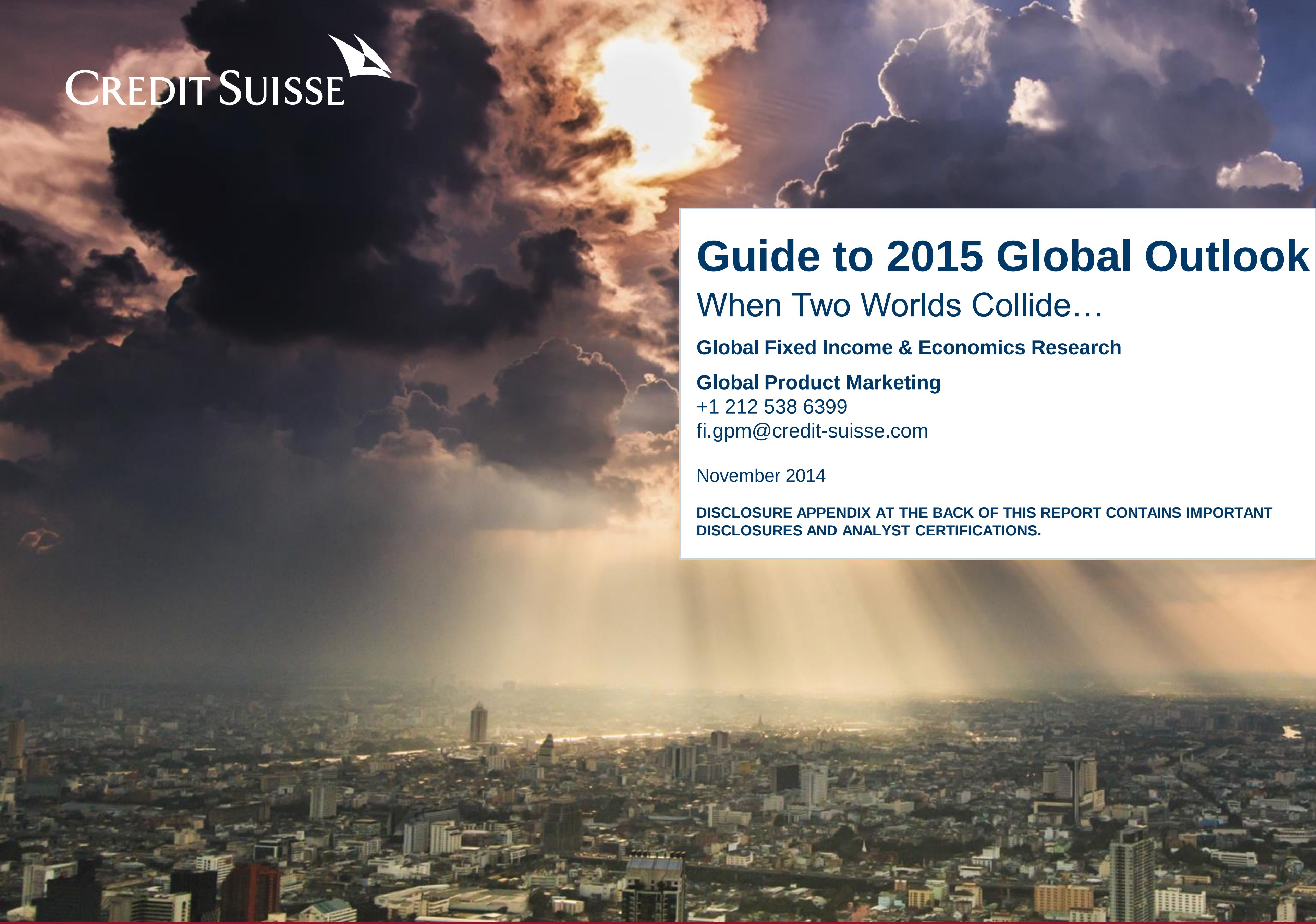

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# Guide to 2015 Global Outlook

## When Two Worlds Collide…

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November 2014

**DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS.**

# Table of Contents



This presentation is a summary guide to Global Fixed Income & Economics Research's *2015 Global Outlook*. Please see the linked report here and on the following slides for more information and the contributors to each section.

# Executive Summary

Strength in the US continues

Wage inflation picks up

Oil price declines

BoJ / ECB QE

Expectation of Higher US Rates

Rates Low, Currency Funding Encouraged

**Increased Volatility**

- Sharpe ratios expected to fall
- USD to benefit
- EM economies to be tested

**Mixed Credit Implications**

- US HY CCCs at risk
- US CMBS should benefit

**Excess Returns**

- Non-US equity
- European credit
- Peripheral front ends
- ECB eligible ABS

Fed to raise interest rates June 2015

# Top Ten Trades for 2015

1. Sell EURUSD
2. Buy TOPIX Currency Hedged
3. Buy FX Implied Volatility
4. Sell Front-End USD Rates
5. EUR 10s30s Flatteners
6. Sell Gold
7. Overweight US CMBS Credit
8. Buy US BB HY versus US CCC HY
9. Buy Front-End EUR Peripherals
10. Buy Indian Bonds Against Paying Low Yielders

**For more on these trades and their rationale and risks, please see the *2015 Global Outlook*.**

# Outlook for Growth

**UK**
- Growth is likely to maintain an above-trend pace.
- - May General Election could lead to a more restrictive fiscal stance.

**US**
- We expect average real GDP growth of 3%.
- Labor market recovery appears sustainable.
- + Global capital flows, lower gas, biz investment , and household formation
- - Europe and China impacting corp profits and exports, disorderly adjustment to Fed hikes

**Europe**
- We forecast average real GDP growth of 1.2%.
- We expect cyclical momentum to bottom.
- - Vulnerable to further slowdown in China, political risk

**China**
- GDP growth is likely to moderate further to 6.8% in 2015.
- + Consumption, housing policies
- - Depressed margins, abundant capacity

**Japan**
- Real GDP growth is likely to decelerate.
- VAT hike is likely to be postponed to 2017.
- - Stagflation headwinds

**EEMEA**
- Real GDP growth is likely to pick up modestly (ex-Russia).
- + Lower commodity prices, ECB easing
- - Higher US rates, weak euro area, slower China, lower commodities

**Latin America**
- We expect average real GDP growth of 3.3%.
- + Mexico, Colombia, Chile, Peru, Ecuador
- - Lower oil, fiscal accounts, policy uncertainty

# Policy Outlook

We expect a number of policy themes to emerge in 2015:

- Fed hikes as inflation and unemployment reach their long-run averages
- Reorientation of capital post-Fed hikes amid uncertain global growth
- Divergence (BoJ and ECB versus BoE and Fed)
- EM policymakers’ response to low commodity prices

## The Fed is likely to hike in mid-2015, while most of the world considers more easing

### Euro area

- The ECB is currently engaged in credit easing.
- We see more easing as imminent, likely in the form of sovereign debt purchases.

### PBoC

- Chinese policymakers are more focused on structural reform than GDP growth.
- Aggressive fiscal or credit policy is unlikely apart from systematic distress.
- Monetary policy should accommodate economic transitions, prevent liquidity crises.

### Fed

- We expect the fast-improving US labor market to prompt a Fed hiking cycle from June 2015.
- The fed funds rate should be hiked to a range of 1.00%-1.25% by year-end 2015.

**Easier** ⟷ **Tighter**

### BoJ

- “Saturation” for commercial banks’ excess reserve holdings and structural impediments lead us to question the sustainability and effectiveness of continued QE.
- The government now looks in favor of postponing the 2nd VAT hike to 2017.
- We expect other austerity  measures to be introduced to offset tax revenue loss in 2015/2016.

### BoE

- A tighter labor market should lead the MPC to raise rates in 2015.
- Political uncertainty could alter this, as the May election could shift the focus to addressing fiscal deficit, negating the need for monetary tightening.

Source: Credit Suisse

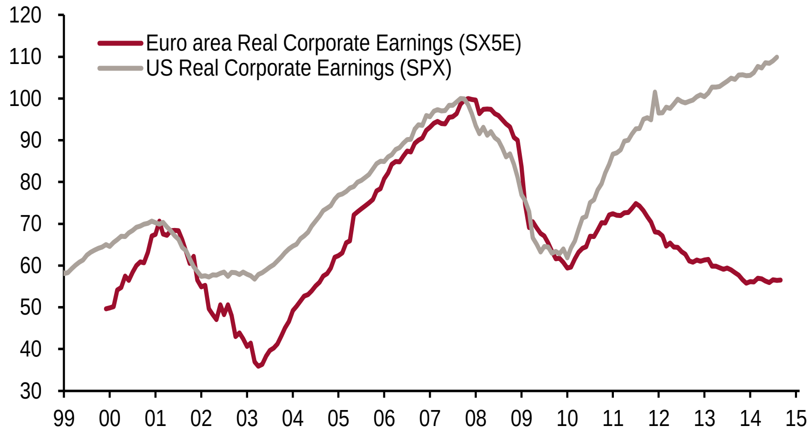
# The World Economy in 2015

**2015 Core Views**

- In 2015, we expect improved global growth and a mid-year increase in US interest rates. The ECB and the BOJ remain in easing mode, and the policy outlook in the rest of the world varies considerably.
- The risk that global growth remains sluggish is high, and a lack of meaningful improvement could lead to sharp increase in the dollar and a significant reorientation of capital flows.
- Most regions should see decreasing growth headwinds in 2015, although geopolitical uncertainties, volatile oil prices, and moderating Chinese growth remain concerns.

**US and EA corporate earnings**

12m trailing EPS, indexed to pre-crisis peak




Source: Credit Suisse, Thomson Reuters Datastream

**How Will Tightening Work? The Fed's Exit Strategy**

Fed's balance sheet is five times larger than it was when the financial crisis began in the summer of 2007.

Excess reserves in the banking system, which were virtually non-existent before 2008, have grown to $2.6 trillion.

