INVESTMENT SOLUTIONS & PRODUCTS

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Editorial

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The beginning of 2016 has been characterised by a high level of capital market volatility, notable declines in global equity markets and commodities and the widening of fixed income credit spreads. A key factor has been the removal of sanctions against Iran at a time when major oil producers such as Russia and Saudi Arabia have been maintaining output, thereby ensuring that oil supply surpluses have continued. In addition, despite China's 6.9% growth rate in 2015, investors are concerned about the risks of growth decelerating when the Chinese equity market and the yuan remain under pressure. It is reasonably clear that market selling has occurred from the commodity-based sovereign wealth funds. Investor concerns are also heightened over the global growth and inflation outlook, and the prospect of further Federal Reserve rate increases.

In this environment, we are taking a neutral view toward fixed income overall and find that a renewed focus on alternative assets such as long/short strategies (our special focus) is relevant. We further review the Asian real estate market in more detail, and provide a snapshot of our new strategic asset allocations with which to start the year.

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Editorial deadline: 01 February 2016

Investment strategy and asset allocation

Not (yet) the time to add equity risk

- Our economists expect weaker Chinese growth, but the global economy should still expand by more than 3% this year. Low oil prices put downward pressure on inflation, with the central bank expected to err on the side of caution as a result.
- Global equities have had their worst start to a year on record, so we recommend staying neutral waiting for catalysts for a rebound. We have become neutral on fixed income as subdued inflation limits the upward move in yields.

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After an already rather challenging 2015, the beginning of 2016 has proved to be rough for investors, with equities having had their worst start to a year on record. A combination of factors lies at the origin of the sell-off, with worries about the state of the economy in China and fears of a global recession playing an important role. However, taking a closer look at macroeconomic data and developments in the past weeks, the recent growth scare among investors seems overstated, and we believe that the fundamental picture still looks rather supportive for markets, contrary to technical signals which warrant some caution.

US economic growth should continue to expand at a pace above 2%, supported by strong domestic consumption on the back of a solid labor market, and given impetus from the low oil price. The latest manufacturing PMI also supports this view, as it came in above expectations at 52.7, thereby rebounding from its 38-month low. Given the health of the US economy, we expect the Federal Reserve to proceed with rates hikes this year (75bp overall), though low inflation and market turbulences are tipping the scale towards more cautious tightening.

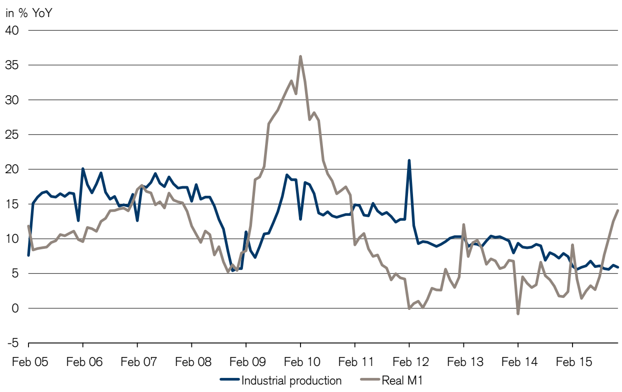
The Eurozone economy is showing good momentum, and in our view factors are in place for the economic recovery to continue and GDP growth to reach 1.7% in 2016. While the first estimate of the January Eurozone composite PMI moderated somewhat to 53.2, it remains well in expansion territory. High consumer confidence, the low oil price and solid credit dynamics should support the Eurozone recovery. Moreover, after (disappointing) policy action in December 2015, the European Central Bank (ECB) stayed put at its January meeting, while expressing a clearly dovish tone, however. At the next policy meeting in March, the ECB will, according to President Mario Draghi, “review and possibly reconsider” monetary stimulus, when staff projections will be extended by one year to 2018. Given low inflation and the stronger EUR, additional monetary easing is thus likely in our view, most probably in the form of lower interest rates.

One year after the Swiss Franc shock and after avoiding recession, Switzerland’s economy still faces challenges (e.g. export recovery expected to be sluggish, domestic demand expected to weaken, currency pressure and low inflation expected to persist) but the recent improvement in leading indicators such as the Purchasing Manager’s index (rising to 52.3 in December) point to further growth, though still very subdued. We expect the Swiss National Bank to continue to watch ECB action closely and intervene in the currency market to prevent upward pressure on the CHF.

In China, the picture currently looks less supportive, which has led our economists to revise the GDP growth forecast for 2016 down to 6.5% from 7.0% previously. The main reason behind this revision is the weaker-than-expected monetary policy transmission mechanism. Moreover, policy-makers have not provided adequate action and guidance to stabilize negative sentiment, as they have not loosened monetary and fiscal policy in as quick and forthcoming a manner as we had anticipated.

