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INVESTMENT SOLUTIONS & PRODUCTS

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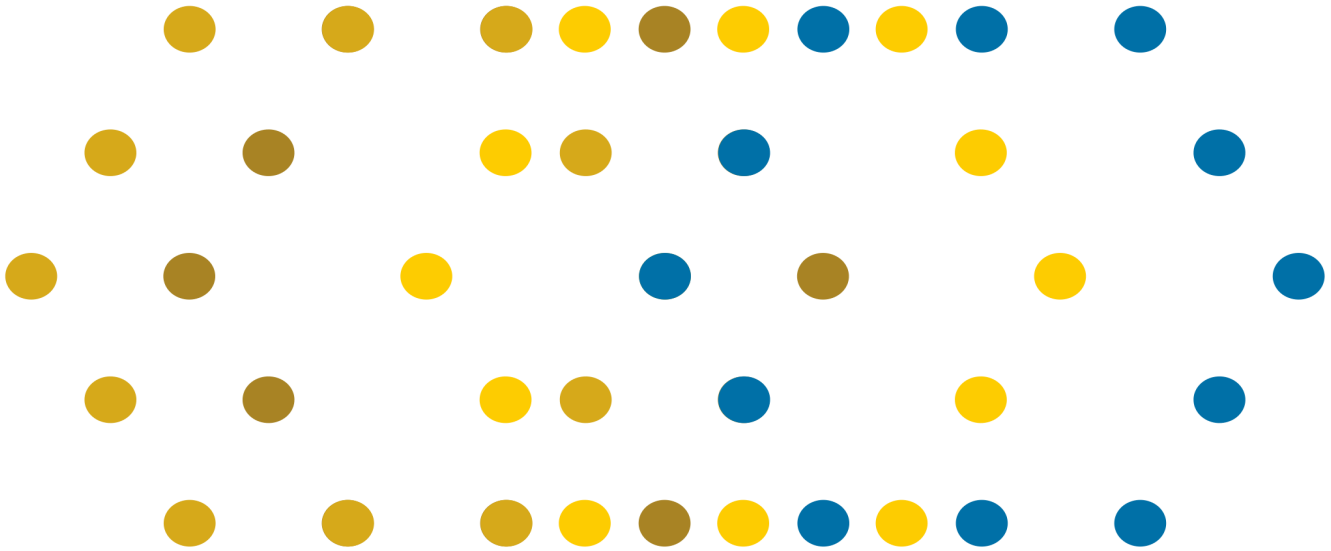
Special focus

Robots, robots everywhere!

page 7



Editorial

Nannette Hechler-Fayd'herbe
Head of Global Investment Strategy

Robert J Parker
Head of Strategic Advisory

The month of October ends with a sense of normality. Base effects from higher oil prices are feeding through to headline inflation, which has led to an orderly uptick in nominal yields. Economic data has been robust and provided no major surprises except in the UK (much better than anticipated). There has been no action from central banks, which has kept risk assets resilient, but not exuberant, and volatilities low. What is worth noting is only the fact that correlations between risk assets, credit, equities and commodities are unusually high. In light of the busy political agenda ahead (US elections, Brexit negotiations, the Italian referendum) and the potential for negative market reactions in case of surprise outcomes, our investment strategy is focused on diversification this month.

We are, for example, negative on equities and would use the prevailing equity strength as an opportunity to take profit, as we believe that current valuations contrast with shallow earnings. Nevertheless, we do see an investment opportunity in, and would add exposure to, healthcare, IT and emerging market (EM) equities as well as to Swiss and Australian stocks. We retain our neutral view on fixed income, but focus on financials and EM credits for yield. Thematic investing is another way to diversify a portfolio. This month, we therefore put a special focus on the growing investment theme of robotics. Advances in technology are making robotics and artificial intelligence increasingly suitable for sectors like healthcare, transport, finance and entertainment, opening a promising area of growth.

Moreover, we provide a high-level summary of our five-year Capital Market Assumptions, which we updated recently. And finally, we look at the Nordic real estate market, which is continuing to attract assets given its “safe haven” status and solid fundamentals.

In this issue

Editorial deadline: 31 October 2016

Investment strategy and asset allocation

Focus on diversification until year-end

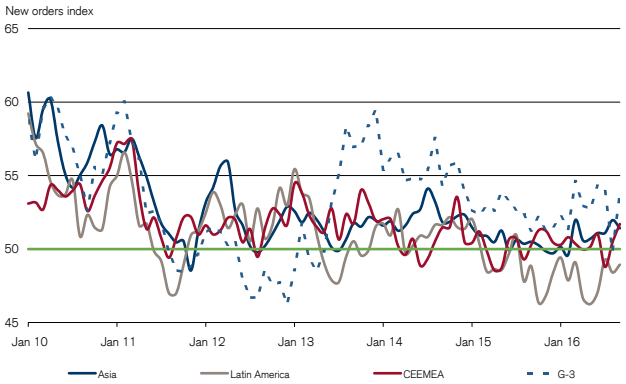
- Ahead of political events and central bank decisions, we maintain a prudent investment strategy, especially as asset class correlations are high.
- We maintain a negative view on equities globally and are neutral on fixed income. Emerging markets remain in focus across asset classes. Moreover, we see value in Swiss and Australian equities as well as financial credits.