Tightening policy with this much cash in the banking system requires special tools and a plan.

The Fed has developed both.

- **Fed funds rate:** The Fed plans to continue targeting a range for the federal funds rate (probably 25bp wide).
- **IOER:** Interest on excess reserves (IOER) has been a very porous floor.
- **O/N RRPs:** Overnight reverse repurchase operations are the single best method to control overnight rates.
- **Term Deposit Facility (TDF):** The TDF should be helpful in neutralizing bank reserves temporarily, but it is unlikely to have a significant impact on the fed funds effective rate unless it grows very large.
- **Traditional Temporary Open Market Operations (TOMOs):** . Traditional TOMOs but with the expanded counterparties might be a method in the future to conduct monetary policy.
- **Traditional Permanent OMOs:** Before going this route, the Fed has indicated that it intends to shrink its balance sheet passively at first by not reinvesting proceeds from its MBS holdings and perhaps by reinvesting less than 100% of its Treasury debt roll-off.

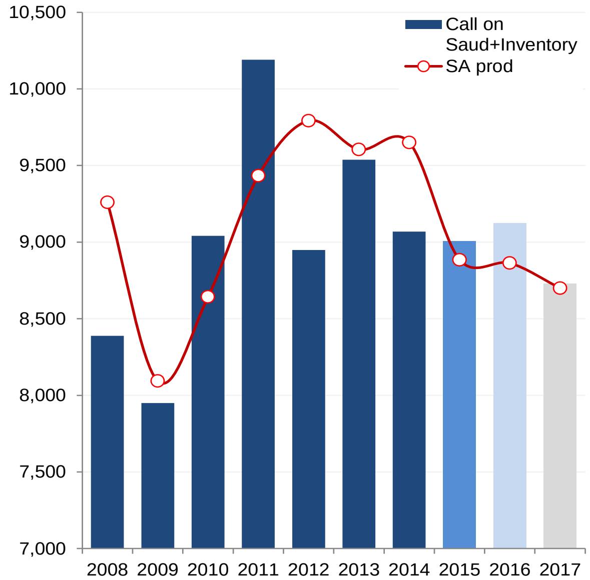
# Oil in 2015: Lower, or Much Lower, Prices?

**2015 Core Views**

- In 2015, we expect oil markets to find a new, lower price range around $92 per barrel (/b) for Brent – nearly 20% lower than the $110/b average of each of the last three years and 12% below the estimated $103/b 2014 average. Most of the risk, in our view, is on the supply side.
- Aside from by now-familiar risks to exports from sovereign producers across MENA and worries on the demand side focused on Europe and China; the critical variable, in our view, is Saudi Arabia. We assume that it will continue to balance oil markets – much like the "central banker of oil" should.
- But the Kingdom may be deciding to abandon its swing producer role. And if the Saudis were to continue to over-supply oil markets, then prices would fall much further. A 2015 "equilibrium" could be $80 Brent, down fully 25% from 2014, or lower.

**Call on Saudi Arabia (kb/d)**

Call on SA crude oil + inventory = global oil demand less non-Opec all liquids, processing gains; Opec oil and SA non crude




Source: Credit Suisse, the BLOOMBER PROFESSIONAL™ service

**Base Case**
- Great growth of US oil production continues: 1.2 million b/d (a >2% increase)
- Demand improves, with growth of 1.4% in 2015, higher than consensus
- Call for Saudi Arabia's crude oil goes down by ~1Mb/d

**Bull Case** (each risk below involves oil exports of 1.5-2.6 Mb/d)
- Iraq's south produces a 2.6 Mb/d oil export stream when spare capacity is about half that
- Nothing in Libya is settled yet; flows are back to half of the pre-2011 average
- Iran sanctions tighten, which could invite retaliation
- Nigeria, Algeria, and Venezuela all reach breaking points

**Bear Case**
- Saudi production stays at 9.6 Mb/d, leading to surplus of more than 1 Mb/d
- Futures curve falls into a steeper contango and the long-dated part of the curve deflates as the upstream oil industry cuts back activity
- Brent oil prices fall to the $60/b range
- Non-Opec flow trims to get to WTI of $75/b and Brent of $82/b

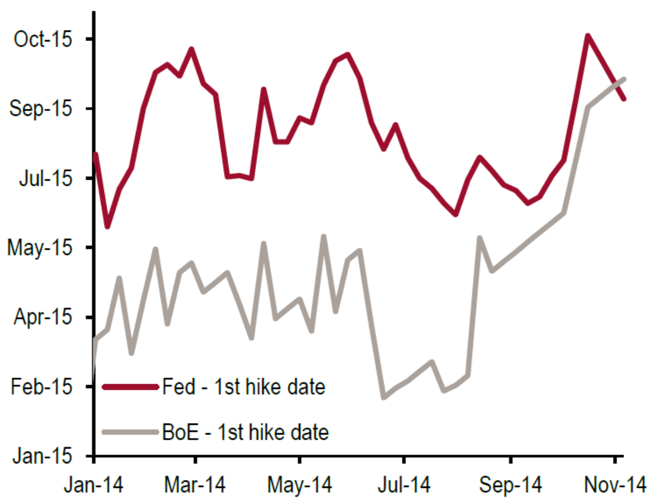
# Why Barriers to Policy Divergence Will Not Hold

**2015 Core Views**

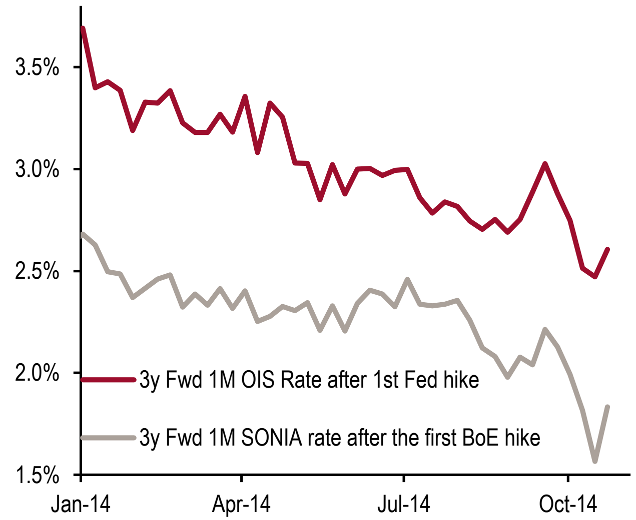
- Policy divergence will be a key theme of 2015. We expect monetary policy to tighten in the US and UK and ease in the euro area, Japan, and other Asian economies.
- But three issues have led markets to question whether policy in the US and UK will, in the end, diverge from the rest:
  - weak or no growth in the euro area
  - low CPI inflation on the back of falling commodity and goods prices
  - an absence of wage inflation in the US and UK despite a tightening labor market.
- We acknowledge the risks but believe that, in the end, they will prove largely immaterial to the prospect of US and UK tightening next year.

**Plenty of uncertainty exists about policy lift-off**

Implied date of first hike




**Expectations of the scale of policy tightening have been steadily pared back**




Source: Credit Suisse

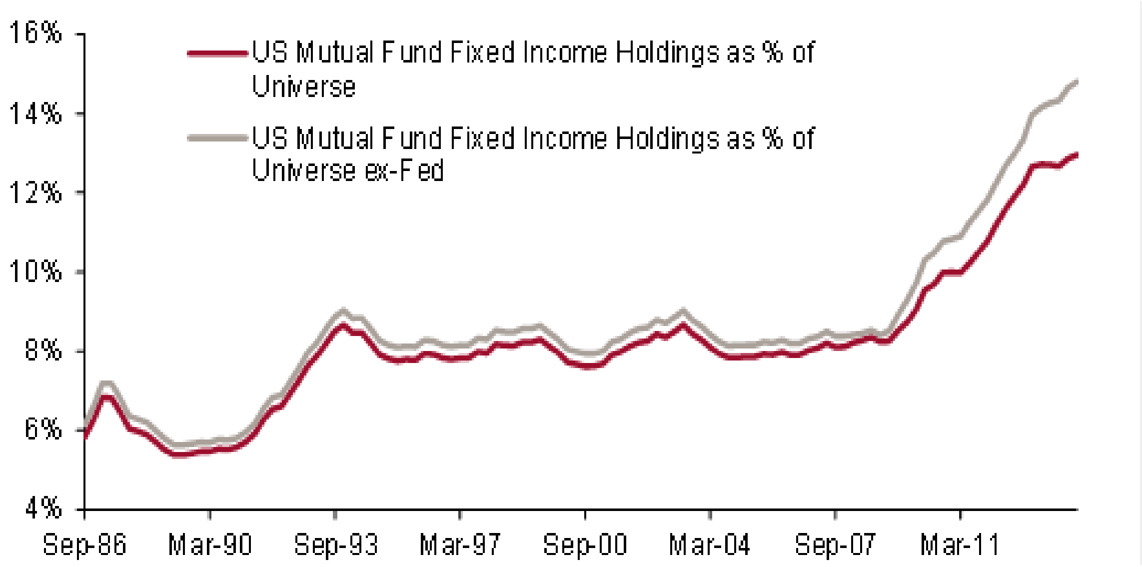
# Pressure Points for Capital Flows into Fed Tightening

**2015 Core Views**

- Following a long period of widespread financial repression, the prospect of Fed tightening awakens a host of opportunities, especially for money market investors and in FX markets.
- We believe that it will also highlight pressure points resulting from changes in market structure that increase risk concentration and raise the likelihood of price gaps.
- In particular, we focus on how retail investors' access to liquidity has improved, how these investors tend to be trend-following, and how, in some sectors, they have grown to represent 25%-30% of the market.

