

The Great Divide

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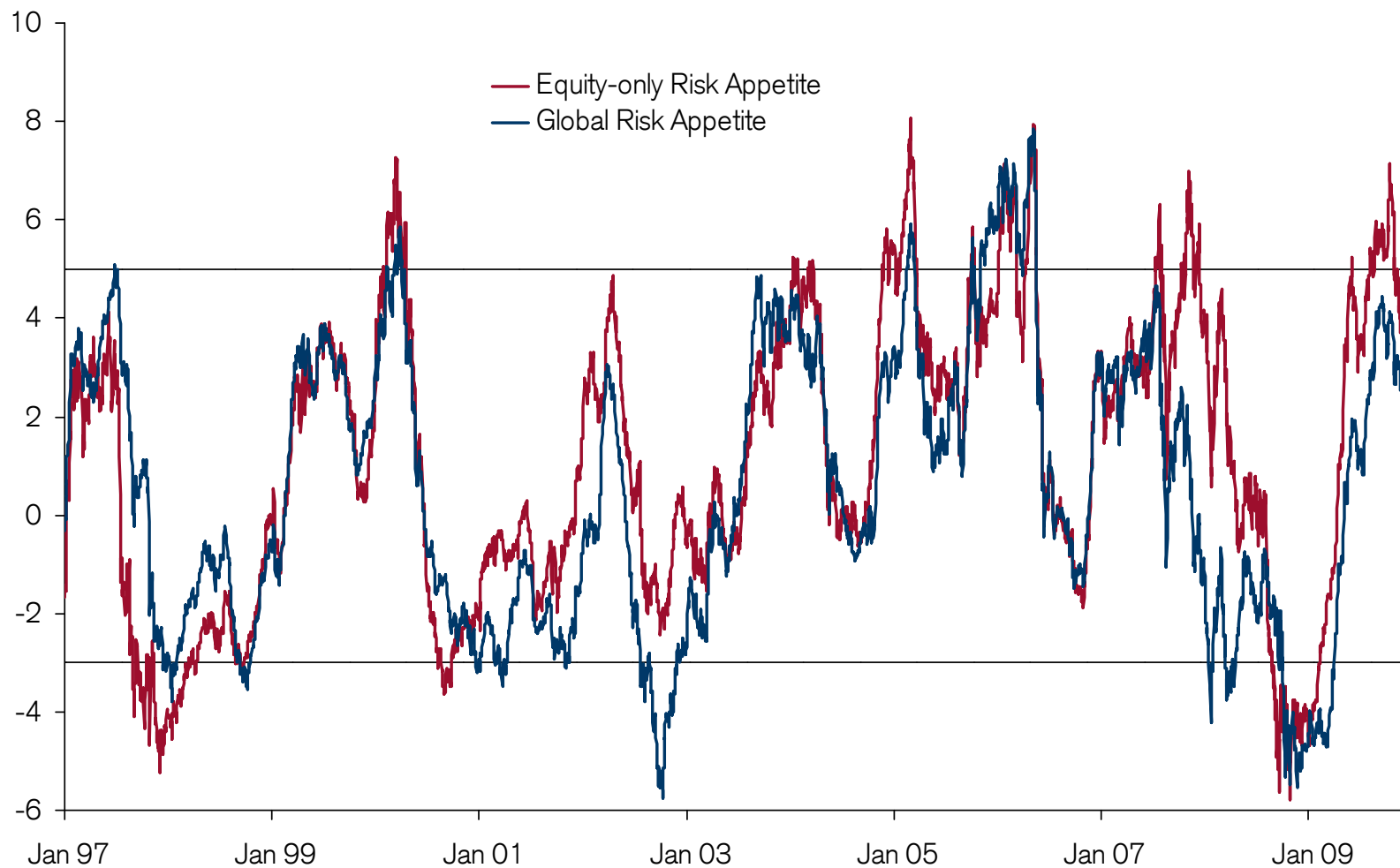
ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE IN THE DISCLOSURE APPENDIX. FOR OTHER IMPORTANT DISCLOSURES, PLEASE REFER TO <https://firesearchdisclosure.credit-suisse.com>.

An Old Story

"The error of optimism dies in the crisis, but in dying it gives birth to an error of pessimism. This new error is born not an infant, but a giant."

Arthur Cecil Pigou

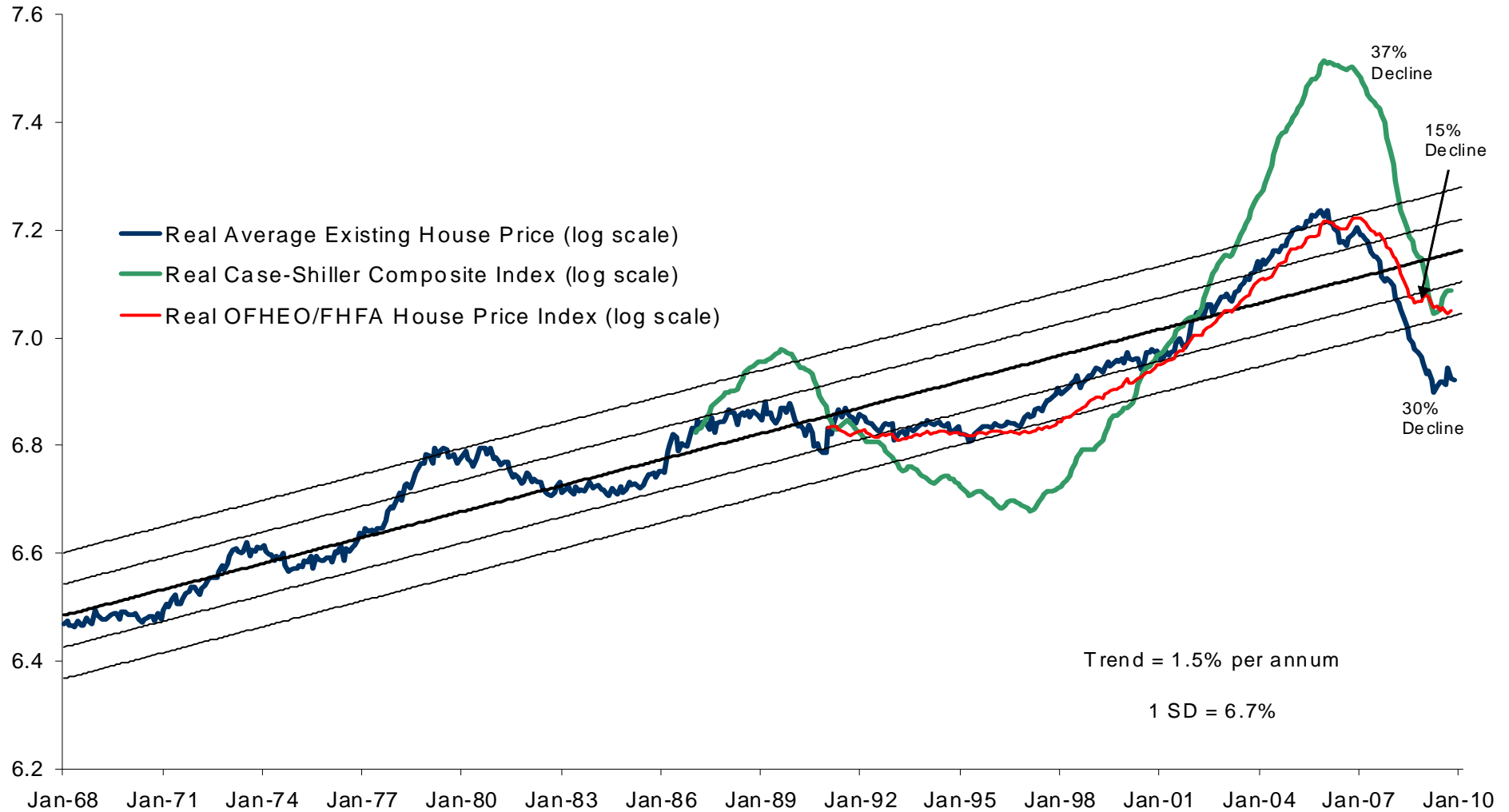
CS Global Risk Appetite and Equity Only Risk Appetite



