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Investment strategy and asset allocation

Fragile equity rebound keeps us neutral

Editorial

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High levels of market volatility have continued, although in mid to late February some evidence has emerged of commodity and equity prices starting to form a base and potentially recovering, at least in the short term. In response to the turbulence, markets are now discounting that the US Federal Reserve will not raise rates again, while the Bank of Japan has moved rates into negative territory and the European Central Bank has signaled that policy could be eased further. A significant number of European short maturity bond markets now have negative yields. Pressure on securities issued by banks may be easing as bond buy back programs are being initiated and equity valuations have reached arguably distressed levels. The low level of oil prices is leading to a rising risk of defaults in the more leveraged US shale industry, and is putting stress on oil producing economies.

In this difficult environment, we continue to focus on the hedge fund industry, while we have highlighted value in the convertibles markets. The key message is that in 2016, alternative and more sophisticated investment strategies have to be adopted. We trust that our ideas add value.

In this issue

Editorial deadline: 29 February 2016

Investment strategy and asset allocation

Fragile equity rebound keeps us neutral

- The recent recovery in equities appears fragile amid shaky market sentiment and subdued liquidity. We stay neutral as positive fundamentals balance negative technicals.
- Within fixed income (overall neutral), we focus on investment-grade debt. A sustained rebound in commodities appears unlikely at this stage, while the USD is set to resume its appreciation path.

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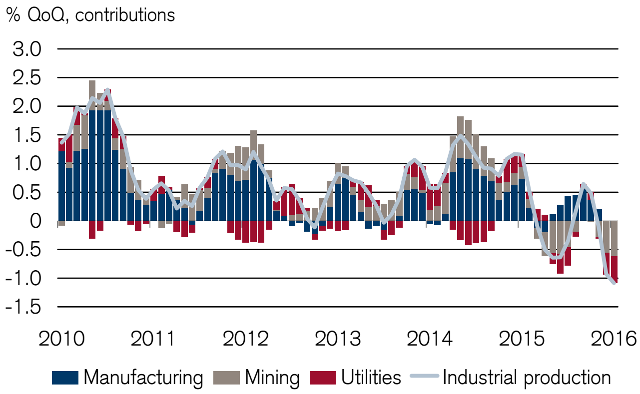
Financial market turmoil continued into February, as worries surrounding the banking sector came to the fore, adding to volatility stemming from the Chinese and US growth concerns, the oil price fall and tighter market liquidity. In our view, profitability issues remain a headwind for banks, but the financial sector is in a better position than during the 2008 crisis: banks are better capitalized and display highly liquid balance sheets. As a result, we currently do not view banks as a systemic risk and view the market's fear of a recession as overstated. From a macroeconomic point of view, our main scenario remains one in which growth is sluggish and inflation lower than previously anticipated. This should lead major central banks to pursue more accommodative policies or in the case of the USA, proceed more cautiously with monetary policy normalization.

US economic growth is supported by resilient domestic demand and solid labor market data. However, we continue to see weakness in commodity-sensitive industries, while the services sectors appear less dynamic than anticipated. As a result, our economists are now forecasting a moderate US economic expansion of 1.8% for the year. The financial market turmoil and tighter financial conditions at a time of moderate growth and subdued inflation should lead the US Federal Reserve (Fed) to proceed more cautiously with further rate hikes. Indeed, we now only pencil in two rate hikes of 25 bp each over the coming 12 months, with the next step unlikely to be taken before June.

USA – industrial production, momentum and contributions



Last data point: 15/01/2016. Source: Datastream, Credit Suisse

The Eurozone economy, which displayed strong dynamics especially at the end of last year, witnessed weaker momentum recently. Economic surprises, for instance, are now in negative territory and leading indicators, such as the preliminary Markit PMI for the Eurozone, have moderated further, but remain in expansion territory. The stronger EUR and recent stress in the banking sector represent a headwind, while on the other hand, the low oil price supports consumer spending. Overall, and in anticipation of further policy support by the European Central Bank (ECB), our economists expect the Eurozone to pursue its moderate recovery with a growth rate at 1.5%. In terms of our expectations regarding the ECB's action at its March meeting, we view a lowering of the deposit rate to –0.4% as very likely and the ECB could potentially also step up its asset purchase program, though a significant increase appears rather unlikely at the present meeting.

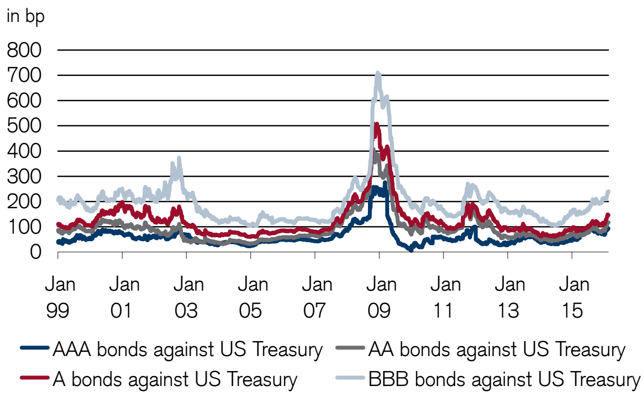
Switzerland will continue to feel the effect of the stronger CHF, but nevertheless, its economy benefits from the ongoing economic recovery in the Eurozone. Overall, it should be able to post positive, though very moderate, GDP growth this year. Our export barometer is indicating stabilizing conditions in the export sector following last year's slump, though January readings still highlight the challenges for Swiss exporters. Given the subdued growth outlook, prospects for inflation to stay very low and for the ECB to inject additional liquidity, we believe that the Swiss National Bank will continue to focus on the two pillars of its monetary policy, namely deposit rates at –0.75% and FX interventions, to prevent an upward pressure on the CHF.

