

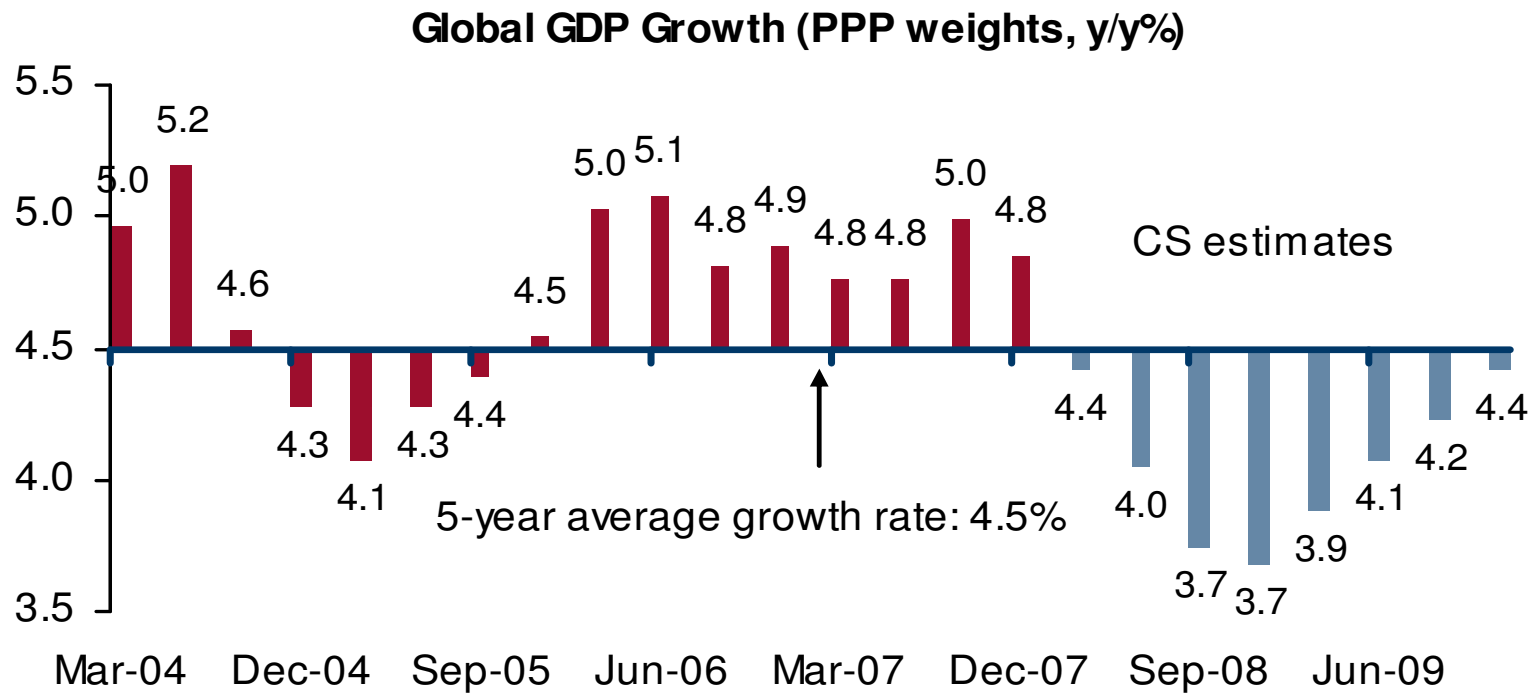
# The Outlook for Global Capital Markets and Investment Themes for the Remainder of 2008 and 2009

Robert Parker - Vice Chairman, Asset Management  
17<sup>th</sup> September, 2008

# KEY QUESTIONS FOR THE GLOBAL CAPITAL MARKETS

- To what extent are the G3 economies slowing and/or entering recession?
- Will emerging markets decelerate?
- Is inflation peaking?
- Is the recovery in the US dollar sustainable?
- Is the reversal in commodity prices a short-term event?
- Will equity markets recover?
- Within equities, will the under performance of the financial, construction and retail sectors persist?
- How will the “global credit crunch” evolve?
- Is the environment positive for alternative investments?

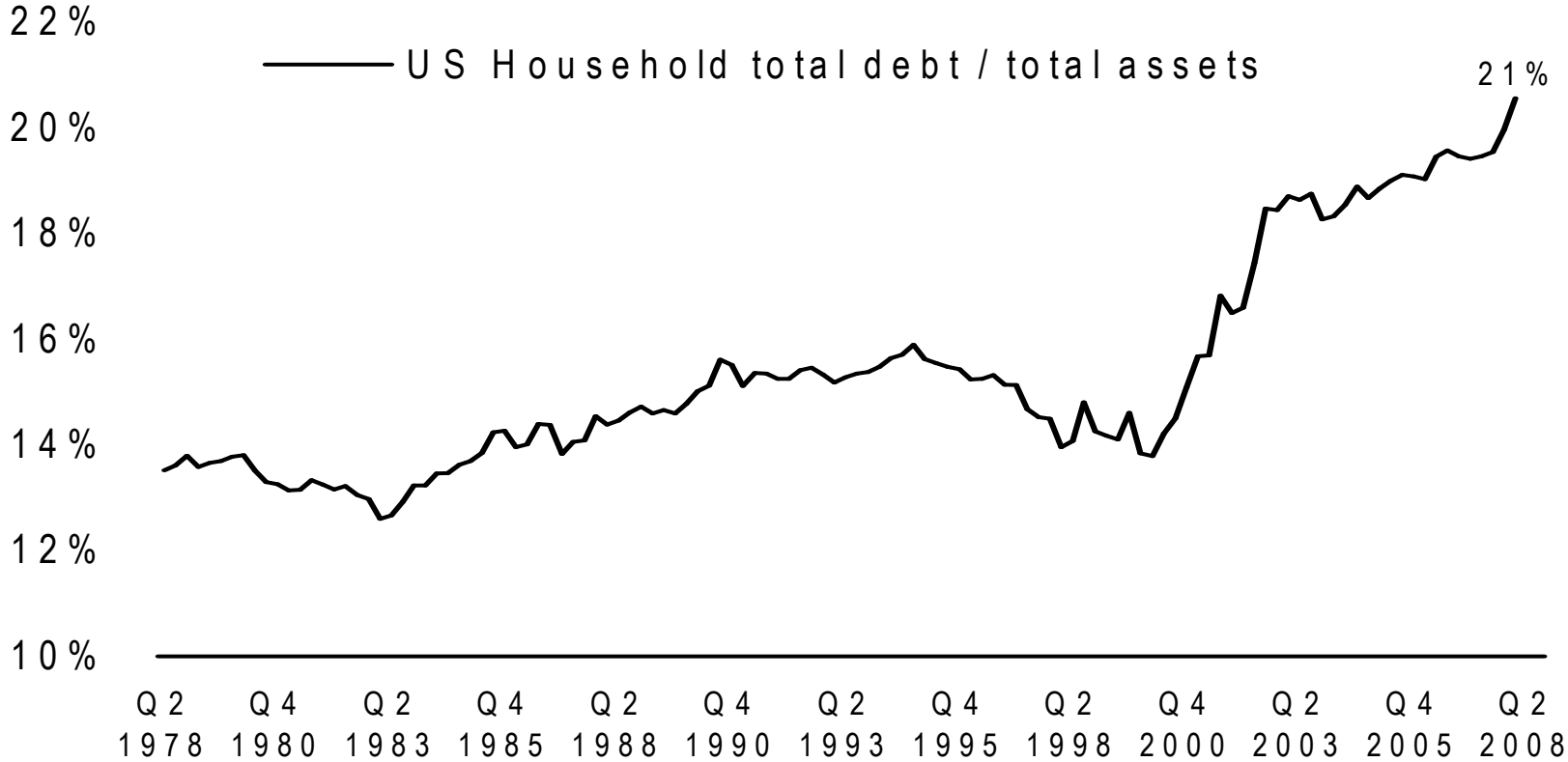
# Shallower global slowdown and longer global recovery



Source: Datastream, Credit Suisse / IDC

# Lower growth is partly due to de-leveraging

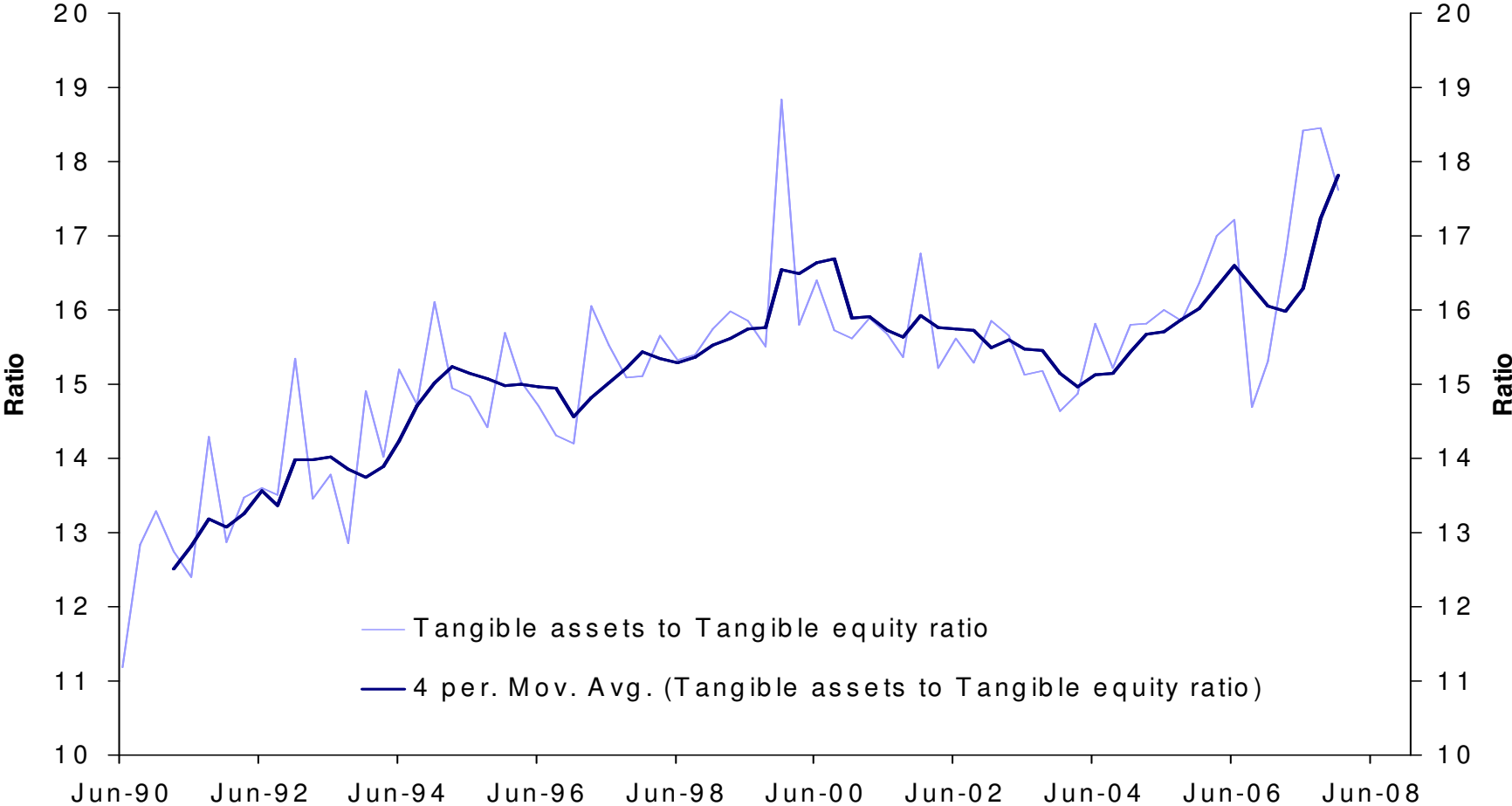
US consumers now have abnormally high leverage