Last data point: 31.12.2009

Source: CS Global Strategy / IDC

US House Price Indices



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

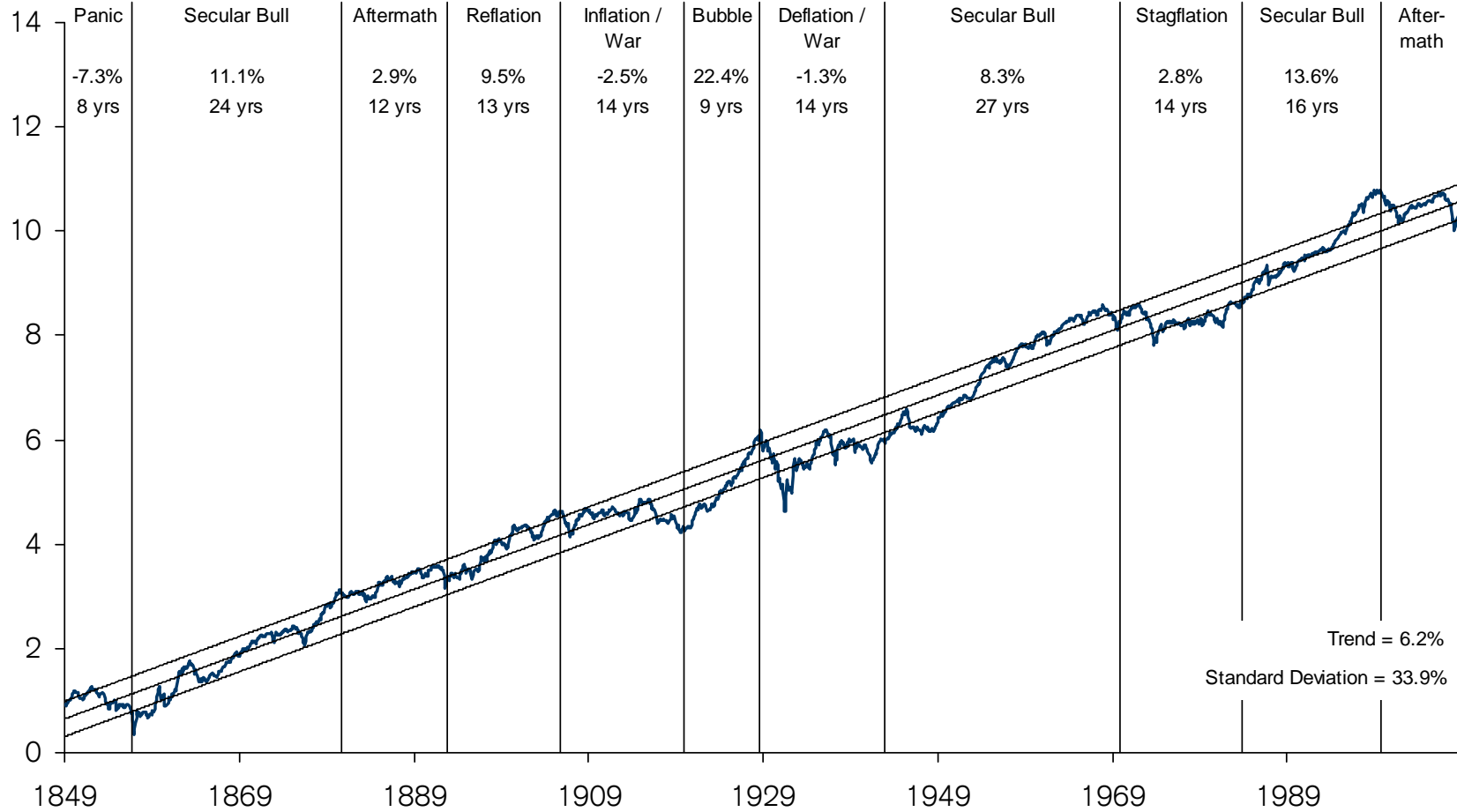
Three Paths

- **Armageddon** (Sovereign Debt Run)
- **Fade the Fat Tails** (Disinflationary Growth)
- **Boom!** (1980s Style Recovery)



