

Global Economic Outlook

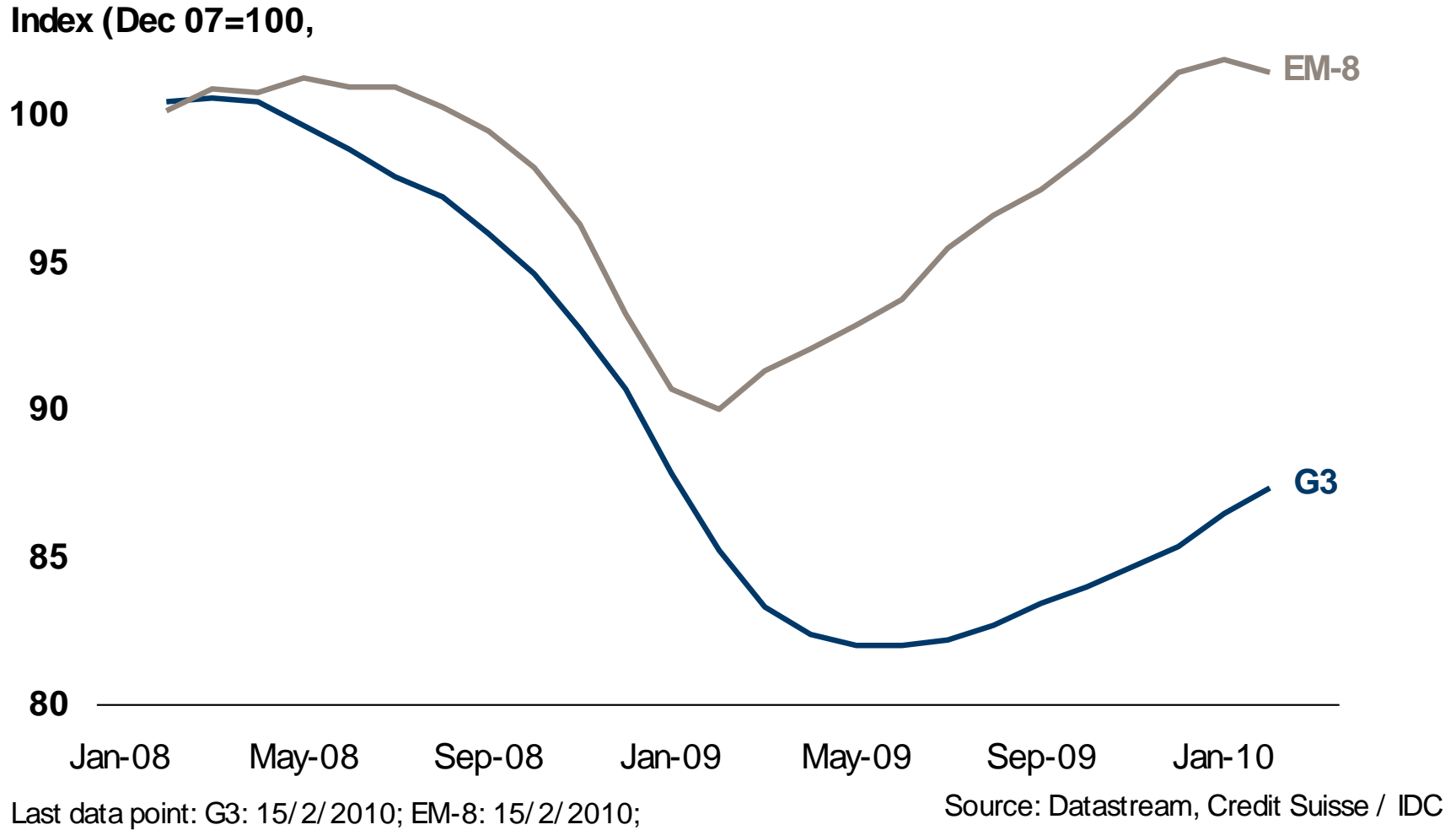
Opportunities and Traps in Global Capital Markets 2010-2011

Robert Parker – Senior Advisor, Credit Suisse
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 growth 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?
- 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?

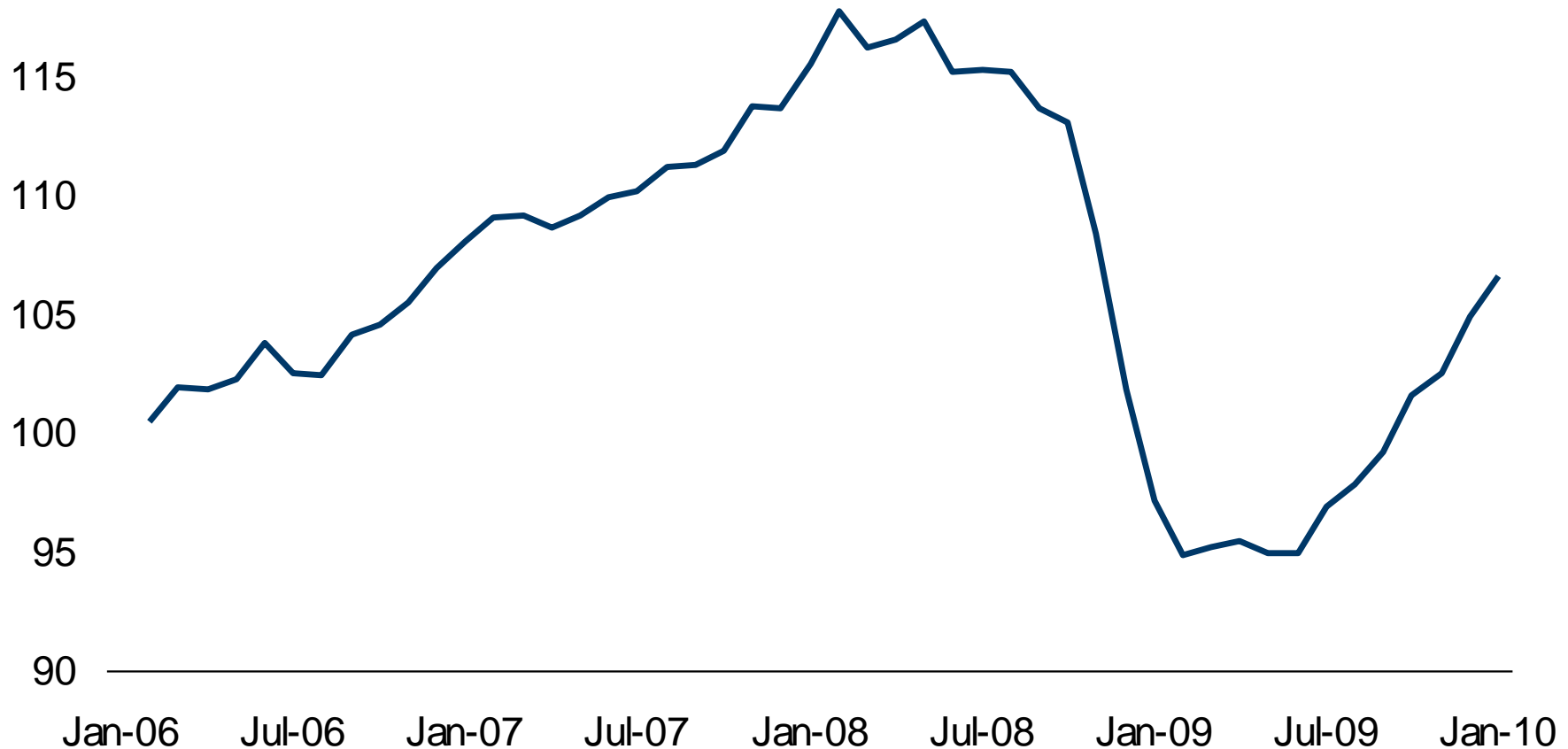
The global recession ended in mid-2009 and in 2010, the recovery is robust



World trade

Jan 2006 = 100
120

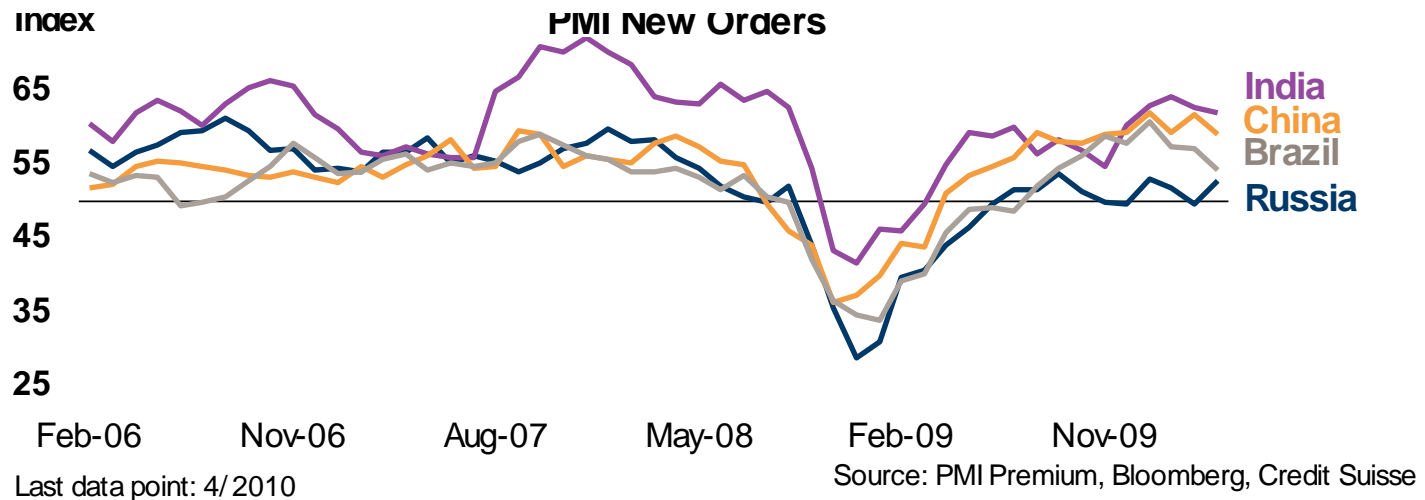
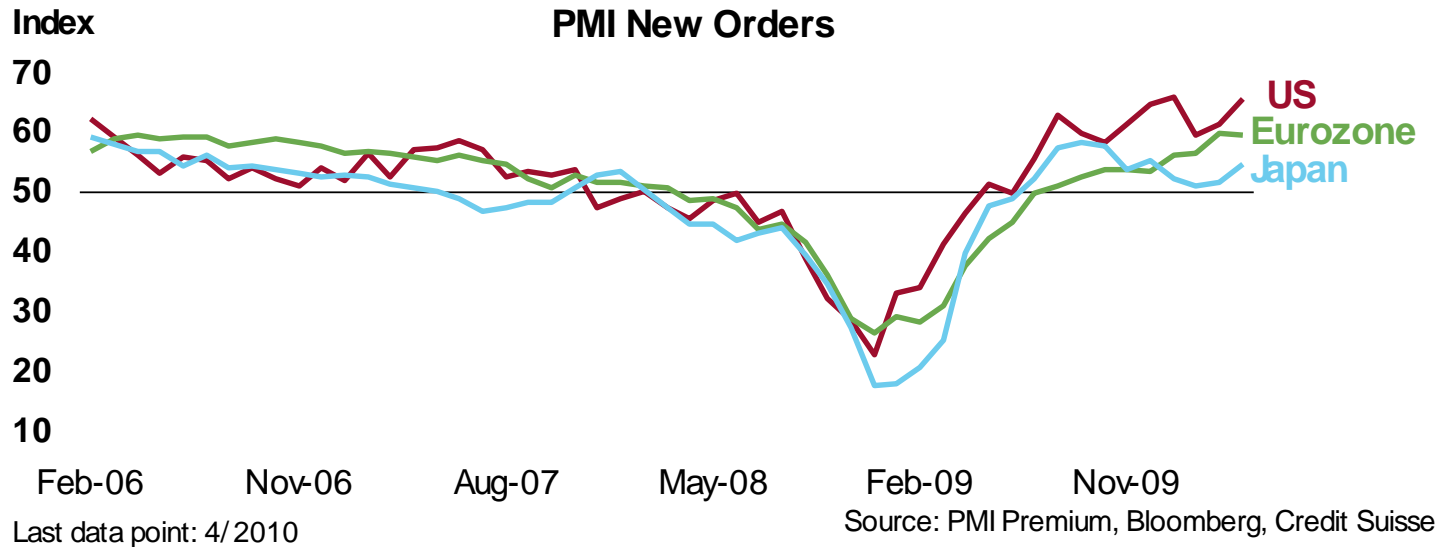
World trade volume index (s.a., 2mma)



