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Healthcare: Staying the course into virus season

Investment Weekly |

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Cautious but not on the sidelines

Soichiro Matsumoto
Chief Investment Officer Japan

Equity indices have recovered from their October lows amid a less hawkish Federal Reserve as US inflation peaked. Yet, our Investment Committee continues to view equity markets with caution. Challenged corporate profitability and margin pressure linked to the economic slowdown are likely to lead to head-winds in 2023. Yet opportunities exist, and in our House View, we prefer the defensive healthcare sector.

In fixed income, a key Investment Outlook 2023 view is that the asset class will make a comeback after years of unattractively low yields, as they have now reached levels that offer some protection against adverse market effects.

Yields of 10-year government bonds
USA, Germany, UK and Switzerland

Last data point: 01/12/2022. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Bloomberg Finance L.P., Credit Suisse

Fixed income renaissance

Nannette Hechler-Fayd'herbe
Chief Investment Officer - EMEA

One of the key views of our Investment Outlook 2023 is that fixed income as an asset class will make a comeback after years of unattractively low yields. Yields have now reached levels that offer some protection against adverse market effects that will likely occur as we work through a period of substantial economic uncertainty. For example, 10-year US real yields are around 1.25%. In a recent speech, Federal Reserve (Fed) Chairman Jerome Powell guided clearly toward a slowing of the Fed's hiking pace as soon as December 2022, and we expect the end of the Fed's tightening cycle to be in March 2023. We thus believe that the time is right to start increasing exposure to fixed income assets as we move into 2023. Our Top Investment Ideas for 2023 feature four fixed income ideas which I recap this week.

US and Swiss government bonds
We anticipate that the return outlook for global treasury indices will be positive in 2023, in contrast to 2022. US government bonds with three- to five-year maturities are already attractive, in our view, as a carry trade from a buy-and-hold perspective. Later in 2023, as US policy rates peak, US government bonds may also offer increased tactical opportunities. In Switzerland, we expect Swiss inflation to fall back below 2% in 2023 and regard Swiss government bonds as a safe haven that should offer diversification properties in CHF portfolios. Moreover, for CHF-based risk-averse investors who wish to hold an alternative to cash, we think Swiss government bonds (Eidgenossen) can offer an interesting alternative.

Senior financial bonds
Third-quarter 2022 bank results were largely better than expected, with earnings holding up well and capitalization remaining strong. Interest rate tailwinds have further increased across the sector, especially on the deposit side, while fierce competition is weighing on lending margins in many countries. Net interest income will continue to support banks' bottom line in coming quarters, in our view, with further rate increases expected in coming quarters. Asset quality measured in terms of non-performing loans (NPL) is sound, helped by active NPL management strategies. Healthy pre-provision profitability represents a substantial buffer to absorb higher credit risk costs in a deteriorating economic context. We thus see senior financial bonds with a short to medium maturity as an attractive investment for buy-and-hold investors given solidly positive yields and robust fundamentals.

High-quality corporate credits
Spreads for investment grade (IG) corporate bonds have widened in 2022, in line with volatile financial markets, lower economic growth and recession expectations in certain regions. However, global credit quality and fundamentals across the IG universe have remained resilient. Although we expect any recession to affect credit quality, rising defaults should not substantially impact valuations in the higher-quality segment, as historical default rates in IG are low. For investors who can take on risk and tolerate potential financial market volatility, corporate hybrids are an attractive area to invest in, in line with our conviction on BBB/BB rated credit. However, investors need to be selective to avoid idiosyncratic and one-off events for single names, in particular in this more volatile asset class. In high yield (HY), we favor the high-quality rating bucket, where refinancing risk is not significant, providing companies with flexibility in their new bond issuance at a time when financing costs are markedly higher than in recent years. Within corporate credit overall, we see USD bonds as most attractive given their high absolute returns, though core CHF bonds have also become more attractive due to their positive absolute returns, as well as their wider credit spread, which makes direct investment with moderate risk attractive again.

Emerging market hard currency bonds
While fundamentals in emerging markets (EM) tend to be better than in developed markets, we see some regions as more resilient than others, which makes selection and focus key when investing. The risk of a slowdown or even a recession in China, the country's continued zero-COVID strategy and geopolitical tensions in Europe will likely weigh on selected regions, while the outlook is brighter for Latin America and the Gulf Cooperation Council (GCC). For Latin America, we expect stronger growth in Brazil, Colombia and Mexico. We are pivoting away from commodities exports to a more balanced exposure between cyclical and non-cyclical sectors and regions that can potentially benefit from any setback in commodities. Our preferred positioning is thus diversified exposure to Asia, in addition to select Latin American credits where valuation remains attractive. GCC countries are witnessing relatively buoyant domestic economic conditions that reflect the robust macroeconomic recovery the region has experienced in 2022 given the strong performance of both the oil and non-oil sectors and the rather contained inflationary pressures. While economies around the world are confronting the challenges arising from geopolitical risks, elevated inflation and tightening financial conditions to varying extents, near-term tailwinds underpin the fundamentals of GCC sovereign and corporate bonds. (01/12/2022)

Healthcare: Staying the course into virus season

The healthcare sector has substantially outperformed broader equity markets this year and we see reasons for that outperformance to continue.