Despite the fact that prospects for China have weakened, our economists nevertheless expect global GDP to expand by 3.2% in 2016. As for inflation, it is expected to remain subdued, particularly given the oil price slump. Central banks are likely to err on the side of caution as a result.

China: Industrial Production vs. Real M1

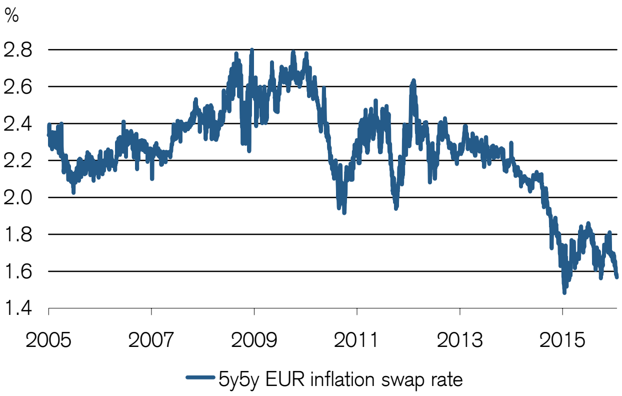


Source: Datastream, Credit Suisse / IDC

Fixed income

The fixed income space is the main beneficiary of the current risk aversion in the markets. Government bond yields have fallen significantly in January, with the yield on 10Y US Treasuries and German Bunds falling under 2% and 0.5% respectively. Given the oil price slump and resulting downward pressure on inflation, bond yields seem to better reflect fundamentals than they did last year. The technical picture has also improved (and is now neutral), indicating limited upside for bond yields over the next 3–6 months. As a result, we have moved our view on global fixed income to neutral from underperform, and closed our short-duration view. We advise investors to raise their bond allocation to neutral by adding exposure to investment grade credits, for which valuations look attractive. However, we would focus on the higher quality segment and be particularly cautious when selecting issuers rated BBB, given increasing downside risks. Back in December, we had moved our outperform view on high yields to neutral, given deteriorating fundamentals (i.e expectations for higher default and lower recovery rates), and we currently maintain this neutral stance. We are also remaining neutral on emerging-market debt, though opportunities might soon arise in hard-currency bonds following the spread widening. Government bonds (and particularly UK Gilts) are the asset class we favor least within the fixed income space, and after the fall in inflation expectation and the low probability of a meaningful pick-up over our investment horizon, we no longer favor inflation-linked over government bonds.

Eurozone – Inflation expectations, 5y5y forward, inflation swap



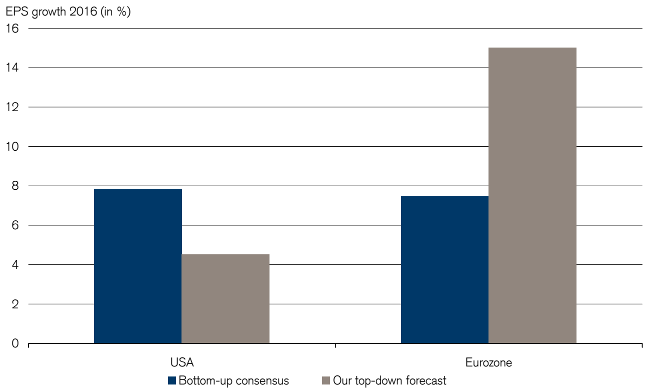
Source: Bloomberg, Credit Suisse / IDC

Equity

The drastic fall in the oil price, reduced market liquidity and the beginning of monetary policy tightening in the USA have added to the Chinese and global growth fears mentioned above, with the combination of these factors leading global equities (MSCI AC World) to fall by roughly 10% in the first 12 trading days of the year. We currently observe a decoupling between the fundamental picture on the one side, which as previously described remains rather supportive of risk assets, and signals on the other hand from technical analysis, which clearly point towards further weakness due to many indices having broken important support levels. Valuations meanwhile have improved, but they are not yet signaling that equities are inexpensive. As a result, and given that in our view catalysts are currently not (yet) in place for a broad market recovery, we are reluctant to add risk to our portfolios, and are maintain a neutral stance on the overall equity market. Improvements on the liquidity side, a better-than-expected earnings season and a resurgence in US buybacks are among the factors we are looking for in order to see improved momentum in the market.

While not adding to our equity exposure at this stage, our regional preferences remain well defined. As such, for investors having an equity quota that is below benchmark, the current weakness offers opportunities to gradually close this gap via our favored markets, namely the Eurozone, Switzerland and Australia. Eurozone equities should outperform on the back of the economic momentum and potential additional easing from the ECB, which should on a medium-term horizon drive the EUR lower again. Moreover, earnings in the Eurozone have more catch-up potential, and we actually expect higher earnings growth compared to the United States.