Florence Lombardo
Investment Strategist – Chief Investment Office Switzerland

Recent economic data confirm our view of continued moderate growth in the global economy. Momentum has even improved lately and leading indicators such as the Global Purchasing Managers Indexes have risen slightly. In terms of regions, US growth remains robust, supported by labor market strength, which is underpinning consumer spending. In Europe, momentum remains intact as well, driven by strong domestic demand in Germany and Spain. Particularly noteworthy is the resilience of the UK economy after the Brexit vote. However, the high level of political uncertainty will further weigh on investment intentions by businesses. Concerns about a potential "hard-Brexit" (where the UK would lose access to the single market) have risen, posing downside risks to the economy.

In emerging markets (EMs), the picture continues to stabilize. China grew in line with expectations in Q3 as domestic demand offset weakness in the industrial and export sectors. This underpins our view of a gradual structural deceleration of the country's economy. From a medium-term perspective, a key risk to watch is the high and increasing corporate leverage as credit growth remains robust. Momentum has improved elsewhere in emerging markets, notably in weaker economies such as Brazil and Russia. The backdrop remains supportive, as moderating inflation should also enable several EM central banks (e.g., Brazil, India) to ease monetary policy.

EM New Orders PMI manufacturing vs. G-3
Index, regional comparison.



Last data point: October 2016. Source: Bloomberg, IMF, PMI Premium, Credit Suisse / IDC

Monetary policies in the developed world should stay on a diverging path. The latest Federal Open Market Committee (FOMC) minutes point toward a Federal Reserve that is ready to hike rates relatively soon, with a 25 bp move in December being our base case. This scenario is being increasingly priced in by markets, with the implied probability of a December move having risen to 70% versus 50% a month ago. In Europe, fears of tapering by the European Central Bank (ECB) have emerged. However, recent statements by ECB President Mario Draghi very much hint at a six-month extension and adjustments in the parameters of the asset purchase program, likely to be announced in December as well. We view a tapering by the ECB unlikely before September 2017. As a result, and in light of still tight monetary conditions in Switzerland coupled with a normalizing but weak inflation outlook, we expect the Swiss National Bank to keep the deposit rate at –0.75% and focus on currency interventions when deemed necessary.

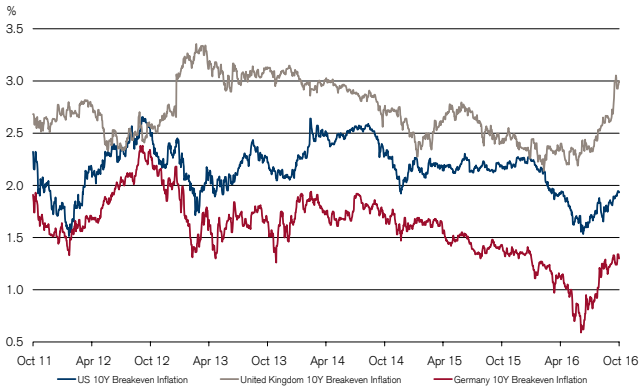
Over the coming weeks, political developments will be in the spotlight. With regard to the US election, Hillary Clinton remains in the lead over Donald Trump in the polls. A victory by the Republican candidate is nevertheless still a possibility, to which markets would at first react negatively given more uncertainty around Mr. Trump's policies. Next to Brexit, political risks are also likely to flare up as the Italian referendum ap-

proaches in early December. Ahead of the political events and key central bank decisions, we continue to pursue a prudent investment strategy. In particular, diversification remains strongly in focus, especially given the high correlation we are currently observing across asset classes.

Fixed Income

The repricing of Fed rate hike expectations and fears of ECB tapering have led to increased volatility in government bond yields in September and October. Rising inflation expectations based on the recovery in oil prices and (in the case of the UK) currency weakness have also led the longer end of the yield curve to move higher. In our view, further upside in yields remains capped by accommodative major central banks (ECB, Bank of Japan), while global economic growth should stay moderate. We are thus neutral on fixed income overall but expect government debt to underperform due to unattractive valuations. Following their good performance, we turned neutral on investment-grade credits last month. One of the few remaining pockets of value can be found in financial credits, in our view.

10-year breakeven inflation: USA, the UK and Germany



Source: Bloomberg, Credit Suisse / IDC

The next Fed rate hike could weigh on emerging market local and hard currency debt, especially after their strong year-to-date performance. Nevertheless, we still believe the improvement in fundamentals (e.g., current account balances), the stabilizing economic outlook and the yield advantage will enable EM assets to outperform over the coming 3–6 months and likely beyond that. Periods of weakness should thus be used to build up emerging market debt exposure. In terms of countries, we recommend focusing on Indonesia, Argentina, Mexico, and now Brazil in the hard currency segment. In local currency, we favor Latin American debt (Brazil and Colombia) and selected countries such as India, Indonesia and Turkey.

Equities

The earnings outlook is key for equity market developments given the stretched valuation levels. We expect only muted earnings growth for Q3 and think that 2017 earnings estimates are too optimistic in light of the macroeconomic environment. Equity markets, therefore, look vulnerable to downside revisions by analysts. Market momentum has slowed, and with political risks ahead, we are keeping equities on underweight in our asset allocation. In terms of equity regions, we still recommend overweighting Swiss, EM and Australian equities.

Swiss equities have weakened over the past two months with EUR/CHF moving toward the lower end of the 1.08–1.10 range, and US election continuing to weigh on the healthcare sector. We nevertheless expect the market to outperform in case of a global equity correction given its more defensive nature. Also, CHF strength is limited by the SNB's currency interventions. Moreover, we expect the healthcare sector to recover once investors return their focus onto the sector's fundamentals (e.g., earnings growth prospects), which remain robust.