China still faces the challenge of economic transition. While the domestic side of the economy remains rather resilient, recent data releases provide further evidence of weakness in the manufacturing and export sectors. In the near term, the central bank's support is likely to stay limited. However, slower growth momentum in H2 2016 could prompt more policy action by the People's Bank of China in the form of rate cuts (policy rate and reserve requirement ratio to be cut by 75 bp and 200 bp, respectively, over the course of 2016).

Fixed income

Since our last edition of Trends, investors' risk aversion has pushed government bond yields further down, with the 10-year US Treasury yield being just above 1.75% and the 10-year German bund yield below 0.20%. The Swiss yield curve remains firmly anchored in negative territory for maturities up to 15 years. We see limited potential for a sustained rise in yields due to subdued inflation expectations, sluggish growth and a neutral technical picture. As such, we maintain our neutral stance on overall fixed income, recommending investors however to focus on the (non-financial) investment-grade (IG) segment based on valuations and as government bonds remain clearly unattractive. While in US IG the longer end of the curve appears the most attractive, we favor the short-end of the curve in EUR IG given the risk of curve steepening. While value is starting to emerge in the high-yield segment, mixed fundamentals and notably the difficulty for issuers to come to the market make a neutral stance currently appropriate, in our view.

Credit spreads US – treasuries to investment-grade corporate bonds



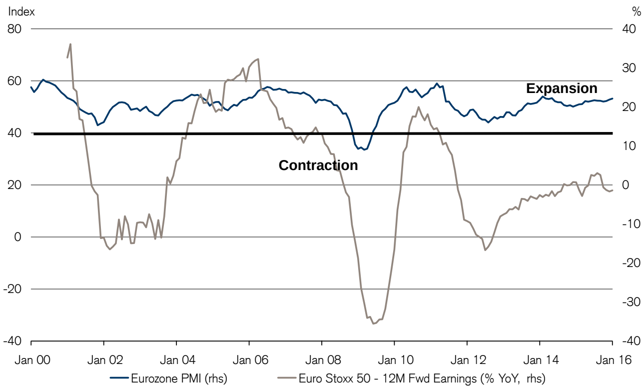
Last data point: 22/02/2016. Source: Bloomberg, Credit Suisse / IDC

Equity

While equities are staging a rebound from their year-to-date low of 11 February, we still observe a decoupling between the fundamental picture on one hand, which remains rather supportive of risk assets in light of our macroeconomic assumptions, and signals from technical analysis on the other, which point towards further weakness. As for valuations, while having improved, they are not cheap yet. The combination of these factors, coupled with shaky market sentiment and subdued liquidity, makes the recent rebound in equities fragile and we would thus wait before increasing our equity quota.

While not taking a directional view on equities at this stage, we see opportunities to generate performance by favoring the Eurozone, Swiss, Australian and Canadian markets at the expense of US equities. While Eurozone equities have underperformed so far this year and the technical picture has weakened as a result, we believe they have the potential to recover to levels that are more in line with the region's fundamentals. Additional action by the ECB should help the EUR to trade weaker supporting export growth at a time when domestic demand remains solid. Moreover, analysts currently seem overly pessimistic on earnings growth prospects by Eurozone companies.

Eurozone PMI and Euro Stoxx 50 12-month forward earnings



Last data point: 15/01/2016. Source: Datastream, PMIPremium, Credit Suisse / IDC

Switzerland also remains one of our preferred markets given central bank support, the CHF stabilization and large exposure to the healthcare sector, for which prospects remain attractive, in our view. We also have an outperform view on Australia and newly Canada, as valuations are cheap (i.e. relative valuation measures are more than one standard deviation below the long-term average for both markets) and relative technical supportive. Moreover, representing indirect exposures to commodities, both markets benefit from the stabilization and medium-term recovery potential in commodity prices. At current levels, we do not expect UK equities to underperform anymore. Meaningful GBP depreciation linked to "Brexit" fears should prove supportive, particularly for larger export-oriented firms and relative earnings revisions have improved to a more neutral territory. The US is thus our least favored market at this stage, as companies' historically high profit margins are under pressure. Given financial market turbulences, we however see interesting opportunities emerging in selective US value stocks with strong free-cash-flow measures.

Alternative investments

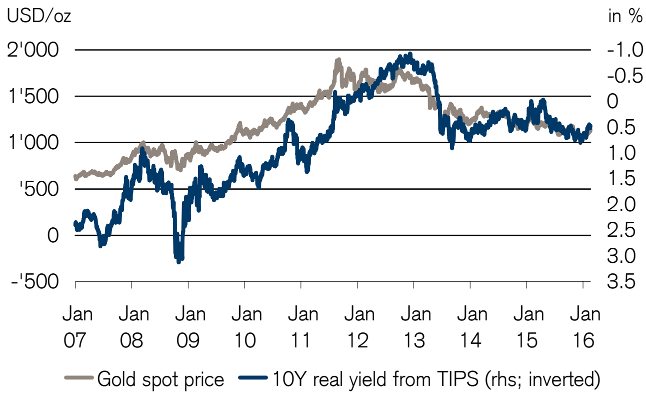
Within alternative investments, we continue to favor hedge funds. While not being immune to financial market turbulence as liquidity and volatility conditions prove less supportive, we still expect higher risk-adjusted returns for the asset-class compared to commodities or real estate on which we stay neutral. Production and inventory overhang remain a clear headwind for commodities. While the agreement between a number of oil producing countries to freeze production might limit further downside, it will not be enough to trigger a sustainable price recovery. As a result, and given that carry costs remain very high, we stay neutral on the overall commodity space.

