

# Global Investment Perspective

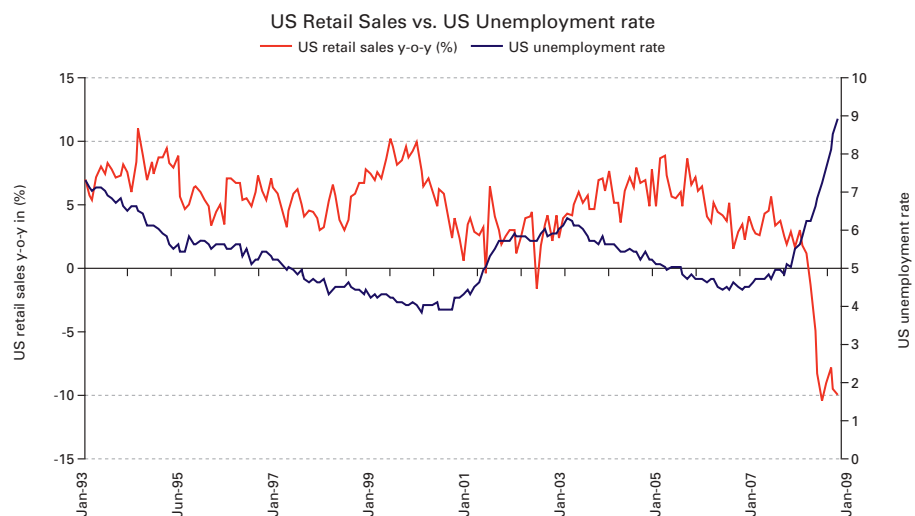
June 2009

Global equities rallied during May as signs of stabilisation from certain economic data sustained investors' appetite for risk. In May, the Reuters/Jefferies CRB Index of 19 commodities gained 14%, the most in 34 years, as global demand improved, supporting a strong performance from mining stocks worldwide.

A revival in risk appetite helped emerging markets (some of which are geared towards commodity exports) surge by 13% in May, outperforming the 5.7% gain in the MSCI World Index.

The improvement in various data points, particularly confidence indicators, suggests the risk of a prolonged global recession has diminished. However, economic activities remain too weak and fragile to infer a recovery is about to commence.

While confidence is improving in isolated areas from their low point, global economic growth and the unemployment condition continues to deteriorate.



As such, economies worldwide are contracting and growth forecasts continue to be revised down as sluggish domestic demand provides little support for waning export demand.

Performances between markets and regions continued to show divergence. In May, the MSCI Asia ex Japan index rose more than 15%, making it one of the top performing regions globally. The strong outperformance of the Asian region reflects, in part at least, its relative economic strength.

However, the sustainability of the rally partly rests on improvements in the global macro situation as it is difficult to envisage Asian equities continuing to surge if major developed markets weaken. From a macro perspective, the Asian region displays better fundamentals and economic data than other parts of the world. However, following the recent rally, valuations appear to already reflect the relative economic strength.

Within the bond universe, we keep our positive view on investment grade corporate and high-yield bonds. Not only are valuations attractive, but both these asset classes are likely to benefit from extensive government fiscal stimulus, which will further enhance the lending environment for corporates. Within currencies, we maintain a moderate negative view on the GBP relative to the EUR as quantitative easing measures adopted by the Bank of England are negative for the currency. Standard & Poor's recent downgrade of the credit outlook for the UK adds to the country's uneasy growth picture.

# Market

# Interest Rate/Fixed Income

## US

### **Too Early To Take Aggressive Pro-Equity Stance As Uncertainties Remain**

The market rally has pushed up valuation metrics. For instance, the US 12-month forward price-to-earnings multiple climbed to 14 times, which is still low relative to history, but higher than in the fourth quarter of 2008 and the first quarter of 2009. The improvement in confidence is a plus, but the uncertainty on the outlook suggests its too early to take an aggressive pro-equity stance.

## Europe

### **Recent Market Rally Makes Valuation Case Less Compelling**

The recent market rally has pushed up multiples, thus making the valuation case still supportive, but less so than in 1Q09. Therefore, we maintain a defensive position in European equities, even though we fully acknowledge the environment has improved relatively to 1Q09.