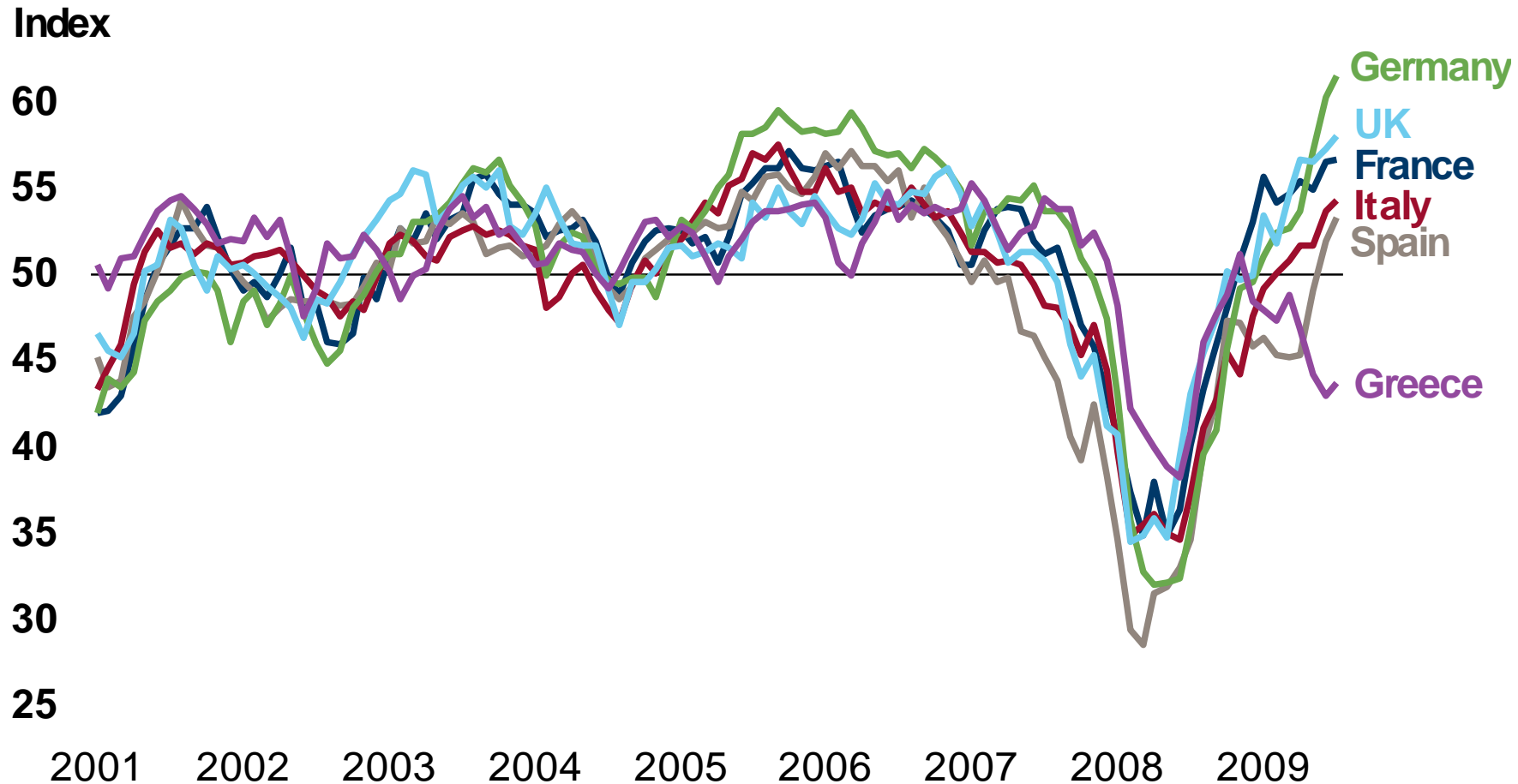
Last data point: 1/2010; Value: 106.23

Source: Netherlands Bureau for Economic Policy Analysis, Credit Suisse

Survey data: new orders consistent with recovery



Europe manufacturing PMI's

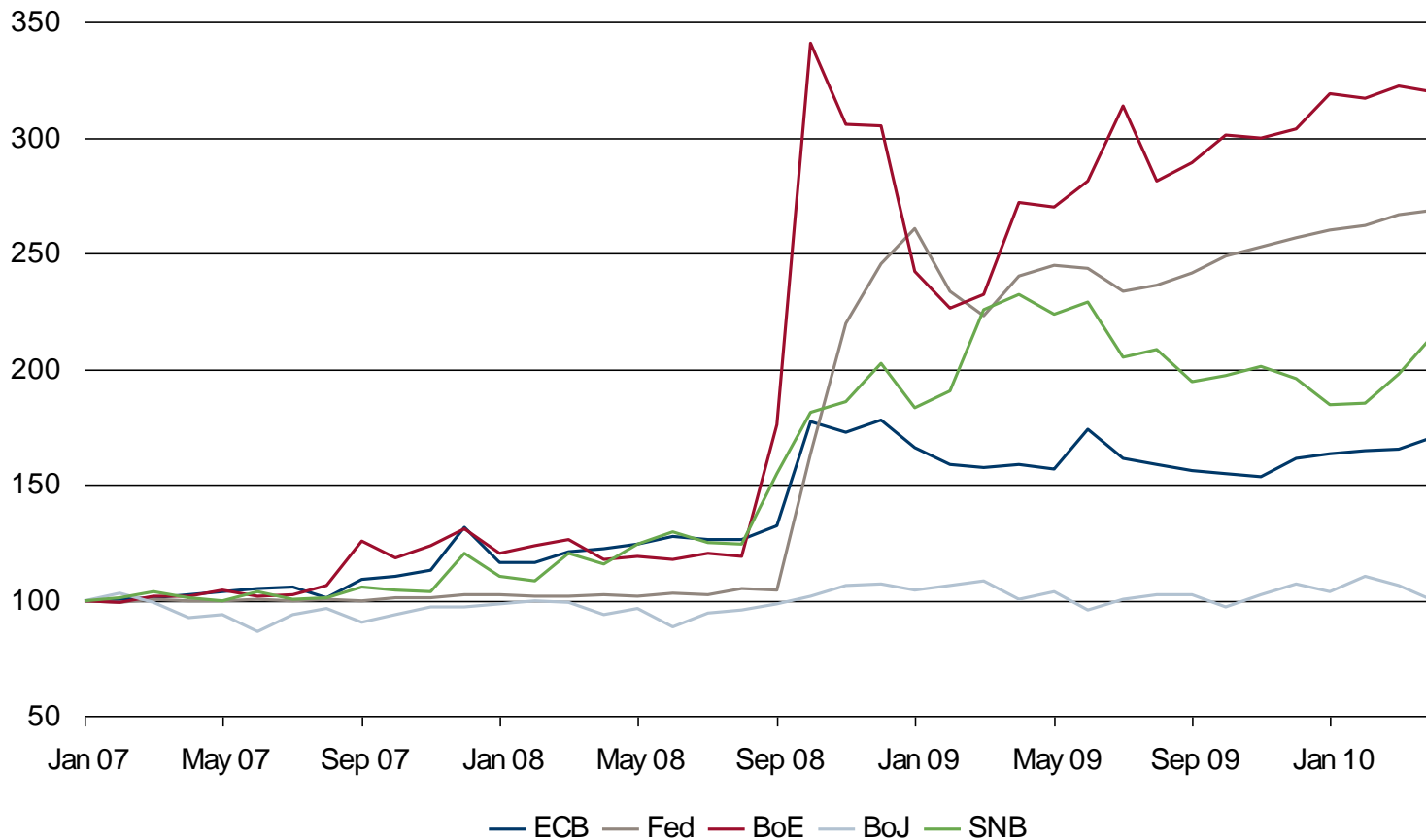


Source: Datastream, Credit Suisse

Central bank balance sheets

Balance sheet expansion reflects emergency lending and purchases of assets

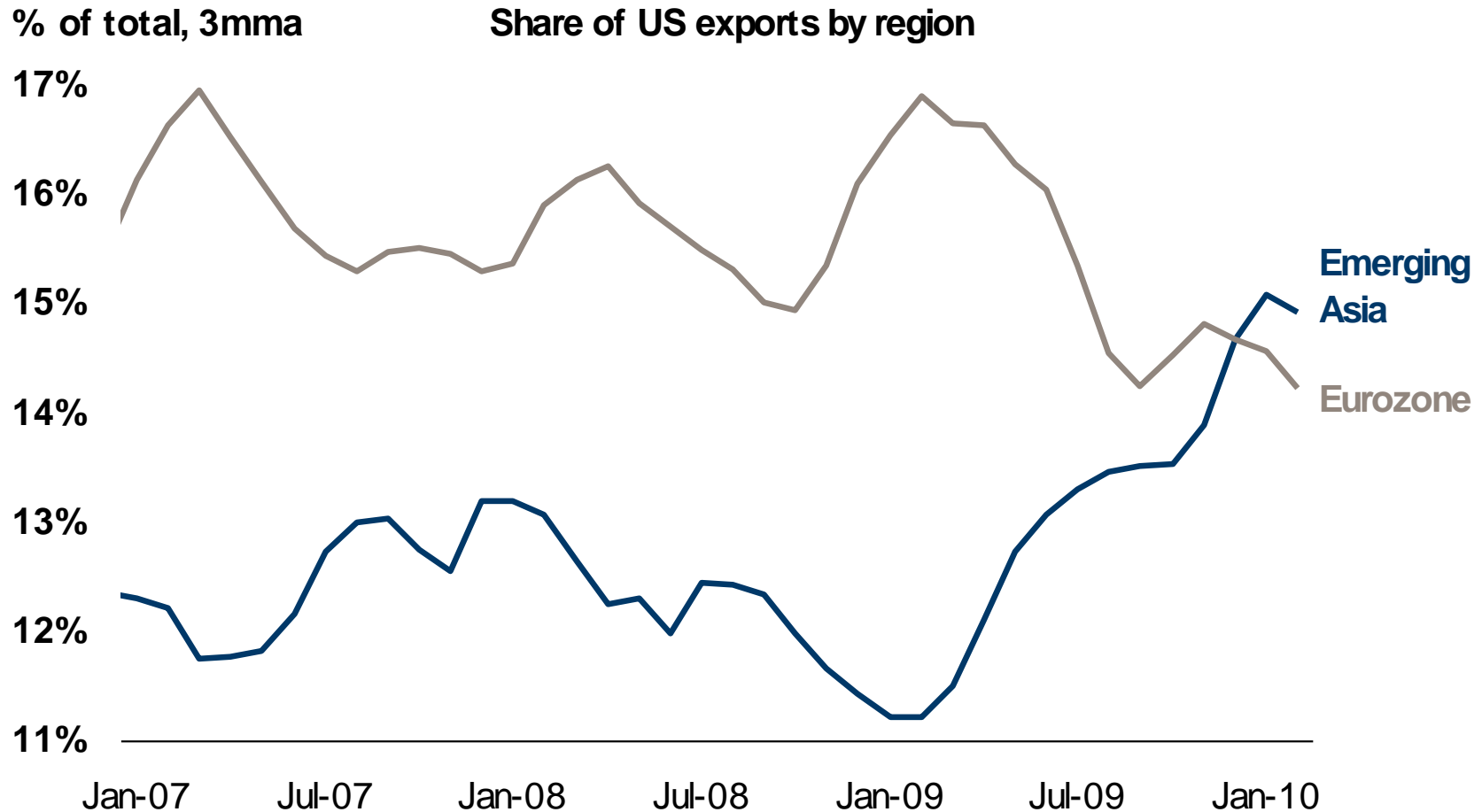
central bank assets, indexed, 01.01.2007 = 100