As for gold, it was one of the main beneficiaries of investors' risk aversion, being up nearly 18% between the beginning of the year and 11 February as bond yields fell and investors unwound expectations for Fed tightening in the coming months. We held the view that momentum was likely to fade once fundamentals came back to the fore and market sentiment improves. While we continue to see inflows in gold ETFs for the time being, upside potential for gold is limited and downside risks remain as physical markets are oversupplied and the yellow metal is vulnerable to a repricing of Fed monetary policy and rising real rates. We thus maintain a neutral view.

Foreign exchange

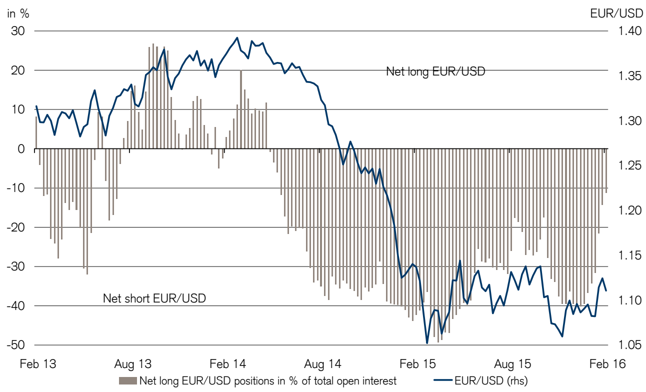
With the EUR and CHF having strengthened against the USD so far this year as markets priced-out any Fed rate hike for 2016, we have reinstated our positive USD view against the two above-mentioned currencies. Indeed, monetary policy divergence should come back into play, in our view, as we still expect the Fed to hike rates overall by 50 bp this year while the ECB should provide additional monetary policy support. This should enable the USD to appreciate against the EUR and with the SNB likely to counter CHF appreciation if needed, the USD/CHF is also expected to rise. We still foresee range-bound trading for the EUR/CHF. Following a sharp appreciation of the JPY, in spite of the Bank of Japan (BoJ) resorting to negative deposit rates, a consolidation is likely given potential for additional action by the BoJ. We have thus moved to a neutral view on USD/JPY.

US 10-year real yield and gold



Last data point: 19/02/2016. Source: Bloomberg, Credit Suisse / IDC

EUR/USD IMM positioning in % of open interest



Last data point: 22/02/2016. Source: Datastream, Credit Suisse / IDC

(24/02/2016)

Asset Allocation

	Benchmark	Previous month	---	--	-	0	+	++	+++	Comment
Liquidity	**5,0%**					**4.0%-6.0%**				**Neutral liquidity allocation after closing the underweight in fixed income in January.**
Bonds total	**40,0%**					**39.0%-41.0%**				**Neutral overall, favoring investment-grade credits over government bonds.**
Bonds CHF	**24,0%**					**23.5%-24.5%**				**Technicals with negative momentum, but valuations are neutral.**
Bonds core* (ex CHF)	**8,0%**					**7.5% - 8.5%**				
Bonds EUR	2,3%					1.8%-2.8%				ECB measures supportive for European bonds. Valuations are not attractive yet. Favor periphery over core.
Bonds GBP	0,5%				0,0%					The cyclical outlook has turned neutral given Brexit risk and BOE uncertainty.
Bonds USD	3,6%					3.1%-4.1%				Technicals are positive, but all other input factors are neutral.
Bonds CAD	0,2%					0%-0.7%				Input factors remain neutral as low oil price is slowing economic growth.
Bonds JPY	1,3%					0.8%-1.8%				Very low carry and negative chart technicals lead to a neutral view.
Bonds AUD	0,1%					0%-0.6%				Highest carry among majors, but market expectations for easing are already high.
Bonds non-core*	**8,0%**					**7.5%-8.5%**				
Bonds High Yield	4,0%					3.5%-4.5%				The technical view remains negative, but the cycle has turned neutral. Positive value and quant reflect emerging long-term value.

