Global CIO Office

CREDIT SUISSE

Opportunities even as growth slows

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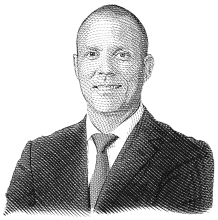
Editorial



Michael Strobaek
Global Chief Investment Officer

Burkhard Varnholt
Chief Investment Officer – Swiss Universal Bank

From an investor point of view, the first six months of this year turned out to be a perfect storm: Global equities, as measured by the MSCI AC World, lost 21%, while the S&P 500 recorded its worst total return in 60 years. At the same time, yield moves far exceeded anything observed in any tightening cycle over the last 30 years. In the first half, global bonds, as measured by the Barclays Global Aggregate Index, shed 15%. More recently, asset prices have reflected a shift in investor focus from inflation and central bank hawkishness to growth risks, as recession fears grow.

Our latest Investment Committee meeting provided a timely opportunity to discuss our positioning in light of this still challenging backdrop. Although we find that the risk of recession has increased, such an outcome is still not our base case in the next 12 months. In the pages ahead, we examine whether central banks can manage to engineer a soft landing for the economy. As for asset classes, government bond yields have fallen across developed markets lately, corroborating our decision in June to move government bonds from an underweight to a neutral position in portfolios. We further maintain an overweight in emerging market hard currency bonds, as they offer an attractive yield pick-up. In terms of equities, technical contrarian indicators measuring investor sentiment as well as survey data continue to provide strong tactical buy signals, which is why we maintain a moderate overweight in portfolios, expressed through an overweight in US and Chinese equities. In our view, the recovery in China following the COVID-19 lockdowns should support earnings and thus a continued market recovery.

We hope the pages ahead provide valuable insights as we enter the second half of the year.

In this issue

Editorial deadline: 13 July 2022

Shifting focus from inflation to earnings

Market attention turns to blue-chip stocks with good underlying fundamentals as the earnings season approaches.

Investment grade and emerging market dollar-denominated bonds could be good options for investors seeking yield.

Soichiro Matsumoto
Chief Investment Officer Japan

Slowing growth

The US Federal Reserve is using tight monetary policy to try to contain stubbornly-high inflation by softening domestic demand. On the flip side, this also increases the risk of policymakers going overboard and sending the economy into a recession, but this is not our base scenario. The overheated US housing market, which is sensitive to rising interest rates, is likely to begin easing soon. Soaring food and energy prices have hit consumers' wallets, negatively affecting sentiment that had previously been buoyed by a sense of relief from the end of the pandemic.

Focus shifts to earnings from inflation

Market concerns have gradually shifted from soaring inflation to the potential risk to growth in corporate earnings. US equity valuations have adjusted to pre-pandemic levels. Technology companies remain a mixed bag, with some having benefited from premature investor enthusiasm. However, as valuations have adjusted due to rising interest rates, companies with solid earnings growth have also been heavily sold off, possibly oversold. As the market shifts its attention to corporate earnings performance, the value of investing in high-quality technology companies is likely to be revisited. Regionally, investors are likely to pay increased attention to US stocks, which are highly competitive and heavily weighted in the technology sector.

Disruption and innovation demanded by the great Turing

After economic globalization, production expanded at low cost to emerging economies, global supply chains were established, and customers started getting what they wanted – anytime and anywhere. During this period, worries over supply constraints took a backseat and economic management focused more on demand-related policy measures. Despite implementation of stimulus measures to repeatedly expand fiscal spending and easing monetary policy to stimulate demand, inflationary pressures did not increase significantly due to ample supply-side capacity. As a result, the economy maintained a high rate of growth and interest rates steadily declined. The problem, however, was that demand stimulus measures were prolonged, resulting in a monetary supply glut and asset bubbles. However, this problem was also overcome by fiscal stimulus and monetary easing, and as a result, stock prices continued to rise and long-term interest rates continued to fall while debt expanded, but inflation remained low and stable.

This disinflationary dynamic now lies at a major turning point as supply constraints are beginning to manifest. Factors contributing to supply-side constraints are no longer limited to production and logistical disruptions caused by the pandemic. In developed countries, efforts to address the fall of the middle class and correct the disparity between rich and poor, which has widened due to the hollowing out of domestic production, have become important political issues, prompting these countries to curb overseas transfer of their production. In addition, exogenous factors have come into play, such as Russia's invasion of Ukraine as well as heightened security concerns, which are increasingly constraining the recovery of global supply chains. Adding to these is the fact that the shrinkage and aging of working population in major countries makes it difficult to increase supply by returning production to the domestic market, thereby reducing these countries' potential growth rate.

This supply-side constraint has pushed inflation higher as demand remained robust. Thus, the global economy is now poised to return to a more regular boom-and-bust cycle and grow more slowly. To gain a competitive economic advantage in such a situation, countries must devise ways to increase productivity and relative growth potential under constraints.

To this end, in order to leverage innovation, the society as a whole must show the courage and willingness to change the prevailing economic system. For example, the smartphone, introduced by Apple 15 years ago, has since transformed our lives and lifestyles, growing the economy and spawning a number of high-growth companies that have benefited

downstream of this innovation. In particular, the benefits to the US economy, which has become a center of innovation, are immeasurable.

Supertrends – A perspective

Credit Suisse Supertrends (long-term investment themes) highlight the problems associated with declining potential growth rates caused by demographic changes (e.g. a declining working population and aging society with fewer children) and discuss how we can overcome them. So for any company to emerge as a winner in such a situation, it is important to innovate and start its business in a society (country) that is open to change. Long-term investors should keep in mind that promising new developments can emerge at a time when the business environment is difficult and the prevailing outlook is highly uncertain.

A successful entrepreneur

Who are the entrepreneurs who will lead innovation? Many think that they are mainly younger people who are not averse to taking risks, but is this true?

In fact, the average age of the most successful entrepreneurs is 45 according to an April 2018 working paper published by the National Bureau of Economic Research (NBER) on "Age and High-Growth Entrepreneurship." The report also noted that the probability of success tends to increase as the age of the entrepreneur increases. Steve Jobs founded Apple in his 20s, but tasted success with the smartphone in his 50s.

What about Japan? According to a Japan Finance Corporation survey in FY 2020, the majority of startup entrepreneurs are in their 40s, with vast management experience. The survey tracked companies financed from April to September 2019, less than one year from their founding, gathering data from companies that were founded before the COVID-19 impact was felt. While 80% respondents stated that they were negatively affected by the pandemic at the time the survey was conducted in September 2020, more than 70% nevertheless expressed that they were satisfied with their launch.

In Japan and the USA, a successful entrepreneur is someone in his or her 30s or 40s with a wealth of social experience (including failures), who can lead (and involve others in) a social change. For Japan to remain a prosperous country, it is important that the society accepts change willingly.

From an investment perspective, we believe that now is a good time to deepen our understanding of long-term investment themes, as the impact on asset prices – which were overvalued due to ample liquidity – has reached a major inflection point with the onset of monetary tightening.

Recommended investment strategies

We believe that the global economy can withstand monetary tightening and continue to grow. Unlike the 1970s, the world economy is unlikely to fall into a stagflationary rut. In a situation where markets are factoring in risk scenarios and economic growth is sustained, we recommend maintaining a well-diversified portfolio consistent with our global asset allocation strategy, while adhering to strict risk management.

Seeking alpha (excess return)

- Supertrends: As the global economic framework undergoes a significant shift, investment ideas that focus on longer-term trends will continue to provide good alpha. We are currently focused on long-term investment opportunities (e.g. investment in productivity improvements, efforts to eliminate disparities and improve sustainability, and new consumption needs) brought about by a decline in the working population and societal aging.
- ESG investment: Support for efforts to achieve a sustainable society is growing every year. Inflows of long-term investment capital into environmental, social and governance (ESG) investments are likely to continue. The current trend in ESG investing is toward generating modest alpha coupled with reduced downside risk.
- US equities: The US economy has remained resilient in the face of rising inflation and the geopolitical risk. The US equity market seems to have priced in the changed economic outlook, and its valuation now looks reasonable, factoring in an expected rise in interest rates. As the earnings season approaches, the relative appeal of US equities will likely be reassessed. We intend to focus on the global technology sector and large caps with solid growth prospects and, regionally, US equities.

