CREDIT SUISSE

INVESTMENT SOLUTIONS & PRODUCTS

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Special focus

Insurance-linked strategies – independent by nature

page 7

Editorial

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As we had expected, global equities lost steam in the past month given a lack of new catalysts. In contrast, commodities, and particularly energy commodities, have held up much better than expected due to supply disruptions, helping absolute performance in our portfolios. As regards the USD, the market had largely priced out the possibility of a US Federal Reserve (Fed) rate hike over the coming months before starting to reprice that possibility more recently. We keep our cautious view on global equities, with political and policy event risks upcoming. With US yields up, we are also comfortable with our neutral fixed income view for similar reasons. Therefore, our investment strategy remains nimble and low-risk, with sufficient cash to be deployed when opportunities arise.

Investment flexibility allows one to seize opportunities where they exist. Having trailed other sectors by a long way and still being valued very cheaply, bank equities have been the object of numerous investor questions. Are they attractive enough, what performance potential and what is the best way altogether to take exposure to financials as an investor? We have recently published a detailed article on this point and summarize the key take-away in our Food-for-thought section this month. Please do not hesitate to ask your Credit Suisse contact for the full publication.

Another area that is attracting continuous interest from investors in the context of limited opportunities in traditional assets is alternative strategies that provide true diversification and are responsive to different factors than the rest of the classical investment universe. Insurance-linked strategies tick many of these boxes and we hence make it our special focus this month. We trust our readers will find our choice of investment topics actual and of value.

In this issue

Editorial deadline: 31 May 2016

Investment strategy and asset allocation

Defensive portfolio allocation

- We stay cautious on equities on a 3–6 month horizon. The Eurozone and Switzerland remain our favored markets, while we take profits in Australian equities.
- Within fixed income, we focus on investment-grade credits, while hedge funds, particularly low-beta strategies, should help improve the portfolio's risk-adjusted performance.

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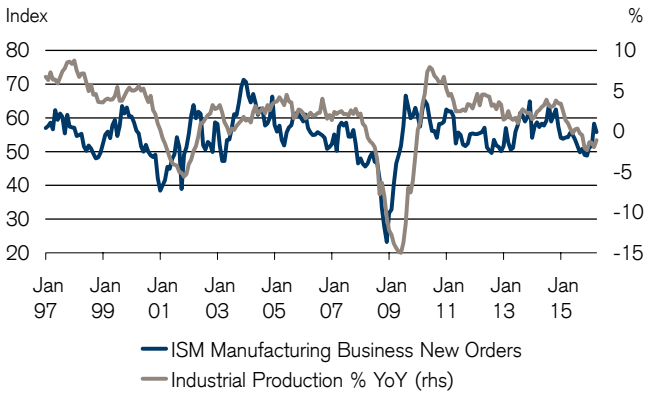
Recent data releases point to an improvement in US economic growth with retail sales and industrial production rebounding and the labor market staying in good health. The latest Federal Open Market Committee (FOMC) meeting minutes highlight that some Federal Reserve (Fed) officials view a policy rate hike in June as possible, which has triggered a repricing of Fed rate hike expectations by the market. In our view, however, the Fed will likely wait for further evidences of US economic strength and normalizing inflation before proceeding with such a move. Moreover, we believe the Fed wants to flag a rate hike to market participants well in advance to avoid market turbulence. As a result, uncertainty will remain very high regarding the Fed's timing of the next interest rate hike which we see as most likely in September.

Recent improvement in US economic data
US Manufacturing Business New Orders vs. Industrial Production



Last data point: 30/04/16. Source: Bloomberg, Credit Suisse / IDC

Q1 GDP growth data show that the Eurozone recovery is gaining some traction as the European Central Bank (ECB) pursues its very loose monetary policy. Consumption remains a driving force, supported by rising credit demand and improvements in the labor market. The ongoing economic recovery in the Eurozone also benefits Switzerland, where exports are recovering and leading indicators have meaningfully improved. In April, the procure.ch Purchasing Manager Index reached its highest level in two years at 54.7, indicating that the industry seems to have made the necessary adjustments to cope with EUR/CHF at around 1.10. In Europe, the focus is now turning to the UK referendum which will take place on 23 June. In our view, the most likely scenario is that the UK votes to stay in the European Union (EU), albeit with a slender margin, which will intensify the focus on many policy challenges that the EU will continue to face.

In China, the latest industrial production, credit and retail sales data came in on the softer side, and we maintain our view that China's GDP growth will continue to slow to 6.5% YoY in 2016, with a more pronounced slowdown taking place in the second half of this year. China's policymakers also face the challenge of tightening liquidity conditions while private sector debt is rising. We expect the People's Bank of China to act and cut its policy interest rate by 75 bp and reserve requirement ratio by 150 bp by end–2016.