The Worst Decade

US Long-Run Real Equity Returns



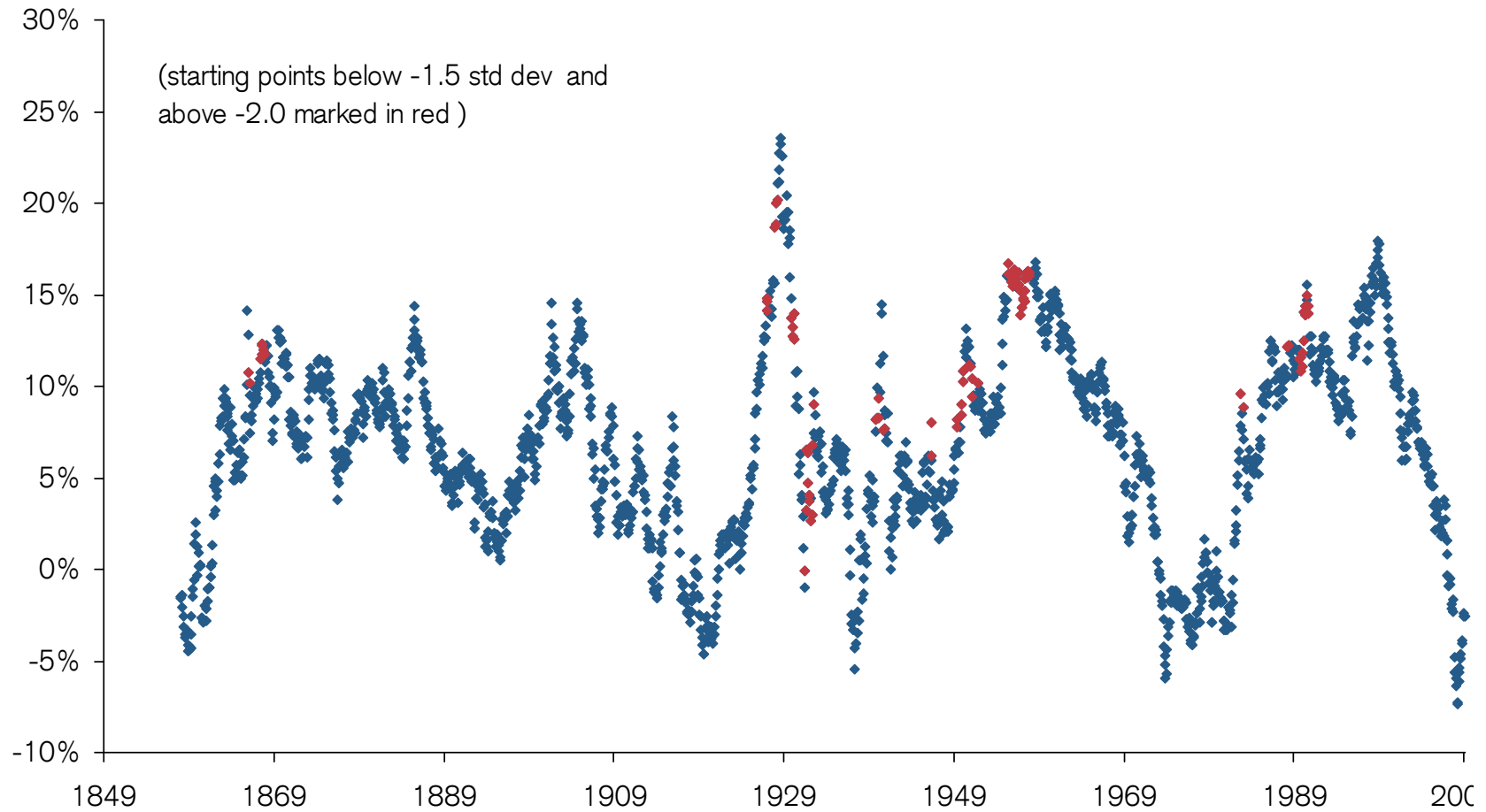
— US Long term Real Equity Returns (log level index - returns per annum)

