recommend to go long the Australian dollar (AUD) against the euro. Despite some more reluctance by the Australian central bank to hike its key rate further, we see the Australian economy expanding healthily, not least thanks to the strong exposure to commodity demand in soaring China. The trade has so far posted profits of 1.4%, but we still see further profit potential in this exposure.

Overview of Currency Performance



* Positive numbers denote appreciation of currency in numerator

FX trade recommendations	Opened	Start level	Target	Stop loss	Closed	Current/Closing level	Return*
Go long PLN vs CZK	07/04/09	5.92	6.20	5.75	23/04/09	6.10	310 bps
Go long TRY vs HUF	13/08/09	129.1	136	122	01/10/10	122	-560 bps
Go long basket PLN & CZK vs EUR	13/11/09	4.11 / 25.54	n.a.	n.a.	19/02/10	3.98 / 25.87	162 bps
Go long CHF vs EUR	06/08/10	1.38	1.33	1.40	16/08/10	1.33	365 bps
Go long 50/50 basket TRY,PLN vs EUR	11/05/10	100 (1.95 TRY/EUR, 4.05 PLN/EUR)	105	96	-	99.9	229 bps
Go long AUD vs EUR	05/10/10	1.433	1.39	1.46	-	1.416	142 bps

* Returns are adjusted for carry based on 3-month interbank rate differentials

Financial Development

	Current	1 Month	3 Months	12 Months	YE* 2009
Last update:	29.10.2010				
Money Market Rates					
-US 3M Libor	0,29	0,29	0,45	0,28	0,25
-EUR Eonia	0,72	0,88	0,42	0,40	0,41
-EUR 1M Libor	0,81	0,61	0,59	0,39	0,41
-EUR 3M Libor	0,99	0,85	0,83	0,67	0,66
-JPN 3M Libor	0,20	0,22	0,24	0,33	0,28
-UK 3M Libor	0,74	0,73	0,75	0,59	0,61
-SWI 3M Libor	0,17	0,18	0,17	0,26	0,25
Bonds					
-2-Year Treasuries	0,33	0,42	0,55	0,83	1,14
-5-Year Treasuries	1,14	1,27	1,59	2,28	2,68
-10-Year Treasuries	2,60	2,50	2,91	3,38	3,84
-2-Year Bunds	0,98	0,82	0,78	1,30	1,32
-5-Year Bunds	1,71	1,47	1,65	2,42	2,43
-10-Year Bunds	2,52	2,26	2,67	3,24	3,38
-2-Year JGBs	0,13	0,12	0,14	0,25	0,14
-5-Year JGBs	0,29	0,25	0,35	0,66	0,46
-10-Year JGBs	0,92	0,93	1,07	1,39	1,28
-2-Year Gilts	0,70	0,68	0,87	1,40	1,29
-5-Year Gilts	1,63	1,60	2,05	2,63	3,06
-10-Year Gilts	3,19	3,06	3,42	3,72	4,11
-2-Year Bonds SWI	0,47	0,45	0,42	0,51	0,36
-5-Year Bonds SWI	0,70	0,64	0,68	1,22	1,08
-10-Year Bonds SWI	1,41	1,35	1,46	2,02	1,93
10-Year Swap Spreads					
-USA	9	5	-2	17	14
-EUR	28	31	28	25	20
Euro Corporate Spreads					
-JPM Credit Industrials	145	154	145	126	133
Emerging Market Bond Spreads					
-EMBI Latin America	337	363	370	376	355
-EMBI Asia	179	189	205	262	206
-Euro EMBI Europe	158	191	201	183	159
Forex					
-USD/EUR	1,40	1,36	1,30	1,47	1,43
-JPY/USD	80	83	86	90	93
-GBP/EUR	0,87	0,87	0,83	0,90	0,89
-CHF/EUR	1,37	1,33	1,36	1,51	1,48
Commodities					
-Gold $/Oz	1347	1301	1175	1046	1096
-Crude Oil Brent $/Barrel	83	81	79	75	77