## Japan

### **Sentiment Will Support Markets In The Short Term, But Economic Horizon Remains Clouded**

The improvement in sentiment is supportive for Japanese equities in the short term. And while certain data have improved, they are still at very weak levels. As such, the macroeconomic picture remains extremely weak and continues to cloud the horizon for equities.

## US

### **Risk For US Treasury Prices Skewed To The Downside**

Market activity is reflecting a key theme, namely that very high and increasing levels of indebtedness and quantitative easing will threaten fiscal stability and lead to rising expectations of inflation. After the recent correction in US Treasuries, the valuation case has improved but the asset class remains less attractive than corporate bonds.

## Eurozone

### **Supply Issues To Continue To Place Pressure On Bond Prices**

Valuations for government bonds have improved somewhat, but are not yet as compelling as for corporate bonds. Furthermore, we expect supply concerns to continue to place pressure on Eurozone bond prices, as governments continue to issue record amounts of debt to support their economies.

## Emerging Markets

### **Valuations Have Become More Expensive From Levels In The Fourth Quarter Of 2008**

The recent rally has weakened somewhat the valuation case for equities, including emerging markets. As such, with still some uncertainty on global growth, it appears risky to take an aggressively positive stance on equities, which also applies to emerging markets.

## Asia ex Japan

### **How Sustainable The Rally In Asia Is Depends On Pace Of Recovery In Developed Markets**

From a macro perspective, the Asian region displays better fundamentals and data relative to other parts of the world. However, following the recent rally, valuations appear to already reflect the relative economic strength. Overall, we remain neutral on the region relative to other equity markets.

## Investment Grade

### **Credit Spreads More Than Compensating For Risk Of Credit Deterioration**

Government stimulus packages should continue to prove beneficial both for financial debt and for credit markets in general. Although there is likely to be some credit deterioration over the next year given the economic downturn, current valuations provide sufficient cushion against this.

## High Yield

### **Valuations Remain Attractive, Although Not At Bargain Levels As Before The Rally**

Corporate debt continues to benefit from investors' search for yield, as well as from the pro-active government policy responses. Our positive stance on the asset class has proven highly beneficial since the start of the year and we maintain this view. However, we continue to stress that volatility is likely to remain high and liquidity risks persist.

# Interest Rate/Fixed Income (continued)

## Emerging-Market Debt

### Appealing Valuations, But Less So Than Corporate Debt

From a valuation perspective, the asset class continues to be less appealing than corporate debt on a risk and rating adjusted basis. This supports our preference for high and low grade corporate bonds over USD denominated sovereign Emerging-Market Debt.

# Commodity

## Oil

### Prices Have Rallied, But Global Uncertainty Is Likely To Keep It Rangebound

We expect the per barrel oil price to trade in a slightly higher range of US\$50-70. However, while optimism about the economy is driving the oil market, the fundamentals remain weak, with little sign of recovery in demand. Given the uncertainty, oil price is likely to remain rangebound.

# Currency

## US Dollar (USD)

### Volatility Influences Currency Position Until Clear Catalyst Emerges

The interest rate differential continues to play a marginal role in determining currency movements, as interest rates are moving towards zero globally. As markets continue to be dominated by a high level of volatility, we maintain our neutral stance on the USD.

## Euro (EUR)

### Currency Likely To Experience Volatility But No Clear Trend

The European Central Bank (ECB) is still keeping interest rates at higher levels than other major economies such as the UK and the US. This and the difficulty for the ECB to develop quantitative easing strategies are positive factors for the EUR. But the market continues to be characterised by volatility levels higher than before the collapse of Lehman Brothers. Overall, we maintain our neutral stance.

## Sterling (GBP)

### Maintain Negative View Relative to EUR As Economic Conditions Remain Weak

From a valuation standpoint, the GBP is at fair value relative to the USD. The GBP has recently been favoured due to increased risk appetite. However, the weak macro environment cannot be ignored and is likely to weaken GBP relative to the EUR.

## Japanese Yen (JPY)

### Upside Will Depend On Rate Of Economic Recovery

With interest rates near zero, the carry trade is unlikely to play a key role in determining exchange rates in the near future. Macroeconomic activity continues to be weak, and there is no clear catalyst for a change in this relative position at the moment. As such, we maintain our neutral stance on the JPY.

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