EM assets have been a strong beneficiary of the lower yield environment in developed economies this year as well as stabilizing macroeconomic data in the region. Being one of the best-performing equity markets so far this year, the valuation gap to global equities has narrowed but remains attractive in our view. Within EM equities, our regional preference for Asia is strengthened as we have turned more constructive on China, next to the existing outperform views on India and South Korea. We expect the EMEA and Latam regions to deliver below-benchmark returns.

MSCI EM Relative Valuation Index

Last data point: 27 October 2106. Source: Datastream, Credit Suisse / IDC

We continue to hold an underperform view on the high-beta Eurozone market and underweight it in our portfolios. We have moved to a neutral view on the UK as the country's economic data is holding up better than expected and currency weakness is raising earnings prospects. In our portfolio, we nevertheless continue to underweight UK equities to partially finance the overweight positions in our favored markets, while continuing to underweight equities as a whole.

At sector level, we are pursuing a balanced strategy. Next to our positive view on healthcare, we expect IT to continue outperforming based on solid earnings-growth prospects. On the other hand, we expect industrials, consumer discretionary and consumer staples to underperform. We stay neutral on financials but favor US banks versus European banks given their higher profitability, capital positions and less litigation risks.

Alternative Investments

In commodities, falling US crude inventories and expectations of OPEC production cuts led the price of oil to climb further in October. The OPEC deal represents a risk as details will only be known at the meeting taking place on 30 November. In our view, however, even if OPEC were to disappoint, the rebalanc-

ing process in the oil market is well underway. This still points to higher energy prices over the medium term. In contrast, we think structural weakness in China's industrial sector does not bode well for industrial metals. Repricing of US Fed hiking expectations amid weak demand led gold to break below USD 1,300 in early October. The yellow metal is currently holding above an important support range located at 1,250–1,260. We hold a neutral view on gold as the 25 bp Fed rate hike that we anticipate in December appears to be priced in.

US 10-year real yield and gold

Last data point: October 2016. Please note: Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Bloomberg, Credit Suisse / IDC

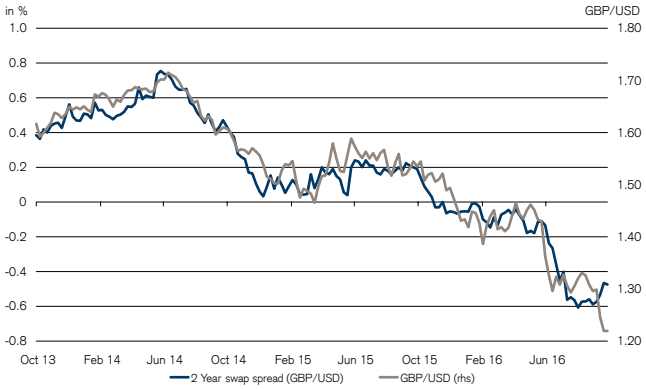
Real estate has also come under pressure from rising bond yields. With listed real-estate offering attractive dividends in the low-yield environment, we stay neutral on the asset class. We no longer expect REITs of Developed Asia ex Japan to underperform as we see improvements in the direct real estate markets in the region, In Switzerland, we see more value in real estate funds compared to equities.

As for hedge funds, business cycle indicators, volatility, liquidity and systemic risk continue to point toward favorable conditions. We maintain our positive view but focus on strategies that are more independent from the development in the equity and fixed income markets as a whole (i.e., equity market neutral, fixed-income arbitrage or global macro).

Currencies

GBP came under renewed pressure as "hard Brexit" fears and inflation expectations rose. Moreover, given the UK's external deficit, the cyclical picture is negative for GBP. At current levels, the currency is deeply undervalued, thereby providing some ground for a stabilization. We have closed our negative GBP view as a result. Over the coming weeks, the USD trend will be shaped by US elections and the next policy move by the Fed. We remain neutral for now as we expect a shallow Fed hiking path that is unlikely to provide strong USD appreciation pressure. EUR and CHF, two current account surplus currencies, are expected to trade sideways. We also anticipate that EUR/CHF will stay within the 1.08–1.10 range in the coming months given the low rate spread differential and lack of CHF outflows.

2-year swap spread (GBP/USD) vs. GBP/USD



Last data point: 27 October 2106. Please note: Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Datastream, Credit Suisse / IDC

We see room for JPY to strengthen on the back of cyclical factors such as historically narrow rate spreads and the country's large external surplus. AUD and NOK are supported by an attractive carry and the oil price recovery. We expect both currencies to appreciate as result. EM FX also benefits from high carry and favorable chart technicals. We maintain a positive view on RUB, ZAR, MXN and have turned neutral on the BRL following its recent strength. (31/10/2016)

Asset Allocation

	Benchmark	Previous month	---	--	-	0	+	++	+++	Comment
Liquidity	**5.0%**						**6%-9%**			**Slightly higher liquidity allocation, given the underweight in equities.**
Bonds total	**40.0%**					**39.0%-41.0%**				**Neutral overall. We favor financial investment-grade credits and EM debt over government bonds.**
Bonds CHF	**24.0%**					**23.5%-24.5%**				**Low yields, but valuations and quant point to a neutral outlook.**
Bonds core* (ex CHF)	**8.0%**					**7.5% - 8.5%**				
Bonds EUR	2.3%					1.8%-2.8%				Spanish debt is expected to outperform after the bank stress test and given the improved political outlook.
Bonds GBP	0.5%					0%-1.0%				Inflation and fiscal concerns balanced by the expectation of BoE cuts.
Bonds USD	3.6%					3.1%-4.1%				Fed not committed to a pre-set hiking path. Focus remains on economic data.
Bonds CAD	0.2%				0.0%					Economic momentum is likely to improve again and oil stabilization to drive CAD yields higher.