Bonds non-core*	**8,0%**					**7.5%-8.5%**				
Bonds Emerging Markets	4,0%					3.5%-4.5%				The cycle view remains positive and the technical view has turned less negative, reflecting the recent outperformance vs. global credit.
Equities total	**30,0%**					**29.0%-31.0%**				**The recent weakness does not appear to be justified, but with the current market sentiment, it may be too early to buy the broad markets.**
Swiss equities	**10,0%**						**10.5%-12.0%**			**Our sector preference for Healthcare favors Swiss equities. Switzerland offers a defensive stance in a volatile environment.**
Other equities	**20,0%**					**19.5%-20.5%**				
Equities EUR	2,0%						2.5%-4.0%			Fundamentals are supportive. The recent sell-off was not justified by expansionary monetary policy and stable economic recovery, in our view.
Equities Great Britain	1,4%	0%-0.9%				0.9%-1.9%				GBP depreciation has run ahead of equities, and we think most negativity of earnings should have been announced and priced in.
Equities USA	10,0%	8%-9.5%		6%-8%						With the Fed's rate hike and robust wage growth, the historically high profit margins of US companies are under pressure.
Equities Canada	0,7%	0.2%-1.2%					1.2%-2.7%			A country exposed to commodity prices – relatively cheap valuations and a positive technical picture, hence to upgrade to overweight.
Equities Japan	1,4%					0.9%-1.9%				Monetary policy and corporate reform remain supportive, but exposure to CNY makes it vulnerable.
Equities Australia	0,5%						1%-2.5%			Valuations are relatively cheap. Employment growth has been strong. Miners should benefit from the recent metal price rally.
Equities Emerging Markets	4,0%					3.5%-4.5%				Valuations remain cheap. Technicals have improved. The outlook for commodities and potential further Fed hikes remain headwinds.
Alternative investments	**10,0%**						**11.0%-13.0%**			**Overweight in global given the neutral position in commodities and overweight in hedge funds.**
Commodities	2,5%					2.0%-3.0%				Commodities look cheap, but low prices are necessary to force additional supply adjustments. We stay overall neutral.
Private Equity	2,5%					2.0%-3.0%				
Hedge Funds *	5,0%						5.5%-7.0%			Hedge funds are not immune to current market turbulences, but are expected to deliver better risk-adjusted returns compared to real estate and commodities.
Real Estate	**15,0%**					**14%-16%**				**We maintain our neutral rating for global REITs and continue to see value in oversold UK REITs amid Brexit risk.**
Swiss Real Estate	12,0%					11.5%-12.5%				The defensive qualities help in a volatile market environment, but are counterbalanced by mature underlying real estate markets. Improved technical view.
Other Real Estate	3,0%					2.5%-3.5%				Preference for UK REITs, underpform view on REITs from Developed Asia ex. Japan.
Currencies										
CHF	72,0%	71%-73%			69%-71%					Neutral on EUR/CHF.
Other currencies	28,0%	27%-29%					29%-31%			Positive on USD as recent CHF strength is unjustified and could revert lower.
Duration Bonds CHF	**6,5**					**6.25-6.75**				**Neutral duration given limited upward pressure on bond yields.**
Duration Bonds EUR	**6,1**					**5.85-6.35**				**Neutral duration given limited upward pressure on bond yields.**
Duration Bonds USD	**5,5**					**5.25-5.75**				**Neutral duration given limited upward pressure on bond yields.**
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Single Asset Class Rules**			< -4.0%	-2.0% - -4.0%	-0.5% - -2.0%	+/- 0.5%	+0.5% - +2.0%	+2.0% - +4.0%	> +4.0%	
Aggregated Asset Class Rules**			< -5.0%	-3.0% - -5.0%	-1.0% - -3.0%	+/- 1.0%	+1.0% - +3.0%	+3.0% - +5.0%	> +5.0%	

* hedged in CHF; ** absolute deviation from benchmark weighting

Note: Aggregate asset class: Cash, Bonds total, Equities total, Alternative Investment, Real Estate, Currencies (CHF, others)

Source: Credit Suisse

Special focus

Convertible bonds – in search of asymmetric opportunities

- In 2015 convertible bonds outperformed both equities and fixed income investments and were the only major asset class to post positive returns for the year.
- Convertible bonds combine bond-like downside protection and equity-like upside participation; they are particularly suited to periods of high volatility and an uncertain market outlook.

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2015 was an extraordinary year in many respects. It saw all major asset classes post negative returns. The pain was most acutely felt in the high yield segment, which dropped to levels not seen since 2009. Global investment grade and government bond indices were likewise in negative territory on the back of pronounced weakness in emerging markets. Convertible bonds (CBs) were the standout performer. CBs combine the most attractive features of conventional bonds (periodic interest payments and repayment of principal at maturity) and stocks (capital appreciation potential and a long-term inflation hedge) to offer what is often viewed as 'the best of both worlds'.

Asset class	Index	2015
Global Equities	MSCI World Equity Index	-2.70%
Global HY Bonds	BofA Merrill Lynch Global High Yield Index	-4.20%
Global IG bonds	BofA Merrill Lynch Global Corporate Index	-3.80%
Global Government Bonds	BofA Merrill Lynch Global Government Index	-2.60%
Global Convertibles	**Thomson Reuters Global Focus Hedged Convertible Bond Index (USD)**	**3.80%**

Returns hedged in USD, Data: 31.12.2014 – 31.12.2015

Source: Credit Suisse, Bloomberg. As of December 31, 2015

Performance of convertible bonds

The Thomson Reuters Global Focus Hedged Convertible Bonds Index returned 3.7% in 2015, outperforming all other asset classes by a margin of more than 5%. Is this typical performance, and why did CBs deliver superior risk-adjusted returns?