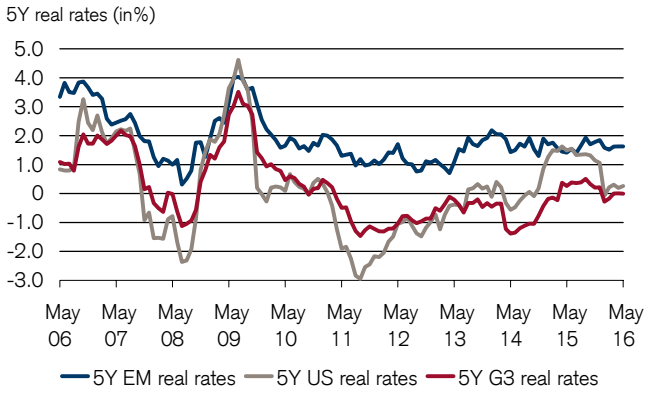
As highlighted last month, we expect the underlying macroeconomic trend to support riskier asset classes over the medium term. However, any disappointments on the macroeconomic front, less supportive central banks, or increased political risks, could push riskier asset classes lower in the next 3–6 months.

Fixed income

Government bonds remain expensive, though any meaningful upward move in yields is likely to be limited by the still subdued economic growth, potentially rising financial market volatility, and a lack of technical support. While we maintain an underperform view on government bonds, we move closer to the benchmark within the asset class by neutralizing our preference for US Treasuries over German Bunds. The valuation case for inflation-linked bonds might not be as compelling as it was at the start of the year. We, however, still see room for the asset class to outperform nominal debt, supported by the medium-term recovery in commodity prices, and loose monetary policies. Within the fixed-income segment, we continue to focus on investment-grade credits, which offer a higher risk-adjusted yield compared to high-yield bonds.

The weaker USD and dovish central banks have supported emerging market (EM) debt this year. We are neutral on the overall segment, but see interesting selective opportunities in local currency bonds given attractive valuations. EM currencies are also expected to show more stability due to improved external balances, though developments on the political front might lead to volatility spikes. Among local currency bonds, Brazil and Colombia are our favored countries.

Emerging market local currency bonds still offer an attractive premium over G3 bonds
5Y real rates EM vs. G3



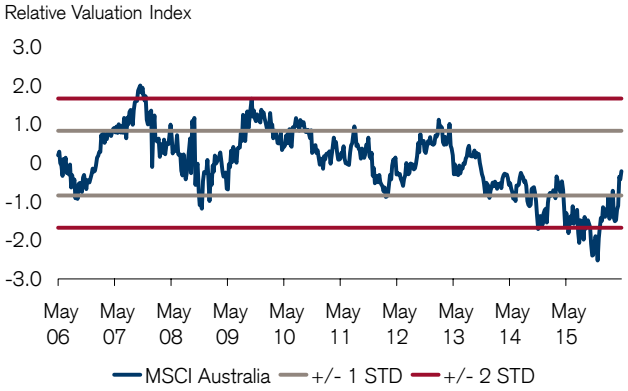
Last data point: 23/05/16. Source: Bloomberg, Credit Suisse / IDC

Equities

We turned negative on global equities from a tactical standpoint on 21 April, as the cluster of supportive factors for the rally since mid-February is unlikely to be repeated, in our view. Since then, equity markets have been trading on the weaker side, and we still expect them to move lower in the wide trading range that has been in place over the last 18–24 months. Although recent macro data came in a bit stronger in the US, earnings growth is unlikely to see strong dynamics, and we expect the political uncertainty in the European Union and the policy uncertainty with regard to the Fed to weigh on riskier asset classes. We thus confirm our negative view on global equities on a 3–6 month horizon.

Our regional preference for the Eurozone and Switzerland is maintained. Swiss equities have started to recoup some of their losses, but still have catch-up potential on the back of a weaker CHF and an export recovery, which support earnings. Our outperform view on the Eurozone is also maintained, as the market shows better earnings prospects than, for instance, US companies. Since we turned positive on the Australian market in mid-December, the market has delivered a solid outperformance, thereby reducing its valuation advantage. With the recovery in commodity prices also appearing extended in the near term, we thus lock in some profits by moving the market back to neutral. In order to keep the overall equity allocation unchanged and to position the portfolio more defensively ahead of event risks, we use the proceeds to slight reduce the underweight position in US equities.

Reduced valuation advantage for Australian equities



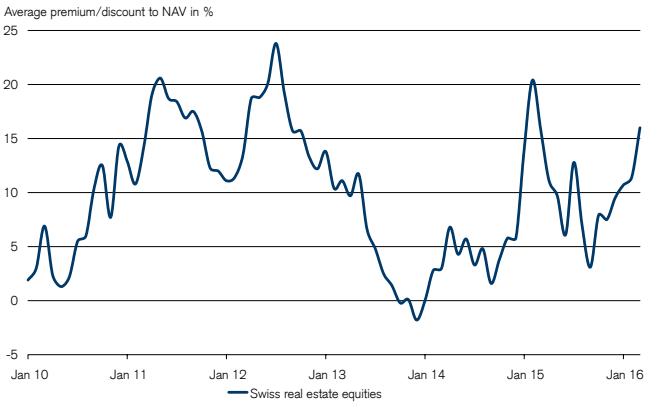
Source: Datastream, Credit Suisse / IDC

Alternative investments

With fixed income expected to trade sideways and equities having potential to correct, hedge funds remain an important asset class to improve the risk-adjusted portfolio performance. We currently prefer flexible strategies with low directionality such as equity market neutral, global macro, and fixed income arbitrage. In the commodity space, oil production disruptions have helped oil prices extend their recovery. We are not chasing the rally as setbacks are possible, despite improved medium-term prospects due to receding excess supply. Lower demand from China is expected to weigh on industrial metals given the existing supply overhang. We thus turn more cautious on this sub-asset class. Gold continues to appear vulnerable to the repricing of Fed rate hike expectations, particularly as investor positioning remains stretched.