Bottom-up consensus vs. our own top-down EPS growth forecast 2016



Source: Datastream, Credit Suisse / IDC

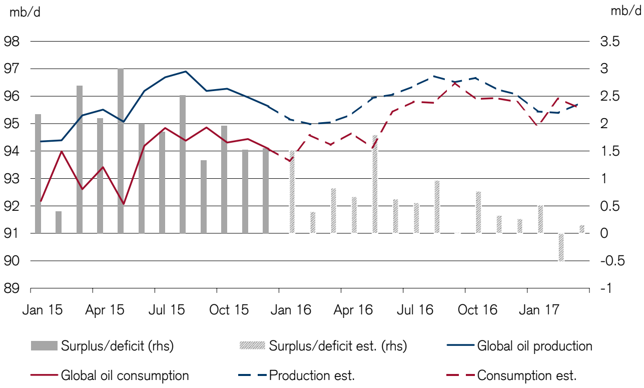
As is the case with Eurozone equities, the Swiss market is supported by an accommodative central bank and is benefiting from the stabilization in the CHF. Moreover, the Swiss market has more than one-third exposure to the healthcare sector, which remains our favorite sector together with IT and telecom. As for Australia, it benefits from attractive valuations and an improved technical picture compared to the global index. The USA and the UK are two markets we expect to underperform, given weaker relative fundamentals and prospects for higher rates as well as a stronger USD over the medium term for the former. As for the UK, commodity exposure remains a drag, while the currency and noise surrounding a potential Brexit are a risk. Our view on emerging markets is neutral, and while we continue to favor the Asian region, we no longer expect China to outperform given the weaker growth prospects, and thus hold a neutral view.

Alternative investments

Alternative investments play an important role in a portfolio as they enable better diversification. However, (risk-adjusted) performance between the different sub-asset classes can vary greatly, which was the case last year and this should persist in 2016 as well. Within alternative investments, we favor hedge funds as they are expected to deliver higher risk-adjusted returns compared to commodities and real estate. Nevertheless, return expectations for the year are modest (i.e. low single-digit). We are neutral on real estate, favoring UK-REITs due to solid fundamentals and the fact that strong EPS growth is expected at a company level, while expecting REITS from Developed Asia ex. Japan to underperform based on weaker fundamentals.

We are not changing our assessment for the commodities space. At around 30 USD per barrel at the time of writing, oil clearly looks cheap. Despite a reduction in US oil production however, global supply continues to grow, and the market is unlikely to rebalance before Q4 2016. As such, we are staying neutral on commodities, and now favoring agriculture given rising weather risks and more adequate supply response.

The oil market may only return to balance in Q4 2016/Q1 2017

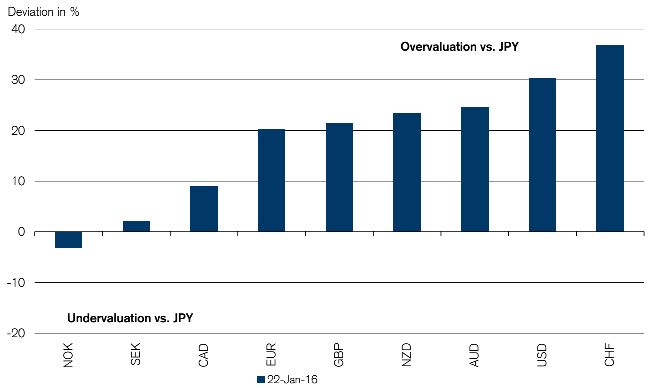


Source: EIA STEO January 2016, Bloomberg, Credit Suisse

Foreign exchange

Our long-held scenario of monetary policy divergence between the USA and the UK on one side, and the Eurozone and Switzerland on the other remains intact. In December however, following the first rate hike by the Fed, we tactically neutralized our long USD view. Historically, the USD tends to strengthen going into a first policy rate hike, and consolidate thereafter before resuming an upward trend. As such, we are currently neutral on the USD vs. the EUR and the CHF, but still expect diverging monetary policy to drive the USD higher in 2016. We are staying neutral on EUR/CHF given narrow rate spreads. The JPY is our favorite currency, given inexpensive valuations and supportive technicals, while we are remaining cautious on emerging market currencies. The low oil price is weighing on commodity-related currencies, while market forces should drive the CNY lower, as the People's Bank of China has stepped away from active intervention.

Fair Value (FV) deviation in % vs JPY



Source: Bloomberg, Credit Suisse / IDC

(26/01/2016)

Special focus

Generating returns through alternative sources of fixed income

- The Swiss franc fixed income market is exhibiting low or even negative yields together with historically high benchmark risks.
- In the current climate, investors need to look beyond traditional fixed income offerings to fulfill their yield and return requirements. Absolute return long/short strategies are one such option. They can offer higher return potential with similar risk profiles to traditional fixed income strategies.