Last data point: 04.01.2010

Source: Datastream, CS Global Strategy / IDC

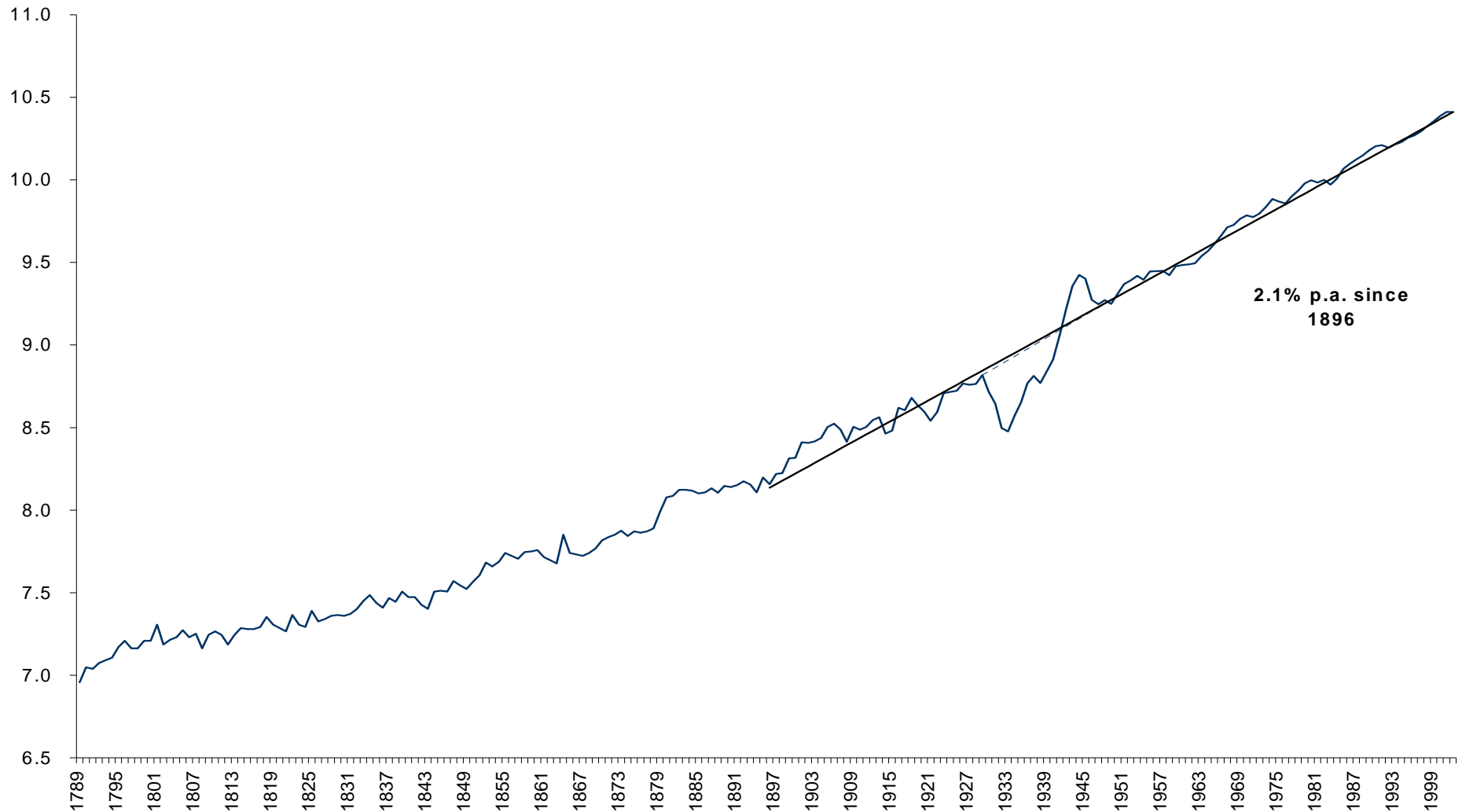


US Long-Run Real Equities



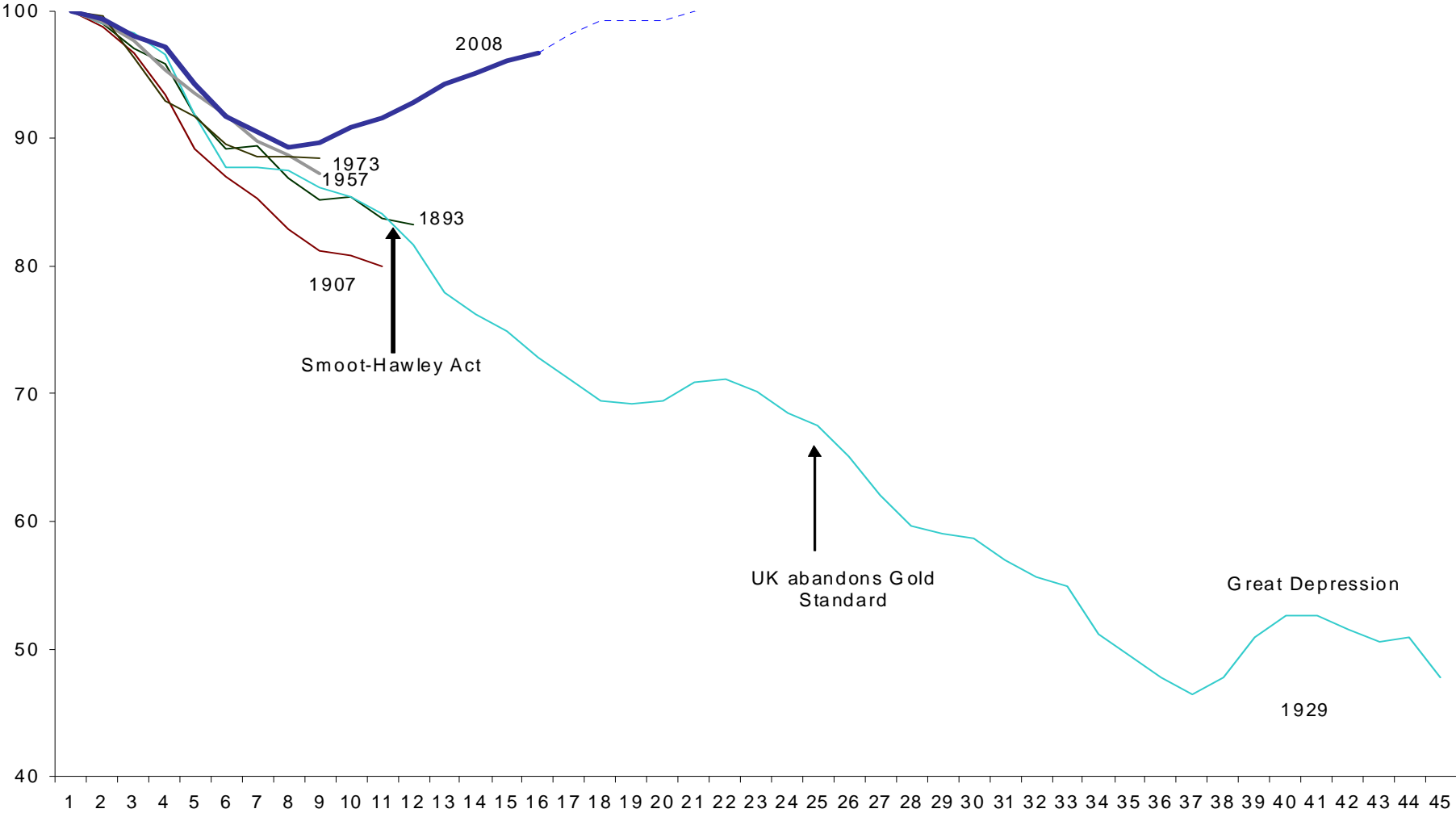
Source: Datastream, CS Global Strategy / IDC

US Real Per Capita GDP since 1789 in logs



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Global IP Contraction vs. Major US Contractions