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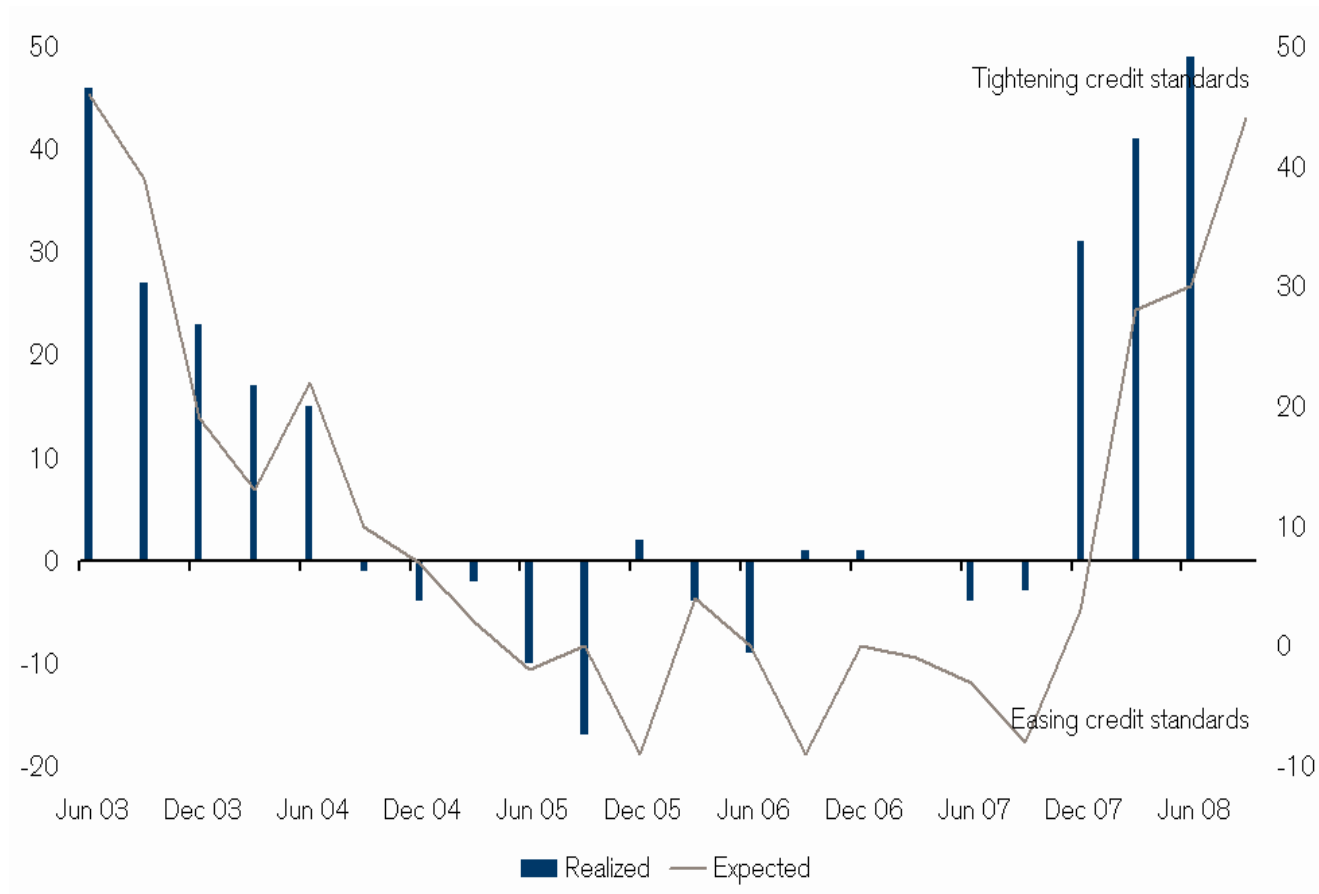
# Lower growth is partly due to de-leveraging

High leverage of US banks



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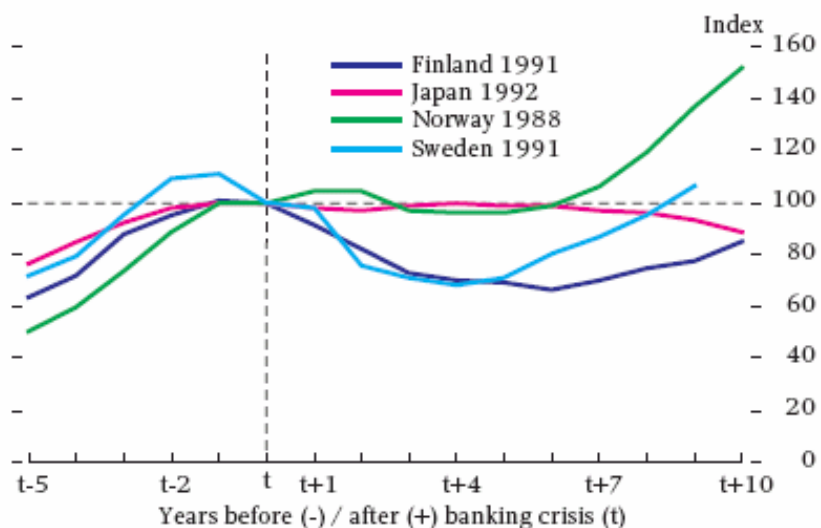
# EMU - Lending conditions



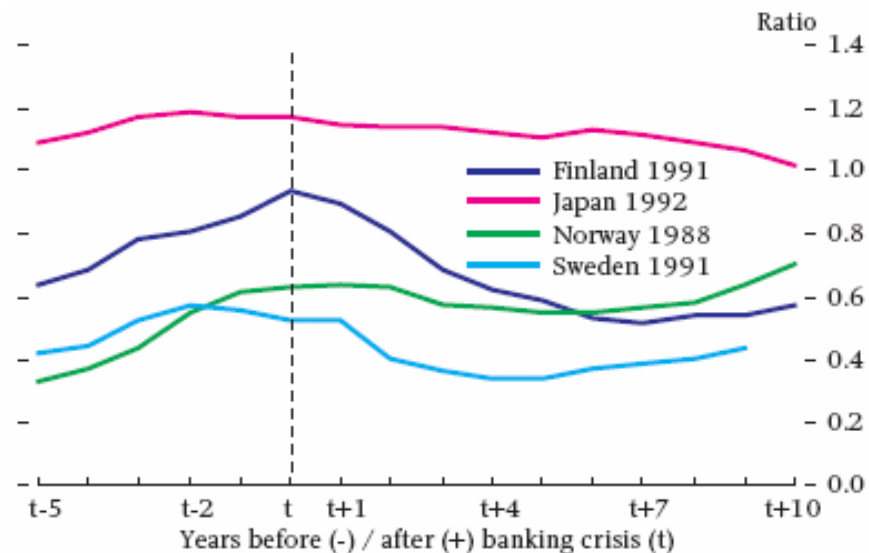
Source: DataStream, Credit Suisse / IDC (Linked)

# Credit crisis typically takes 4 years plus to resolve

Real bank credit in major credit crises



Bank credit/GDP ratio in major credit crises

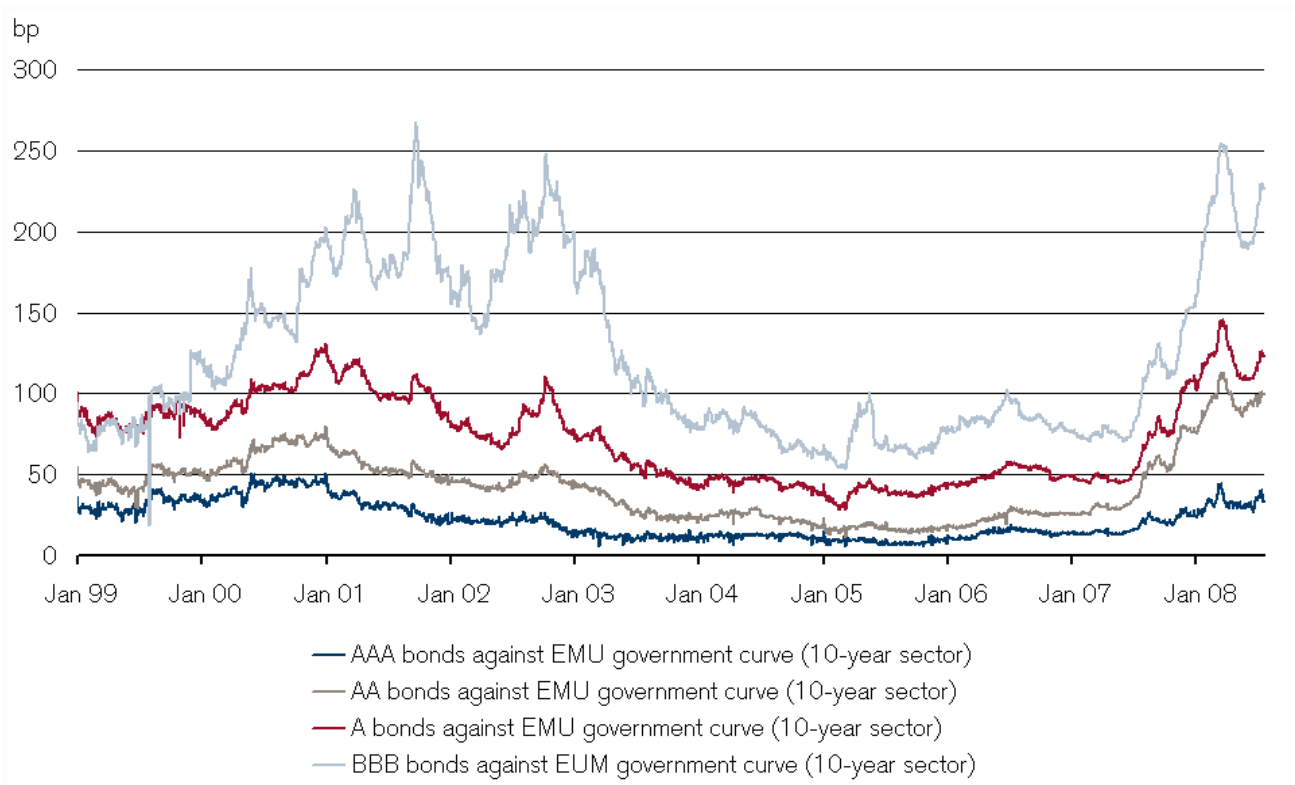


Previous peaks in US credit/GDP and real loan growth

Peak	Trough	Duration (months)	Average real loan growth	
			Previous 5yr	5yr after peak
Q1 1975	Q2 1977	27	4.8%	1.4%
Q1 1991	Q4 1994	45	2.9%	2.6%
Now			6.3%	