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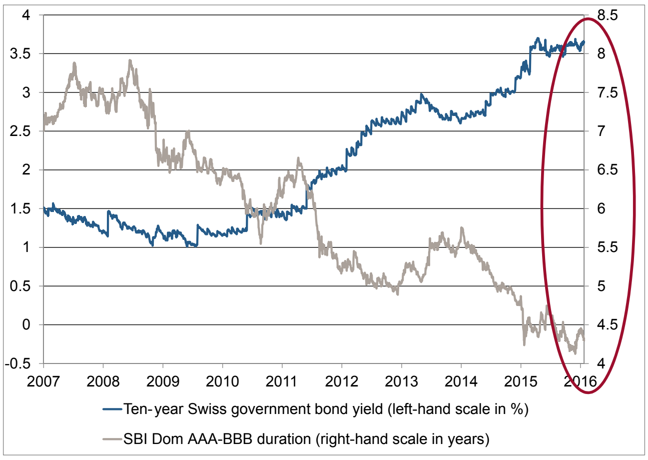
Risk/return relationship is out of balance for Swiss franc bond investors

Although we have started a new year, for fixed income investors very little has changed, with little return to be had in developed world government paper or investment grade corporate bonds. In Switzerland, the Swiss franc fixed income market has experienced a near 25-year rally with government bond yields decreasing from over six percent in 1992 to negative territory today. At the same time, credit spreads have reverted to their historical averages. This means that credit risk premia has only limited potential to mitigate the effects of low yields.

In the face of falling interest rates, many debt issuers have been refinancing at longer maturities, leading to longer durations in Swiss fixed income benchmarks and, accordingly, higher portfolio exposures to interest rates and credit spreads. These historically high benchmark risks contrast with yields that are close to zero or negative, leading to a risk/return relationship that is completely out of balance.

Ten-year Swiss government bond yield vs. Swiss Bond Index Domestic duration



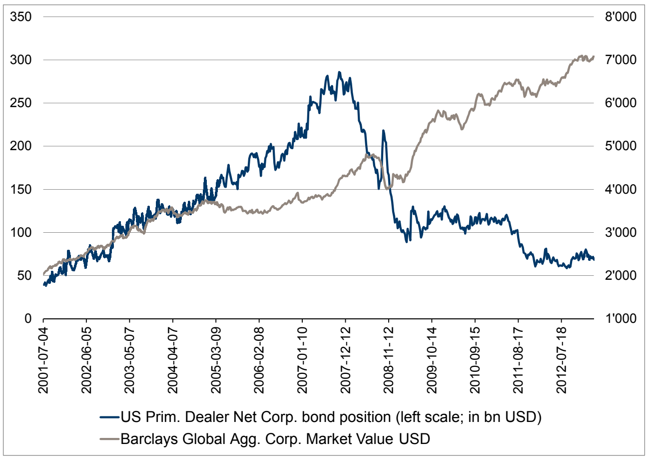
Source: SIX, Bloomberg; as of 31/12/2015

Common strategies to address the issue of low interest rates are longer portfolio duration or an increase in the exposure to lower quality credit. Both strategies lead to heightened portfolio risks, with elevated credit exposures potentially increasing the correlation of the fixed income portfolio to equities.

Higher market volatility is expected due to decreasing market liquidity

In the aftermath of the financial crisis, stricter regulation has led to significantly shrinking dealer inventories. This has been combined with an increase in outstanding debt instruments and only a small number of market makers acting in Swiss franc fixed income investments. Accordingly, in periods of stress in financial markets, faster and wider price movements in Swiss franc bonds are to be expected due to the lack of intermediaries that absorb investor flows. The graph below depicts dealer inventories in relation to outstanding debt instruments for the USD market. Similar conclusions can be drawn for the Swiss franc bond market, particularly due to the shrinking number of active market makers.

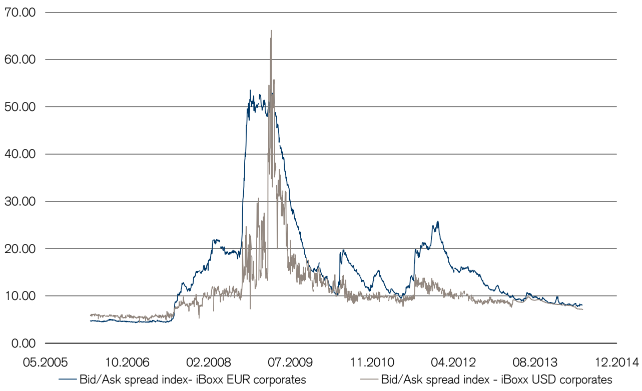
Dealer inventories vs. outstanding debt instruments (in USD bn)



Source: Federal Reserve Bank of New York; BIS; as of 31/12/2015

Furthermore, in periods of market or idiosyncratic stress, market depth tends to evaporate and bid/offer spreads widen significantly. This pattern is expected to be more pronounced in the future due to the decreasing risk capacity of dealers. This will offer attractive opportunities to monetize increasing liquidity premia in moments of stress by providing liquidity.

