

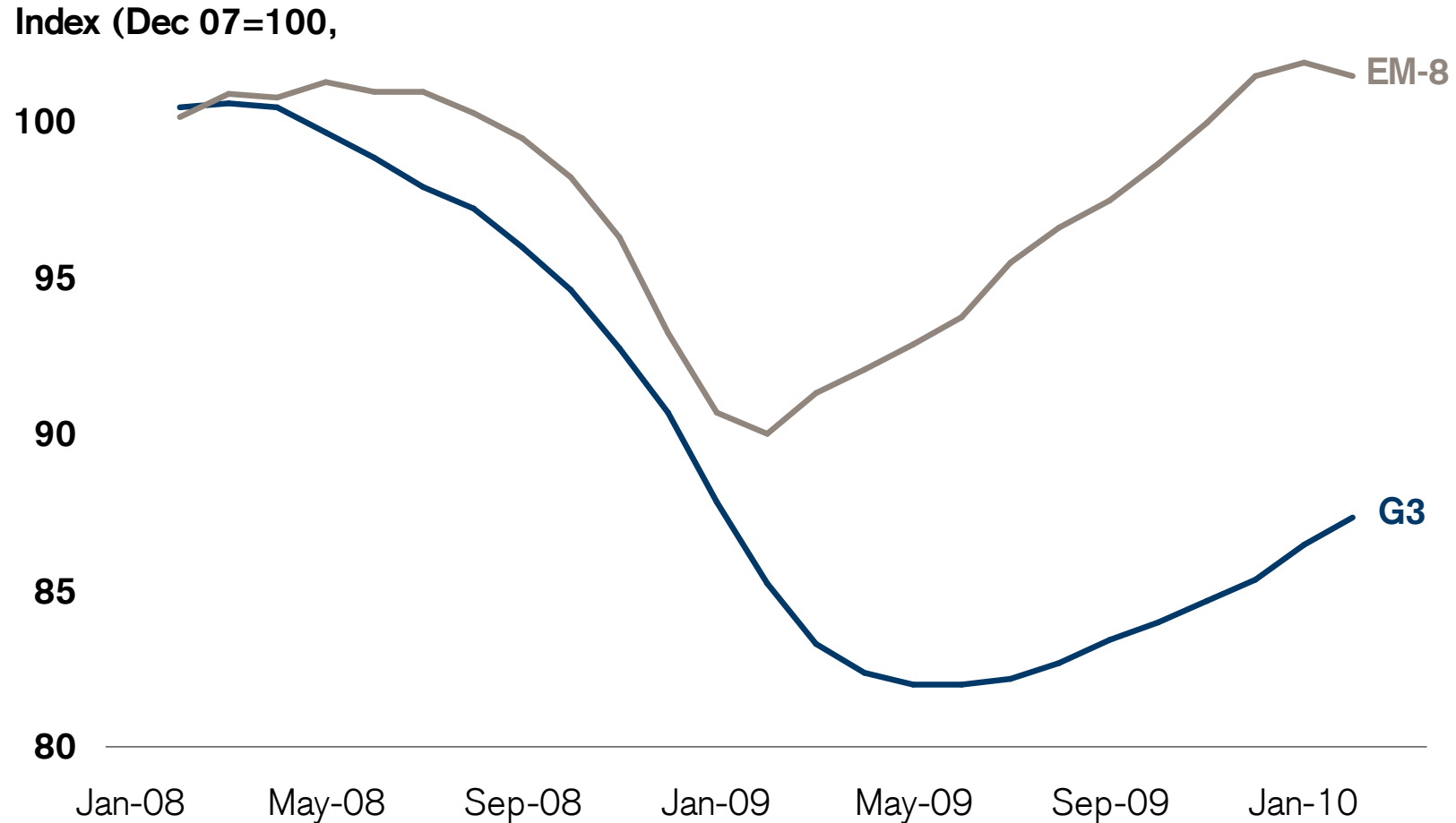
# Market Crisis & Opportunities – What Next?

Robert Parker – Senior Advisor, Credit Suisse  
Kuwait, 8 June 2010

# Key questions for global markets and investment strategy

- What is the risk of economic recovery reversing in the developed economies?
- Is there a fundamental switch in economic power occurring in favour of the emerging economies?
- Is the recent upturn in inflation sustainable or will there be a return to deflation?
- What future credit and market shocks will occur, particularly in sovereign bond markets?
- After the reversal in equity markets in late April and May 2010, how will the pattern of equity markets, both by geography and sector, evolve?
- Is the rally in credit in fixed income over and given budget deficits, how much risk exists in government bond markets?
- Can the strength of the US dollar continue in 2010 and what are the risks of a US dollar reversal?
- Given the strength of emerging market demand, will commodities outperform?

## The global recession ended in mid-2009 and in 2010, the recovery is robust



Last data point: G3: 15/2/2010; EM-8: 15/2/2010;

Source: Datastream, Credit Suisse / IDC

# World trade

Jan 2006 = 100  
120

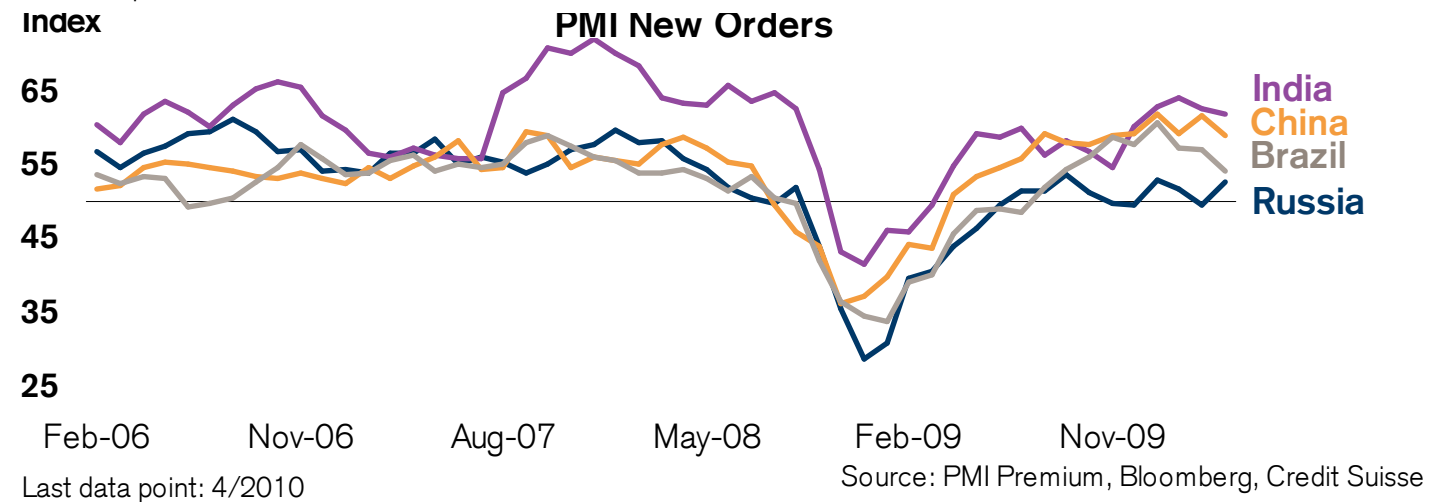
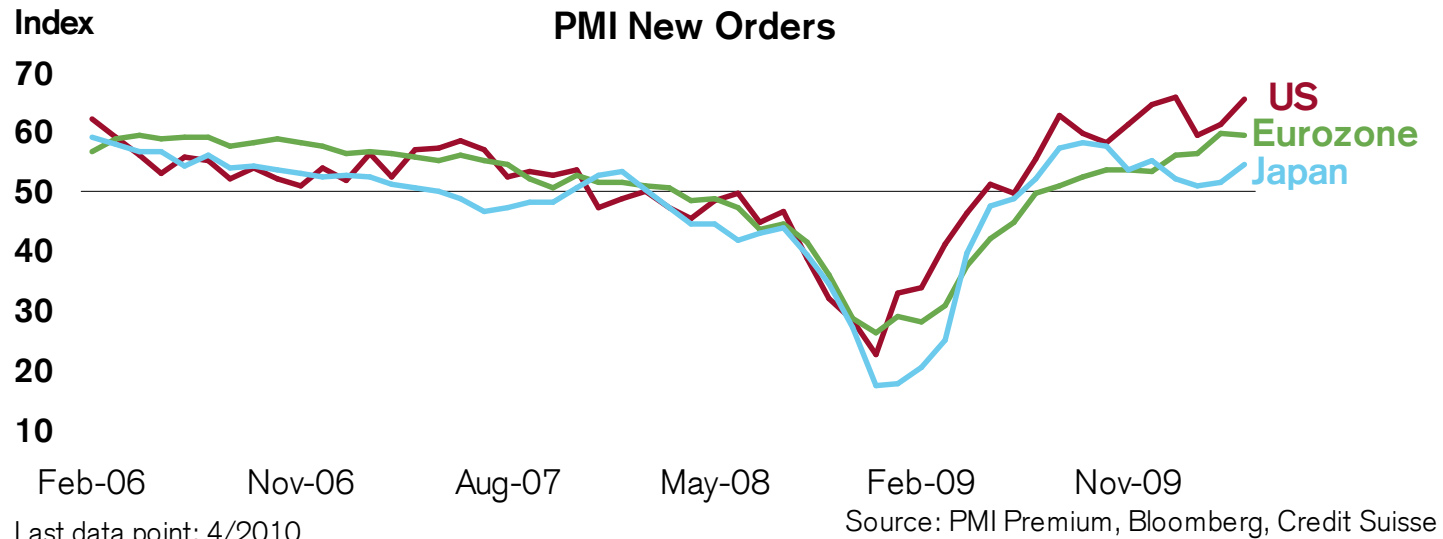
**World trade volume index (s.a., 2mma)**