In our real estate strategy, we stay neutral on listed real estate, but expect UK-Real Estate Investment Trusts (REITs) to outperform given solid fundamentals, while REITs from developed Asia (ex. Japan) appear vulnerable. Swiss real estate funds are expected to trade in line with global real estate. We, however, expect Swiss real estate stocks to underperform given challenging conditions in the commercial real estate market, and the average premium to net asset value (NAV) of Swiss real estate stocks is again above its long-term average.

Swiss real estate equities: Average premium to NAV is high
Since 2010



Last data point: 30/04/16. Source: CSAM, Credit Suisse /IDC

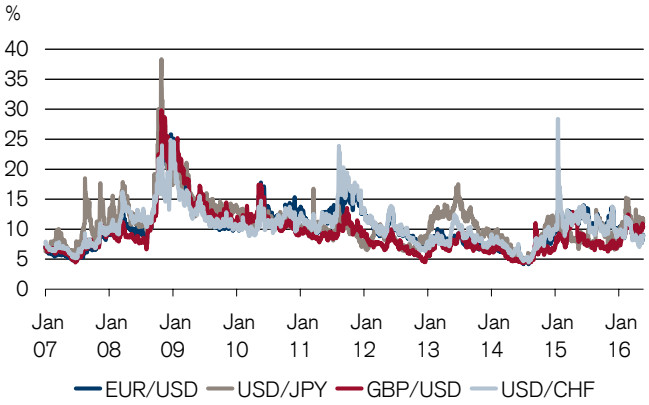
Currencies

The DXY Index reached a 16-month low at the beginning of May, but saw a sharp rebound with the repricing of Fed rate hike expectations following the release of the FOMC meeting minutes. With the Fed likely to stay on hold until September and political risks likely to increase FX volatility, we still expect the USD to trade range-bound against major currency pairs in the next 3–6 months. The USD path beyond that horizon will largely be driven by relative inflation and rate developments, which should be biased toward a renewed USD strength.

While EUR/CHF has strengthened over the past month, we see limited further upside potential due to narrow rate spreads. Moreover, higher risk aversion and FX volatility could increase CHF demand given Switzerland's solid external balance. We expect the Swiss National Bank to continue focusing on FX intervention to prevent a too strong CHF appreciation, and thus, expect EUR/CHF to remain anchored at around 1.10. The NOK and the SEK are the two currencies we are bullish on versus the EUR and the CHF, particularly for valuation reasons.

Currency volatility could increase in the near term

Currency Volatility vs. USD (1M implied)



Last data point: 23/05/16. Source: Bloomberg, Credit Suisse / IDC

(25/05/2016)

Asset Allocation

	Bench-mark	Previous month	---	--	-	0	+	++	+++	Comment
Liquidity	**5.0%**					**4.0%-6.0%**				**Neutral liquidity allocation.**
Bonds total	**40.0%**					**39.0%-41.0%**				**Neutral overall. We favor investment-grade credits over government bonds.**
Bonds CHF	**24.0%**				**22%-23.5%**					**Underweight as the low yield environment is a major obstacle to Swiss bonds reaching a positive performance.**
Bonds core* (ex CHF)	**8.0%**					**7.5% - 8.5%**				
Bonds EUR	2.3%					1.8%-2.8%				We stay neutral on EMU bonds and close our underperform view on German Bunds.
Bonds GBP	0.5%				0.0%					Neutral cyclical outlook given recent uncertainty.
Bonds USD	3.6%	4.1%-5.6%				3.1%-4.1%				We turned neutral on USD bonds as real yields have retraced.
Bonds CAD	0.2%				0.0%					Cycle stays negative due to improving economic momentum and more balanced oil picture.
Bonds JPY	1.3%					0.8%-1.8%				Very low carry and negative chart technicals balancing potential for more BoJ easing.
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%				Technical view remains negative but other input factors are neutral.
Bonds Emerging Markets	4.0%					3.5%-4.5%				After the recent rally, all input factors are back to neutral as the weaker cycle view is balanced by a less negative technical view.
Equities total	**30.0%**				**27.0%-29.0%**					**Missing catalysts for equities and rising political and policy risks are likely to lead equities lower on a 3-6 month horizon.**
Swiss equities	**10.0%**						**10.5%-12%**			**Switzerland should benefit from the EMU economy recovery. Swiss equities offer a defensive stance in a volatile environment.**
Other equities	**20.0%**				**17%-19%**					
Equities EUR	2.0%						2.5%-4%			The ECB's decision is likely to boost business investments and activities, and further support earnings growth.
Equities Great Britain	1.4%					0.9%-1.9%				Political uncertainties remain a key risk. Risks from different political scenarios are asymmetric to the downside.
Equities USA	10.0%			6%-8%						We reduce the US underweight but the allocation remains within the existing bandwidth. Mixed economic picture; robust wage growth putting the high profit margins of US companies under pressure.
Equities Canada	0.7%					0.2%-1.2%				Gold is a key driver. We think both the rally of Canadian equities and gold prices will likely reverse.
Equities Japan	1.4%					0.9%-1.9%				Monetary policy and corporate reform remain supportive, but exposure to the strong currency makes it vulnerable.
Equities Australia	0.5%	1%-2.5%				0%-1%				We take profits on Australian equities as valuations are no longer cheap following the market's outperformance.