Development of bid/ask spreads over time (in bp)

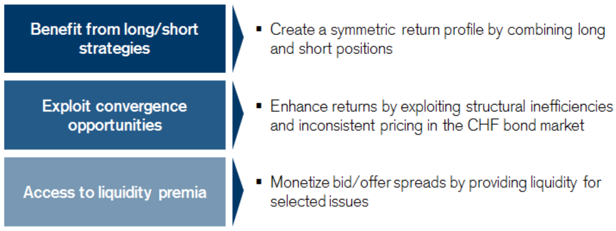


Source: BIS; as of 31/12/2015

Negative expected returns and higher market volatility are the major challenges for Swiss franc bond investors. Investors will therefore need to look beyond traditional fixed income investments to fulfil their yield and return requirements. This is particularly true for Swiss pension funds' assets, with more than a third affected by low or negative interest rates. One such option would be Swiss franc bond funds that can invest beyond the traditional universe and thereby provide access to alternative sources of fixed income returns.

Access to alternative fixed income returns
Alternative fixed income funds that can access all areas of the Swiss franc fixed income space, including derivatives and the repo market, are able to profit from negative rates and to benefit from diverging valuations between the Swiss and international markets. In addition, with investment conditions expected to remain difficult and market volatility likely to persist, funds that have the flexibility to go both long and short can generate sustainable positive returns in all market situations.

The alternative fixed income concept



Source: Credit Suisse

Long/short strategies allow funds to generate returns by combining fixed income instruments without being obliged to take on directional market risks. The ability to implement covered short positions via short sales of securities and not only via derivatives, offers investors access to risk premia that historically in the Swiss fixed income market only investment banks have been able to internalize.

Convergence opportunities refer to diverging relative pricing of closely related fixed income instruments. Examples are the combination of a cash bond with a CDS or a long and a short position in two bonds of the same issuer. Due to the unique characteristics of the Swiss market, which is dominated by scarcity of investable assets, convergence opportunities occur far more frequently than generally believed. Again, funds that have access to all areas of the fixed income market can exploit these opportunities.

Liquidity premia refers to funds that are able to trade directly in the cash bond, derivatives and repo markets with all relevant counterparties in the Swiss fixed income market. This allows them to provide liquidity for selected securities and thereby internalize bid/offer spreads.

To conclude, Swiss franc fixed income funds that offer investors access to alternative sources of risk premia are more flexible and less vulnerable, especially in periods of rising interest rates. They not only offer the potential for higher returns, but can create risk profiles that are similar to traditional fixed income strategies.

Ask your Credit Suisse contact for information on potential investment solutions. (28/01/2016)

Alternative ideas

Picking the opportunities in Asia-Pacific real estate markets

- We prefer assets in Australia and Japan for direct property investments.
- In terms of real estate securities, we expect Developed Asia ex-Japan to underperform the global benchmark in the forthcoming 6–12 months.
- Real estate securities in Hong Kong and Singapore will still face ongoing macroeconomic and fundamental headwinds, in our view. We also see risks for the fully valued Australian REITs, which are more tilted to the downside than the upside.

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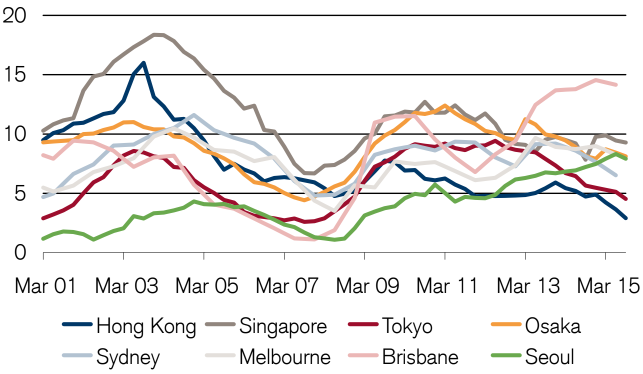
The macroeconomic situation in Asia-Pacific is patchy. Most importantly, China as an external growth driver for other countries is losing more steam. We have recently downgraded our 2016 GDP growth forecast to 6.5% YoY for 2016 and to 6.0% YoY for 2017, as the transmission mechanism from policy rate cuts to economic activity is weaker than previously anticipated. Moreover, we expect more weakness in the CNY against the USD. This is especially bad news for Hong Kong office space, that is in competition with Chinese locations, and retail properties which depend on mainland demand.

