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Key Changes to Core Views

- **Global Strategy & Economics**: Global Risk Appetite briefly entered “Panic” in late September, but we do not think this panic represents a longer-term opportunity to add significantly to risk exposure. Global industrial production growth is sluggish and unlikely to accelerate in the near term.

- **Japan Economics**: We forecast +1.0% for the real GDP growth rate in 2016, accelerating from the expected +0.5% growth in 2015. We continue to anticipate the BoJ to decide on additional easing by year-end, as the inflation outlook continues to deteriorate amid declining expected inflation rates.

- **FX Strategy**: The prospect of further easing by the ECB and BoJ should keep the EUR and JPY biased weaker in coming weeks. While drivers for imminent USD strength seem to have temporarily lessened, our US economists still expect the Fed to hike in December, which is earlier than market expectations.

- **Interest Rate Strategy**: We still expect US yields to sell off more than the forwards imply, but look for a shallower repricing of hike expectations, looking for a slower path higher in 2y yields and lowering our forecast for 10y Treasury yields by 20bp to 2.70% by the end of 2016.

- **Technical Analysis**: Global and Equity Risk Appetite have been to “panic”, where we look for signs of potential reversal. We have yet to see momentum turn higher though. Brent Crude Oil bounce stays seen as corrective ahead of a move to our $40.95/34.55 target. EM Equities and Asia FX have completed near-term bases, but strength stays seen as a correction within a broader bear trend.

- **Securitized Products**: We are less positive on spreads in the near term and believe performance will, at least for now, continue to react to the macro markets and the movements in other sectors, such as corporate bonds and US equities.

- **Global Demographics & Pensions**: In our Migration report, we provide a data-based perspective from past to present. We highlight the impact and role of migration for both host and source countries. Attracting, integrating and retaining migrants is the challenge for richer host countries. We provide a perspective of the current EU refugee crisis in the context of historical migration trends.

- **Global Index & Alpha Strategies**: We introduce the Credit Suisse Retiree Consumer Expenditure Index (“RECI”), a strategy which systematically invests in tradable equity sector indices according to retirees’ consumption expenditure.

- **Global Equity Strategy**: We acknowledge that there are a number of causes for concern, but remain positive on equities as an asset class as excessive growth pessimism is seemingly being priced in and relative valuations remain attractive. We have reduced our overweight of Japan and Cont. Europe (within the latter we have upgraded Spain to overweight and downgraded Germany to benchmark); reduced our underweight of the US; and upgraded GEM to benchmark.

- **US Equity Strategy**: Chopy conditions likely to persist in 4Q15 and early 2016. Revisions have turned negative again. Small caps are the cheapest we’ve seen vs. large cap since the Tech bubble.

- **Swiss Strategy**: The Swiss market remains dependent on the Eurozone through FX and rate differentials. We continue to see steepening potential in the Swiss yield curve out to 10y, while the 10y30y could flatten after the recent flow-driven steepening.

- **US Credit Strategy**: We are market-weight IG cash spreads heading into the end of the year, and we prefer triple-B paper vs single-A given the outperformance recently in the latter. Given current valuations and FOMC “dovish hold” we think HY cash valuations look cheap and should provide attractive relative returns even when we conservatively factor in elevated default rates. In leveraged loans, we favor overweighting BBs.
Core Views Summary: Economics & Fixed Income Strategy Research

Outlook Over the Next 3-6 Months

- **Global Strategy & Economics**: Global Risk Appetite briefly entered “Panic” in late September, but risky assets have bounced since then. Strong market fears over China’s contagion risk have moderated, but concerns on US growth have increased. Global industrial production growth is sluggish and unlikely to accelerate in the near term.

- **US Economics**: The outlook for US economy remains broadly constructive, driven by stronger trend growth in consumer spending, an improving labor market, recovery in housing, and a resumption of credit growth. Weak exports and profit growth are limiting factors for the outlook. Inflation should remain low, and recent developments may have modestly reduced the likelihood that US core inflation will rise toward 2% in the medium term. Although the probability of a December Fed “lift-off” has been somewhat reduced, our central view still expects a December hike. Once hikes begin, monetary accommodation will be removed at a gradual pace.

- **Euro Area Economics**: We continue to expect the euro area economy to recover at a steady pace through the remainder of this year and into 2016. We expect improvement to be modest but steady, and domestically driven. The door to deliver QE beyond September 2016 has opened wider, on the back of the Asian turbulence and lower oil prices forcing a downward adjustment of the inflation path, in addition to a stronger euro thanks to a postponed Fed hike.

- **Japan Economics**: While we see risk of sluggish demand from Asia potentially weighing on exports for an extended period, we believe that domestic economic fundamentals can hardly get worse. In this context, we forecast +1.0% for the real GDP growth rate in 2016, accelerating from the expected +0.5% growth in 2015. We continue to anticipate the BoJ to decide on additional easing by the year-end, as the inflation outlook continues to deteriorate amid declining expected inflation rates.

- **Emerging Markets Economics**: China’s ongoing and structural slowdown continues to subdue activity in other emerging markets, but developed economies remain very resilient to that adjustment thanks to improving domestic demand. The likely immunity of developed economies and their labor markets to stress in emerging markets makes divergence challenges for EM more realistic.
  - **Latam Economics**: We now project that regional aggregate GDP will contract by 0.2%.
  - **EEMEA Economics**: We are revising lower our 2015 full-year real GDP growth forecasts for Russia, South Africa, Hungary, and Nigeria. We are keeping our full-year GDP growth forecasts unchanged for Turkey, Poland, and Israel.
  - **NJA Economics**: Recent shocks relating to China, oil, and Asian financial markets broadly reinforce the macro themes of more growth disappointment, disinflation, stronger current account positions in all places but Malaysia, and more Asian FX depreciation.
Core Views Summary: Macro Products Strategy Research

Outlook Over the Next 3-6 Months

- **FX Strategy**: We expect the EUR and JPY to be pressurized by the prospect of further QE in coming months, and would not rule out the possibility of further central bank interest rate cuts within commodity currencies too. Our US economists still expect the Fed to hike in December, which is earlier than market expectations. This keeps risks biased toward further USD strength.

- **Interest Rate Strategy**
  - **US Rates**: We remain structurally biased toward gradually higher rates, and see the front end as pricing very little risk around Fed hikes. Global concerns and worries about a spill-over into the US leave us awaiting a catalyst for a meaningful move higher in yields.
  - **European Rates**: We believe rates in Europe should remain low and could fall further if the ECB delivers additional stimulus. Curves out to 15y are likely to flatten.

- **Market Strategies**: In the wake of the Fed’s decision not to raise rates in September, we observe that within EM specifically the tightening in closed-end fund discounts signals broadly constructive liquidity to flow back into EM assets and support prices.

- **Technical Analysis**: Global Risk Appetite has briefly dipped into “panic” and bounced. Equity Risk Appetite dipped briefly into panic, pointing to a near-term extreme. However, only a bullish MACD cross would suggest a fresh low in Global and Equity Risk Appetite has been seen. S&P 500 faces a critical test of resistance at 2030/60, and above here remains needed to curtail the topping threat. Oil strength stays seen as corrective ahead of a decline to our $40.95/34.55 core target. Shanghai Comp strength is expected to extend near term, but we stay medium-term bearish for 2480/40. The USD remains in a consolidation phase, but we stay medium-term bullish. EURUSD continues to consolidate in a broad range, but we stay medium-term bearish for parity. 10yr US TIPS Breakevens remain bearish for 135bps, then 120bps. The risks for US 10y are still to retest 1.90% low, potentially even 1.80%, where we would look for a fresh yield floor.
Core Views Summary

Outlook Over the Next 3-6 Months

Fixed Income Research

- **Credit**
  - \textbf{European Credit Strategy}: EUR corporate bond spreads have lagged US and European equities as well as European CDS spreads in the recent recovery. We expect this trend to change shortly as we head toward the ECB and BoJ meetings in late October. The Fed also has another policy meeting and the next nonfarm payrolls report is close by.
  
  - \textbf{Global Leveraged Finance Strategy}: U.S. high yield has widened above U.S. loans to a point not seen since 2011. We expect high yield to outperform relative to loans over the next quarter. Commodity-related sectors – energy, metals/minerals and chemicals – remain under pressure in U.S. markets, but the low weight of these sectors in European markets has led to European high yield and loans to outperform the U.S.

- **Emerging Markets**
  - \textbf{Rates & Sovereign Credit Strategy}: Global risk markets, including EM assets, have bounced back from the late September sell-off, and the data should confirm or reject the basis for this rebound, namely if it signals that output growth is no longer falling in China and not falling unpleasantly sharply in the US. Beyond the next couple of months, EM bonds in all currency denominations are likely, in our view, to be subject to gradually intensifying risks related to Fed rate hikes.
  