Other equities	**20.0%**				**17%-19%**					
Equities Emerging Markets	4.0%					3.5%-4.5%				Valuations are cheap, but technicals have deteriorated. The commodity outlook and potential further Fed hikes remain headwinds.
Alternative investments	**10.0%**						**11.0%-13.0%**			**Overweight overall given the neutral position in commodities and overweight in hedge funds.**
Commodities	2.5%					2.0%-3.0%				Commodities remain neutral, but the rebalancing process is advancing. Gold and newly industrial metals are expected to underperform.
Private Equity	2.5%					2.0%-3.0%				
Hedge Funds *	5.0%						5.5%-7.0%			The outlook for hedge funds remains positive, though expected returns are moderate. We favor styles with a low beta to the market.
Real Estate	**15.0%**					**14%-16%**				**We maintain our neutral rating for global REITs.**
Swiss Real Estate	12.0%					11.5%-12.5%				Its 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%				We are cautious on REITs from Developed Asia ex Japan and expect UK REITs to outperform.
Currencies										
CHF	72.0%					71%-73%				Neutral on EUR/CHF with the SNB resorting to FX interventions to prevent CHF strength.
Other currencies	28.0%					27%-29%				Range-bound trading for the USD over 3-6 months though monetary policy divergence should support USD strength in the medium term.
Duration Bonds CHF	**6.5**					**6.25-6.75**				**Neutral duration.**
Duration Bonds EUR	**6.1**					**5.85-6.35**				**Neutral duration.**
Duration Bonds USD	**5.5**					**5.25-5.75**				**Neutral duration.**
			---	**--**	**-**	**0**	**+**	**++**	**+++**	
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

Insurance-linked strategies – independent by nature

- We see that more and more investors are appreciating the low correlation of ILS to other asset classes and are recognizing ILS as a true alternative investment strategy.
- We see growth potential in the ILS market, especially around risk categories where the global reinsurance market is not large enough to absorb the volume at hand, such as cyber risk.
- Luxembourg regulators aim to introduce a limitation on concentration risk within UCITS funds, which could challenge some large Cat Bond UCITS funds given their high concentration on US hurricane risks.

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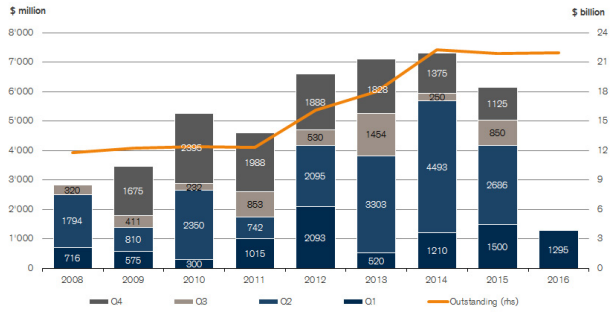
Introduction

Insurance-linked strategies (ILS) are an innovative niche asset class that allows investors to take on the role of a reinsurance company. ILS provide capital to the reinsurance industry by transferring the risk of high-severity, low-probability natural and man-made catastrophic events from insurance and reinsurance companies to the capital market. In exchange for bearing the catastrophe risk, the capital providers are reimbursed by earning a risk premium.

Even though ILS are very much tied to the reinsurance industry, the asset class nowadays is still considered to be young and innovative, which is a contrast to the traditional reinsurance business. Historically, ILS as an asset class emerged in the mid–1990s as a consequence of major catastrophic events in the United States, namely Hurricane Andrew and the earthquake in Northridge, California. The large insured losses emerging from these events exposed large gaps in the underlying capital base of insurance and reinsurance companies and raised the question of capital adequacy within the industry. It was apparent that a new source of capital with a higher capability of absorbing large losses was required. The capital market fulfilled this requirement due to its size and depth.

As a result, the first securities with standardized terms and conditions, known as catastrophe bonds (cat bonds), were issued in 1994 and transferred a specified set of risks from a sponsor to investors. Ever since, the cat bond market, excluding life and private cat bonds, has grown to a size of approximately USD 22.0 bn and 118 bonds outstanding as of 30 March 2016.

Cat bond issuance by quarter (outstanding cat bonds excluding life and private cat bonds)



As of 31 March 2016. Source: Credit Suisse

A true alternative investment strategy

In term of the risk transfer, ILS investments can be structured as cat bonds or as private ILS transactions negotiated directly with insurance and reinsurance counterparties, known as collateralized reinsurance. We estimate the collateralized reinsurance market for natural and man-made catastrophes to have a size of approximately USD 400 bn and therefore to have much more depth and to offer more opportunities than the cat bond market.