Preparing for monetary policy normalization

- Shortening bond portfolio duration: Shortening duration of one's bond exposure can help to mitigate the impact of rising interest rates. For US dollar-denominated bonds, the yield curve has been on the rise as the long- versus short-dated interest rate differential narrows, factoring in Fed rate hikes. The risk suppression effect caused by shorter durations will not be as pronounced as before. However, we believe that interest rates will continue to rise and favor investments with a shorter duration and rollover to earn a healthy yield while controlling risk.
- Investment grade and dollar-denominated emerging market bonds: Tighter monetary policy and slower growth have increased potential risks for vulnerable credit issuers. However, with rising interest rates, yields on investment grade and emerging market (EM) dollar-denominated bonds have become more attractive after having mostly priced in this rate-hike cycle, and we suggest investors to consider them as a yield-protection strategy.

Lessons of the pandemic

- Global diversification as a core investment strategy: We believe global diversification has become an effective investment strategy to mitigate unexpected risks during the pandemic. Additionally, with the return of the cycle of economic booms and busts, the efficacy of diversification across stocks and bonds, etc. will further increase.

- Increasing allocation to alternative investments: As returns on risk assets are expected to remain moderate, we recommend an increased allocation to alternative investments, such as private equity and private debt, to improve one's risk-adjusted returns on core investments.

(14/07/2022)

Emerging market sovereign bonds at overweight

Allocation remains neutral in developed market government bonds.

We maintain an overweight position in equities in a portfolio context.

Maki Shimizu
Investment Strategist - Japan Strategy

Favor emerging market hard currency bonds

Last month we increased the allocation to government bonds from underweight to neutral. In its latest meeting, our global Investment Committee confirmed the overweight position in emerging market hard currency (EM HC) bonds (denominated in major currencies), with EM sovereign bonds now seen as an alternative to EM corporate bonds to gain tactical exposure to the asset class in a portfolio context. While there remains room for US interest rates to rise, most of this has probably already been priced in by the market given the growing recession fears; we thus see limited risk for EM sovereign bonds relative to their attractive pricing. (12/07/2022)

JPY international tactical asset allocation (TAA; balanced)

			Balanced TAA			Vs. benchmark		Benchmark SAA 2022
			Jun-2022	Jul-2022	Change	Jun-2022	Jul-2022	
Liquidity			**2.5%**	**2.5%**	**0.0%**	**-2.5%**	**-2.5%**	**5.0%**
	JPY		2.5%	2.5%	0.0%	-2.5%	-2.5%	5.0%
Fixed income			**32.5%**	**32.5%**	**0.0%**	**0.0%**	**0.0%**	**32.5%**
	JPY		4.0%	4.0%	0.0%	0.0%	0.0%	4.0%
	Global corporates		19.0%	19.0%	0.0%	-0.5%	-0.5%	19.5%
	Global high yield		3.0%	3.0%	0.0%	0.0%	0.0%	3.0%
	Emerging markets bond USD		3.0%	3.0%	0.0%	0.0%	0.0%	3.0%
	Emerging markets corporate USD		3.5%	3.5%	0.0%	0.5%	0.5%	3.0%
	Global convertibles		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equity			**51.5%**	**51.5%**	**0.0%**	**1.5%**	**1.5%**	**50.0%**
	Japan		21.0%	21.0%	0.0%	0.0%	0.0%	21.0%
	World (ex. Japan)		30.5%	30.5%	0.0%	1.5%	1.5%	29.0%
	Switzerland		0.5%	0.5%	0.0%	0.0%	0.0%	0.5%
	Eurozone		2.0%	1.0%	-1.0%	0.0%	-1.0%	2.0%
	North America		15.5%	16.5%	1.0%	1.0%	2.0%	14.5%
	United Kingdom		1.0%	1.0%	0.0%	0.0%	0.0%	1.0%
	Australia		0.5%	0.5%	0.0%	0.0%	0.0%	0.5%
	Emerging markets		3.5%	3.5%	0.0%	0.5%	0.5%	3.0%
		LatAm	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		APAC	3.0%	3.0%	0.0%	0.5%	0.5%	2.5%
		EMEA	0.5%	0.5%	0.0%	0.0%	0.0%	0.5%
	Themes		7.5%	7.5%	0.0%	0.0%	0.0%	7.5%
Alternative investments			**13.5%**	**13.5%**	**0.0%**	**1.0%**	**1.0%**	**12.5%**
	Real estate Japan		3.5%	3.5%	0.0%	1.0%	1.0%	2.5%
	Hedge fund		2.5%	2.5%	0.0%	0.0%	0.0%	2.5%
	Private equity		7.5%	7.5%	0.0%	0.0%	0.0%	7.5%
Total			**100.0%**	**100.0%**	**0.0%**	**0.0%**	**0.0%**	**100.0%**

Source: Credit Suisse

2022 investment theme: Exit from monetary easing

As we approach the turning point of 2022, we have started the process of revising some of our investment themes. In the context of managing yield alternatives in anticipation of an exit from monetary policy, we favor global real estate investment trusts (REITs) with highly rated credit investments, and address corresponding investment solutions.

Maki Shimizu
Investment Strategist - Japan Strategy

Revised investment theme: the value of credit

In the first half of this year, the market environment made it difficult for investors to add to their bond allocations. The growing acceptance of monetary policy normalization since last year, led to the assumption of both a continued upward trend in interest rates and a steady widening of credit spreads. In order to avoid the risks posed by fixed-coupon products under such conditions, we favored a yield-securing strategy using floating rate products, shorter bond durations, and yield alternatives such as global REITs as part of our 2022 investment themes.

The housing market also appeared sluggish in the wake of accelerated interest rate hikes by the central bank. This has been a dampener for the growth of rental income, but we believe this is an appropriate time to re-evaluate the investment appeal of REITs. The REITs market had been hit hard by inflationary scares from events that have now been largely priced in: the abrupt emergence of the conflict in Ukraine and the impact of supply constraints due to China's lockdowns. This delated the plateauing of inflationary pressures, originally heavily expected in early spring.

Now however, there is an opportunity to reassess this outlook. In June, our Investment Committee (IC) raised its portfolio allocation of global government bonds from underweight to neutral, and in July the Committee raised its allocation of emerging market hard currency government bonds from neutral to overweight in portfolios. In both cases, the high chance that the market has already fully priced in the rest US tightening cycle, along with signs of ebbing inflation expectations (as indicated by the breakeven inflation rate), makes it a realistic a realist prospect that long-dated US Treasury bond yields have peaked. Therefore, we are turning our focus toward highly rated corporate bonds as a theme to watch in the second half of 2022. We remain cautious on high-yield bonds and lower-rated credit, as higher borrowing costs are expected to increase maintenance burdens and default rates.

Investment solutions for securing yield

In our view, private (corporate and household) balance sheets remain strong and should withstand both environmental and growth potential shocks as central banks tighten monetary policy. Unless economic growth is severely depressed, credit investment performance will undergo polarization even if the economic outlook worsens. Therefore, we believe financial soundness and liquidity are important and prefer BB and BBB rated investment grade bonds, primarily in Asia and South America. For this rating category, with its high credit quality and favorable spread, the risk of recession is already factored in, and the market might now be overly pessimistic about bankruptcy risk. Market pricing suggests the "worst case" scenario for these instruments has already been built in. Although there remains some uncertainty in terms of outlook, these instruments are worth considering as an investment opportunity in terms of the risk-reward balance. When selecting for solutions, examining issuers outside of cyclical sectors may also serve as a favorable hedge against risk.