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

# Europe - AAA to BBB against Govt (10-year Sector)

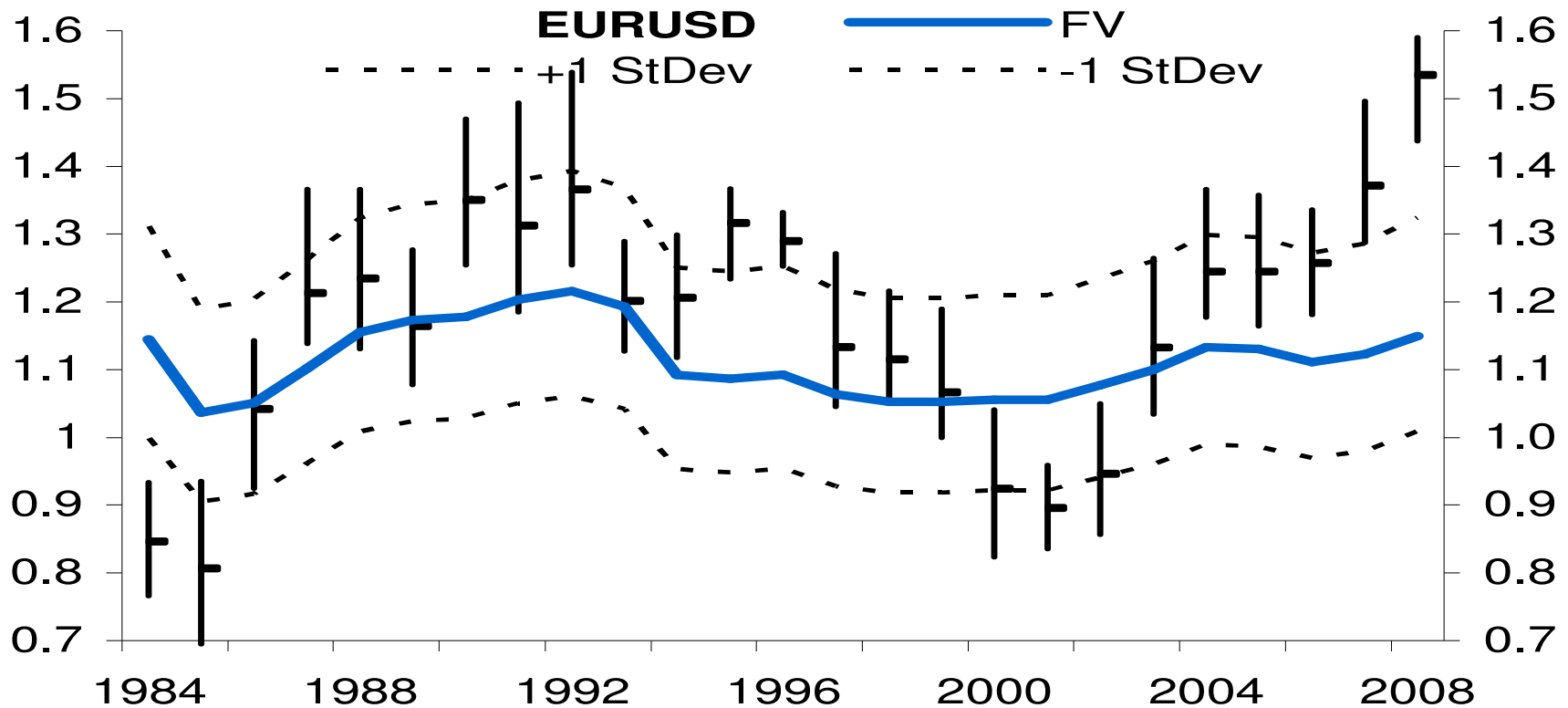


Source: Datastream, Credit Suisse / IDC (Linked)



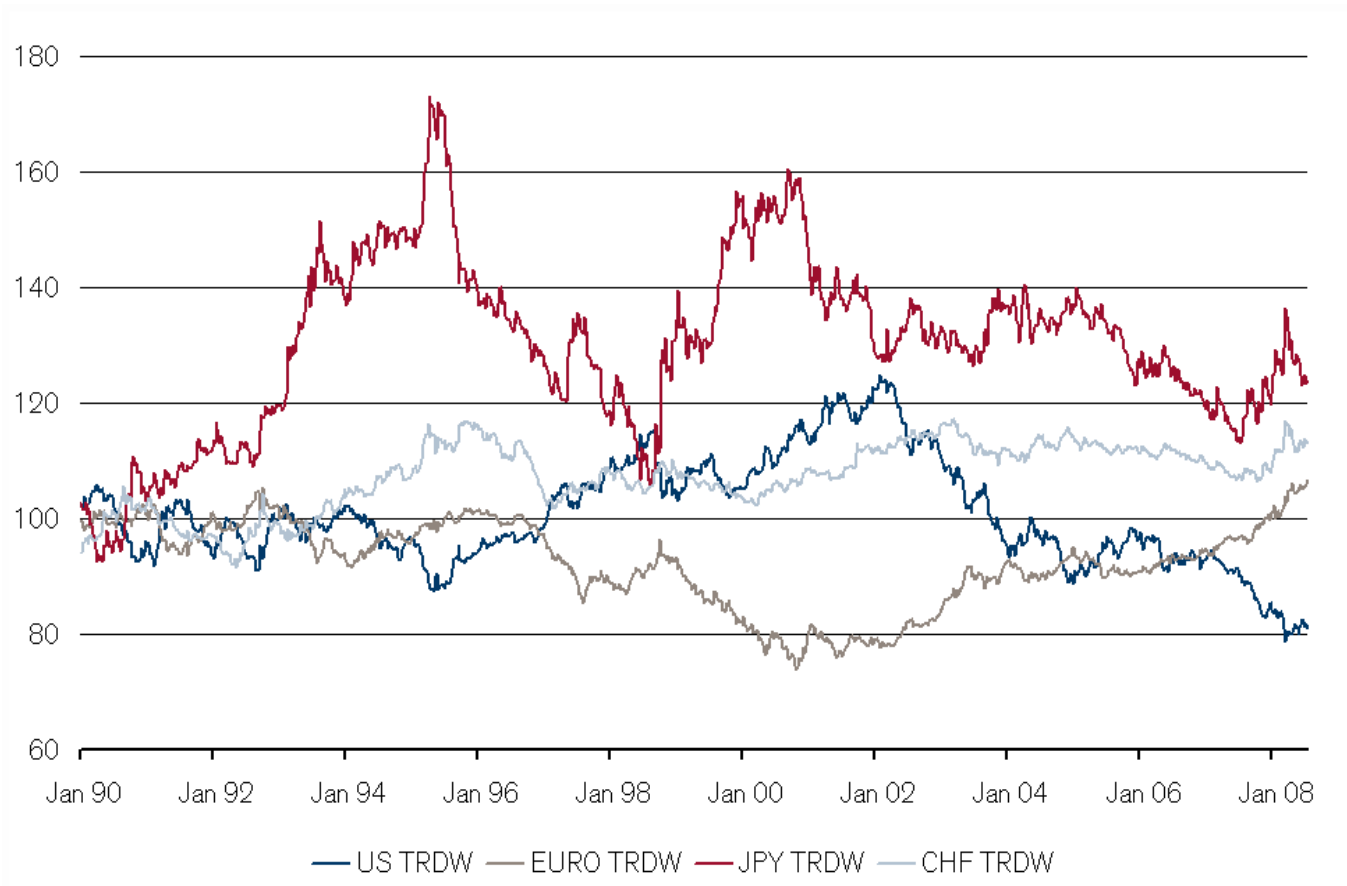
# The US Dollar Undervaluation

Euro-dollar on Credit Suisse's FX team's fair value model  
(based on PPP, interest rate differentials and growth differentials)



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

# Currencies Trade Weighted Prices

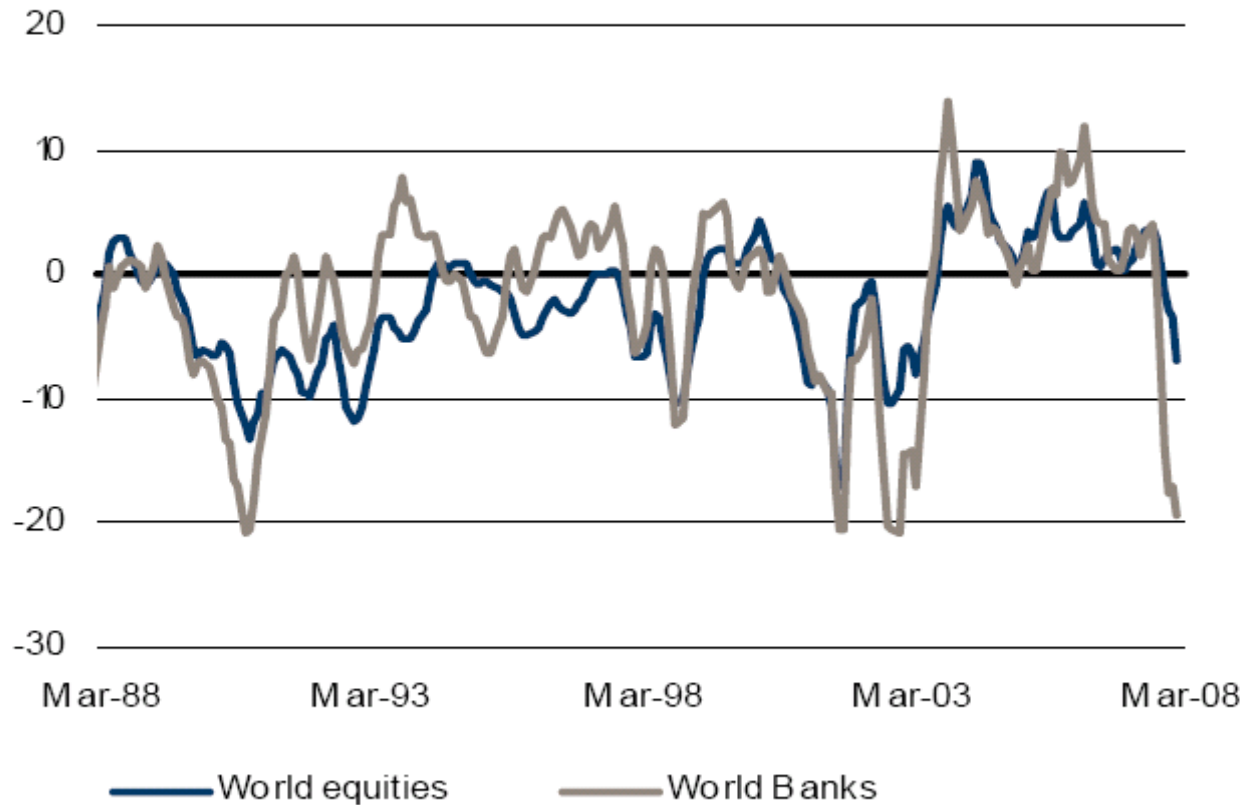


Source: Datastream, Credit Suisse / IDC (Linked)

