



C P I C

Management Report

4th Quarter 2006

Economic trends in the fourth quarter of 2006

Although the year 2006 will be registered in history as an economic boom year, the signs of a moderate easing of economic activity increased in the fourth quarter, against a backdrop of the more restrictive monetary policy of the major central banks. This meant that the risks of inflation subsided, without conjuring up the danger of a recession. This environment was favourable for the trend in price levels on the international stock markets.

The anti-inflationary process was farthest advanced in the USA, where the interest-rate curve remained inverted. This meant that the monetary policy of the US central bank was the most restrictive of all the central banks. Consequently the markets expected lower US central-bank interest rates in future, and some initial successes could already be observed in the fight against inflation. The European Central Bank (with a now almost-flat interest rate curve) followed in second place in the monetary policy restrictions ranking, ahead of Switzerland. The Japanese central bank pursued the relatively most expansive monetary policy. The economies of the most important emerging markets experienced a similar trend, in terms of monetary policy and economic activity, to that of the leading economic regions. Only China reacted very moderately to monetary and currency policy changes for structural reasons.

The trend on financial markets

The stock markets continued to rise in the fourth quarter. The ranking of the most important markets for the year 2006 as a whole

was led by the Far East region (excluding Japan), followed by individual European markets like Spain and Germany, Switzerland, the rest of Western Europe and the US market. The prices on the Japanese stock market recorded a disappointing trend. The markets of the emerging economies achieved high and, in some cases, exceptional increases in value of up to 90% (Chinese "H shares": stocks quoted on the Hong-Kong stock exchange).

The bond markets were unable to keep up with this trend, in both the fourth quarter and the whole of 2006. In the fourth quarter the return on most markets in local currency terms was either slightly negative or slightly positive. Of the established bond markets, the US bond market performed best. Only the government bonds of the most important eastern European countries gained more significantly in value. The yield on CHF bonds (on an indexed basis) was slightly negative in the fourth quarter and over 2006 as a whole.

Most currencies appreciated in 2006 against the Swiss franc, which thus increased the yields on foreign securities accordingly from the viewpoint of a Swiss-franc investor. This applied in particular to the Czech crown, the Swedish crown and the British pound. In contrast, the most important overseas currencies (Canada, Australia, USA and Japan) depreciated against Swiss franc.

Performance of the share value

In the 4th Quarter 2006, the value of the A-share has increased by 2.41%, from CHF 240.91 to CHF 246.72, and in the same period the B-share has increased by 0.10%, from CHF 209.27 to CHF 209.50. For the whole year 2006, the A-share has increased by 5.38% and the B-share by 0.02%.