Preference for physical office space in Tokyo

For the big Asia-Pacific office market, the picture is nuanced. There are a few big office markets which continue to look promising, and we still see office investments in Tokyo among the biggest opportunities. Rents for both new and existing buildings are increasing at a healthy pace, as the CBD vacancy rate is steadily receding and stood at only 4.0% as of December 2015. Longer leases are getting more important when buying a property however, as supply is picking up. More to the south, the office markets in Sydney and Melbourne are holding up well. Take-up levels are healthy and the office demand is more diversified as the economy rebalances. However, vacancies are expected to have reached their cyclical lows and are likely to increase in the coming years.

Asia office vacancy rates

Prime office vacancy rates, %



Source: PMA, Credit Suisse / IDC

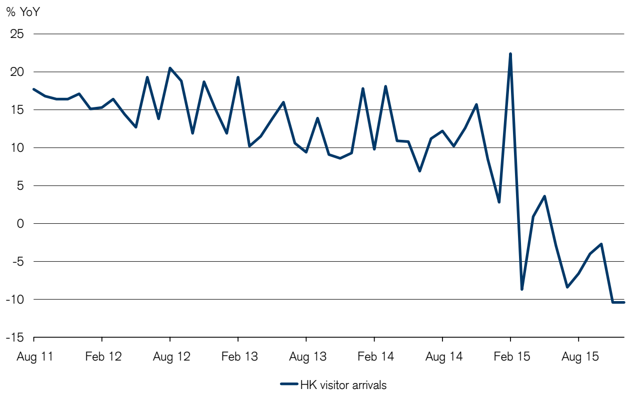
Challenging short-term outlook for Singapore office space

The office market in Hong Kong is holding up quite well at the moment. Expanding mainland firms in the finance sector are driving demand for office space, whose fundamentals continue to improve. However, being a very volatile market, a struggling Chinese economy could easily lead to substantial rental corrections. The picture is generally less bright for Singapore, whose office market needs to digest a supply spike in 2016. This will probably lead to a short-term fall in grade A rents and higher vacancies. China's Tier 1 cities are also challenging office markets at the moment. Speculative supply has seen new records, and average annual net additions in cities like Shenzhen or Shanghai coming in at up to 7% and 24% of the existing stock for the period 2016–2018.

Retail rents face difficulties in many markets

Both the Hong Kong and Singapore retail sector are struggling with declining visitor arrivals, especially from China, and therefore plunging retail sales. In Hong Kong, total sales volume was down 7.8% YoY in November 2015, with luxury sales suffering in particular. Rents for prime retail space have therefore come under pressure in both Hong Kong and Singapore. Retail rental growth in Hong Kong recently turned negative and officially stood at –0.4% YoY in real terms in November 2015. A number of real estate brokers have already reported severe rental declines. Similarly, Singapore retail rents started to correct in mid–2015 and were down 2.4% YoY in Q3 2015, in nominal terms. As consumer sentiment is expected to remain muted, we believe that further rental declines are likely.

Hong Kong visitor arrivals drop



Source: Bloomberg, Credit Suisse / IDC

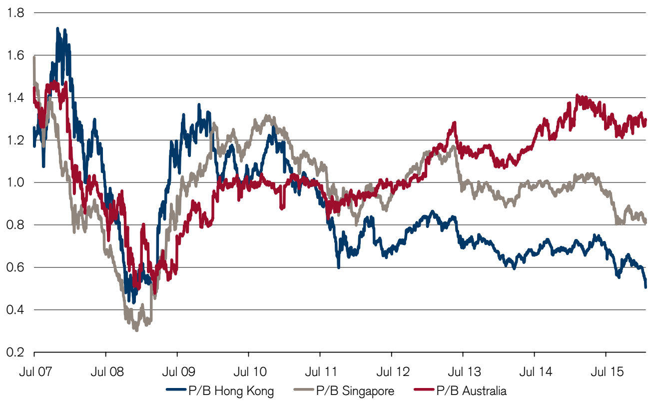
Compared to those markets, retail investments in Japan look more benign, in our view. Increased tourist spending supports sales, but a further tax hike is still planned and domestic retail demand growth is ultimately dependent on wage growth. In Australia, retail investments are benefiting from retail trade growing at a solid pace of around 4% YoY. The unknown is to what extent the slowing real estate market will have an impact on the retail sector.

Difficult times ahead for real estate equities

We recently downgraded our outlook for real estate equities in the Developed Asia ex-Japan region to Underperform, as we think that 2016 will be a challenging year for many property companies active in these markets. Hong Kong real estate investment trusts (REITs) make up about half of the corresponding FTSE EPRA/NAREIT index, followed by Australia and Singapore at shares of about 37% and 13% respectively.