# Equities still look cheap in a historical perspective

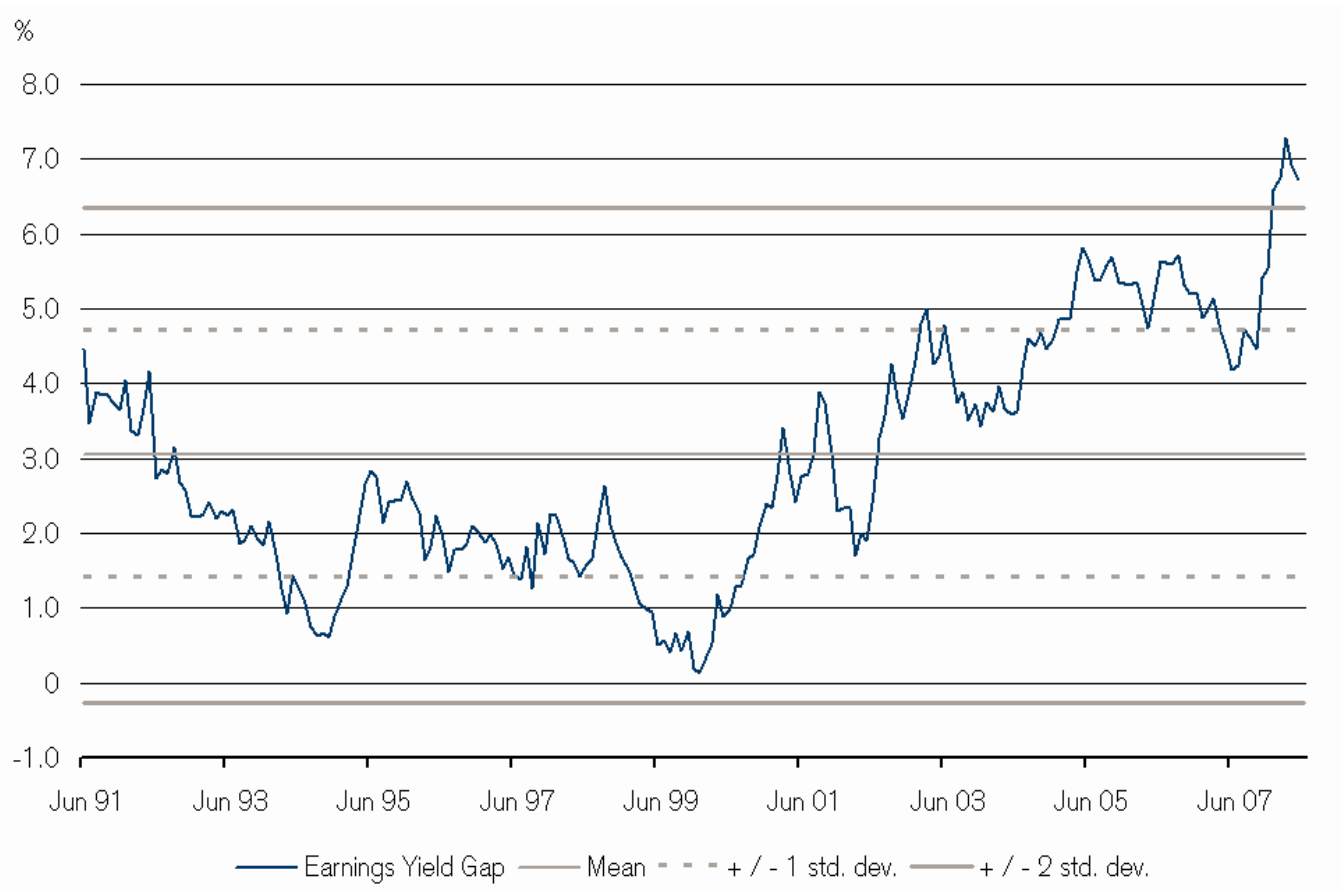


# Are we there yet? Earnings momentum for Banks is at low levels



Source: MSCI, I/B/E/S, Credit Suisse

# Global Equity Risk Premium (ERP)

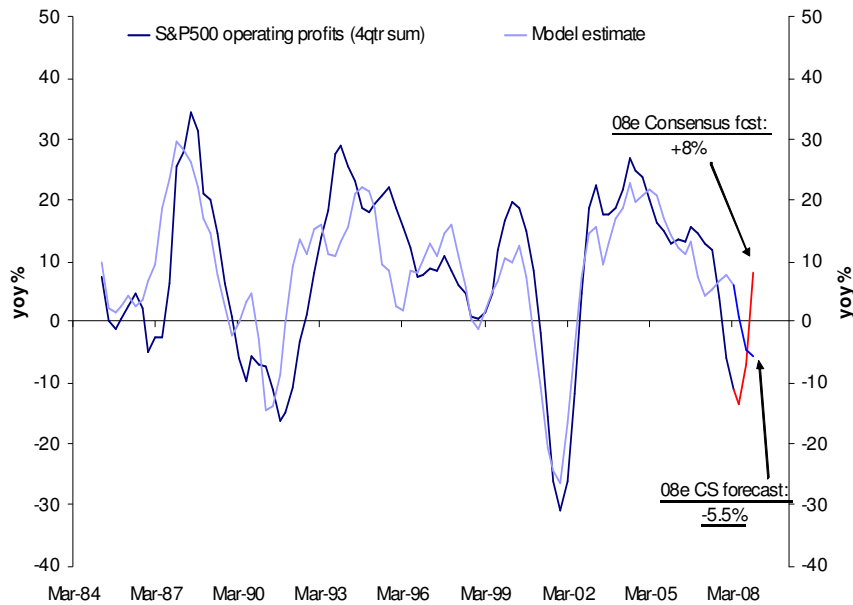


Equities still look cheap against bonds on the global equity risk premium measure.

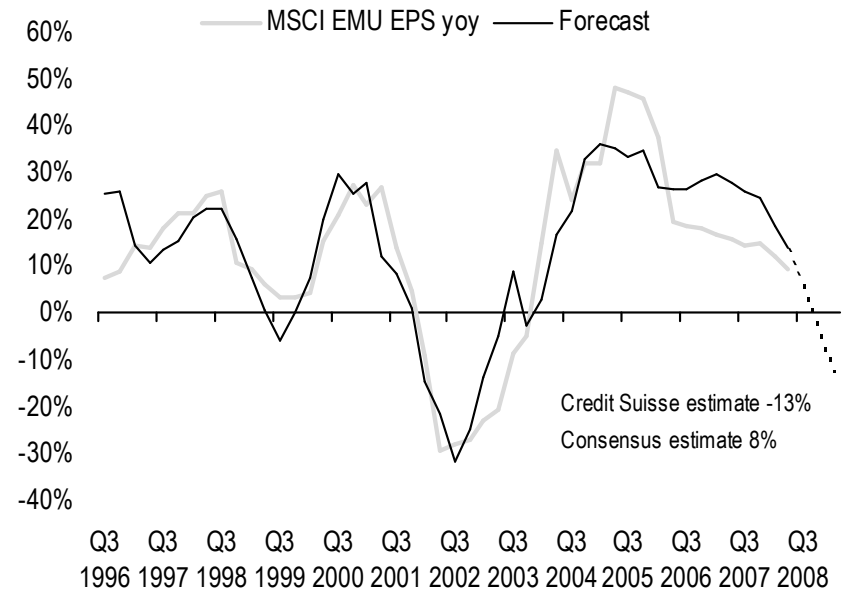
Source: Datastream, Credit Suisse / IDC (Linked)