Short-term results can be misleading and are not necessarily an accurate reflection of the long-term potential of different asset classes. It is therefore important to place CBs' 2015 performance into a longer-term historical context: Over the last 18 years, CBs have returned 6.8% p.a. compared with 5.4% for equities, 5.5% for corporate bonds and 5.1% for government bonds. Furthermore, CBs have delivered this performance with lower volatility than equities and a Sharpe ratio nearly twice that of stocks. We believe that there are several factors contributing to this performance:

Category	Return p.a.	Volatility	Sharpe Ratio
Global Equities	5.40%	14.60%	0.19
Global Corporate Bonds	5.50%	3.90%	0.73
Global Government Bonds	5.10%	3.00%	0.8
Global Convertibles	**6.80%**	**10.90%**	**0.38**

Returns hedged in USD, Data: 31.12.1997 – 31.12.2015

Indices: MSCI World Net TR, Thomson Reuters Global Convertibles, ML Global Corporate Broad, JPM Broad Government Bond Index

Source: Credit Suisse, Bloomberg. As of December 31, 2015

- 1. Convexity: CBs combine the downside protection of conventional bonds and the upside participation of equities. This results in an asymmetric payoff profile, which by definition should deliver superior results over longer time periods, spanning both bull and bear markets. An additional advantage is the dynamic equity sensitivity adjustment embedded in CBs. In periods of rising stock prices, the equity sensitivity (delta) of CBs gradually increases, enabling higher participation in any subsequent moves. During bear markets, the declining delta ensures an ever-smaller downside participation as the protection from the bond floor kicks in.
- 2. Special situations: These are events that generate positive bondholder returns regardless of the overall direction of credit and equity markets. They include, among others, corporate takeovers and extraordinary distributions. The majority of CBs offer takeover protection, which consists of an investor put at par and/or an additional number of shares per bond. On the distributions side, protection takes the form of a proportional adjustment of the strike price or a cash pass-through of the special dividend (features not present in call options and warrants).

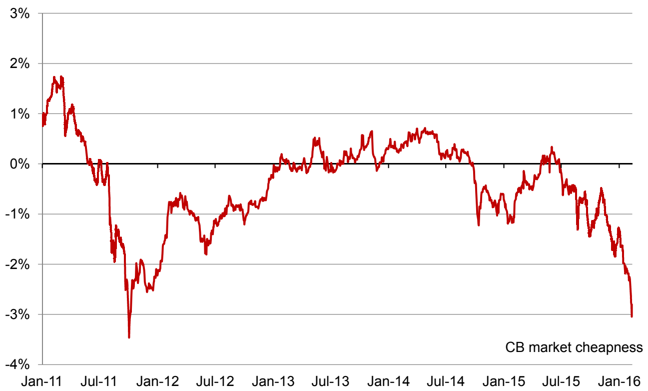
- 3. Marginal buyers: The crossover nature of CBs means they are of interest to investors in other asset classes. Low delta, positive yield-to-maturity CBs are a viable alternative for fixed income investors who may be attracted by the embedded call option or exposure to sectors that are traditionally not fixed income issuers (e.g., technology or biotechnology). In-the-money convertibles are often appealing to equity investors because of their higher ranking in the issuers' capital structure as well as the differential between the CB interest and the underlying dividend yield. These non-dedicated convertible investors ensure that any mispricings in the CB market are of relatively short duration. As an added benefit, the presence of marginal buyers helps liquidity at individual security level, especially when compared with corporate bond deals of the same size.

When is the right time to buy convertible bonds?

Understanding how CBs work and appreciating the asymmetric return potential they bring to a portfolio is only one part of the investment decision process. Another, equally important aspect is the timing of such an investment. Dedicated CB investors tend to look at product flows and the overall richness/cheapness of the CB market when deciding whether to increase or decrease their exposure by using some of their cash reserves.

When it comes to valuations, the global CB market is the cheapest it has been in over four years. As can be seen in the chart below, CBs are, on average, trading 3% below fair value. This cheapness reflects a wider implied credit spread (i.e., a more generous compensation for the credit risk relative to conventional bonds) and/or a lower price of the embedded call option compared with the options market and realized stock volatility levels. The last time the CB market was offered at such a discount to the theoretical price was in the late days of the European periphery crisis of 2010–2011.

Global convertible bond market – rich/cheapness



Source: Nomura. Last data point: February 12, 2016.

The other metric closely followed by CB market participants is the flow of funds in and out of the asset class from marginal buyers. Over the last three years, the CB market has seen large inflows from fixed income investors looking to enhance their returns in an environment of ever-declining yields and interest rates. So far, there has been only limited evidence of rotation by equity investors out of stocks and into CBs. And for good reason: Until the second half of 2015, equity markets were rising and had been since late 2011.

At present, most equity indices around the world are in correction and close to bear market territory. Unless they reverse their course soon, we are likely to see a change in the flow dynamic into CBs. Fixed income investors who are typically more risk averse and have lower tolerance for negative returns may opt to reduce their exposure to equities and move back to corporate bonds. In fact, the recent cheapening in the CB market indicates that such a process is likely already to be underway.

At the same time, equity investors suffering from the pullback in stocks should be looking for ways to reduce risk while maintaining upside exposure. In this context, CBs offer a viable alternative. Such a transition in the balance between fixed income and equity investors turning to CBs is not uncommon in the CB market. There may be a lag between the actions of the two groups (fixed income investors pulling out before equity investors step in) but if history is any guide, the resulting temporary cheapness in the asset class should be seen as an opportunity rather than a precursor of yet lower valuations to come.

