

P R E S S   R E L E A S E

## Sal. Oppenheim recommends buying equities — risk awareness sufficiently high

- *DAX should climb back to 6,000 by year's end*
- *Price driver: strong takeover activity, continued share buybacks, slightly rising corporate earning and moderate market valuation*
- *More restrictive central bank policies increases caution among investors and leads to ongoing market volatility*
- *Outperformance: consumer chemicals, food manufacturers, retail pharmaceuticals, insurance and telecommunications stocks*

Frankfurt/Cologne, 29 July 2006 – Experts at Sal. Oppenheim jr. & Cie., Cologne, expect positive performance on the equity markets in the second half of 2006. “Investors should take the current consolidation phase, in which DAX is trading between 5,350 and 5,550, as an opportunity to buy equities”, recommends Dieter Pfundt, personally liable partner responsible for Investment Banking at Sal. Oppenheim. “Many companies are displaying very positive cash flow growth, which is not sufficiently priced in.” Dr. Wolfgang Sawazki, Head of Equity Research, also believes that, with continued volatility and concerns of rising interest rates, and about the future of the US economy, the DAX will increase to 6,000 points, and the EURO STOXX 50 to 3,900 points, by the end of the year.

The Sal. Oppenheim experts believe that current political developments in Germany will do little to spur growth in the country’s economy. “Although the new Federal government got off to a good start, belief among market participants that the reforms required to improve the German economy’s growth potential will actu-

ally be implemented is waning”, said Sawazki to representatives of the press earlier today. “This is already starting to have a negative impact on German equity markets, as reflected in the pullout of foreign investors during the second quarter.”

The mood on the international markets is dominated by what Sal. Oppenheim believes to be exaggerated inflationary fears and the related worries that the US Federal Reserve is threatening growth by driving interest rates up too far. Although Sal. Oppenheim expects central bank rates to further normalise in the euro-zone and Japan in particular, Norbert Braems, Chief Economist at Sal. Oppenheim believes that the structural arguments for low inflation still apply. As a result, the Bank expects fewer rate hikes than the derivatives markets and thus only a slight deceleration of the global economy. The forecasts for Germany are less optimistic. Sal. Oppenheim’s experts predict that GDP will fall from an estimated 1.8% in 2006 to 1.2% in 2007. “The planned increase of VAT in 2007 will stifle growth”, explained Braems. “Germany’s exports will also be hit by a global economic slowdown and the possibility of a further devaluation of the US dollar”.

Sal. Oppenheim expects moderate interest rate and inflation forecasts to bring about predominantly positive share price conditions over the next few months. Sawazki contends that a persistent thirst for takeovers, continued share buybacks, a further slight uptrend in corporate earnings and moderate equity market valuations will drive prices up. “With a price/earnings ratio of 11 to 12, both the German and European equity markets appear to be valued at a historically low level”, said Sawazki. “This applies even if the historical data in many cases is adjusted to reflect higher earnings resulting from the introduction of the International Financial Reporting Standards (IFRS). The fact that Return on Sales has reached a new 20-year high, with a knock-on effect on the Profit Share of National Income, means that the current earnings cycle is at a mature stage.”

Matthias Jörss, Head of Equity Strategy, believes that the risk premium on equities is still too high as compared to bonds, even with slightly lower earnings forecasts

for 2007. The Sal. Oppenheim experts predict that the third quarter will bring a “soft landing” in the US and the end of the Fed’s interest rate hikes, so that the equity market can start picking up speed again. While the European markets will continue to battle the headwind of ECB rate hikes and a possible correction in the US dollar, the US stock market should return to better performance towards the end of the year, at least in local currency terms.

In light of all this, Jörss recommends an overweighting of defensive sectors such as retail, pharmaceuticals and telecommunications, and sectors that tend to profit overall from falling commodities prices, such as consumer chemicals and food manufacturers. “The insurance sector is also substantially undervalued”, according to Jörss. “Reinsurance companies in particular are benefiting from structural improvements in the market.” On the other hand, the Bank foresees the outperformance of capital goods manufacturers coming to an end. The same applies to the highly cyclical basic materials sector. Wolfgang Sawazki believes that the following companies, which are expected to generate double-digit performance, will rank among the top movers in the second half of the year: Allianz, Bayer, Hypo Real Estate, Linde, Nestlé, Sanofi Aventis and UBS, as well as a number of small caps such as AT+S, Carl Zeiss Meditec, Celesio, Ersol, Gea, Lanxess, Leoni, K+S, Intercell, Software AG or IVG.

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