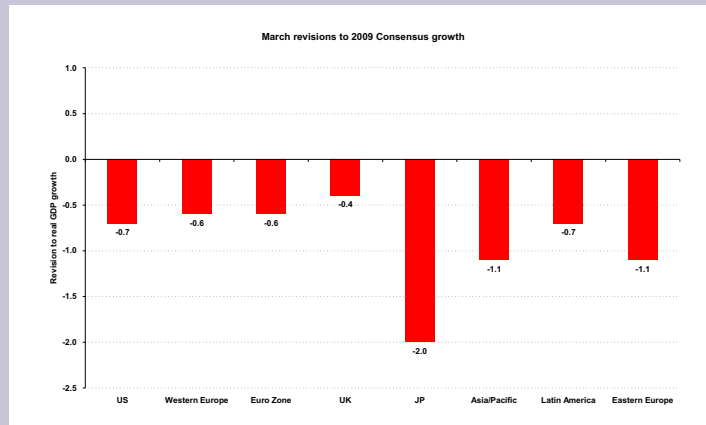


Global Investment Perspective

April 09

March was an exceptionally strong month for equity markets. The MSCI World Index rose 7.6% as certain macro data, and US government initiatives boosted hopes that the global economy might be turning the corner. US durable goods orders and housing data in February were stronger than expected.

While the better-than-expected data is welcomed, it may be still too early to claim a recovery is about to start. Several economic indicators remain weak. For example, US employment data continues to deteriorate, with the jobless rate reaching a record 8.1% in February in the US. This weakness was reflected in the consensus' forecast for 2009 US real GDP growth, which was revised down to -2.8% in March.



We would need to see a further stabilization in both economic and volatility indicators, to justify the start of a sustained recovery. Governments around the world have promised a large amount of fiscal stimulus, and the US government's latest initiative to remove toxic assets from banks' balance sheet is certainly a welcome development. World leaders at the recent G20 meeting pledged more than US\$1 trillion in loans to the International Monetary Fund to help afflicted countries boost economic activity. However, it is too early to evaluate the success of these measures. While the quantitative easing policy by global governments could potentially raise inflationary pressure in the medium term, the risk of deflation cannot be completely ruled out for now, given the continued weakness in economic activity.

As there is no clear indication of a recovery, and downside risks to corporate earnings continue, we remain cautious, and retain our preference for cash over equities. We remain neutral in our region allocation within equity markets as valuation dispersion between regions remains low. Within the bond universe, we remain negative on government bonds on expensive valuations. We hold our positive view on investment grade corporate and high yield bonds. Not only are valuations attractive, both these asset classes are likely to benefit from extensive government fiscal stimulus, which will further enhance the lending environment for corporates. Within currencies we maintain a moderate negative view on the GBP, as quantitative easing measures adopted by the Bank of England are negative for the currency.

Markets

US

Too Early To Infer The Economic Downturn Has Stabilized

- The latest durable goods and housing data are indeed a welcome development, but it is too little and too early to infer that the situation has stabilized. While government initiatives to remove toxic assets from banks' balance sheet is positive, as with other measures, its effectiveness is yet to be proven.

Europe

Still Too Many Question Marks On When Markets Will Turn The Corner

- In the UK, loans approved for home purchases rose in February, while in the Eurozone, small improvements were seen in vehicle and retail sales. However, worrying readings, particularly for labour and industrial production, show that it is too early to envisage the beginning of a recovery.

Japan

Weak Profit And Growth Outlook Weighing Negatively On Equity Market

- The macro picture remains bleak with yet another record fall in industrial production in Japan in February (down 38.4% y-o-y). On the back of the weak macro economic outlook, forecasts for Japanese corporate profits have also been revised down aggressively.

Emerging Markets

Risk Of Further Negative Surprises Remain Elevated

- Small signs of improvement were evident, possibly reflecting government stimulus packages starting to impact the real economy. However, economic data continued to deteriorate in general, which was reflected in further downward revisions in consensus 2009 GDP growth forecasts.

Asia Ex Japan

Macro Conditions Remain Under Stress, With Risks Skewed To The Downside

- Overall, despite small improvements in some data, macro conditions remain under stress, as reflected by consensus 2009 growth forecasts for the region. Weakening exports exert further uncertainty over the region's future and raises the question whether the estimated level of growth for 2009 is achievable.

Interest Rate/Fixed Income

US

Valuation Of US Treasuries Remains Unappealing Given Very Low Yields

- The valuation of US Treasuries remains unattractive given the very low level of yields. Overall, the extremely loose fiscal policy and monetization of debt suggest that yields could move upwards. The risks are therefore skewed to the downside for Treasury prices.

Eurozone

Low Yields Make Asset Class Unattractive

- Valuations continue to look unappealing as yields remain low relative to history. The outlook is also clouded by the increased level of indebtedness as countries in the Eurozone increase their deficits to support growth and the banking sector.

Investment Grade

Valuation Pricing In An Excessive Level Of Pessimism

- Valuations remain attractive, both in absolute terms and relative to other asset classes, because corporate bonds are pricing in extremely high levels of default. Through the repair of banks' balance sheets, the US's Public-Private Investment Program should benefit both financial debt and credit markets.

High Yield

Current Spreads Adequately Compensate For Bleak Outlook

- As is the case in the investment-grade market, high yield corporate bonds are pricing in extremely high levels of default. While fundamentals are deteriorating, we continue to believe that current spread levels are more than compensating for the bleak economic outlook.

Emerging Markets Debt

Appealing Valuations, But Less So Than Global High Yield

- Quantitative easing boosted commodity prices on speculation that inflation will increase, lifting the currency of commodity-linked countries. Valuations continue to be attractive, although less so than for global high yield and global corporate bonds on a risk adjusted basis.

Commodity

Oil

Crude To Remain Range Bound At US\$40-60 A Barrel

- In the US, better-than-expected numbers on durable goods and house-starts helped lift investors' sentiment, with positive consequences for the oil price. The news on house-starts and durable goods are welcome developments, but it is too little and too early to conclude a turnaround is imminent.

Currency

US dollar (USD)

At Fair Value Relative To The EUR And JPY

- The USD continues to be at fair value relative to the EUR and the JPY. Quantitative easing can weaken the currency in the short term, but can also help the US to move out of the recession quicker. However, at this stage, the macro picture and the effectiveness of policy measures remains uncertain.

Euro (EUR)

Express A Marginal Preference For The EUR Over The GBP

- From a valuation or growth perspective, it is difficult to see any major trend developing for the EUR. However, from a monetary policy perspective, the EUR compares favourably to the GBP, which yields less and may suffer due to quantitative easing.

Sterling (GBP)

Expansionary Monetary Policy Negative For The GBP

- Economic data continues to point clearly to additional downside to growth; for example, unemployment rose to 6.5% in Jan from 6.3% in Dec 08. In March, the Bank of England cut rates by another 50bps. The macroeconomic picture and expansionary monetary policy are negative for the GBP.

Japanese Yen (JPY)

Maintain Neutral View Relative To The USD

- Economic data has deteriorated sharply and this further undermines the outlook for the JPY. (Industrial production dived in February by 38.4%.) Now that rates are near zero in the US, the carry trade will be less of a factor in determining fluctuations in the USD/JPY exchange rate.

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