(12/07/2022)

Japan investment themes 2022

Theme	Strategy	Investment solution
1. Sustained inflation and economic growth exceeding potential growth rates	Seeking long-term alpha	Long-term investment themes, the "Supertrends," and long-term alpha-generating investments
	ESG equity investment: ESG integration/ESG theme investment	Using ESG funds to incorporate ESG into traditional investment flow, focusing on the growth of specific sustainable investments
	Restoration of the supply chain and increased capital investment	Blackrock US Basic Value Open Fund, Fidelity US Blue Chip Equity Fund, US stocks promotion list
2. Inflation-driven exit from monetary easing policies, and increased risk of market volatility	Reducing risk by shortening duration	CS Global Senior Loan Fund, Premium Mandate (Rolling Maturity Strategy)

Theme	Strategy	Investment solution
	Yield enhancement	Credit products focused on high-grade EM IG bonds
3. Lessons from the pandemic and remaining vigilant against the risk of recurring infections	Risk reduction	CS Portfolio Fund USD (yield/balance/growth), Pictet Multi-Asset Allocation Fund, Private Mandate (index), Premium Mandate (global yield class strategy)
	Core and satellite strategies	Private investment trusts, etc. to increase exposure to alternative investments

Source: Credit Suisse

Slowing growth…except in China

We have cut our GDP forecasts for all the major economies and now expect below-trend growth.

However, we still expect the major economies to avoid recession in the next 6–9 months.

Peter Foley
Economist

High inflation is eroding real incomes and driving aggressive central bank policy tightening that has hurt consumer and business confidence. We recently reduced our GDP forecasts for the major economies and now expect global growth to be below trend. We expect global GDP growth to average 2.9% this year and 2.1% in 2023.

In our view, the USA, Eurozone and other major economies should avoid recession in the next 6–9 months. But low growth means economies are vulnerable to new shocks, or tighter-than-expected policy pushing them into recession.

Prolonged slump in US growth likely

We have sharply reduced our US growth expectations. Rapid tightening by the Federal Reserve (Fed), rising risk premia and slower global growth all make a prolonged US slump likely. We expect growth to average 2.1% this year and slow to 1.2% in 2023.

A recession is now a clear possibility, but there are still buffers that should prevent slowing growth from spiraling into a broader downturn. Household and business finances remain healthy – making a modest slump in cyclical spending more likely than a contraction accompanied by forced deleveraging. Services spending is still below trend, and supply chain stress should lead to backloaded investment and restocking.

However, these buffers are a finite resource – a downturn is much nearer than we expected at the start of the year, and it would only take some modest shocks to make it a likely outcome. Weaker global growth and another leg lower in risky assets are key risks in the near term. Stubbornly high inflation or accelerating wages later in the year would likely push the Fed to be even more aggressive, raising the chance of a contraction next year.

Europe is at greatest risk, China the exception

Europe is at greatest risk. We currently expect Eurozone growth to slow to just 0.7% in 2023, well below consensus of 1.9%. Yet high excess household savings and recovering services activity should help prevent a recession in the Eurozone, too. And new fiscal measures are helping to soften some of the squeeze from energy prices. However, sub-trend growth means the economy's ability to absorb additional downside shocks is limited. For example, we estimate a further 30% cut in Russian gas supplies would likely tip the Eurozone into recession.

In China, growth should bounce in the second half of the year thanks to reopening and substantial fiscal and credit stimulus. We estimate Chinese fiscal stimulus in 2022 will be similar to that of 2020, but the economic drag from COVID-19 disruptions has remained smaller so far. This should offset some weakness in the global economy.

To conclude, the longer-term outlook for the global economy rests heavily on the degree of "stickiness" of inflation and the amount of monetary policy tightening required to stabilize inflation. We expect central banks to continue tightening policy aggressively in the coming months. If inflation starts to recede clearly, this front-loading may allow them to slow the pace of tightening toward the end of 2022. (08/07/2022)

Keeping equity overweight

We retain a tactical overweight in global equities. Our sector preferences now also include the global IT sector, which we expect to show superior earnings performance.

We further favor emerging market hard currency bonds (EM HC), as they offer attractive return potential.

Philipp Lisibach
Chief Global Strategist

Over the past few weeks, asset prices have reflected a shift in investor focus from inflation and central bank hawkishness to growth risks. Government bond yields have fallen across developed markets, driving positive returns and corroborating our decision last month to move government bonds from underweight to a neutral portfolio position. Equities have remained highly volatile, with cyclical sectors like energy starting to underperform. Commodities, one of the most growth-sensitive asset classes, have been retracing some of their recent gains.

When assessing the economic outlook, the Credit Suisse Investment Committee (IC) concludes that the risk of recession has increased: US and European economic indicators have weakened amid tightening financial conditions, for instance in the interest rate-sensitive US housing market. Rising energy and food prices are eating into real disposable income, dampening consumer sentiment globally. However, although we have reduced our growth outlook for the USA and Europe, recession over the next 12 months remains a risk, not our base case. China remains on a different growth trajectory, as the easing of COVID-19 restrictions has triggered an economic recovery that is now reinforced by strong policy stimulus.

Potential for near-term tactical rally

Technical contrarian indicators measuring investor sentiment as well as survey data continue to provide strong tactical buy signals for equities. The IC thus maintains a moderate equity overweight in portfolios, expressed through an overweight in US and Chinese equities. The unfolding recovery in China should support earnings and thus a continued market recovery. The US market has a high share of technology stocks, which we think investors should look to for fundamentally sound stocks that are attractively valued after indiscriminate selling during the downturn. The global IT sector has been moved to an overweight, as it is expected to show superior earnings performance. Eurozone equities are reduced to a tactical underweight given their greater vulnerability to the cyclical slowdown taking hold.

As a word of caution, although we see a good chance of a temporary relief rally, the macroeconomic backdrop is likely to remain challenging for equities in the medium term. A confirmation of peak inflation in the USA and Europe might still be several months away. Should the US Federal Reserve stay too focused on headline instead of core inflation, which has already peaked, recession worries could increase further. As such, one risk scenario is that central bank rate expectations are pushed up again even as growth weakens.

Preference for EM HC bonds

The IC confirmed the overweight in EM HC bonds due to their attractive yield pick-up. It now considers sovereign bonds an alternative to corporate bonds to implement a tactical overweight in EM HC, depending on the portfolio context. Developed market government bonds remain at neutral.

Watch a video featuring the highlights of the Credit Suisse investment strategy:
www.credit-suisse.com/cio/film

(11/07/2022)

Soft landing, with increasing risk of a contraction

Recession-level weakness in the global goods sector is creating risks for equities and keeping risk appetite under pressure.

Recent declines in key commodity prices would be positive for most economies and central banks if they are sustained, but underlying inflation is still persistent enough to keep central banks' tightening plans intact for now.

Wenzhe Zhao
Global Economist

Recent weeks have brought weak consumer spending data and falls in purchasing managers' indices. We see this weakness as a reflection of consumers reacting to this year's surge in food and fuel prices – i.e. non-discretionary consumption – by pulling back on spending on discretionary items, mainly goods. The resulting rise in producer, wholesale and retail inventories is leading to order and production cuts in developed market economies.

Support from services

In contrast, the recovery in services activity from suppressed levels following the COVID-19 pandemic is offsetting some of this goods weakness, leading us to expect that the major economies will just avoid recession in the next few quarters. Crucially, services appear to be supporting employment and wage growth at rates that are too high to be consistent with the major central banks' inflation targets.

In this context, stronger than expected US payrolls data for June is another case in point. To be sure, US wage growth is moderating, but too gradually to allow central banks to moderate the pace of tightening.

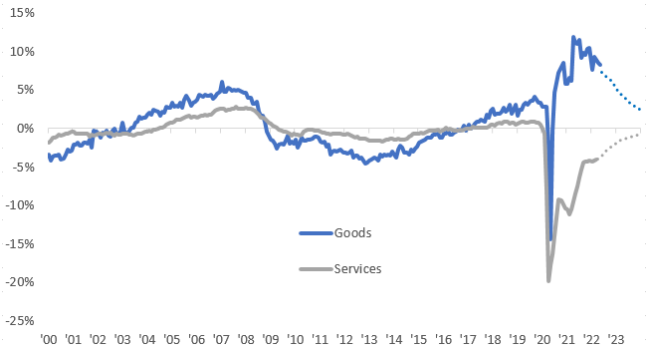
Aggressive central bank tightening expected to continue

Supply constraints, both in goods in the form of supply chain disruptions, shipping bottlenecks and energy supply, and in labor markets are barely easing. The result is that we expect central banks to continue to focus on weakening the demand growth they can control to offset the supply pressures they cannot influence.