# We now forecast -5% EPS growth in the US for 2008 (cf. a consensus of +9%) and a 13% fall in European earnings.

**We expect US operating profits to fall 5% this year**

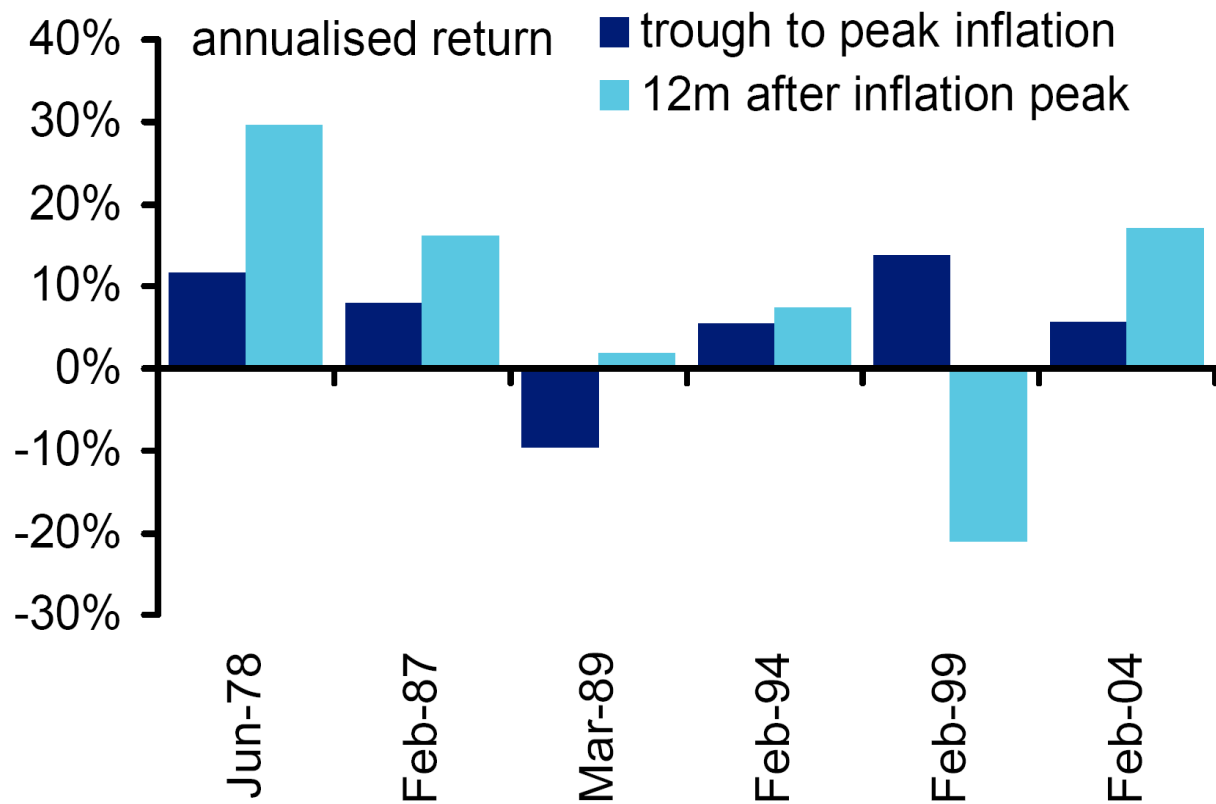


**Earnings in continental Europe should fall by more than 10% in the next 12 months**



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

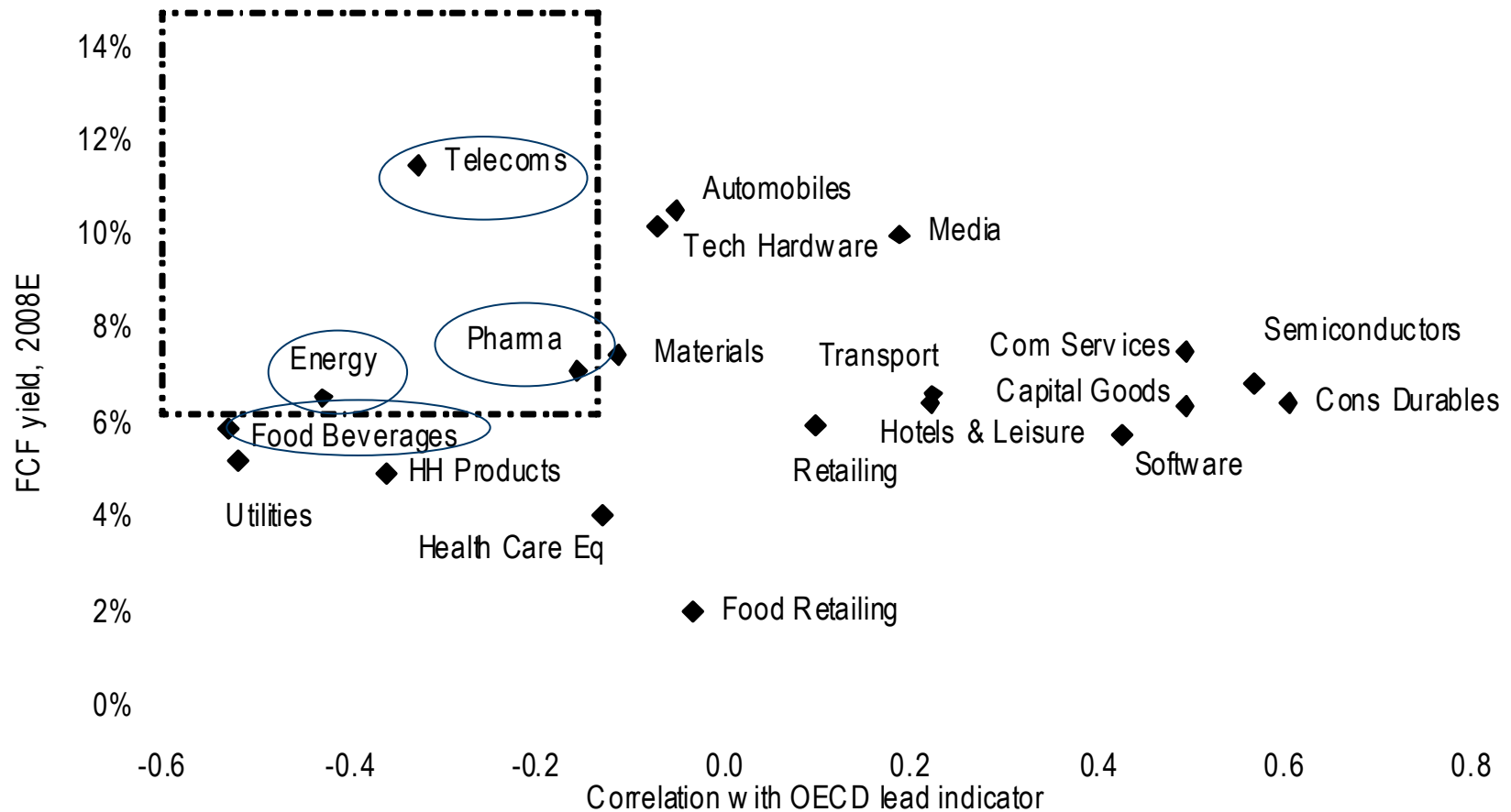
# Equities outperform bonds during and after inflation upswings



Source: State Street Global Markets, Datastream

IF interest rates are rising and growth is decelerating then we would buy short duration stocks (in other words stocks with high FCF) which are non-cyclical- TELECOMS, ENERGY, CONSUMER STAPLES AND DRUGS score well!

Sectors' correlation with OECD lead indicators vs FCF yield

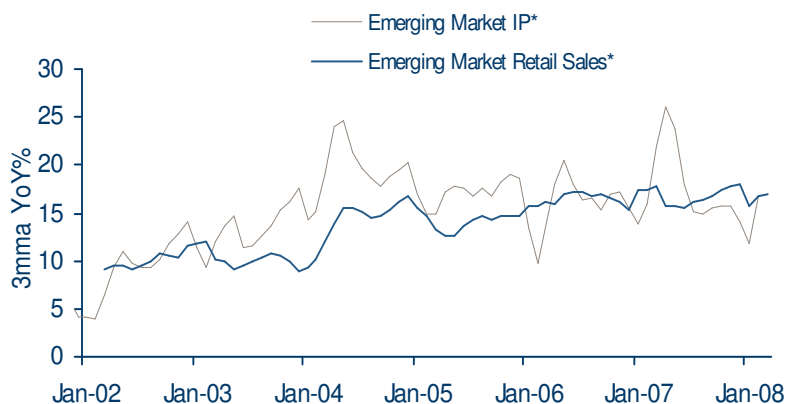


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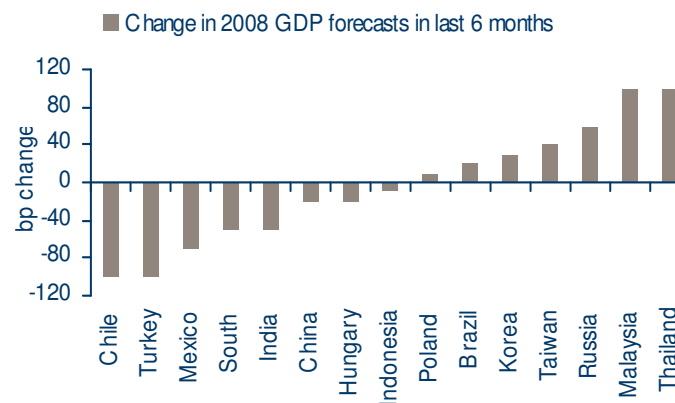
# EM Growth Outlook Relatively Resilient So Far

## Growth Indicators Still Strong



\* Includes Brazil, Mexico, Russia, South Africa, Turkey, Korea, Taiwan, China, India,

## No Widespread Sign of Slowdown

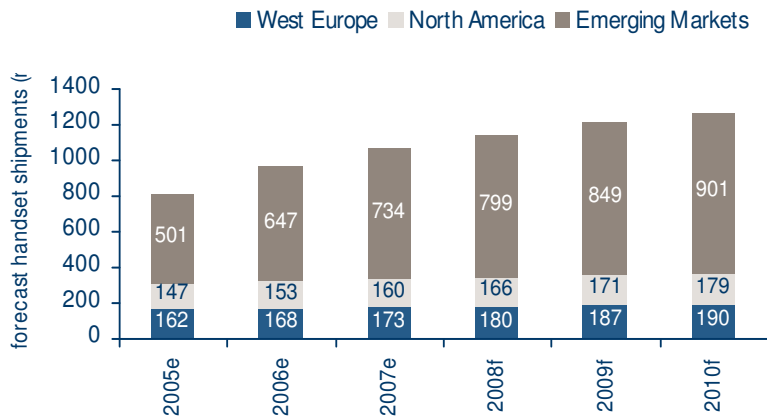


→ Growth within emerging markets has been relatively strong YTD but downside risks in place

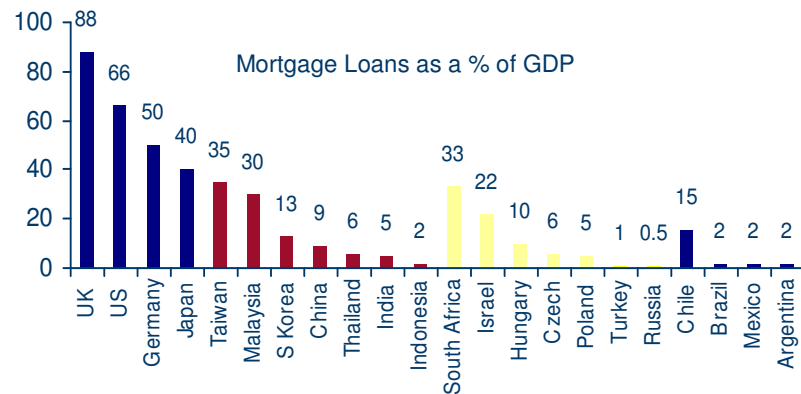
Source: Bloomberg, Deutsche Bank, Credit Suisse Asset Management, LLC