Last data point: 01.05.2010

Source: Datastream, Credit Suisse / IDC

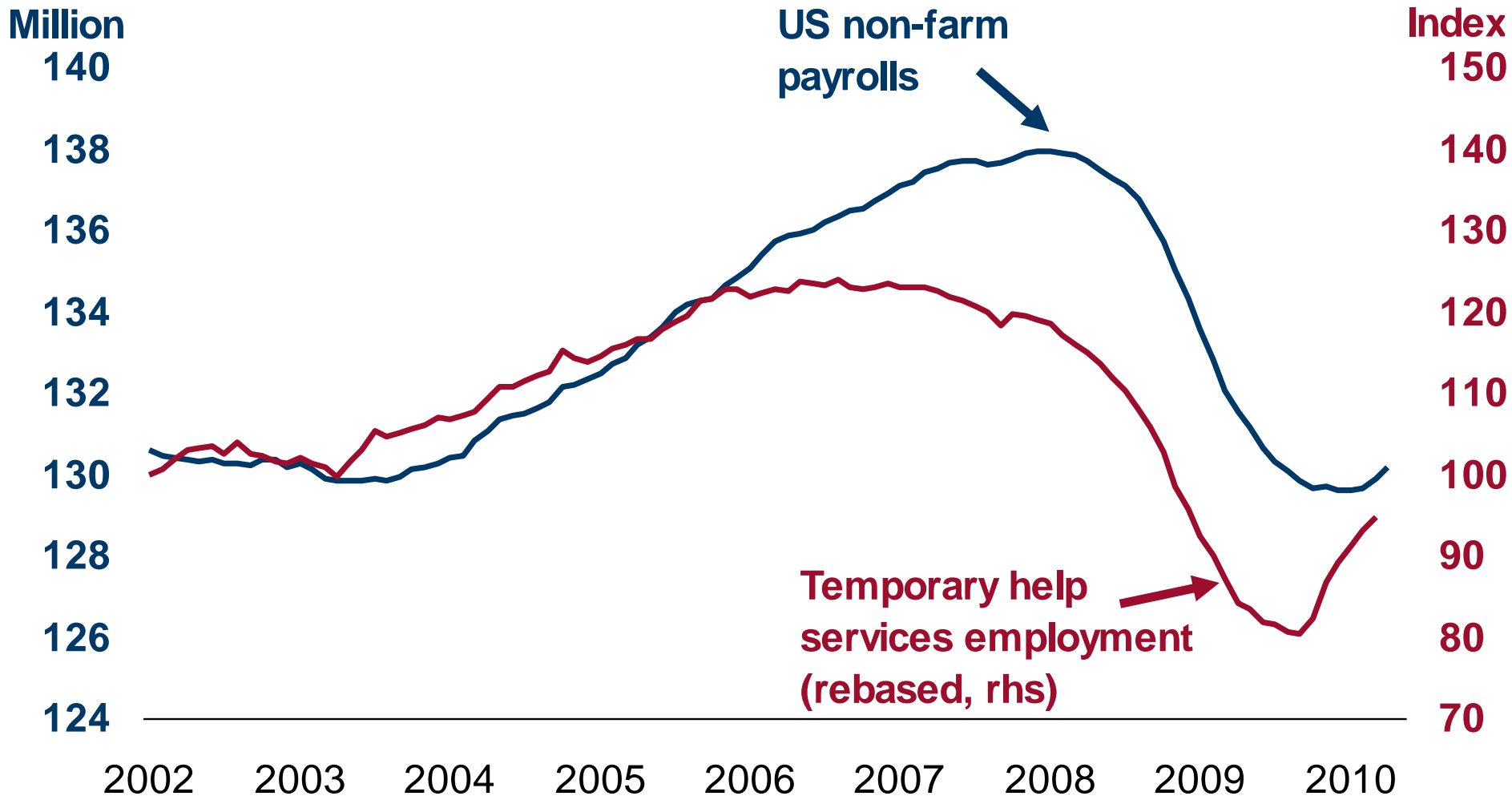
US exports



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

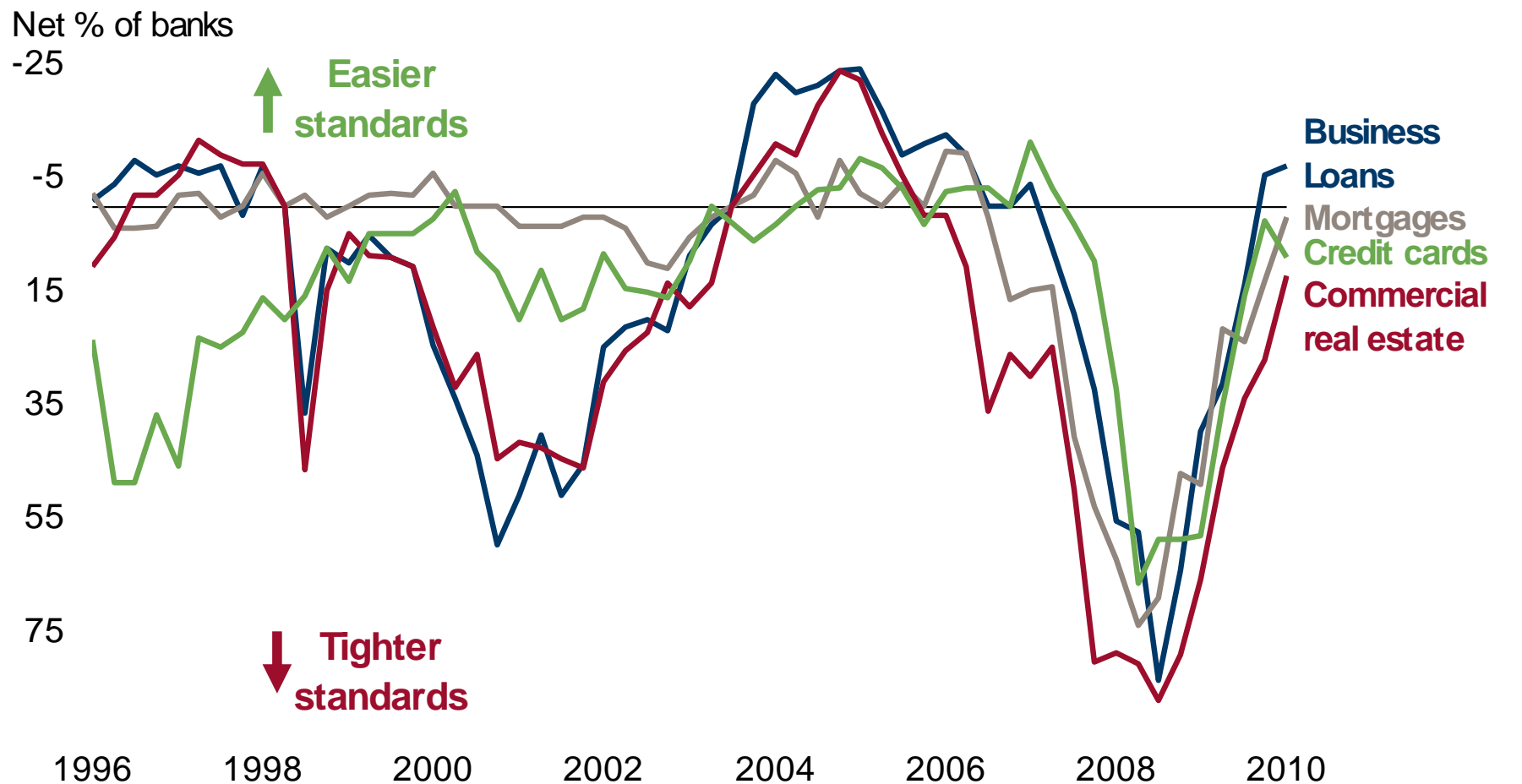
US saving rate – a constraint on consumption



Last data point: 2/2010; Value = 3.1%

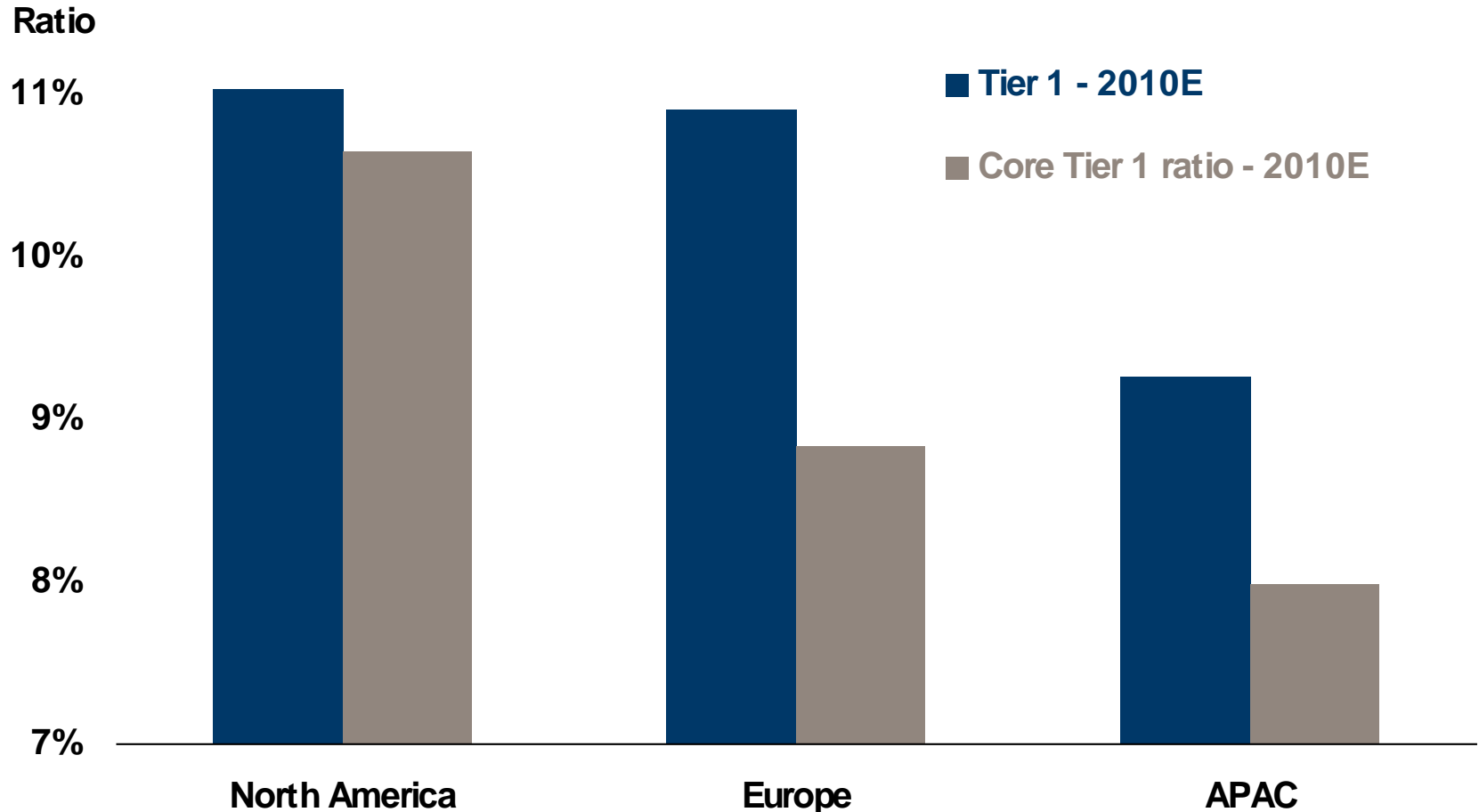
Source: Datastream, Credit Suisse

US lending standards



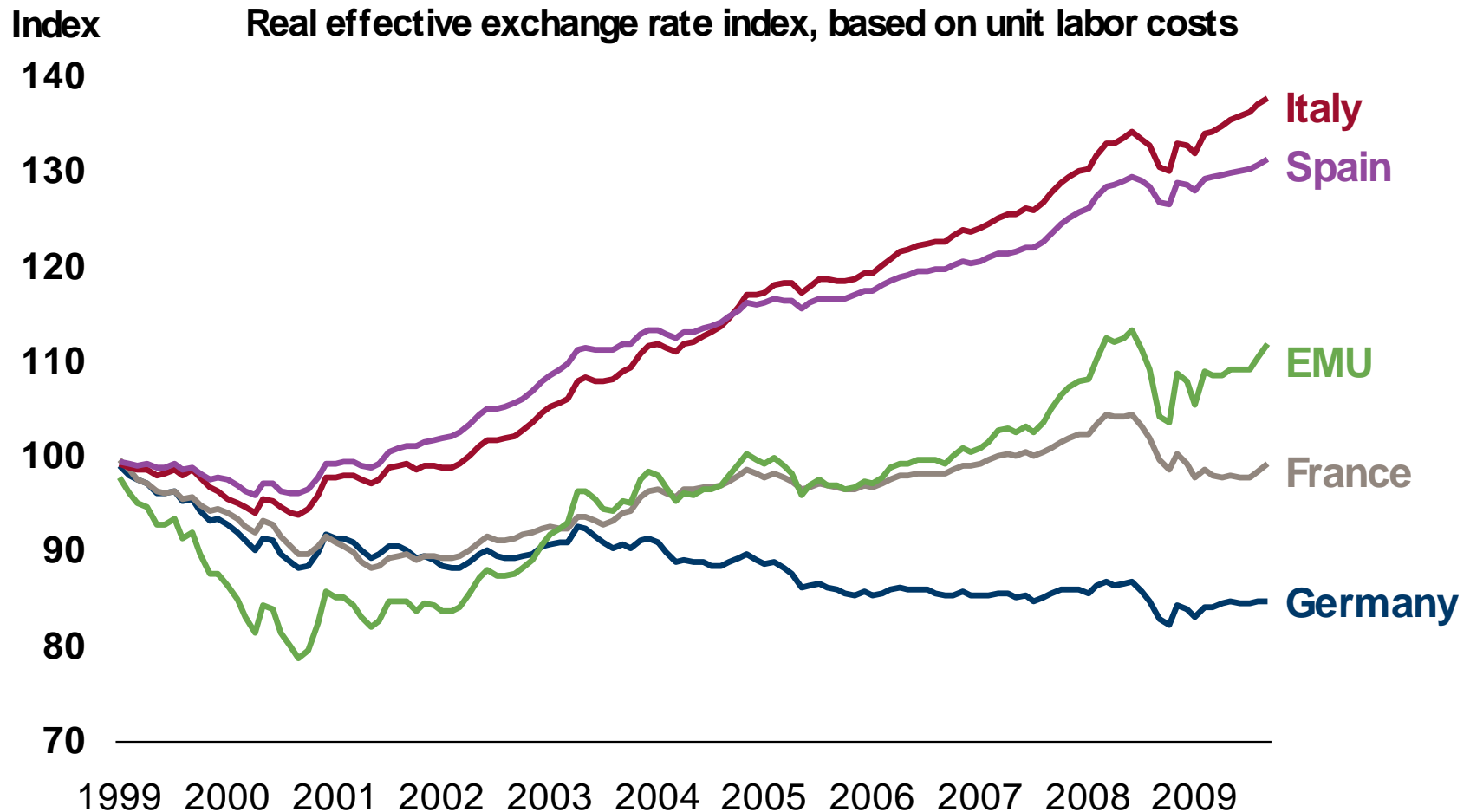
Source: Datastream, Credit Suisse / IDC

Banks: capital quality gap and looming stricter regulation



Source: Credit Suisse

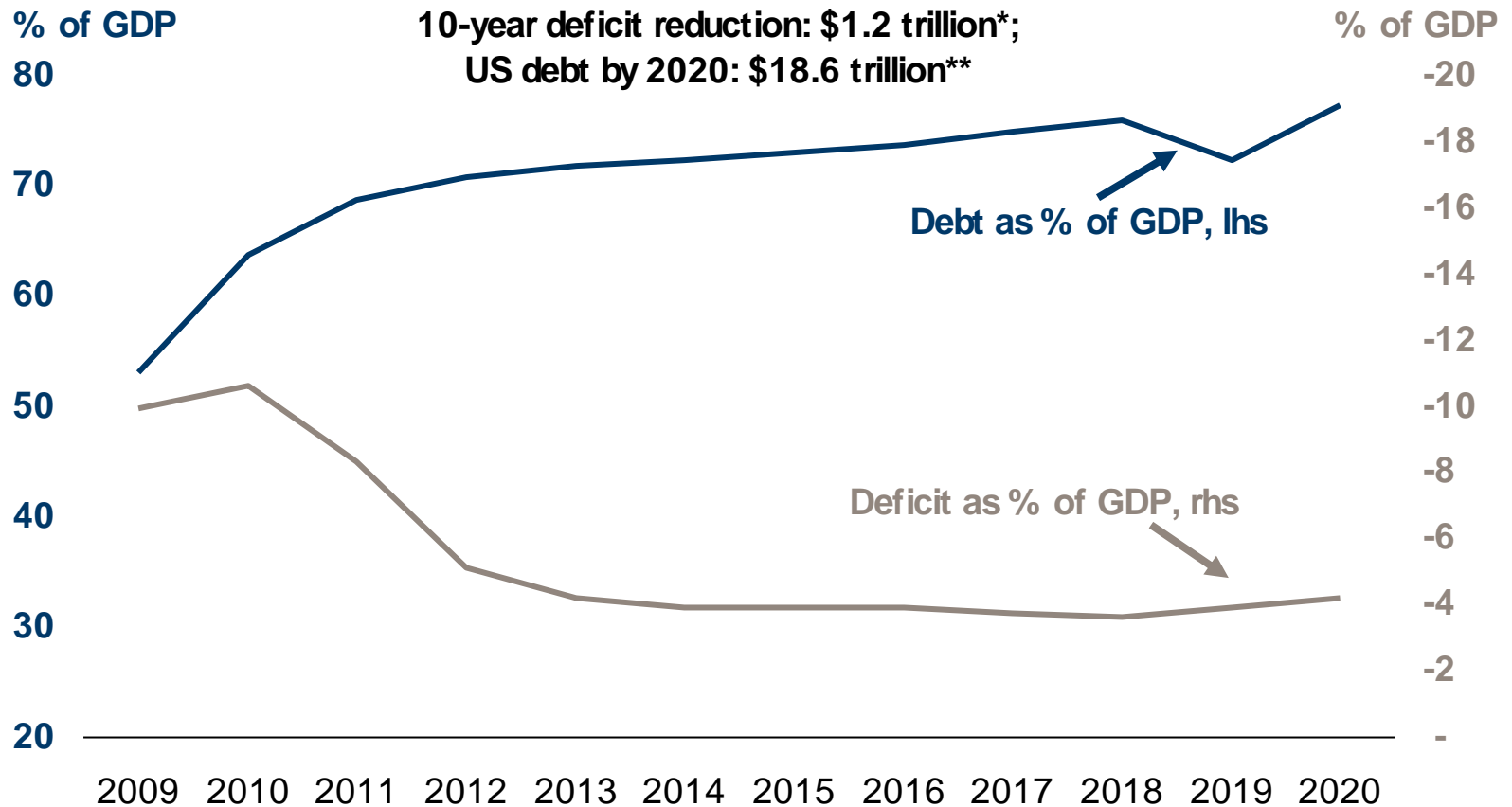
Germany has gained competitiveness in recent years, whilst Spain and Italy have lost