We expect central banks in developed markets to hike interest rates more rapidly than they are telegraphing, with the US Federal Reserve likely to push the fed funds rate to 3.5%–3.75% by year-end. Developed economy GDP should decelerate to 1.1% next year, slower than the consensus forecast. In sum, the global economy's vulnerability to unexpected shocks and unintended policy consequences has risen.

This outlook could improve, both in terms of growth and the pace and extent of policy rate increases, if energy prices surprise to the downside in the next few months and stay lower going into Q4.

G7 services vs. goods consumption
% deviation from trend



Last data points: 05/2022 for goods consumption, 03/2022 for services. Source: Credit Suisse, National Statistical Offices, Haver Analytics

(08/07/2022)

Tactical opportunities in EM

We expect China's equity outperformance vs. emerging markets (EM) to continue.

Risk-reward for both EM hard currency corporate and sovereign bonds looks attractive.

Luca Bindelli
Head of Fixed Income and Currency and Commodity Strategy

Jack Siu
Chief Investment Officer - Greater China

Florence Hartmann
Emerging Market Bond and FX Strategist

EM equities benefited from a rally in Chinese stocks while suffering from sell-offs in most other EM markets last month. We expect China's outperformance to continue and the rest of EM to stabilize in the coming weeks.

Recovery on track in China

Since 17 March 2022 when we turned positive on Chinese equities, the market has outperformed the EM benchmark by 15%. China's economic activity has been beating market expectations with clear improvements in consumption, exports, imports and purchasing manager index surveys. This suggests that supply chain disruptions are being resolved more quickly than anticipated. Moreover, we see an acceleration in money supply (M2) as an early sign of recovering credit demand and expect total social financing growth to continue to recover in light of the recently announced fiscal stimuli. Our China economist expects this year's fiscal stimulus (11% of GDP) to surpass the 2020 level.

Despite continued cuts to 12-month forward earnings per share, we see encouraging signs of a bottoming in earnings for the tech sector, a heavyweight in the MSCI China Index. Moreover, earnings breadth (net of upgrades minus downgrades) has also been improving from very negative levels. Finally, a positive technical outlook and absolute valuations only slightly above their 10-year mean suggest that China can continue to outperform within EM.

Mostly neutral on rest of EM

Taking a broader angle, most EM economies will be affected by the current global financial tremors and weaker global growth, regardless of any domestic policy reactions. However, valuations are attractive. Beyond China, we therefore have a neutral tactical stance on most EM equity markets.

EM HC bonds offer interesting risk premium

We keep a positive view on EM hard currency (HC) corporate bonds and remain overweight in a portfolio context, given their spread premium over comparable developed market credit with similar duration. From a technical perspective, positioning in EM corporate bonds is very light, and new issuance has dropped to the lowest level since 2015. This should limit further sell-offs. Fundamentally, EM corporates' solid credit metrics and domestic funding possibilities are likely to balance pressure in the primary market. Within EM corporates, we see opportunities in BBB and BB rated Asian, Latin American and Gulf Cooperation Council credit.

After some respite in late May, EM HC sovereign spreads have widened again amid global recession fears, leaving the total return of the JP Morgan Emerging Market Bond Index Global at around –20% this year. This drawdown is reflective of past recessionary episodes, in our opinion, and exceeds the total return loss seen during the COVID-19 shock.

Current spread levels offer attractive risk premium compensation, in our view. Previous tightening by the US Federal Reserve (Fed) between 2004 and 2016 suggests that EM HC bonds should do well after the start of a hiking cycle. Also, we expect Fed policy to reach peak hawkishness soon. This should alleviate the negative return contribution from the US rates side and help stabilize flows into EM HC bonds, which have lightened significantly. We continue to favor regionally diversified exposure within EM sovereigns. To conclude, we continue to consider EM HC sovereign bonds attractive and now also see the asset class as an alternative to EM corporate bonds for tactical exposure in a portfolio context.

(08/07/2022)

Prefer EM HC to increase bond exposure

The risk-reward of global treasuries are two-sided, as central banks remain hawkish despite growth risks.

We like emerging market hard currency (EM HC) bonds given that they offer a fair compensation for risk.

Luca Bindelli
Head of Fixed Income and Currency and Commodity Strategy

With a negative performance of 8.1%, global treasuries had their worst first half in decades. Prospects of aggressive central bank tightening, propped up by persistently high inflation, supported a broad rise in rates throughout H1 and weighed heavily on government bond returns.

The second half started with a reversal in government bond rates, as macroeconomic news deteriorated sharply even as inflation stayed high. Indeed, growth worries have intensified in both the USA and Europe, with markets even expecting the Federal Reserve to reverse policy tightening in 2023. We acknowledge that downside risks to growth have increased, in line with leading indicators losing momentum. Yet, the risk-reward of global treasuries remains two-sided, as short-term inflation volatility persists. This should force central banks to uphold their hawkish rhetoric despite softer growth. But as the inflation eventually eases amid tightening financial conditions and slowing growth, conditions for government bonds should turn more favorable. In such an environment, bonds should regain some of their diversification benefits in a portfolio context. We keep duration close to benchmark in the USA, the Eurozone, the UK and Switzerland.

Real rates have remained resilient, as growth risks and softer commodity prices started to weigh on inflation expectations. Barring a renewed energy and food supply-led inflation shock, inflation breakeven rates risks have become more symmetric. We thus have no preference for inflation-linked bonds over comparable nominal bonds at this stage.

Stay on the sidelines in DM credit

We remain neutral on investment grade (IG) and high yield (HY) credit and expect spreads to widen and realized default rates to rise further as financial conditions tighten. In the USA, we favor IG over low-quality HY given tightening financial conditions and lending standards. In Europe, we remain cautious on corporate and financial bonds given risks of European Central Bank (ECB) tapering. In HY credit, we still prefer high-quality segments. EM HC corporate credit remains preferred within overall credit. Having said this, currently high distressed ratios require selectivity in EM HY. We expect the Chinese government's recently announced stimulus to benefit quasi-sovereigns in particular. Within EM HC corporate credit, we continue to see value in Asia. Very selectively, Latin American IG bonds with solid credit metrics are also starting to offer value. We remain cautious on corporate bonds from Turkey and Argentina.

Risk-reward for EM HC still attractive

So far this year, performance of EM HC sovereigns reflects past recessionary periods, and we think spreads offer attractive risk premium compensation. With an aggressive Fed policy rate path now well reflected in forward curves, we expect more moderate moves in US rates, limiting risks to the asset class. Flows into EM HC bonds have remained volatile, reflecting shifts in risk sentiment driven by inflation, Fed tightening and recession fears. But after substantial year to date outflows, investor positioning is now more sound. We continue to favor regionally diversified exposure within EM.

(07/07/2022)

Earnings in focus

H1 2022 was very challenging for global equity markets. After a significant de-rating, investors' focus is likely to shift from valuation to earnings as the economic outlook has worsened. The Q2 earnings season will be important to watch.

We maintain a tactical overweight in US and China equities and are now underweight the Eurozone. IT is now among our preferred sectors, in addition to healthcare.

Marc Häfliger
Head of Global Equity Strategy

The first half of 2022 was very challenging for equities, as financial conditions tightened significantly, with central banks tackling elevated inflation, while growth began to slow. Global equities declined by more than 17% in local currency terms, the worst H1 since the 1970s. While our overweight position in US equities (in place since March) has not worked so far, our overweight in China (also in place since March) and energy equities (closed at end-May) have added value to our portfolios, both on an absolute and a relative basis.

Focus on earnings

We expect the market's focus to shift from valuation to earnings as the economic outlook has worsened. In our view, earnings growth and margins are likely to moderate, and we expect consensus earnings estimates to be revised lower. However, we still forecast positive earnings growth, which is why earnings should remain a key driver of global equities. The Q2 2022 earnings season unofficially starts on 14 July, with US banks reporting first. Consensus MSCI World sales and earnings-per-share growth estimates for Q2 are at 11.6% and 4%, respectively. With growing concerns around the global economic outlook and inflation still high, we expect an increasing number of companies to lower their guidance.