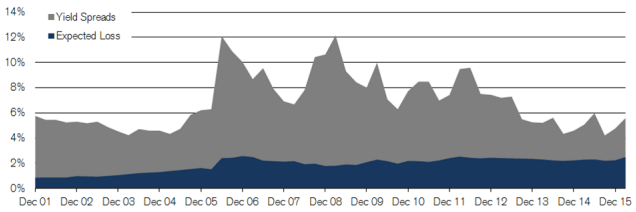
In terms of attractiveness to investors, ILS are gaining popularity thanks to their low correlation to other asset classes and their attractive yield potential, especially in the current low interest rate environment. The low correlation stems from the fact that the return of an ILS portfolio solely depends on the occurrence or non-occurrence of catastrophic events such as hurricanes, floods, bushfires or man-made catastrophes like plane crashes or maritime disasters. Therefore, ILS remain largely independent of events in the financial market, even in times of market stress, which undoubtedly is a desirable property for an investment. This is a key driver for the significant fund inflows that the asset class has seen in recent years. We see that

more and more investors are appreciating this fact and recognize ILS as a true alternative investment strategy. Investors deciding to invest in ILS because of the uncorrelated source of returns are generally more longer-term-oriented than, for example, investors who are investing in order to tackle the current low interest rates. The first quarter of 2016 has demonstrated how challenging, volatile and highly correlated global financial markets can be. We expect that, in 2016 and 2017, new investors will invest in ILS – and for the right reasons.

Attractive return potential despite lower margins

Naturally, there is a downside to large asset inflows. Yields, especially in the cat bond market, are not as attractive as they used to be. The industry is therefore currently experiencing a so-called "soft market" environment. The ILS market has seen a significant reduction in margins between 2011 and 2014 followed by a phase of stable margins since the end of 2014 until the first quarter of 2016. It seems that cat bond investors are disciplined and do not invest below a certain minimum margin over expected loss. It will be very interesting to see if reinsurers follow the example of ILS investors and stop the margin compression and not only slow it down. If that happens, it will be a sign that the market has truly converged and does not fall into old reinsurance patterns anymore. Regardless of the outcome, in a world of zero or even negative interest rate policy, ILS remain an attractive investment opportunity.

Average cat bond yield spreads and average expected loss



As of 31 March 2016. Please note: Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Lane Financial, Bloomberg

Market growth potential

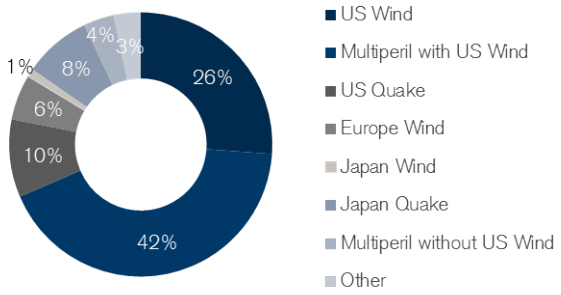
In terms of future market growth, we believe it will continue to grow, but not at the pace we have seen in 2011 to 2014. This is actually a good sign if there is less capital flowing into the market as it helps to stabilize the margins. We think the market has now matured, which means the information flow between insurers, reinsurers, ILS managers and investors and hence the market has become more efficient. We see growth potential around risk categories where the global reinsurance market is not large enough to absorb the volume at hand, such as cyber risk. Today, the insurance policies available only cover a tiny fraction of the cyber risk universe. The demand from corporates is significantly exceeding the availability of insurance coverage. The complexity within cyber risk is high and it poses a global threat, which means that the diversification potential is limited and hence capital intensity has to be high. These are all ingredients that are ideal for the capital market to absorb the shock scenarios of such a risk class. We should not forget that this is the reason why ILS exist and the capital market was involved in the property catastrophe market in the first place. The capital market is much larger and in a much better position than the reinsurance market or some of the reinsurers to absorb events where the cost exceeds USD 60 bn or more. The scale and the sheer size of the capital market can better absorb very costly catastrophe events.

We believe the cyber reinsurance market will evolve significantly. Modern society is changing and relying more and more on the stability of cyber facilities. Therefore, society has become very vulnerable to breakdowns of IT infrastructure and data exchange. This is comparable to the value of property during the last century. While the insurance market in the industrialized world is desperate for growth, cars, homes and production facilities are insured and not growing at an attractive pace anymore. The insurance market is becoming more efficient, but is not really growing at a high pace. Cyber risk is probably the fastest-growing risk aside from life insurance in emerging markets. If insurance products become more readily available, this market will grow significantly and the insured value can grow exponentially. But insurance products are only feasible if the risk transfer chain is secured and peak risks or large risks can be absorbed by the reinsurers and the capital market. We therefore see major potential for the cyber insurance market. But we first need to see some innovative insurance solutions, such that demand increases for the ILS market to be involved. Nevertheless, we believe the opportunity for the insurance market is historic.

Regulatory challenges

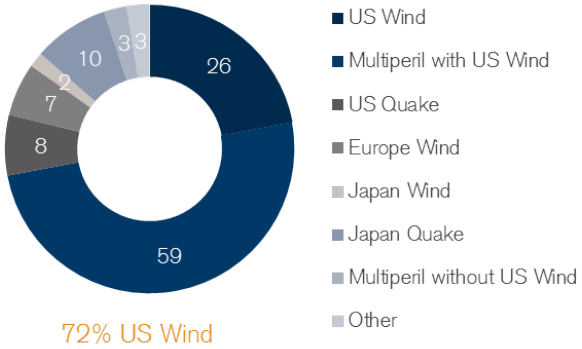
In terms of challenges to the market, we have recently seen that the European Securities & Markets Authority (ESMA) and the Luxembourg regulator aim to introduce a limitation on concentration risk within UCITS funds with the 20%/35% rule, similar to rules applied to other asset classes, in order to reduce concentration. Given the fact that the cat bond market is about 70% concentrated on US hurricane risks and many funds are also concentrated, this new approach will challenge some large UCITS funds, especially if regulators in other countries follow suit.