Last data point: 31/10/2009

Source: Bloomberg, Credit Suisse / IDC

US federal budget projections



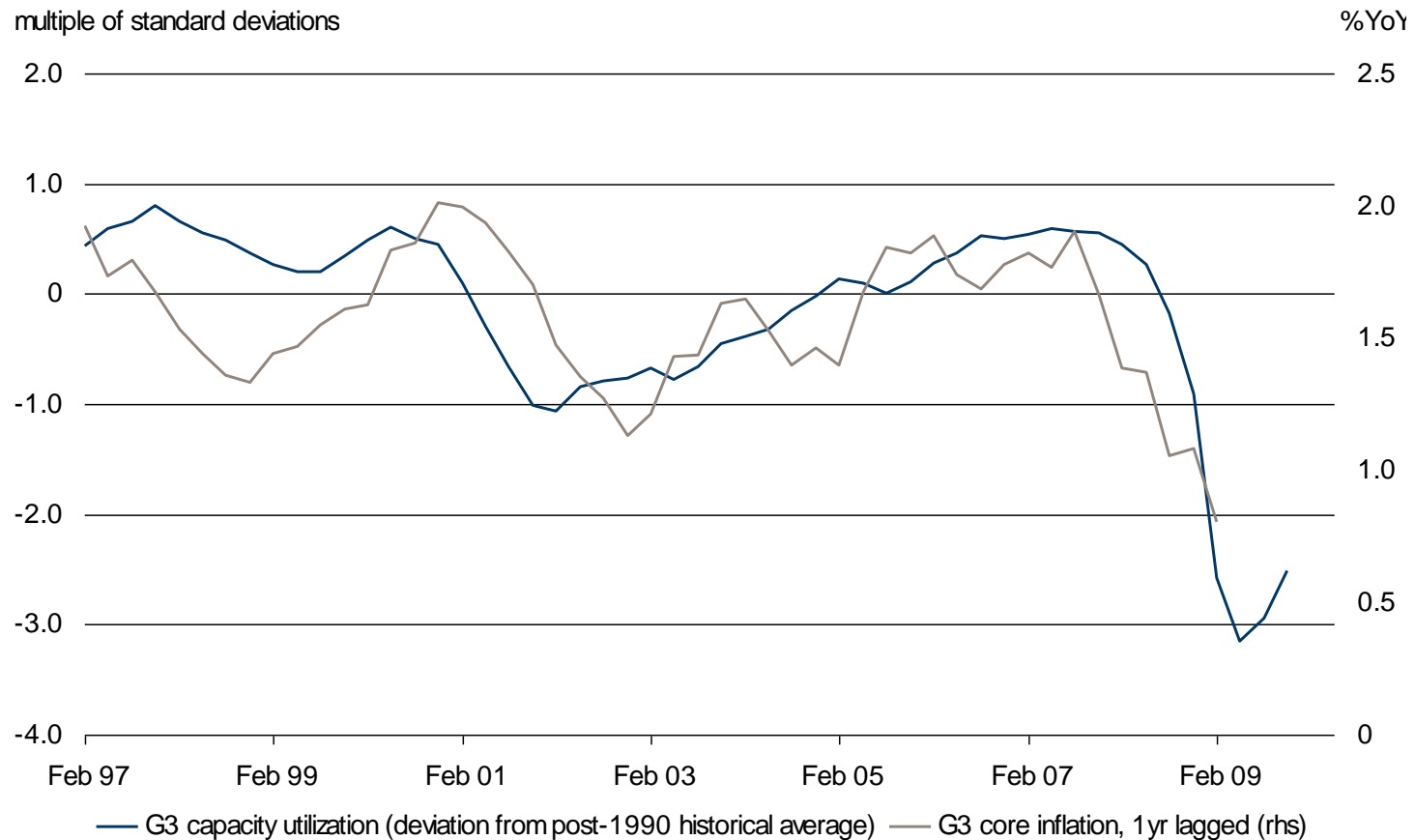
Source: Office of Management and Budget

*Excluding war savings

**Debt held by the public

G3 capacity utilization vs. G3 core inflation

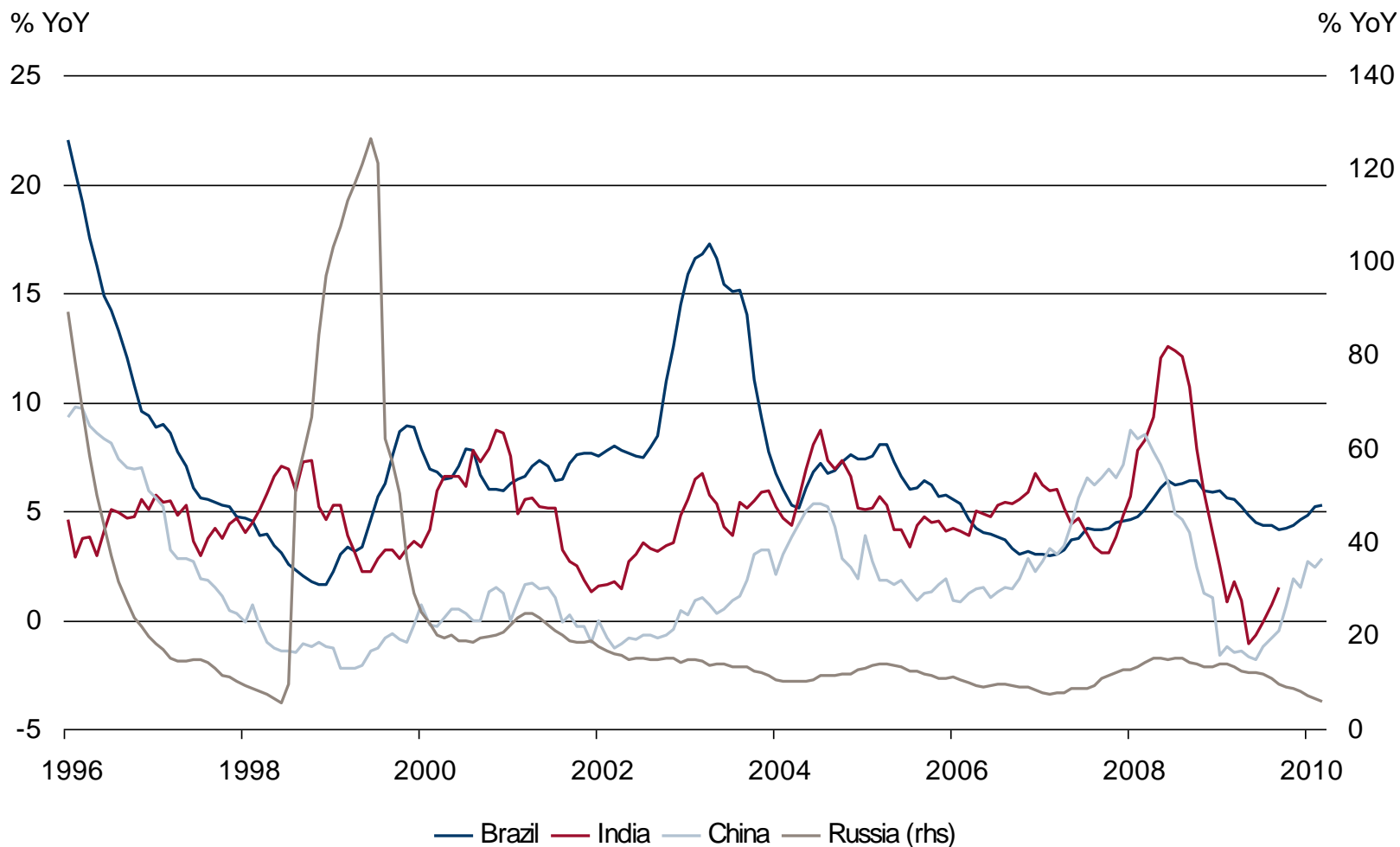
Very low capacity utilization suggests that inflationary pressure is subdued in the near-term



Last data point: 15.05.2010

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

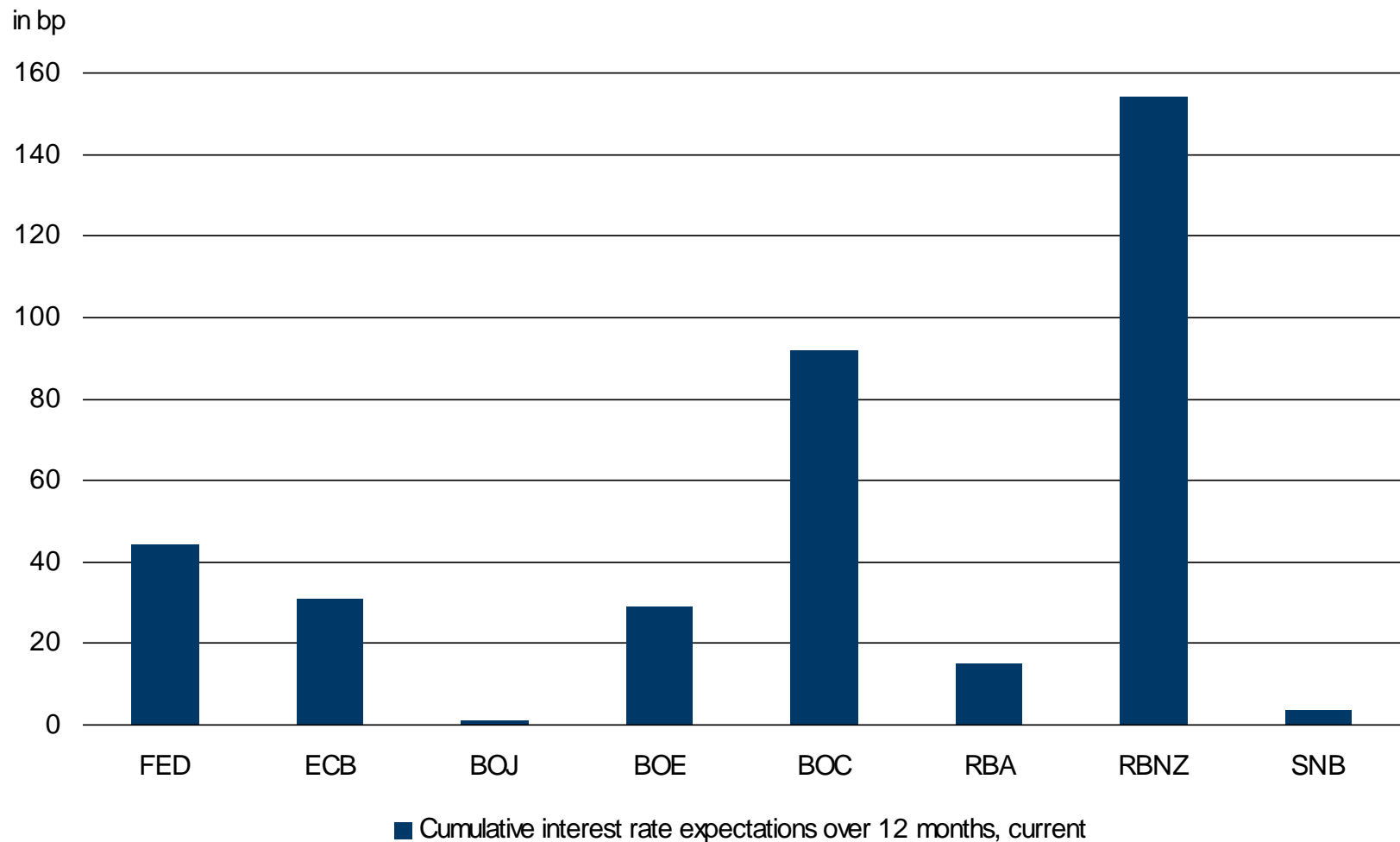
BRIC - CPI inflation



Last data point: 30.04.2010

Source: Bloomberg, Credit Suisse / IDC

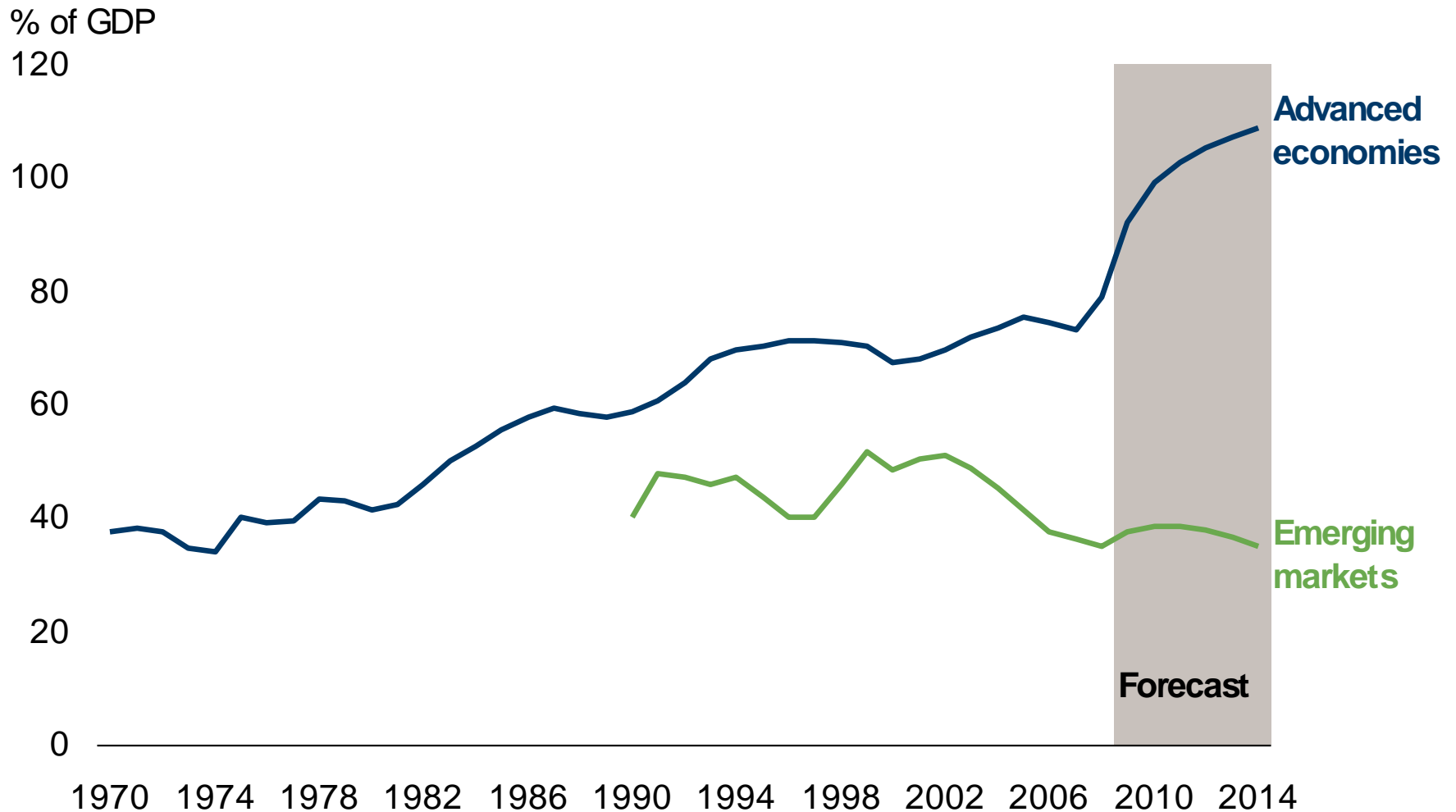
Cumulative interest rate expectations over 12 months



