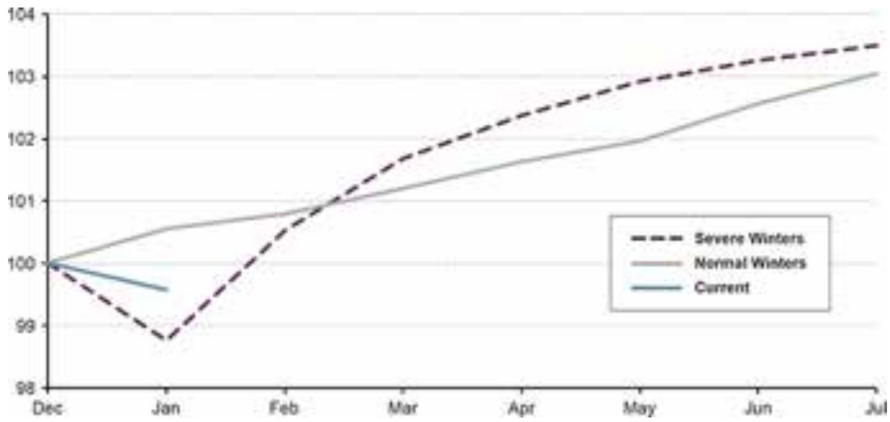
QNB Banque Privée (Suisse) SA Investment Outlook – February 2014

Macro View

If Winter comes, can Spring be far behind?
– Percy Bysshe Shelley.

Adverse weather conditions across the US have impacted sharply on economic activity and led many commentators to question the solidity of the recovery.

Retail sales have fallen, industrial production declined, mortgage applications have slowed and housing data have disappointed. The extent of this weakening has been surprising but longer term concerns appear overblown. There have been many such disruptions to economic growth in the past and they were consequently brushed aside as both the weather and the economy improved.



Source: Haver, Guggenheim Investments. Data as of 1/31/2014. *Note: Severe winters have Januaries in which the deviation of heating degree days (a measure of temperature) plus the deviation of precipitation is greater than 10 percent and retail sales are negative – something that has occurred five times since 1978.

Rising temperatures in March and April will likely see increased activity with businesses making up for lost ground. Factory activity and auto sales will likely increase as well as consumer demand helping the US economy to “weather the storm” and return to longer term growth.

The current bout of economic weakness may lead to speculation that the Fed may alter their current level of tapering but we believe this unlikely. If the Fed sees, as we do, that this situation is merely temporary, then they will be unlikely to change course at this time. We expect the bond purchases to continue being reduced throughout 2014 in a measured fashion.

In the meantime there has been an interesting pick-up in merger activity with the latest deals from Comcast/Time Warner and Facebook/Whatsapp making the headlines. Add to this, continuing announcements of large stock buybacks and the stage seems set for a positive trend for stock

prices in the second quarter. On the technical side the recent breakout of the NYSE advance/decline ratio is a very positive signal for stocks.
Despite all the bad news, US and global equities are close to or at all- time highs. American corporations continue to sit on large cash hoards and have 91 weeks- worth of net income sitting in cash. This gives no signal of an end to the current bull market.
Bank lending growth to small US companies is the strongest since June 2008. It is now positive for the first time since the economic crisis began six long years ago.

Chart 2: Lending to Small and Large Corporations

Source: BAC Internal Data

This is a clear indicator of an improving situation and the fact that it is still far below peak levels suggests that there is a lot more potential upside to this indicator.

Summary:
Despite the uncertain beginning to equity prices in 2014 we believe the weather influenced declines will likely evaporate as Spring arrives and improving temperatures and weather conditions allow many of the economic indicators to rebound. We believe the positive momentum carried forward from 2013 will continue and can expect good economic and stock market performance from the US.

Cash: Underweight

With plenty of opportunity in asset markets to generate revenue the argument for holding large defensive cash balances is very weak. Low interest rates continue to fuel asset gains and with no expected change in interest rate levels in the near future it appears cash returns will remain unattractive for quite some time. We see plenty of opportunity in other asset classes.