Contrarian indicators such as sentiment remain at very depressed levels, suggesting a potential near-term rebound in equities, which we keep at a moderate tactical overweight in portfolios. Our preferred regions are the USA (supported by solid earnings) and China (supported by policy easing and valuation). In terms of sectors, we prefer healthcare and now also IT.

Now constructive on IT, cautious on Eurozone

We now expect the MSCI World Information Technology (IT) to outperform the MSCI World, driven by superior earnings growth and stable margins, which should prove supportive as the economy slows. The IT sector offers solid cash flows and relatively low leverage. We now expect Eurozone equities to underperform the MSCI World in the next 3–6 months, as our economists expect below consensus growth for the Eurozone in 2022 and 2023, with inflation simply too high for the European Central Bank (ECB) to ignore. Rapid ECB tightening along with weakening external demand to dampen consumption and investment growth are material headwinds facing the region, in our view. Although we expect Eurozone equities to underperform, we see Eurozone consumer discretionary as a bright spot (vs. MSCI EMU) given attractive fundamentals, pricing power and exposure to Chinese reopening theme. In emerging markets, we no longer expect South Africa to outperform the MSCI EM. In styles, we are now neutral on US and world small caps given increasing risks to the economic outlook, which will likely put earnings under pressure. Furthermore, we change our view on the MSCI World Momentum vs. the MSCI World to neutral from positive, while we turn constructive on the MSCI World Quality. (08/07/2022)

Hedge funds with diversification benefits in slowdown

Hedge funds offer diversification benefits in an environment of slowing economic growth. Separately, listed real estate fell less than broader equities over the last month, and we expect the sector to perform in line with the market from here.

Commodity prices have pulled back as growth concerns increased but physical markets remain tightly supplied. Nervousness is set to stay elevated.

Stefan Graber
Head of Commodity Strategy

Anand Ashok Datar
Hedge Fund & Private Equity Strategist

Hedge funds: Benefitting from dispersion

Hedge funds saw a smaller aggregate decline than equities in June and early July and posted the highest excess returns vs. bonds and equities in H1 2022 since 2008. Our Trading Conditions Barometer suggests hedge funds can generate excess returns relative to risky assets, especially on a risk-adjusted basis, with low-beta strategies best placed to benefit from price dispersion among regions and sectors. As equity alternatives, we highlight low net exposure long/short equity, while private credit tends to see smaller drawdowns than high yield bonds and senior loans when default rates rise. Global macro and CTAs (Commodity Trading Advisors) are our preferred strategies to hedge against growth concerns and higher market volatility.

Commodities: Pullback helps consumers, policymakers

Commodities have pulled back as supply risks started to shift to demand worries along with broader growth concerns. Price risks seem balanced going forward, as physical markets still appear strong. Our economists do not project a global recession, but if economic activity was to contract, prices would face further downside as most commodities still trade well above production costs. The recent pullback in oil is welcome for consumers but physical markets remain tightly supplied, keeping prices supported near-term. Beyond summer, we still see sequentially moderating prices as inventory pressure is likely to ease. More worryingly, gas and power markets look exceptionally fragile ahead of winter. Being particularly cyclical, base metals have been weak lately, as China stimulus has yet to kick in, while activity outside of China slows. Precious metals are holding up relatively well but policy tightening is a headwind, at least until peak central bank hawkishness is reached. In fact, weaker commodity prices may allow central banks to take the foot off the pedal before long. Agriculture prices have taken a breather, too, amid improved supply outlooks, though risks of a food crisis persist. The risk/reward of outright commodity exposure is not compelling, in our view, but diversified baskets can still help hedge against inflation and geopolitical risks.

Real estate: Seen performing in line with equities

Listed real estate fell less than global equities in recent weeks thanks to substantial exposure to sectors underpinned by secular growth trends such as logistics, residential and healthcare. By contrast, more cyclical sectors such as retail and office underperformed in light of growth concerns and the impact of working from home on the office sector. We continue to expect global listed real estate to perform in line with broader equities. A further rise in long-term yields poses a risk, but listed real estate is seen as a defensive sector with inflation hedge characteristics and offers an improving earnings outlook, which is supportive. Regionally, we keep a constructive outlook for the Eurozone, but remain cautious on the USA. (08/07/2022)

Where to next for the USD?

The USD proved the undisputed winner among currencies in the first half. Market conditions suggest it should remain resilient in the early stages of the second half.

EUR/CHF should remain below parity for the foreseeable future.

Luca Bindelli
Head of Fixed Income and Currency and Commodity Strategy

The USD is the undisputed winner of the first half of this year, with gains ranging from 1.8% against the CAD to 15% against the JPY. The combination of a hawkish Federal Reserve (Fed) and rising market volatility continues to provide the USD with valuable carry and "safe-haven" appeal. Going forward, the USD should continue to benefit from relatively better growth and higher carry resulting from faster policy tightening in the USA. US growth fears may temporarily halt its upside, but we think only temporarily so, as global growth concerns would eventually mount as well, creating demand for safety, from which the USD would profit.

The surprise 50 bp rate hike by the Swiss National Bank (SNB) helped the CHF stabilize against the USD and post sizable gains against the EUR. EUR/CHF now is below parity, and we expect the pair to remain below this key level for the next few months. Meanwhile, the JPY continued to lose ground against the USD. We expect this trend to continue until the Bank of Japan clearly addresses its yield curve control policy, which is preventing domestic rates from rising.

EUR/USD set to test parity

After briefly consolidating in early June, EUR/USD depreciated even more than expected, falling toward 1.02. Market pricing for European Central Bank (ECB) hikes has reversed a bit, and EU-wide growth risks have come to the fore again, with European gas supply cuts most worrying. EUR weakness has been broad based since the second half of June. The ECB should start raising rates this month and address fragmentation risks with a new policy tool, which could temporarily help EUR sentiment. In the meantime, risks of differentiated tightening of financing conditions within the EU, which would exacerbate growth risks for peripheral countries, will likely remain. We expect EUR/USD to reach parity over 3M before eventually stabilizing toward 1.04 in 12M.

Elsewhere, the GBP fell more rapidly than we expected in June. Yet, we think GBP/USD risks are still skewed to the downside; we expect a level of 1.17 in 3M. Also, while the GBP reacted positively to news of Prime Minister Boris Johnson's resignation, the development has increased political risks. We have neutralized our previous positive view on the NOK against the EUR in light of rising European risks and a declining sensitivity of EUR/NOK to oil prices.

Expect rangebound EM FX

Emerging market currencies (EM FX) fell to a new year-to-date low in June, as recession fears strengthened the USD and weighed on high-yielding EM currencies. The favorable commodity backdrop has lost momentum over the last month and risk-adjusted carry has come off its peak. Further tightening by the Fed should limit carry-related gains, and total return expectations for EM FX should moderate. We still favor the BRL despite a recent underperformance due to still very large carry and high real rates. Inflation seems to be stabilizing, though at high levels. We think that the Brazilian central bank has not yet reached the end of its hiking cycle. Furthermore, current extreme bearish BRL sentiment prevents us from turning less constructive, and BRL valuation remains attractive. We remain neutral on USD/CNY and slightly raise our 3M target to 6.63, while our 12M target remains unchanged at 6.85. We stay negative on USD/SGD and adjust our 3M and 12M targets up to 1.38 and 1.36.

(08/07/2022)

At a glance

More information on the forecasts and estimates is available on request. Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Central bank rate/10-year government bonds

	CB rate			10Y yield		
in %	Spot	3M*	12M*	Spot	3M*	12M*
CHF	-0.25	0.25	0.50	0.77	1.30	1.60
EUR	-0.50	0.25	2.00	1.13	1.70	1.90
USD	1.63	2.25-2.50	3.75-4.00	2.98	3.30	3.50
GBP	1.25	1.75	2.75	2.08	2.40	2.70
AUD	1.35	2.35	2.50	3.39	3.70	3.60
JPY	-0.10	-0.10	-0.10	0.23	0.25	0.35

Spot rates are closing prices as of 12/7/2022. Forecast* date 6/7/2022. Source: Bloomberg, Credit Suisse/IDC.