  - \textbf{Latin America Corporate Credit}: We foresee mixed earnings performance in Latam credit, with divergence across regions and sectors. We continue to favor credits in Mexico and the Andean region, especially those with leading positions in domestic consumption, utilities and banks. Ongoing weakness in Latam currencies should continue to favor exporters.

- **Global Demographics & Pensions**: Fundamental demographics-related macro factors need to be followed closely by global investors and analysts to understand growth, public finances, inflation and unemployment across countries. These factors affect the bond yields, equity prices, house prices as well as sovereign ratings/sovereign spreads of countries.

- **Global Index & Alpha Strategies**: We introduce the Credit Suisse Retiree Consumer Expenditure Index (“RECI”), a strategy which systematically invests in tradable equity sector indices according to retirees’ consumption expenditure.

- **Securitized Products**: We believe the performance will, at least for now, continue to react to the macro markets and the movements in other sectors, such as corporate bonds and US equities. SP is a follower, not a leader, in this regard. The higher credit quality Agency MBS market, although still exposed to shocks, will arguably be more insulated from these moves, compared to non-Agency MBS, CMBS and other credit-sensitive sectors, such as CLOs.
Core Views Summary

Outlook Over the Next 3-6 Months

**Equity Research**

- **Global Equity Strategy**: We remain overweight of equities as an asset class globally. Our end-2015 target for the S&P 500 is 2,100. Japan and Continental Europe – particularly the periphery – are our most preferred regions.

- **US Equity Strategy**: Market conditions are likely to remain choppy into year-end. We prefer small over large longer term, but it is a close call in the short term. We are still looking for a transition to value, but we are neutral for now as timing seems uncertain.

- **Global Emerging Markets Strategy**: In our view a sound recovery in emerging market margins is a prerequisite for a sustained episode of emerging equities’ outperformance of global markets, as is a consolidation in the trade weighted dollar. Hence we believe the outlook for emerging market equities (particularly Latin America) will be challenging through to at least year-end 2015.

**Private Bank & Wealth Management Investment Strategy and Research**

- **Swiss Strategy**: We expect the CHF yield curve to steepen out to 10y, especially versus EUR. On the other hand, 10y/30y looks too steep already after the recent flow-driven move.

**Non-Research Strategy Core Views**

- **US IG Credit Strategy**: Despite negative headwinds IG cash looks cheap not only historically but relative to other assets classes. As a result we are market-weight IG cash spreads heading into the end of the year.

- **US HY Credit Strategy**: Given current valuations and FOMC ‘dovish hold’ we think HY cash valuations look cheap and should provide attractive relative returns even when we conservatively factor in elevated default rates.

- **US Leveraged Loan Strategy**: We think loans will continue to outperform for the remainder of the year (2-2.5% returns) as the market braces for the first Fed rate hike in a decade. The low duration and hence lower volatility of the asset class continues to be attractive to institutional investors (and should be attractive to retail as well). Our year-end leveraged loan return target is 4.5%-5%, from 2.7% as of September.
# Key Economic Releases and Policy Events

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<tbody>
<tr>
<td>9:00: UK GDP (3Q A)</td>
<td>12:30: US GDP (3Q A), Initial Jobless Claims</td>
<td>12:30: US Employment Cost Index (3Q), Personal Income / Spending (Sep)</td>
<td>13:45: US Chicago PMI (Oct)</td>
<td>14:00: US U. Michigan Sent. (Oct F)</td>
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<tr>
<td>9:00: GER Factory Orders (Sep)</td>
<td>13:30: US Trade Balance (Sep)</td>
<td>15:00: US ISM Non-Manuf. (Oct)</td>
<td>10:00: EA HICP Estimate (Oct)</td>
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<tr>
<td>9:00: EU HICP (Oct)</td>
<td>13:15: US ADP Employment (Oct)</td>
<td>13:30: US Productivity / Labor Costs (3Q P), Initial Jobless Claims</td>
<td>18:00: BoJ Target Rate</td>
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<tr>
<td>10:00: US ISM (Nov)</td>
<td>13:30: US ISM (Nov)</td>
<td>13:30: US JOLTS Jobs Openings (Sep)</td>
<td>Publication date for Greece’s &amp; Netherland’s rating by Fitch and Italy’s rating by S&amp;P</td>
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<tr>
<td>13:30: US Factory Orders (Sep)</td>
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<td>15:00: US ISM (Nov)</td>
<td>15:00: US ISM (Nov)</td>
<td>15:00: US ISM (Nov)</td>
<td>16:00: US ISM (Nov)</td>
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<tr>
<td>19:00: FOMC Minutes</td>
<td>16:00: US ISM (Nov)</td>
<td>16:00: US ISM (Nov)</td>
<td>16:00: US ISM (Nov)</td>
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**Mon-02-Nov**

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<tr>
<th>Thu-05-Nov</th>
<th>Fri-06-Nov</th>
<th>WEEKEND 07/08 Nov</th>
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<tbody>
<tr>
<td>1:35: JN Nikkei Manuf. PMI (Oct F)</td>
<td>1:45: CH Caixin Manuf. PMI (Oct)</td>
<td>2:00: BoJ announces rates</td>
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<tr>
<td>9:00: EA PMI Manuf. (Oct F)</td>
<td>9:00: CH PMI Manuf. (Oct)</td>
<td>12:00: BoE announces rates</td>
</tr>
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**Mon-09-Nov**

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<th>Wed-11-Nov</th>
<th>Thu-12-Nov</th>
<th>Fri-13-Nov</th>
<th>WEEKEND 14/15 Nov</th>
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<tbody>
<tr>
<td>9:10 Nov: JN Machine Tool Orders (Oct P)</td>
<td>9:15 Nov: CH New Yuan Loans (Oct)</td>
<td>10:00: EA HICP (Oct)</td>
<td>10:00: EA GDP (3Q A)</td>
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<tr>
<td>1:30: JN Eco Watchers (Oct)</td>
<td>1:30: CH CPI / PPI (Oct)</td>
<td>1:30: CH CPI / PPI (Oct)</td>
<td>1:30: CH CPI / PPI (Oct)</td>
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<tr>
<td>7:40: FRA Industrial Prod. (Sep)</td>
<td>9:00: ITA Industrial Prod. (Sep)</td>
<td>9:00: CH Inflation (Oct)</td>
<td>10:00: GER Industrial Prod. (Sep)</td>
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<tr>
<td>9:00: ITA Industrial Prod. (Sep)</td>
<td>11:00: US Small Biz Optimism (Oct)</td>
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**Mon-16-Nov**

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<thead>
<tr>
<th>Thu-19-Nov</th>
<th>Fri-20-Nov</th>
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<tbody>
<tr>
<td>10:00: EA HICP (Oct)</td>
<td>10:00: EA HICP (Oct)</td>
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<td>15:00: US U. Michigan Sent. (Nov A)</td>
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**UPCOMING**

| Dec 4: Publication date for Ireland’s rating by S&P | Dec 10: SNB monetary policy meeting |
| Dec 11: TLTRO 6 - Allotment | Dec 14: Riksbank monetary policy meeting |
| Dec 15-16: FOMC meeting | Dec 19: Riksbank monetary policy meeting |
| Dec 20: Spanish general election | |

**19:00: FOMC Minutes**

CS estimate for when US government runs out of cash

**BoJ Target Rate**

Publication date for Greece’s rating by Moody’s

**Publication date for Greece’s & Netherland’s rating by Fitch and Italy’s rating by S&P**

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**Publication date for Greece’s rating by Moody’s**

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**Key Data Releases and Policy Events (GMT)**

- **Riksbank monetary policy meeting**
- **18:00: FOMC rate decision**
- **19:00: FOMC Minutes**
- **CS estimate for when US government runs out of cash**
- **BoJ Target Rate**
- **Publication date for Greece’s rating by Moody’s**

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**Key Economic Releases and Policy Events**

- **Sources**: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, © 2015 Thomson Reuters Limited, various national statistical sources
- *** Indicates CS estimates for the maturities to be issued where they are not yet announced; all times GMT**
Economics & Fixed Income Strategy Research
Core Views
Global Strategy & Economics
James Sweeney, Neville Hill

Core Views

- **Risk Appetite**: Global Risk Appetite briefly entered “Panic” in late September – the first time since the Euro Crisis. This suggests a short-term opportunity to buy risky assets, consistent with historical patterns. However, we do not think this panic represents a longer-term opportunity to add significantly to risk exposure.