**Mutual funds' holdings account for nearly 13% of the fixed income universe**

Fixed income includes Treasuries, agency, and GSE-backed securities, minus, and corporates




Source: Credit Suisse, Federal Reserve, Haver Analytics®

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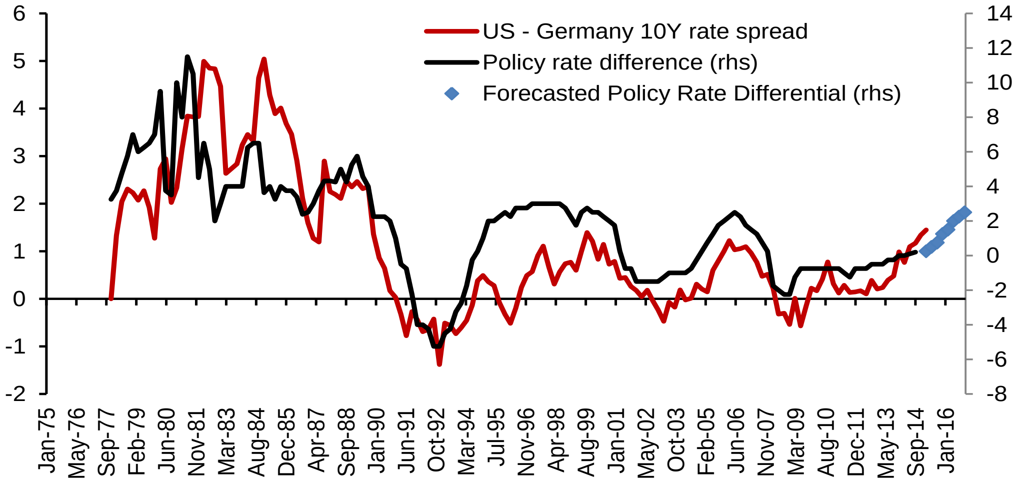
# Coping with Higher US Rates

**2015 Core Views**

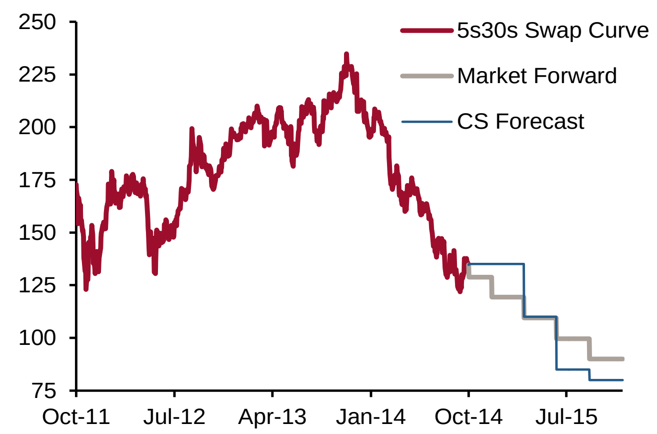
- Fed tightening should lessen Europe's gravitational pull on US yields; we expect a belly-led sell-off to deliver more curve flattening than is currently priced.
- We expect the impact of higher US yields on European yields to be contained but expect a modest steepening in EUR 2s10s and peripheral spread tightening. The gradual pace of UK rate hikes should contribute to Gilts outperforming Treasuries.
- For EM, we expect a potentially volatile "transition" toward a "new equilibrium" distinguished by greater risk differentiation.

**Our rate forecasts suggest continued divergence…**




**…and even more substantial flattening of the 5s30s curve than is currently priced in the forwards**

CS Swaps curve forecast assumes unchanged swap spreads




Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service

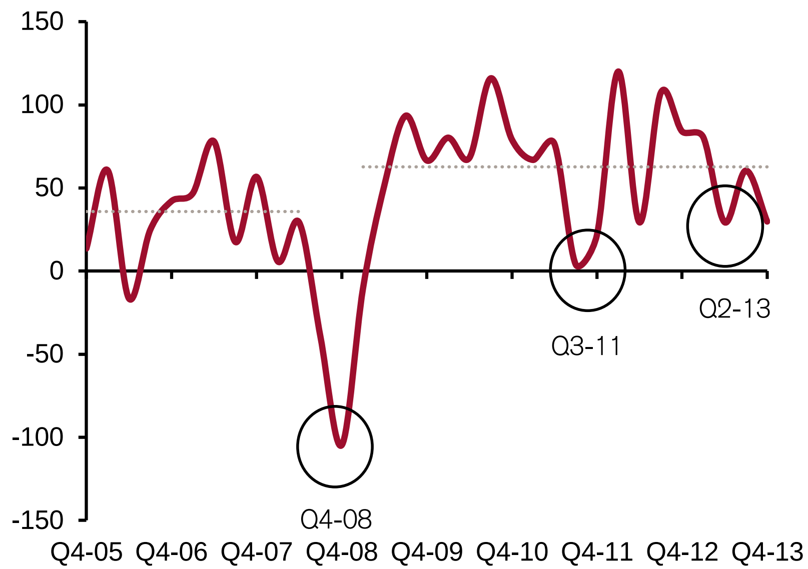
# Do Higher US Yields Matter for EM?

**We expect greater risk differentiation to be the main feature of the "new equilibrium"**

| EMs that benefitted from large portfolio inflows may be at risk | EMs with persistent current account deficits may have to adjust | A reversal in foreign holdings of local debt may put pressure on interest rates and exchange rates | Private-sector debt rollover may become challenging, especially where leverage is high |
|---|---|---|---|
| •Malaysia •Poland | •Turkey •Colombia | •Malaysia •Mexico | •China •Hungary |
| •Chile •Turkey | •South Africa •Chile | •Peru •Hungary | •Hong Kong •Singapore |
| •Mexico •South Africa | •Peru •Indonesia | •Poland •South Africa | •Korea •Taiwan |
| | •Brazil | •Indonesia | •Malaysia •Thailand |

**Gross portfolio inflows to selected EM (USD bn)**

CS Swaps curve forecast assumes unchanged swap spreads



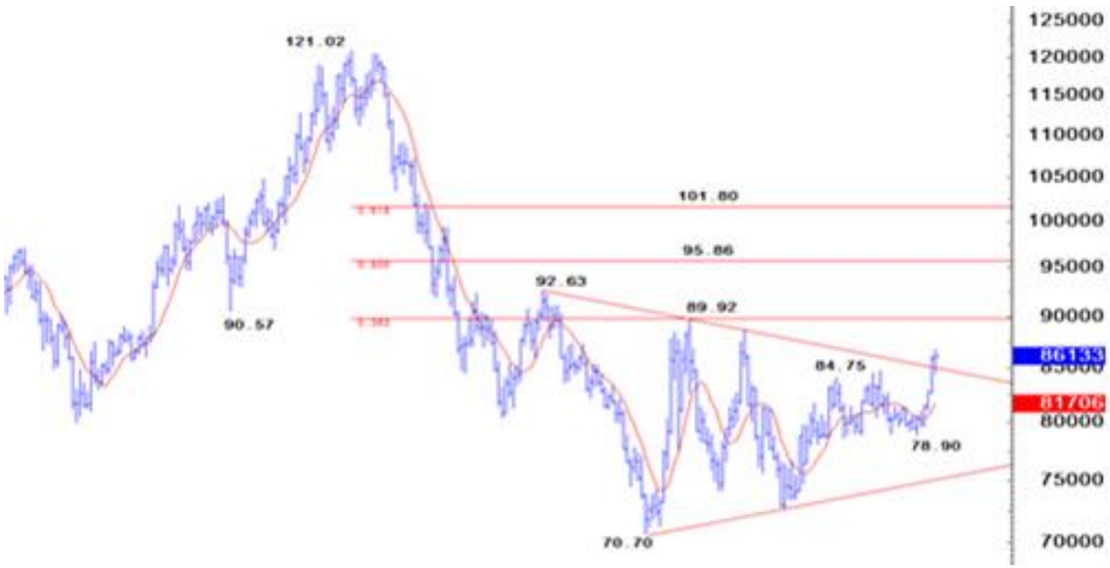

Note: Our selection includes Argentina, Brazil, Chile, Colombia, Czech Rep., Hungary, India, Indonesia, Korea, Malaysia, Mexico, Philippines, Peru, Poland, Russia, South Africa, Turkey, Venezuela (Q3-4 2013 data for Peru and Venezuela are Credit Suisse estimates).
Source: IMF, Credit Suisse

# USD Rally: How Far and For How Long?

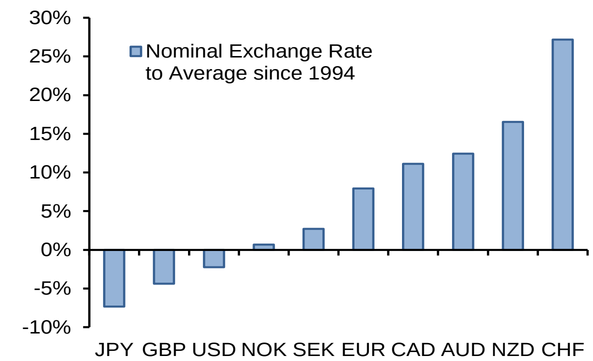
**2015 Core Views**

- We expect spread widening in the USD's favor above and beyond what's already in the price. This means that our cyclical framework is USD-positive.
- Our view is based on cyclical US economic outperformance, structural flows such as GPIF-related outflows from Japan, as well as the prospect of further monetary easing from other major central banks, such as the ECB.
- Current NEER USD valuation is cheap compared to longer-term averages.