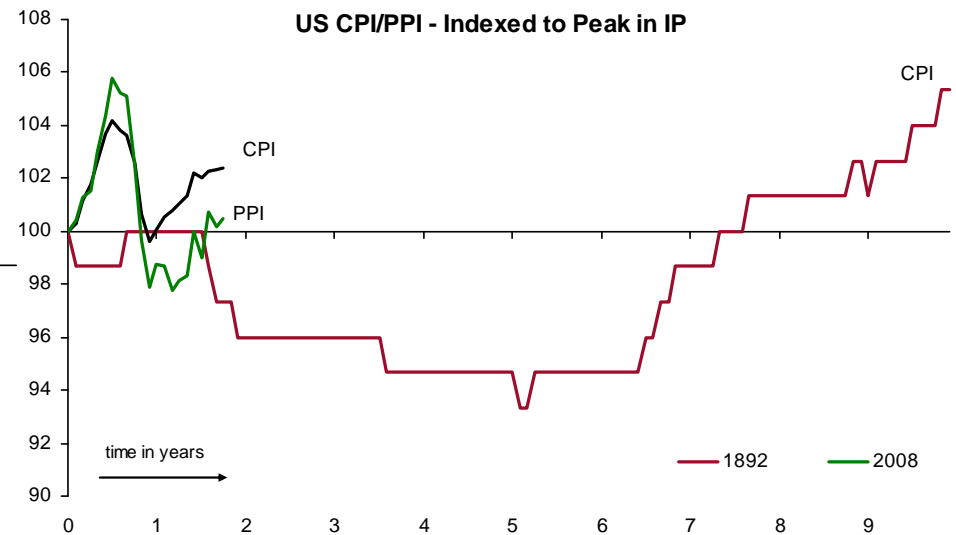
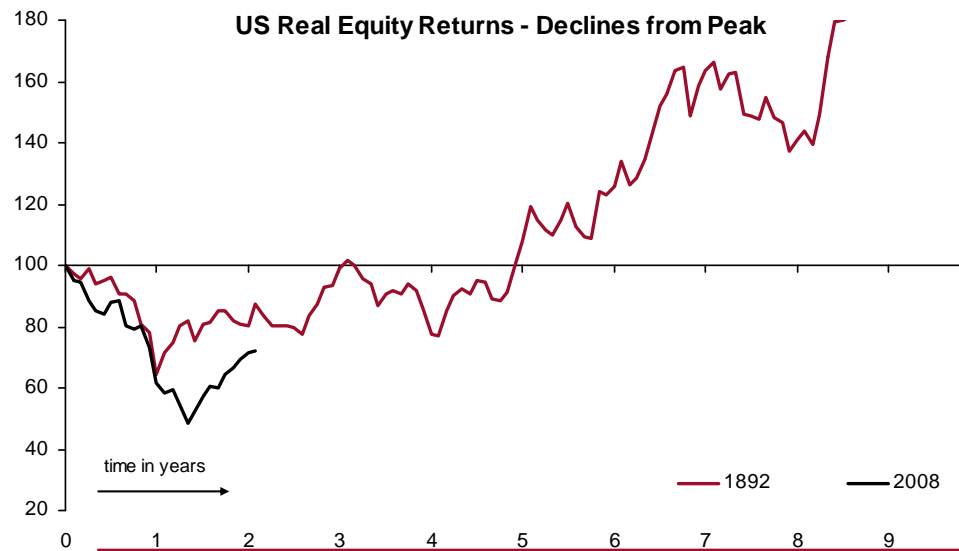
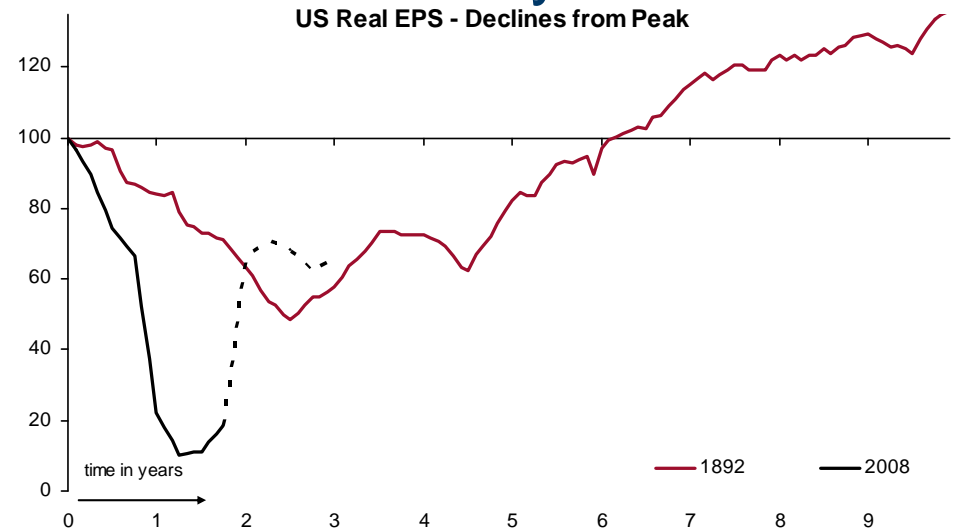
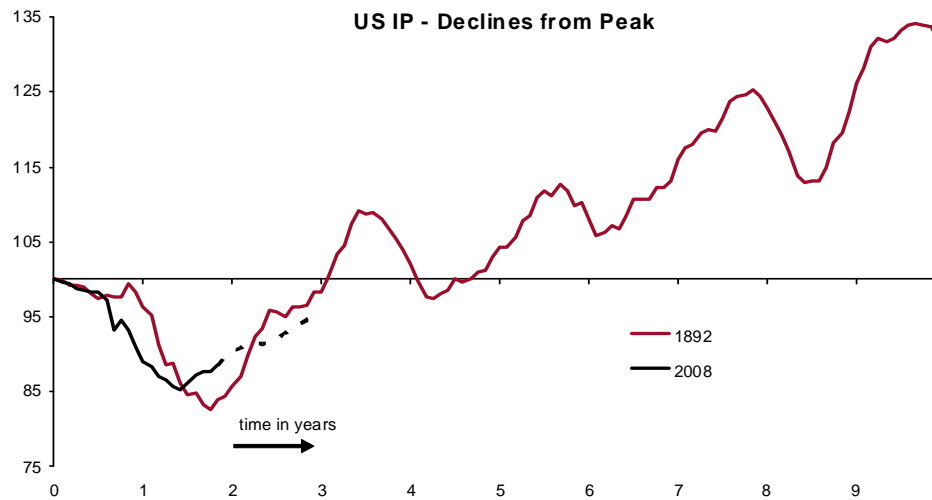
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream



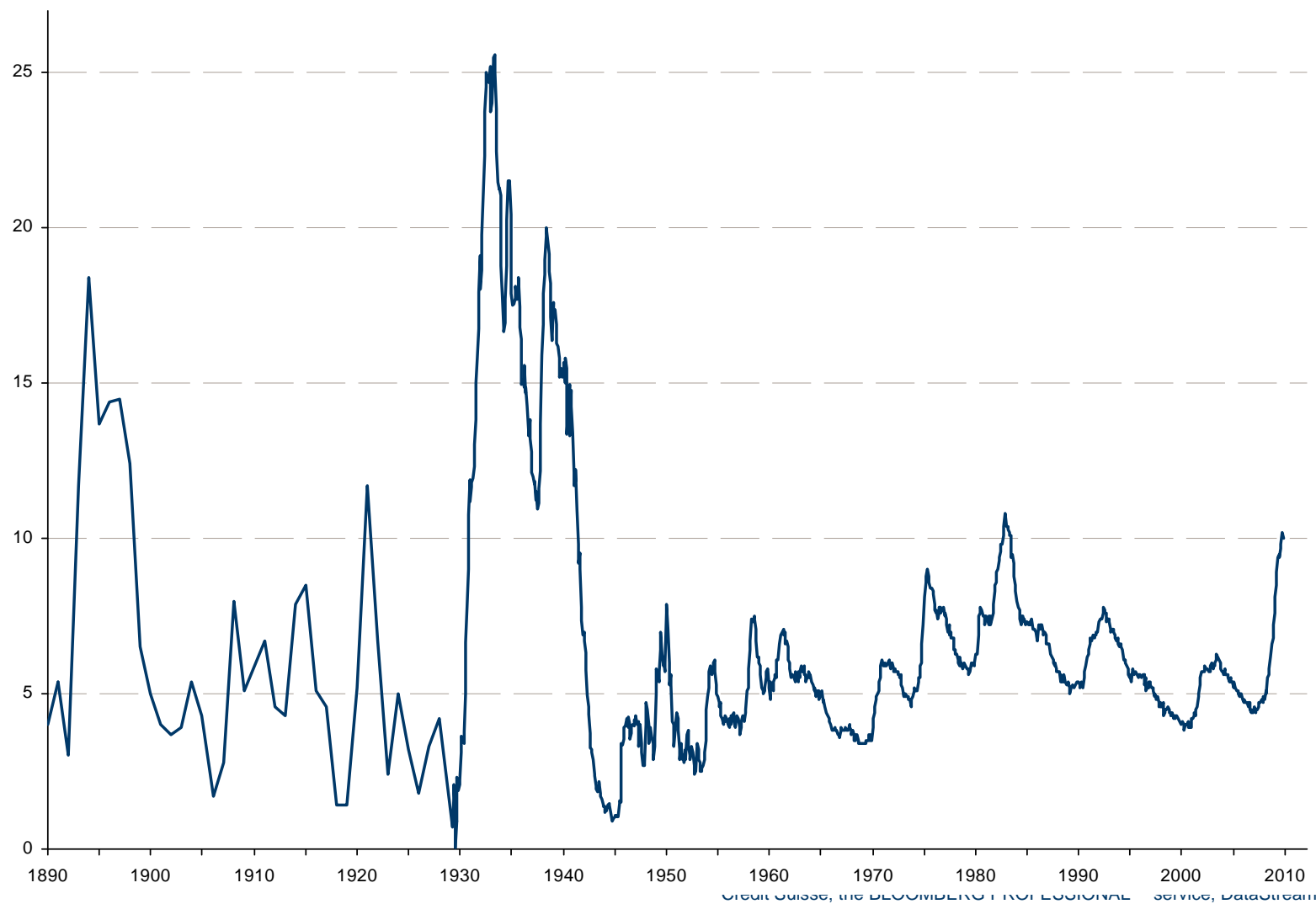
Not the 1930s?