- **Market**: Global equities rallied since the “Panic,” and extreme fears over China’s contagion risk have moderated. Meanwhile, G3+ bond yields remained depressed due to doubt about Fed’s ability to tighten policy this year.

- **Policy**: We continue to expect the Fed to hike in December. Amid tightening US labor markets and strengthening household sector, stronger dollar and weak foreign demand pose risks. However, such risks are manageable as the US economy remains highly domestic driven. A Fed hike should encourage further capital flows away from emerging markets, where additional fiscal and monetary easing would be needed.

- **Growth**: Global IP momentum is beginning to peak at sub-trend levels after a short-lived acceleration. Annual growth rate is on track to be the worst performance since 2009. However, a collapse in growth is unlikely as cyclical recovery from developed economies continues to partially offset the structural weakness from the developing world, led by China. We remain cautious about China’s medium-term outlook but expect recent policy stimulus to put a temporary floor to the ongoing slowdown.

- **Risks**: Financial contagion could cause a sharper slowdown in global production, especially if lackluster investor risk appetite persists. Though it is not our base case, a contraction in credit or slowdown in investment due to market volatility could be a catalyst for downside surprises in months ahead.

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**Key Forecasts**

<table>
<thead>
<tr>
<th>Policy Rate Forecast</th>
<th>3Q’15</th>
<th>4Q’15E</th>
<th>1Q’16E</th>
<th>2Q’16E</th>
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<tr>
<td>US Fed Funds</td>
<td>0.25</td>
<td>.25-.50</td>
<td>.50-.75</td>
<td>.75-1.00</td>
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<td>ECB Repo</td>
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<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
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<tr>
<td>BoE Base</td>
<td>0.50</td>
<td>0.50</td>
<td>0.75</td>
<td>0.75</td>
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IP Momentum (3m/3m ann.)

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<tbody>
<tr>
<td>3.9%</td>
<td>3.2%</td>
<td>1.8%</td>
<td>0.7%</td>
<td>-0.6%</td>
<td>-0.2%</td>
<td>0.6%</td>
<td>1.9%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Data key: bold = forecast, partial data.
Source: Credit Suisse Global Fixed Income Strategy Research
Developed Market Economics
James Sweeney, Neville Hill, Hiromichi Shirakawa

US Core Views
- The outlook for US economy remains broadly constructive, driven by stronger trend growth in consumer spending, an improving labor market, recovery in housing, and a resumption of credit growth. Weak exports and the drag from the oil patch are limiting factors for the outlook. In the short term, third quarter GDP growth likely slowed due to an inventory correction and contraction in exports. We expect a rebound in Q4.
- Recent developments may have modestly reduced the likelihood that US core inflation will rise toward 2% in the medium term. Core inflation is being restrained by soft import prices, residual effects from lower oil, and a slowdown in healthcare inflation. Wage growth has not accelerated conclusively.
- We still expect the first Fed hike to occur in December. Once hikes begin, monetary accommodation will be removed at a pace that is expected to be “gradual.” What happens next to nominal GDP is critical and will determine how high rates go.

Euro Area Core Views
- We continue to expect the euro area economy to recover at a steady pace through the remainder of this year and into 2016. We expect improvement to be modest but steady, and domestically driven. We project 1.5% growth in 2015 and 1.8% in 2016.
- Although the weakness in emerging markets adds modest downside risks to euro area growth, we doubt its effect will be significant. Domestic demand is the key driver of recovery in Europe, and fundamentals remain extremely supportive.
- The door to deliver QE beyond September 2016 has opened wider, on the back of the Asian turbulence and lower oil prices forcing a downward adjustment of the inflation path, in addition to a stronger euro thanks to a postponed Fed hike.
- UK: The UK economy is set to grow at a moderate pace, with growth at 2.6% in 2015 and 2.5% in 2016. Inflation continues to be low and we expect that to continue in the near term on the back of low oil prices and a strong currency. The labor market, on the other hand, continues to tighten, which should give the hawks in the MPC a strong case to vote for a hike in the coming months.

Japan Core Views
- While we see risk of sluggish demand from Asia potentially weighing on exports for an extended period, we believe that domestic economic fundamentals can hardly get worse. We forecast +1.0% for the real GDP growth rate in 2016, accelerating from the expected +0.5% in 2015.
- We project CPI inflation rates likely to stay in the neighborhood of 0.0% yoy even for excluding food and energy in 2016 unless the yen depreciates sharply.
- We expect the BoJ to decide on additional easing by the year-end, as the inflation outlook continues to deteriorate amid declining expected inflation rates. There is risk, however, that the Bank might delay the action preferring to see exchange rate market developments towards the year-end.

<table>
<thead>
<tr>
<th>Key Forecasts</th>
<th>US GDP (% yoy)</th>
<th>2014</th>
<th>2015E</th>
<th>2016E</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2.4</td>
<td>2.5</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>-0.1</td>
<td>0.5</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Euro area</td>
<td>0.9</td>
<td>1.5</td>
<td>1.8</td>
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</tr>
<tr>
<td>UK</td>
<td>3.0</td>
<td>2.6</td>
<td>2.5</td>
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</table>

Source: Credit Suisse Economics Research

Catalysts That Could Alter Our View
- Inflation expectations slide significantly.
- Central bank policy surprises.
- More pronounced risk-off moves in financial markets.
- Large corporations spend more on investment.
Emerging Markets Economics
Latam: Alonso Cervera; Brazil: Nilson Teixeira; EEMEA: Berna Bayazitoglu; NJA: Dong Tao

**EM Core Views** (please see the Emerging Markets Quarterly for additional detail)

- The major macro theme at play is the divergence in growth performance between emerging and developed economies. The epicenter of emerging markets weakness seems to be China. China’s ongoing and structural slowdown continues to subdue activity in other emerging markets, but developed economies remain very resilient to that adjustment thanks to improving domestic demand.
- The combination of continued weak growth in the tradable goods sector and tightening US monetary policy is unusual. We think that would be particularly challenging for economic and financial conditions in emerging markets. But the likely immunity of developed economies and their labor markets to such stress in emerging markets makes such an outcome increasingly probable. That dissonance is set to add further volatility to markets and further downside risks to our growth forecasts.

**Latam**

- We now project that regional aggregate GDP will contract by 0.2% in real terms in 2015 versus the 0.5% expected expansion in our previous quarterly report. For 2016, our current real GDP growth forecast stands at 0.6% versus 2.1% in June. Argentina was the only country under our coverage that saw upward revisions to its projections for 2015 and 2016 as official GDP figures for the first half of the year were better than anticipated.
- **Brazil**: High fiscal uncertainty prevents an improvement in the economic outlook over next few quarters. Concerns about fiscal sustainability and the political scenario underpin our expectations of a sharper GDP contraction, higher inflation and a more depreciated local currency in the coming quarters. We project that GDP will contract 3.0% in 2015 and 1.5% in 2016 as a result of strong reductions in household consumption and investment.

**EEMEA**

- We are revising lower our 2015 full-year real GDP growth forecasts for Russia, South Africa, Hungary, and Nigeria. For Russia, the region’s largest economy, the external environment has become less supportive of near-term economic recovery. Although we are keeping our 2015 full-year real GDP growth forecasts unchanged for Turkey, Poland, and Israel for now, these forecasts are primarily exposed to downside risks.
- We have revised higher our inflation forecasts for Russia and Turkey, while lowering them for other EEMEA countries due to falling oil prices. For the EEMEA region’s inflation outlook, currency weakness is playing against the downward revision in our oil price assumptions and downside risks to growth in varying degrees.
- Our monetary policy outlook for Russia and South Africa remains unchanged, but we introduce revisions in the remainder of the region due to changing growth and inflation dynamics. In Russia, given the weak economic activity but the upside risks to inflation, there is room for some further monetary policy easing, in our view, to 10.50% by end-2015 and 9.00% by end-2016.

**NJA**

- Asian economies have been hit by three shocks in the past few months – (1) weaker-than-expected growth in China and RMB devaluation, (2) lower oil prices for longer, and (3) an aggressive sell-off in Asian financial markets and currencies in the past month or so. These shocks broadly reinforce the macro themes of more growth disappointment, disinflation, stronger current account positions in all places but Malaysia, and more Asian FX depreciation.
- **China**: We have cut our 2016 real GDP growth forecast to 6.5% from 7% earlier, headline CPI inflation projections to 1.3% from 2%, and incorporated 75bps in rate cuts in the year. While the fiscal policy stance has turned more supportive of growth, we still do not expect a large-scale stimulus that significantly boosts the economic activity.
- **India**: We are lowering our GDP forecast to account for technical reasons and softer services’ growth. GDP growth for 1QFY1-16 at 7.0%yoy surprised on the downside. We maintain our view of a gradual recovery and expect CPI to correct more than expected in FY2015-16.