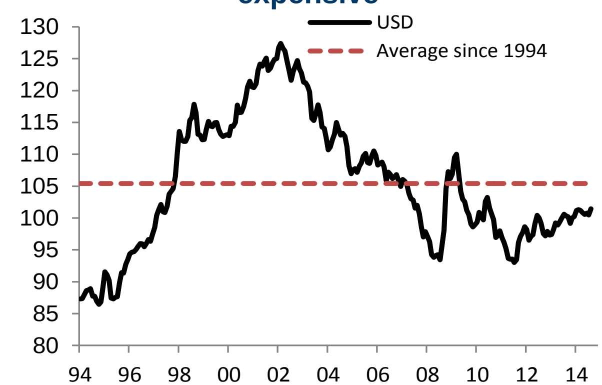
**The recent USD rally is a small move for the USD, relative to history**




**Relative NEER valuations**




**Historical USD NEER doesn't look expensive**




Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, BIS

# Expected Returns & Risk Analysis

**2015 Core Views**

- Our base case for 2015 includes another year of strong returns in global equities and modestly negative returns in fixed income.
- Better-than-expected global economic growth should improve returns over the base case, while subdued growth should reverse return expectations, with fixed income outperforming and equities returning slightly negative.
- Our Black-Litterman-type asset allocation model favors equities at the expense of other assets but recommends maintaining the benchmark allocation to risky fixed income in the base case.

| Asset Class | CS Recommendation | Benchmark Weight | 2015 Model Weight | Difference |
|---|---|---|---|---|
| Government | Underweight | 28% | 16% | -12% |
| Credit and Spread Markets | Underweight | 14% | 7% | -7% |
| Risky Fixed Income | Market Weight | 4% | 5% | +1% |
| Equities | Overweight | 54% | 72% | +18% |

Source: Credit Suisse

# Tail Risk Hedging

**2015 Core Views**

- Navigating the increasingly common occurrence of “rare” tail risk events and unprecedented policy actions has become crucial for investors.
- We outline systematic strategies that exhibit three key features of tail risk hedging: (1) asymmetrical payout (high return in periods of stress, little or no performance erosion in normal market conditions); (2) high liquidity in the instruments traded; and (3) the ability to be positioned accurately to absorb tail risk events.

**Summary of tail risk hedging strategies**

| | BBG Ticker | Launch Date | Description | Indicator | Instruments Traded |
|---|---|---|---|---|---|
| CS Defensive Volatility Index | CSEADVOL | 9/26/2012 | Gains long exposure to S&P 500 implied volatility at lowest possible cost of carry based on the relative roll yield along the term structure. | Always long volatility, adjusts leverage according to slope of the VIX futures curve | S&P 500 VIX short- and medium-term futures (SPVXSP and SPVXMP) |
| CSTOPS | CSTSERUS | 8/1/2011 | Trades Eurodollar/Euribor futures and US and Eurozone bond futures with tenors ranging from three months to ten years when the model detects upward momentum in these futures. | Momentum signal | 8 Eurodollar/Euribor futures and 6 US and Eurozone bond futures |
| CS Cheapest Slide Index | CSEACHPS | 12/8/2011 | Gains long exposure to Euro Stoxx 50 implied volatility at lowest possible cost of carry by positioning itself at the most advantageous point on the term structure | Always long volatility, adjusts leverage according to expected roll yield | Forward starting variance swaps on SX5E |
| CS Equity Dynamic Tail Hedge Index | CSEADYTL | 7/15/2011 | Systematically sells delta-hedged ratio put spreads when signals indicate extreme negative market scenarios | CDS spreads on European companies, Euro Stoxx 50 skew | Listed ratio put spreads on SX5E |

Source: Credit Suisse

# Credit: Global Leveraged Finance Strategy

**2015 Core Views**

- If the Fed starts a tightening cycle mid-year, high yield should underperform, especially CCCs, which have the most refinancing risk. Loans should outperform bonds in this environment.
- In Europe, weak economic performance may be met by strong central bank intervention. Performance will depend on the timing and size of that intervention. In its absence, performance should be below coupon.
- If Fed policy does not change, sell-off/recovery cycles may continue, driven by uncertainty about macro events and low dealer inventory.

**Thematic Trade Ideas**

- We expect BB bonds to outperform in US high yield and CCCs to underperform once rate hikes begin.
- We favor B over BB in European high yield and look for value selectively in CCC bonds of stronger capital structures.
- We recommend overweighting loans when the yield difference with bonds approaches parity.

| Performance Annual Total Return | Actual 2013 | YTD 10/30/2014 | Projected 2014 | Projected 2015 |
|---|---|---|---|---|
| US High Yield Bonds | 7.53% | 4.38% | 5.5% | 5% |
| US Leveraged Loans | 6.15% | 2.60% | 4% | 4% |
| W. European High Yield (Hedged in €) | 9.10% | 4.26% | 5.5% | 4.5% |
| W. European Lev. Loans (Hedged in €) | 8.73% | 2.20% | 3% | 3.5% |

| Default Rate Summary | Actual 2013 | LTM Sep-14 | Projected 2015 | Projected 2016 |
|---|---|---|---|---|
| US High Yield Bonds | 0.91% | 2.12% | 1% - 3% | 0% - 2% |
| US Leveraged Loans | 1.46% | 3.03% | 0% - 2% | 0% - 2% |
| W. European High Yield (Hedged in €) | 0.70% | 0.96% | 0% - 1% | 0% - 1% |
| W. European Lev. Loans (Hedged in €) | 3.05% | 3.08% | 1% - 3% | 1% - 2% |

Source: Credit Suisse

# Credit: European Credit Strategy

**2015 Core Views**

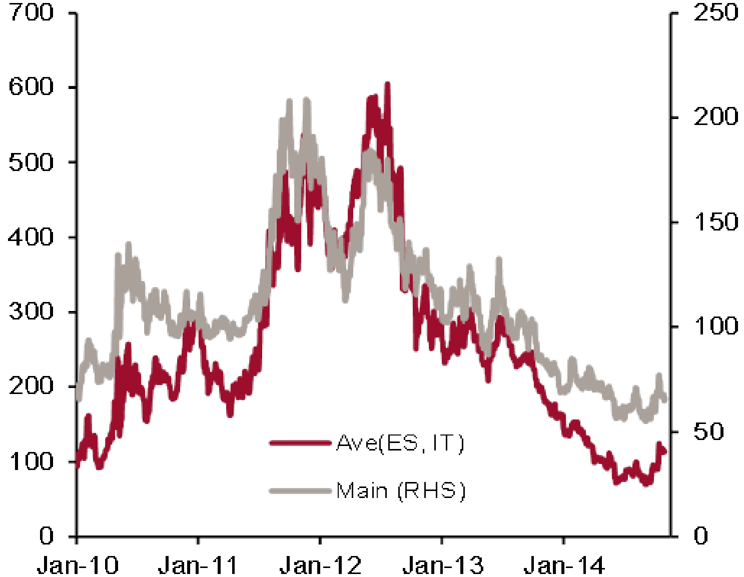
- European credit is still "all one trade"; the absence or return of systemic risk is the call.
- But 2015 could well be the year that "all one trade" breaks down sharply.
- In the modal case of a year that looks like 2014, credit should offer strong excess returns.

**Thematic Trade Ideas**

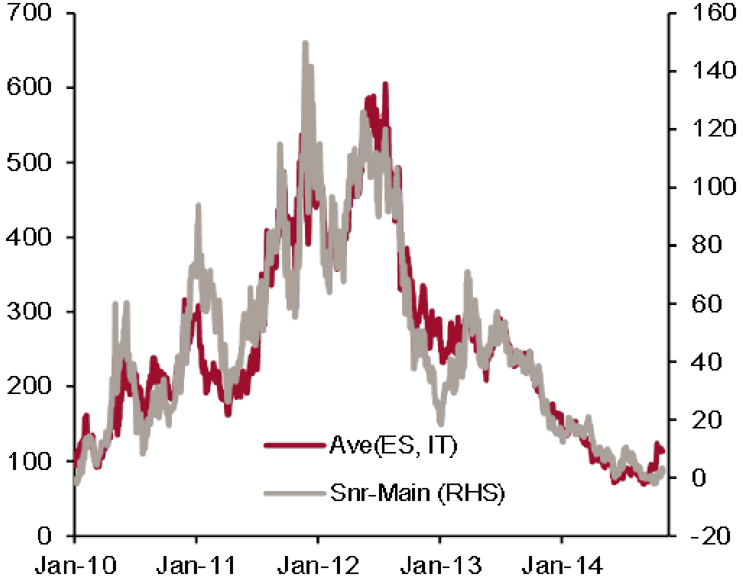
- We recommend staying overweight credit in a fixed income portfolio.
- Financials should outperform in the modal case but are exposed to the risk case.
- We view corporates as a "safe haven" that may be supported even more by ECB intervention, but we are on the alert for profit challenges.

**It's still all one trade…but 2015 could be the end for this**

iTraxx* Main active contract ("Main") and average of ES and IT 5y sovereign CDS




ITraxx* Financial Senior active contract less Main and average of ES and IT 5y CDS




*iTraxx is a registered trademark of the International Index Co Ltd. Source: Credit Suisse

# Credit: Latin America Corporate Credit Strategy

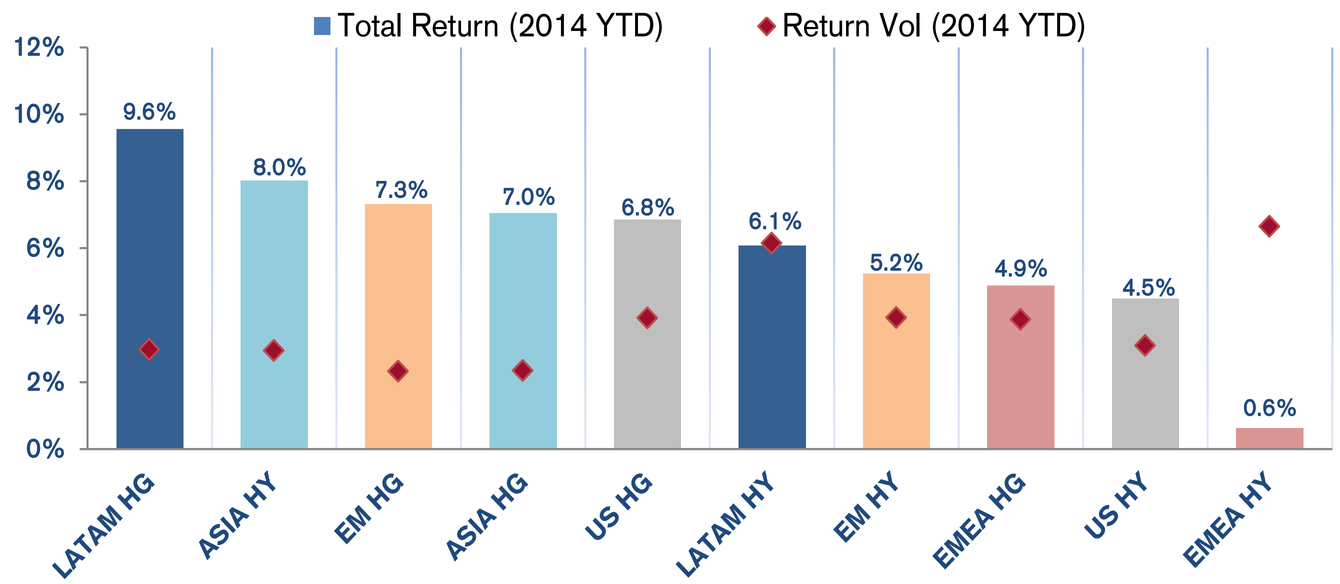
**2015 Core Views**

- For Latam corporate credit, we foresee mixed earnings performance, with divergence across regions and sectors. We favor select Mexican and Andean corporates and prefer credits in infrastructure, consumption, and utilities with solid liquidity.