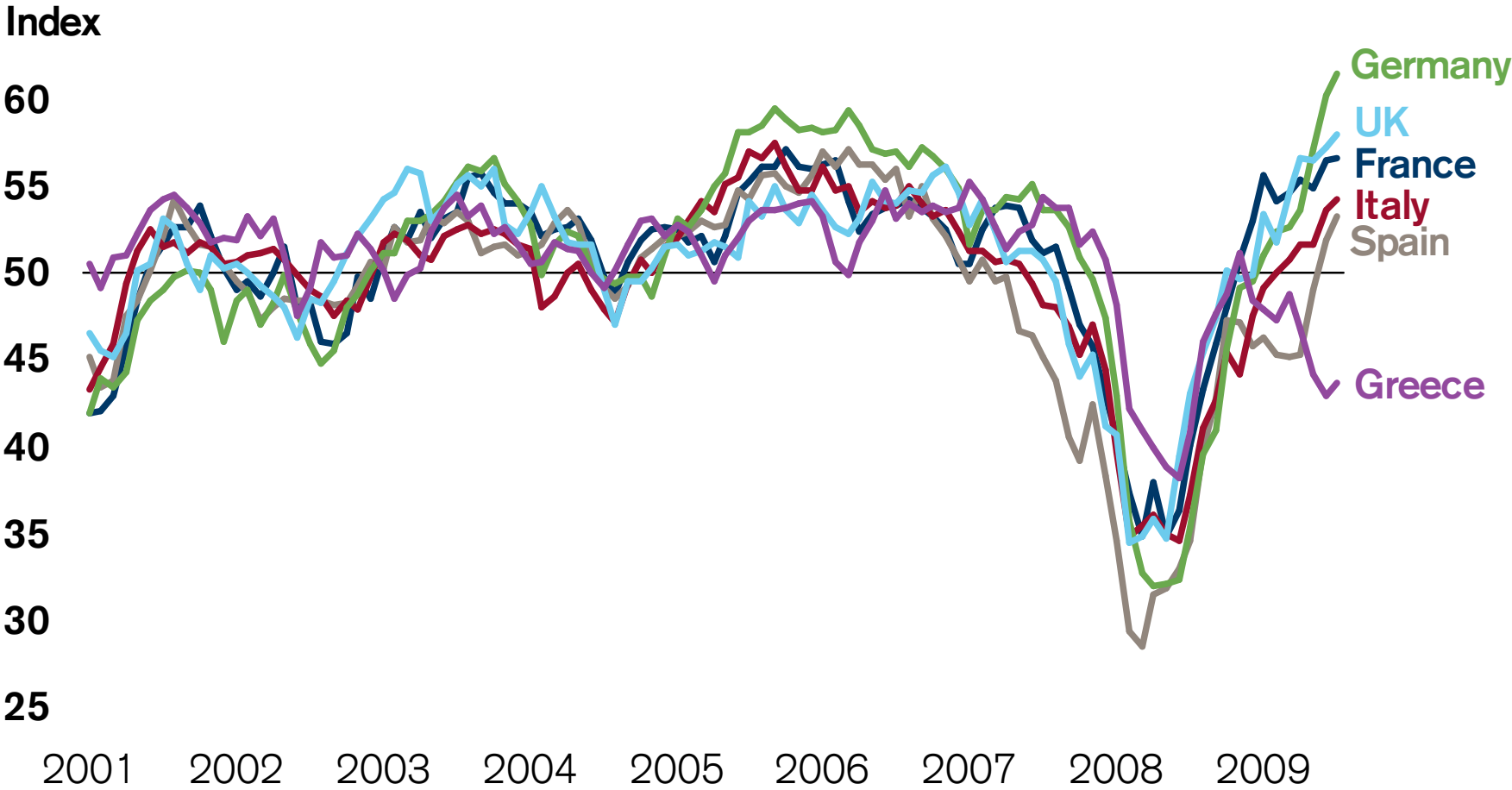
Last data point: 1/2010; Value: 106.23

Source: Netherlands Bureau for Economic Policy Analysis, Credit Suisse

# Survey data: new orders consistent with recovery



# Europe manufacturing PMI's

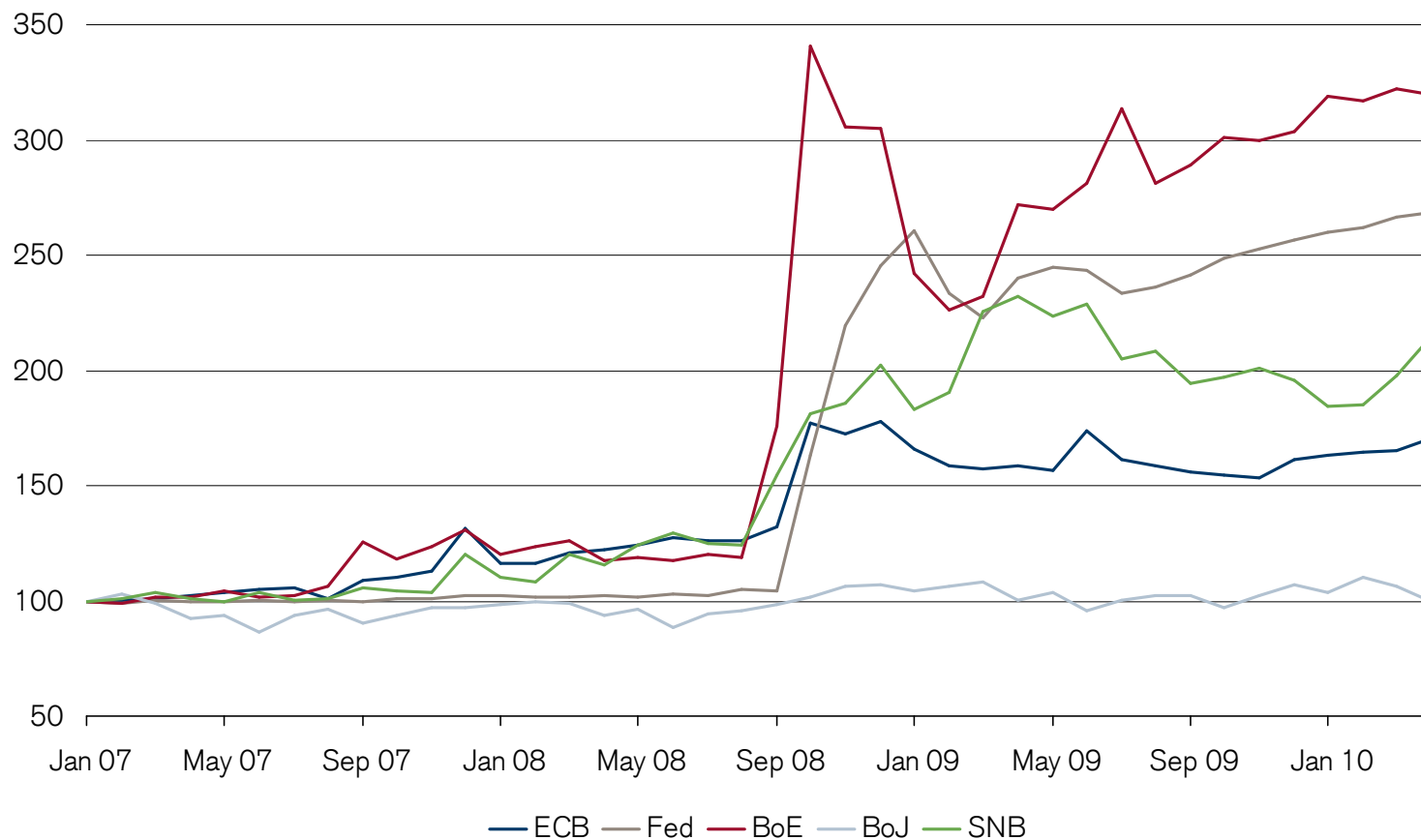


Source: Datastream, Credit Suisse

# Central bank balance sheets

Balance sheet expansion reflects emergency lending and purchases of assets

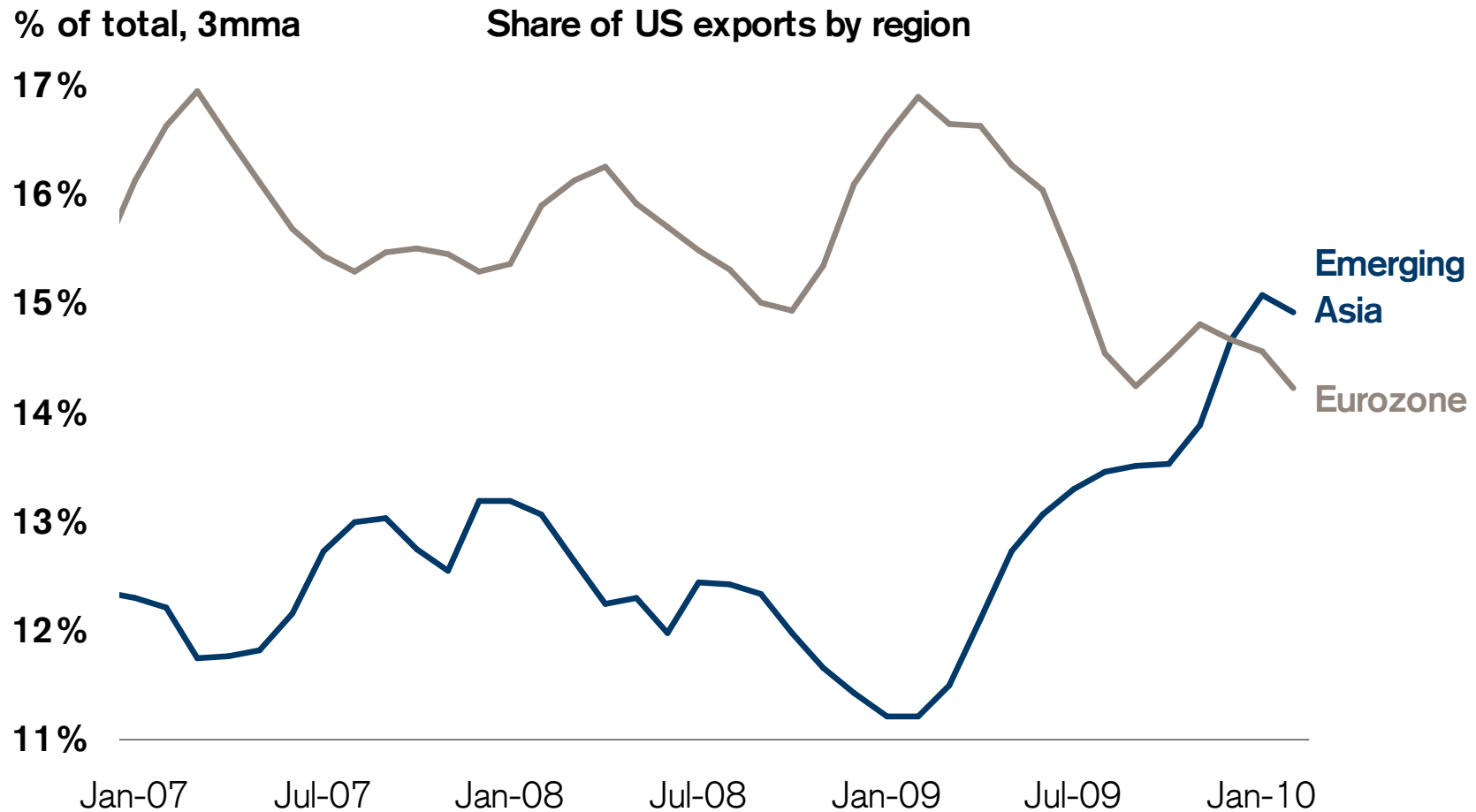
central bank assets, indexed, 01.01.2007 = 100