<table>
<thead>
<tr>
<th></th>
<th>Real GDP (q/q ann)</th>
<th>2014</th>
<th>2015E</th>
<th>2016E</th>
<th>Key Forecasts</th>
<th>2014</th>
<th>2015E</th>
<th>2016E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Emerging Markets</strong></td>
<td></td>
<td>4.4</td>
<td>3.6</td>
<td>4.1</td>
<td>Brazil</td>
<td>0.1</td>
<td>-3.0</td>
<td>-1.5</td>
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<td><strong>Latam</strong></td>
<td></td>
<td>0.7</td>
<td>-0.6</td>
<td>0.4</td>
<td>Russia</td>
<td>0.6</td>
<td>-3.8</td>
<td>0.0</td>
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<tr>
<td><strong>EEMEA</strong></td>
<td></td>
<td>2.1</td>
<td>0.4</td>
<td>2.0</td>
<td>India</td>
<td>7.3</td>
<td>7.7</td>
<td>7.9</td>
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<tr>
<td><strong>NJA</strong></td>
<td></td>
<td>6.4</td>
<td>6.0</td>
<td>6.0</td>
<td>China</td>
<td>7.3</td>
<td>6.8</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Economics Research
FX Strategy
Shahab Jalinoos

Core Views

- **US Dollar – long-term bullish**: While near-term drivers for USD-strength have softened recently, we think any central banks across the world continue to cut or potentially announce QE extension. This easing in the US’s key trading partners stands in contrast with the Fed’s eventual tightening bias. Thus, we think the USD will still be supported going forward. Our US economists still forecast the Fed to raise rates in December, which is earlier than market pricing.

- **Euro – bearish**: We see increasing possibility that QE will need to be extended in December, as the inflation outlook remains very soft.

- **Japanese Yen – bearish**: We believe there is the risk of BoJ easing in coming months, and we would not rule out a move as early as the next October meeting.

- **UK Sterling – bullish vs EUR**: BOE remains the second closest central bank in G10 that is prepared to even consider hiking.

- **Commodity Bloc: Australian Dollar – bearish**: Structural headwinds should continue to weigh on AUD, as the non-mining sector has yet to show signs of picking up the slack for slowing mining investment. This should keep the RBA biased for further rate cuts. **NZ Dollar – more constructive against AUD**: Dairy outlook has improved, supporting NZ terms of trade relative to Australia. We do not rule out the risk that RBNZ might deliver one more cut this year, but the barrier for further easing next year will be higher. **Canadian Dollar – bearish**: Structural effects from oil prices should continue to support our bearish view. We continue to believe the BoC might be more sensitive to CAD strength than weakness.

- **Scandies: Swedish Krona – bearish vs. USD**: Excessive currency strength will remain a problem. Eventual policy divergence against the Fed should weaken SEK vs. USD. **Norwegian Krone – bearish vs. USD**: Oil prices are likely to stay a drag on NOK against the USD.

- **EM FX**: We acknowledge that EMFX may be better supported temporarily in the absence of an imminent Fed driver, however we still remain bearish over the medium and longer term due to inherent vulnerabilities in several emerging markets, ongoing political uncertainty and weak growth prospects.

### Key Forecasts

<table>
<thead>
<tr>
<th></th>
<th>3M</th>
<th>12M</th>
<th>3M</th>
<th>12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURUSD</td>
<td>1.10</td>
<td>1.00</td>
<td>0.617</td>
<td>0.618</td>
</tr>
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<td>USDJPY</td>
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<td>125</td>
<td>1.08</td>
<td>1.06</td>
</tr>
<tr>
<td>EURCHF</td>
<td>1.12</td>
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<td>8.80</td>
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<td>GBPUSD</td>
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<td>USDCAD</td>
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<td>6.60</td>
<td>6.80</td>
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<tr>
<td>AUDUSD</td>
<td>0.71</td>
<td>0.68</td>
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</tbody>
</table>

### Catalysts That Could Alter Our View

- A more dovish stance from the FOMC than the market is expecting, or a material shock to US growth.
- Unexpected political risks from Europe.
- Sharp correction in key commodity prices (i.e., iron ore, oil, copper).
- Renewed deterioration in global growth indicators/global risk environment.
Core Views

US Rates

- We remain structurally biased toward higher rates and expect the 3- to 5-year part of the curve to lead as data improve, but recommend waiting for a catalyst for higher rates before outright establishing shorts. However, lack of catalysts in the near term favors limited risk carry trades. We also favor longer tail receiver spreads for risk-off potential.

- Given gloomier growth outlook and persistently dovish Fed pricing that we expect to linger even as hikes begin, we expect 10y yields at 2.30% for year-end 2015 and to finish 2016 at 2.70%.

- The market will remain vulnerable to intermittent bouts of volatility as liquidity remains challenged. Markets are pricing a very abnormal cycle even accounts for a “dovish liftoff,” with vols on shorter tails too depressed, in our view. We see downside risks to front-end inflation from oil and favor 5s10s inflation swap steepeners.

European Rates

- We maintain a bullish duration stance in Europe given the reduced probability of a Fed hike, lower global growth and weak European inflation outlook.

- However, given the current pricing and the risk for a further positioning unwind remains as long as the bounce in risky assets continues, we favor expressing our bullish view via conditional trades.

- UK: The focus remains on monetary policy. We favor positive carry shorts with limited downside. This enables us to express our base-case view that hikes in the UK are still some way off, but – given how little is being priced – will perform well if rates come under pressure. But, for the risk that domestic data deteriorate and UK policy tightening is taken off the table, we also add some bullish exposure to our portfolio.

Key Forecasts

<table>
<thead>
<tr>
<th>Yield (%)</th>
<th>2015 4QE</th>
<th>2016 1QE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2yr</td>
<td>10yr</td>
</tr>
<tr>
<td>US – Treasuries</td>
<td>0.90</td>
<td>2.30</td>
</tr>
<tr>
<td>Euro – German Benchmarks</td>
<td>-0.26</td>
<td>0.60</td>
</tr>
<tr>
<td>UK – Gilts</td>
<td>0.85</td>
<td>2.20</td>
</tr>
</tbody>
</table>

Catalysts That Could Alter Our View

- **US**: An unexpected slowdown in US domestic demand.

- **Europe**: A material change in economic data
Market Strategies
Sean Shepley

Core Views

- We look at two distinct trading strategies to take advantage of the leading relationship between EM closed-end fund discounts and the EM currency index. The best-performing strategy is an EM currency allocation strategy that generated an annualized Sharpe ratio of 3.2 from 2009-2015.

- Alternatively, for the more tactically minded, by identifying situations where the CEF discount had broken out to the upside or downside and contemporaneously using that as a signal for EM currencies, this momentum-based strategy generated an average return of +1.1% over 39 distinct episodes.

- We hypothesize that the relationship has arisen through mismatches in the timing of liquidity shocks: they are transmitted to CEF discounts directly, but to underlying EM assets and currencies only with a lag. This is supported by IMF data that highlight the growing influence of institutional investors on EM markets from 2012 and the observed tendency for these investors to be sticky relative to retail investors.

- In the wake of the Fed’s decision not to raise rates in September, we observe that within EM specifically the tightening in CEF discounts signals broadly constructive liquidity to flow back into EM assets and support prices.

- Across CEFs more generally, inter-sector discounts between the best and worst CEFs are widening.

For additional detail, please see our reports *EM closed end funds: innovative illiquid informative indicators* and *The closed end fund connection*
Technical Analysis
David Sneddon

Core Views

Risk Appetite
- Global Risk Appetite has briefly dipped into “panic” and bounced. Equity Risk Appetite dipped briefly into panic, pointing to a near-term extreme. However, only a bullish MACD cross would suggest a fresh low in Global and Equity Risk Appetite has been seen.

Fixed Income
- 10yr US TIPS Breakevens have bounced, but with a large top in place we stay bearish for 135bps, then 121/120bps. 10yr US yield risk remains bullish for the August 1.90% low, potentially even 1.80%, where we would look for a fresh yield floor. 10s30s US maintains a base, and we look for steepening to extend. 10yr Germany spotlight remains on the range lows at .51/.47%, and German curve risk stays flatter. The periphery is staying sidelined for now, while 10yr UK risk stays bullish in the range.

