News release

Swiss Re

Long-term rates should rise by year-end, predicts Swiss Re Chief Economist, Kurt Karl

Contact:

Media Relations, Zurich
Telephone +41 43 285 7171

Corporate Communications, Asia
Telephone +852 2582 3912

Corporate Communications, New York
Telephone +1 914 828 6511

Investor Relations, Zurich
Telephone +41 43 285 4444

Swiss Re Ltd
Mythenquai 50/60
P.O. Box
CH-8022 Zurich

Telephone +41 43 285 2121
Fax +41 43 285 2999
www.swissre.com

New York, April 25, 2012 — After today's decision by the Federal Reserve to maintain the target Fed funds rate at zero to 25 basis points, Swiss Re's Chief Economist, Kurt Karl, commented: "A strengthening US economy should push up the yield on the 10-year Treasury note this year and next."

Karl adds: "The expansion of the US economy continues despite the fragile state of the global economy. Employment has picked up, consumer spending is accelerating, and business investment continues to add to growth. Recent economic indicators for Europe have been mixed, but supportive of our view that the current recession will be mild and end by mid-year. The Fed is becoming more bullish on the US economy, but also remains committed to holding the Fed Funds rate low through late 2014 given the still-elevated unemployment levels. A further quantitative easing is unlikely, given the expected strength in the US economy in the second half of 2012 and into 2013. Thus, yields on the 10-year Treasury note are forecast to rise to 2.3% by end-2012 and be close to 3% by end-2013."

He continues: "Concerns have increased about Spain again recently. In many of the European peripheral countries, there is a risk that excessive fiscal tightening will deepen the recession. It is therefore important now to focus on a growth plan for Europe. Spain, for example, can afford some fiscal slippage without losing credibility as long as it continues its reforms vigorously, in particular cleaning up the banking sector. Overall, the risk of a disruptive event in the Euro area has receded, but the rising risk of an oil price shock has sustained the overall risk of another recession. Japan's economy continues to recover from the tsunami, so will support the global economy this year with real GDP growth of 1.8%. The Bank of Japan has reinforced its loose monetary policy recently by introducing a price stability goal and increasing the total size of the Asset Purchase Program. China, India and Brazil are also either lowering rates or reserve requirements. Growth in China slowed to 8.1% in Q1 2012 from 9.2% in Q4 2011. The slowdown is mainly driven by lower export growth. By contrast, domestic consumption and investments remain strong. Our growth outlook for China remains unchanged at 8.5% for 2012."

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