..... Maybe the 1890s

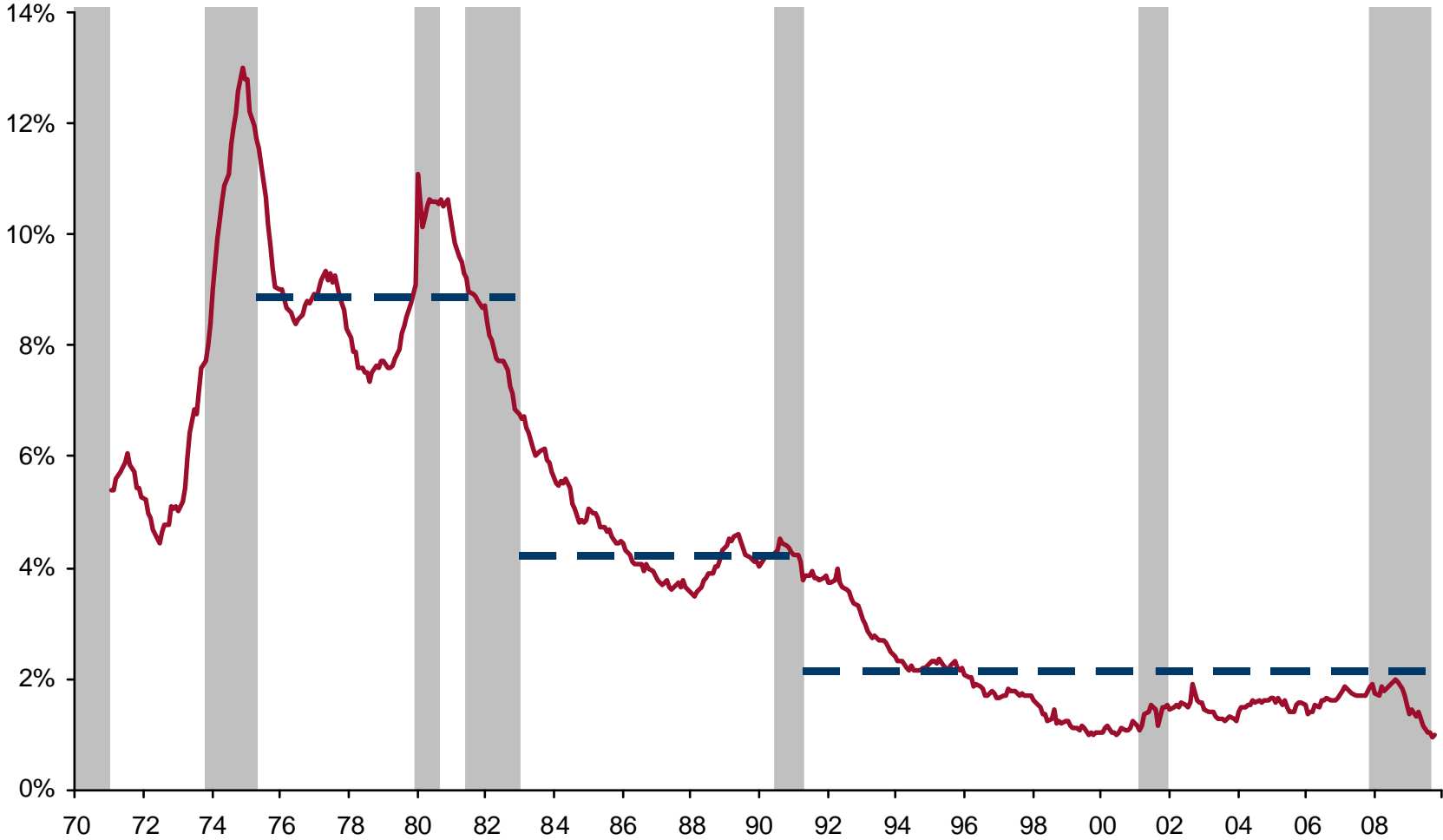
Surprisingly Classical – 1890s and Current Cycle