Last data point: 01.05.2010

Source: Datastream, Credit Suisse / IDC

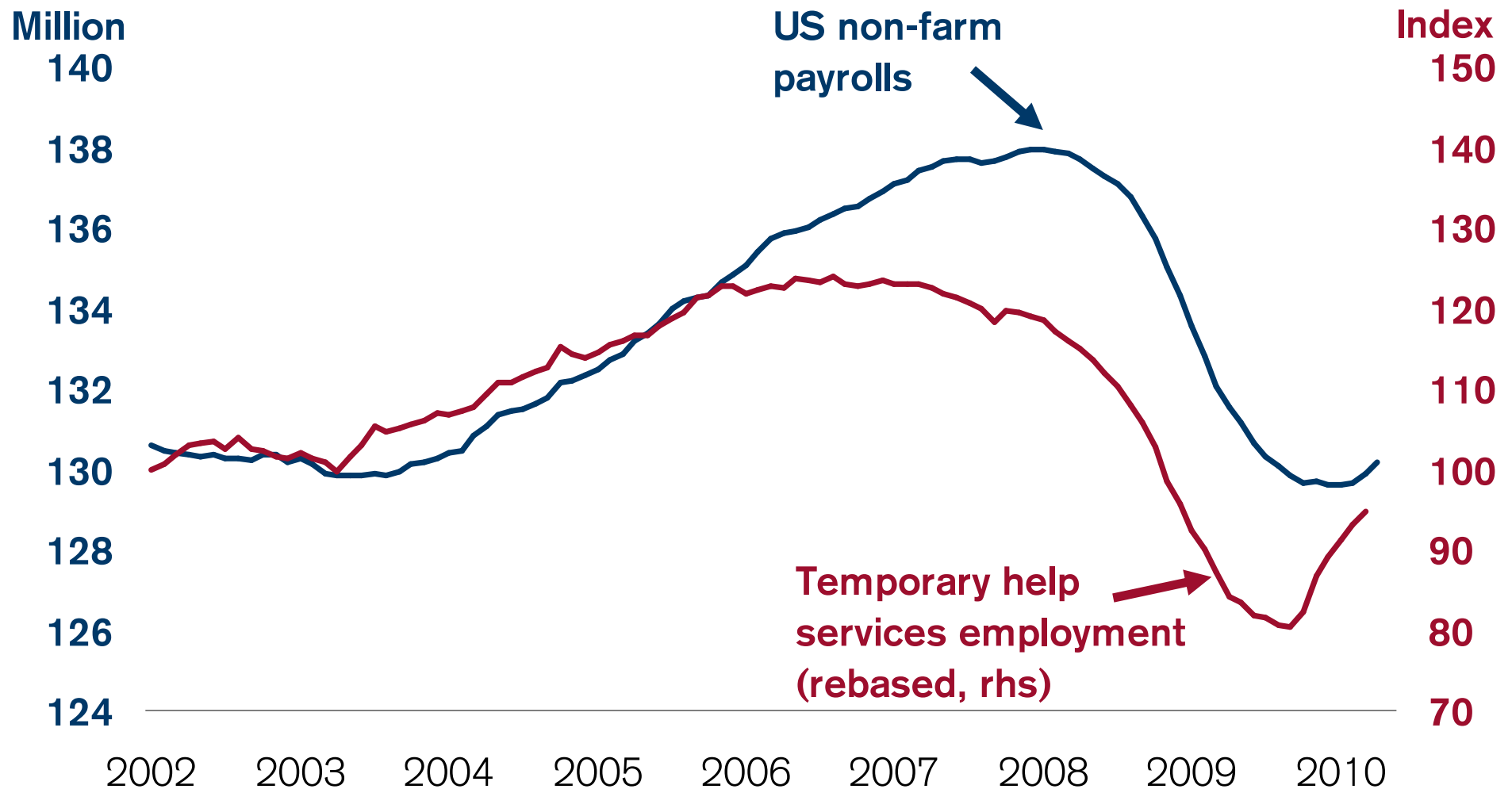
# US exports



Note: Emerging Asia includes 25 Asian economies

Source: Datastream, Credit Suisse

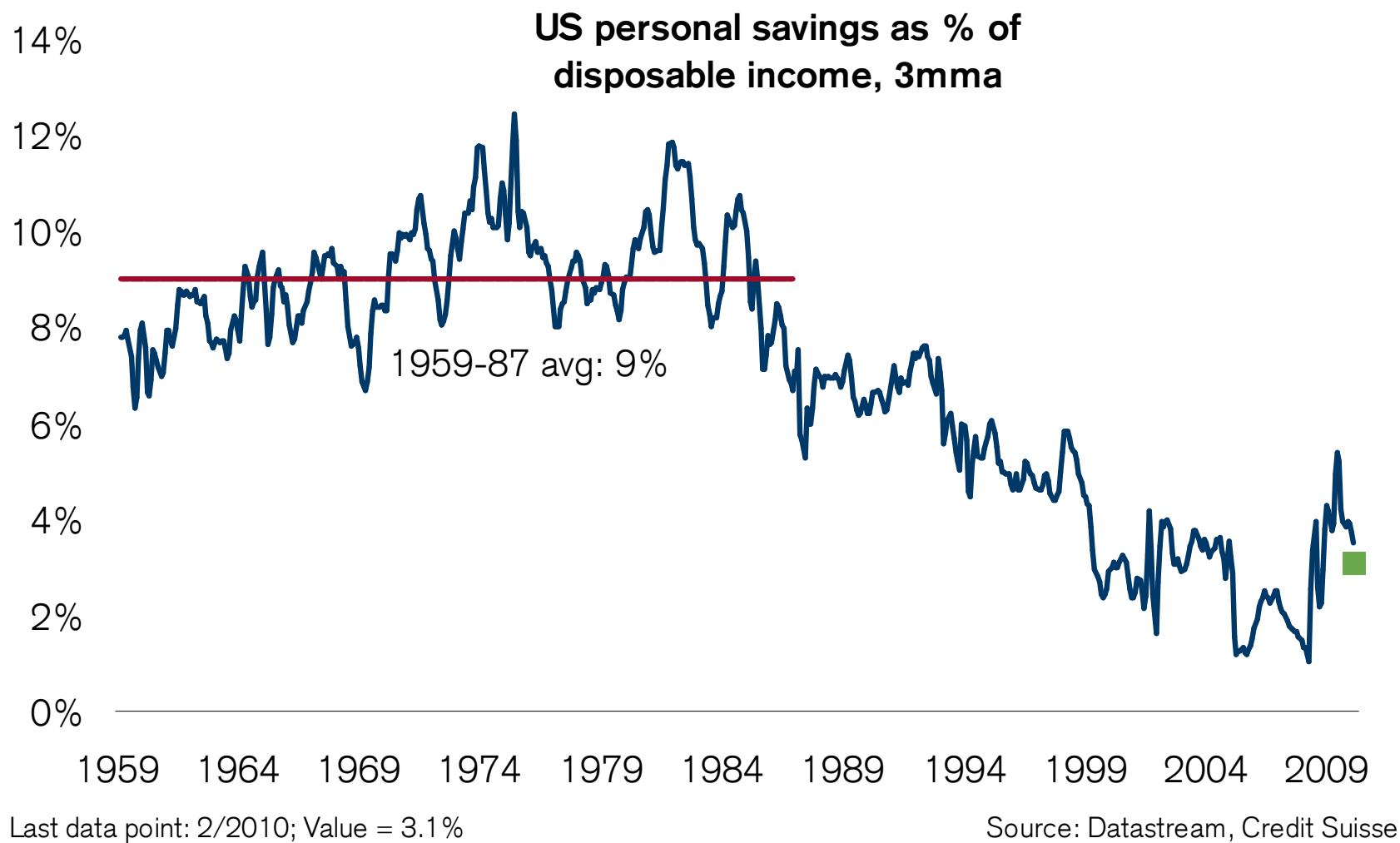
# US employment – a drag on growth



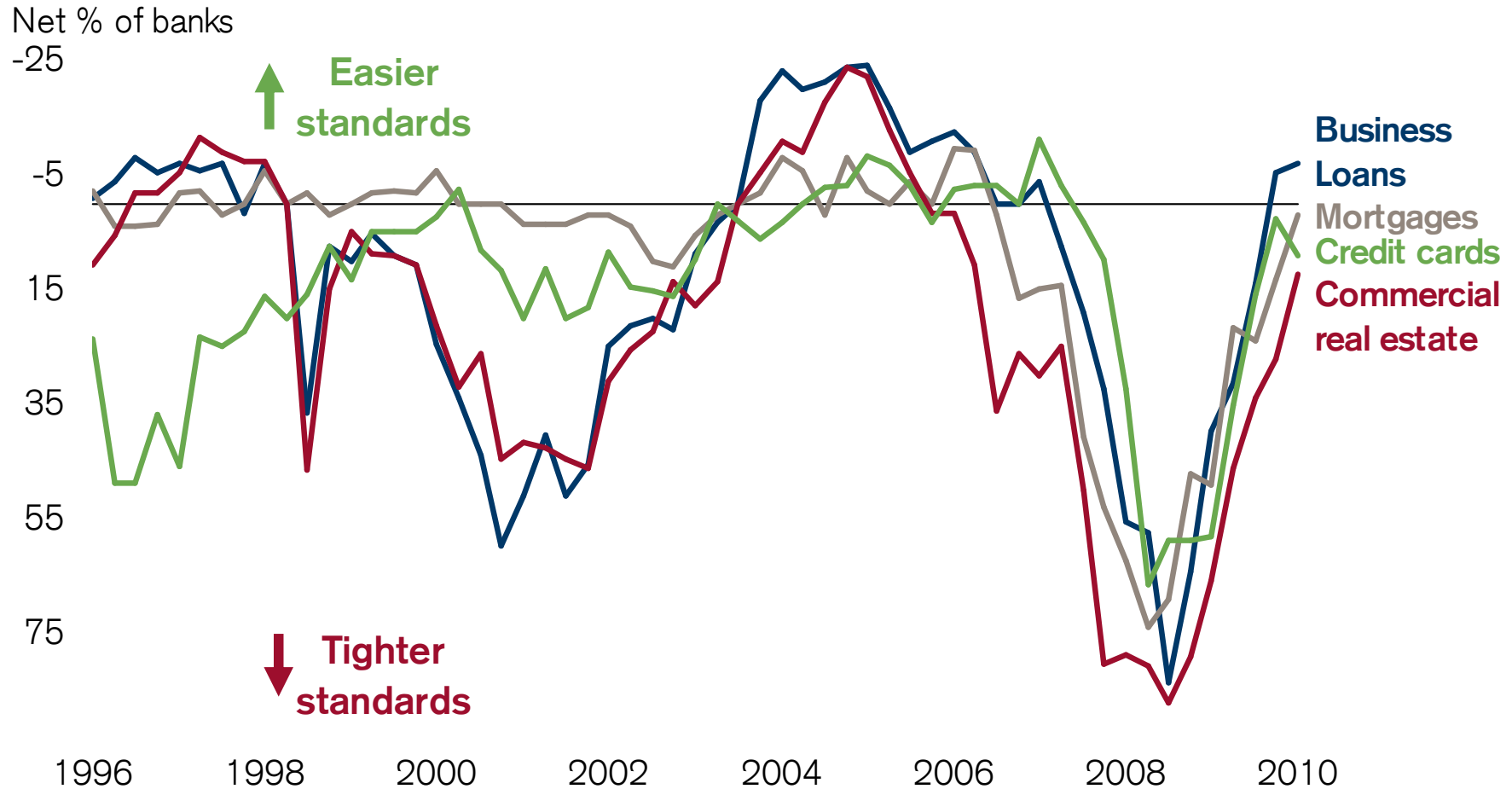
Last data point: US non-farm payrolls: 4/2010, Value: 130.16; Temporary help services employment: 3/2010, Value: 94.82;

Source: Datastream, Credit Suisse

# US saving rate – a constraint on consumption

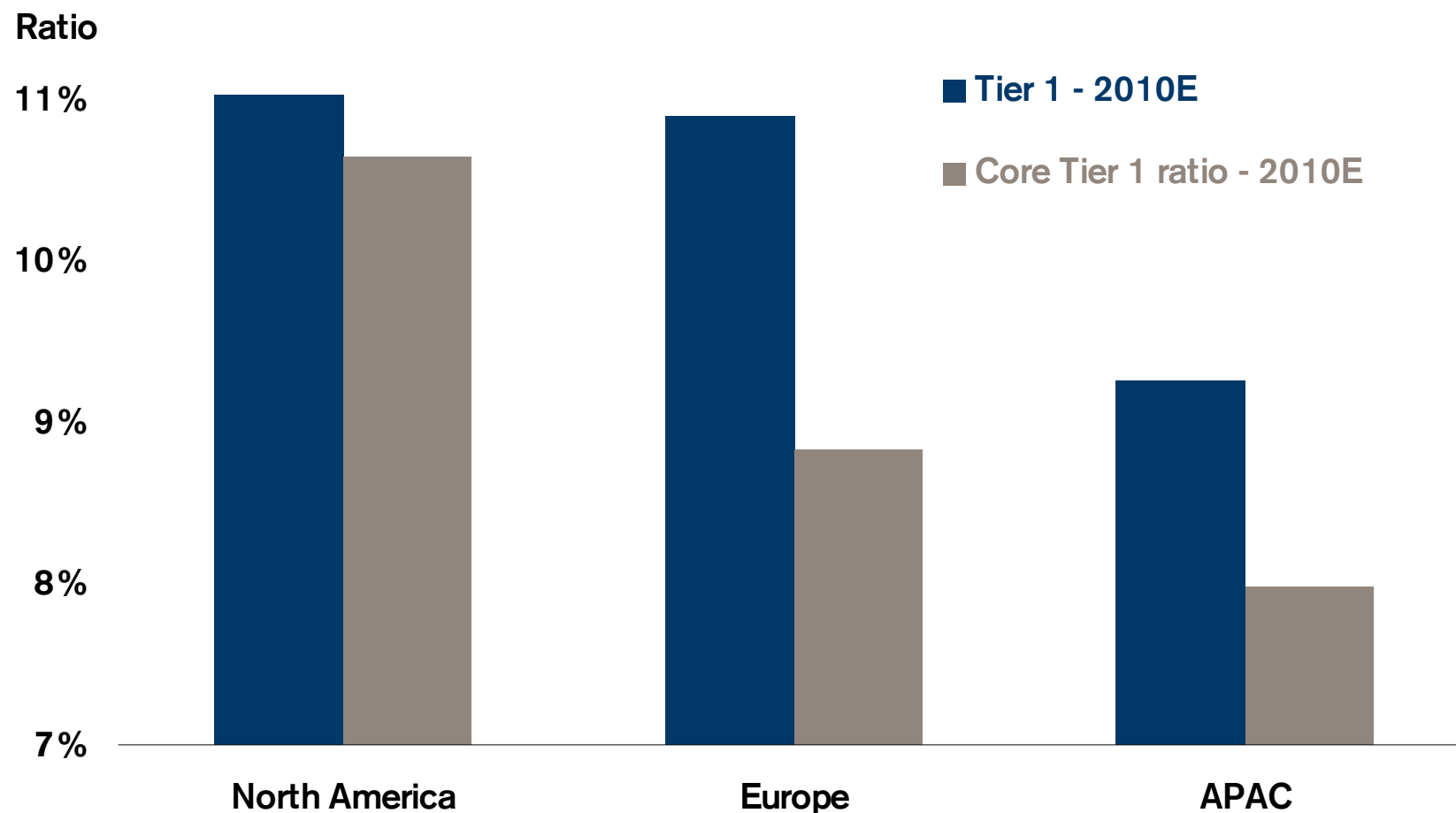


# US lending standards



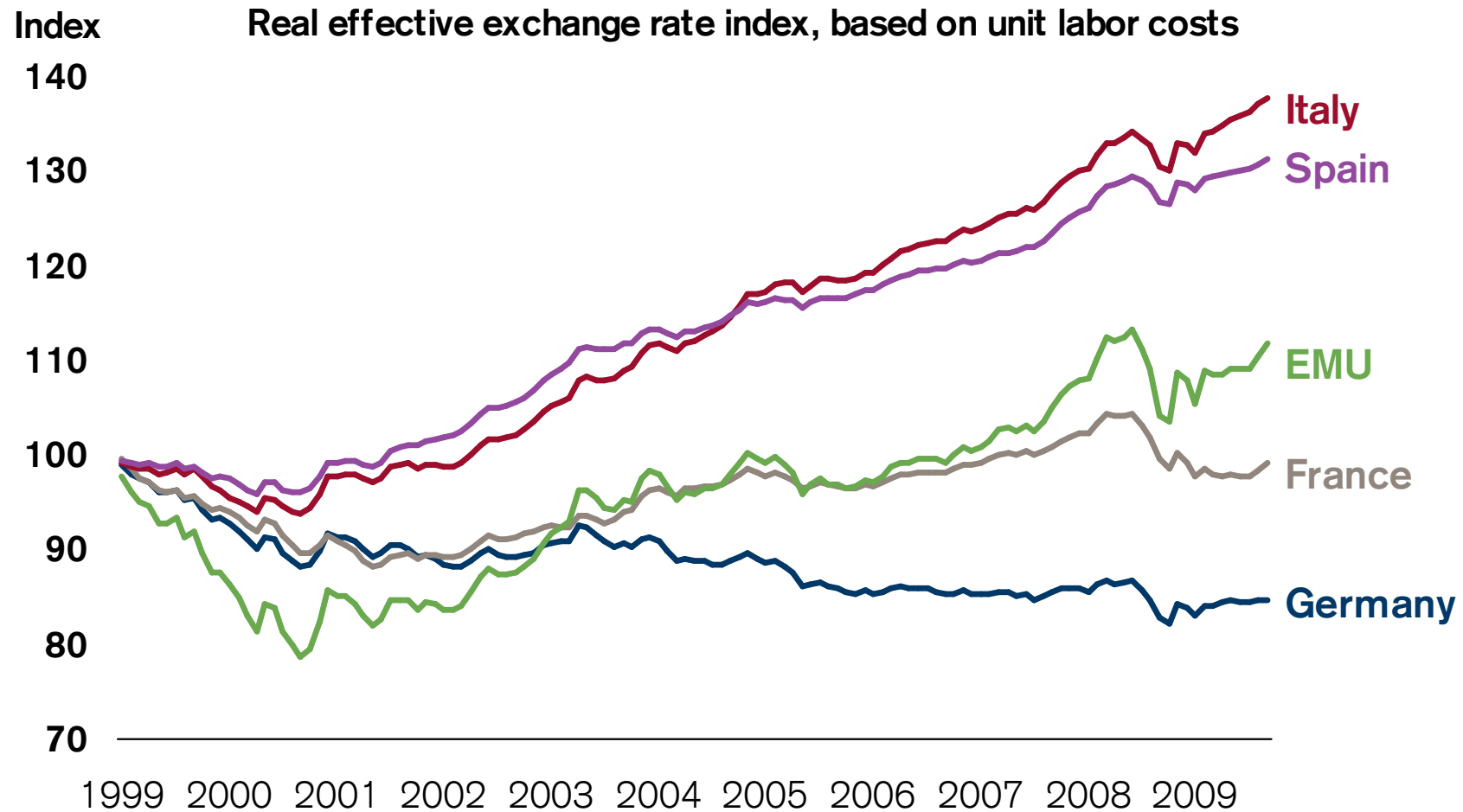
Source: Datastream, Credit Suisse / IDC

## Banks: capital quality gap and looming stricter regulation



Source: Credit Suisse

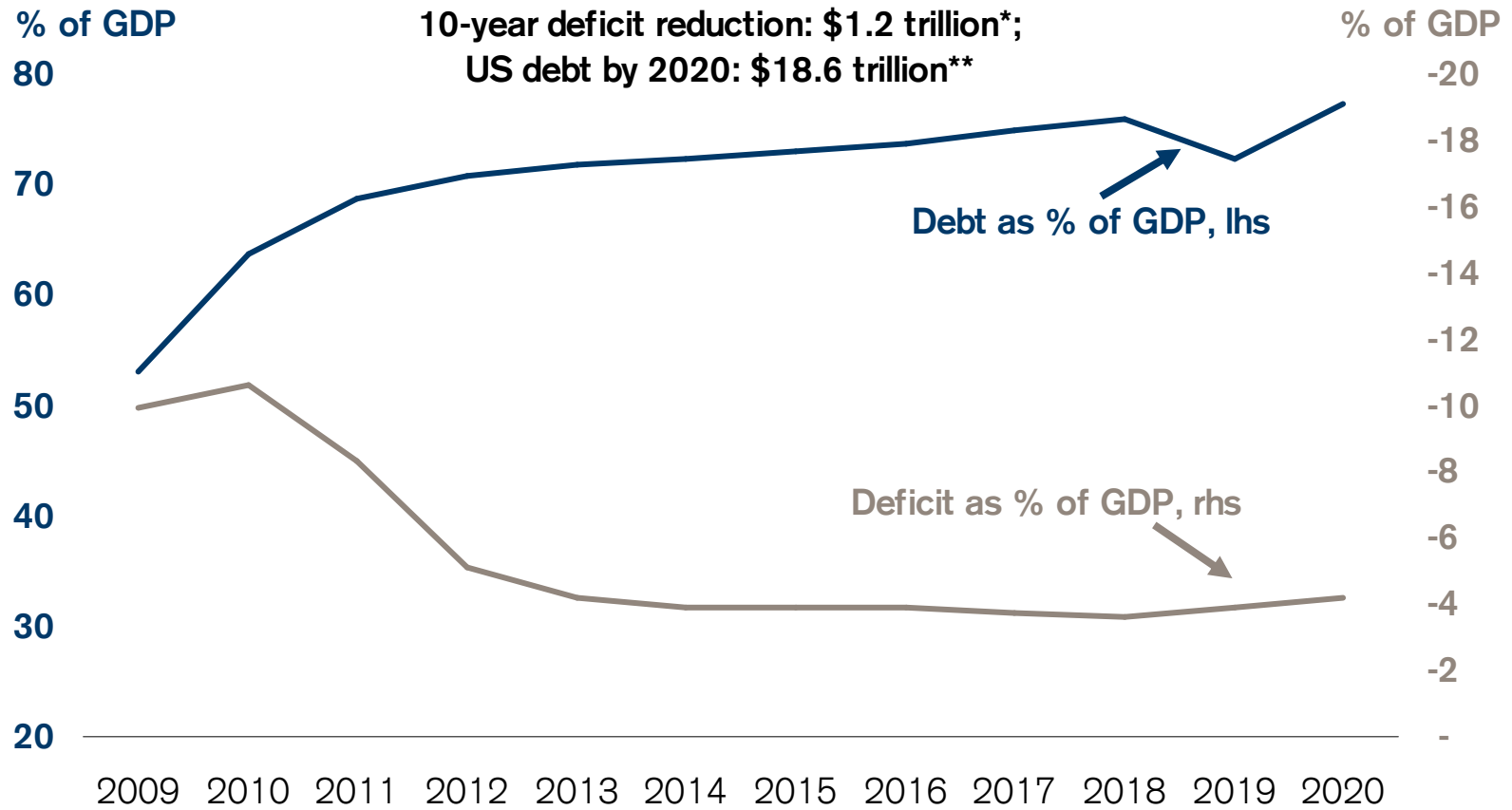
# Germany has gained competitiveness in recent years, whilst Spain and Italy have lost