FX
- Asia FX has held long-term trend support against the USD, and further near-term strength is expected. Bigger picture though, the recovery is seen as corrective for now. Against G10 the USD remains in a consolidation phase, but we stay medium-term bullish. EURUSD continues to consolidate, but we stay medium-term bearish for parity. USDJPY needs to hold 115.56 to avoid a major top. Our long-held GBP TWI bull target has been achieved; EURGBP is holding medium-term channel support, but only above .7484 would see an important base. USDCAD has essentially achieved our 1.3465 core target.

Commodities
- Commodities remain in a medium-term bear trend. Brent Crude Oil strength stays seen as corrective ahead of a decline to our long-term target at $40.95/$34.55. Copper stays bearish for our $4718/$4685 main target, and Iron Ore remains in a medium-term bear trend for $40.00/$37.63. Gold above 1170/86 would see key resistance cleared.

Equities
- S&P 500 faces a critical test of resistance at 2030/60, with a break above here needed to curtail the threat of a top. Shanghai Comp is expected to recover further, but strength stays seen as corrective ahead of a move to our 2480/40 target. Europe Stoxx 600 continues to hold its medium-term uptrend, and we stay bullish, with Italy our favorite market. Nikkei needs to hold 16535 to maintain its broader bullish outlook. EM Equity strength stays seen as corrective for now. Korea is expected to outperform within EM.

| Key Levels |
|---|---|---|---|
| **Support** | **Resistance** |
| 10yr US Bond | 2.14% | 2.30% |
| S&P 500 | 1950 | 1867 | 2030/60 | 2135 |
| EURUSD | 1.0819/09 | 1.0458 | 1.1808 | 1.2043 |

Source: Credit Suisse Technical Analysis Research
Fixed Income Research Core Views
Core Views

- EUR corporate bond spreads have lagged US and European equities as well as European CDS spreads in the recent recovery. We expect this trend to change shortly as we head toward the ECB and BoJ meetings in late October. The Fed also has another policy meeting and the next nonfarm payrolls report is close by.

- The market is pricing in a dovish outcome across these four events. While we do expect further stimulus from both the ECB and the BoJ, it may not necessarily arrive this month, and the balance of risks appears now to be a slightly more hawkish aggregate outcome across these four events based on where these indices are currently trading.

- We do not expect heavy corporate bond supply volumes during October, which should provide further support to corporate bond spreads.

- Zero bound or not, yields are for now and for a reasonably foreseeable future still low in absolute terms. Flows broadly continue into the credit markets, absorbed by primary markets which remain in good shape as European capital markets reconfigure. How the markets reopen after recent market volatility will be critical.

- Our 2015 EUR IG excess return projection is 1.5%. Our total return projection is 0%, with the year’s Bund volatility highlighting the lack of protection for IG credit overall (in price terms).

For additional detail, please see European Credit Cash Weekly: Playing catch up
Global Leveraged Finance Strategy
Jonathan Blau

Core Views

- U.S. high yield has widened above U.S. loans to a point not seen since 2011. We expect high yield to outperform relative to loans over the next quarter. Commodity-related sectors – energy, metals/minerals and chemicals – remain under pressure in U.S. markets, but the low weight of these sectors in European markets has led to European high yield and loans to outperform the U.S.

- Increasing default risk from the commodities-related industries is expected to put upward pressure on default rates.

- The effect of a Fed policy change on high yield and loans should be muted with the expectation that the rise will be slow.

Thematic Trade Ideas:

- Single-B bonds remain the best relative value in US high yield.

- Outside of commodities-related sectors, the upside/downside risk looks attractive.

- The difference in yields between US high yield and loans is near a peak. Over the past four years when high yield has been this wide, it has outperformed loans by an average of 2.5% over the following quarter. We expect this pattern to repeat in the current period.

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>Default Rate</th>
<th>Default Rate</th>
<th>Issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Return Projected 2015</td>
<td>Default Rate Projected 2015</td>
<td>Default Rate Projected 2016</td>
<td>Issuance Projected 2015</td>
</tr>
<tr>
<td>US High Yield Bonds</td>
<td>3.5%</td>
<td>2.5%-3.5%</td>
<td>2.5%-4%</td>
<td>$270 billion</td>
</tr>
<tr>
<td>US Leveraged Loans</td>
<td>4%</td>
<td>1%-2%</td>
<td>1%-3%</td>
<td>$340 billion</td>
</tr>
<tr>
<td>Western Euro High Yield</td>
<td>4.5%</td>
<td>0%-1%</td>
<td>1%-3%</td>
<td>€105 billion</td>
</tr>
<tr>
<td>Western Euro Lev Loans</td>
<td>5%</td>
<td>0.5%-1.5%</td>
<td>1%-3%</td>
<td>€85 billion</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Global Leveraged Finance Strategy Research
Emerging Markets Strategy

Global: Kasper Bartholdy
Latam: Daniel Chodos; EEMEA: Nimrod Mevorach; NJA: Ashish Agrawal

Core Views

- Global risk markets, including EM assets, have bounced back from the late September sell-off, and the data should confirm or reject the basis for this rebound, namely if it signals that output growth is no longer falling in China and not falling unpleasantly sharply in the US. Signals in the opposite direction would imply that Chinese stimulus is not having the intended effect and could lead to further EM currency weakness.

- Weakness in China hurts the rest of the EM complex through two channels: (1) falling demand for those commodities that many other EM countries export; and (2) falling Chinese demand for industrial goods from the rest of Asia. Chinese currency depreciation implies reduced earnings and competitive pressures on non-Chinese producers of industrial goods, both in developed and in emerging markets countries.

- Beyond the next couple of months, EM bonds in all currency denominations are likely, in our view, to be subject to gradually intensifying risks related to Fed rate hikes.

Regional views

- Latam: Fixed income markets will remain volatile driven by oil prices, US rates and idiosyncratic factors (particularly in Argentina and Brazil). Policy reaction is one of the main themes in our region as Chile now became the third central bank in the region to rise rates after Peru and Colombia hiked in September. We are biased to be paid front end rates in Chile, after the hawkish statement from the central bank. The CDI curve in Brazil is pricing in lot of risk premium in the short-end but we don’t have conviction to add receivers at this point. We remain long Argentina sovereign debt ahead of the elections.

- EEMEA: We expect global factors – the volatile oil prices and the overall risk sentiment – to continue to dominate the directional move in EEMEA fixed income asset prices in the near term. In South Africa, we recommend paying 9x12 FRAs. Too little policy rate hikes are currently priced as markets underestimate the central bank’s readiness to hike amid rising inflation environment. We also like receiving 10y IRS and paying 10y US IRS in the expectation that this spread will revert back to its historical average. In Turkey, we recently closed our bearish positions and moved to neutral as political risks ahead of the 1 November elections have turned balanced. We would look to buy 10y bonds if yield rises above 10.80% (compounded). In Russia we are neutral OFZ. We find Russia’s sovereign credit overpriced and recommend going underweight against Kazakhstan at the 30y point and against South Africa at the 8y point.

- Non-Japan Asia: Fixed income markets are likely to trade in a range as risk sentiment stabilizes, although markets remain nervous over the residual uncertainty of a Fed lift-off this year. Focus shifts to growth prospects, putting some emphasis on Chinese data. We are bullish in India and long Indonesian bonds, partly FX hedged. We stay underweight Malaysian markets on external and domestic headwinds. We look for opportunities to fade the move in Singapore, and have shifted to a neutral bias in Thailand. We are bearish Korea, and recommend paying 2y3y IRS as market seem too pessimistic on growth. Swap and bond curves in China could steepen marginally as equity markets stabilize, while expectations of further easing keep the front end anchored.
Latin America Corporate Credit
Jamie Nicholson, Andrew De Luca, Luis Serrano

Core Views
- We foresee mixed earnings performance in Latam credit, with divergence across regions and sectors. We continue to favor credits in Mexico and the Andean region, especially those with leading positions in domestic consumption, utilities and banks. Ongoing weakness in Latam currencies should continue to favor exporters.
- CS Latam HG corporates have underperformed YTD, generating -2.4% total returns through October 16th (vs. +0.6% by US HG). We expect uncertainty and volatility to persist in Petrobras, construction and other credits impacted by the Lava Jato scandal throughout 2015. Additionally, Latam HG oils, mining and iron ore will likely be negatively affected by current weak commodity pricing. We believe Brazil HG credits are particularly at risk of downgrade if the sovereign is downgraded below investment grade.
- CS Latam HY also underperformed, generating -4.8% total returns through October 16th (vs. -0.4% by US HY) mainly impacted by Latam HY oil (including the drillers), metals & mining, and credits with idiosyncratic risks (including Empresas ICA, GOL and Oi). The best performers YTD in Latam HY were high-beta credits, including PDVSA and Argentine utilities which recently rebounded. We expect volatility to persist throughout 2015, particularly for oil service providers, as well as credits linked to commodity prices or with weak liquidity positions.
- In Latam corporates, we prefer HY over HG given the more attractive spread pickup to similarly rated US corporates, but we caution that selectivity in credit selection is key, especially in an environment of challenging trading liquidity. We favor credits with solid liquidity positions, neutral to improving cash flow and strong management teams.

