

**PRESS RELEASE**

## **Portfolio strategy recommendations for 2007**

### **Global economy expected to continue strong growth – DAX and TOPIX offer greatest potential – focus on insurance, construction and commodities stocks**

**Frankfurt, 30 November 2006.** The analysts of BHF-BANK expect the economy to remain in excellent health next year, with the global economy growing by 4.7 %. According to the bank's experts, growth impetus will be provided by the euro-zone (+ 2.3 %), Japan (+ 2.2 %) and particularly by the booming emerging markets. At 2.4 %, US economic growth is, on the other hand, forecast to be lower than in the previous year. As far as Germany is concerned, Kai Franke, head of Investment Policy in BHF-BANK's Private Banking division, is optimistic: "The German economy will continue on its growth path next year, although we assume that consumption in the first quarter of 2007 will be clearly down on the fourth quarter of 2006. We believe that consumption will pick up sharply towards the end of the year as spending is brought forward ahead of the VAT increase at the beginning of next year." The German economy is expected to grow by +1.7 %. BHF-BANK's analysts see inflation at 1.9 % in both Germany and the EU and at 2.9 % in the United States.

#### **Equity markets to benefit from rising profits and ample liquidity**

BHF-BANK's analysts believe that equities will continue to outperform bonds in 2007. They expect the DAX 30 to stand at 7,300 points and the STOXX 50 index to reach 3,950 points by the end of the year 2007. The buoyant trend on the equity markets looks set to continue next year, but the existing geopolitical risks and global imbalances will make the markets more prone to fluctuation than they have been in 2006. BHF-BANK's equity market specialists expect company profits to rise further, albeit at a diminishing pace. "The low risk premiums are a positive factor. The international equity markets are still at persistently low valuation levels – despite the strong price gains we have seen since 2003," explains Kai Franke. Investors hold substantial levels of liquidity, which will have a favourable impact on their willingness to assume risk.

The Japanese TOPIX and the German DAX look set to offer the most promising investments in 2007. In sector terms, the focus is on insurance, construction and commodities stocks. The attractively valued

insurance sector benefited from a less strained claims situation in the current year and the upbeat medium-term prospects on the equity markets. The European construction sector is being bolstered by the upturn in the overall economic environment and the end of the ten-year crisis in the German construction sector. Furthermore, this sector is relatively well hedged against dollar risks. Following the correction seen in the last few months, the volatile commodities sector is once again attractively valued and a good investment opportunity for risk-conscious investors. In terms of stock picking, BHF-BANK's recommendations include Allianz, BP, Bilfinger Berger and Xstrata.

### **2007 set to be a difficult year for bonds**

Bond prices reflect an overly pessimistic view of the economic climate. Rising labour income in the United States combined with receding labour productivity could weigh down on the bond markets. "We don't see much scope for interest rate cuts by the US Fed," says Kai Franke. The European Central Bank, on the other hand, will continue its neutral rate policy and raise its main refinancing rate to 3.5 % initially. Against this background, bond investors are advised to concentrate on short and medium-term papers. With ample liquidity on the markets, spreads for mortgage bonds (Pfandbriefe) and corporate bonds will remain relatively narrow. Asset-backed securities (ABS), which offer a superior return and a higher degree of diversification, are a useful addition to investor portfolios as they can improve the overall performance. On the bond markets, BHF-BANK recommends investments in government bonds (Netherlands, Republic of Ireland, the German federal state of Hesse), Pfandbriefe (Dexia, Depfa, DG Hyp) and corporate bonds (BASF, Suez).

### **Conflicts of interest**

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