Outstanding non-life cat bond volume by risk type



As of 31 March 2016. Source: Credit Suisse

Outstanding non-life cat bond tranches by risk type



As of 31 March 2016. Source: Credit Suisse

This is very sensible because, in the event of a large catastrophe, there will be significant uncertainty and illiquidity. Cat bonds will be difficult to evaluate for months after the catastrophe event. We have seen that with hurricane Katrina in 2005. These illiquidity issues do not fit the liquidity requirements under the UCITS regulation. We generally believe that the cat bond market, with today's large concentration on US wind, does not meet the regulators' expectations and does not fit the mutual character of UCITS. (30/05/2016)

Alternative ideas

Swiss real estate stocks set to underperform global benchmark

- The year-to-date outperformance of Swiss real estate stocks has not been consistent with the challenging outlook for the underlying commercial real estate market.
- Going forward, it will be hard for Swiss real estate companies to exceed expectations and the risk of disappointment is high.

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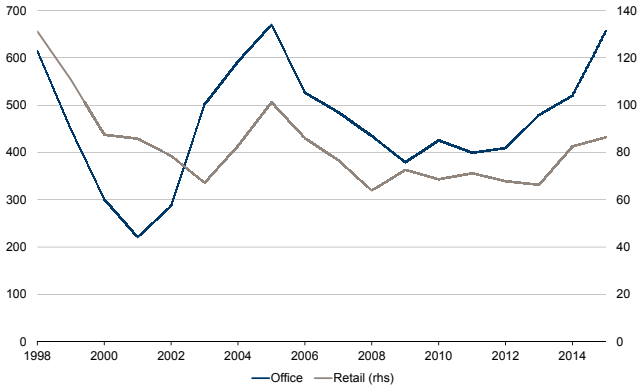
Fundamentals are slowly deteriorating

Swiss real estate companies are mainly active in the office and retail markets, which show a lackluster potential for rental growth and are in a worse shape than the residential property markets. We expect muted growth for office employment in 2016, and therefore weak demand for office property. While key players such as financial services providers are struggling with structural changes in their industries, the entire services sector is exposed to new challenges as a result of the digital revolution. The strong franc is also inducing small- and medium-sized businesses to increasingly pursue offshoring opportunities, thereby further dampening demand for office space. Therefore, no reversals should be expected in the trends of increasing vacancies and declining rents over the next few quarters.

In the retail property market, the shake-up has just begun, as online trading in Switzerland is still at an early stage of development. Rising vacancies, a record-high level of advertised space to rent and declining rental rates indicate that tenant activity is very subdued in this sector.

Vacant space on the rise in Switzerland
In '000 sqm



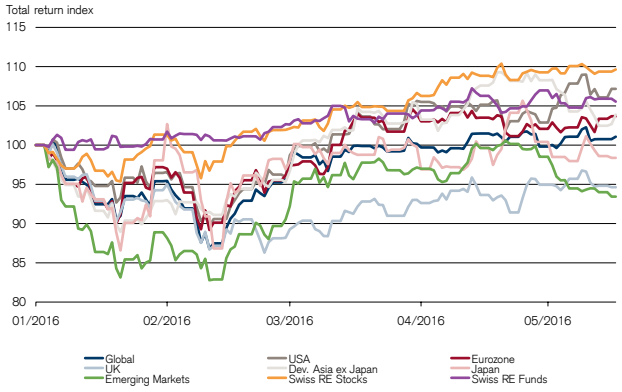
Source: Statistical offices

Solid results hard to beat

The latest results of Swiss real estate companies were generally solid. The strong earnings were, however, driven by revaluation gains that were themselves triggered by negative interest rates. The lower interest rates are represented by lower discount rates in the DCF models of property valuations, which leads to non-cash earnings. We therefore think that the positive outlook for real estate stocks is currently being overestimated by the market, as these effects are unlikely to repeat in 2016. Finally, the weak rental outlook and higher vacancies will be reflected in lower rental income, and thus more modest earnings.

Despite slowly deteriorating real estate fundamentals, Swiss real estate stocks have clearly outperformed the global benchmark YTD. The potential for a setback is thus elevated, in our view.

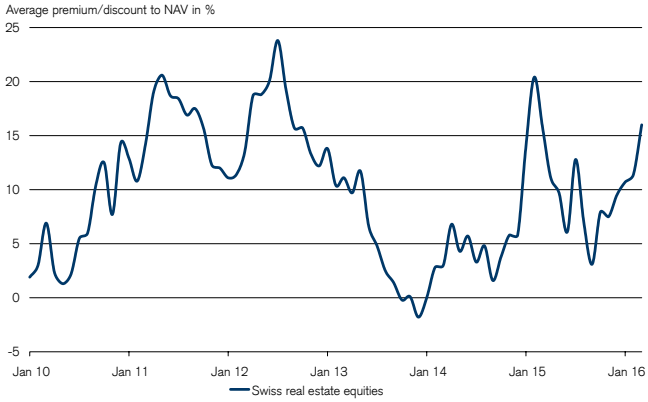
Swiss real estate stocks have outperformed international peer indices



Source: Bloomberg, Datastream, Credit Suisse / IDC

Valuation of Swiss real estate equities is increasingly a concern. The average premium to net asset value is above the long-term average and is close to historically critical levels. The average dividend yield of 4.0% seems equally low historically. All in all, the different valuation indicators are a bad omen for future total performance.