Last data point: 31/10/2009

Source: Bloomberg, Credit Suisse / IDC

# US federal budget projections



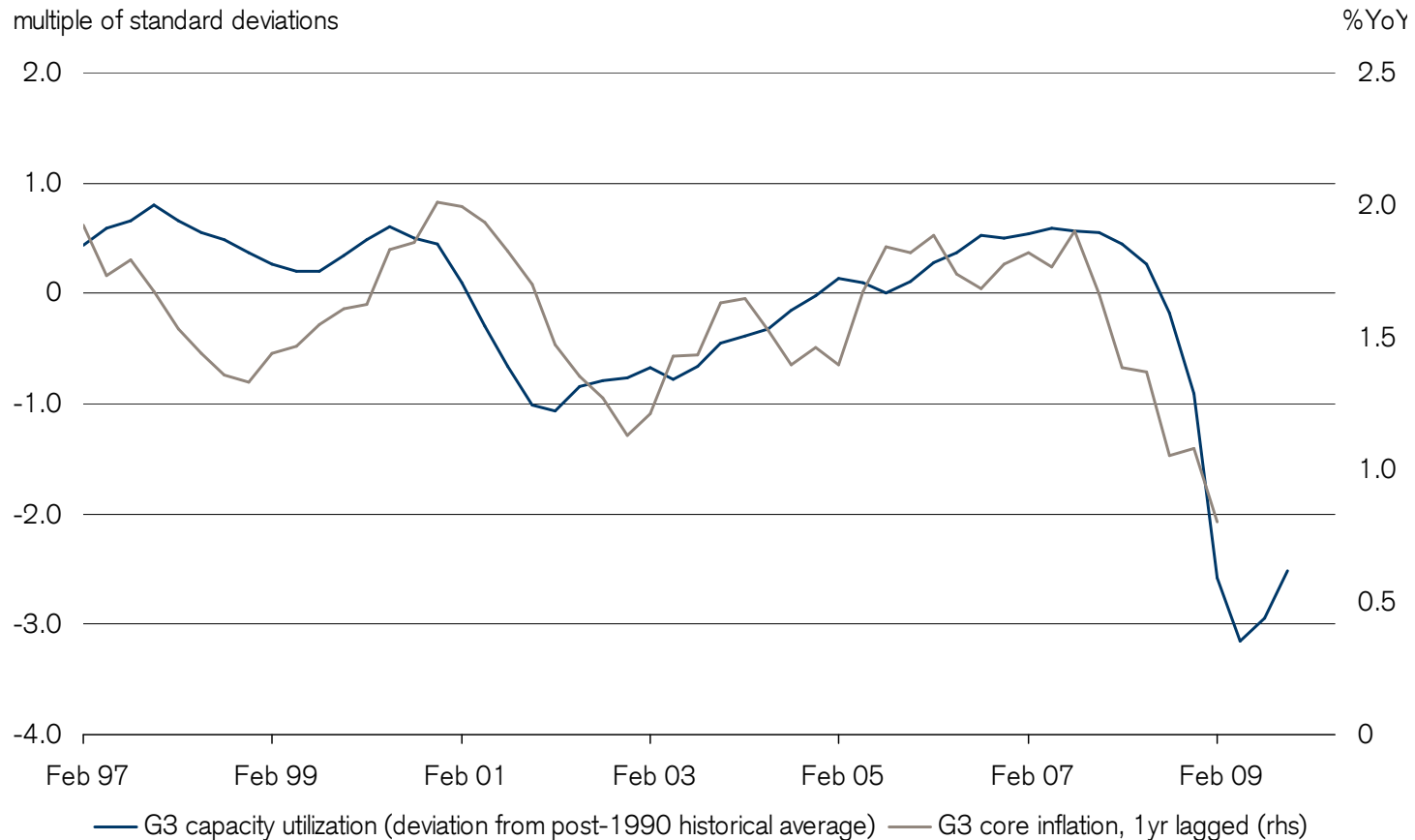
Source: Office of Management and Budget

\*Excluding war savings

\*\*Debt held by the public

# G3 capacity utilization vs. G3 core inflation

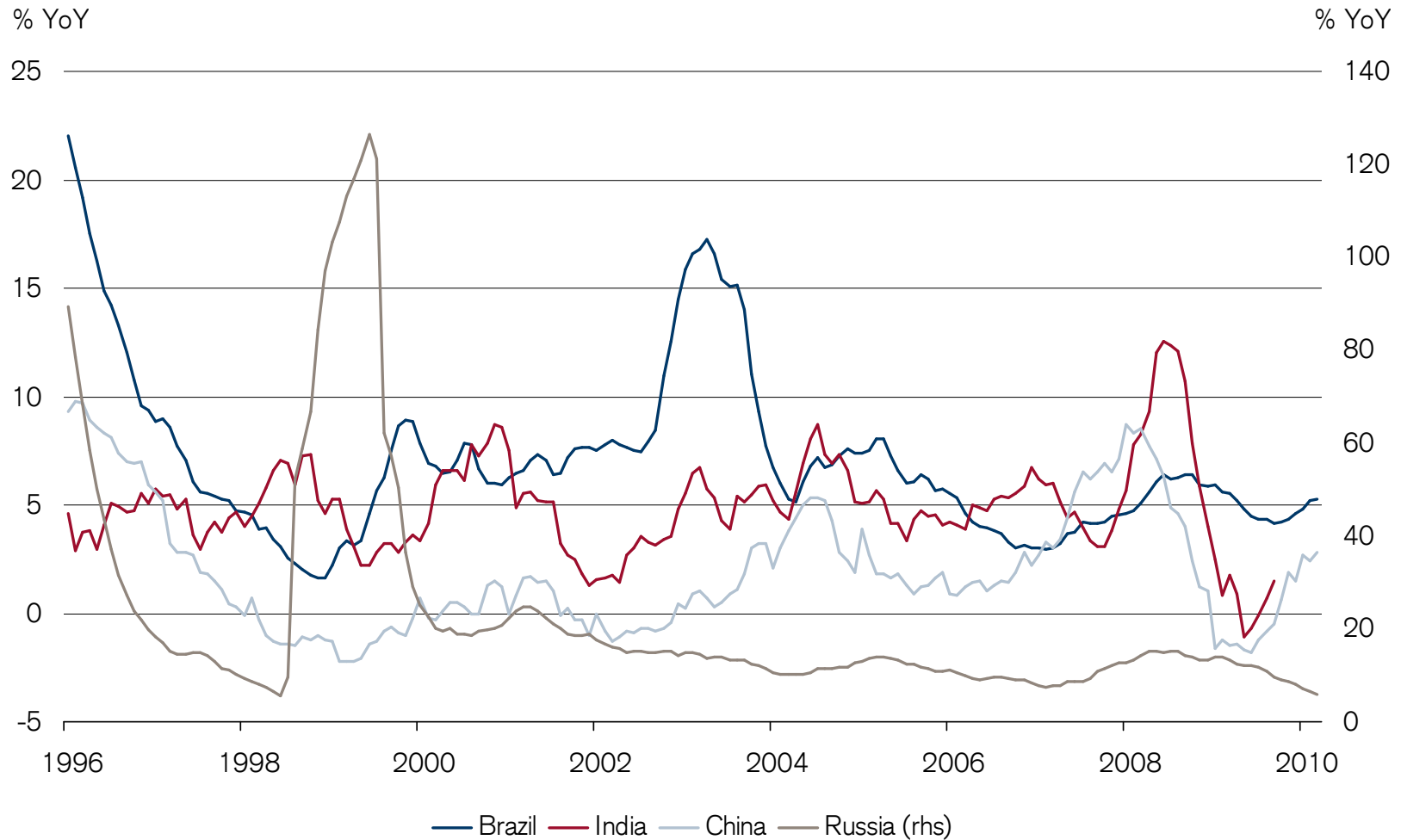
Very low capacity utilization suggests that inflationary pressure is subdued in the near-term



Last data point: 15.05.2010

Source: Credit Suisse/IDC, Datastream, Credit Suisse / IDC

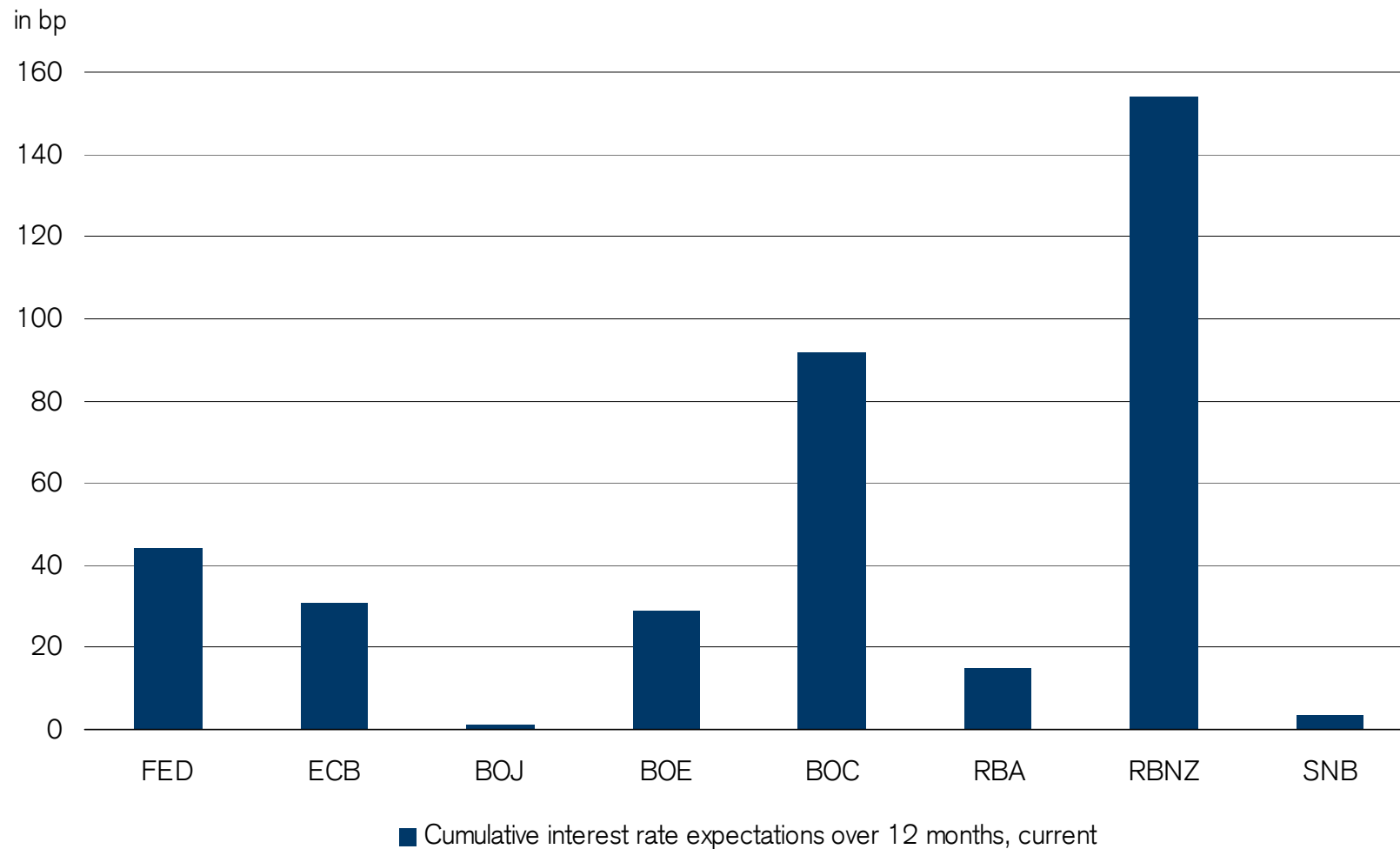
# BRIC - CPI inflation



Last data point: 30.04.2010

Source: Bloomberg, Credit Suisse / IDC

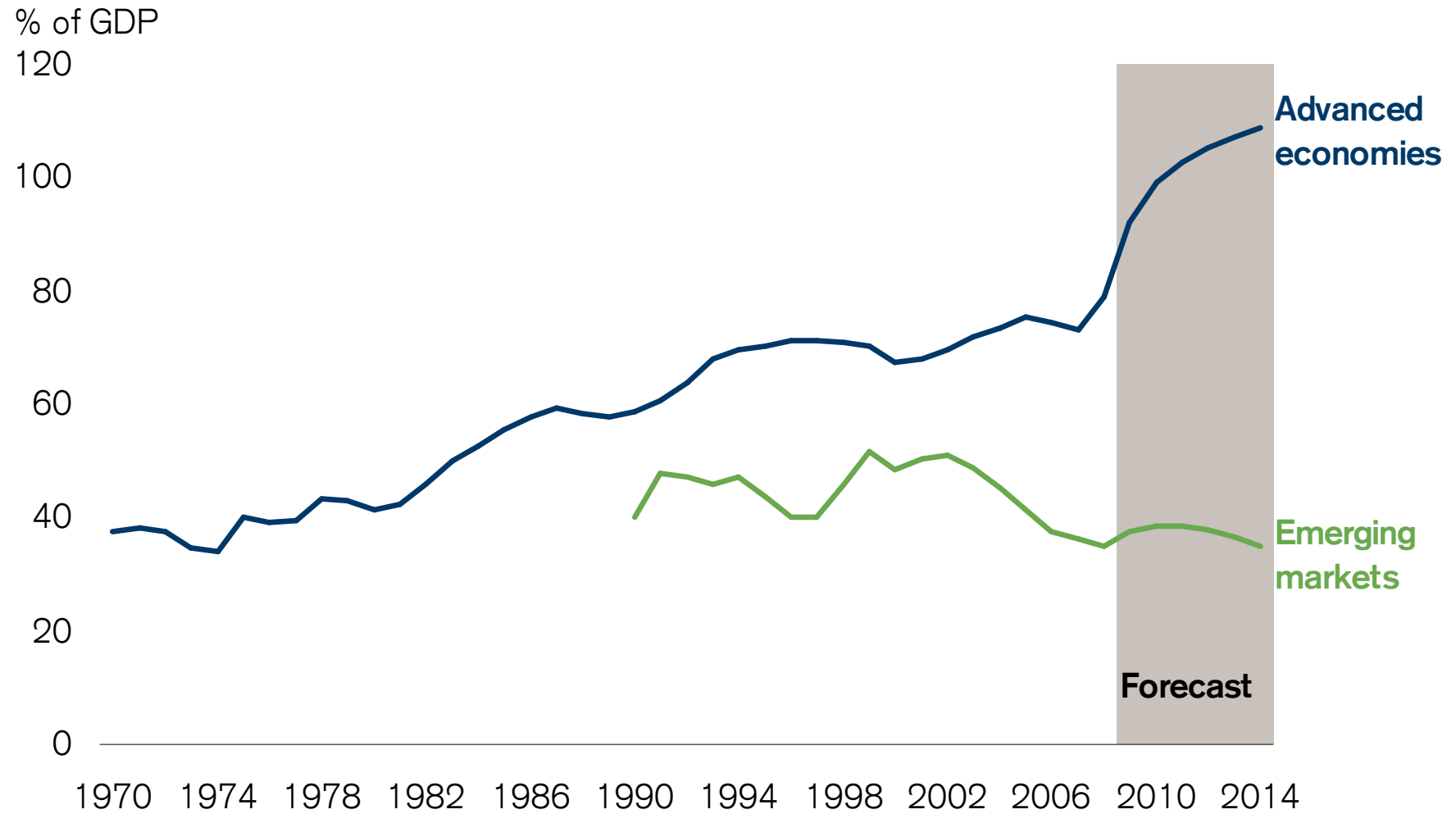
# Cumulative interest rate expectations over 12 months



Last data point: 24.05.2010

Source: Bloomberg, Credit Suisse / IDC

# Government debt EM vs. DM



Source: IMF WEO October 2009, Credit Suisse

# 10 year CDS spreads



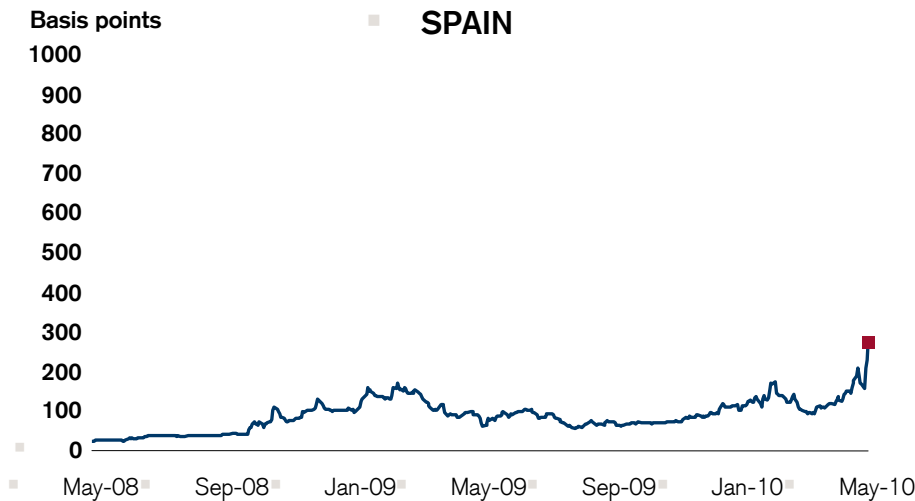
Last data point: Greece: 6/5/2010, Value: 941;