# Long Term EM Themes Intact - Consumption

Increased Technology Adoption



Consumers Remain Underbanked

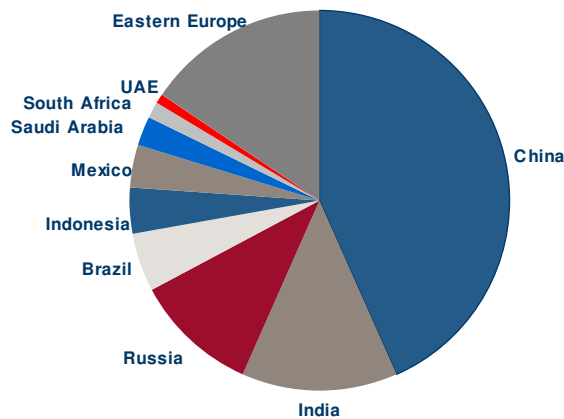


→ Technological change and increased access to finance to drive consumption

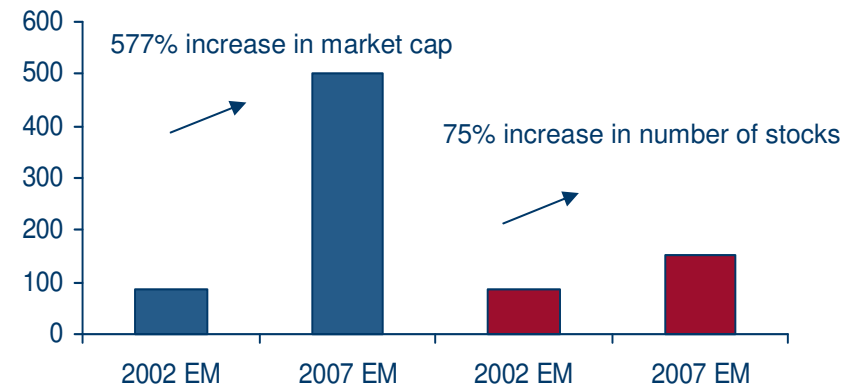
Source: Merrill Lynch, Credit Suisse

# Long-Term EM Themes Intact - Infrastructure

US\$21trn to be spent in in the next 10 years



Infrastructure-Related Stocks

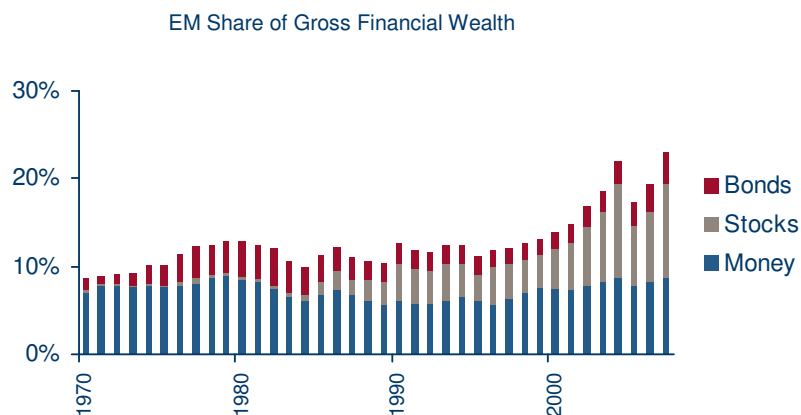


→ Spending estimates have significantly increased, as has investability

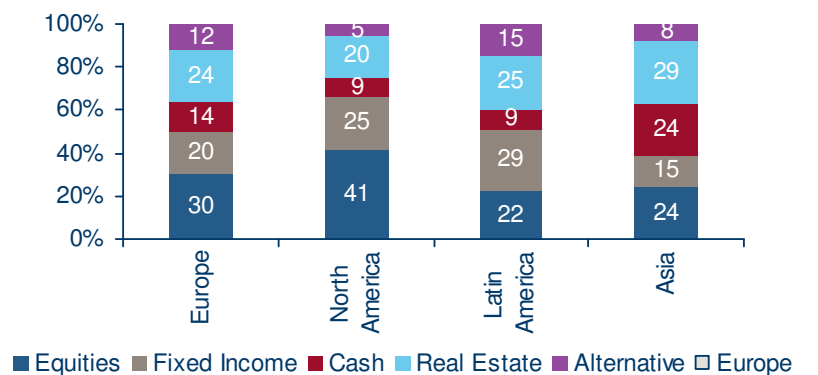
Source: Morgan Stanley, Credit Suisse Asset Management