Equities

Index	Spot	P/E	Div. y. (%)	3M*	12M*
MSCI AC World**	1,591	14.5	2.4	1,645	1,745
US S&P 500	3,819	16.8	1.7	4,000	4,200
Eurostoxx 50	3,487	10.9	3.8	3,430	3,480
UK FTSE 100	7,210	9.5	4.4	7,210	7,410
Japan Topix	1,883	12.1	2.6	1,885	1,965
Australia S&P/ASX 200	6,606	12.7	5.0	6,720	6,940
Switzerland SMI	11,070	16.3	3.2	11,010	11,440
MSCI EM**	144,276	11.2	3.4	150,000	158,500

Prices as of 12/7/2022 . *Forecast as of 7/7/2022 . **Gross return (incl. dividends).
Source: Bloomberg, Datastream, Credit Suisse

Commodities

	Spot	3M*	12M*
Gold (USD/oz)	1727	1750	1750
Silver (USD/oz)	19.0	19	18
Platinum (USD/oz)	850.7	850	950
Palladium (USD/oz)	2031	2100	1800
Copper (USD/ton)	7341	8500	7500
WTI Crude Oil (USD/bbl)	96.0	110	95
Bloomberg Commodity index	240.9	259	248

Spot rates are as of 13/7/2022 *forecast as on 7/7/2022
Source: Bloomberg, Credit Suisse/IDC

Credit

	Yield (%)	Spread (bp)	Duration (years)	3M TR forecast*	12M TR forecast*
BC Global Aggregate	2.87	57	6.96	0.00%	0.10%
BC Global Treasuries	2.20	16	7.80	-0.05%	0.05%
BC Global IG Corp	4.25	169	6.53	0.18%	0.72%
BC Global HY Corp	9.33	652	4.29	0.13%	0.52%
JPM EMBI Global Diversified HC	8.76	564	6.17	1.20%	4.70%

BC = Barclays Capital, IG= Investment Grade, JPM = JP Morgan (EMBI+). Index data as of 12/7/2022. *Forecast as on 7/7/2022
Source: Bloomberg, Credit Suisse

Foreign exchange

	Spot	3M	12M
EUR/USD	1.00	1.00	1.04
USD/CHF	0.98	0.97	0.95
EUR/CHF	0.99	0.97	0.99
USD/JPY	137.13	138.00	135.00
EUR/GBP	0.84	0.85	0.87
GBP/USD	1.19	1.17	1.20
AUD/USD	0.67	0.68	0.70
USD/CAD	1.30	1.22	1.21
EUR/SEK	10.68	10.80	10.60
EUR/NOK	10.25	10.30	10.10
EUR/PLN	4.81	4.75	4.80
USD/CNY	6.73	6.63	6.85
USD/SGD	1.41	1.38	1.36
USD/KRW	1313.92	1300.00	1260.00
USD/INR	79.58	80.00	78.00
USD/BRL	5.44	5.00	5.00
USD/MXN	20.80	20.70	21.50

Spot rates are as of 13/7/2022
Forecast date 7/7/2022. Source: Bloomberg, Credit Suisse/IDC.

Real GDP growth and inflation

	GDP			Inflation		
in %	2021	2022	2023	2021	2022	2023
CH	3.8	2.5	1.6	0.6	2.3	1.0
EMU	5.3	2.4	0.7	2.6	7.5	3.0
USA	5.7	2.1	1.2	4.7	8.5	4.7
UK	7.4	3.4	0.5	2.6	8.5	4.8
Australia	4.7	3.9	2.3	2.8	5.9	3.2
Japan	1.7	1.0	1.2	-0.2	1.7	1.5
China	8.1	4.8	4.9	0.9	2.3	2.0

Last forecast as of 6/7/2022
Source: Bloomberg, Credit Suisse/IDC

(13/07/2022)

Risk warnings

Emerging markets	Emerging markets are located in countries that possess one or more of the following characteristics: a certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market that is still at the development stage or a weak economy. Emerging market investments usually result in higher risks as a result of political, economic, credit, exchange rate, market liquidity, legal, settlement, market, shareholder and creditor risks.
Hedge funds	Regardless of structure, hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivative instruments and speculative investment strategies that may increase the risk of investment loss.
Commodity investments	Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.
Real estate	Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.
Currency risks	Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency.
Equity risk	Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable.
Market risk	Financial markets rise and fall based on economic conditions, inflationary pressures, world news and business-specific reports. While trends may be detected over time, it can be difficult to predict the direction of the market and individual stocks. This variability puts stock investments at risk of losing value.
High Yield bond risk	High Yield Bonds are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default.
Perpetual bond risk	Perpetual Bonds have no maturity date and therefore the Interest pay-out depends on the viability of the issuer in the very long term.
Subordinated bond risk	In case of liquidation of the issuer, investors can only get back the principal after other senior creditors are paid.
Risk of bonds with variable/deferral of interest terms	Investors would face uncertainty over the amount and time of the interest payments to be received.
Callable bond risk	Investors face reinvestment risk when the issuer exercises its right to redeem the bond before it matures.
Risk of bonds with extendable maturity date	Investors would not have a definite schedule of principal repayment.
Convertible or exchangeable bond risk	Investors are subject to both equity and bond investment risk.
Cocos risk	The bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event.