At a time of synchronous increases in COVID-19, RSV and influenza cases – which might well strain healthcare resources – we think it pays to be selective and see large, diversified biopharmaceutical companies as the most readily investable.

Lorenzo Biasio
Equity Research Analyst – Healthcare

In a memorable year for the stock market, the healthcare sector has delivered a year-to-date (YTD) total return of –6.2% (as of 28 November), substantially outperforming broader equity markets. Against a backdrop of lingering uncertainties and questions on the macroeconomic flight path, we continue to see the sector's characteristics and fundamentals as appealing to investors: Notably, sector revenues are sustainably underpinned by demographic changes (i.e. population aging) and to a large part insulated or even independent from the broader macroeconomic development. Furthermore, the sector continues to deliver significant innovations to patients, enabled by new biotechnological toolbox additions such as nucleic acid therapies or gene therapies, while patent expiries over the coming years remain at manageable levels across the industry. And after the passing of the Inflation Reduction Act – which harbors certain drug pricing legislation – the scope for surprising incremental price reform seems limited.

At present, we find evidence of yet another increase in COVID-19 case numbers and surging respiratory syncytial virus (RSV) numbers, which coincide with projections of a stronger-than-expected influenza season – a situation sometimes referred to as a "tripledemic." As such, we would not be surprised to see healthcare resources coming under increasing strain in the coming months, particularly driven by a caregiver shortage. If confirmed, the recovery in elective procedures (relevant for Medtech) could be further postponed, calling for significant investor selectivity and making the stocks of large, diversified, commercial, multinational biopharmaceutical companies the most readily investable. Beyond, we see select opportunities in small- and mid-cap biotechnology stocks and in specific segments of Life Sciences Tools & Services.

Valuation of the MSCI World Healthcare Index: 12-month forward price/earnings ratio

Last data point: 17/11/2022. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Bloomberg, Credit Suisse/IDC

(01/12/2022)

China real estate bonds: Support measures trigger rebound

China recently announced a host of measures aimed at strengthening developers' liquidity and reducing default risk.

Property sales in China should stabilize on the back of more such demand-boosting measures in the coming months.

Daniel Tam
Credit Research Analyst – Greater China

The Chinese government announced extensive measures to support the stalled real estate sector in November 2022. The measures focus on strengthening developers' liquidity amid sluggish property sales, providing additional funds for project completion, and reviving homebuyers' confidence. The faster-than-expected pace of implementation of these measures has triggered a strong rebound in real estate bond prices, including distressed and defaulted real estate bonds. Nevertheless, uncertainty remains over the effectiveness of these measures in driving a sustained recovery, especially in property sales. Any delay in their implementation could trigger some profit-taking, in our view.

The regulatory support to the real estate sector is extensive, in our view. It includes i) pushing major banks to provide additional credit facilities to developers that are yet to default, and allowing them to extend construction and trust loans due within six months for up to 12 months, while keeping the loans' classification unchanged; ii) supporting developers to issue onshore bonds with guaranteed mechanism; iii) encouraging policy banks and financial institutions to provide additional lending to support project delivery; and iv) suggesting banks to relax excessive control over developers' pre-sales escrow accounts. The regulator has also lifted a ban on A-share and H-share developers to raise equity financing via private placements.

Meanwhile, the central bank and real estate regulator have extended support to banks by cutting the reserve requirement ratio by 25 basis points, effective from 5 December 2022 – a measure that is likely to inject more than CNY 500 bn in liquidity into the economy. Commercial banks that exceed the lending limits to developers and homeowners will be given an extended period of time to comply with the lending requirements. In the event that commercial banks increased lending to support project delivery and the lending turned into non-performing loans, banks would not be held responsible, provided proper due diligence was conducted.

As property sales remain a key source of liquidity for developers, we expect the government to announce more national measures to boost housing demand. A number of second and lower tier cities have already reduced down-payment ratios and mortgage rates, besides relaxing purchase and sales restrictions. After some easing of COVID-19 restrictions, announced on 30 November 2022, we believe that the government might also consider relaxing some of the more restrictive real estate measures in first-tier cities, though the price cap restriction could remain in place.