**Thematic Trade Ideas**

- In Latam corporates, we prefer HY over HG given the more attractive spread pick-up to similarly rated US corporates, but we caution that selectivity in credit selection is key.

**Latam corporates have outperformed US benchmarks year to date**




Source: Credit Suisse, data are as of October 31, 2014

# Emerging Markets

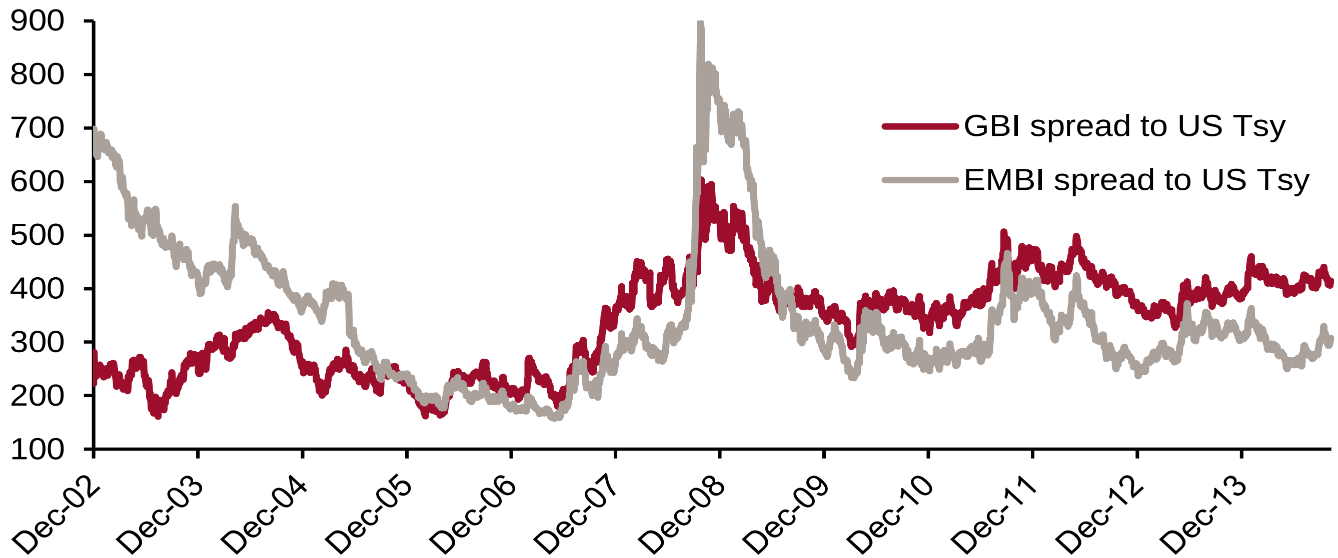
**2015 Core Views**

- 2015 should be a tougher year for emerging market fixed income, but the asset class is unlikely to crash across the board, and we still see opportunities.
- Growth in EM economies is relatively weak, and current account positions (cash flows in a macro sense) are weaker than during previous Fed's tightening cycles.
- Still, the recent fall in commodity prices and comfortable valuations in many of the high-yielding markets suggest some room for EM duration to outperform in 2015.

**Thematic Trade Ideas**

- We recommend bullish duration in India and Indonesia and a market weight in Russia, and we suggest paying low-yielding rates (preferably Thailand or Israel) to hedge long rate exposures.
- We like curve steepeners in Malaysia, South Africa, Thailand, and Turkey local markets and in the Brazilian CDS curve.
- We favor receiving front-end rates in Brazil, Chile, and Mexico.

**GBI spread to 10y US Treasury yields is slightly high in its historical range**



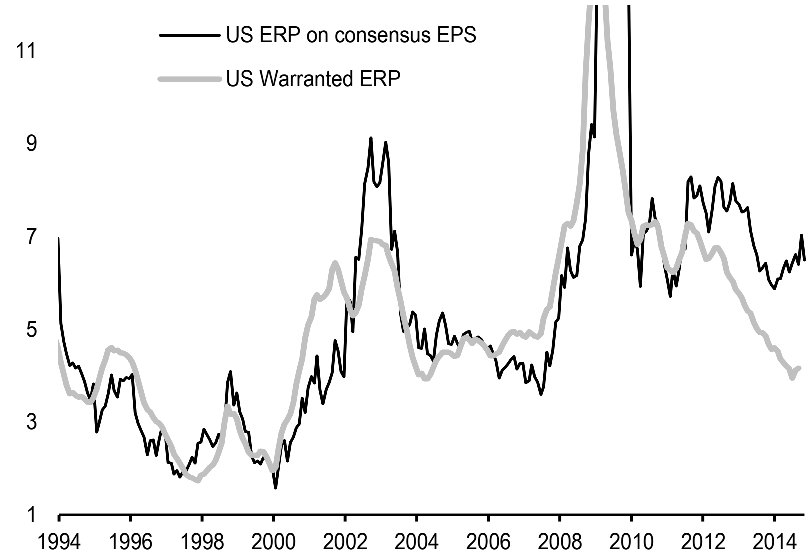

Source: Credit Suisse. the BLOOMBERG PROFESSIONAL™ service

# Equity Strategy

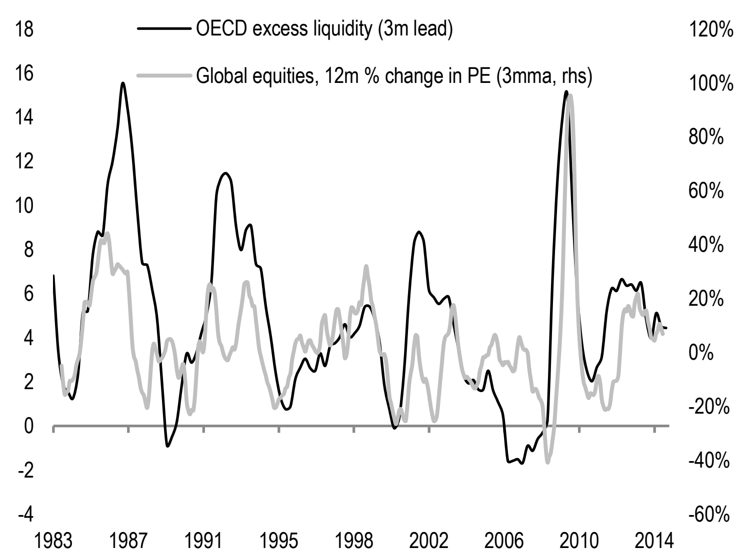
**2015 Core Views**

- We remain optimistic on equities for the first half of 2015 but fear a significant market correction in the second half. Consequently, our year-end forecast for the S&P 500 is 2,100, below our mid-year target of 2,200.
- In 2015, central bank balance sheets are likely to expand at a more rapid rate than in 2014. This helps to support excess liquidity and equity valuations.
- We expect profit margins to peak toward the end of 2015 as labor regains pricing power and borrowing costs move higher. We are 4% below consensus for US EPS growth in 2015.