Explanation of indices frequently used in reports

Index	Comment

Australia S&P/ASX 200	S&P/ASX 200 is an Australian market-capitalization-weighted and float-adjusted stock index calculated by Standard and Poor's.
BC High Yield Corp USD	The US Corporate High Yield Index measures USD-denominated, non-investment grade, fixed-rate and taxable corporate bonds. The index is calculated by Barclays.
BC High Yield Pan EUR	The Euro Corporate Index tracks the fixed-rate, investment-grade, euro-denominated corporate bond market. The index includes issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate EUR	The US Corporate Index tracks the fixed-rate, investment-grade, euro-denominated corporate bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate USD	The IG Corporate Index tracks the fixed-rate, investment-grade, dollar-denominated corporate bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
Canada S&P/TSX comp	The S&P/TSX composite index is the Canadian equivalent of the S&P 500 Index in the USA. The index contains the largest stocks traded on the Toronto Stock Exchange.
Consumer Confidence Indices	Consumer Confidence Indices (CCIs) are based on surveys of consumers' spending intentions and economic situations, as well as their concerns and expectations for the immediate future.
CS Hedge Fund Index	The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index reflects performance net of all hedge fund component performance fees and expenses.
CS LSI ex govt CHF	The Liquid Swiss Index ex govt CHF is a market-capitalized bond index representing the most liquid and tradable portion of the Swiss bond market excluding Swiss government bonds. The index is calculated by Credit Suisse.
DAX	The German Stock Index stock represents 40 of the largest and most liquid German companies that trade on the Frankfurt Exchange.
DXY	A measure of the value of the US dollar relative to the majority of its most important trading partners. The US Dollar Index is similar to other trade-weighted indices, which also use the exchange rates from the same major currencies.
Eurostoxx 50	Eurostoxx 50 is a market-capitalization-weighted stock index of 50 leading blue-chip companies in the Eurozone.
FTSE EPRA/NAREIT Global Real Estate Index Series	The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide.
Hedge Fund Barometer	The Hedge Fund Barometer is a proprietary Credit Suisse scoring tool that measures market conditions for hedge fund strategies. It comprises four components: liquidity, volatility; systemic risks and business cycle.
Japan Topix	TOPIX, also known as the Tokyo Stock Price Index, tracks all large Japanese companies listed in the stock exchange's "first section." The index calculation excludes temporary issues and preferred stocks.
JPM EM hard curr. USD	The Emerging Market Bond Index Plus tracks the total return of hard-currency sovereign bonds across the most liquid emerging markets. The index encompasses US-denominated Brady bonds (dollar-denominated bonds issued by Latin American countries), loans and Eurobonds.
JPM EM local curr. hedg. USD	The JPMorgan Government Bond Index tracks local currency bonds issued by emerging market governments across the most accessible markets for international investors.
MSCI AC Asia/Pacific	The MSCI All Country Asia Pacific Index captures large and mid cap representation across 5 developed market countries and 8 emerging markets countries in the Asia Pacific region. With 1,000 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.
MSCI AC World	The MSCI All Country World Index captures large and mid cap representation across 23 developed markets and 23 emerging market countries. With roughly 2480 constituents, the index covers around 85% of the global investable equity opportunity set.
MSCI Emerging Markets	MSCI Emerging Markets is a free-float-weighted Index designed to measure equity market performance in global emerging markets. The index is developed and calculated by Morgan Stanley Capital International.
MSCI EMU	The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. With 237 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.
MSCI Europe	The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With 442 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
MSCI UK	The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 111 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.
MSCI World	MSCI World is an index of global equity markets developed and calculated by Morgan Stanley Capital International. Calculations are based on closing prices with dividends reinvested.
OECD Composite Leading Indicators	OECD Composite Leading Indicators (CLIs) are designed to provide early signals of turning points in business cycles with components that measure early stages of production, respond to changes in economic activity, and are sensitive to expectations of future activity.
Purchasing Managers' Indices	Purchasing Managers' Indices (PMIs) are economic indicators derived from monthly surveys of private-sector companies. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the United States. The indices include additional sub-indices for manufacturing surveys such as new orders, employment, exports, stocks of raw materials and finished goods, prices of inputs and finished goods, and services.
Russell 1000 Growth Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe based on 1000 large-cap companies with higher price-to-book ratios and higher forecast growth values.
Russell 1000 Index	The Russell 1000 Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index (encompassing the 3,000 largest US-traded stocks, with the underlying companies all incorporated in the USA), and representing about 90% of the total market capitalization of that index. The Russell 1000 Index has a weighted average market capitalization of USD 81 billion and the median market capitalization is approximately USD 4.6 billion.
Russell 1000 Value Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe based on 1000 large-cap companies with lower price-to-book ratios and lower expected growth values.
Switzerland SMI	The Swiss Market Index is made up of 20 of the largest companies listed of the Swiss Performance Index universe. It represents 85% of the free-float capitalization of the Swiss equity market. As a price index, the SMI is not adjusted for dividends.
UK FTSE 100	FTSE 100 is a market-capitalization-weighted stock index that represents 100 of the most highly capitalized companies traded on the London Stock exchange. The equities have an investibility weighting in the index calculation.
US S&P 500	Standard and Poor's 500 is a capitalization-weighted stock index representing all major industries in the USA, which measures the performance of the domestic economy through changes in the aggregate market value.

Abbreviations frequently used in reports

Abb.	Description	Abb.	Description
3/6/12 MMA	3/6/12 month moving average	IMF	International Monetary Fund
AI	Alternative investments	LatAm	Latin America
APAC	Asia Pacific	Libor	London interbank offered rate
bbl	barrel	m b/d	Million barrels per day
BI	Bank Indonesia	M1	A measure of the money supply that includes all physical money, such as coins and currency, as well as demand deposits, checking accounts and negotiable order of withdrawal accounts.
BoC	Bank of Canada	M2	A measure of money supply that includes cash and checking deposits (M1) as well as savings deposits, money market mutual funds and other time deposits.
BoE	Bank of England	M3	A measure of money supply that includes M2 as well as large time deposits, institutional money market funds, short-term re-purchase agreements and other larger liquid assets.
BoJ	Bank of Japan	M&A	Mergers and acquisitions
bp	Basis points	MAS	Monetary Authority of Singapore
BRIC	Brazil, Russia, China, India	MLP	Master Limited Partnership
CAGR	Compound annual growth rate	MoM	Month-on-month
CBOE	Chicago Board Options Exchange	MPC	Monetary Policy Committee
CFO	Cash from operations	OAS	Option-adjusted spread
CFROI	Cash flow return on investment	OECD	Organisation for Economic Co-operation and Development
DCF	Discounted cash flow	OIS	Overnight indexed swap
DM	Developed Market	OPEC	Organization of Petroleum Exporting Countries
DMs	Developed Markets	P/B	Price-to-book value
EBITDA	Earnings before interest, taxes, depreciation and amortization	P/E	Price-earnings ratio
ECB	European Central Bank	PBoC	People's Bank of China
EEMEA	Eastern Europe, Middle East and Africa	PEG	P/E ratio divided by growth in EPS
EM	Emerging Market	PMI	Purchasing Managers' Index
EMEA	Europe, Middle East and Africa	PPP	Purchasing power parity
EMs	Emerging Markets	QE	Quantitative easing
EMU	European Monetary Union	QoQ	Quarter-on-quarter
EPS	Earnings per share	r.h.s.	right-hand side (for charts)
ETF	Exchange traded funds	RBA	Reserve Bank of Australia
EV	Enterprise value	RBI	Reserve Bank of India
FCF	Free cash flow	RBNZ	Reserve Bank of New Zealand
Fed	US Federal Reserve	REIT	Real estate investment trust
FFO	Funds from operations	ROE	Return on equity
FOMC	Federal Open Market Committee	ROIC	Return on invested capital
FX	Foreign exchange	RRR	Reserve requirement ratio
G10	Group of Ten	SAA	Strategic asset allocation
G3	Group of Three	SDR	Special drawing rights
GDP	Gross domestic product	SNB	Swiss National Bank
GPIF	Government Pension Investment Fund	TAA	Tactical asset allocation
HC	Hard currency	TWI	Trade-Weighted Index
HY	High yield	VIX	Volatility Index
IBD	Interest-bearing debt	WTI	West Texas Intermediate
IC	Credit Suisse Investment Committee	YoY	Year-on-year
IG	Investment grade	YTD	Year-to-date
ILB	Inflation-linked bond	Personal Consumption Expenditure (PCE deflator)	An indicator of the average increase in prices for all domestic personal consumption.

Currency codes frequently used in reports

Code	Currency	Code	Currency
ARS	Argentine peso	KRW	South Korean won
AUD	Australian dollar	MXN	Mexican peso
BRL	Brazilian real	MYR	Malaysian ringgit
CAD	Canadian dollar	NOK	Norwegian krone
CHF	Swiss franc	NZD	New Zealand dollar
CLP	Chilean peso	PEN	Peruvian nuevo sol
CNY	Chinese yuan	PHP	Philippine peso
COP	Colombian peso	PLN	Polish złoty
CZK	Czech koruna	RUB	Russian ruble
EUR	Euro	SEK	Swedish krona/kronor
GBP	Pound sterling	SGD	Singapore dollar
HKD	Hong Kong dollar	THB	Thai baht

HUF	Hungarian forint	TRY	Turkish lira
IDR	Indonesian rupiah	TWD	New Taiwan dollar
ILS	Israeli new shekel	USD	United States dollar
INR	Indian rupee	ZAR	South African rand
JPY	Japanese yen		