Fundamentally, Hong Kong real estate securities are continuously challenged by the adverse conditions described above, and diversifying their portfolios proves to be difficult. From a value perspective though, real estate securities in Hong Kong are appealing. In Australia, real estate markets look better, and it is easier for Australian REITs to find growth opportunities. This comes at the price of rich valuations. Investors seem to have already priced in the good prospect of underlying property markets. High valuations distinguish REITs from the broader Australian equity market. Overall, the risks are tilted more to the downside. In Singapore, the valuation of S-REITs is inexpensive. Due to elevated physical asset pricing, S-REITs face only soft organic growth from domestic assets.

Price-to-book values for real estate securities



Source: Bloomberg, Credit Suisse / IDC

(26/01/2016)

Food for thought

2016 Strategic Asset Allocations

- Defining a strategic asset allocation is a crucial step in the investment process as it is the key driver of a portfolio's risk and return.
- Credit Suisse has made changes to its Strategic Asset Allocations (SAAs).

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We advise all our investors to perform a regular review of their portfolios to examine what adjustments to their SAAs are required to make sure their long-term objectives can be achieved in future. For all our standard mandates and advisory model portfolios, we are reviewing the SAAs on a yearly basis. In the current review, we have undertaken the following key changes:

Further increase in equities

We are slightly increasing the equity allocation for investors with intermediate risk profiles and reducing the allocation to real estate. Real estate investments suffer from a relatively high sensitivity to interest rates in the short run. This is a concern at this time, as global interest rates are low and the US Federal Reserve has embarked upon a tightening cycle that may usher an uptrend in yields globally. While equities are also sensitive to interest rates, they tend to outperform as long as the rise in yields is driven by economic, and thus earnings, growth.

Reducing risk and increasing diversification in fixed income profiles

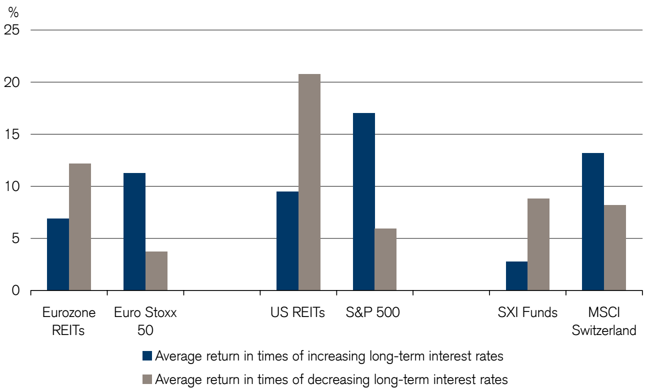
We are removing real estate and reducing commodities exposure from our fixed income profiles, and reallocating to convertible and inflation-linked bonds. Convertible bonds offer an alternative source of diversification, while maintaining a clear fixed income instrument in terms of coupon and principal. Given the current low yields, one of the primary risks in fixed income would be a surprise acceleration of inflation, demanding more aggressive Fed tightening and less or no easing elsewhere. An attractive hedge for this scenario comes in the form of inflation-linked bonds.

Forex risk remains in focus

Currency risk is an important determinant for the overall risk. But currency hedging is costly and so we hedge currency exposures only in fixed income, real estate and hedge funds where we find currency exposure to significantly add to risks. As for equities, foreign equity exposure is generally more than compensated by the diversification benefits of foreign equity returns.

Equities and real estate in different interest rates regimes

Annualized total returns in local currency since January 1990.



Source: Bloomberg, Datastream, Credit Suisse / IDC

For more detailed information, please refer to our white paper on strategic asset allocation, which will be published later this month. (26/01/2016)

Forecast summary

Forecast summary

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.

Short interest rates 3M Libor / 10-year government bonds

	3M Libor			10Y		
in %	Spot	3M	12M	Spot	3M	12M
CHF	-0.76	-0.9 to -0.7	-0.9 to -0.7	-0.25	-0.3 to -0.1	0.0-0.2
EUR *	-0.16	-0.3--0.1	-0.3--0.1	0.33	0.4-0.6	0.6-0.8
USD	0.61	0.6-0.8	1.1-1.3	1.92	2.0-2.2	2.4-2.6
GBP	0.59	0.5-0.7	0.8-1.0	1.56	1.8-2.0	2.3-2.5
AUD	2.29	2.2-2.4	2.2-2.4	2.64	2.8-3.0	3.2-3.4
JPY	0.05	0.0-0.2	0.0-0.2	0.10	0.1-0.3	0.3-0.5

Spot rates are closing prices as of 29/1/2016. Forecast date: 22/1/2016. * 3M Euribor, ** 3M Bank Bill rates.