Recent developments and outlook

Over the last decade, the CB market was largely seen as a playground for small and mid cap issuers. This is starting to change following the introduction of the equity-neutral convertible. The structure was pioneered by the German healthcare group and DAX constituent Fresenius in early 2014. After a quiet start, we saw a large number of European blue chip companies adopt the structure – LVMH, Vodafone, Total, National Grid, Iberdrola, International Consolidated Airlines and Technip have all issued equity-neutral convertibles in the last six months.

The differentiating feature of equity-neutral CBs is that they do not lead to dilution for existing shareholders. This is achieved with the help of a call option struck at the same price as the CB, which the issuer purchases concurrently with the launch of the CB. The result for the issuing company is very similar to issuing straight debt but at a lower overall cost (the coupon savings from issuing a CB rather than a conventional bond are applied towards – and typically exceed – the cost of the call option hedge). From the point of view of investors, the equity-neutral deals work just like any other CB.

The foray of blue chip, household names into the CB market will undoubtedly increase the profile of the asset class and attract more interest from crossover buyers. Bonds of such issuers tend to be larger in size, liquid and supported by a strong bond floor. Last but not least, they often trade at appealing premiums (19% in the case of Fresenius, 30% for Total and 32% for Vodafone), which should be particularly attractive for equity investors.

There will always be doubters who question the size, liquidity and absolute return potential of the CB market. In the meantime, it will continue to do what it has always done – offer an asymmetric risk-reward to those bold enough to look at the asset class. (24/02/2016)

Alternative ideas

Few places to hide

- Hedge funds, most of which rely on fundamental approaches, have had the worst start to a year since 2008.
- Systematic managers provided the welcome mitigating performance contribution, yet again, and diversified approaches should continue to do relatively well in such markets.

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Hedge fund indices are down around 2%–4% on average this year as of mid-February, marking the worst opening of any year since 2008. What happened? The majority of market participants were caught on the wrong side of most trades in January, as many global equity markets were down 5%–6%. Credit markets and commodities also continued to register negative performance numbers. Government bonds provided a safe-haven investment, despite their flat-to-negative yield far out on the maturity curve. The rush to bonds seems to indicate many investors are bracing themselves for a severe economic slowdown, but fundamentals do not speak of such a drastic decline. In the first week of February, equity markets continued to surprise to the downside, essentially doubling losses to as much as 10%. Additionally, we saw significant negative moves by widely held stocks, and by some stocks previously hardly affected by the turmoil, while others rebounded on essentially no news.

Looking at broad hedge fund indices, returns were negative, with negative contributions from most sectors. Positive exceptions include quantitative macro managers, commodity trading advisors (CTAs) and selected quantitative equity strategies, which are typically market neutral. We review the main market developments moving performance in the different hedge fund strategies – and how positioning changed during the first six weeks of 2016.

Tactical trading strategies

Several factors have affected tactical trading strategies since the start of the year:

- Severe drawdowns in the Chinese equity markets on expiry of selling restraints, followed by anxiety about capital outflows and speculation on further CNY devaluation.
- The initially mild weather added pressure to oversupplied energy markets. The anticipated return of Iranian supply added to market nervousness. These two factors caused further sell-offs.
- Selling pressure originated from the continued liquidation in emerging market (EM) equities, with the greatest impact on Latin America.
- There have been tensions in intra-European discourse over migration policy as well as the UK's Brexit referendum and associated requests for adjustments to its terms of membership. In the UK, the latter issues have created a build-up of risk premium and underperformance of equity indices.
- Concerns over European banks and "worst case" pricing-in of crude oil scenarios led to major sell-offs in bank equity and a widening of credit spreads. This was followed by a generalized risk-off scenario.

Fundamental strategies

Despite challenging conditions, US- and Europe-focused managers navigated the sell-off fairly well through the first three weeks of January, as low net and opportunistic strategies with limited market beta generated gains from short positions in financials and cyclically exposed companies. Managers focused on Asia ex-Japan and EMs started to experience losses earlier in the month as longs fell in light of the precipitous decline in China A Shares.

Returns of managers invested in developed markets began to deteriorate in the last week of January and this continued into February. Short books became less effective at protecting capital as broad-based de-risking took hold. This caused participants to cover shorts, which led shorts to outperform the market while longs underperformed. Japan-focused funds were also hit hard due to concerns about the Bank of Japan's negative interest rate policy implemented in January and a rapidly appreciating JPY.

As a result of drawing down during this period, many managers elected to reduce risk; both gross and net exposures declined 15%–25% on average. Asia and EM managers generally began taking down exposures earlier in January. Signs of performance normalization took place in the second week of February. While managers generally experienced losses, on a beta-adjusted basis, performance was generally in line with expectations, indicating that broad-based de-risking is coming to an end. Overall, managers do not feel that corporate fundamentals have changed over the course of the past six weeks. The expectation is that markets will continue to normalize and performance will improve, and that fundamentals will become the principal driver of security prices.

Relative value strategies

Managers are cautious on deploying new capital despite many opportunities that they would have previously considered obvious – especially in credit – as liquidity and capital stability remain concerns. At this stage, managers are also hesitant to crystallize losses, especially in less-liquid situations, which has moderated the extent of risk reduction. Naturally, more bearishly positioned managers have been generating positive relative and absolute returns and are now operating from a position of strength.

The pace of market moves resulted in a healthy environment for liquidity provisioning as distortions have more frequently appeared in the relative pricing of closely related securities (e.g. dual listings). However, the consensus around some of last year's one-way trades – such as long USD – has fractured. Volatility strategies have benefited from (1) higher levels of implied and realized volatility, and (2) the reactions of single name equities to earnings news, particularly in the technology sector.