Bonds core* (ex CHF)	**8.0%**					**7.5% - 8.5%**				
Bonds JPY	1.3%					0.8%-1.8%				The new yield curve control component of the BoJ policy should keep yields close to the targets.
Bonds AUD	0.1%					0%-0.6%				Highest carry among majors, but easing expectations have come down most in AUD.
Bonds non-core*	**8.0%**					**7.5%-8.5%**				
Bonds High Yield	4.0%					3.5%-4.5%				Energy prices and rate volatility are a source of risk in an environment that is less beneficial for risk assets.
Bonds Emerging Markets	4.0%						4.5%-6%			EM HC could suffer from rate volatility, but the longer-term fundamental story remains strong for EM sovereigns.
Equities total	**30.0%**				**25%-27%**					**We maintain our negative view on global equities amid weak earnings, slow growth, political risks and looming Fed tightening.**
Swiss equities	**10.0%**						**10.5%-12%**			**Swiss equities offer attractive valuations currently and generally a defensive market in a volatile environment.**
Other equities	**20.0%**				**17%-19%**					
Equities EUR	2.0%				0%-1.5%					Political uncertainties remain with the upcoming referendum in Italy, and earnings prospects are likely to remain anemic.
Equities Great Britain	1.4%				0%-0.9%					The economy has proved resilient in the wake of the Brexit referendum; the weak currency pushed earnings expectations higher. We stay underweight for portfolio construction reasons.
Equities USA	10.0%				8%-9.5%					Economic data is mixed. The US election becomes a main risk. But US equities are relatively defensive against a global market fall.
Equities Canada	0.7%					0.2%-1.2%				Economic growth is likely to pick up in H2 after the very weak Q2. But most indicators point to a market-perform view.
Equities Japan	1.4%					0.9%-1.9%				Monetary policy and valuations remain supportive. But JPY strengthening weighs on corporate earnings.
Equities Australia	0.5%						1%-2.5%			Australia offers a high dividend yield in a globally low-yielding environment, and low exposure to broad political risks.
Equities Emerging Markets	4.0%						4.5%-6%			The region has relatively less exposure to political risks in the developed world and should benefit from ultra-low core yields.
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%				Neutral overall, with energy expected to outperform while industrial metals should underperform.
Private Equity	2.5%					2.0%-3.0%				
Hedge Funds *	5.0%						5.5%-7.0%			Favor equity-market-neutral, fixed-income arbitrage and global macro strategies.
Real Estate	**15.0%**					**14%-16%**				**We remain neutral overall on global listed real estate.**
Swiss Real Estate	12.0%					11.5%-12.5%				Defensive qualities, but mature underlying real estate markets.
Other Real Estate	3.0%					2.5%-3.5%				UK REITs expected to underperform post-Brexit vote while the picture looks best for Japanese REITs
Currencies										
CHF	72.0%					71%-73%				Neutral on EUR/CHF with the SNB intervening in the FX market to prevent CHF strength. USD/CHF expected to trade range-bound.
Other currencies	28.0%					27%-29%				JPY and EM currencies expected to strengthen.
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.**
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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

Robots, robots everywhere!

- Advances in technology are making robotics and artificial intelligence increasingly suitable and beneficial beyond the factory floor.
- Factory automation and robotics are expected to continue to grow as "Industry 4.0" gains traction. Over the next five to ten years, the market for robots and automation in other sectors of the economy, such as healthcare, transport, finance and entertainment, is likely to become much larger.

Patrick Kolb
Portfolio Manager – Thematic Equities – Asset Management Switzerland

Angus Muirhead
Portfolio Manager – Thematic Equities – Asset Management Switzerland

The word "robot" often evokes images of brightly colored mechanical arms in production lines, operating behind protective glass windows, lifting, pressing and welding metal panels and placing components with perfect, monotonous precision. Younger readers, perhaps influenced by Hollywood science fiction movies, may be inclined to think of robots in more human form, like the "droids" of Star Wars, the "NS-5" robot army in "I, Robot" or the robots of "Ex Machina" that beat the Turing test. While such movies may provide a glimpse of things to come, most robots operating in the world today remain on the factory floor, often in the automotive and semiconductor sectors. However, this is changing fast. Continued advances in technology are enabling robots to be effective in performing tasks in industries beyond the "traditional" kind. Today's robots are already assisting in surgical procedures and medical rehabilitation, are deployed in disaster relief missions and are increasingly capable of driving motor vehicles. In short, robots can take on quite a number of tasks currently performed by people.