# Long Term EM Themes Intact – Domestic Investors

## EM Accumulating More Financial Wealth



## EM Retail Investors – Underinvested in Equities\*

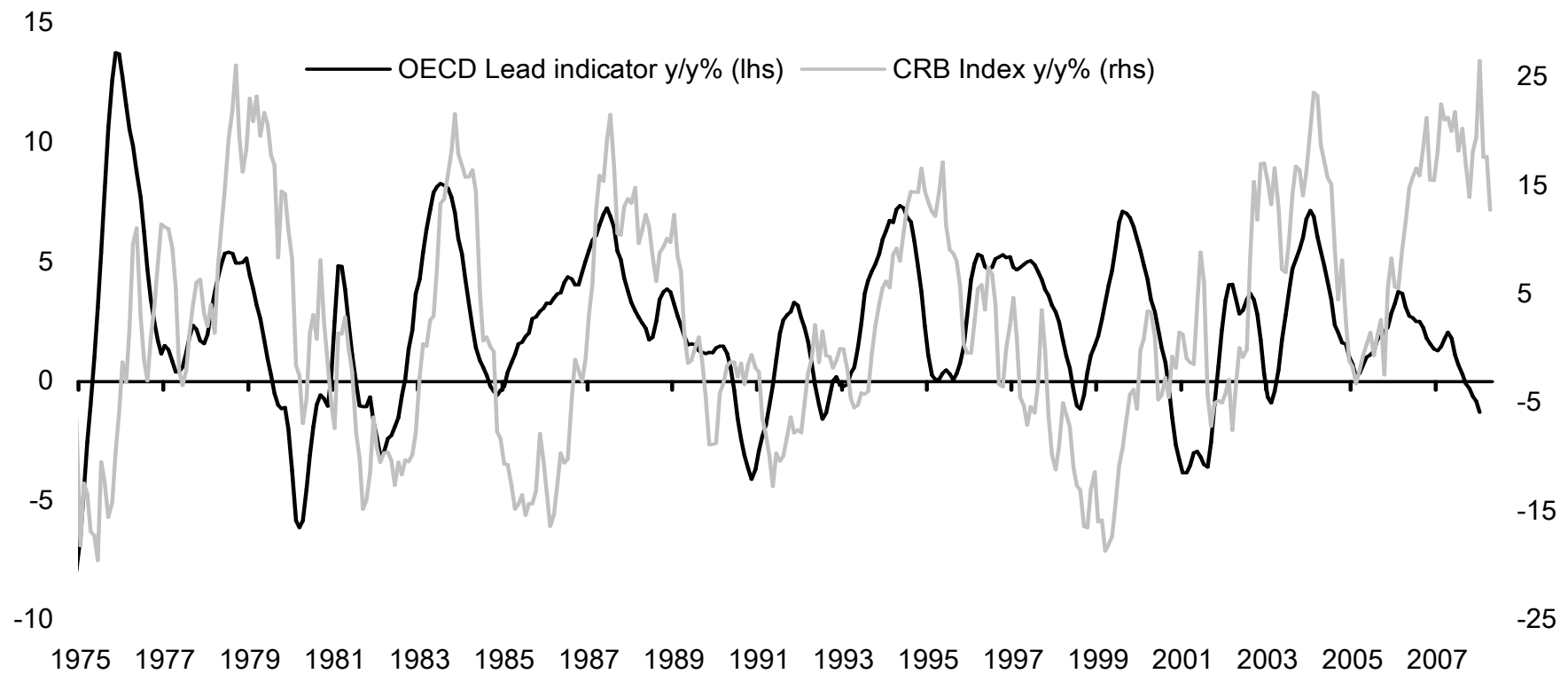


→ Emerging market wealth has been growing in recent years

Source: UBS, Merrill Lynch, Credit Suisse Asset Management

# Lead Indicators Question High Commodity Prices

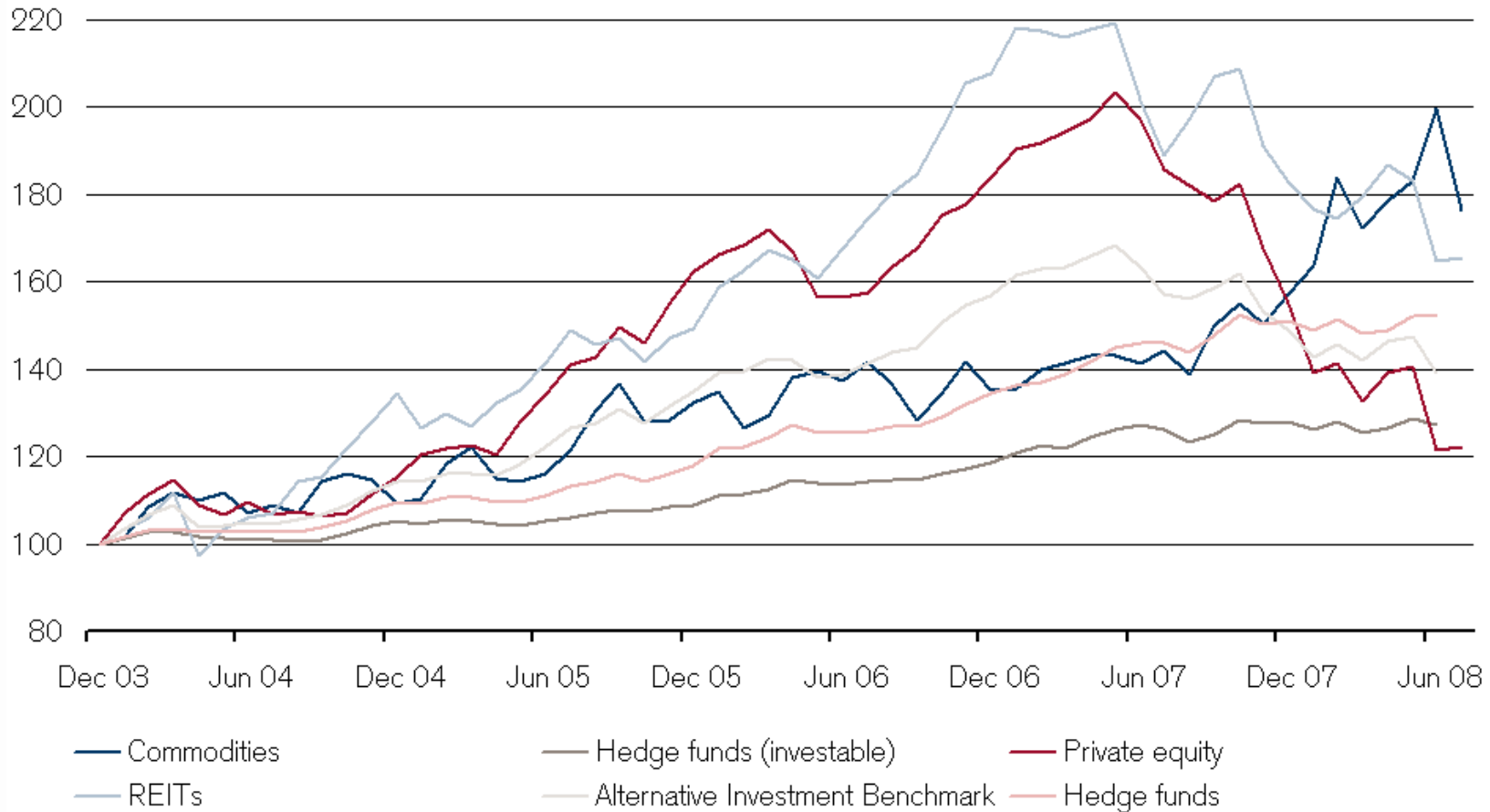
Lead indicators and CRB index



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

# Alternative investment performance

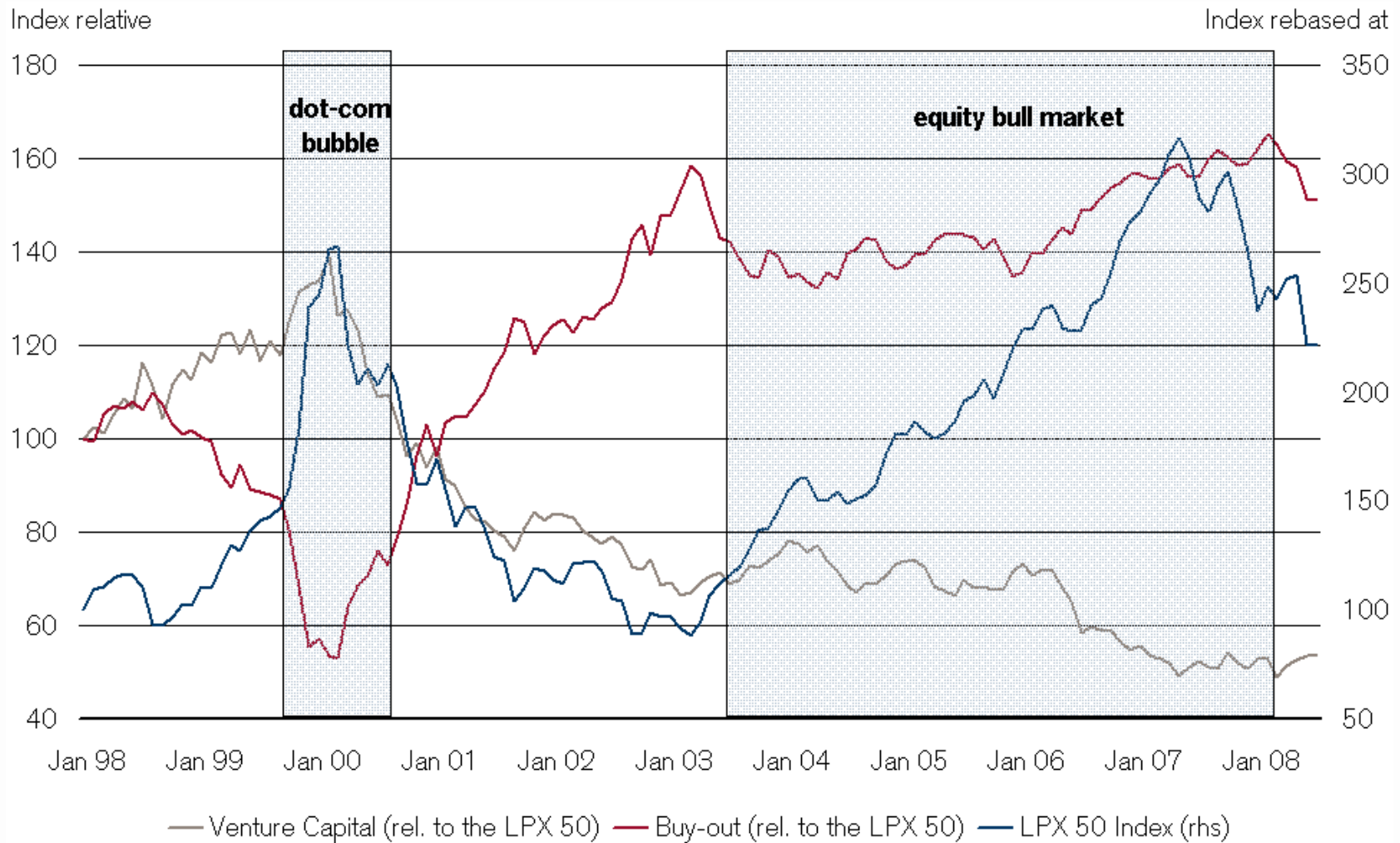
Indexed performance in USD (31.01.04 = 100)



Last data point: 01.08.2008

Source: Bloomberg, Credit Suisse / IDC

# LPX Index Relative Performance

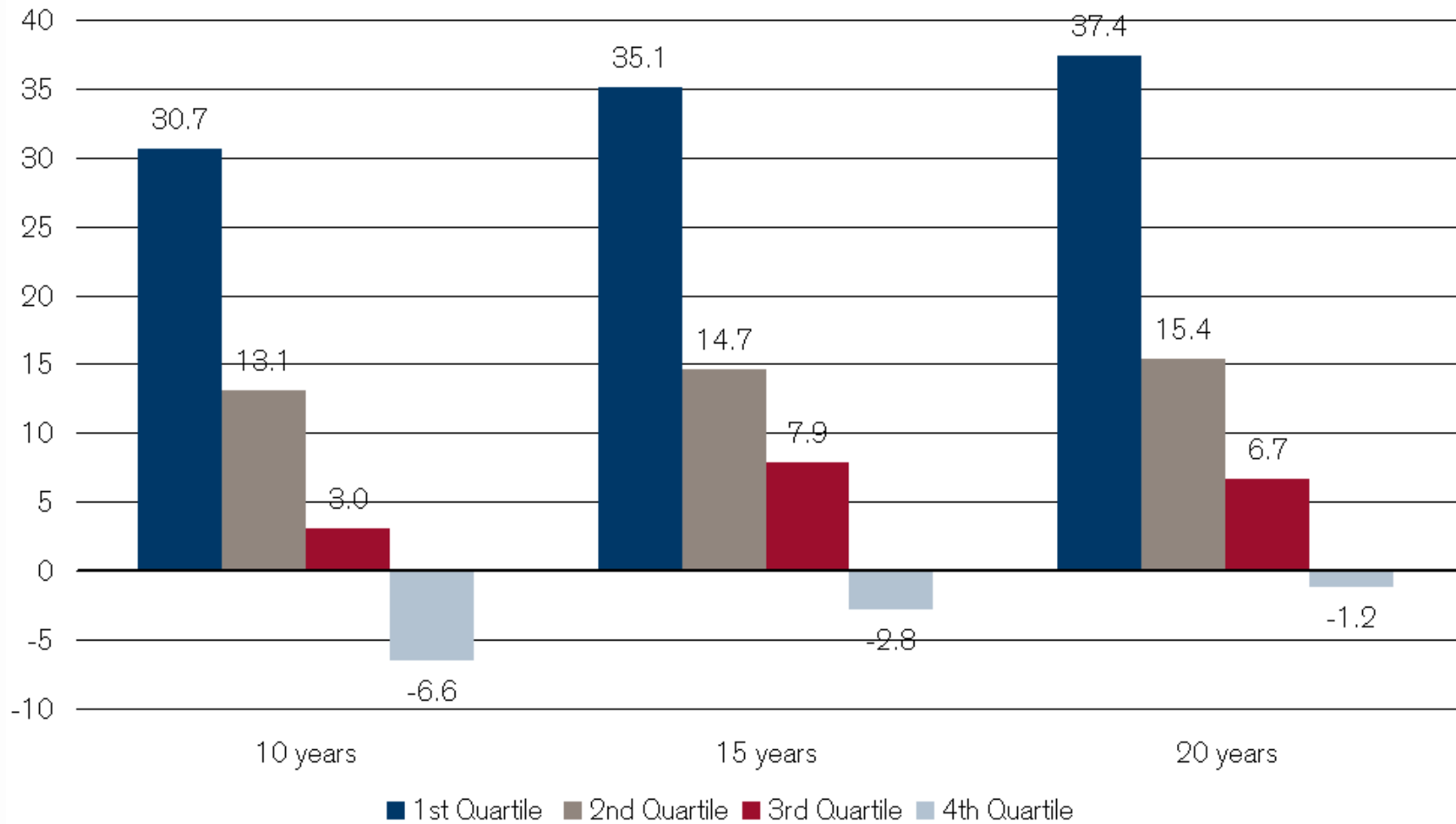


Last data point: 30.07.2008

Source: Datastream, Credit Suisse / IDC

# US Private Equity fund returns

Annualized returns in % (US private equity funds)