Source: Bloomberg, Credit Suisse

Equities

Index	Spot	P/E	Div. y. (%)	3M*	12M*
MSCI AC World**	837	14.4	3.1	815	850
US S&P 500	1,940	15.6	2.7	1,880	1,900
Eurostoxx 50	3,045	12.7	4.4	3,000	3,150
UK FTSE 100	6,084	15.0	5.3	5,700	5,650
Japan Topix	1,432	13.1	2.0	1,370	1,410
Australia S&P/ASX 200	5,006	14.8	5.2	5,000	5,200
Canada S&P/TSX comp	12,822	14.5	3.4	12,100	12,300
Switzerland SMI	8,320	15.5	3.3	8,300	8,700
MSCI Emerging markets**	87,466	10.8	3.4	85,000	89,000

Prices as of 29/01/2016; *forecast; **gross return (incl. dividends).

Source: Datastream, Credit Suisse

Commodities

	Spot	3M*	12M*
Gold (USD/oz)	1118.17	1050	1000
Silver (USD/oz)	14.26	14	13
Platinum (USD/oz)	871.00	850	900
Palladium (USD/oz)	500.00	550	600
Copper (USD/ton)	4561.00	4250	4750
WTI Crude Oil (USD/bbl)	33.62	30	40
Bloomberg Commodity index	155.65	150	160

Spot prices: New York close 29/01/2016; *forecast.

Source: Bloomberg, Credit Suisse

Credit: Selected Indices

	Yield (%)	Spread (bp)	Duration (years)	3M forecast	12M forecast
BC IG Corporate EUR	1.4	150	4.9	0.0%	0.1%
BC IG Corporate USD	3.6	193	7.1	0.2%	0.1%
BC IG Financials USD	3.1	157	5.7	0.2%	0.2%
CS LSI ex govt CHF	-0.1	55	6.1	-0.2%	-1.7%
BC High Yield Corp USD	9.2	734	4.3	-0.2%	3.4%
BC High Yield Pan EUR	5.7	514	4.0	-0.5%	2.9%
JPM EM hard curr USD	6.4	443	7.5	-0.2%	3.0%
JPM EM local curr hedg. USD	6.9	n.a.	4.8	0.2%	3.0%

BC = Barclays Capital, IG= Investment Grade, CS = Credit Suisse, JPM = JP Morgan (EMBI+ and GBI Gl. Div). Index data as 29/01/2016.

Source: Bloomberg, Credit Suisse

Foreign exchange

	Spot	3M	12M
EUR/USD	1.08	1.06-1.10	0.98-1.02
USD/CHF	1.02	0.99-1.03	1.08-1.12
EUR/CHF	1.11	1.07-1.11	1.08-1.12
USD/JPY	121	111-115	108-112
EUR/JPY	131	120-124	108-112
EUR/GBP	0.76	0.74-0.78	0.68-0.72
GBP/USD	1.42	1.41-1.45	1.41-1.45
AUD/USD	0.71	0.67-0.71	0.67-0.71
USD/CAD	1.40	1.42-1.46	1.42-1.46
EUR/SEK	9.29	9.28-9.32	9.28-9.32
EUR/NOK	9.40	9.38-9.42	9.08-9.12
EUR/PLN	4.42	4.43-4.47	4.43-4.47
USD/CNY	6.58	6.68-6.72	6.98-7.02
USD/SGD	1.42	1.43-1.47	1.46-1.50
USD/KRW	1199	1230-1250	1270-1290
USD/INR	67.8	67-69	67-69
USD/BRL	4.00	4.25-4.35	4.15-4.25
USD/MXN	18.1	18.4-18.6	16.9-17.1

Spot rates: London close 29/01/2016.

Source: Bloomberg, Credit Suisse

Real GDP growth and inflation

	GDP growth			Inflation		
in %	2015	2016	2017	2015	2016	2017
CH	0.8	1.0	1.5	-1.0	-0.5	0.0
EMU	1.5	1.7	1.5	0.0	0.6	1.4
USA	2.5	2.3	2.0	0.1	1.5	2.0
UK	2.2	2.2	2.0	0.0	0.7	1.4
Australia	2.2	2.4	2.6	1.5	2.1	2.5
Japan	0.5	1.1	0.5	0.8	0.6	2.0
China	6.9	6.5	6.0	1.4	1.7	1.8

Forecast date: 21/1/2016.

Source: Credit Suisse

(01/02/2016)

Glossary

Risk warnings

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.
Bond risks	Investors are exposed to interest rates, currency, liquidity, credit market and issuer fluctuations, which may affect the price of bonds.
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.

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, 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.
BC IG Corporate USD	The IG Financials Index tracks the fixed-rate, investment-grade, dollar-denominated financials 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 30 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	he 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 repurchase 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.

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Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. 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, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

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.

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.

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