Key Forecasts
- We expect mixed performance in 2015, reflecting divergence across economies and sectors. Brazil HG corporates are particularly vulnerable to a potential sovereign downgrade.

Catalysts That Could Alter Our View
- Changes to actual or expected global and regional growth, FX and commodities volatility, and a change of sentiment towards Brazil.
Global Demographics & Pensions Research
Amlan Roy

Core Views
- Most people miss the point on demographics by focusing just on age. In our view, demographics is about people as “consumers and workers.” Demographics affects income statements and balance sheets of companies, households, and nations.
- GDP growth, public finances, inflation, and current accounts are affected by demographics. So too are asset prices-equity premia, real estate prices and long-bond yields, etc. Demographics also underlies emerging markets’ economic power.

Examples of How We Integrate Global Demographic Research into the Investment Processes
- Global Demographics & Fiscal Sustainability
- Global Demographics & GDP growth
- Global Demographics & Sectors
- Global Demographics & Asset Prices

Selected Research
- A Perspective on Migration: Past to Present – Impact of People Flows: This report team provides perspective on the contentious and hard-to-predict issue of migration with data-based analysis of recent migration trends.
- World Population Changes & UN Forecasts 2015: This report showcases the main highlights of the latest UN Population Revision 2015 which covers population projections for the world, regions and selected countries. Our view is beyond people count, stressing also people characteristics.
- Demographics of Australia & New Zealand: Both Australia and New Zealand look demographically good based on the conventional, though both countries need to make progress in our view on gender parity, income distributions, tertiary education and encouraging better lifetime savings.
- UK’s demographic dynamics and their implications: The UK’s demographic dynamics are changing due to dramatic changes in consumer and worker behavior. These demographic changes impact growth, fiscal sustainability, inflation, taxes and its social future via unemployment, benefits and crime.
- Demographic Focus - Changing Global Consumers: This report focuses on the dramatically changing face of consumers in the G6 and EMG6 economies. We highlight changes across young consumers, old consumers, female consumers, smaller vs. larger households, immigrants and technologically savvy consumers. We believe that these micro changes are creeping up and are in aggregate making a huge difference.
- EU’s evolving demographics & pensions need attention: EU countries have diverse and evolving demographics. Public and private sectors should provide more incentives for women to work and encourage older workers to work longer. Labour productivity will be the key driver for the next phrase of growth.
- China’s structural priorities: A progress report in the context of its 12th Five year plan: We assess progress towards the goals and targets of the 12th Five-Year Plan. We found that most targets have already been achieved in terms of labour market performance, health and education. There is steady progress being made in areas of new focus such as pension, urbanization and governance.
- Why has recent macro-policy not been that effective? A demographic view: Recent macro-policy ineffectiveness is partly attributable to its ignorance and neglect of demographic distributions. Unprecedented demographic changes have led to changes in consumer and worker behavior which need to be addressed by future policies.
- A Demographic View: Do not write off US GDP growth: We provide a demographic framework based growth analysis assessing the growth debate regarding where US economic growth is headed over the next 5-6 years presenting scenarios suggesting higher growth than consensus forecasts.
Global Index & Alpha Strategies
Baldwin Smith

Core Views
- In this month’s Systematic Alpha Monthly, we introduce the Credit Suisse Retiree Consumer Expenditure Index ("RECI"), a strategy which systematically invests in tradable equity sector indices according to retirees' consumption expenditure.
- The basket index has achieved an annualized historical excess return of around 2% after adjusting for the beta risk with respect to the S&P500 index performance since inception.
- The blended indices, which dynamically invest in the basket index and short-term treasury notes, effectively reduce drawdown with the volatility control mechanism.

Cumulative Index Performance, Nov 2003-Sep 2015

Basket index weight allocation, Nov 2003 – Nov 2014
Tradeable Equity Indices corresponding to Consumer Expenditure categories

Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse
Source: the BLOOMBERG PROFESSIONAL™ service, U.S. Dept of Labor Statistics, Credit Suisse
Core Views

Agency MBS:
- We maintain our tactical basis long recommendation in FN 3.5s versus swaps. We believe that MBS can rebound from current cheap levels. However, we see headwinds for MBS in the medium term, with potential year-end concerns and FOMC uncertainty. We expect existing home sales and first-time buyer activity to be strong next year with roughly a 6% increase from a strong (7% increase) in 2015.

Non-Agency MBS:
- We remain medium-term positive on RMBS, but we acknowledge that continuing macro headwinds make us short-term neutral. While the fundamental picture seems somewhat static in the near term, we believe negative net issuance and medium-term improvements can drive spreads slightly tighter from current levels by the end of 2015.

CMBS:
- The CMBS sector appears relatively attractive, especially to the corporate bond market, in our opinion. However, even as we see value and believe spreads will tighten over the intermediate- to longer-term, we see near-term hurdles and concerns, leaving us cautious. Chief among these remain the fragile state of the broader global markets. We also remain very conscious of the negative technicals facing the CMBS market.

For additional detail, please see Global Securitized Products 2015 Outlook, the 2015 Global Outlook, and the 2015 Midyear Outlook

Key Forecasts

- **Housing**: Housing activity is normalizing. Existing home sales, investor shares, and distressed buying closing gap to pre-crisis trends.

- **Prepayments**: Conventional 30-year speeds should increase 4% in October and fall an incremental 4% in November, driven by lower day count. This should be followed by an 16% speed increase in December if rates remain low. 15-year speeds should exhibit a similar trend.

- Ginnie 30-year speeds should follow a similar pattern as their conventional counterparts. G2 30-year speeds should increase 3% and fall an incremental 2% in October and November, respectively. This should be followed by a 13% increase in December.

Catalysts That Could Alter Our View

- Macroeconomic data
- Policy
Disclosure Appendix at the back of this presentation contains important disclosures, analyst certifications, and the status of non-U.S analysts. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.
Equity Research: Global Equity Strategy
Andrew Garthwaite

Core Views (from Equity Research strategist Andrew Garthwaite’s recent publications on CS PLUS)*

- We remain overweight of equities as an asset class globally, as (1) we think the market is too pessimistic on growth; (2) relative valuations are attractive, including ERP; (3) excess liquidity remains supportive, and central bank balance sheets should expand more rapidly in 2015 than 2014; (4) corporate sector buying should continue; and (5) though earnings revisions have been weak, we do not think they are poor enough to be the catalyst for an equity bear market (and much of the weakness has been in commodity-sectors). Tactical indicators are also generally supportive. Our end-2015 target for the S&P 500 is 2,100.

- Regional & country allocation: Japan and Continental Europe are our most preferred regions. Mainly owing to GEM exposure, we recently reduced our overweight in both regions, however we think they remain attractive. We are underweight France, overweight the periphery – where Italy is the rising star. We recently upgraded Spain to overweight and downgraded Germany to benchmark. We remain benchmark on the UK for reasons including a strong GBP, GEM- and oil-exposure, and an imminent BoE rate hike, but we are underweight UK domestic cyclicality due to signs of growth moderating. We have reduced our underweight in the US because, although US equities are expensive and defensive, it is least exposed to a hard landing in China. We recently upgraded GEM to benchmark as GEM currencies (excluding the RMB) are cheap. On China, we are more bullish than the market short-term, but more bearish long-term.

- Sectors: We add to our small overweight of cyclicals – we want to buy domestic Europe as a recovery play (Italian autos, retail banks, employment agencies, advertising, software). Software is our biggest overweight globally. We are overweight select financials (European retail banks, Cont. European composites, Japanese banks). In defensives, we add to our overweight of European telecoms. Our key underweights are China-exposed capital goods, consumer staples (particularly spirits and food producers), UK REITs and homebuilders, luxury, German autos, IOCs (we think consensus is too optimistic on oil) and utilities.

- Key investment themes: Our favored macro themes are: the importance of oil for equities and the implications of oil prices remaining stable but low; a weaker RmB, the Chinese triple bubble and potential future global equity bubble; P/E dispersion at abnormal lows and factors which favour an overweight of Cont. European small cap, and in the UK an overweight of large cap; a hard landing in China; China as an increasingly competitive threat; the internet; and the scope for far greater global M&A activity. Our key non-macro theme explores opportunities from ageing in GEM. Most macro factors (commodity prices, Yen/RmB, disruptive tech.) suggest pricing power is key.