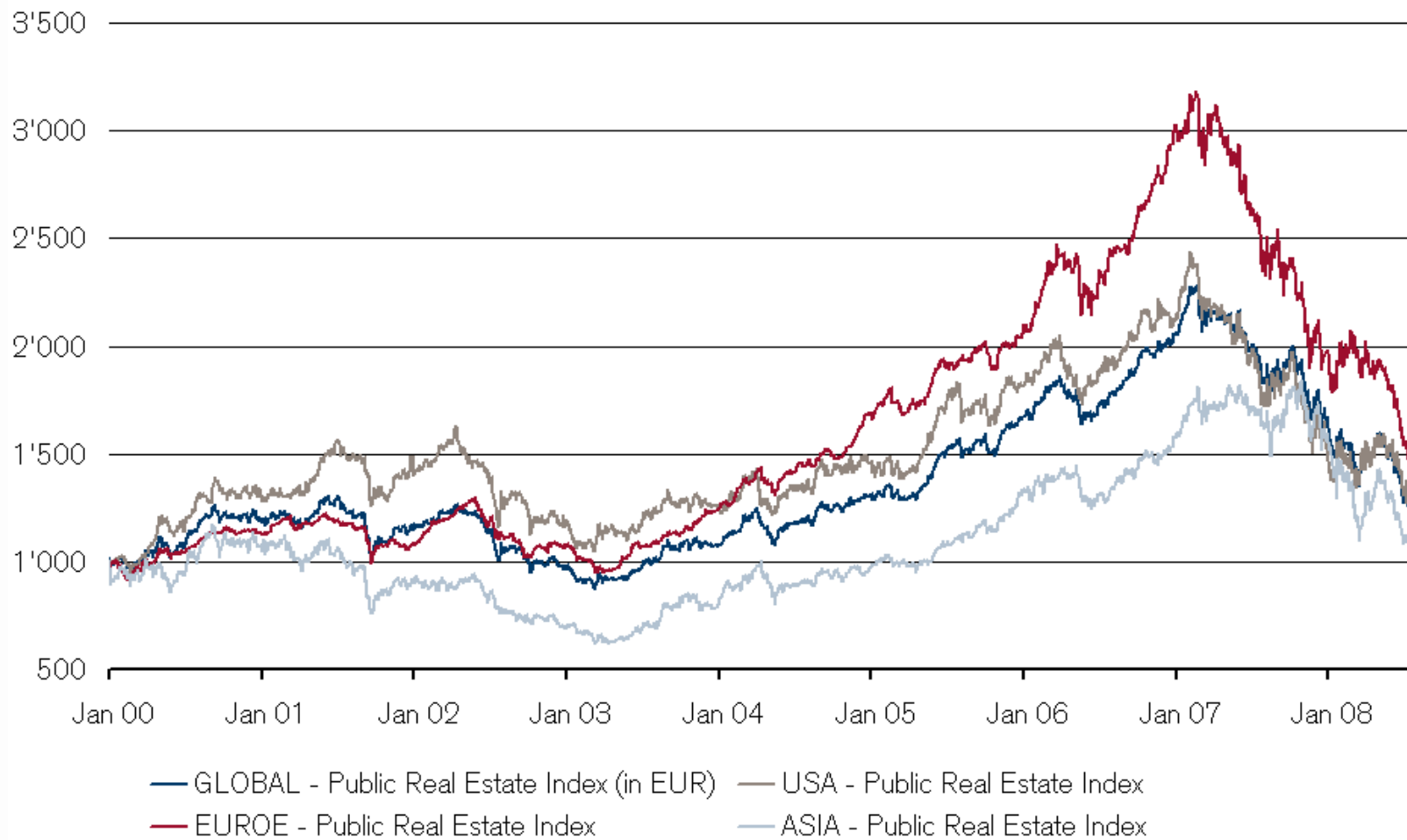


Last data point: 31.12.2006

Source: VentureXpert, Credit Suisse / IDC



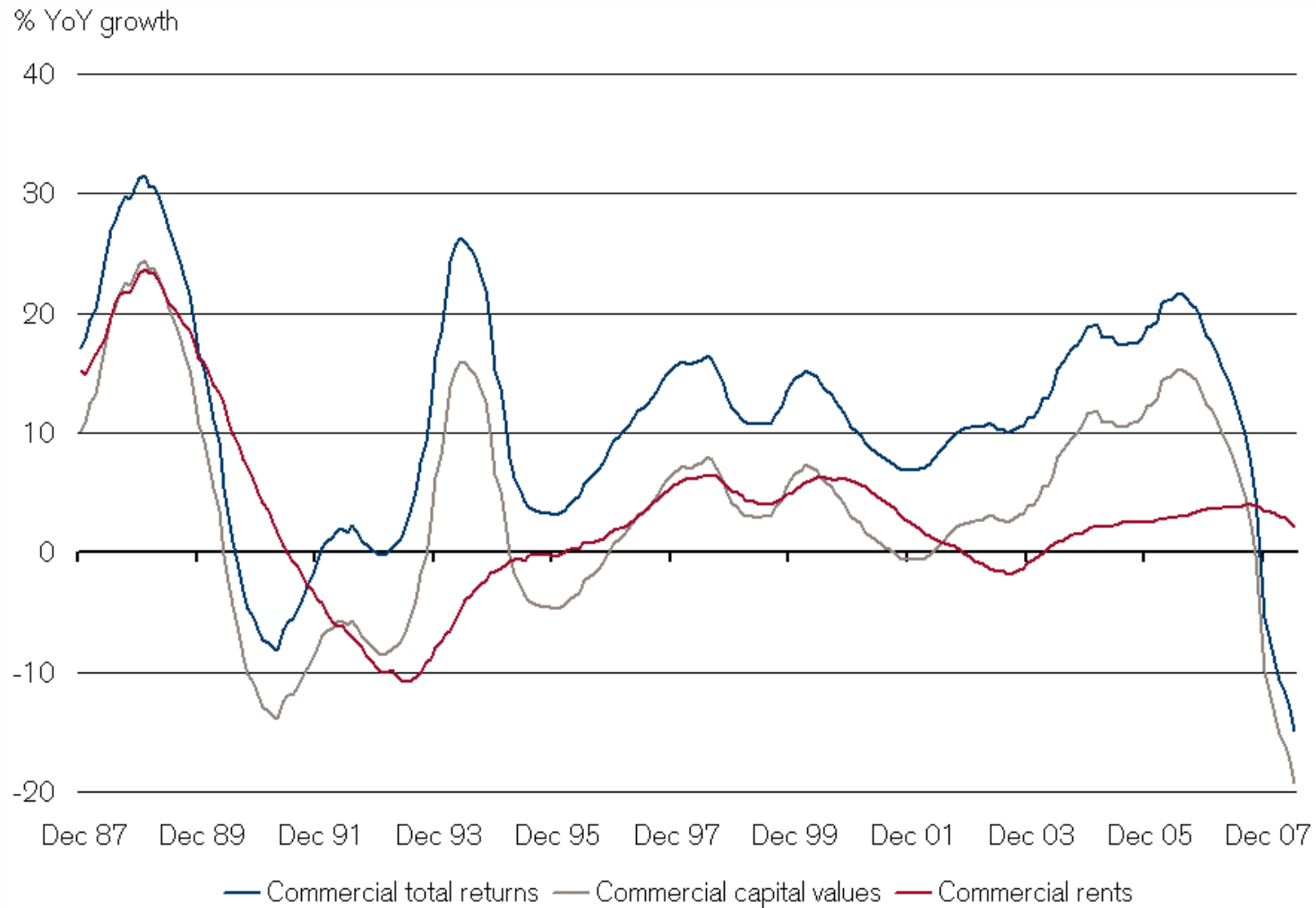
# Real Estate - Public Real Estate Index (in EUR)



Last data point: 06.08.2008

Source: Bloomberg, Credit Suisse / IDC

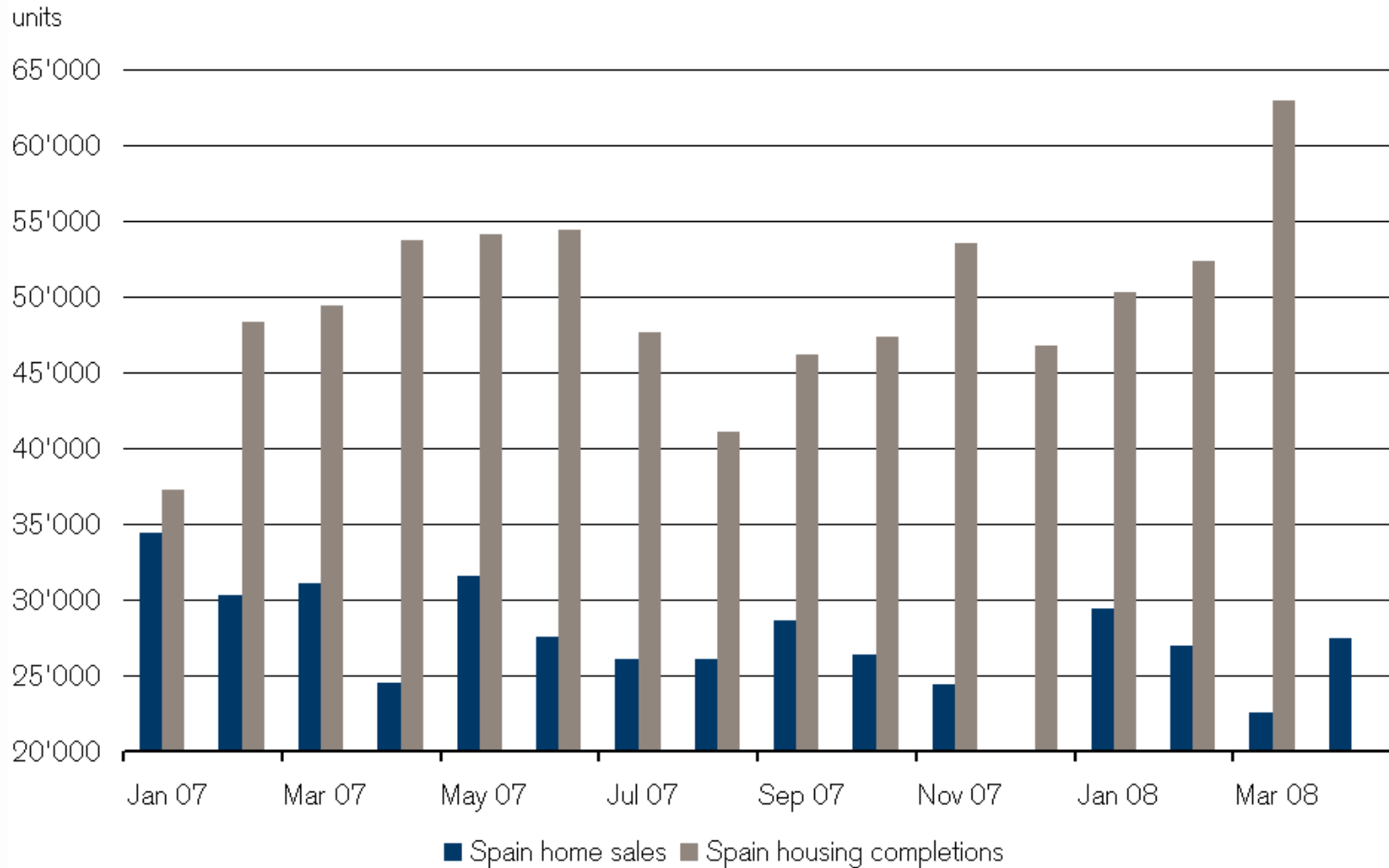
# UK all commercial: IPD total returns



Last data point: 30.06.2008

Source: Datastream, Credit Suisse / IDC

# Spain - supply & demand in housing sector



Last data point: 01.04.2008

Source: INE, Ministerio de vivienda, Credit Suisse / IDC

# CAPITAL MARKET CONCLUSIONS

- The G3 countries will experience at least 1-2 years of mediocre growth but should avoid outright recession
- Headline inflation is probably peaking except for certain “over heating” countries
- The growth slowdown in emerging markets will be minor
- Key themes in emerging markets are:-
  - development of infrastructure
  - growth of domestic capital markets and asset management industries
  - strong domestic consumption
- The US dollar is now turning positively
- Equity market downside is limited until an uptrend in corporate earnings growth is apparent

# CAPITAL MARKET CONCLUSIONS

- The banking system will be characterised by de-leveraging. Focus on banks with high commission income and emerging market exposure
- Real estate markets will continue to reverse
- Consumption will remain weak where consumers are de-leveraging
- Focus on defensive sectors with strong cash flows
- The environment is theoretically attractive for long/short strategies and for non-correlated strategies
- The nature of private equity is changing radically

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