US Unemployment Rate

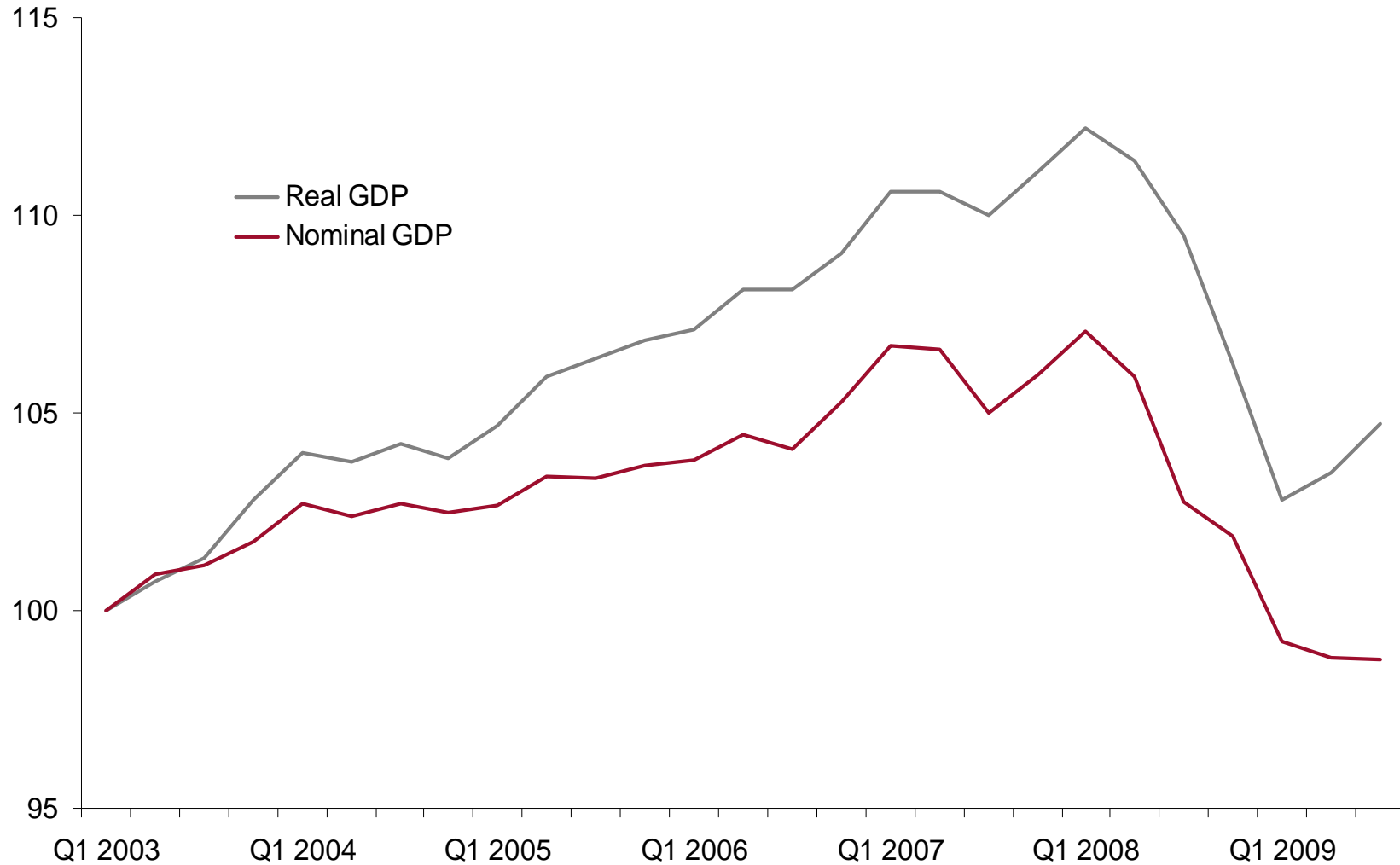


G3+ Core Inflation



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Japan



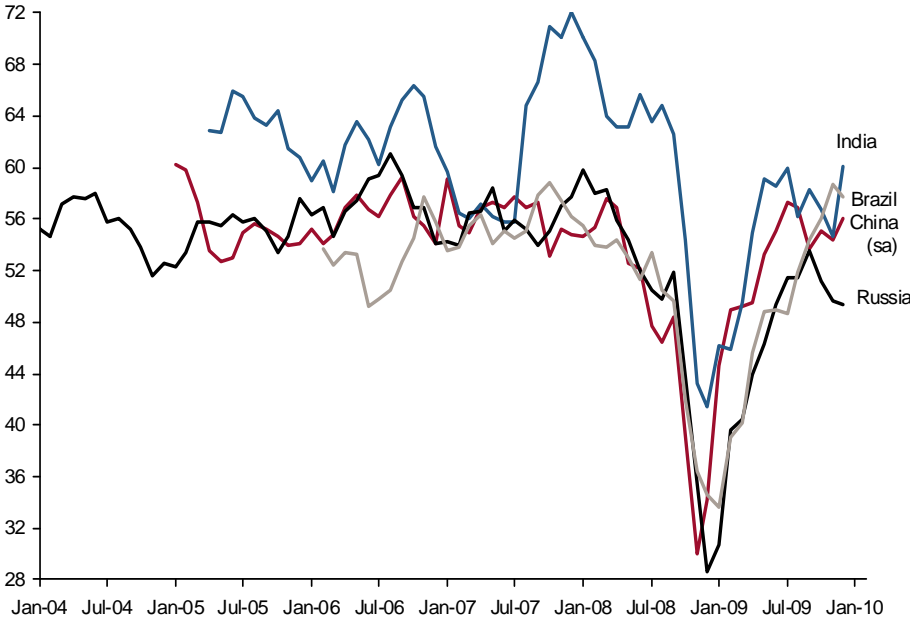
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream