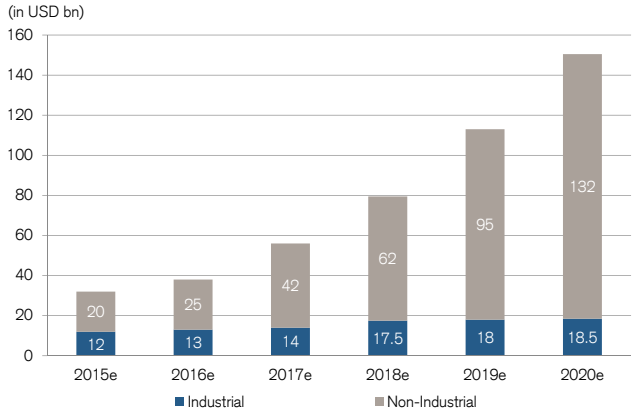
Areas of application and market potential

Robots are fundamentally changing the way work gets done. Today, they already match or even surpass human capabilities in many tasks, so it is not surprising that robotics and artificial intelligence have found their way into so many areas of our lives. In the future, robots will be deployed to perform tasks for which they are better suited than people or that help to make our daily lives easier (source: The Boston Consulting Group (2014): "The Rise of Robotics," BCG Perspectives (27 August 2014); URL: https://www.bcgperspectives.com/content/articles/business_unit_strategy_innovation_rise_of_robotics/ [9 November 2014]):

- In manufacturing, robots are going to increasingly enhance the flexibility and efficiency of production in a large number of industries.
- Robots will also be used in tasks that people are unwilling or unable to perform because they are too dangerous, unpleasant or repetitive, or require superhuman physical strength.
- The digitization of devices and information will lead to the creation of such massive volumes of data that it will require automated intelligent systems to process and analyze that data (e.g. real-time data mining, etc.).
- As technologies advance, mission-critical procedures may rely on and require exceptional precision, flexibility or speed that only robots and artificial intelligence can deliver.

We estimate that demand for robots is now set to embark on an accelerated long-term growth trajectory. As Figure 1 shows, market research firm Tractica projects that robot deployment may expand the market to more than USD 150 bn in revenues by the year 2020. The industrial sector is the traditional market for robotics and is large and well-established. While we expect to see continued growth in this area, we believe that the greater investment opportunity for robotics technology lies beyond the industrial sector. This idea is also supported by forecasts from Tractica. We think this fact is largely underappreciated at present. However, robots for use at home, in the field of medicine, in the entertainment industry, the agriculture sector and in unmanned vehicles look set to shape the future of robotics technology. Revenue from non-industrial robots is projected to increase from USD 20 bn to USD 130 bn from 2015 to 2020. Over the same period, revenue for traditional industrial robots could nearly double to USD 20 bn. Falling prices of components and advances in processors are the main drivers of this growth. As computing power accelerates, the cost of high-quality robots and their components rapidly decreases. Furthermore, it becomes increasingly easy to program and reprogram robots for specific tasks. Consequently, robots are becoming cheaper, smaller, more flexible and more efficient. As they gain sophistication, their value in adapting to suit a broader range of applications increases. We believe that over the next few years, the disruptive force of robotics will be increasingly visible in our daily lives.

Figure 1: Global revenues from robotics in industrial and non-industrial sectors



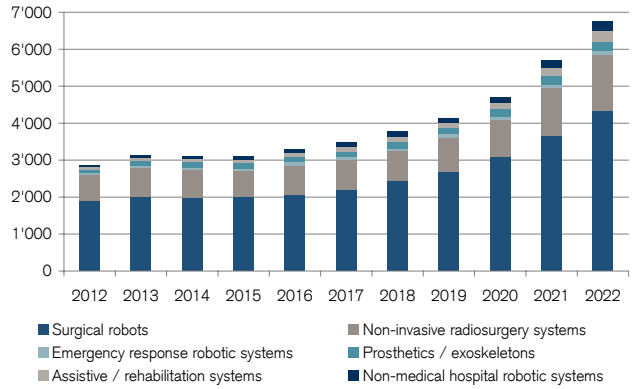
Source: Tractica, Credit Suisse

A research study published by Bank of America Merrill Lynch reports that the average cost of a robot has fallen by 27% over the past ten years and is projected to drop by another 22% over the next decade. To illustrate this point, a modern welding robot priced at USD 182,000 in 2005 had by 2014 fallen to USD 133,000, and a standard Baxter "cobot," a collaborative robot that works side-by-side with humans, today costs just USD 22,000. Despite these lower prices, robot technology is becoming more sophisticated every year.

Focus on robotics in the healthcare sector

The use of robots in the healthcare sector is an interesting area for investment from a long-term perspective. We expect the growing demand for minimally invasive surgical procedures to fuel increasing demand for sophisticated surgical technologies. Demographic trends, in particular aging, and innovations in technology are additional drivers of the growth in medical robotics. Market research firm MarketsandMarkets projects that the annual market for medical robotics will grow from USD 4.2 bn in 2015 to USD 11.4 bn in 2020. These numbers imply a compound annual growth rate of 22.2% for the period. Medical robotics breaks down into a number of different categories: surgical robotic systems, non-invasive radiosurgery systems, emergency response robotic systems, prosthetics and exoskeletons, and medical rehabilitation systems. Figure 2 shows that surgical robots and radiosurgery systems are by far the largest segment of robots used in the healthcare sector. The other areas noted above are currently in a more nascent stage of commercial development, but are expected to see considerable growth.

Figure 2: Projected number of healthcare robots (segmented by medical application)



Source: Wikibizpedia, Credit Suisse

Conclusion

We believe that the robotics theme is now at the start of a secular growth cycle and therefore presents long-term investors with a highly compelling investment opportunity. We think that automation technology, robots and advancing digitization hold enormous value-creating potential through labor-cost savings, better security and safety standards and improved production quality and flexibility. At the same time, we remain aware of the fact that the robotics market is highly fragmented and composed of segments of different sizes and different market participants, each presenting unique competitive dynamics and challenges.