**The gap between the actual and warranted equity risk premium remains abnormally high**




**Global excess liquidity is consistent with a re-rating of global equities of about 10%**




Source: Thomson Reuters Datastream, Credit Suisse Equity Research

# FX Strategy

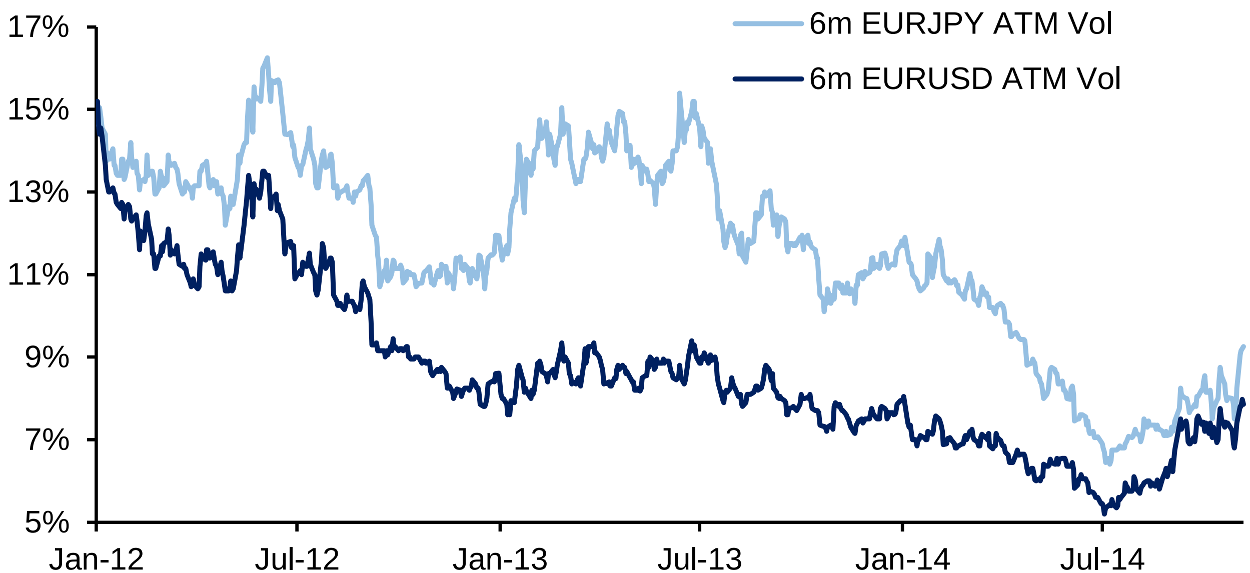
**2015 Core Views**

- Markets have systematically mispriced the likelihood of policy divergence surprises outside of the all-encompassing impact of a less accommodative Fed.
- Continued EUR weakness also is likely to be a significant problem for other European currencies as their central banks try to find ways to compensate for low inflation and weak exports. The idea of EUR floors for currencies such as SEK may gain ground.
- JPY should stay on the back foot, although we think that implied volatility is underpriced. The AUD and NZD are likely to suffer from weak commodity prices, with the former also needing to face down the impact of possible macro-prudential regulation.

**Thematic Trade Ideas**

- We favor short EUR positioning against USD, CAD, and selected EM currencies where carry is particularly elevated and domestic negatives are largely priced in.
- We recommend being long volatility via FVAs and volatility swaps in EURUSD, EURAUD and EURGBP.
- We argue in favor of exploiting dips in USDJPY toward 114 or below as an opportunity to establish fresh long positions. But we prefer options to spot for view expression given that implied volatility appears underpriced.

**Implied volatility is starting to rise from a low base**




Source: Credit Suisse Locus

# US Rates

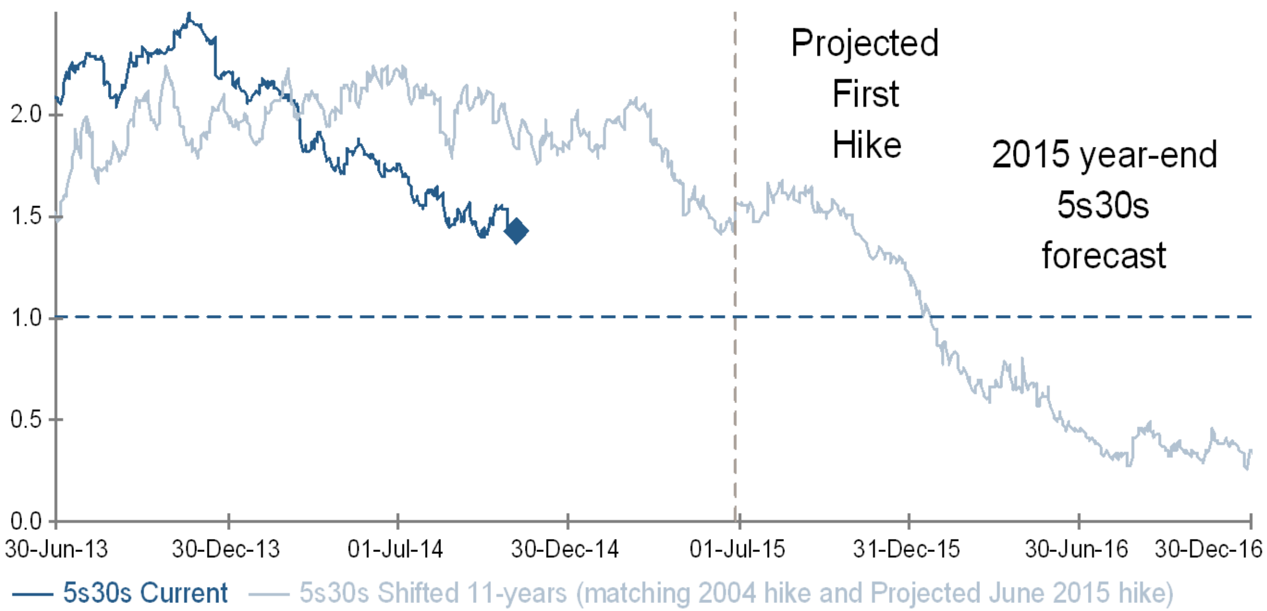
**2015 Core Views**

- The curve should flatten aggressively in 2015, with 5s30s collapsing by more than is currently implied by the forwards.
- Europe should exert less of a drag on US yields as we enter the Fed tightening cycle, ultimately allowing 10s to sell off toward our year-end forecast of 3.35%.
- We expect TIPS breakevens to rise off their current depressed levels next year as oil deflation slows and core inflation gradually moves back toward 2%; we remain cautious, however, and look for a better tactical opportunity to establish longs in TIPS breakevens.

**Thematic Trade Ideas**

- We like 5s30s flatteners.
- We recommend being short EDZ5 via risk reversals.

**Although the 5s30s curve is further along in its flattening than it was prior to the 2004 hike cycle, we see scope for another ~45bp of flattening in 2015**




Source: Credit Suisse Locus

# European Rates

**2015 Core Views**

- Our core scenario is for muddling through: The ECB tries to tread the fine line of doing just enough; hurdles to sovereign QE remain higher than the market is pricing.
- In this environment, growth remains low, inflation is positive, and Bunds trade in a range. Tactical trades dominate.
- Political risks and ECB QE uncertainty are likely to increase peripheral volatility.

**Thematic Trade Ideas**

- We recommend being long 2y Spain.
- We like EUR 10s30s flatteners.
- We favor 3y2y EURUSD FX basis swap wideners.
- We suggest being short 10y UKT ASW.

**Scenario analysis – trade the range but be prepared for positive shocks**

| Market implications | Central | Downside - no policy response | Downside - with ECB response | Upside |
|---|---|---|---|---|
| **Core yields** | No sharp repricing of yields Yields react to US outlook with low beta | Lower yields and flatter curve | Yields rally on announcement but questionable longer-term impact | Higher yields and core curves led by 10y |
| **Periphery** | Spreads grind tighter | Spreads widen led by 2-5y | Spreads tighten near term, but risks increase if data don't improve | Spreads tighten led by 10y |
| **US-EUR 10y spreads** | Divergence | No divergence | Divergence on announcement | Convergence in time led by Europe |
| **Probability** | 45% | 10% | 30% | 15% |

Source: Credit Suisse

# Securitized Products

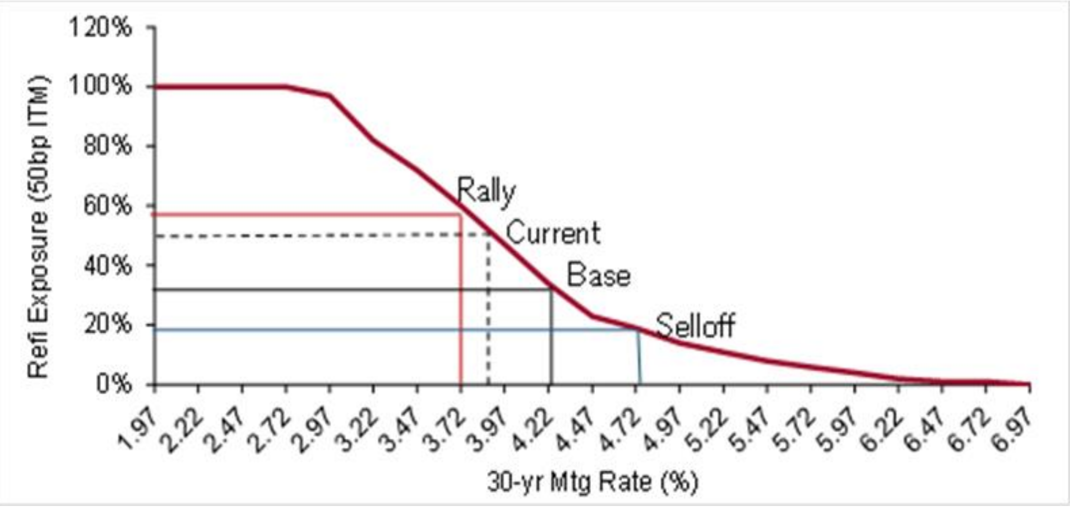
**2015 Core Views**

- We generally maintain a positive outlook across the various securitized products, with spreads expected to stay range bound or tighten, to various degrees.
- Sector performance, as a function of forecasted changes in supply and demand technicals, is a common key theme across the sub-sectors, but unlike in prior years, there is some divergence in the outlook for the various markets.
- Fundamentals are neutral to positive across the various credit sectors.

**Thematic Trade Ideas**

- In Agency, we recommend tactical trades on the MBS basis, as range-bound rates, declining, vol, and reasonably attractive should be positive in the near term, with the potential for occasional mean-reversion tactical shorts.
- In non-Agency, given that we expect the curve to remain flat, we prefer Alt-A ARMs and POA Dupers, given their carry potential and fundamental upside. We are positive on GSE credit risk-sharing last cash flows versus legacy RMBS.
- The improvement of the overall property market is, by extension, very positive for the CMBS market, and we believe that commercial real estate prices will be able to extend their multiyear rally.
- In European SP, we expect spreads to further tighten once ECB purchases start and believe that Spanish RMBS can reach 40bp should the ECB's purchases prove consistent and sustained.