While most of the measures that were announced recently do not focus on the developers that are already in default, we believe the measures will support a faster recovery in the real estate sector and indirectly benefit both distressed and defaulted developers alike. In view of the uncertainties surrounding the implications of the supportive policies, we continue to favor developers with healthy property sales, good quality land banks in first-tier cities, and large-scale unpledged investment properties. (01/12/2022)

Targets & tactical views

		Market data as of 01/12/2022	Targets		Tactical Views	
Equities	**Index**	**YTD %**	**3m**	**12m**	**Absolute**	**Relative**
MSCI AC World (DM & EM)	1698	-11.4	1510	1680	↘	n.a.
MSCI World (Developed Markets)	9628	-11.1	8600	9550	↘	Benchmark
MSCI USA	17934	-14.9	16000	17800	↘	Neutral
S&P 500	4077	-14.5	3600	4000	↘	Neutral
MSCI EMU	520	-8.6	450	500	↘↘	Underperform
MSCI Switzerland	5319	-13.2	5250	5450	→	Outperform
MSCI UK	18847	8.7	16750	18500	↘	Neutral
MSCI Japan	2951	1.1	2700	2950	↘	Neutral
MSCI EM (Emerging Markets)	147430	-13.5	129000	142000	↘	Neutral
MSCI Sectors (GICS)	**Index**	**YTD %**	**3m**	**12m**	**Absolute**	**Relative**
MSCI World (Developed Markets)	9628	-11.1	8600	9550	↘	Benchmark
MSCI World Energy	548	59.3	525	580	↘	Neutral
MSCI World Materials	589	-2.2	500	550	↘↘	Underperform
MSCI World Industrials	508	-5.7	475	530	↘	Neutral
MSCI World Consumer Disc.	472	-24.2	415	465	↘	Neutral
MSCI World Consumer Staples	512	0.2	475	525	↘	Neutral
MSCI World Healthcare	556	-1.1	530	570	→	Outperform
MSCI World Financials	273	-3.1	253	280	↘	Neutral
MSCI World IT	548	-23.5	482	535	↘	Neutral
MSCI World Com. Services	163	-30.8	154	172	↘	Neutral
MSCI World Utilities	382	-0.7	360	400	↘	Neutral
MSCI World Real Estate	1229	-19.9	1130	1250	↘	Neutral
Government bonds	**Yield 10y**	**YTD bp**	**3m**	**12m**	**Absolute**	**Duration**
USD	3.6	211.2	4.2	4.1	→	Neutral
EUR	1.93	210.7	2.7	2.8	↗	Short Duration
GBP	3.16	219.0	3.7	4.1	→	Neutral
CHF	1.11	124.8	1.3	1.4	→	Neutral
Fixed income	**Index**	**YTD %**	**3m**	**12m**	**Absolute**	**Relative**
Bloomberg Global Aggregate	530	-10.0	520	525	→	Benchmark
Bloomberg Global IG Corp	262	-13.3	250	252	→	Neutral
Bloomberg Global HY Corp	396	-10.6	379	382	→	Neutral
JPM EMBI Global Diversified HC	801	-18.1	771	814	↗	Outperform
JPM GBI-EM Global Diversified LC	199	-9.2	196	198	→	Neutral
Commodities	**Index**	**YTD %**	**3m**	**12m**	**Absolute**	**Relative**
Bloomberg Commodities	250	18.3	240	237	↘	Benchmark
BCOM Precious metals	442	-5.5	408	430	↘	Neutral
BCOM Energy	103	55.5	105	97	→	Outperform
BCOM Industrial metals	342	-7.5	300	303	↘	Neutral
Gold	1777	-2.8	1650	1750	↘	Neutral
WTI Oil	80	6.9	90	80	→	Outperform
FX Total Return Indices	**Index**	**YTD %**	**3m**	**12m**	**Absolute**	**Relative**
USD DXY TR Index	119	12.2	124.1	122.8	→	n.a.
MSCI EM FX TR Index	1633	-5.7	1565	1602	↘	n.a.
FX Spot	**Spot**	**YTD %**	**3m**	**12m**	**Absolute**	**Relative**
USD/CHF	0.94	3.3	0.95	0.95	→	n.a.
USD/JPY	136.82	18.9	145	135	→	n.a.
EUR/USD	1.04	-8.3	1	1.02	→	n.a.
GBP/USD	1.21	-10.7	1.16	1.14	→	n.a.
EUR/CHF	0.98	-5.2	0.95	0.97	↘	n.a.
AUD/USD	0.68	-6.3	0.65	0.66	→	n.a.
USD/CAD	1.34	6.2	1.35	1.30	→	n.a.

Tactical views are for 3-6 months. Targets are indicative index levels, yields and total returns expected to be reached during the stated time horizon. Relative views are expressed as expected performance relative to specified benchmark; for government bonds, it is the preferred position versus the duration of the 1-10y country index. Fixed income indices are hedged in USD. 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.

Source: Bloomberg, Credit Suisse/IDC

Glossary

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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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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