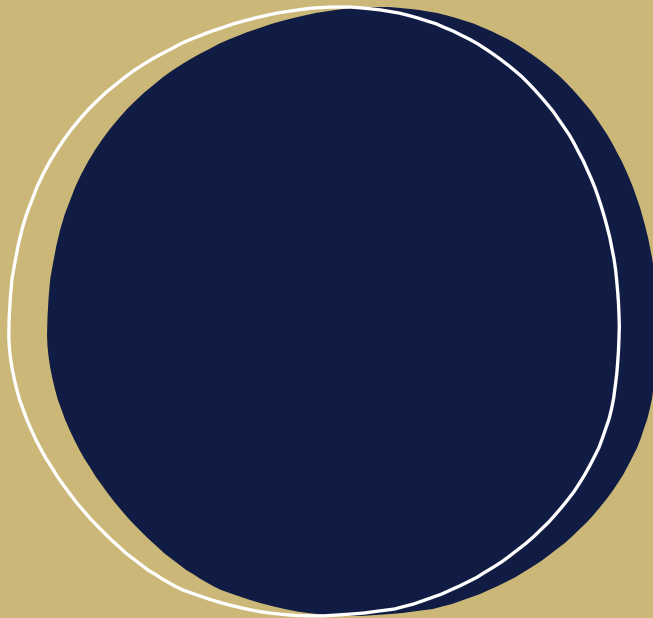


News from the financial markets

We are reducing our equity exposure

May 7, 2010





We are reducing our equity exposure

Jörg Zeuner, Chief Economist, and Bernd Hartmann, Investment Strategist

The European Union's crisis management acumen is rapidly losing credibility. We are therefore eliminating today, earlier than expected, our equity overweighting. In addition, we will flatten half of the yen hedges in our mandates.

Uncertainty is on the rise

The crisis management skills of the European Union are raising eyebrows throughout the world:

- Europe's problems are now starting to sour the mood in the USA. Yesterday the Dow Jones Index fell "only" by 3.2% after a truly turbulent closing phase. In Far Eastern trading this morning, the Nikkei followed step (minus 3.1%) and European markets are gapping down at the opening.
- The Bank of Japan reacted promptly by injecting liquidity into the Japanese banking system and demanded a G-7 telephone conference to discuss the Greek crisis.
- The Swiss National Bank is reassessing the euro's weakness and finally gave in yesterday by allowing the franc to appreciate further.

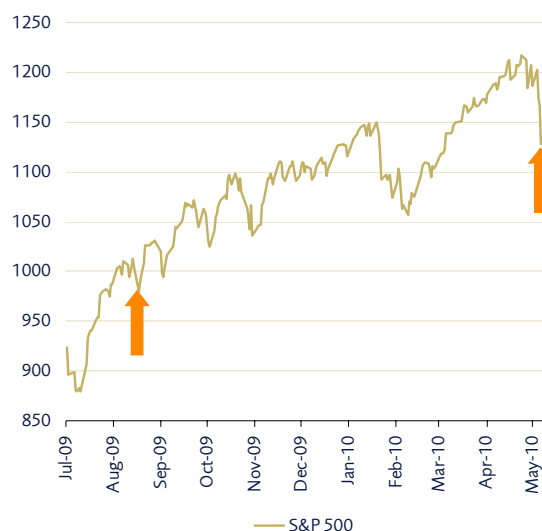
Given these circumstances, we expect investor uncertainty to increase even further.

We are eliminating our equity overweighting

As a result of this turmoil, we are prematurely closing out the tactical share positions that were established in our mandates last July. We will be concentrating now on Europe and the given home markets.

Simultaneously, we have reduced the yen hedges by half. Traditionally, the yen tends to benefit from heightened uncertainty.

S&P 500 index at start and end of overweighting



Sources: VP Bank, Bloomberg

Economic outlook unchanged

Our economic forecast remains unaffected by the current turbulence in the financial markets, at least for the time being. Most notably, we are expecting further job gains in the USA.

Rescue package unable to convince

The "Greece program" has until now not been able to convince investors of the EU's crisis-containment strategy. Too often this week, reference was made to the "isolated case" of Greece. Accordingly, yields on the bonds of other peripheral EU states have yet to decline. The Greek parliament's adoption of austerity measures, as well as the anticipated French and German approval of emergency loans, can hardly be expected to change anything in that regard today.

Pressure on ECB increases

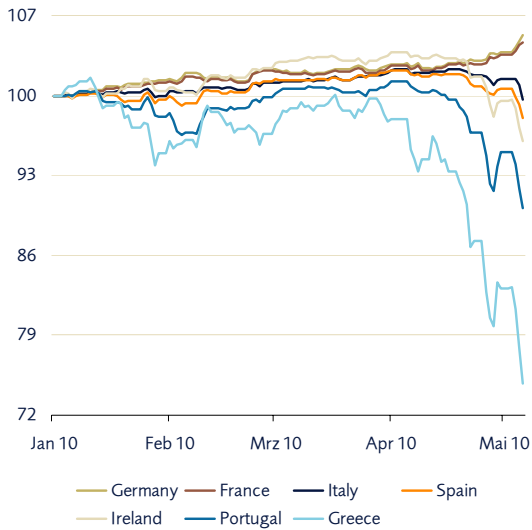
Increasing pressure is being exerted on the European Central Bank (ECB) to make direct purchases of government bonds from the peripheral states. The ECB had nothing to say about that matter yesterday, which in turn came as a disappointment to a number of investors. Such a move could calm the markets in a heartbeat. Against the backdrop of declining inflation rates, it would also be justifiable. However, euro weakness would persist as a result. Equally spoken, a softer euro would help the southern European states to get their economies back on track. But...it would cost the ECB a ton of political capital.

The bottom line:

We recommend that our advisory clients aggressively scrutinize their equity positions and take profits where appropriate. Uncertainty reigns at present. Contrary to our expectations, the aid package for Greece has yet to convince investors. However, good corporate earnings should act to cushion the correction.

We expect to see persisting euro weakness and temporary strength in the yen. The tightly managed EUR/CHF exchange rate is likely also in the months ahead to generally toe the line with EUR/USD. We suggest that investors position themselves accordingly.

Total return performance of euro zone government bonds (5-year)



Sources: VP Bank, Bloomberg

The VP Bank Group

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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.

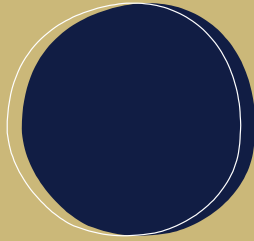
Suites 1002-1003
Two Exchange Square
8 Connaught Place
Central - Hong Kong
Tel +852 3628 99 00
Fax +852 3628 99 55
info.hkwm@vpbank.com

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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