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

Basis points

■ GREECE

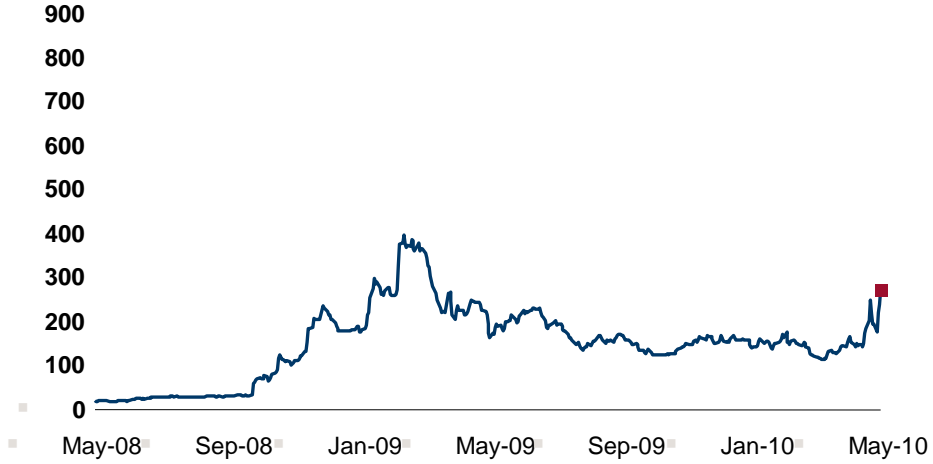


Last data point: Greece: 6/5/2010, Value: 941;

Source: DataStream, Credit Suisse

Basis points

■ IRELAND

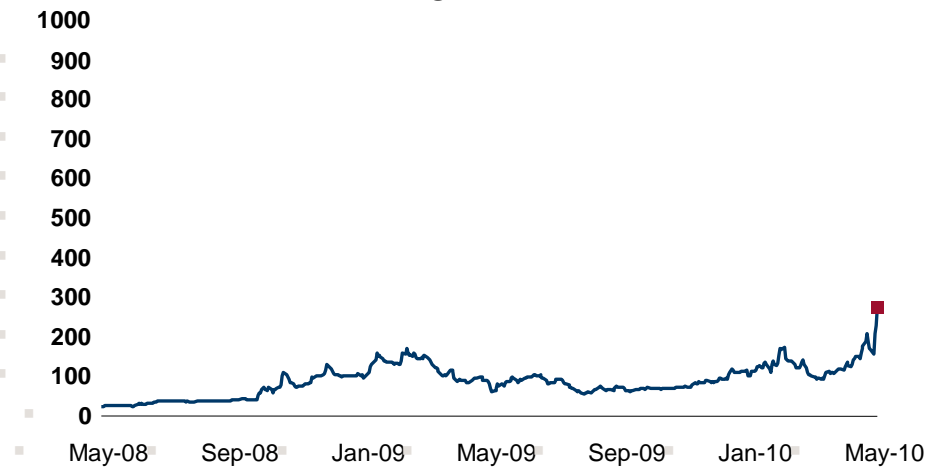


Last data point: Ireland: 6/5/2010, Value: 272;

Source: DataStream, Credit Suisse

Basis points

■ SPAIN

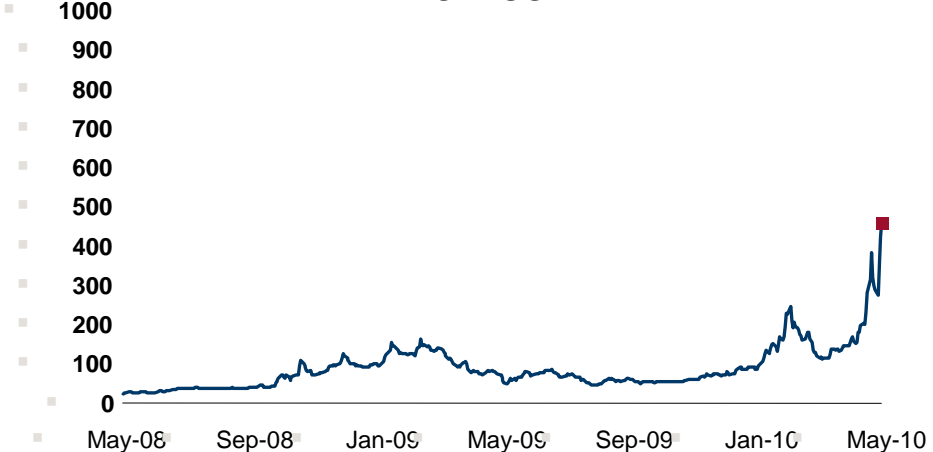


Last data point: Spain: 6/5/2010, Value: 275;

Source: DataStream, Credit Suisse

Basis points

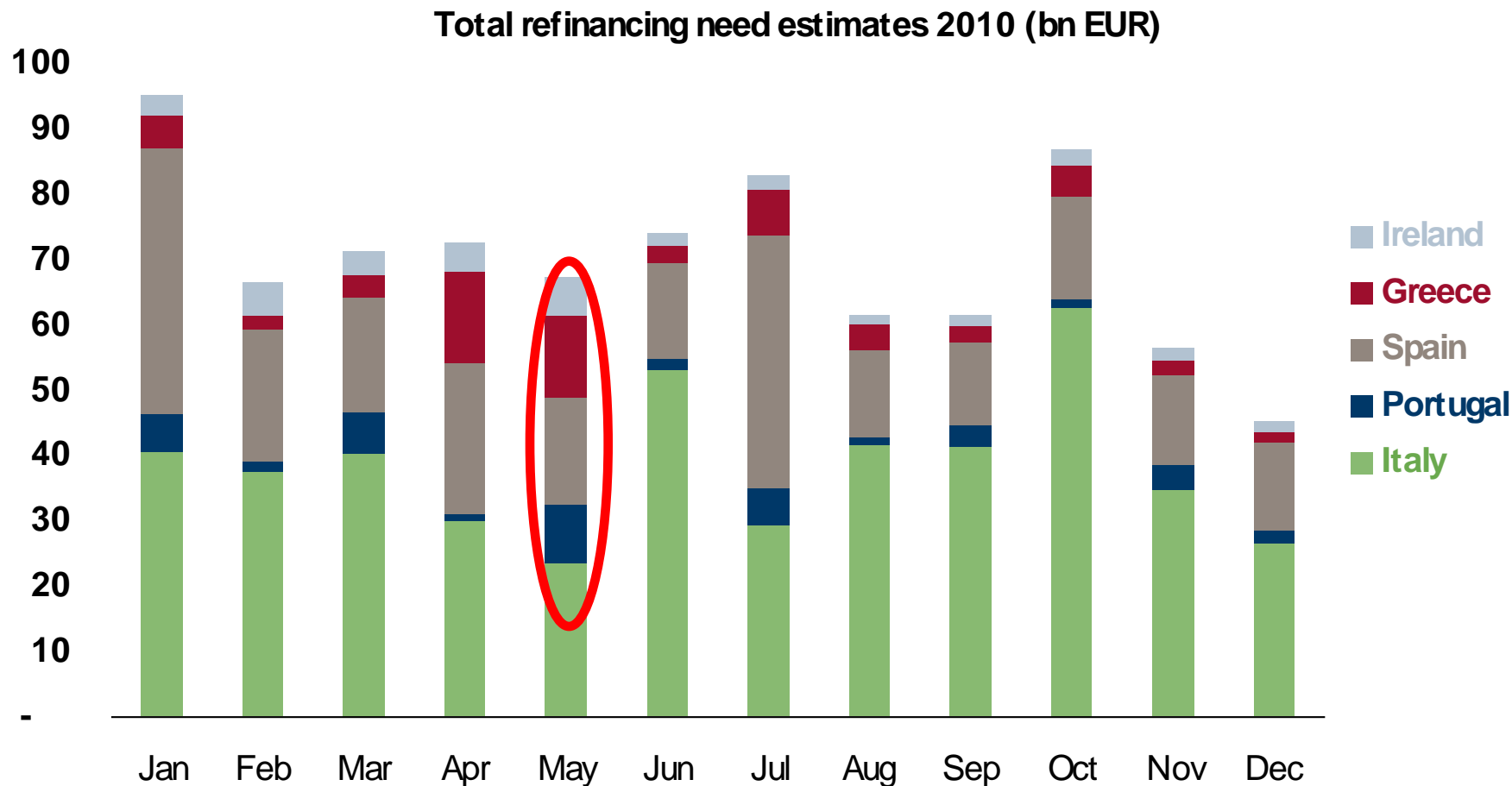
■ PORTUGAL



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

Source: DataStream, Credit Suisse

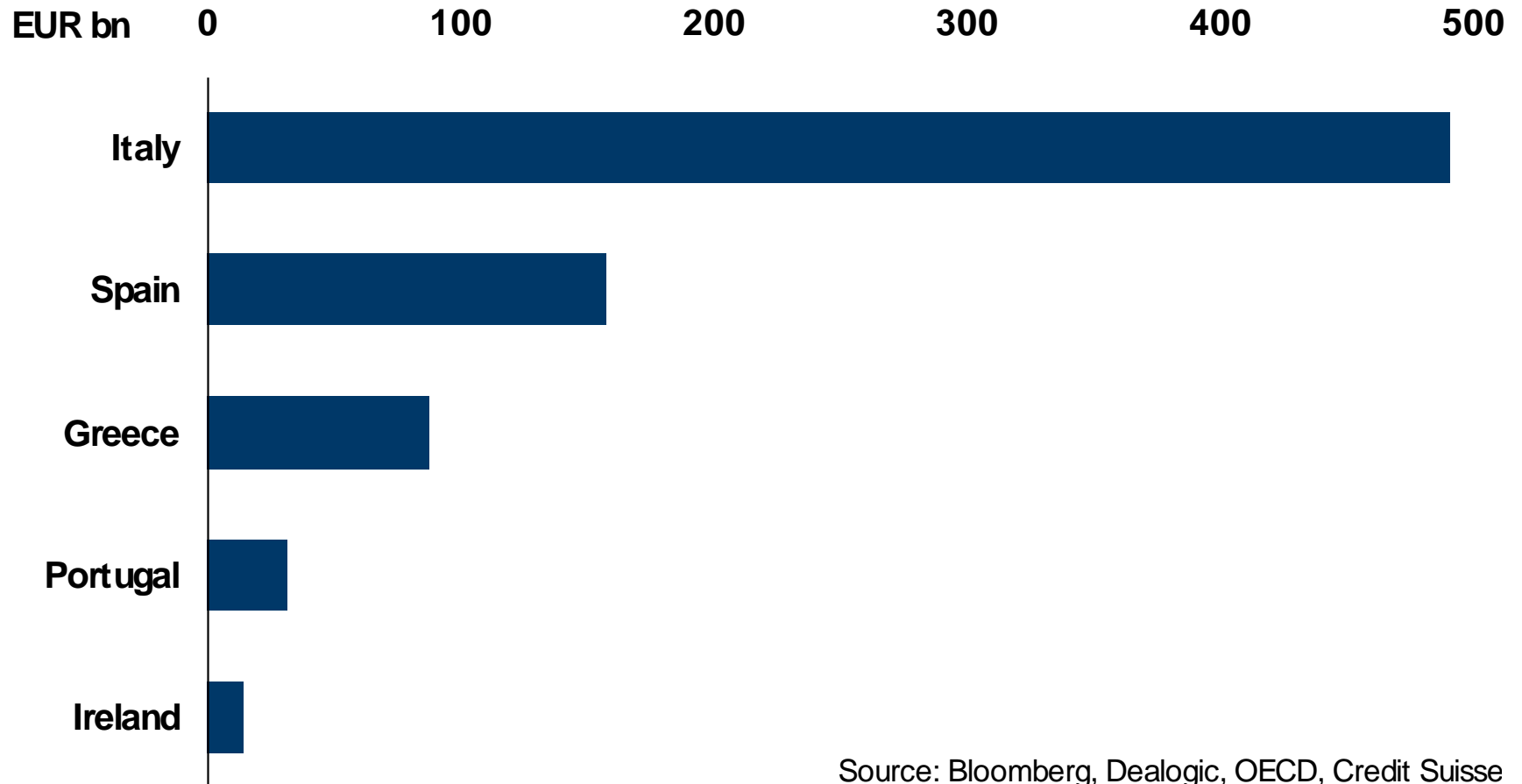
Refinancing needs for selected European sovereigns



Source: Credit Suisse/IDC

More than €750bn refinancing needs until 2013

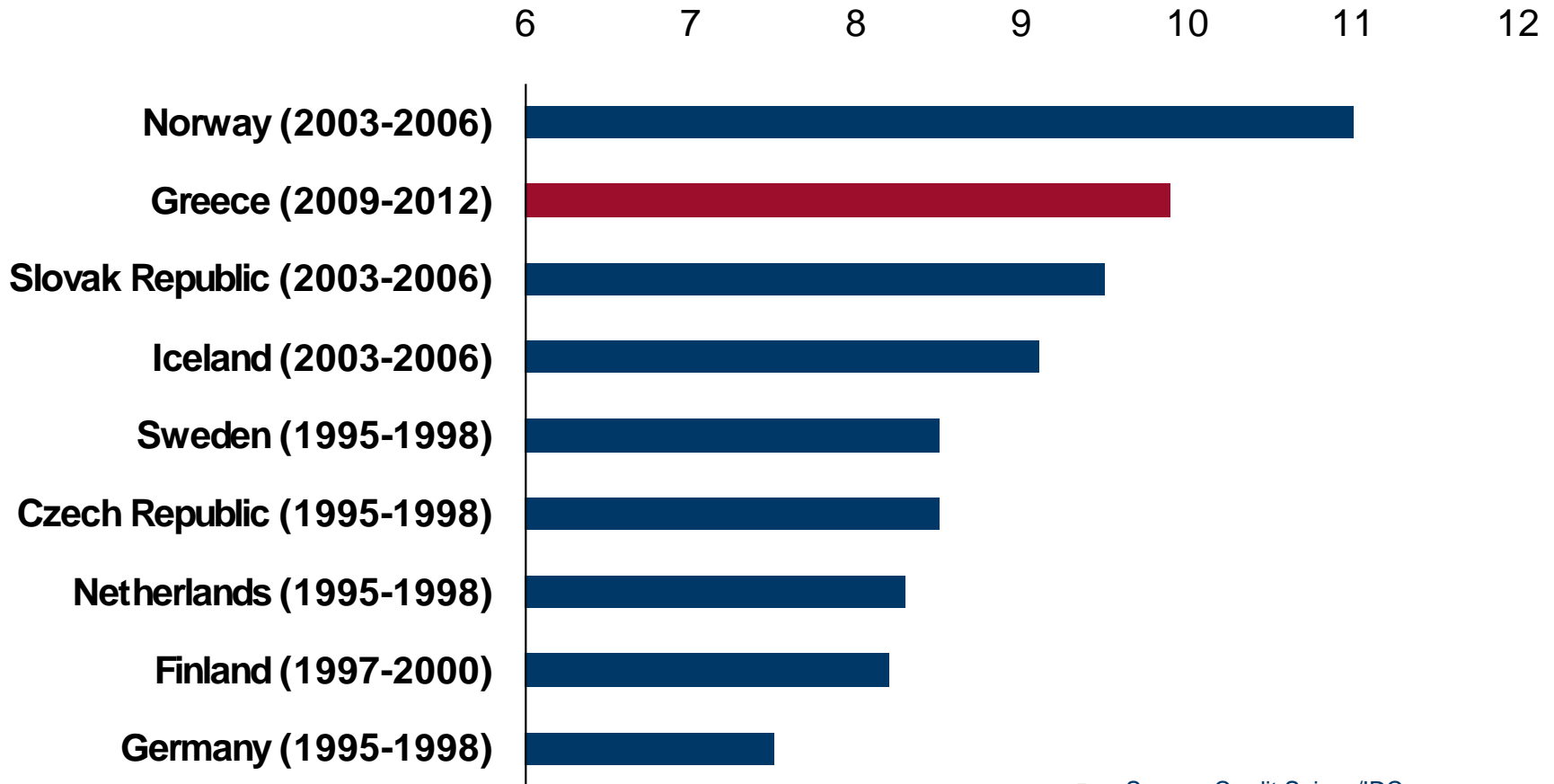
Eurozone periphery bond redemptions 2010 - 2012