**The base-case mortgage rate for 2015 implies a benign prepayment outlook**



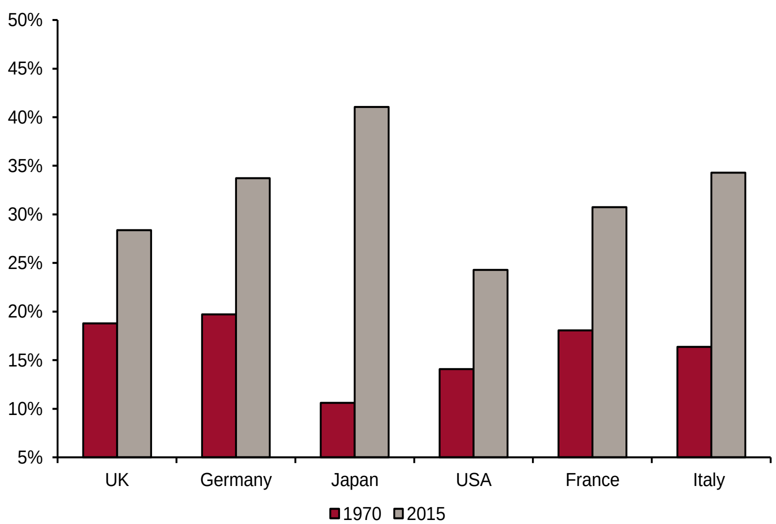

Source: Credit Suisse

# Global Demographics and Pensions

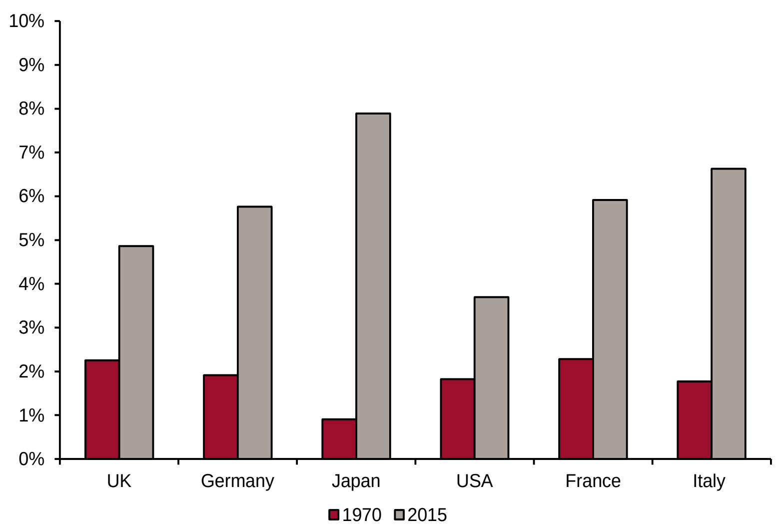
**2015 Core Views**

- Not paying proper attention to historically unprecedented demographic changes is affecting both fiscal and monetary policy effectiveness. Understanding changing ageing and consumption/savings patterns as well as asking "what is optimal fiscal policy" requires a better understanding of demographics.
- In our view, monetary policy is also ineffective in an ageing world, and voting patterns of the old have effects on inflation and distribution. The older populations borrow less and have less need for credit than poor populations. We think that monetary policy makers ought to actively and effectively monitor personal income and wealth distributions as well as asset prices.

**Share of 60+ years old in 1970 and 2015**




**Share of 80+ years old in 1970 and 2015**




Source: Credit Suisse, UN

# Technical Analysis

**2015 Core Views**

- The USD has achieved our first target, but we remain bullish.
- We expect 5s30s bond curves in Germany and the US to flatten.
- We are bearish gold.
- We are bullish China.

**Thematic Trade Ideas**

- We recommend buying the USD on setbacks. We remain bullish USDCAD for our 1.1666/1.1766 target.
- We suggest looking to establish 5s30s German and US flatteners.
- We recommend staying short gold for our $1000 target.

## US $ Trade Weighted Index (BoE) – weekly


Source: Updata, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

# Forecasts

## Credit Suisse Global and Developed Economics forecasts

| | | 2014 | | | | 2015E | | | | 4Q/4Q | | | | Annual average | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1Q | 2Q | 3QE | 4QE | 1Q | 2Q | 3Q | 4Q | 12 | 13 | 14E | 15E | 12 | 13 | 14E | 15E |
| **Global** | Real GDP (qoq ann) | **1.6** | **2.6** | **2.9** | **2.7** | **2.5** | **3.1** | **3.5** | **3.4** | **2.1** | **3.1** | **2.4** | **3.1** | **2.5** | **2.6** | **2.6** | **2.9** |
| | IP (yoy) | 4.3 | 4.1 | 3.4 | 3.2 | 3.1 | 3.7 | ... | ... | 2.4 | 4.1 | 3.2 | ... | 3.2 | 3.0 | 3.7 | 3.4 |
| | Inflation (yoy) | 2.6 | 3.1 | 2.9 | 2.9 | 2.8 | 2.6 | 2.7 | 3.1 | 2.6 | 2.6 | 2.9 | 3.1 | 3.3 | 3.1 | 3.3 | 3.1 |
| **US** | Real GDP (qoq ann) | -2.1 | 4.6 | 3.5 | 2.5 | 2.8 | 3.0 | 3.2 | 3.2 | 1.6 | 3.1 | 2.1 | 3.1 | 2.3 | 2.2 | 2.2 | 3.1 |
| | Inflation (yoy) | 1.4 | 2.1 | 1.8 | 1.3 | 0.9 | 0.5 | 0.8 | 1.5 | 1.9 | 1.2 | 1.3 | 1.5 | 2.1 | 1.5 | 1.6 | 0.9 |
| | Policy rate (eop) | 0-.25 | 0-.25 | 0-.25 | 0-.25 | 0-.25 | .25-.50 | .50-.75 | 1.00-1.25 | ... | ... | ... | ... | ... | ... | ... | ... |
| | 10y bond yield | 2.72 | 2.53 | 2.53 | 2.30 | 2.65 | 2.85 | 3.10 | 3.35 | ... | ... | ... | ... | ... | ... | ... | ... |
| **Japan** | Real GDP (qoq ann) | 6.0 | -7.1 | 3.3 | 1.4 | 0.1 | 0.7 | 2.9 | -2.2 | -0.3 | 2.5 | 0.8 | 0.3 | 1.5 | 1.5 | 0.9 | 0.6 |
| | Inflation ex. fresh food (yoy) | 1.3 | 3.3 | 3.1 | 2.8 | 2.6 | 0.5 | 0.5 | 1.7 | -0.1 | 1.1 | 2.8 | 1.7 | -0.1 | 0.4 | 2.6 | 1.3 |
| | Policy rate (eop) | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | 0-0.1 | ... | ... | ... | ... | ... | ... | ... | ... |
| | 10y bond yield | 0.60 | 0.59 | 0.54 | 0.55 | 0.60 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| | USDJPY (eop) | 103 | 101 | 110 | 115 | 120 | 123 | 125 | 125 | ... | ... | ... | ... | ... | ... | ... | ... |
| **Euro Area** | Real GDP (qoq ann) | 1.2 | 0.3 | 0.5 | 0.7 | 1.2 | 1.5 | 1.8 | 1.8 | -0.9 | 0.4 | 0.7 | 1.6 | -0.6 | -0.4 | 0.8 | 1.1 |
| | Inflation (yoy) | 0.7 | 0.6 | 0.4 | 0.3 | 0.4 | 0.6 | 0.7 | 1.1 | 2.2 | 0.8 | 0.3 | 1.1 | 2.5 | 1.4 | 0.5 | 0.7 |
| | Policy rate (eop) | 0.25 | 0.15 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | ... | ... | ... | ... | ... | ... | ... | ... |
| | 10y bund yield | 1.59 | 1.35 | 0.95 | 0.80 | 0.95 | 1.15 | 1.25 | 1.35 | ... | ... | ... | ... | ... | ... | ... | ... |
| | EURUSD (eop) | 1.38 | 1.37 | 1.26 | 1.25 | 1.20 | 1.18 | 1.15 | 1.15 | ... | ... | ... | ... | ... | ... | ... | ... |
| **UK** | Real GDP (qoq ann) | 3.0 | 3.7 | 2.8 | 2.2 | 2.7 | 2.7 | 2.8 | 2.8 | 0.4 | 2.7 | 2.9 | 2.8 | 0.7 | 1.7 | 3.0 | 2.7 |
| | Inflation (yoy) | 1.7 | 1.7 | 1.5 | 1.2 | 1.2 | 1.3 | 1.5 | 1.7 | 2.7 | 2.1 | 1.2 | 1.7 | 2.8 | 2.6 | 1.5 | 1.4 |
| | Policy rate (eop) | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 1.00 | 1.25 | 1.50 | ... | ... | ... | ... | ... | ... | ... | ... |
| | 10y bond yield | 2.72 | 2.67 | 2.43 | 2.30 | 2.50 | 2.75 | 2.85 | 3.00 | ... | ... | ... | ... | ... | ... | ... | ... |
| | GBPUSD (eop) | 1.67 | 1.71 | 1.62 | 1.58 | 1.56 | 1.55 | 1.54 | 1.53 | ... | ... | ... | ... | ... | ... | ... | ... |
| **Switzerland** | Real GDP (qoq ann) | 1.8 | 0.8 | 0.8 | 0.8 | 2.1 | 1.8 | 2.4 | 3.0 | 1.6 | 2.2 | 0.9 | 2.3 | 1.1 | 1.9 | 1.4 | 1.6 |
| | Inflation (yoy) | 0.0 | 0.0 | 0.0 | 0.2 | 0.4 | 0.4 | 0.5 | 0.7 | -0.3 | 0.3 | 0.2 | 0.7 | -0.7 | -0.2 | 0.1 | 0.5 |
| | Policy rate (eop) | 0-.25 | 0-.25 | 0-.25 | 0-.25 | 0-.25 | 0-.25 | 0-.25 | 0-.25 | ... | ... | ... | ... | ... | ... | ... | ... |
| | USDCHF (eop) | 0.90 | 0.90 | 0.94 | 0.96 | 1.00 | 1.04 | 1.06 | 1.07 | ... | ... | ... | ... | ... | ... | ... | ... |
| **NJA** | Real GDP (qoq ann) | 5.1 | 7.2 | 5.9 | 6.2 | 5.5 | 6.9 | 5.7 | 6.7 | 6.7 | 6.2 | 6.1 | 6.2 | 6.2 | 6.3 | 6.2 | 6.2 |
| | Inflation (yoy) | 2.9 | 3.0 | 2.4 | 3.0 | 3.1 | 3.4 | 3.7 | 3.7 | 3.0 | 3.5 | 3.0 | 3.7 | 4.3 | 4.1 | 3.4 | 3.6 |
| **China** | Real GDP (qoq ann) | 6.1 | 8.2 | 7.8 | 7.0 | 6.0 | 6.9 | 7.2 | 7.2 | 7.6 | 7.6 | 7.3 | 6.8 | 7.7 | 7.7 | 7.3 | 6.8 |
| | IP (yoy) | 8.7 | 9.1 | 7.9 | 7.3 | 7.4 | 7.1 | ... | ... | 9.7 | 9.8 | 7.3 | ... | 10.0 | 9.7 | 8.2 | 7.2 |
| | Inflation (yoy) | 2.3 | 2.2 | 2.0 | 2.4 | 2.6 | 3.0 | 3.4 | 3.3 | 2.1 | 2.9 | 2.4 | 3.3 | 2.6 | 2.6 | 2.2 | 2.8 |
| **India*** | Real GDP (qoq ann) | 6.7 | 11.0 | 0.7 | 6.0 | 6.7 | 13.1 | 0.7 | 8.4 | 4.7 | 4.6 | 6.0 | 7.1 | 4.5 | 4.7 | 5.7 | 6.8 |
| **EEMEA** | Real GDP (qoq ann) | 0.5 | 0.5 | 0.6 | -0.4 | -1.7 | 0.8 | 4.6 | 4.5 | 1.3 | 2.5 | 0.3 | 2.0 | 3.1 | 2.5 | 2.2 | 1.8 |
| | Inflation (yoy) | 5.1 | 6.1 | 6.2 | 6.9 | 6.6 | 5.9 | 5.3 | 4.6 | 5.3 | 5.0 | 6.9 | 4.6 | 4.8 | 4.7 | 5.3 | 4.7 |
| **LATAM** | Real GDP (qoq ann) | 0.4 | -0.3 | 1.1 | 3.2 | 1.8 | 2.0 | 3.0 | 3.4 | 2.7 | 2.1 | 1.1 | 2.5 | 2.7 | 2.5 | 1.2 | 2.2 |
| | Inflation (yoy) | 10.2 | 11.2 | 11.8 | 11.8 | 12.0 | 12.0 | 12.1 | 12.2 | 6.3 | 9.4 | 11.8 | 12.2 | 6.2 | 7.4 | 10.7 | 9.6 |