Source: Thomson Financial Datastream, Bloomberg, own calculations

* YE = Year end

Financial Development

European MSCI Sectors	Current	1 Month	3 Months	12 Months	Ytd*
Last update:	29.10.2010				
Basic Materials	234	5,7%	11,0%	26,0%	5,3%
Energy	157	3,6%	8,9%	0,0%	-6,2%
- Oil & Gas	153	3,4%	8,3%	-2,6%	-8,2%
Industrials	145	2,4%	5,5%	20,8%	11,6%
Consumer Discretionary	93	2,9%	11,7%	30,7%	22,3%
- Automobiles	98	6,3%	20,1%	34,2%	32,3%
- Media	66	2,0%	3,7%	18,0%	8,2%
- Retail	117	0,6%	9,8%	23,7%	17,8%
Consumer Staples	152	1,6%	5,9%	16,1%	8,1%
- Food & Drug Retailing	91	0,3%	8,3%	16,8%	8,2%
- Food Product	136	1,6%	2,7%	9,6%	3,8%
- Household Product	327	2,2%	11,8%	21,4%	7,7%
Health Care	95	1,7%	8,5%	6,2%	-1,8%
- Pharmaceuticals	91	1,8%	9,4%	5,4%	-2,2%
Telecommunication Services	74	6,2%	9,6%	11,4%	6,7%
Utilities	118	5,8%	6,0%	0,6%	-7,6%
Financials	62	1,3%	-1,7%	-4,6%	-4,9%
- Bank	71,3	-0,1%	-3,6%	-7,7%	-7,5%
- Diversified Financials	44	2,0%	2,8%	7,9%	4,9%
- Insurance	42,6	4,0%	3,0%	2,4%	-1,6%
Information Technology	46	2,4%	3,8%	10,2%	6,6%
- IT Services	14,1	-0,1%	2,1%	7,9%	6,5%
- Software	90,2	0,3%	5,9%	22,1%	14,3%
- Communication equipment	40,2	2,4%	1,7%	-6,7%	-3,0%
- Computer & peripherals	31,4	9,0%	14,0%	6,0%	4,1%
- Semiconductor equipment	88,5	5,6%	3,8%	48,3%	17,4%

Source: Thomson Financial Datastream, Bloomberg, own calculations
* Ytd = Year to date

Equities	Current	1 Month	3 Months	12 Months	Ytd*
Last update:	29.10.2010				
World					
-MSCI World	855	2,8%	5,8%	9,4%	2,7%
US					
-S&P500	1183	3,7%	7,4%	14,2%	6,1%
-Dow Jones	11118	3,1%	6,2%	14,5%	6,6%
-Nasdaq	2507	5,9%	11,2%	22,6%	10,5%
Europe					
-DJ Euro Stoxx TMI Large	241	3,7%	4,6%	5,9%	-1,6%
-DJ Euro Stoxx 50	2845	3,5%	3,8%	3,7%	-4,0%
-MSCI EMU	89	3,6%	4,8%	6,7%	-0,3%
-DJ Stoxx 600	266	2,4%	4,2%	12,3%	4,8%
-DJ Stoxx 50	2543	2,4%	2,7%	5,5%	-1,6%
-MSCI Europe	1150	2,9%	5,7%	8,8%	2,2%
-CAC40	3834	3,2%	5,2%	6,3%	-2,6%
-DAX30	6601	6,0%	7,4%	21,9%	10,8%
-FTSE MIB	21451	4,6%	2,0%	-2,8%	-7,7%
-FTSE100	5675	2,3%	7,9%	12,5%	4,8%
-SMI	6472	2,8%	4,4%	3,0%	-1,1%
Japan					
-Topix	811	-2,2%	-4,5%	-9,4%	-10,7%
Asia ex Japan					
-MSCI AC Asia ex Jp	623	1,7%	9,1%	16,0%	9,1%

Source: Thomson Financial Datastream, Bloomberg, own calculations
* Ytd = Year to date

GENERALI Investments

Imprint

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