Source: DataStream, Credit Suisse



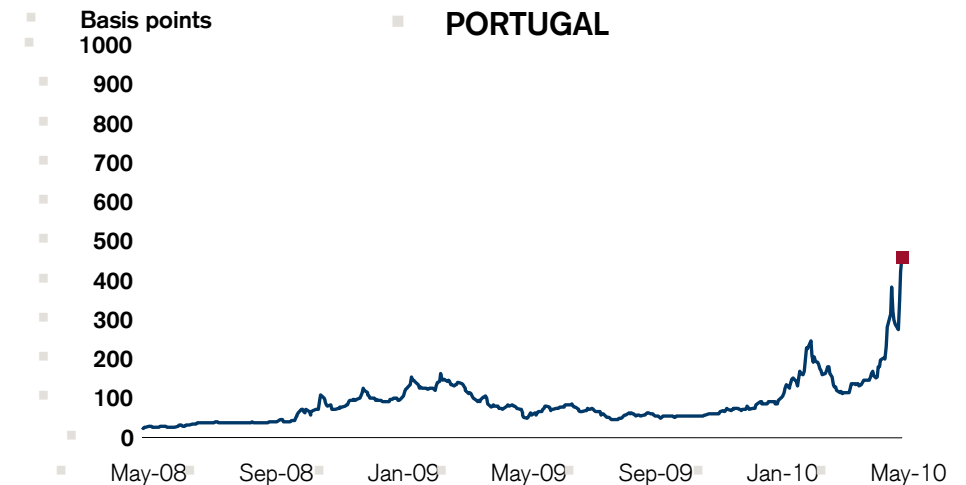
Last data point: Ireland: 6/5/2010, Value: 272;

Source: DataStream, Credit Suisse



Last data point: Spain: 6/5/2010, Value: 275;

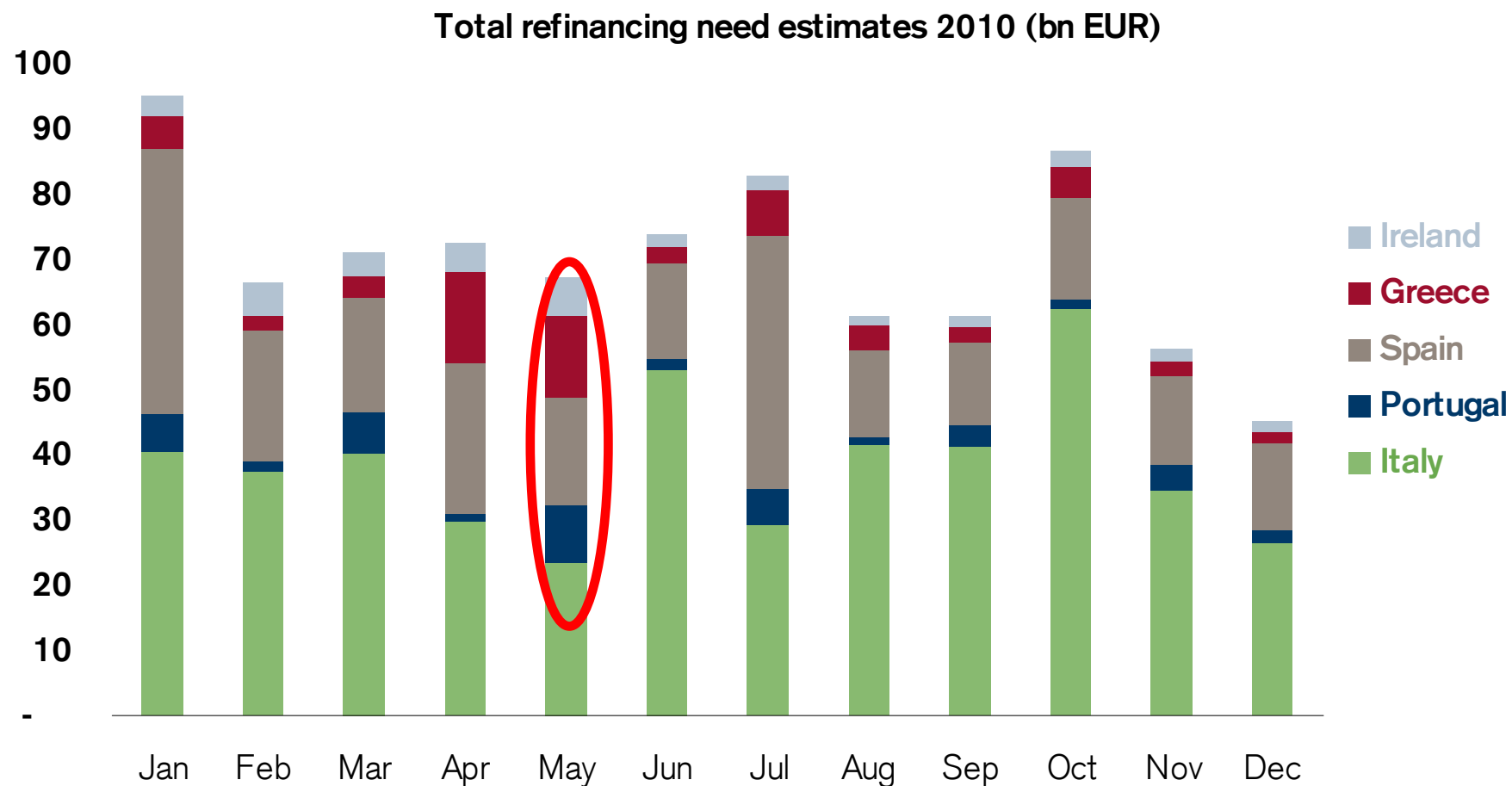
Source: DataStream, Credit Suisse



Last data point: Portugal: 6/5/2010, Value: 461;

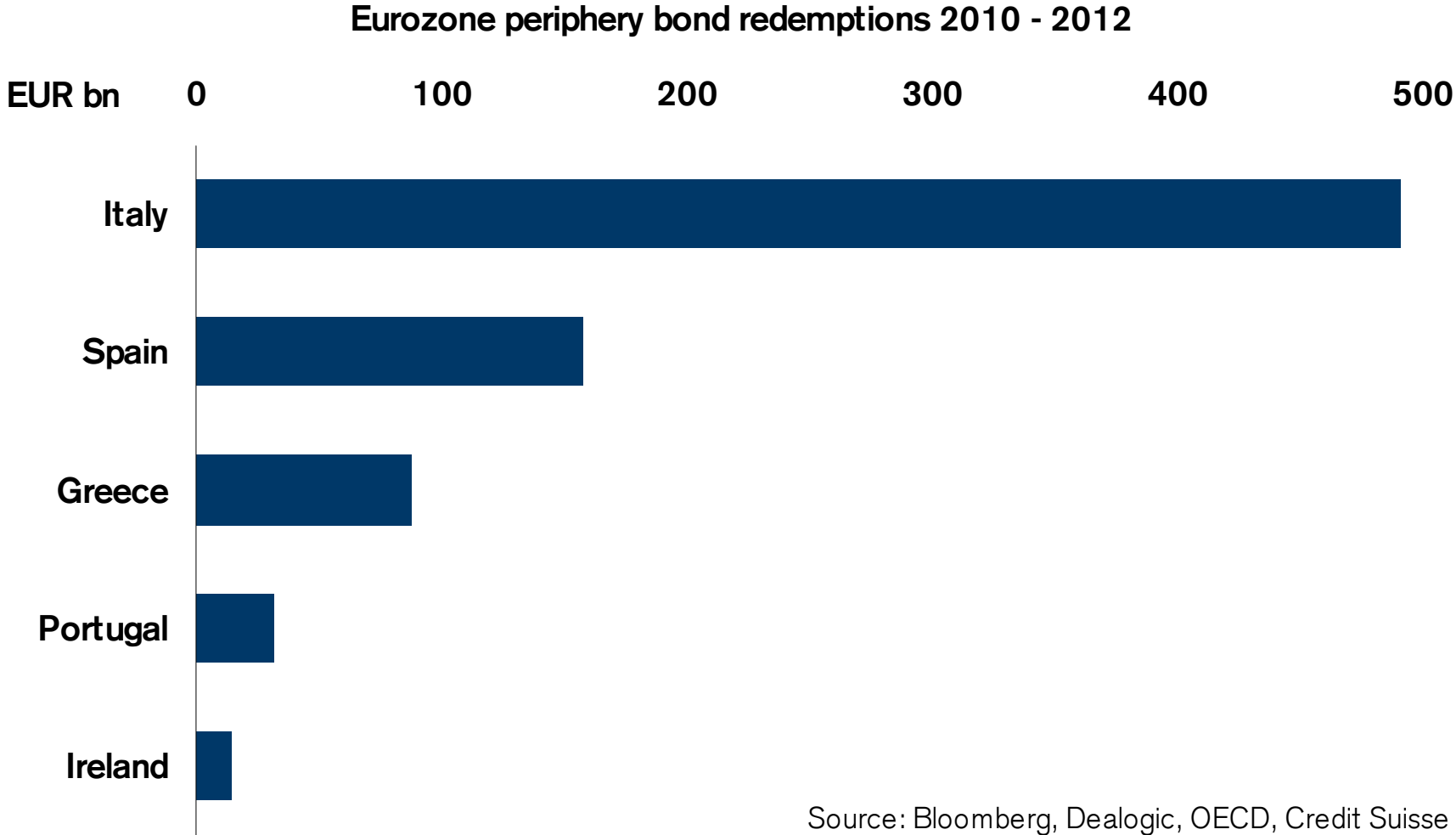
Source: DataStream, Credit Suisse

# Refinancing needs for selected European sovereigns



Source: Credit Suisse/IDC

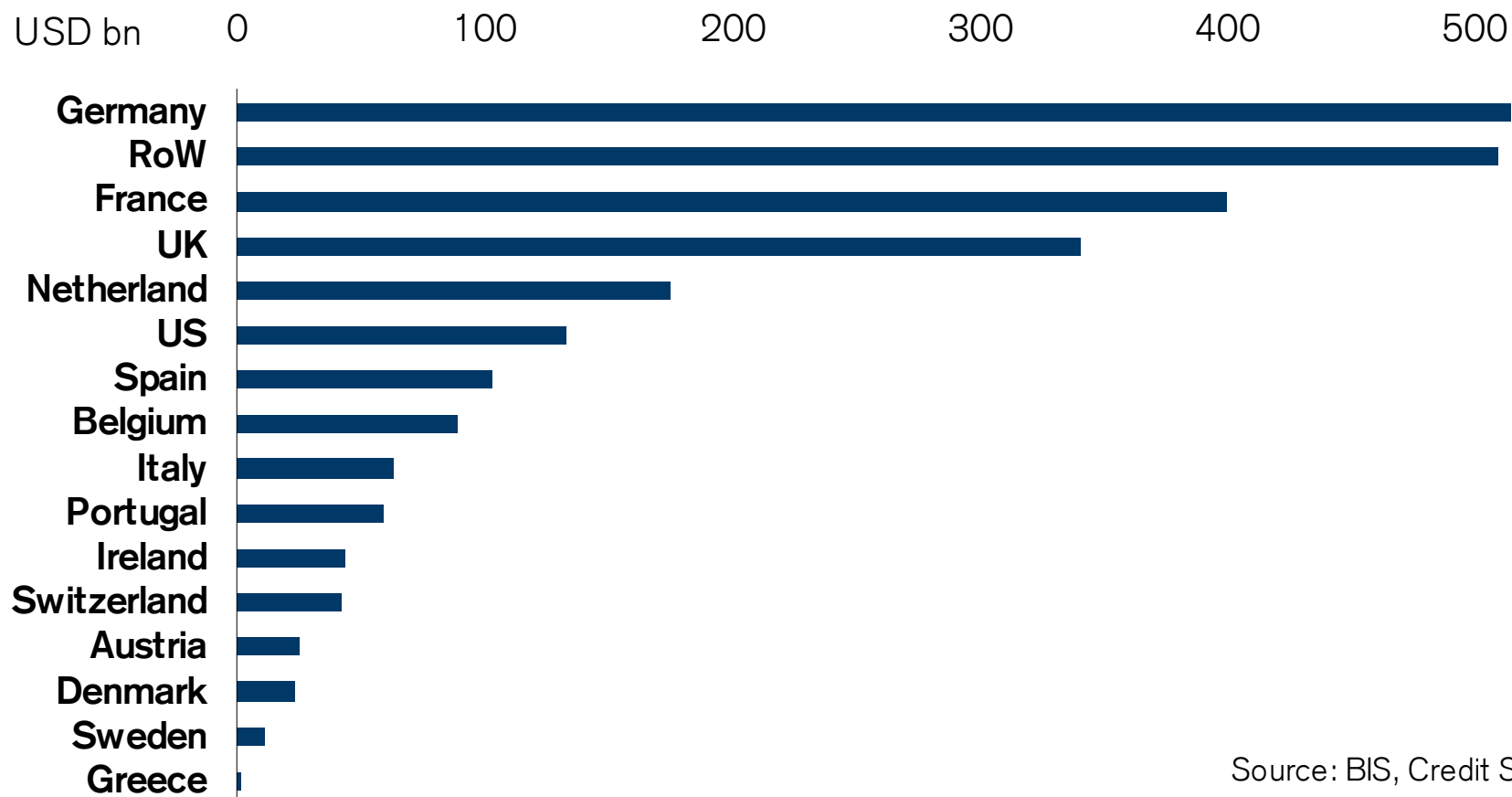
# More than €750bn refinancing needs until 2013



Note: Bond redemptions for 2010 make up only about 30% of total needs consisting also of interest payments, new deficits and T-bills redemptions (37%).