Fixed Income: Overweight

Bonds continue their strong start to the year with investors continuing demand for yield driving markets. Despite year end concerns about Fed tapering, the treasury market has seen strong demand in the first few months of 2014. The reduction in Fed buying appears offset by overseas demand despite a fall off in purchases from China.
In the Eurozone we have seen further gains in peripheral markets such as Spain and Portugal and despite continuing political uncertainty in Italy there has been robust demand for Government paper across the Eurozone. The German constitutional court ruling on the ECB’s OMT program did not disturb the markets appetite for Eurozone bonds as investors focused on gradually improving economic fundamentals in the Eurozone area.
In the UK there are indications that the BOE will begin to raise rates in early 2015 driven by a sharply improving economy in the UK which appears to be a leading indicator for the Euro-area as a whole.

Equities: Neutral

After a shaky start to the year equity markets in major countries have rebounded. The S&P has regained its year end levels and the NASDAQ is now in positive territory. Increased M&A activity (Comcast/Time Warner and Facebook/Whatsapp) are positives for the market as well as many newly announced stock buybacks.
In the GCC markets roared ahead supported by strong local fundamentals and helped by the relative stability of their USD currency pegs which compare favorably to other EM countries with floating currencies (Turkey, India, Brazil). We continue to expect robust performance from the GCC markets and believe 2014 will be an important year of outperformance for this area.

Commodities: Underweight

Commodities have turned in a better performance so far in 2014 after three years of relative underperformance.
Precious metals lead the way with strong Chinese demand for Gold helping raise the price from the $1200 level to today's $1320. Encouraging signs from India of potential relaxation in its current restrictions of gold imports is also supportive.
Elsewhere Coffee has ben a big mover with weather related issues driving prices sharply higher. Coffee prices have risen by 50 percent since year end.

Alternative Investments: Neutral

Investors may almost triple the amount of capital they put into hedge funds this year, boosting industry assets to a record, an annual survey by Deutsche Bank AG showed. Hedge funds may attract $171 billion of net inflows and generate $191 billion in performance-related gains, according to 413 investors globally with $1.8 trillion of industry assets polled by the German bank in December. The combined effect will help boost assets by 14 percent to $3 trillion by year-end, the survey showed. Last year, the industry drew $63.7 billion of net deposits according to Hedge Fund Research Inc.
The increase in allocations predicted, would be the largest into hedge funds since 2007, based on data from Chicago based HFR. The optimism follows the best industry return in three years and the growing trend of investors folding hedge funds into their stock or fixed income allocations, the survey said. (Bloomberg).

Currencies:

The dollar rose against most currencies this week on bets the Federal Reserve will press on with reducing stimulus, even amid weaker US economic data that may have been caused by winter storms.
The dollar headed for its biggest weekly advance against the Japanese Yen ahead of G20 talks in Sydney.
The Japanese currency slid versus most of its peers as investors sought higher yielding assets.
In China the Yuan extended this week's loss to 0.9% after China manufacturing data contracted at the fastest pace in seven months.

Real Estate: Overweight

More of Britain's homeowners than ever expect their house values to go on rising over the next 12 months, just days after official statistics showed the average house price hit a new high at the end of last year.
A monthly survey by estate agent Knight Frank and data provider Markit showed the balance of homeowners that expect the value of their home to rise increased 74.9 percent in February. That is the highest balance since records began in 2009 and up from January's 72.3
In the US disappointing figures on new home sales and building permits dampened enthusiasm but may be a result of poor winter weather during January.

The Doha Perspective:

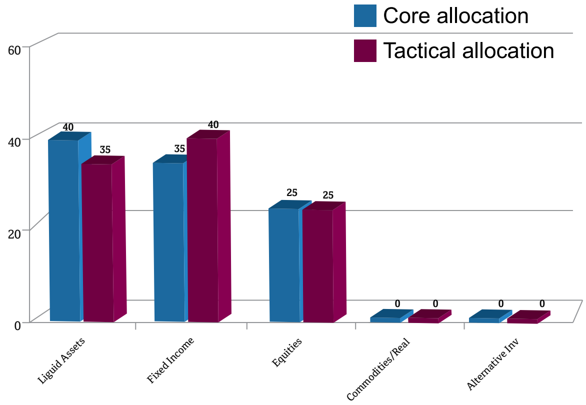
The GCC markets started the year on a positive note with all regional indices posting strong performance during January 2014. Dubai's benchmark index (DFMGI) was the top performer, surging by 11.9% month-on-month (MoM). The second best performing index was Abu Dhabi's benchmark index (ADSMI) rising by 8.9% MoM. It is worth noting that DFMGI and ADSMI were the best performing regional indices in 2013 with a gain of 107.7% and 63.1%, respectively.
After a strong performance in 2013 (+24.2% YoY), the Qatar Exchange (QE) Index exhibited another strong performance in January 2014 (+7.5% MoM). The banking sector loans climbed by 13.3% YoY for 2013. Deposits also expanded by 19.7% YoY in 2013. Going forward, we expect activity in the banking sector to pick up in the coming months. This coupled with strong dividend payouts from banks and other blue-chip stocks should keep investors interested in the market in the near-term. Furthermore, foreign investors remained bullish for the month. In the first month of 2014, the Qatar Exchange has witnessed net foreign portfolio investment inflow of ~$532.2mn vs. ~$1,057mn for the full year of 2013.

Summary:

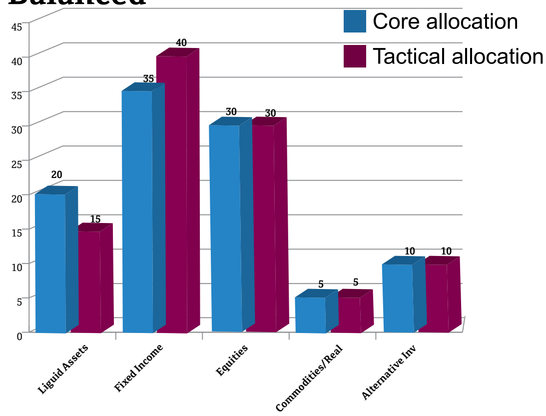
Summary	This Month	Last Month
Cash	Underweight	Underweight
Fixed Income	Overweight	Overweight
Equities	Neutral	Neutral
Commodities	Underweight	Underweight
Real Estate	Overweight	Overweight
Alternative Inv.	Neutral	Neutral

Asset Allocations:

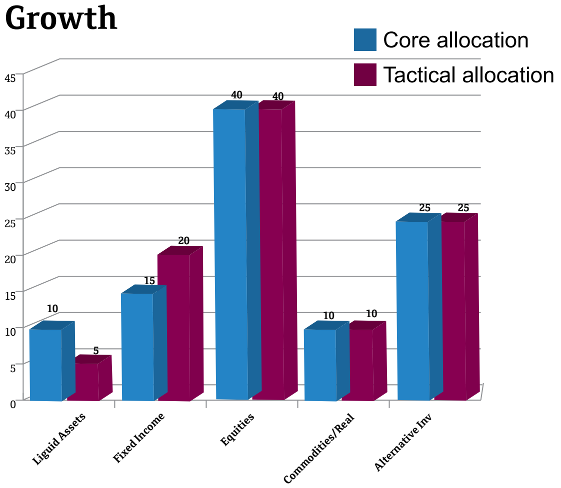
Conservative



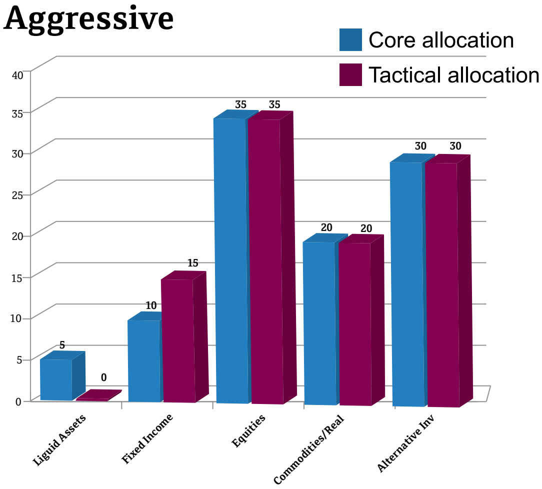
Balanced



Growth



Aggressive



For further information please contact:

Investment Committee
QNB Banque Privée (Suisse) SA

Brian Moloney-Head of Investments
brian.moloney@qnb.ch