ABN·AMRO

Press Release

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ABN AMRO targets companies with strong pricing power in Q3 investment outlook

Equities of companies with strong pricing power are among ABN AMRO Private Banking's key recommendations in its third quarter investment outlook entitled *'Reality check'*, published today.

Despite increasing global economic headwinds and a Neutral allocation for equities, the bank sees upside potential for companies with proprietary products, leading market positions, brand loyalty and affluent customers. It continues to recommend emerging-market equities, particularly in Brazil and China.

"Companies with sustainable pricing power provide a good bridge between short-term risks and medium-term opportunities. As the earnings cycle matures, a slowdown emphasises the need to select 'pricing survivors' and companies that are driving change across sectors," said Didier Duret, Chief Investment Officer of ABN AMRO Private Banking.

The bank identifies Actelion, Allergan, Apple, Caterpillar, Coca-Cola, Gilead Sciences, Lanxess, LVMH, Mosaic, Nestlé, Philip Morris International, Procter & Gamble, Reckitt Benckiser, Sanofi, Starbucks and Swatch. "These companies have the resilience to cope with short-term economic setbacks, as well as the capability to innovate and expand within their sectors in the future," said Mr Duret.

Recession is unlikely, despite the continuing high oil price, austere fiscal conditions and a global loss of momentum in manufacturing. The bank expects the European Central Bank to raise interest rates regularly, but for US rates to remain unchanged until July 2012, with no further quantitative easing ahead.

Commodities based and emerging-market currencies are predicted to weaken against the USD. The bank also sees an improvement in euro sentiment leading to a recovery of the euro against other currencies, with the exception of EUR/USD which is expected to remain neutral.

A fresh political approach to the Greek debt crisis is required to avoid a new systemic crisis, according to the bank. Significant restructuring will imperil Tier 1 capital and the solvency of Greek banks, while similar attempts to limit contagion could threaten Tier 1 capital structures across the European banking system.

The bank's balanced model portfolio remains unchanged: 22% cash, 28% bonds, 40% equities and 10% alternatives. In fixed income, the bank is negative on government bonds but recommends financial covered bonds and high grade credit – with selected Spanish corporates for yield enhancement. Within alternative investment, the bank continues to see value in event-driven and relative value hedge funds.

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