Source: Bloomberg, Dealogic, OECD, Credit Suisse

Fiscal consolidation in history

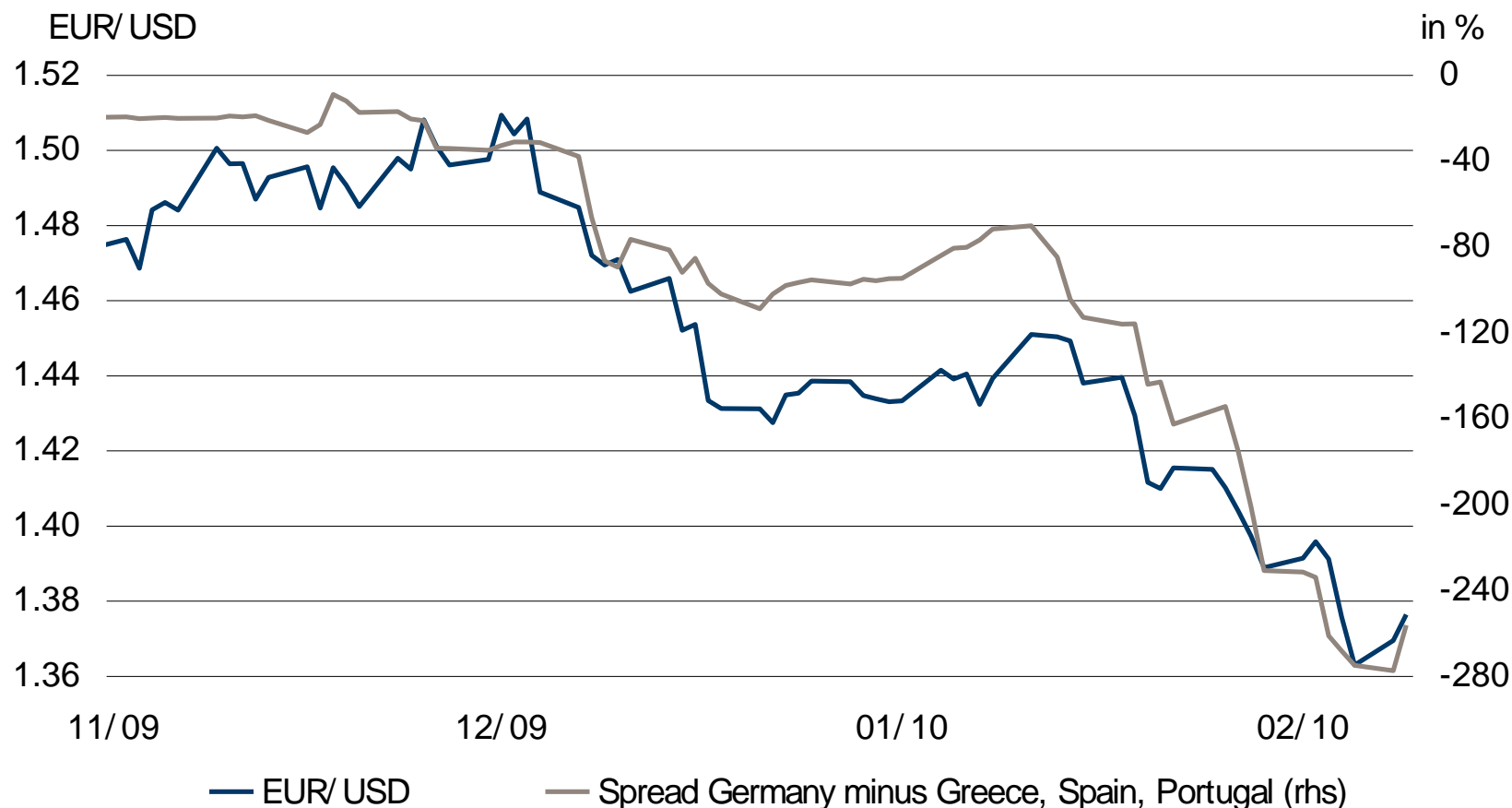
Largest three-year fiscal consolidation episodes in OECD countries since 1995 (reduction in budget balance in % of GDP)



Source: Credit Suisse/IDC

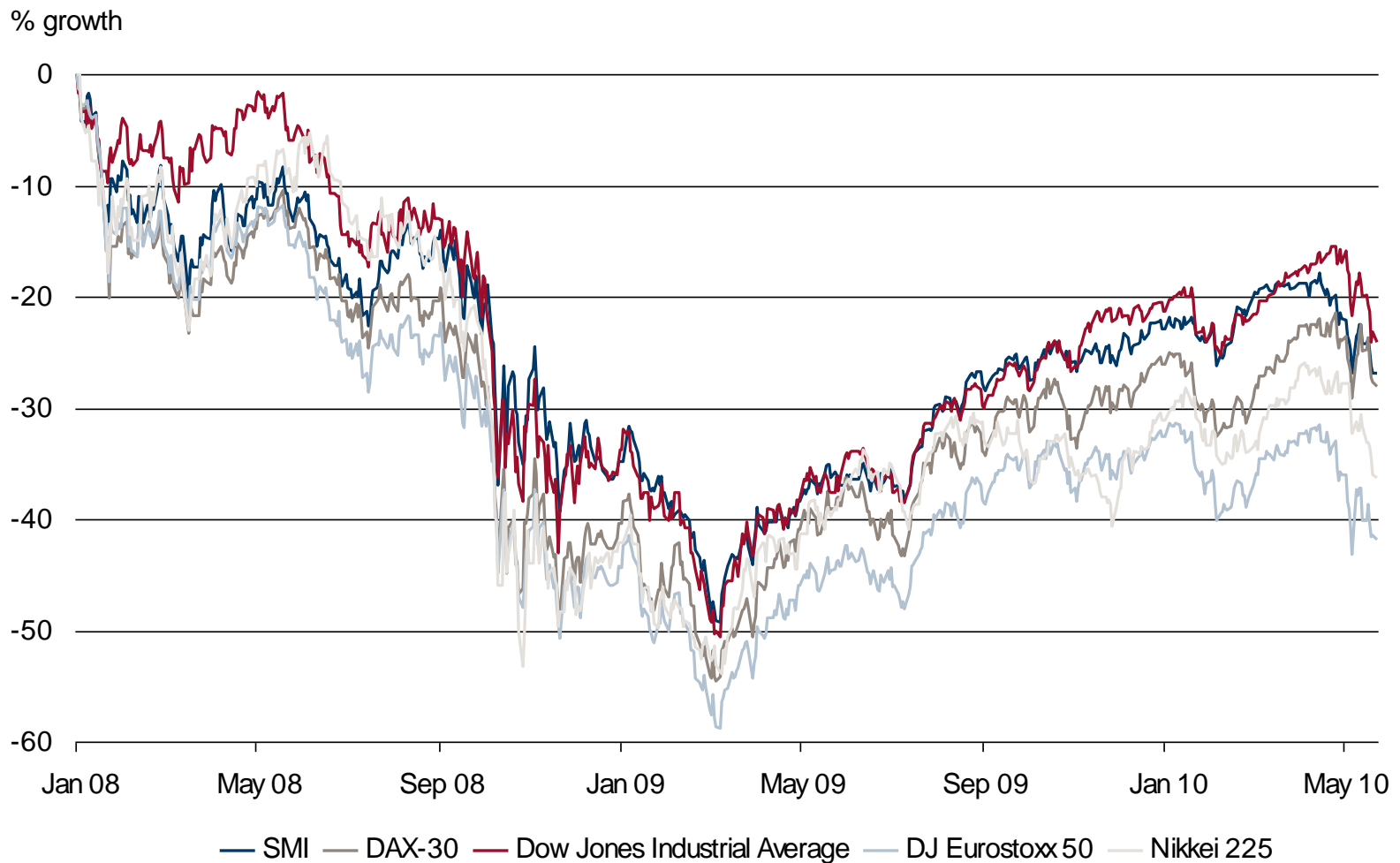
EUR/USD: risk premium related EMU periphery pressures

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



Source: Bloomberg, Credit Suisse

Performance - major indices

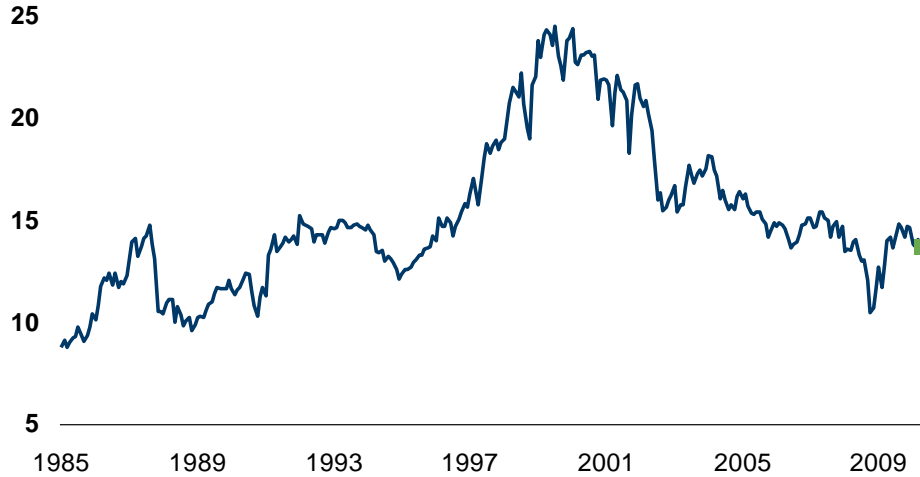


Last data point: 24.05.2010

Source: Datastream, Credit Suisse / IDC

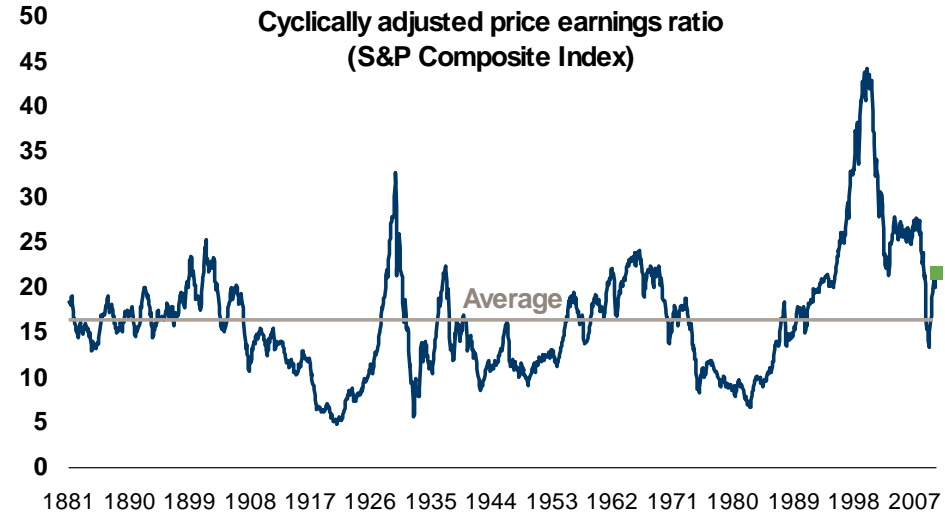
Valuations broadly in line with their long-run averages

S&P500 12-month forward P/E

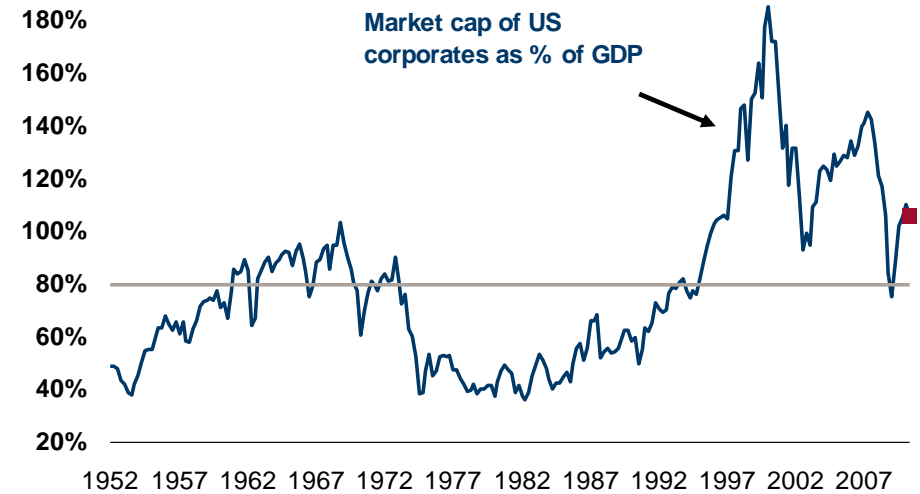


Last data point: 5/2010; Value: 13.7

Cyclically adjusted price earnings ratio
(S&P Composite Index)