Important information on derivatives

Pricing	Option premiums and prices mentioned are indicative only. Option premiums and prices can be subject to very rapid changes: The prices and premiums mentioned are as of the time indicated in the text and might have changed substantially in the meantime.
Risks	Derivatives are complex instruments and are intended for sale only to investors who are capable of understanding and assuming all the risks involved. Investors must be aware that adding option positions to an existing portfolio may change the characteristics and behavior of that portfolio substantially. A portfolio's sensitivity to certain market moves can be heavily impacted by the leverage effect of options.
Buying calls	Investors who buy call options risk the loss of the entire premium paid if the underlying security trades below the strike price at expiration.
Buying puts	Investors who buy put options risk loss of the entire premium paid if the underlying security finishes above the strike price at expiration.
Selling calls	Investors who sell calls commit themselves to sell the underlying for the strike price, even if the market price of the underlying is substantially higher. Investors who sell covered calls (own the underlying security and sell a call) risk limiting their upside to the strike price plus the upfront premium received and may have their security called away if the security price exceeds the strike price of the short call. Additionally, the investor has full downside participation that is only partially offset by the premium received upfront. If investors are forced to sell the underlying they might be subject to taxing. Investors shorting naked calls (i.e. selling calls but without holding the underlying security) risk unlimited losses of security price less strike price.
Selling puts	Put sellers commit to buying the underlying security at the strike price in the event the security falls below the strike price. The maximum loss is the full strike price less the premium received for selling the put.
Buying call spreads	Investors who buy call spreads (buy a call and sell a call with a higher strike) risk the loss of the entire premium paid if the underlying trades below the lower strike price at expiration. The maximum gain from buying call spreads is the difference between the strike prices, less the upfront premium paid.
Selling naked call spreads	Selling naked call spreads (sell a call and buy a farther out-of-the-money call with no underlying security position): Investors risk a maximum loss of the difference between the long call strike and the short call strike, less the upfront premium taken in, if the underlying security finishes above the long call strike at expiration. The maximum gain is the upfront premium taken in, if the security finishes below the short call strike at expiration.
Buying put spreads	Investors who buy put spreads (buy a put and sell a put with a lower strike price) also have a maximum loss of the upfront premium paid. The maximum gain from buying put spreads is the difference between the strike prices, less the upfront premium paid.
Buying strangles	Buying strangles (buy put and buy call): The maximum loss is the entire premium paid for both options, if the underlying trades between the put strike and the call strike at expiration.
Selling strangles or straddles	Investors who are long a security and short a strangle or straddle risk capping their upside in the security to the strike price of the call that is sold plus the upfront premium received. Additionally, if the security trades below the strike price of the short put, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short put and will also experience losses in the security position if they owns shares. The maximum potential loss is the full value of the strike price (less the value of the premium received) plus losses on the long security position. Investors who are short naked strangles or straddles have unlimited potential loss since, if the security trades above the call strike price, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short call. In addition, they are obligated to buy the security at the put strike price (less upfront premium received) if the security finishes below the put strike price at expiration.

Important information on mutual funds
Fees and charges, etc.

Different types of fees and commissions (subscription fee, amount which must be retained in trust assets, repurchase fee, etc.) are charged when investment trusts/funds are purchased and sold. In addition, apart from these fees and commissions, trust and management fees and other fees (audit fee, trust administrative charges, carried interest, etc.) are charged and borne by you through your trust asset. Fees and commissions borne by you will be a sum of these amounts. Such fees and commissions vary depending on the investment trust/fund and depending on the investment status, and therefore, we cannot provide specific amounts or calculation methods.

For detailed information on fees and commissions, etc. of each respective investment trust/fund, please refer to the pre-contract documents (prospectus and other supplementary documents).

Important information on dividends:

• Dividends are different to interest on deposits and are paid from the net asset value of investment trusts/funds. Therefore, when dividends are paid, the base value (net asset value per unit) will decrease by an amount equivalent to the amount paid.

• Dividends may be paid exceeding the profit earned during the calculation period (trading profit including profits of dividends, etc. after expenses). In this case, the base value (net asset value per unit) on the settlement date in this period will decrease compared to that on the settlement date in the previous period. Also, the level of dividends does not always reflect the rate of return for the investment trust/fund during the calculation period.

• A part or all of dividends may be virtually equivalent to some repayment of the principal depending on the purchase price of the investment trust/fund by an investor. The same can be applied to a case that an increase in the base value (net asset value per unit) is smaller than a dividend amount due to the investment status after purchase of the investment trust/fund.

Please refer to the prospectus for details.

Explanation of major risks (description pursuant to Article 37 (Regulation on Advertising, etc.) of the Financial Instruments and Exchange Act, etc.)

The risks described below are a summary of some general risks of investment trusts/funds (risks which have an impact on net asset value) and do not cover all risks. Please refer to the pre-trade documents (prospectus and other supplementary documents).

Price volatility risk:

Investment trusts/funds invest mainly in equities, bonds and derivative products, etc. The value of the investment trust/fund will go up or down due to increases or decreases in the prices of such investments. Further, the value of such investments will be impacted by political and economic factors, the financial standing of an issuer, market demand and supply, interest rates and other factors.

Foreign currency risk:

Investment trusts/funds which invest in equities or bonds, etc. denominated in foreign currencies entail a foreign currency risk, and the base value (or net asset value) of investment trusts/funds may change depending on the currency exchange rate. Even when you do not experience a loss of investment principal when calculated in the base currency, you may suffer a loss at conversion into Japanese yen due to fluctuations in exchange rates. Furthermore, investment trusts/funds which utilize currency trading among multiple currencies may incur costs due to such currency trading depending on the difference in short-term interest rates between the currencies, and you may suffer a loss.

Credit risk:

For investment trusts/funds which invest in equities or bonds, etc., the prices of these investments may increase and decrease due to changes in the business or financial standing of the issuer and other factors, and you may suffer a loss.

Risk pertaining to liquidity:

Where there is sudden high volume in a particular investment or when sudden changes in the external environment surrounding markets triggers a sudden downturn in a market or period of market turmoil, etc., investments may not be flexibly traded. In such a case, a decline in the price of the investment may impact the base value (or net asset value) of the investment trust, resulting in a loss. Further, the management company may decide to stop calculation of net asset prices or suspend sell or redemption claims.

In addition, for certain types of investment trust/fund there is a risk that particular investments may be designated to a separate account (or side pocket) due to a lack of liquidity. When a separate account is utilized by investment trusts/funds restrictions may apply as to when such investments can be liquidated through a sell or redemption claim and there may be a restriction in the timing or form of redemption claim permissible. In particular, for Fund of Fund investments, when an investment trust/fund makes an investment without time limit in another fund, the investment trust/fund may be influenced by investment results in the other funds.

Risk associated with an outflow of money received from sales orders:

When there is a large volume of sale orders in a short period of time, the investment trust/fund may be forced to sell structured securities at a lower rate than the prevailing market price to refund monies to investors and as a result you may suffer a loss. Also, alternative investment trusts/funds generally have a limitation in selling or cashing out the investment compared to traditional investment trusts/funds. Many alternative investment trusts/funds only accept a sell or redemption order on a monthly or quarterly basis and therefore you may not be able to rapidly exit the investment in, for example, times of economic uncertainty.

Redemption risk:

Investment trusts/funds may become subject to mandatory redemption due to a certain reason. For details, please refer to the pre-trade documents (prospectus and other supplementary documents) before subscription.

Concentration risk:

Investment trusts/funds which invest in a certain investment product or similar investment product group may significantly decrease in value (net asset value) under severe market circumstances.

Country risk:

When changes in political, economic and social conditions in investment destination countries and regions cause a dislocation in financial and security markets, security prices may significantly change. Also, investments in emerging markets involve unique risks including small market size and trade volume, political and social uncertainties, undeveloped market infrastructure such as a clearing system, undeveloped information disclosure system and legal system by supervising authorities, large fluctuations in exchange rates, restrictions on currency remittance to foreign countries and other factors, and, therefore, may have larger price fluctuations compared to investments in major developed markets.

Important information on non-Japanese stocks

Please refer to the issuer information when you purchase non-Japanese stocks.

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Structured securities and derivatives are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security or transaction may be affected by changes in financial market conditions, reference indices, volatility and the credit quality of any issuer or reference issuer.

Furthermore, there are structured securities on which you may incur a loss since the redemption amounts are linked with fluctuations in reference indices, etc. There are also derivatives on which potential losses may exceed the amount of the initial investment. Commission rates for any transactions will be as per the rates agreed between Credit Suisse and you. For transactions conducted on a principal to principal basis between Credit Suisse and you, the purchase or sale price will be the total consideration. Transactions conducted on a principal to principal basis, including over the counter derivatives transactions, will be quoted as a purchase/bid price or sell/offer price and for which a difference or spread may exist. Charges in relation to transactions will be agreed prior to dealing as per our requirements under the Financial Instruments and Exchange Law.

By purchasing financial instruments, etc., you may incur a loss or a loss in excess of the principal as a result of fluctuations in market prices or other financial indices, etc. Please read carefully the Pre-Contract Documentation provided for an explanation of associated risks and commissions etc. of individual financial instruments, etc. prior to purchase. Please contact your Relationship Manager if you have any questions.

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