We recommend that clients invest in this theme with a time horizon of 7–10 years. Given the complexity of the technologies and the breadth of deployment possibilities, we believe it is prudent to invest in a mutual fund that provides well-diversified exposure to market-leading companies involved in the full spectrum of robotic applications. We are confident in the potential of robotics to revolutionize business processes and raise efficiencies over the long term in an increasingly large number of sectors and industries. For this reason, we invest in leading companies that supply innovative robotics solutions focused on enhancing productivity, quality of life, and safety and security.

(28/10/2016)

Alternative ideas

Nordics office real estate: Sweden set to remain above the fray

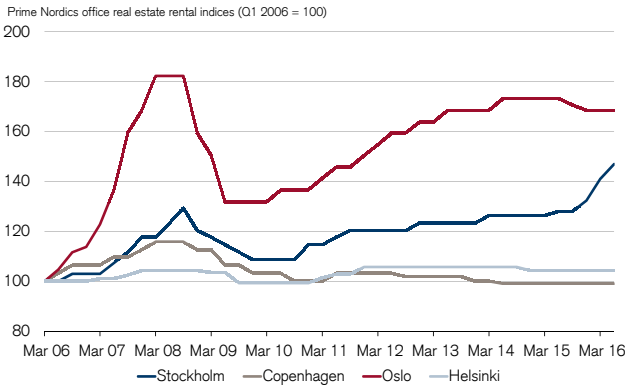
- Sweden, and Stockholm in particular, is likely to remain one of the most solid European office markets in the coming years, whereas prospects are more subdued for its Nordic peers.
- However, in the listed sector, investors should be cautious about selecting REITs with Swedish office exposure as these are now reaching high valuation levels.

Brice Hoffer
Research Economist - Global Real Estate

Uneven dynamics among Nordics' office markets

Benefiting from a "safe haven" status in current times of economic and political uncertainty, the Nordic commercial property markets are gaining in attractiveness. According to Real Capital Analytics, more than 22% of total investment in the office real estate market of Western Europe ex-UK targeted the Nordics in Q2 2016, whereas the long-term average is below 18%. Investors favored Sweden, in particular. More than 80% of all investments in the Nordics was allocated to Sweden, lured by the solid results this market offers. Supported by strong economic momentum, i.e. expected GDP growth of 3.2% in 2016, the prime office market in Stockholm experienced strong rental growth of 14.9% YoY in Q2 2016. This positive momentum is also observed in the secondary markets: in the same quarter, Cushman & Wakefield reported 11.8% YoY rental growth in Gothenburg and 9.3% in Malmö. In contrast, the performance of the other Scandinavian cities is more subdued. Rents in Oslo's office market, which has not yet recovered from the low oil price shock which started in late 2014, dropped by 2.7% YoY in Q2 2016. In Copenhagen and Helsinki, office rental dynamics have remained flat since the post financial crisis correction (0% growth YoY in Q2 2016). A sluggish economic recovery continues to weigh on the two markets as the International Monetary Fund (IMF) forecasts only 0.9% YoY GDP growth in Finland in 2016 and 1.0% in Denmark.

Rental indices for selected prime office real estate markets in the Nordics

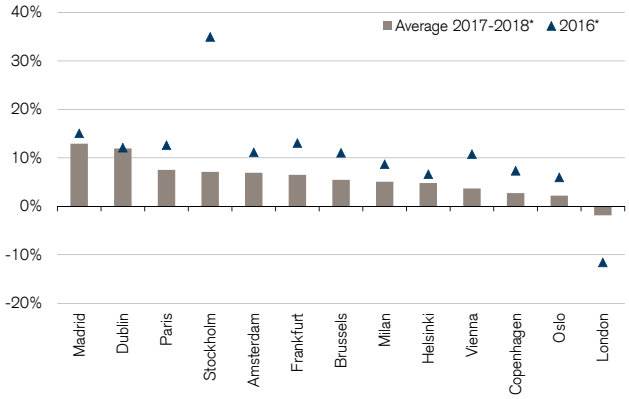


Last data point: 30/06/2016. Source: PMA, Credit Suisse / IDC

Resilient outlook for Sweden's market

In the next two years, we do not expect any of the Nordic office markets to be able to compete with Spanish and Irish direct real estate markets, which are currently booming. Cooling down from an impressive 35% annual total return in 2016 to an expected average of 7% per year over 2017 and 2018, Stockholm is expected, however, to remain among the most solid European markets. Above-average economic growth, i.e. 2.4% per year in Sweden versus 1.7% in the European Union between 2017 and 2018 according to the IMF, as well as a moderate net addition in office surfaces of 1.2% per year (forecast from Property Market Analysis) should contribute to this resilience. The supply level is also expected to remain subdued in the other Nordic centers, e.g. 0.6% in Oslo. However, in contrast with Sweden, economic growth prospects for the rest of Scandinavia are below the European average, limiting growth in demand. Finland's GDP, for instance, is expected to grow by only 1.2% per year over 2017 and 2018. Furthermore, excessive vacancy levels (more than 10%) will continue to weigh on both rental and capital value growth in Copenhagen and Helsinki.