# Bank exposure to peripheral Europe

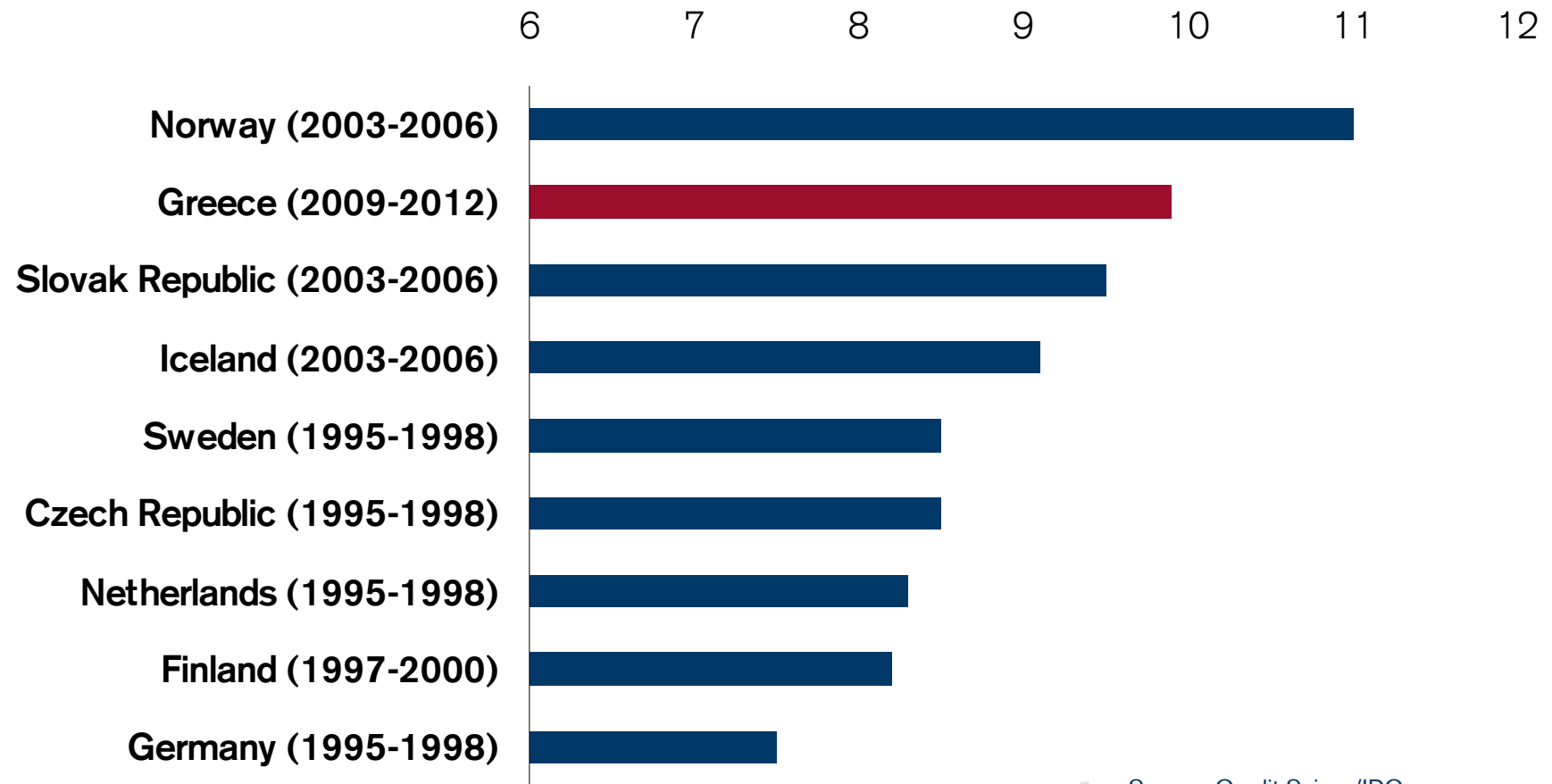
Bank claims (loans and bonds) vis-a-vis  
Greece, Ireland, Portugal, Spain



Source: BIS, Credit Suisse

# Fiscal consolidation in history

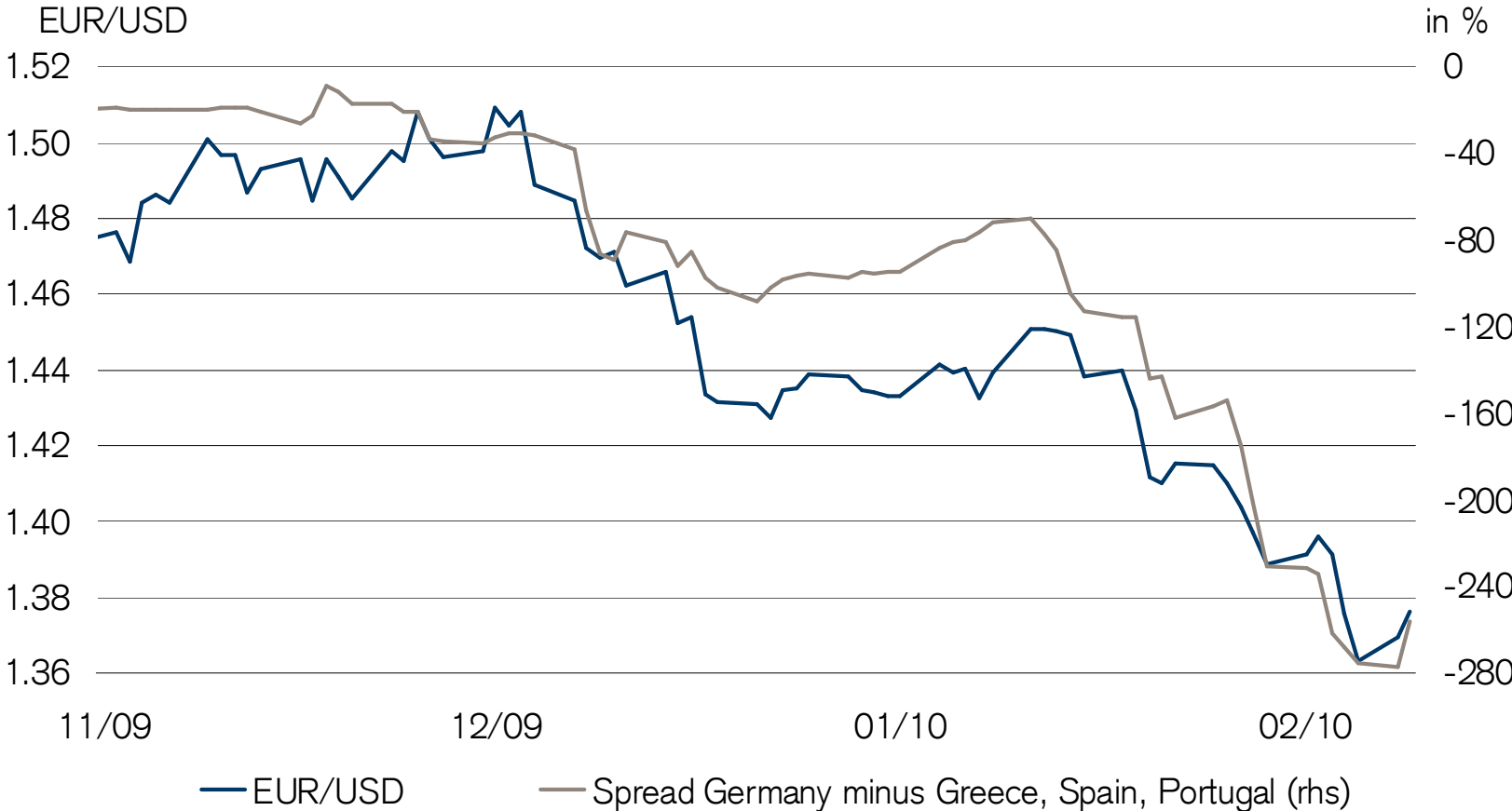
Largest three-year fiscal consolidation episodes in OECD countries since 1995 (reduction in budget balance in % of GDP)



Source: Credit Suisse/IDC

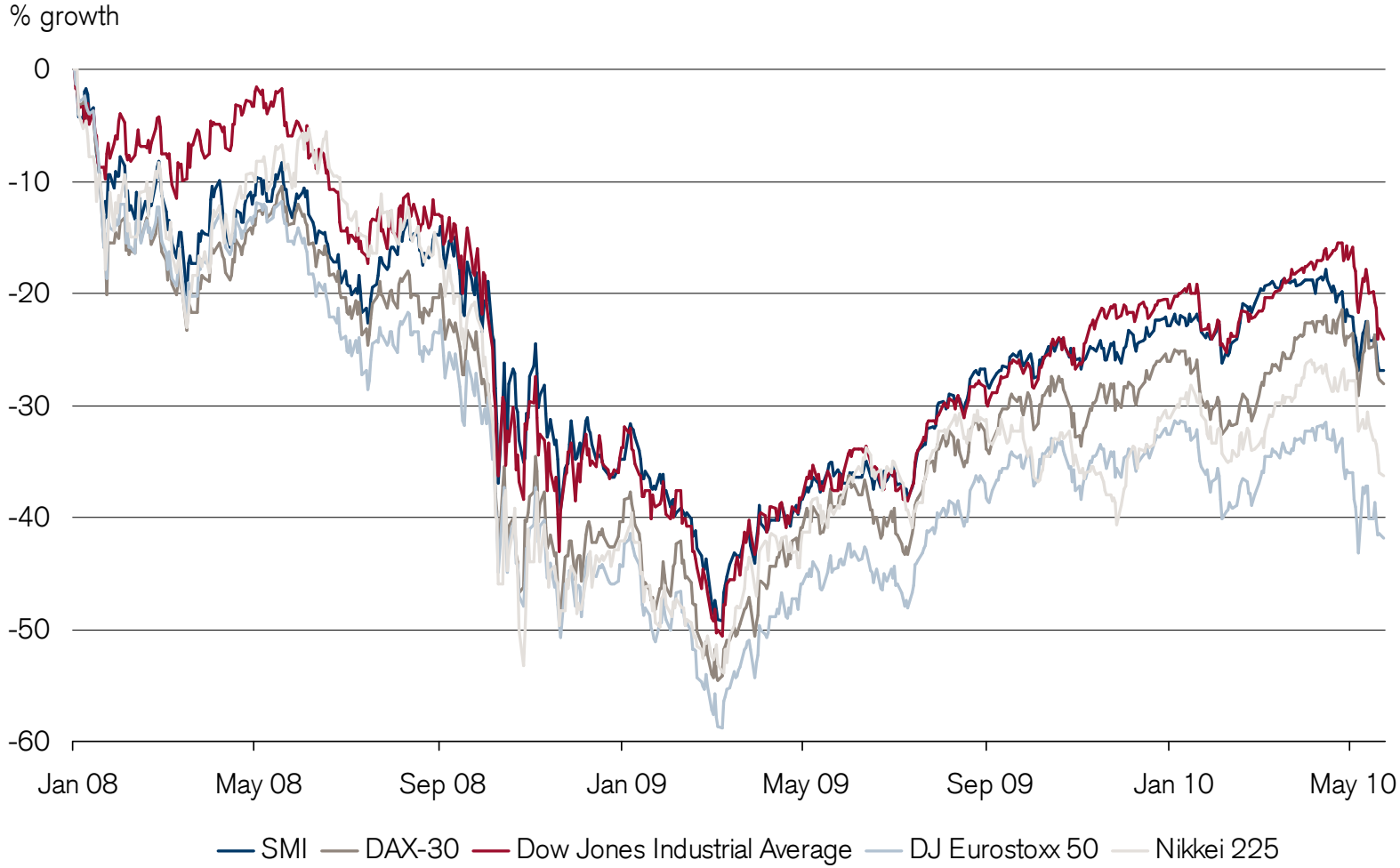
# EUR/USD: risk premium related EMU periphery pressures

Spread widening of EMU sovereigns in the periphery works like a risk premium on EUR



Source: Bloomberg, Credit Suisse

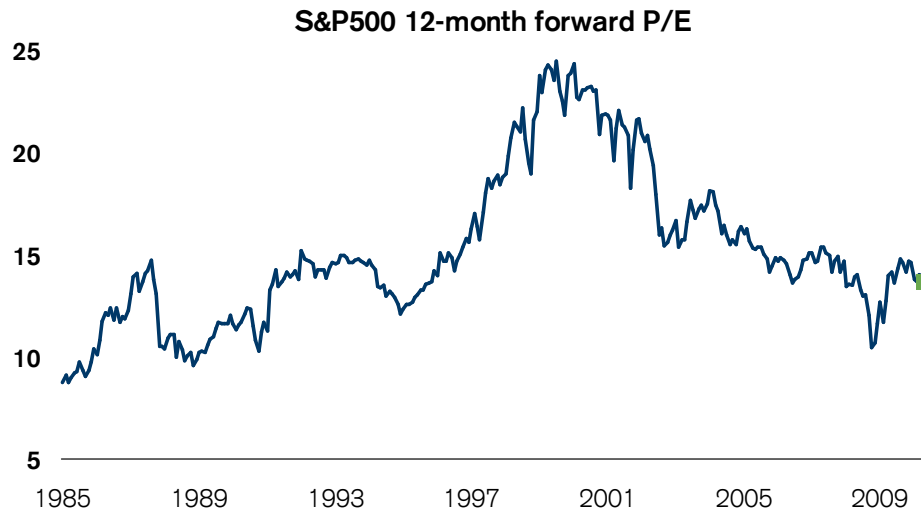
# Performance - major indices



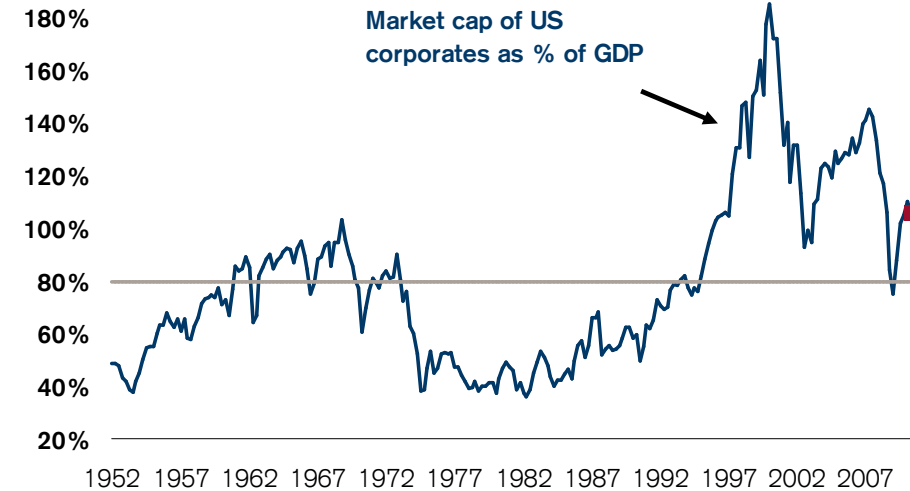
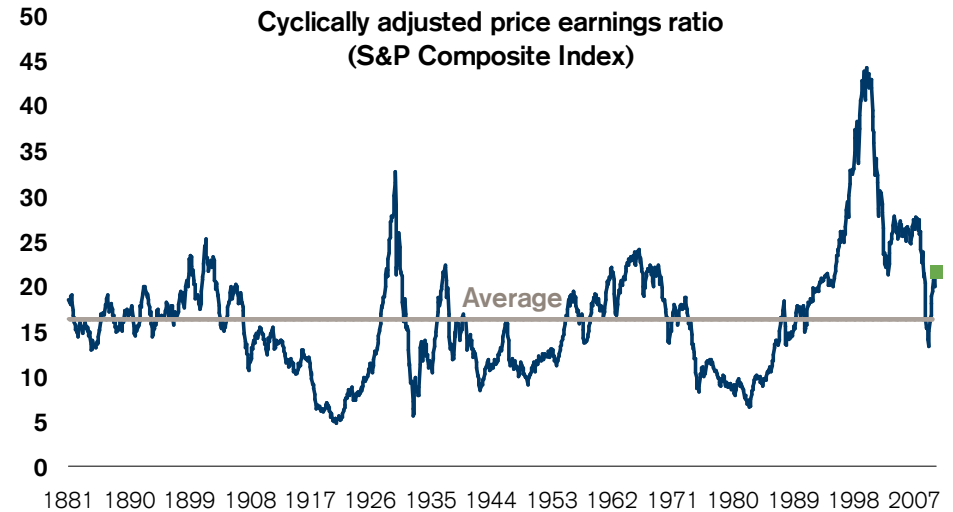
Last data point: 24.05.2010