Swiss real estate equities: Elevated average premium to net asset value



Source: Credit Suisse /IDC

Lower interest rates usually support real estate stocks as they are a substitute for dividend-seeking investors and because property valuations are influenced positively by falling interest rates. This tailwind is likely to fade out, though. Total returns of 10-year Swiss government bonds are expected to underperform the global benchmark in the next few quarters.

Swiss real estate funds with better prospects

While we expect Swiss real estate stocks to underperform the global benchmark, we have a neutral view on Swiss real estate funds. Swiss real estate stocks are much more exposed to the retail and office markets than real estate funds, which are mostly letting out residential floor space. The outlook for the latter (in central locations) is better due to the ongoing immigration. In addition, Swiss real estate stocks have outperformed real estate funds YTD by more than three percentage points, thereby increasing the potential for a correction. Lastly, the recent round of positive results for real estate stocks has also been induced by one-off effects like the sales of condominiums, which are unlikely to repeat any time soon, in our view.

Risks to our view in an adverse environment

The risks to the above-mentioned view are two-fold. The renewed uncertainty surrounding global economic growth could, on one hand, lead to a risk-off regime in the global equity markets. This usually benefits the low-beta Swiss real estate stocks. On the other hand, if the Swiss economy grows much more strongly than expected, office and retail space demand would surprise positively and support the performance of the stocks. (25/05/2016)

Food for thought

Bank credit and equity: What do we prefer?

- US banking stocks are attractive in our view, while EUR additional Tier 1 instruments provide an alternative to equity in Europe.
- We prefer Russian and Turkish senior and subordinated bank bonds in emerging markets.

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The regulatory framework for the banking sector has evolved substantially since the financial crisis of 2008. These changes have forced US and European banks to improve their capital positions by increasing capital and reducing their risk-weighted assets. In the USA, the building blocks of the post-crisis regulatory framework are now in place, with risk-based, leverage and derivative requirements already finalized. In Europe, the banking regulatory landscape continues to be adapted, and this is likely to contribute to further market volatility.

Six risk factors

For the remainder of 2016, we identify six risk factors that are critical to the performance of financials: (1) improving asset quality; (2) the regulatory burden on weaker banks; (3) top-line pressures due to slow loan growth, margin pressure and negative interest rates; (4) earnings-per-share enhancement, often involving bank restructuring; (5) non-performing loans linked to the commodity sector and more generally to high yield corporates; (6) risks in emerging markets, with corporate leverage especially high in China and Brazil.

Looking for yield in the bank capital structure

Capital Structure		Yield-to-worst /Dividend yield (%)							
		EU Banks	US Banks	EM Banks		IG Non-financials		HY Non-financials	
				Russia	Turkey	EUR	USD	EUR	USD
Credit	Senior	1.1	2.2	4.7	4.1	0.9	3.2	4.0	7.2
	Subordinated	2.8	3.7	6.7	6.1	3.8		5.2	8.0
	AT1	7.6	5.2	-	-			-	-
Equity		3.9	2.3	4.8	2.9	-	-	-	-

EM = emerging market; IG = investment grade; HY = high yield; AT1 = additional Tier 1. Note that historical performance indications and financial market scenarios are not reliable indicators of current or future performance.

Source: Bloomberg, Barclays, Factset, Credit Suisse

Regional investment strategy

Excluding their commodity/high yield exposures, US banks clearly look better positioned than European banks, given solid loan growth and bigger-than-expected cuts in operating costs. The latter are reflected in the first quarter 2016 earnings season, which so far has proven stronger than anticipated. For US banks, we believe that equities are the best instrument with which to benefit from the improvement in bank fundamentals.

In Europe, several Italian banks continue to face capital issues, while restructuring at a number of large institutions gives rise to idiosyncratic risk. Therefore, we would be more cautious on European bank equities. Additional Tier 1 instruments (which are senior to equity, but subordinated to other debt) in EUR represent an interesting alternative, also in light of a potential relaxation of regulations regarding coupon cancellation. Still, given the very issuer- and bond-specific risks embedded in these instruments, careful selection remains crucial when investing in this asset class.

For investors who are keen to avoid technical complications, there appear to be opportunities in emerging markets: senior and subordinated bank bonds from Russia and Turkey are attractive, in our view. These offer a significant yield pick-up compared to those of European and US banks, but have better fundamentals than financial institutions in Brazil, Colombia, China, Malaysia and Indonesia. Turkish banks are fundamentally sound, although a key risk with the bonds is near-term volatility due to Turkey's macroeconomic issues and political/geopolitical concerns. However, this risk is compensated to some extent by higher yields.

