Sal. Oppenheim

PRESS RELEASE

Capital markets to remain subdued in 2005

Sal. Oppenheim expects a trading market with limited share price potential

Cologne, 8 December 2004 – Sal. Oppenheim expects the capital markets to remain subdued in 2005, according to the results of its "Outlook on the Capital Markets for 2005" study, which was presented in Frankfurt am Main on Wednesday. Dieter Pfundt, a personally liable partner at the private bank, believes that the economy has cooled down considerably since the autumn. "This is attributable to a number of key factors, including the rise in oil prices and the sliding dollar", said Pfundt with regard to Sal. Oppenheim's forecasts. "Given the current market imbalances, the best that the US economy can hope to achieve in the medium term is trend potential growth".

Norbert Braems, Chief Economist at Sal. Oppenheim, expects Europe, and in particular Germany, to continue to lag behind global growth rates, which means that the European Central Bank (ECB) is unlikely to raise interest rates for the time being. By contrast, the US Federal Reserve Bank is expected to gradually increase money market interest rates to over three percent. As far as consumer demand in Europe is concerned, the outlook is moderately positive, with Braems expecting a boost from the expected tax cuts and an oil price which should fall back to an average of 35 US dollars for the year.

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According to Dr. Wolfgang Sawazki, Head of Equity Research, these developments, even with the projected good start in 2005, are only likely to edge the DAX up to 4,600 points and the EuroStoxx50 up to 3,200. “These developments will be driven mainly by the low valuation of the German and European equity markets, and by corporate actions in the form of dividend increases and share buy backs”, explained Sawazki. “The M&A market is also starting to pick up”. In 2005 and 2006, Sawazki expects companies’ operating results to increase slightly, but not by nearly as much as in previous years, when results were propped up by a cyclical upturn and the after-effects of restructuring measures. “The only factor likely to lead to the emergence of double-digit growth in reported earnings is the changeover to the IFRS accounting standards, which will abolish periodic goodwill amortisation.”

Given these circumstances, Matthias Jörss, head of Equity Strategy, recommends that investors overweight the chemicals, retail, telecommunications and insurance sectors, with an emphasis on defensive, high-dividend stocks, as well as stocks with a low valuation based on the free cash flow. “Small-cap stocks, which have been strong outperformers for the past few years, are running out of steam”, said Jörss, “because this market segment has now closed the valuation gap.” Sal. Oppenheim lists Commerzbank, DSM, Munich Re, Schwarz Pharma, Schering, TUI, UBS and small-cap stocks such as Mobilcom, Clariant, Douglas, Escada, Thiel, Rhön-Klinikum and Vögele among what it believes will be the most promising performers in 2005.

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