Expected annual total returns in selected prime office markets of Europe



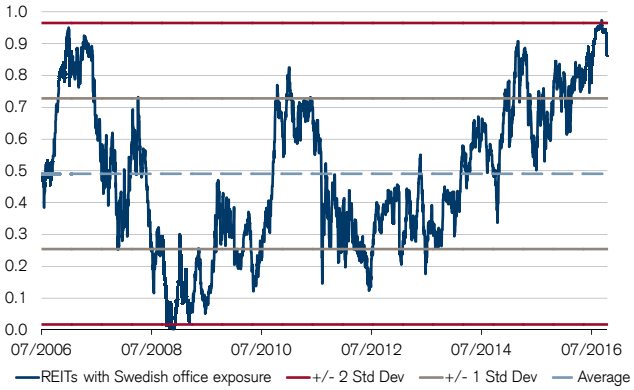
Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: PMA, Credit Suisse / IDC; *forecast from PMA

Valuation of REITs with exposure to Swedish office real estate is very high

We believe that Sweden not only has the best prospects in terms of direct office real estate returns in Scandinavia, but it also offers the largest and most diversified listed real estate sector in the Nordics. Thus, investors have the possibility to get an indirect and relatively liquid exposure to Swedish office real estate by selecting single companies' stocks. Benefiting from positive momentum in the physical market, major real estate investment trusts (REITs) invested in the Swedish office sector posted an average 16.7% total return over the three first quarters of 2016. At the same time, the global listed sector returned only 7.5%. The income outlook for these companies should remain healthy in the coming months as we expect a slower but still positive development of market fundamentals.

Also, REITs with Swedish office exposure offer an attractive dividend yield compared to the 10-year Swedish government bond, i.e. a spread of more than 250 bp on average. We expect Swedish monetary policy to remain supportive in the near term as inflation is still significantly below its target and the Riksbank tends to move in tandem with the European Central Bank. However, one major drawback is the current rich valuation of those REITs focused on the Swedish office real estate market. Indeed, the price-to-book value of these equities is peaking, therefore exposing them to a clear downward risk. Hence, investors interested in this theme should wait for a correction before entering, in our view.

Average standardized price-to-book value of major REITs with Swedish office exposure



Left-axis shows price-to-book ratio; Last data point: 20/10/2016. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: Bloomberg, Datastream, Credit Suisse / IDC

(26/10/2016)

Food for thought

Credit Suisse's long-term Capital Market Assumptions (CMA)

- The macroeconomic backdrop remains supportive of risky assets over the coming years.
- We expect equities to profit most from low for long interest rates and stable growth.

Michael Markovich
Head of Quantitative Analysis

2016 CMA

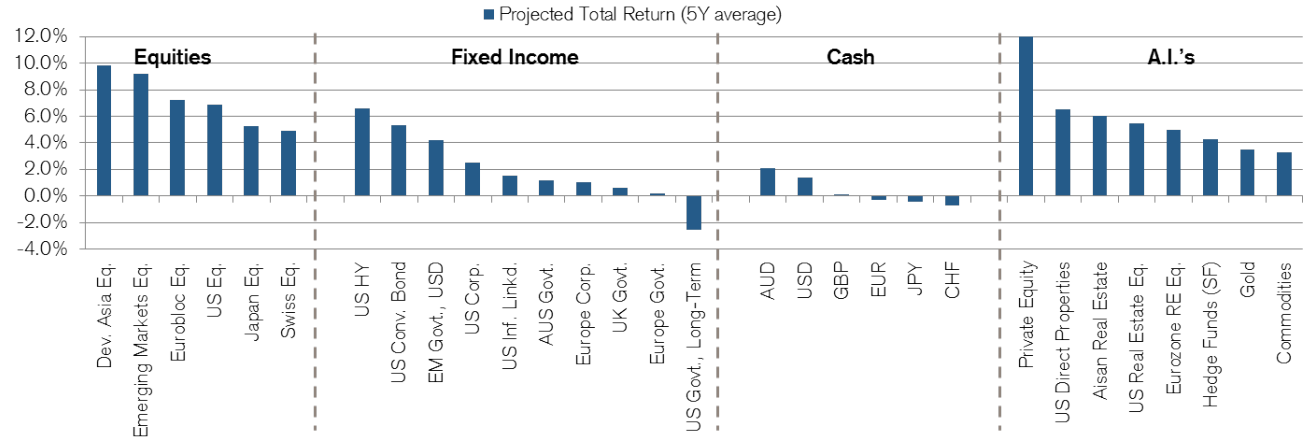
Credit Suisse's Capital Market Assumptions (CMA) represent our annually updated 5-year average total return forecasts for 76 assets (effectively from seven asset classes: money markets, equities, fixed income, private equity, hedge funds, commodities, and real estate) and volatilities for our base scenario and two risk scenarios (Strong and Weak). The annual review of our Capital Market Assumptions ensures that our Strategic Asset Allocation (SAA) remains up-to-date with our expert views on financial assets or help highlight where adjustment needs exist.

In this year's edition of the CMA, our economists focused on critically reviewing their assumptions on inflation. Their review concluded with the expectation that inflation would more likely converge to long-term averages, which is more reflective of economic structures, rather than to official central bank targets. This has particular implications for Japan and Switzerland in our 2016 CMA set, where we now assume inflation to stay below 1%, on average, for the entirety of the next five years.

In the landscape of expected total returns, the key feature of our 2016 CMA set is the expected revival of emerging market stocks, in particular from Asia. Our models and inputs on earnings trends, as well as local yields, point to significantly higher total returns than in past sets. What remains similar to the past is the high excess return of equities globally over bonds and cash, in the context of expected negative real yields for much of the next five years. Expected returns for core government bonds remain unattractive despite lower forecast bond yields and lower policy rates than previously assumed, and we foresee non-core bonds (high yield, senior loans, emerging markets) outperforming. Alternative investments continue to offer an overall attractive risk/reward, while private equity stands out, with the highest total return forecasts.

