

Media release

The Wegelin Investment Commentary no. 273 “Deflation?” is published.

Hope on the horizon

St. Gallen, October 14, 2010 – Ongoing perplexity in the financial markets has seen monetary concerns swing between inflationary fears and deflationary anxiety. The new Wegelin Investment Commentary rejects the current danger of deflation and identifies three reasons for cautious optimism regarding the economy.

Although the dark clouds of economic crisis continue to linger, three rays of hope are glimmering on the horizon:

Firstly, many companies are showing great flexibility in coping with the flawed macro-policies of their governments. Thanks to innovation and investment, they are achieving productivity increases despite the adverse conditions. Falling prices are thus not necessarily indicative of economic decline.

Secondly, technological breakthroughs have enabled the communication revolution, ground breaking discoveries in microbiology and fully automated process control. Through this, the scope of individual opportunity has expanded enormously in recent times. The shift in value creation towards individuals and the increase in efficiency must sooner or later be seen in growth figures and economic upturn.

Thirdly, the world seems, at least for now, to have learnt to live with exceptional risks. All-pervasive fear has given way to quantifiable anxiety – significant foreseeable losses have now been priced in. In this regard, the credit default swap prices are providing reliable information in regard to indebted states, without the distortions of political reassurances. What is lacking, however, is credit risk insurance for individuals’ old age and health care provisions – one of the future’s greatest challenges.

The author of the Investment Commentary, Dr Konrad Hummler, advises investors not to be alarmed by the sceptre of deflation and to continue to prefer stocks over bonds. In doing so, investors should maintain a broad diversification of countries and sectors; good, attractively priced stocks generally compensate currency losses rather quickly.

First published in 1909, the Investment Commentary of Wegelin & Co. Private Bankers is issued seven times a year, with a circulation of over 100,000 copies. It is penned by Dr. Konrad Hummler, Managing Partner with unlimited liability of Wegelin & Co. The Wegelin Investment Commentaries are available in print format (pdf) and as podcast at www.wegelin-investmentcommentary.ch.

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