<table>
<thead>
<tr>
<th>Index Targets</th>
<th>End 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>2,100</td>
</tr>
<tr>
<td>Euro Stoxx 50</td>
<td>3,500</td>
</tr>
<tr>
<td>FTSE 100</td>
<td>6,600</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>20,500</td>
</tr>
<tr>
<td>MSCI EMF GEM</td>
<td>860</td>
</tr>
<tr>
<td>MSCI AC World</td>
<td>492</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Global Equity Strategy Research

<table>
<thead>
<tr>
<th>Regional Weightings</th>
<th>Benchmark weight (%)</th>
<th>Recommended over/underweight (% factor)</th>
<th>Hedged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>8.5</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>GEM</td>
<td>10.3</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>7.5</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Cont. Europe</td>
<td>16.7</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>56.9</td>
<td>-7.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Credit Suisse Global Equity Strategy Research

Catalysts That Could Alter Our View


- On the upside: stronger-than-expected easing by developed market central banks (ECB, BoJ) in spite of an acceleration in global growth momentum, signs of a serious commitment to structural reforms in Japan, improving global earnings growth, a continued acceleration in the asset allocation switch from equities to bonds.

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Core Views

Broader market: choppy conditions likely to persist in 4Q15 and early 2016

- Deals/cash deployment remains the main positive DRIVER, but is clearly fading. Among the key negatives, valuations are less onerous than they were in 1Q, but remain expensive; Revisions have turned negative again; US equities continue to be a crowded trade in the midst of unwinding; and the rotation in money flows out of the US persists – but we are optimistic this headwind may abate in 1Q16.

Size: we prefer small over large on a 12 month view, despite risks to small shorter term

- Valuations, deals, & flows favor small, while investor sentiment (rising VIX, HY weakness) and the economy (short term impact of Fed hikes; potentially slowing ISM) favor large. Small caps are the cheapest we’ve seen vs. large cap since the Tech bubble.

Style: if the transition from growth back to value hasn’t already started, it will be here soon

- The current phase of growth leadership is the longest seen in more than 30 years and a shift back to value seems overdue. Whenever the Fed lifts off, we suspect that value leadership will resume, as the latest cycle of growth leadership has been tied to low/falling interest rates.

Current Sector Views

<table>
<thead>
<tr>
<th>Overweight</th>
<th>Market Weight</th>
<th>Underweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comm &amp; Prof Svcs</td>
<td>Consumer Services</td>
<td>Cons Durables &amp; App</td>
</tr>
<tr>
<td>Tech HW &amp; Equipment</td>
<td>Food Bev &amp; Tobacco</td>
<td>Retailing</td>
</tr>
<tr>
<td>Semis &amp; Semis Equip</td>
<td>Food &amp; Staples Retail</td>
<td>Materials</td>
</tr>
<tr>
<td>Utilities</td>
<td>HH &amp; Personal Products</td>
<td>Media</td>
</tr>
<tr>
<td>Banks</td>
<td>Energy</td>
<td>Autos &amp; Components</td>
</tr>
<tr>
<td>Diversified Financials</td>
<td>Insurance</td>
<td>Real Estate</td>
</tr>
<tr>
<td>Software &amp; Services</td>
<td>Transportation</td>
<td>HC Equip &amp; Services</td>
</tr>
<tr>
<td>Telecom Services</td>
<td>Capital Goods</td>
<td>Pharma/Biotech &amp; LS</td>
</tr>
</tbody>
</table>

6 DRIVERs of US Equities

1 Positive, 4 Negative

<table>
<thead>
<tr>
<th>DRIVER</th>
<th>US Equity Market</th>
<th>Best Size Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>D</td>
<td>Deals (M&amp;A &amp; IPOs)</td>
<td>+ Small</td>
</tr>
<tr>
<td>R</td>
<td>Revisions, EPS Growth &amp; Fundamentals</td>
<td>- NA</td>
</tr>
<tr>
<td>I</td>
<td>Investor Sentiment</td>
<td>- Large</td>
</tr>
<tr>
<td>V</td>
<td>Valuation</td>
<td>- Small</td>
</tr>
<tr>
<td>E</td>
<td>Economic Indicators</td>
<td>= Large</td>
</tr>
<tr>
<td>R</td>
<td>Retail Money Flows</td>
<td>- Small</td>
</tr>
</tbody>
</table>

Avoid Darlings & crowded growth stocks.
October marks the fifth anniversary of emerging markets underperformance of global equities. In our view a sound recovery in emerging market margins is a prerequisite for a sustained episode of emerging equities' outperformance of global markets. Over the past 18 months average net profit margins have been inferior for emerging markets relative to developed peers for the first time in at least two decades and in our base case scenario will weaken further by year-end 2015 to 4.3% (in line with the 1999 trough) from the current 5.0% (85bps lower than developed equities) before commencing a recovery. We believe that differences in absolute and relative value creation (the spread of ROE over cyclically normalised cost of equity) are instrumental in determining absolute and relative performance for emerging markets and the single largest contributor to the erosion in emerging market profitability has been net profit margins.

Secondly, a turnaround in the fortunes for emerging equities would be precipitated by a consolidation in the trade weighted dollar. Over longer-term cycles, dollar strength is synonymous with emerging market underperformance (particularly commodity exporters with current account deficits and large FX debt burdens) of developed world equities. In our view, pressure remains on the asset class as Credit Suisse FX strategists forecast an additional 8.5% appreciation in the trade weighted dollar over the next 12m, consistent with a further 10% US dollar underperformance of emerging equities. However, in each of the five previous episodes of initial Fed tightening, strength in the dollar peaked within 47 days of the announcement and on average the market had discounted the full positives for the dollar three weeks prior to the event. The market (Fed Funds Futures) and Credit Suisse rates strategists are forecasting a mid-December hike.

Hence we believe the outlook for emerging market equities (particularly Latin America) will be challenging through to at least year-end 2015 with our fair value regression model indicating 7% potential US dollar downside to end-December (MSCI EM 800 vs current 865). We favour commodity importers with low FX debt burdens and hence lower currency risk (Korea, Taiwan, India) relative to commodity exporters with higher FX debt (Brazil, Russia, Malaysia). We retain a benchmark on China on account of (i) inexpensive aggregate (H-share) valuation, (ii) the capacity for further meaningful monetary policy stimulus, (iii) lack of associated currency risk—only the Taiwanese Dollar has revalued relative to the Hong Kong Dollar in emerging markets since 2010, (iv) the greatest concentration of stocks offering quality growth at a reasonable price in emerging markets and (v) government interventionist policy effectively putting a floor under market pricing. We remain structurally positive on Mexico and benchmark on South Africa, Indonesia, Thailand and Turkey.

### Multi factor regression model for MSCI EM

<table>
<thead>
<tr>
<th>Model inputs</th>
<th>Coeff.</th>
<th>P-value</th>
<th>Current Scenario</th>
<th>Upside from current</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ TWI</td>
<td>-0.87</td>
<td>0.00</td>
<td>104.0</td>
<td>106.8</td>
</tr>
<tr>
<td>ISM New orders</td>
<td>0.81</td>
<td>0.00</td>
<td>50.1</td>
<td>55.0</td>
</tr>
<tr>
<td>Global IP, % yoy</td>
<td>1.18</td>
<td>0.00</td>
<td>98.4</td>
<td>100.0</td>
</tr>
<tr>
<td>CRB metals &amp; SDR</td>
<td>0.53</td>
<td>0.00</td>
<td>457.0</td>
<td>546.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MSCI EMF</th>
<th>Adj R square:</th>
<th>Predicted</th>
<th>MSCI EMF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.74</td>
<td>743</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td>127.00</td>
<td>865</td>
<td>865</td>
</tr>
<tr>
<td></td>
<td>0.00</td>
<td>Upaside %</td>
<td>-14.1</td>
</tr>
</tbody>
</table>

### Credit Suisse recommended country weights versus MSCI EM

<table>
<thead>
<tr>
<th>Country</th>
<th>Overweight</th>
<th>Market Weight</th>
<th>Underweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea (5%)</td>
<td>China</td>
<td>Brazil (15%)</td>
<td></td>
</tr>
<tr>
<td>Taiwan (15%)</td>
<td>South Africa</td>
<td>Russia (20%)</td>
<td></td>
</tr>
<tr>
<td>India (10%)</td>
<td>Indonesia</td>
<td>Malaysia (30%)</td>
<td></td>
</tr>
<tr>
<td>Mexico (5%)</td>
<td>Thailand</td>
<td>Poland (30%)</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>Turkey</td>
<td>Philippines (15%)</td>
<td></td>
</tr>
</tbody>
</table>

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Private Bank & Wealth Management Investment Strategy and Research Core Views
Swiss Strategy
Nannette Hechler-Fayd’herbe, Maxime Botteron, Karsten Linowsky, Daniel Rupli

Core Views

Swiss Macro:
- We have kept our growth forecast unchanged for 2015 and 2016, but note the high uncertainty facing the Swiss economy.
- Capital outflows are still too modest to reduce the stock of “excess capital” in Switzerland, thus still depressing the level of interest rates.
- More QE from the ECB could force the SNB to react if the appreciation pressure on the Swiss franc increases.