In volatilities and correlations, we discuss the issue of variance-covariance term structure as a methodological point (see our separate methodological publication). This may seem very technical at first sight, but is highly relevant for long-term investors, as portfolio volatilities may be very different when taking a 1-year, 5-year or 10-year horizon.

CS Forecast Average Total Returns (per year) over the next 5 years



Source: Datastream, Credit Suisse

(31/10/2016)

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	-0.39	-0.5 to -0.3	-0.3 to -0.1
EUR *	-0.31	-0.4 to -0.2	-0.4 to -0.2	0.17	-0.1 to 0.1	0.1 to 0.3
USD	0.89	0.8-1.0	1.0-1.2	1.85	1.7 to 1.9	2.0 to 2.2
GBP	0.40	0.0-0.2	0.0-0.2	1.26	0.9 to 1.1	1.1 to 1.3
AUD **	1.75	1.6-1.8	1.3-1.5	2.38	2.2 to 2.4	2.3 to 2.5
JPY	-0.02	-0.1 to 0.1	-0.3 to -0.1	-0.04	-0.1 to 0.1	-0.1 to 0.1

Spot rates are closing prices as of 28/10/2016. Forecast date: 21/10/2016. * 3M Euribor, ** 3M Bank Bill rates.

Source: Bloomberg, Credit Suisse/IDC

Equities

Index	Spot	P/E	Div. y. (%)	3M*	12M*
MSCI AC World**	927	15.3	2.9	875	950
US S&P 500	2126	16.5	2.6	2,000	2,130
Eurostoxx 50	3079	13.5	4.5	2,740	2,915
UK FTSE 100	6996	15.0	4.2	6,520	6,845
Japan Topix	1392	13.8	2.1	1,270	1,350
Australia S&P/ASX 200	5284	15.4	4.5	5,260	5,490
Canada S&P/TSX comp	14785	2.5	19.3	13,840	14,695
Switzerland SMI	7909	15.8	3.5	7,865	8,300
MSCI Emerging markets**	103683	12.4	2.7	101,800	110,900

Prices as of 28/10/2016 . *Forecast as on 21/10/2016 . **Gross return (incl. dividends).

Source: Credit Suisse / IDC, Bloomberg, Datastream

Commodities

	Spot	3M *	12M *
Gold (USD/oz)	1270	1275	1250
Silver (USD/oz)	17.74	18	17
Platinum (USD/oz)	981	950	1000
Palladium (USD/oz)	616.9	650	675
Copper (USD/ton)	4835	4600	4600
WTI Crude Oil (USD/bbl)	48.70	50	55
Bloomberg Commodity index	173.6	176	183

Spot rates are closing prices as of 28/10/2016 *forecast as on 28/10/2016

Source: Bloomberg, Credit Suisse / IDC

Credit: Selected Indices

	Yield (%)	Spread (bp)	Duration (years)	3M forecast *	12M forecast *
BC IG Corporate EUR	0.8	109	5.4	0.1%	-0.1%
BC IG Corporate USD	3.0	132	7.4	0.3%	-0.1%
CS LSI ex govt CHF	-0.2	53	6.4	-0.2%	-1.2%
BC High Yield Corp USD	6.2	467	4.1	0.9%	3.7%
BC High Yield Pan EUR	4.1	382	4.1	0.8%	2.6%
JPM EM hard curr USD	5.5	354	7.7	1.0%	2.6%
JPM EM local curr hedg. USD	6.4	n.a.	5.0	1.4%	4.0%

BC = Barclays Capital, IG= Investment Grade, CS = Credit Suisse, JPM = JP Morgan (EMBI+ and GBI Gl. Div). Index data as 28/10/2016 . *Forecast as on 21/10/2016

Source: Credit Suisse / IDC, Bloomberg

Foreign exchange

	Spot	3M	12M
EUR/USD	1.0985	1.10	1.05
USD/CHF	0.9881	0.98	1.04
EUR/CHF	1.0846	1.08	1.09
USD/JPY	104.74	97	96
EUR/JPY	115.06	107	101
EUR/GBP	0.9004	0.89	0.85
GBP/USD	1.2185	1.23	1.23
AUD/USD	0.7599	0.79	0.82
USD/CAD	1.3398	1.32	1.32
EUR/SEK	9.8983	9.60	9.40
EUR/NOK	9.0800	8.80	8.60
EUR/PLN	4.3381	4.30	4.30
USD/CNY	6.7789	6.80	7.10
USD/SGD	1.3919	1.41	1.45
USD/KRW	1144.7	1130	1180
USD/INR	66.780	68.0	68.0
USD/BRL	3.2006	3.15	3.20
USD/MXN	18.984	18.2	18.2

Spot rates are closing prices as of 28/10/2016

Source: Bloomberg, Credit Suisse

Real GDP growth and inflation

	GDP Growth			Inflation		
in %	2015	2016	2017	2015	2016	2017
CH	0.8	1.5	1.5	-1.1	-0.3	0.5
EMU	2.0	1.7	1.4	0.0	0.1	1.2
USA	2.6	1.5	2.0	0.1	1.3	2.0
UK	2.2	1.8	0.8	0.0	0.7	2.0
Australia	2.5	2.9	2.8	1.5	1.1	1.5
Japan	0.5	0.6	0.9	0.8	-0.2	0.2
China	6.9	6.6	6.3	1.4	2.0	1.8

Forecast date: 13/10/2016.

Source: Credit Suisse

(31/10/2016)

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.
Equity risk	Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable.

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

Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

Interest rate and credit risks

The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

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