Source: Credit Suisse estimates, Thomson Reuters DataStream. Note: IMF PPP weights are used to compute regional and global aggregate figures. *Annual figures for India are on fiscal year basis

# Forecasts

## Credit Suisse Interest Rate forecasts

| US – Treasuries | Last | 2015 1Q | 2015 2Q | 2015 3Q | 2015 4Q |
|---|---|---|---|---|---|
| **Fed Funds** | 0-0.25 | 0-0.25 | 0.25-0.50 | 0.50-0.75 | 1.00-1.25 |
| 2-Yr Yield | 0.54 | 0.65 | 1.25 | 1.75 | 2.00 |
| 5-Yr Yield | 1.64 | 1.90 | 2.25 | 2.65 | 2.90 |
| 10-Yr Yield | 2.37 | 2.65 | 2.85 | 3.10 | 3.35 |
| 30-Yr Yield | 3.09 | 3.45 | 3.55 | 3.70 | 3.90 |
| **UK - Gilts** | **Last** | **2015 1Q** | **2015 2Q** | **2015 3Q** | **2015 4Q** |
| Base Rate | 0.50 | 0.75 | 1.00 | 1.25 | 1.50 |
| 2-Yr Yield | 0.67 | 0.90 | 1.30 | 1.60 | 1.90 |
| 5-Yr Yield | 1.55 | 1.90 | 2.20 | 2.35 | 2.60 |
| 10-Yr Yield | 2.24 | 2.50 | 2.75 | 2.85 | 3.00 |
| 30-Yr Yield | 2.96 | 3.10 | 3.20 | 3.25 | 3.35 |
| **Euro - German Benchmarks** | **Last** | **2015 11** | **2015 2Q** | **2015 3Q** | **2015 4Q** |
| ECB Repo | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| 2-Yr Yield | -0.06 | -0.05 | -0.05 | -0.05 | -0.05 |
| 5-Yr Yield | 0.12 | 0.10 | 0.20 | 0.30 | 0.40 |
| 10-Yr Yield | 0.82 | 0.95 | 1.15 | 1.25 | 1.35 |
| 30-Yr Yield | 1.75 | 1.80 | 1.95 | 2.05 | 2.15 |

Source: Credit Suisse; Note: Last values as of 11 November

# Forecasts

## Credit Suisse FX Strategy forecasts

**Major Currencies**

| vs. USD | EURUSD | USDJPY | GBPUSD | USDCHF | USDCAD | AUDUSD | NZDUSD | USDSEK | USDNOK |
|---|---|---|---|---|---|---|---|---|---|
| 3m | 1.200 | 120.00 | 1.558 | 1.008 | 1.150 | 0.830 | 0.735 | 7.750 | 7.250 |
| 12m | 1.150 | 125.00 | 1.533 | 1.070 | 1.170 | 0.780 | 0.709 | 8.087 | 7.565 |
| **vs. EUR** | | **EURJPY** | **EURGBP** | **EURCHF** | **EURCAD** | **EURAUD** | **EURNZD** | **EURSEK** | **EURNOK** |
| 3m | | 144.00 | 0.770 | 1.210 | 1.380 | 1.446 | 1.634 | 9.300 | 8.700 |
| 12m | | 143.75 | 0.750 | 1.230 | 1.346 | 1.474 | 1.622 | 9.300 | 8.700 |

**Emerging Currencies**

| vs. USD | USDCNY | USDHKD | USDINR | USDIDR | USDKRW | USDMYR | USDPHP | USDSGD | USDTHB |
|---|---|---|---|---|---|---|---|---|---|
| 3m | 6.140 | 7.750 | 62.00 | 12300 | 1100 | 3.280 | 45.50 | 1.275 | 32.60 |
| 12m | 6.120 | 7.750 | 63.00 | 12600 | 1133 | 3.380 | 46.00 | 1.285 | 33.00 |
| **vs. USD** | **USDRUB** | **USDTRY** | **USDZAR** | **USDILS** | **USDBRL** | **USDMXN** | **USDHUF** | **USDPLN** | **USDTWD** |
| 3m | 44.04 | 2.364 | 11.25 | 3.90 | 2.400 | 13.40 | 320.0 | 4.200 | 29.80 |
| 12m | 42.15 | 2.465 | 11.50 | 3.90 | 2.550 | 13.10 | 325.0 | 4.100 | 29.90 |

## Credit Suisse Global Leveraged Finance Strategy forecasts

| | Total Returns (%) 2015 Projections | 2015 Issuance Projections | Default Rates (%) 2015 Projections | Default Rates (%) 2016 Projections |
|---|---|---|---|---|
| US High Yield Bonds | 5% | | 1%-3% | 0%-2% |
| US Leveraged Loans | 4% | | 0%-2% | 0%-2% |
| W. European High Yield (Hedged in €) | 4.5% | €125 bn | 0%-1% | 0%-1% |
| W. European Lev. Loans (Hedged in €) | 3.5% | €110 bn | 1%-3% | 1%-2% |

Source: Credit Suisse

CREDIT SUISSE

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# Disclosure Appendix

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**Buy**: Indicates a recommended buy on our expectation that the issue will deliver a return higher than the risk-free rate.

**Sell:** Indicates a recommended sell on our expectation that the issue will deliver a return lower than the risk-free rate.

**Corporate Bond Fundamental Recommendation Definitions**

**Buy**: Indicates a recommended buy on our expectation that the issue will be a top performer in its sector.

**Outperform**: Indicates an above-average total return performer within its sector. Bonds in this category have stable or improving credit profiles and are undervalued, or they may be weaker credits that, we believe, are cheap relative to the sector and are expected to outperform on a total-return basis. These bonds may possess price risk in a volatile environment.

**Market Perform**: Indicates a bond that is expected to return average performance in its sector.

**Underperform**: Indicates a below-average total-return performer within its sector. Bonds in this category have weak or worsening credit trends, or they may be stable credits that, we believe, are overvalued or rich relative to the sector.

**Sell**: Indicates a recommended sell on the expectation that the issue will be among the poor performers in its sector.

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# Disclosure Appendix cont'd

**Corporate Bond Risk Category Definitions**

In addition to the recommendation, each issue may have a risk category indicating that it is an appropriate holding for an "average" high yield investor, designated as **Market**, or that it has a higher or lower risk profile, designated as **Speculative** and **Conservative**, respectively.

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| | Global Recommendation Distribution** | |
|---|---|---|
| **Buy** | 11% | (of which 86% are banking clients) |
| **Outperform** | 20% | (of which 60% are banking clients) |
| **Market Perform** | 42% | (of which 61% are banking clients) |
| **Underperform** | 25% | (of which 73% are banking clients) |
| **Sell** | 2% | (of which 100% are banking clients) |

*Data are as at the end of the previous calendar quarter.

**Percentages do not include securities on the firm's Restricted List and might not total 100% as a result of rounding.

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# Disclosure Appendix cont'd

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