Swiss Rates:
- The Swiss rates market clearly depends on other markets and the FX development. But from a risk-reward perspective, we favor a steeper 2y5y curve.
- We consider the recent steepening at the very long end (10y30y) to be a one-off event and see potential for long-end receivers or flatteners in that part of the curve.

Swiss Credit:
- Bond spreads of domestic and foreign issuers generally trended lower with the exception of domestic utilities that widened significantly towards the levels seen in January 2015. This was driven by renewed earnings pressure in the sector. We continue to favor selected bonds from domestic issuers.

<table>
<thead>
<tr>
<th>Key Forecasts</th>
<th>3M</th>
<th>12M</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHF 3M Libor</td>
<td>-0.75</td>
<td>-0.75</td>
</tr>
<tr>
<td>CHF 2-year swap</td>
<td>-0.67</td>
<td>-0.46</td>
</tr>
<tr>
<td>CHF 10-year swap</td>
<td>0.41</td>
<td>0.86</td>
</tr>
<tr>
<td>10-year Swiss benchmark yield</td>
<td>0.10</td>
<td>0.50</td>
</tr>
<tr>
<td>2015E</td>
<td>2016E</td>
<td></td>
</tr>
<tr>
<td>Real GDP (% yoy)</td>
<td>0.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Inflation (% yoy)</td>
<td>-1.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Private Bank Swiss Strategy Research

Catalysts That Could Alter Our View
- Large currency movements
- Threat of permanent deflation
- Change in global risk environment
- Political risks (mainly from the Eurozone)

Please refer to the Private Bank Swiss Strategy Research Disclosure Appendix at the back of this presentation for important disclosures.
Non-Research Strategy Core Views

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Core Views

- **YTD performance**: Our IG cash index (LUCI) currently sits at an OAS spread of 172bp, 10bps off the August wides and 37bps wider on the year. The index still sits wider than 2013 taper tantrum levels and back in 2012 European crisis territory. On a spread return the LUCI index is down -0.66% while on a total return basis it sits at 0.01%.

- **Q4 outlook**: Despite negative headwinds IG cash looks cheap not only historically but relative to other assets classes. As a result we are market-weight IG cash spreads heading into the end of the year.

- **Supply - Negative**: We have seen a record setting pace of issuance in IG with $946bn in supply YTD. We would expect the low rate environment, strong M&A activity, record buyback mandates as well as TLAC requirements to lead to continued strong pace of issuance.

- **Fundamentals – Negative**: Industrial corporate leverage is on the rise taking the IG cash universe further into BBB territory with interest coverage levels no longer rising as issuance becomes more focused on buybacks and M&A rather than refinancing to reduce interest costs.

- **Valuation – Positive**: With IG cash spreads sitting at 172bp we sit back in 2012 European crisis territory and about 20-30 bps wider of fair value.

**Year-end IG cash index (LUCI) OAS spread outlook 150bp (increased, market-weight)**

**Positioning:**

- **Rating**: We prefer triple-B paper vs single-A given the outperformance recently in the latter.

- **Maturity**: Intermediate off-the run paper is the sweet spot on the curve currently given the historically steep 5s10s spread curves.

- **Sector**: We are overweight Insurance, US Banks and Energy. Meanwhile we are underweight Consumer Products, and Metal/Miners on the prospect of continuing metals weakness.
Core Views

- **YTD performance**: The combined headwinds of potential Fed hike, commodities rout as well as global slowdown has taken its toll on the HY markets and taken YTD returns into negative territory. Our LUHY cash index currently sits at a total return of -0.31% for 2015. It is rare for HY cash to have a negative return year outside of a recession.

- **Q4 outlook**: Given current valuations and FOMC ‘dovish hold’ we think HY cash valuations look cheap and should provide attractive relative returns even when we conservatively factor in elevated default rates.

- **Supply – Neutral**: A brisk but not record-setting pace of issuance with YTD issuance of $201bn, a run rate 8% slower than in 2014.

- **Fundamentals – Neutral**: Industrial gross leverage ex energy was mildly up last quarter but has been largely range-bound over recent years sitting in mid single-B territory. On a long-term horizon credit quality ex energy looks to be at its best level in 10 years.

- **Valuation – Neutral**: Given that rates are largely in check, and potentially rallying near-term, we think the current 7%+ yield on offer in HY cash is attractive for investors relative to other asset classes.

Year-end liquid HY cash index (LUHY) return outlook 3-4% (over-weight)

Positioning:

- **Rating**: We like a barbell approach to HY with selective overweights in triple-Cs vs stocks and in double-Bs.

- **Maturity**: YTC paper is likely to outperform given the dovish Fed and underperformance of the space a result of fund outflows.

- **Sector**: We like Builders, Services and Paper/Packaging sectors as plays on GDP improvement, meanwhile we dislike Metal/Miners, Energy, Gaming/Lodging and Telecom/Wireless.
Core Views

- **Relative Value**: With EM and rates volatility hitting credit markets in recent weeks, leveraged loans have steadily outperformed with positive 2.5% returns vs. negative YTD returns in HY and IG (-0.3% and -0.7% for HY and IG, respectively). We think loans will continue to outperform for the remainder of the year (2-2.5% returns) as the market braces for the first Fed rate hike in a decade. The low duration and hence lower volatility of the asset class continues to be attractive to institutional investors (and should be attractive to retail as well).

- **Credit Fundamentals – Stable/Positive**: Leverage loan new issue stats improved in Q1. Total leverage for new deals was 4.7x down slightly from last quarter, while senior leverage declined from 4.3x to 4.1x. A decline in dividend deals and LBO related activity has also helped improve metrics. The default environment for loans has been very positive, running at a sub-2% rate. This contrasts to HY, where defaults, mostly energy driven, have been steadily increasing.

- **Demand Technicals - Neutral**: Appetite for leveraged loans from CLOs has offset subdued demand from retail. As CLO funding costs have increased, single B loan bid has also softened. We expect retail interest to gain some momentum with rate hikes, especially if rates volatility picks up, however retail investors likely to keep away until relative yields look more attractive (5.5% for lev loans vs. 6.7% in HY).

- **CLOs**: With risk retention compliance a year and half away, the window for issuing non-compliant deals is closing. CLOs continue to be the supporting bid in the market, driving loan spreads wider as CLO funding costs widen due to heavy supply.

- **Positioning**: We favor overweighting BBs because as liquidity dries, investors will move up in credit quality. BBs have outperformed single-Bs YTD on the back of commercial bank buying, and a broad up-in-quality trade in credit (3.4% vs 1.9%) Return dispersion increased last year, as severe weakness in commodities caused the Energy and metal/minings sectors to underperform. Despite the underperformance in these sectors, we believe headwinds will persist into the second half of the year, and we would overweight high spread sectors such as Retail, Consumer Durables, Services and Financials over Energy and Metals/mining.

- **Our year-end leveraged loan return target is 4.5%-5%, from 2.7% as of September. Our target is based on 1.8% interest return plus 0-0.5pt of principal return. We think the combination of better technicals, fundamentals and positioning in the macro landscape (imminent rate hike) will help loans maintain their positive outperformance vs. HY and IG through 4Q.
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Issue: RUSSIA 16-Sep-2043
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Global Recommendation Distribution**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Percent</th>
<th>Banking Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>&lt;1%</td>
<td>(&lt;1% banking clients)</td>
</tr>
<tr>
<td>Outperform</td>
<td>&lt;1%</td>
<td>(&lt;1% banking clients)</td>
</tr>
<tr>
<td>Market Perform</td>
<td>&lt;1%</td>
<td>(&lt;1% banking clients)</td>
</tr>
<tr>
<td>Underperform</td>
<td>&lt;1%</td>
<td>(&lt;1% banking clients)</td>
</tr>
<tr>
<td>Sell</td>
<td>&lt;1%</td>
<td>(&lt;1% banking clients)</td>
</tr>
</tbody>
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*Data are as at the end of the previous calendar quarter.

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