Equity factor performance has been notably unstable, especially momentum early in the month, which has resulted in a high level of dispersion in the performance of quantitative equity managers so far this year.

Portfolio impact

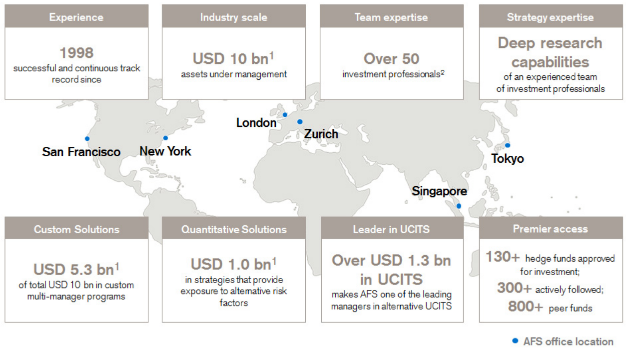
As mentioned above, hedge fund indices are down 2%–4% on average this year. Equity long/short portfolios are at the lower end of this band, while tactical trading strategies are only down around 1% for the first six weeks of the year.

Hedge fund managers typically rely on a fundamental approach when navigating markets, so that sudden flow-driven market corrections will negatively impact them in the short term. However, we believe fundamentals will prevail over time. Our systematic managers, e.g. CTAs, have yet again been the exception to the rule. In such corrections, these managers remain among the few places to hide, posting positive returns, some even in the mid- to high-single digits.

While the start of this year has been far from optimal, we believe that manager positioning is consistent with fundamentals. The lesson to be applied in such a market is that diversified composition of our portfolios enables clients to weather the storm. We believe participating less on the downside and reducing risks where appropriate, while keeping exposures where opportunities stay attractive or have been created are the key factors to navigating the markets' violent moves.

We continue to favor low net and opportunistic managers in the fundamental space and see more opportunities in fixed income arbitrage strategies. We also favor quantitative macro managers and unorthodox and/or trend-following strategies at the higher frequency end of the spectrum.

Background on Alternative Funds Solutions



Alternative Funds Solutions (AFS) is the global team within Credit Suisse in charge of managing investments in hedge funds. AFS offers fund solutions in UCITS and offshore vehicles as well as customized solutions on an advisory and discretionary basis. [1] AuM data as of 31 December 2015. [2] Staff data as of 31 December 2015, including shared resources of other teams within Credit Suisse Asset Management, LLC

Source: Credit Suisse

(24/02/2016)

Food for thought

Energy: All pain, no gain

- The oil price collapse may be good for economic growth in the medium term, but short term negatives for the energy and financial sectors are dominant.
- The next one-two years will pose further challenges – but companies that can adapt will offer an increasingly attractive outlook for the longer-term.

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Not your average oil price decline

It is generally assumed that lower oil prices are a modest net positive for global economic growth, mainly as the propensity of oil importers to spend is estimated to be higher than that of oil exporters. There is little consensus on the potential scale of this consumption effect, but its impact can be overcome in the short run, particularly when the oil price movement is very large and negative.

The oil price slide from over USD 100 per barrel in early 2014 to around USD 30 now represents a particularly devastating shock for the oil industry, disrupting the viability of the large-scale investments of the preceding years and curbing future plans. For example, according to FactSet, S&P 500 energy companies' capital expenditures fell by around 24% in 2015, to some USD 160 billion, and are likely to fall at a similar rate in 2016 before stabilizing. As such, this shock is seen as a significant net drag on growth, at least in the short term.

Credit risks and volatility contagion may also linger

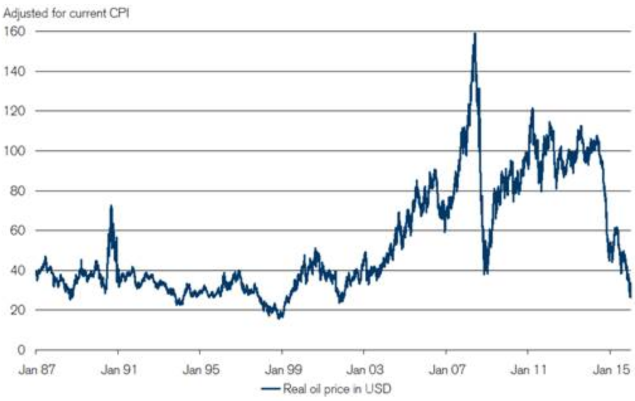
The credit effects on the financial system are also potentially significant. While credit risk for banks exposed to the integrated oil and gas sector remains generally very low, the probability of credit losses in the more leveraged US shale industry is rising, with exposures of private equity ventures and other financing intermediaries also a potential concern. More broadly, the prolonged market volatility created by the energy and credit shock may also increase pressure on banks to deleverage more rapidly than otherwise, and not just in energy assets. A further contributor to volatility is the potential divestment of non-energy assets by reserve managers and sovereign wealth funds of major oil producers, which are facing increasing domestic budgetary constraints from low oil prices.

Longer-term positives may take considerable time to feed through

Energy capital expenditures must ultimately rise again in order to sustain output near current levels, but this is likely not to be until 2017, as current excess capacity must reduce further. The next one-two years will thus pose significant ongoing challenges to the energy industry.