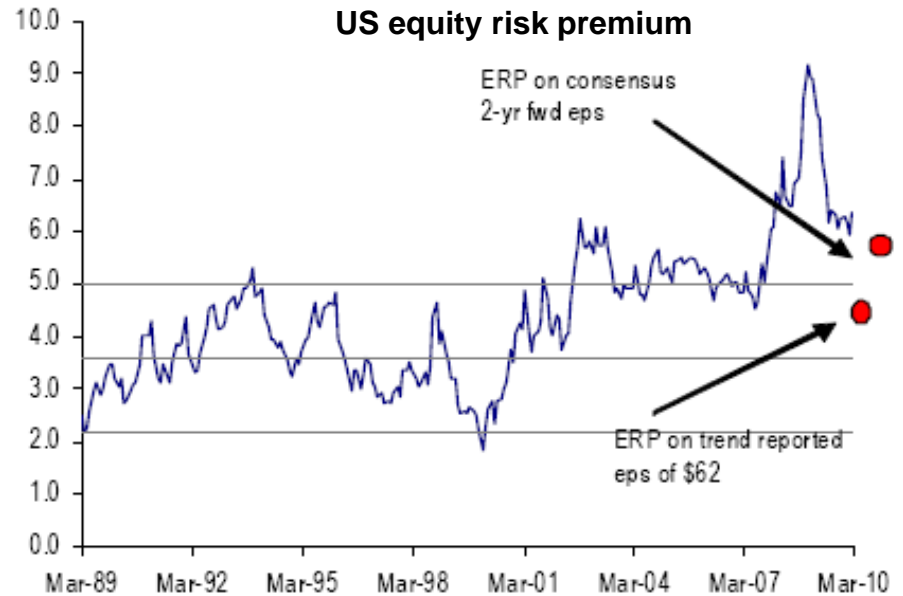


Market cap of US
corporates as % of GDP



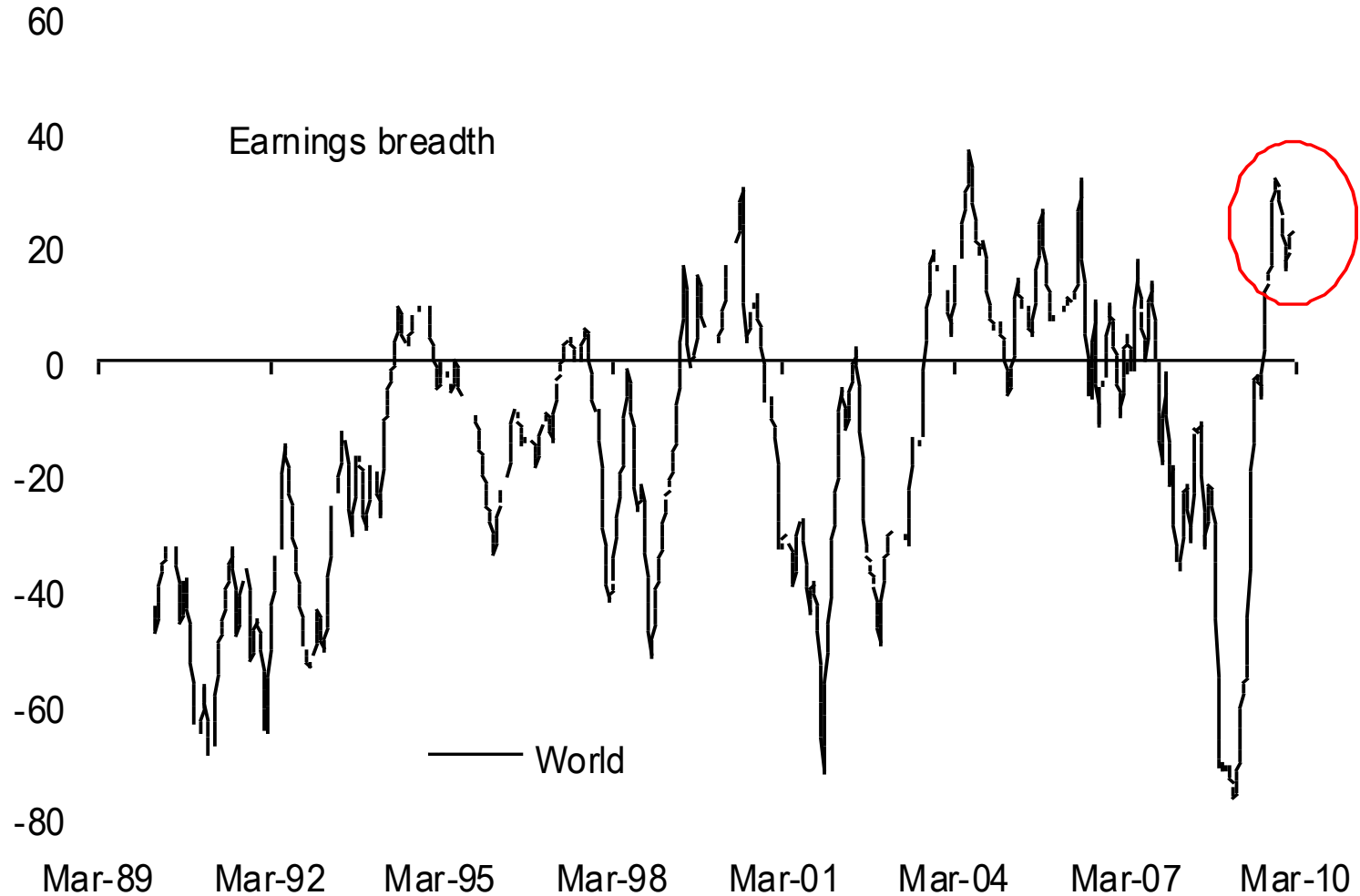
Last data point: Market cap of US corporates as % of GDP: Q2 2010, Value: 106%

US equity risk premium



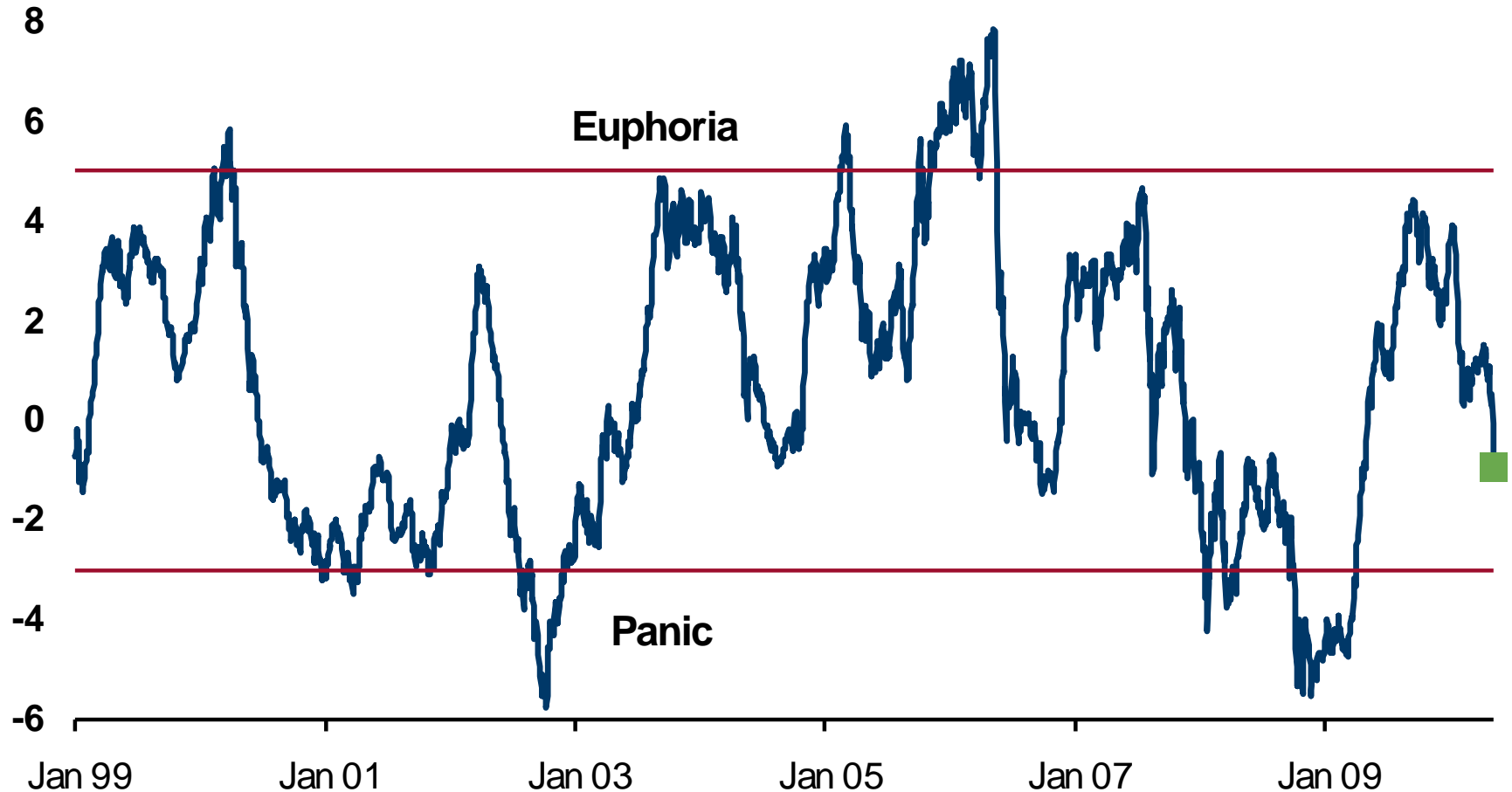
Source: Datastream, Credit Suisse research