Source: Datastream, Credit Suisse / IDC

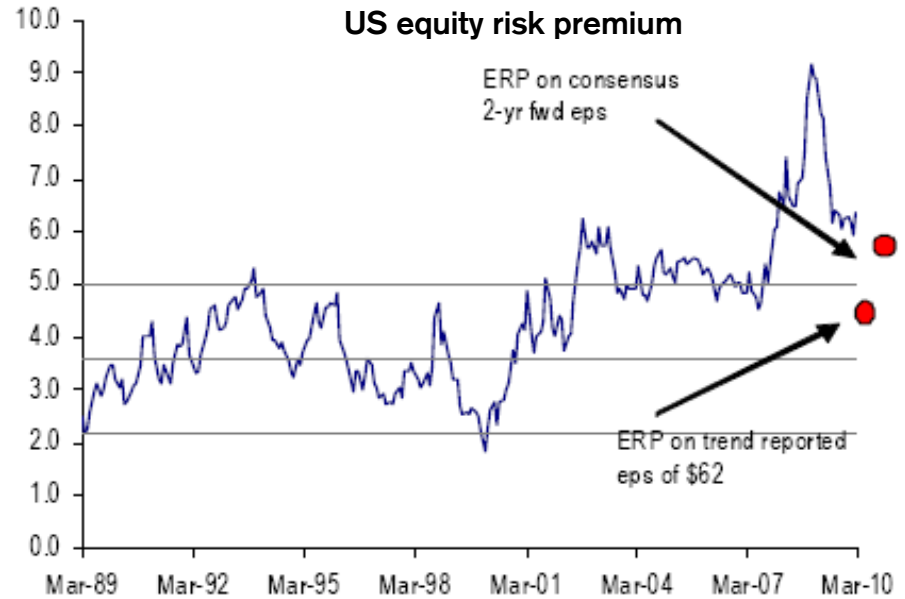
# Valuations broadly in line with their long-run averages



Last data point: 5/2010; Value: 13.7

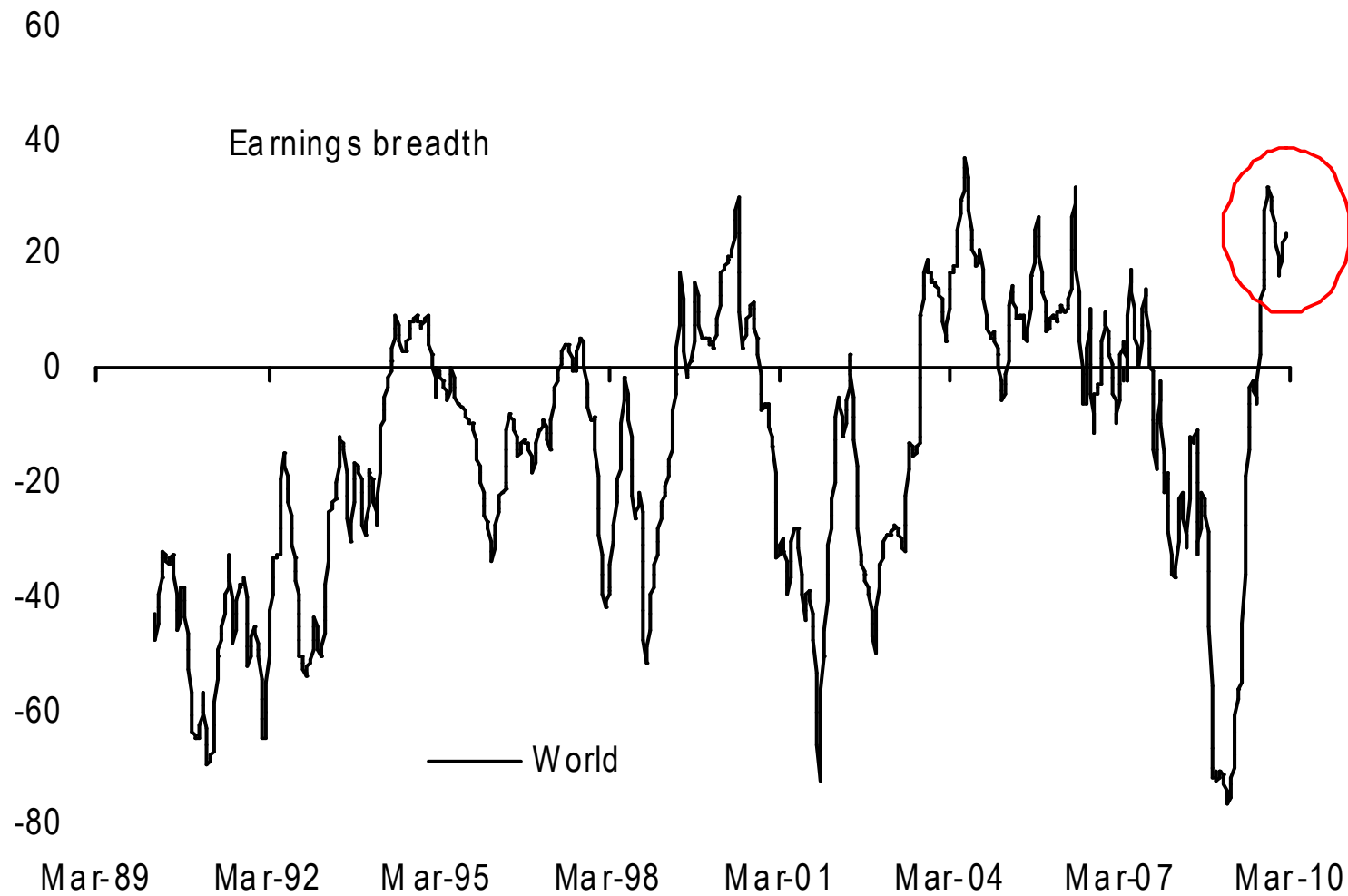


Last data point: Market cap of US corporates as % of GDP: Q2 2010, Value: 106%



Source: Datastream, Credit Suisse research

# Global earnings revisions (net upgrades) still strong



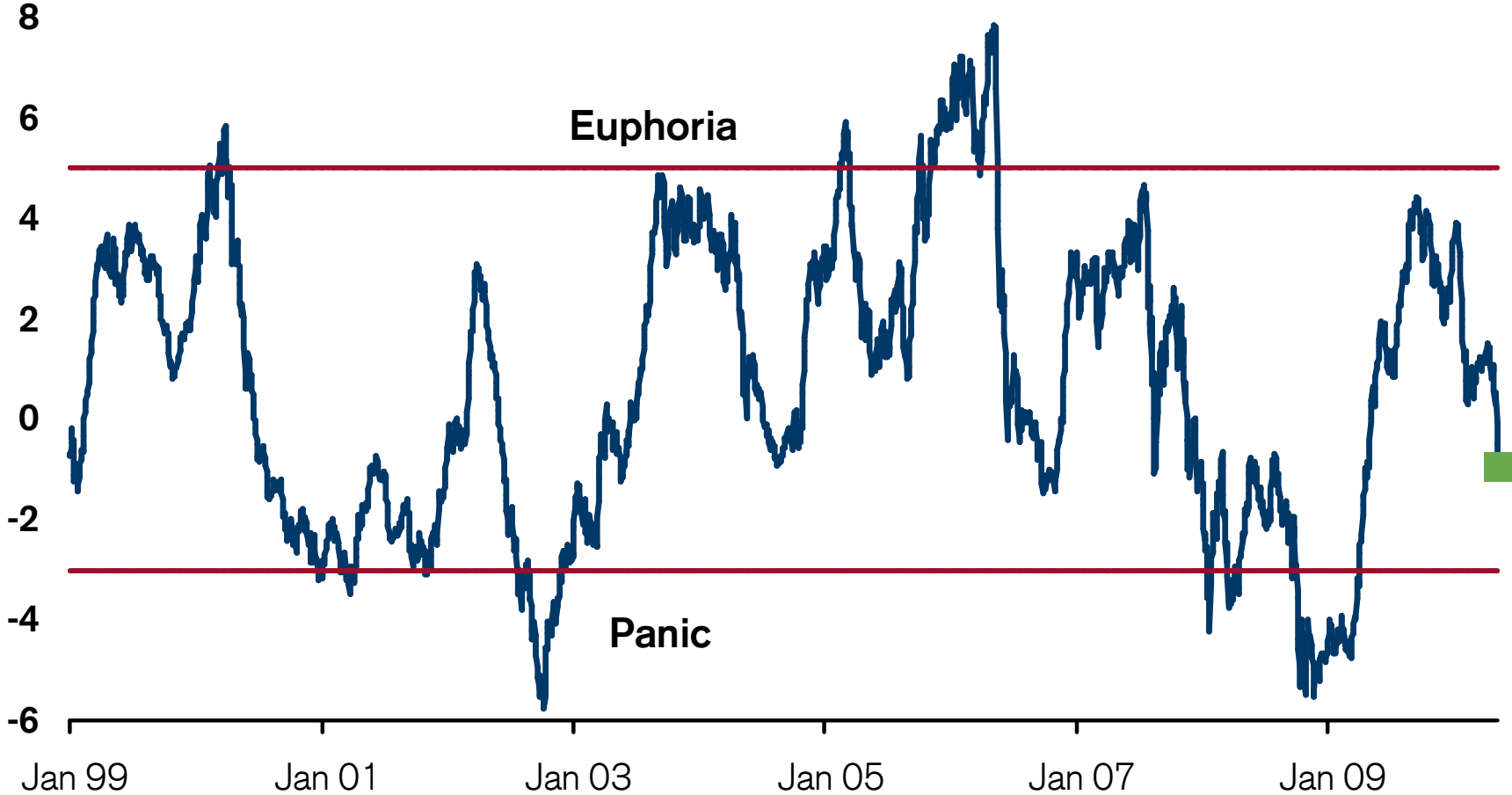
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# Tactical indicators



Last data point: VIX volatility index: 6/5/2010, Value: 32.8;