Larger diversified producers, service and supplier companies that manage to adjust their operating structures to the new oil price reality should emerge stronger from the downturn, offering an increasingly attractive outlook for the longer-term.

Real oil price, 1987–2015



(24/02/2016)

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	-0.81	-0.9 to -0.7	-0.9 to -0.7	-0.38	-0.4 to -0.2	-0.1-0.1
EUR *	-0.20	-0.4 to -0.2	-0.4 to -0.2	0.15	0.2-0.4	0.5-0.7
USD	0.64	0.6-0.8	1.0-1.2	1.76	1.8-2.0	2.3-2.5
GBP	0.59	0.5-0.7	0.8-1.0	1.40	1.6-1.8	2.1-2.3
AUD	2.29	2.2-2.4	2.2-2.4	2.38	2.6-2.8	3.0-3.2
JPY	-0.01	-0.3 to -0.1	-0.5 to -0.3	-0.07	-0.1-0.1	0.1-0.3

Spot rates are closing prices as of 26/2/2016. Forecast date: 19/2/2016. * 3M Euribor, ** 3M Bank Bill rates.

Source: Bloomberg, Credit Suisse

Equities

Index	Spot	P/E	Div. y. (%)	3M*	12M*
MSCI AC World**	829	14.6	3.1	840	875
US S&P 500	1,948	15.8	2.7	1,940	1,960
Eurostoxx 50	2,929	12.5	4.8	3,020	3,120
UK FTSE 100	6,096	15.2	6.9	6,090	6,150
Japan Topix	1,311	12.2	2.2	1,310	1,350
Australia S&P/ASX 200	4,880	14.6	5.3	5,080	5,200
Canada S&P/TSX comp	12,798	15.3	3.4	13,450	13,800
Switzerland SMI	7,877	15.3	3.5	8,300	8,600
MSCI Emerging markets**	87,682	11.0	3.4	89,000	92,500

Prices as of 26/02/2016; *forecast; **gross return (incl. dividends).

Source: Datastream, Credit Suisse

Commodities

	Spot	3M*	12M*
Gold (USD/oz)	1222.65	1150	1000
Silver (USD/oz)	14.70	15	13
Platinum (USD/oz)	914.00	900	900
Palladium (USD/oz)	485.10	550	600
Copper (USD/ton)	4706.00	4250	4750
WTI Crude Oil (USD/bbl)	32.78	30	40
Bloomberg Commodity index	152.14	146	160

Spot prices: New York close 26/02/2016; *forecast.

Source: Bloomberg, Credit Suisse

Credit: Selected Indices

	Yield (%)	Spread (bp)	Duration (years)	3M forecast	12M forecast
BC IG Corporate EUR	1.4	157	5.0	0.1%	0.5%
BC IG Corporate USD	3.6	202	7.1	0.6%	0.9%
BC IG Financials USD	3.2	181	5.7	0.4%	0.7%
CS LSI ex govt CHF	-0.2	56	6.2	-0.3%	-1.0%
BC High Yield Corp USD	9.5	770	4.3	0.9%	5.5%
BC High Yield Pan EUR	6.1	555	4.0	0.0%	3.8%
JPM EM hard curr USD	6.3	447	7.5	0.5%	3.5%
JPM EM local curr hedg. USD	6.8	n.a.	4.8	0.3%	3.0%

BC = Barclays Capital, IG= Investment Grade, CS = Credit Suisse, JPM = JP Morgan (EMBI+ and GBI Gl. Div). Index data as 23/02/2016.

Source: Bloomberg, Credit Suisse

Foreign exchange

	Spot	3M	12M
EUR/USD	1.09	1.06-1.10	0.98-1.02
USD/CHF	1.00	1.00-1.04	1.09-1.13
EUR/CHF	1.09	1.08-1.12	1.09-1.13
USD/JPY	114	111-115	111-115
EUR/JPY	125	120-124	111-115
EUR/GBP	0.79	0.74-0.78	0.68-0.72
GBP/USD	1.39	1.41-1.45	1.41-1.45
AUD/USD	0.71	0.66-0.70	0.66-0.70
USD/CAD	1.35	1.36-1.40	1.36-1.40
EUR/SEK	9.37	9.38-9.42	9.38-9.42
EUR/NOK	9.50	9.38-9.42	9.08-9.12
EUR/PLN	4.38	4.43-4.47	4.43-4.47
USD/CNY	6.54	6.68-6.72	6.98-7.02
USD/SGD	1.41	1.43-1.47	1.46-1.50
USD/KRW	1238	1230-1250	1270-1290
USD/INR	68.6	67-69	67-69
USD/BRL	4.00	4.15-4.25	4.05-4.15
USD/MXN	18.3	18.4-18.6	16.9-17.1

Spot rates: London close 26/02/2016.

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	1.5	1.5	0.0	0.2	1.4
USA	2.4	1.8	2.0	0.1	1.0	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	0.8	0.5	0.8	0.2	2.0
China	6.9	6.5	6.0	1.4	1.7	1.8

Forecast date: 18/2/2016.

Source: Credit Suisse

(29/02/2016)

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.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this report, please refer to the following Internet link:
https://research.credit-suisse.com/riskdisclosure

This report may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this report or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

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.

Financial market risks

Historical returns and financial market scenarios are no guarantee of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets

Where this report relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments

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