Global earnings revisions (net upgrades) still strong



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse research

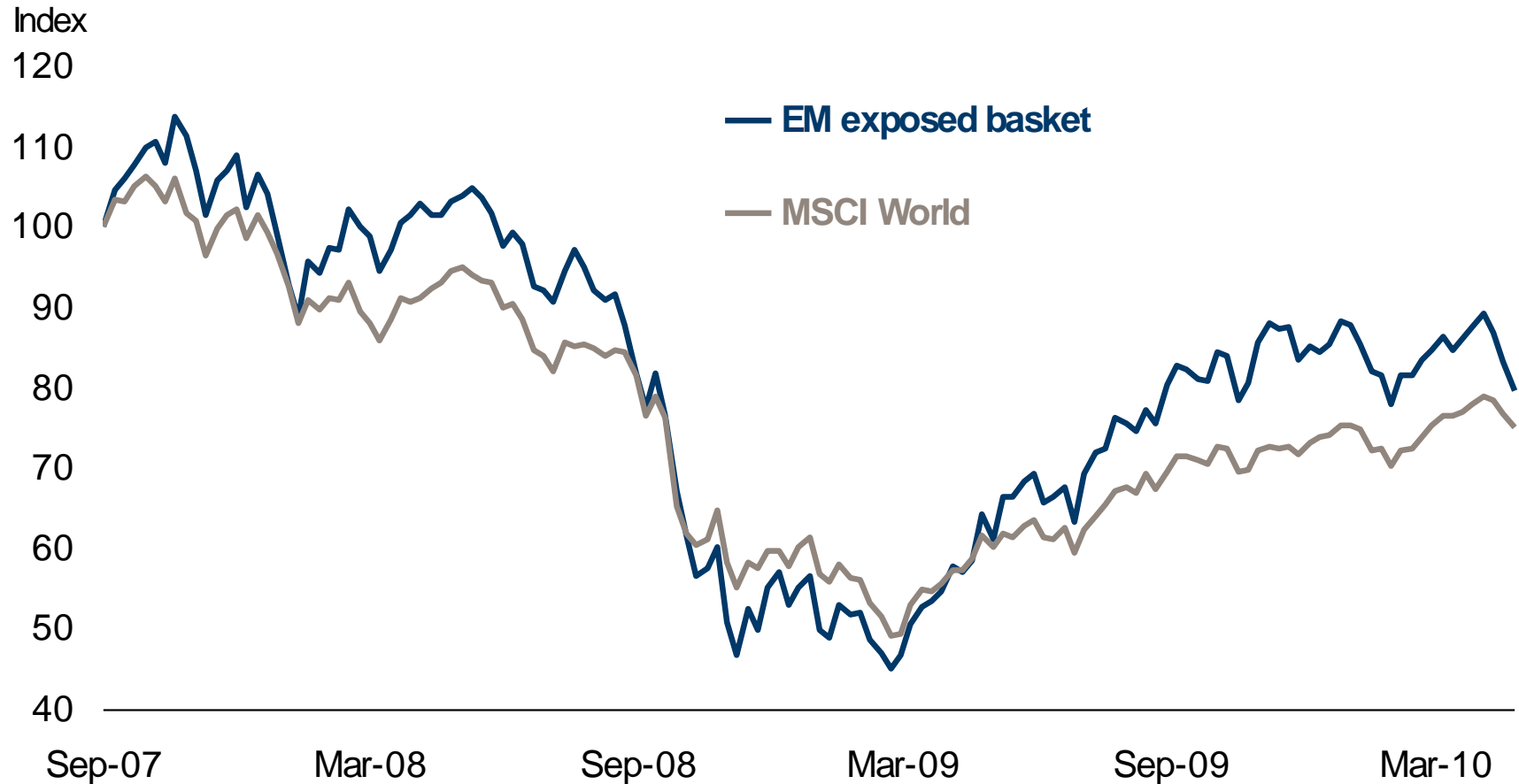
Global risk appetite



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

Source: Credit Suisse / IDC

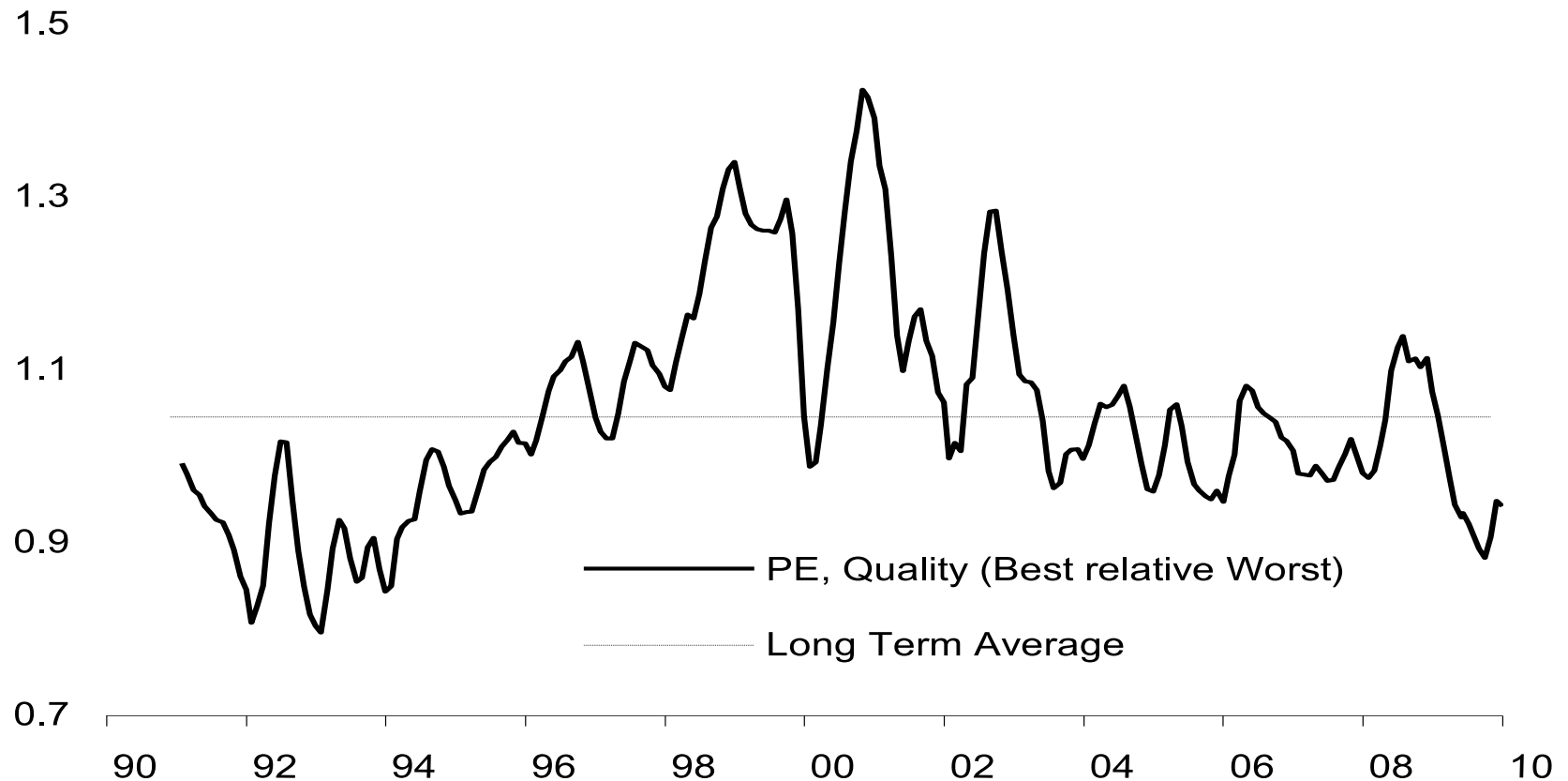
EM-exposed advanced economy companies



Last data point: 5/5/2010

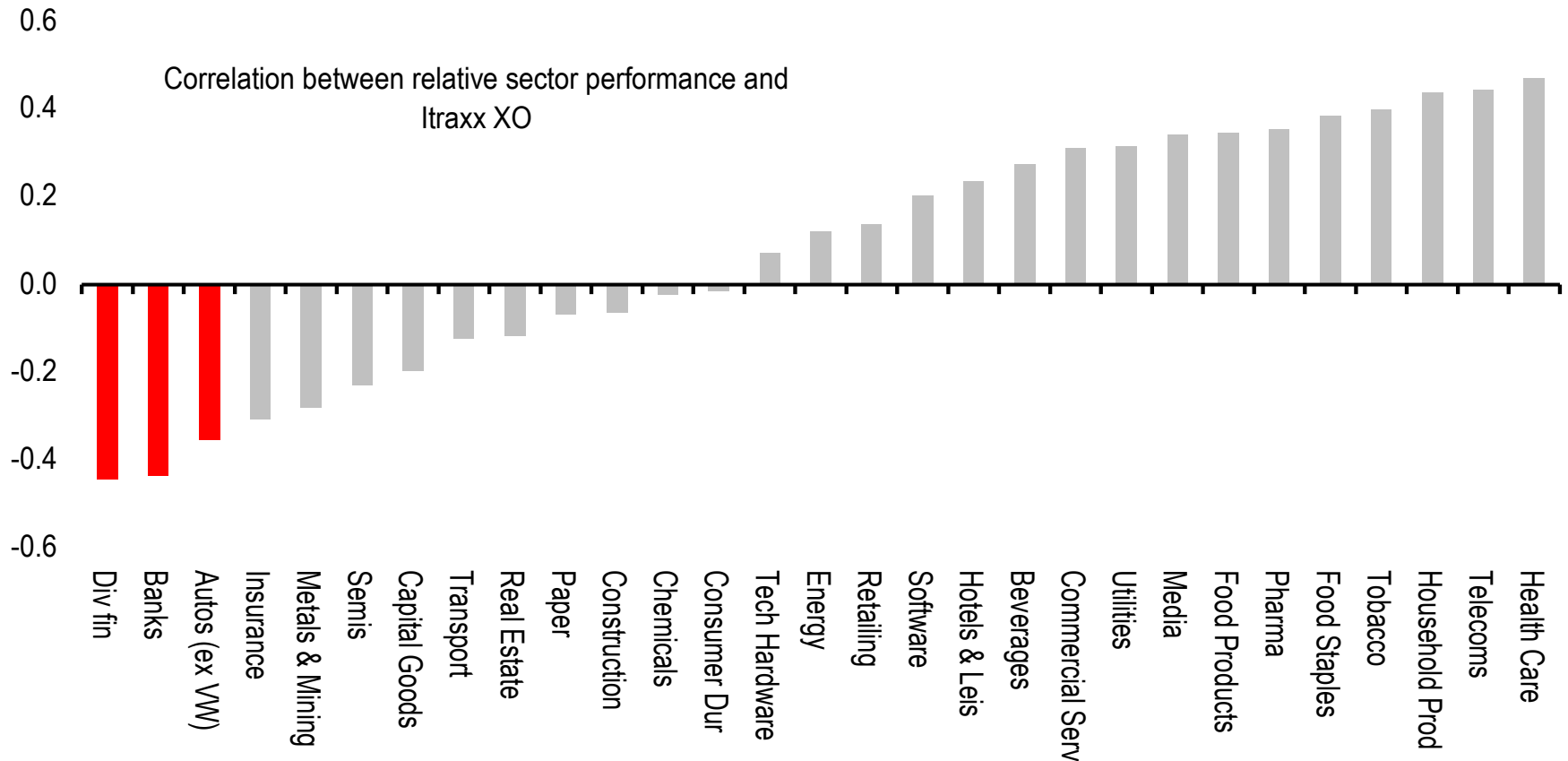
Source: Datastream, Credit Suisse

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



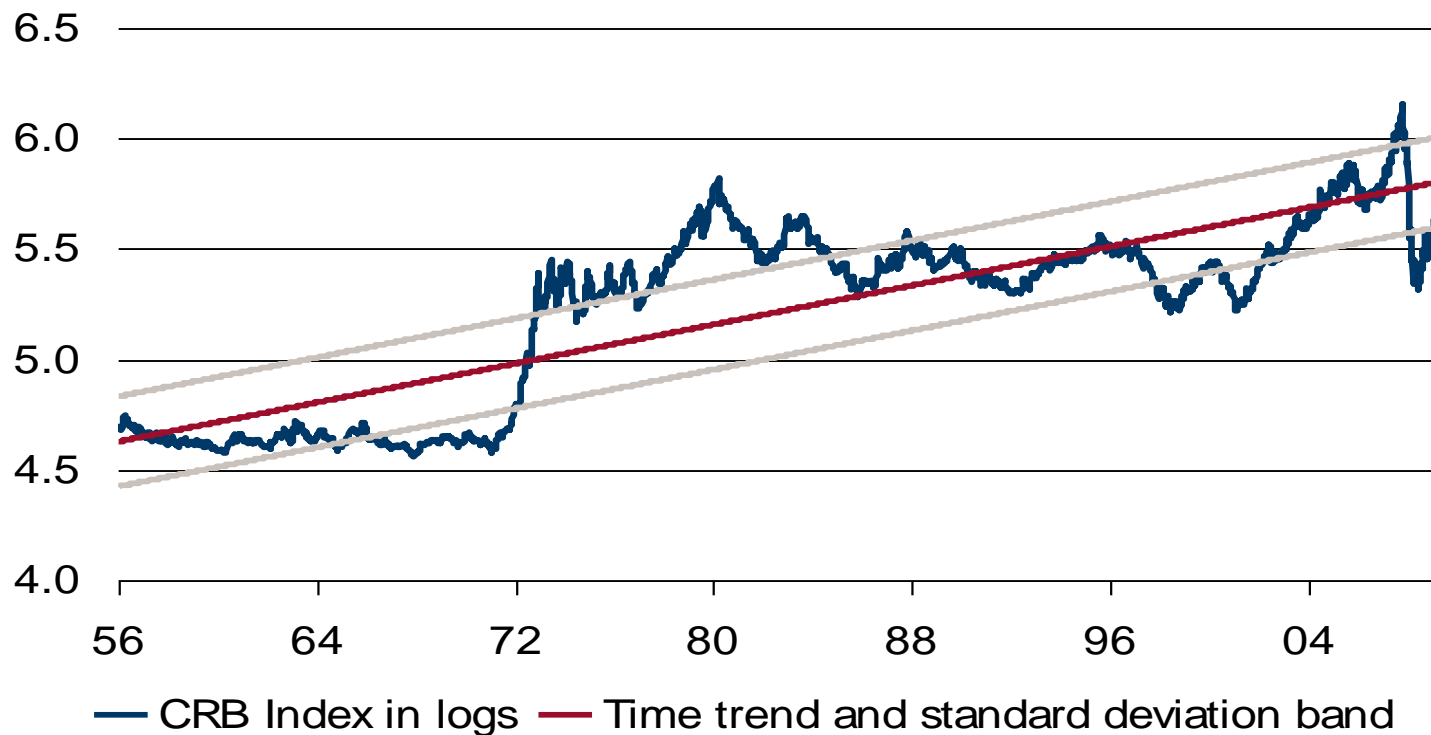
Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse research

European banks and autos, the sectors most correlated to credit



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse research

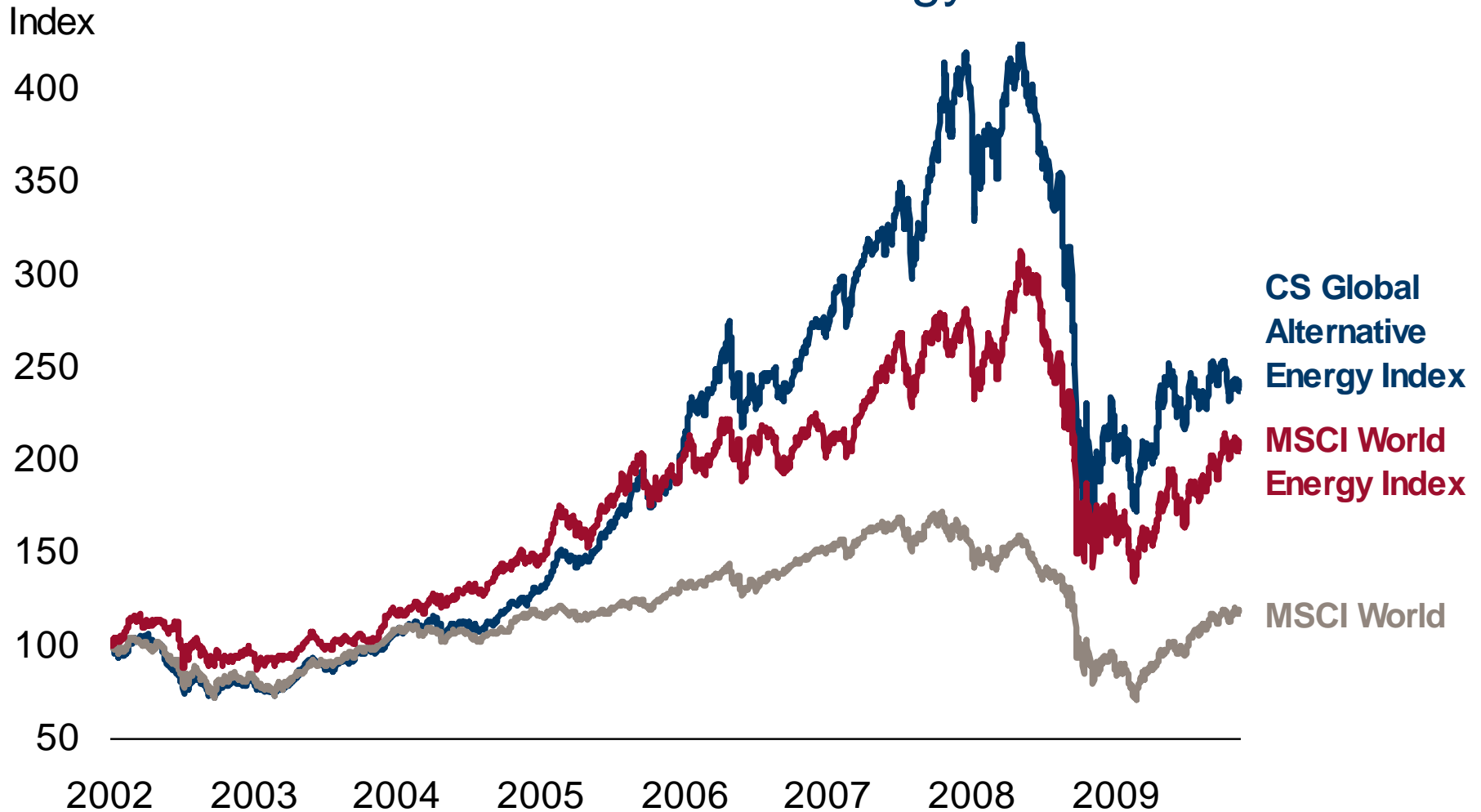
Commodity valuation: CRB Index



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

General disclaimer / Important information

Important Legal Information You have reached this page through a hyperlink contained in a communication issued by Credit Suisse. This page is an integral part of that communication and contains important information that you must read.

References to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse AG operating under its Asset Management division. For more information on our structure, please follow the attached link:

<http://www.credit-suisse.com/governance/en/structure.html>

This material has been prepared by the Asset Management Division of Credit Suisse and not by Credit Suisse's Research Department. It is not investment research or a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. This material is provided for information purposes, is intended for your use only and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned. The information contained in this webcast has been provided as a general market commentary only and does not constitute any form of regulated financial advice or other regulated financial service. It does not take into account the financial objectives, situation or needs of any person which are necessary considerations before making any investment decision. The information provided is not intended to provide a sufficient basis on which to make an investment decision and is not a personal recommendation or investment advice. It is intended only to provide observations and views of the said individual Asset Management personnel, which may be different from, or inconsistent with, the observations and views of Credit Suisse analysts or other Credit Suisse Asset Management personnel, or the proprietary positions of Credit Suisse. Observations and views of the individual Asset Management personnel may change at any time without notice. To the extent that these materials contain statements about future performance, such statements are forward looking and subject to a number of risks and uncertainties. Information and opinions presented in this material have been obtained or derived from sources believed by Credit Suisse to be reliable, but Credit Suisse makes no representation as to their accuracy or completeness. Credit Suisse accepts no liability for loss arising from the use of this material. This material is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Credit Suisse and/or its subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction. All valuations are subject to Credit Suisse valuation terms.