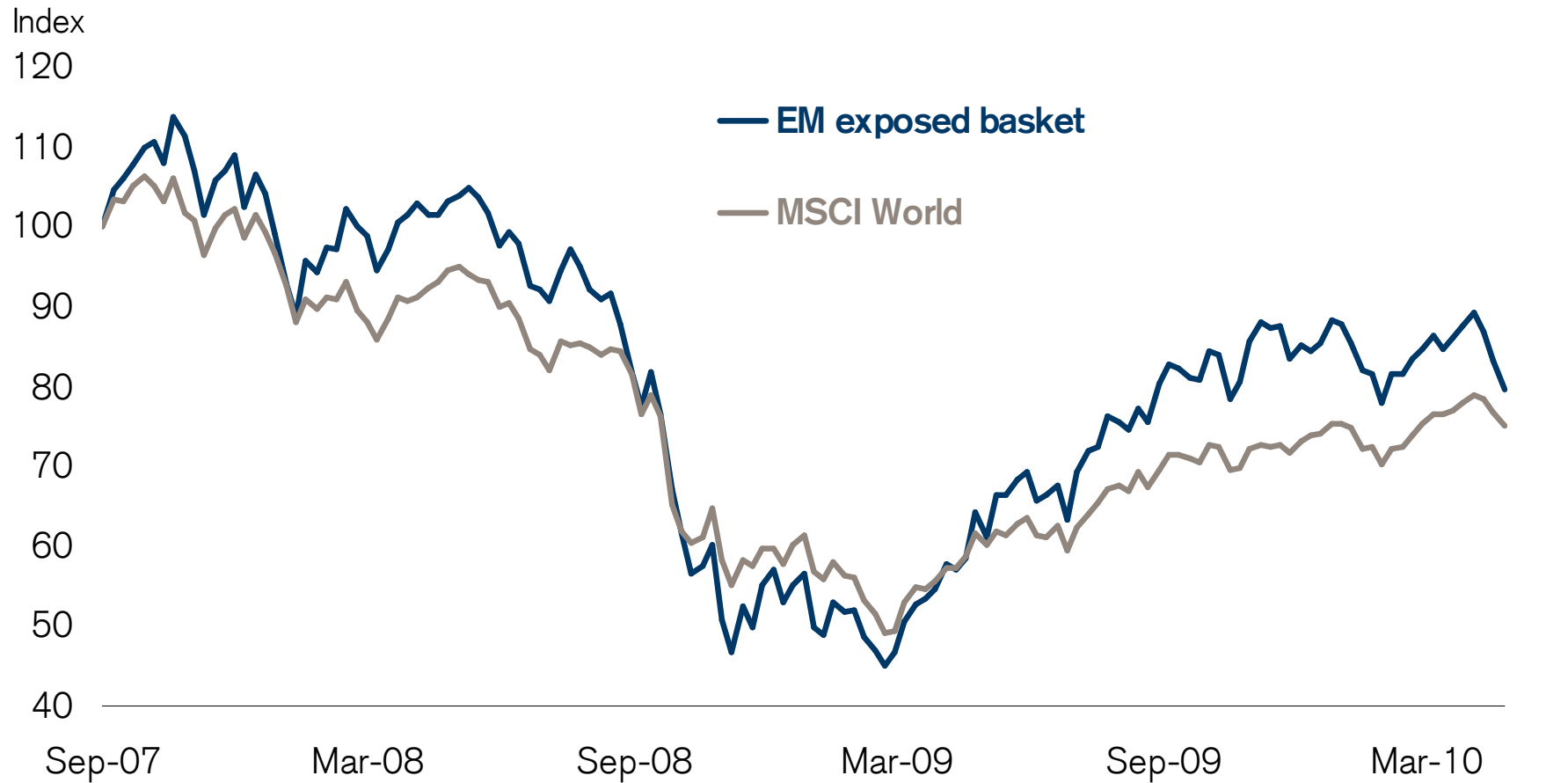
# Global risk appetite



Last data point: 6/5/2010; Value: -0.91

Source: Credit Suisse / IDC

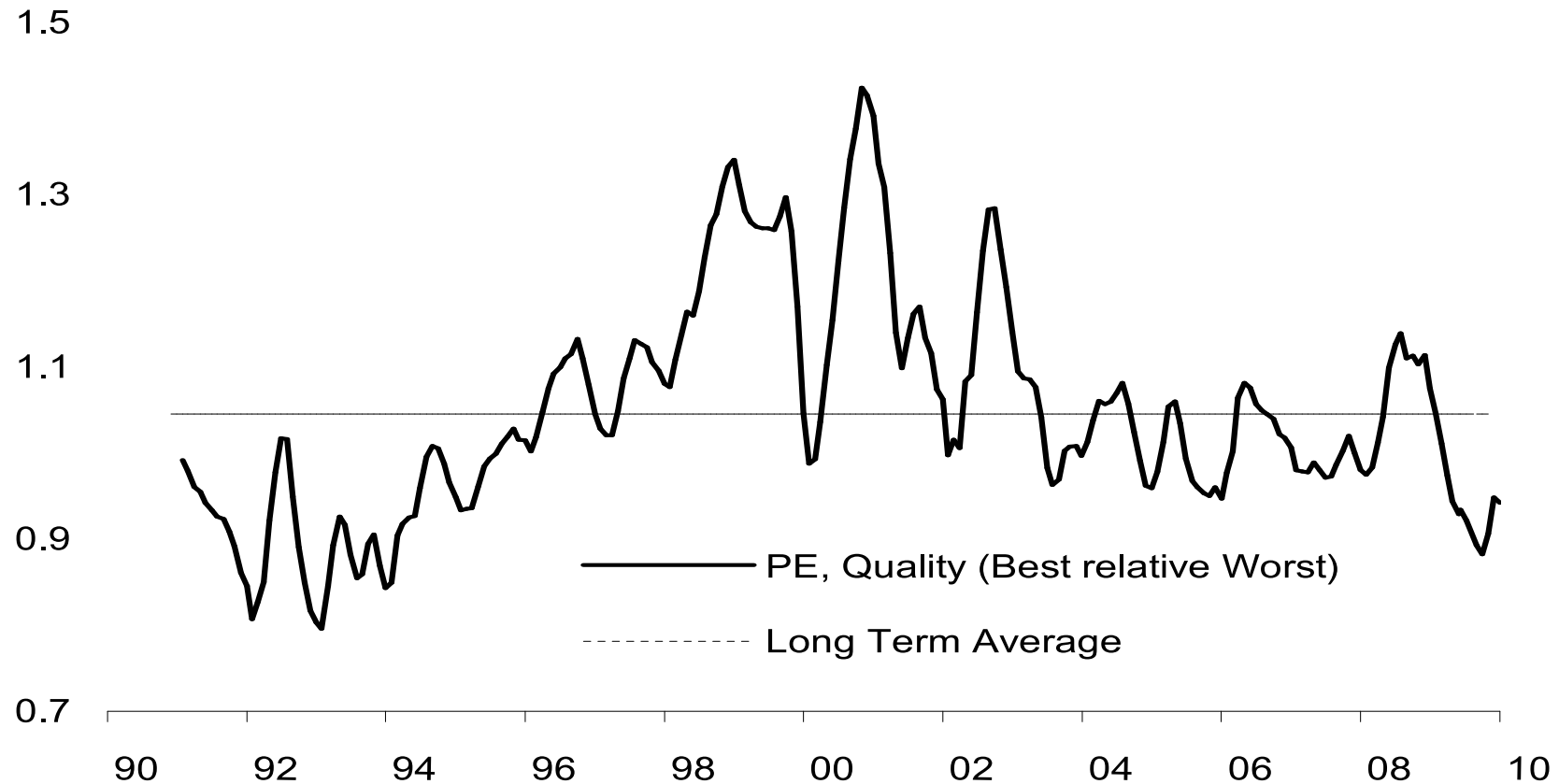
# EM-exposed advanced economy companies



Last data point: 5/5/2010

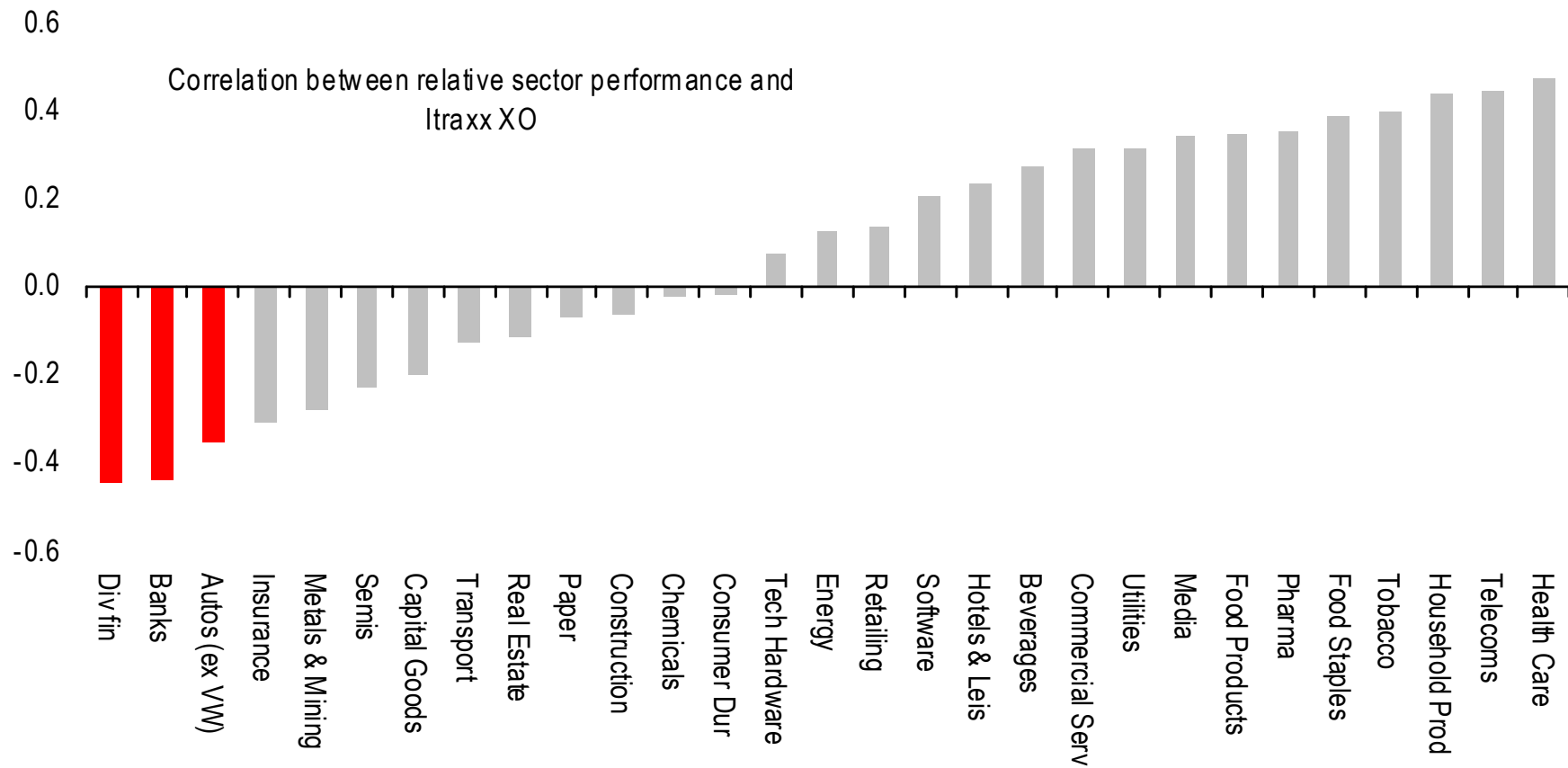
Source: Datastream, Credit Suisse

## P/E of high-quality growth to poor-quality growth is still attractive despite recent re-rating



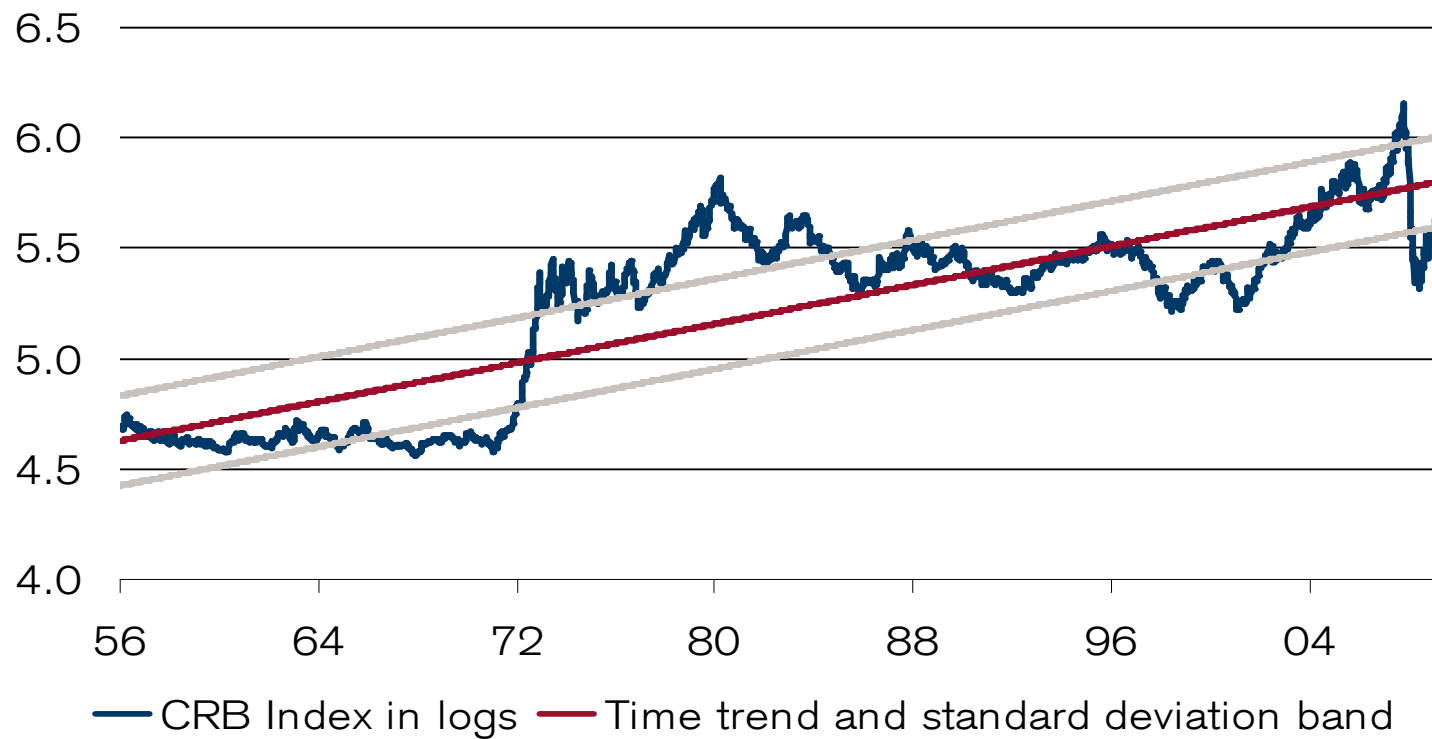
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# European banks and autos, the sectors most correlated to credit



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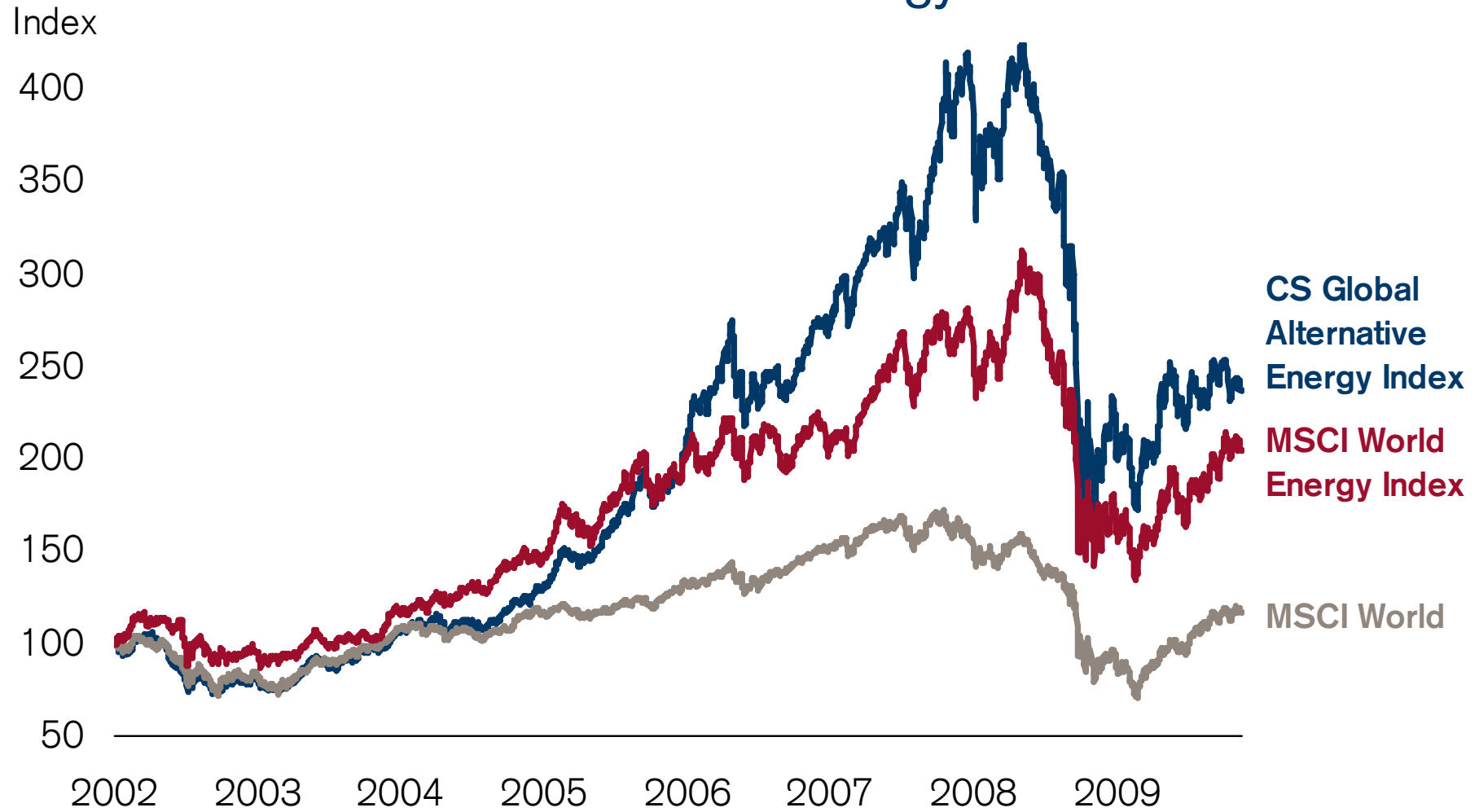
## Commodity valuation: CRB Index



Last data point: 19.02.2010

Source: Bloomberg, Credit Suisse / IDC

# Alternative energy



Last data point: 9/4/2010; Values: CS Global Alternative Energy Index: 228;  
MSCI World: 124; MSCI World Energy Index: 209;

Source: Bloomberg, Credit Suisse / IDC

# Conclusions

- US and Japanese growth should surprise positively over the next six months but fade thereafter
- European growth will diverge with the weaker Euroland economies struggling to emerge from recession, but with core European growth accelerating
- Growth leadership will come from Asia and Latin America. Eastern Europe is showing initial signs of recovery
- Japan remains in deflation, inflation in Europe is slowing and the upturn in inflation in the US and the UK will reverse
- The upturn in inflation in emerging markets is being met by tighter monetary policies
- The equity rally in March and early April, while reversing in May, should re-commence over the next quarter
- Defensive high quality sectors will outperform

# Conclusions

- During 2H10, emerging markets should start to outperform again
- Dollar strength against the Euro and the pound should reverse during 2H10 as the US economy fades and as investors start to become concerned over the US budget deficit and local and state finances in the US
- Asian and Latin American currencies will continue to be subject to upward pressure on trend
- The credit rally will now consolidate; bank debt and emerging debt are attractive
- Government bonds will see moderate selling pressure. Pressure will slowly ease on European sovereign spreads as economic/fiscal restructuring is implemented
- Portfolio construction needs to cope with “fat-tale risks”

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