Finally, instead of adding Tier 2 bank bonds to financial portfolios (which are particularly expensive in USD), we would include senior bonds from US and European banks to gain some duration exposure at more attractive levels than those of government bonds.

For more details, please refer to our Investment Alert "Bank credit and equity: What do we prefer?" published on 27 April 2016. (24/05/2016)

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	-0.73	-0.9 to -0.7	-0.9 to -0.7	-0.29	-0.3 to -0.1	-0.1 to 0.1
EUR *	-0.26	-0.4 to -0.2	-0.4 to -0.2	0.17	0.3 to 0.5	0.5 to 0.7
USD	0.67	0.6-0.8	1.0-1.2	1.85	1.8 to 2.0	2.2 to 2.4
GBP	0.59	0.5-0.7	0.8-1.0	1.44	1.6 to 1.8	2.1 to 2.3
AUD	1.99	1.6-1.8	1.6-1.8	2.28	2.3 to 2.5	2.6 to 2.8
JPY	-0.02	-0.3 to -0.1	-0.5 to -0.3	-0.11	-0.2 to 0.0	0.0 to 0.2

Spot rates are closing prices as of 27/5/2016. Forecast date: 20/5/2016. * 3M Euribor, ** 3M Bank Bill rates.

Source: Bloomberg, Credit Suisse/IDC

Equities

Index	Spot	P/E	Div. y. (%)	3M*	12M*
MSCI AC World**	894	15.4	3.0	840	920
US S&P 500	2099	16.9	2.5	1,900	2,080
Eurostoxx 50	3090	13.4	4.6	3,000	3,080
UK FTSE 100	6271	15.9	5.0	5,900	6,350
Japan Topix	1366	13.2	2.1	1,300	1,370
Australia S&P/ASX 200	5408	16.4	4.5	5,100	5,450
Canada S&P/TSX comp	14087	17.1	3.0	13,000	13,900
Switzerland SMI	8278	16.7	3.5	8,100	8,300
MSCI Emerging markets**	94097	11.5	2.9	91,000	98,000

Prices as of 30/5/2016 . *Forecast as on 20/5/2016 . **Gross return (incl. dividends).

Source: Credit Suisse / IDC, Bloomberg, Datastream

Commodities

	Spot	3M *	12M *
Gold (USD/oz)	1205	1150	1100
Silver (USD/oz)	16.00	16	14
Platinum (USD/oz)	970	950	950
Palladium (USD/oz)	542.0	600	600
Copper (USD/ton)	4705	4400	4800
WTI Crude Oil (USD/bbl)	49.33	43	50
Bloomberg Commodity index	172.4	167	176

Spot rates are closing prices as of 30/5/2016 *forecast as on 20/5/2016

Source: Bloomberg, Credit Suisse / IDC

Credit: Selected Indices

	Yield (%)	Spread (bp)	Duration (years)	3M forecast *	12M forecast *
BC IG Corporate EUR	1.0	129	5.3	-0.2%	-1.0%
BC IG Corporate USD	3.1	149	7.3	0.4%	-0.5%
CS LSI ex govt CHF	-0.1	50	6.2	-0.5%	-2.0%
BC High Yield Corp USD	7.3	567	4.2	0.9%	3.8%
BC High Yield Pan EUR	4.7	422	4.1	0.5%	2.9%
JPM EM hard curr USD	5.9	392	7.7	0.7%	3.0%
JPM EM local curr hedg. USD	6.6	n.a.	4.8	1.0%	3.5%

BC = Barclays Capital, IG= Investment Grade, CS = Credit Suisse, JPM = JP Morgan (EMBI+ and GBI Gl. Div). Index data as 27/5/2016 . *Forecast as on 20/5/2016

Source: Credit Suisse / IDC, Bloomberg

Foreign exchange

	Spot	3M	12M
EUR/USD	1.1134	1.12	1.05
USD/CHF	0.9933	0.98	1.06
EUR/CHF	1.1060	1.10	1.11
USD/JPY	111.14	109	109
EUR/JPY	123.74	122	114
EUR/GBP	0.7609	0.78	0.73
GBP/USD	1.4635	1.43	1.43
AUD/USD	0.7184	0.73	0.73
USD/CAD	1.3048	1.30	1.30
EUR/SEK	9.2861	9.00	8.80
EUR/NOK	9.2956	9.00	8.70
EUR/PLN	4.3983	4.40	4.40
USD/CNY	6.5833	6.60	6.90
USD/SGD	1.3813	1.40	1.43
USD/KRW	1191.8	1210	1240
USD/INR	67.169	67.0	67.0
USD/BRL	3.5698	3.50	3.50
USD/MXN	18.475	17.7	17.0

Spot rates are closing prices as of 30/5/2016

Source: Bloomberg, Credit Suisse

Real GDP growth and inflation

	GDP Growth			Inflation		
in %	2015	2016	2017	2015	2016	2017
CH	0.9	1.0	1.5	-1.1	-0.5	0.0
EMU	1.6	1.5	1.5	0.0	0.1	1.2
USA	2.4	1.8	2.0	0.1	1.0	2.0
UK	2.3	1.9	2.0	0.0	0.7	1.4
Australia	2.5	2.4	2.6	1.5	1.3	2.0
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: 19/5/2016.

Source: Credit Suisse

(31/05/2016)

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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