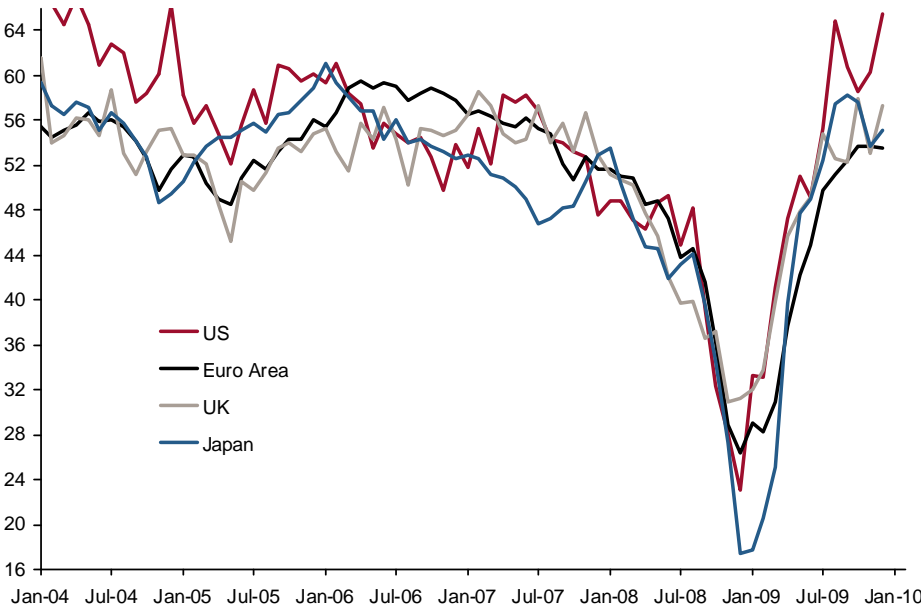
Momentum and Risk Appetite

Global Leading Indicators

EM PMI New Orders



G3+ PMI/ISM New Orders



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

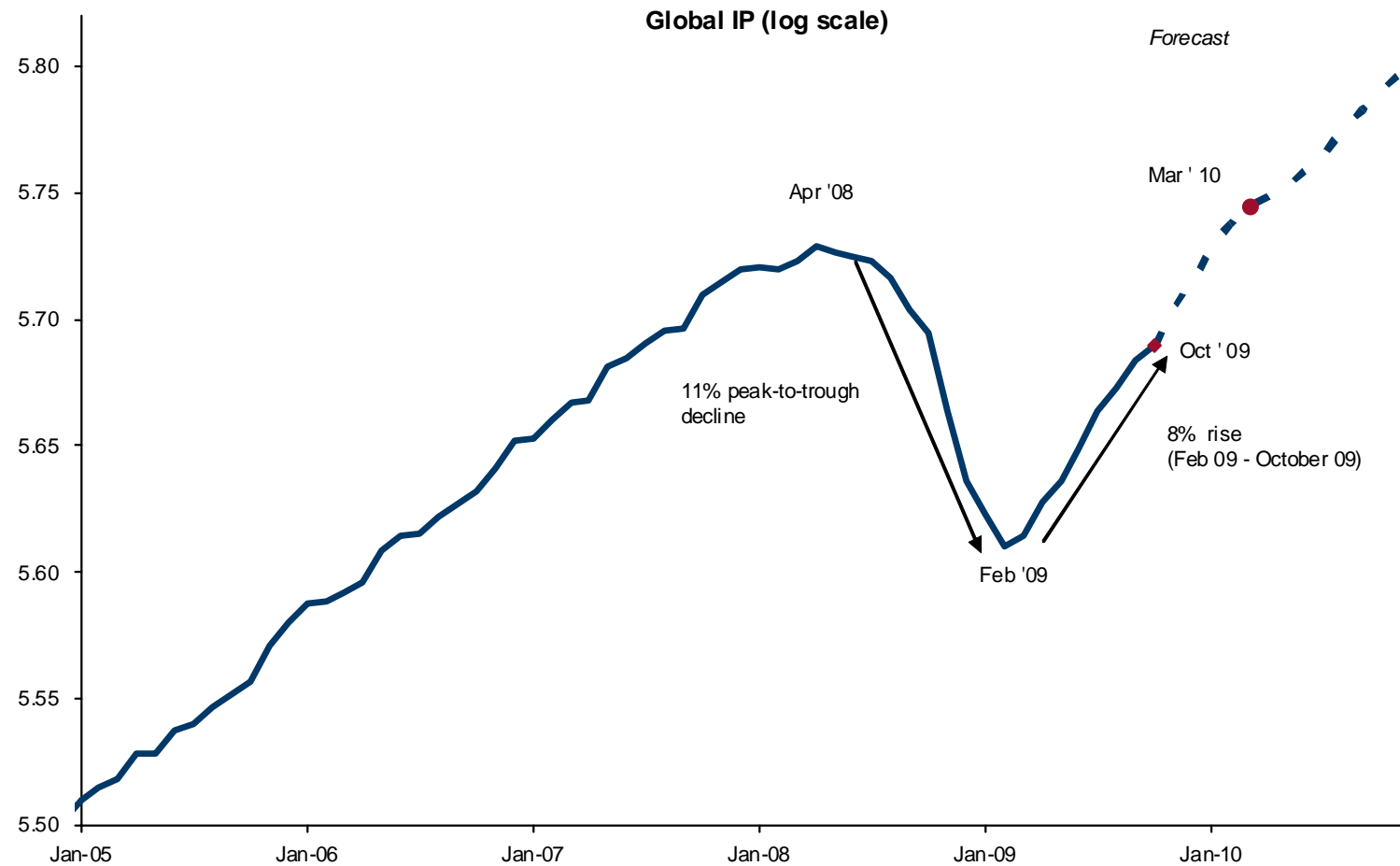


US Industrial Production since 1884



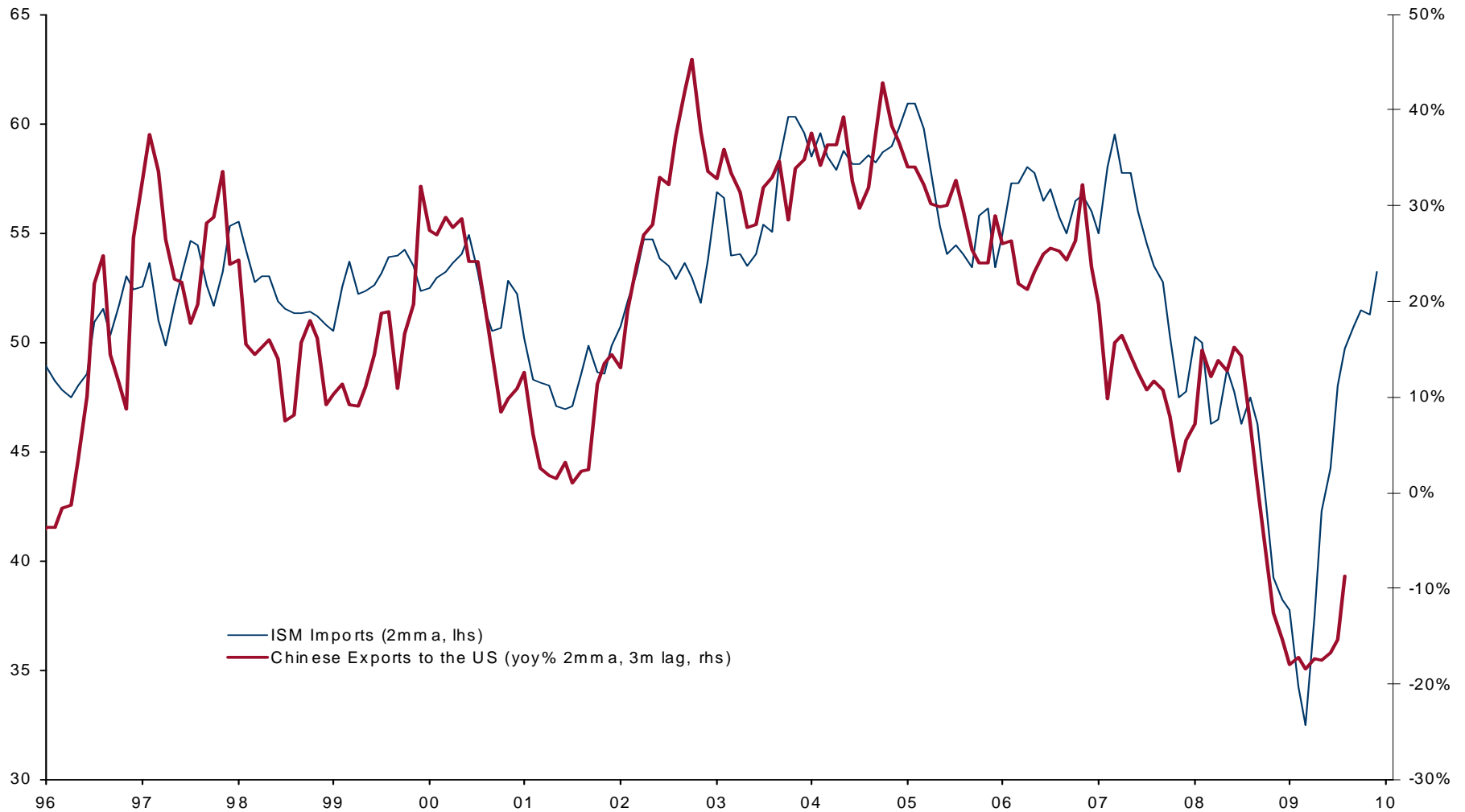
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Global IP (log level)



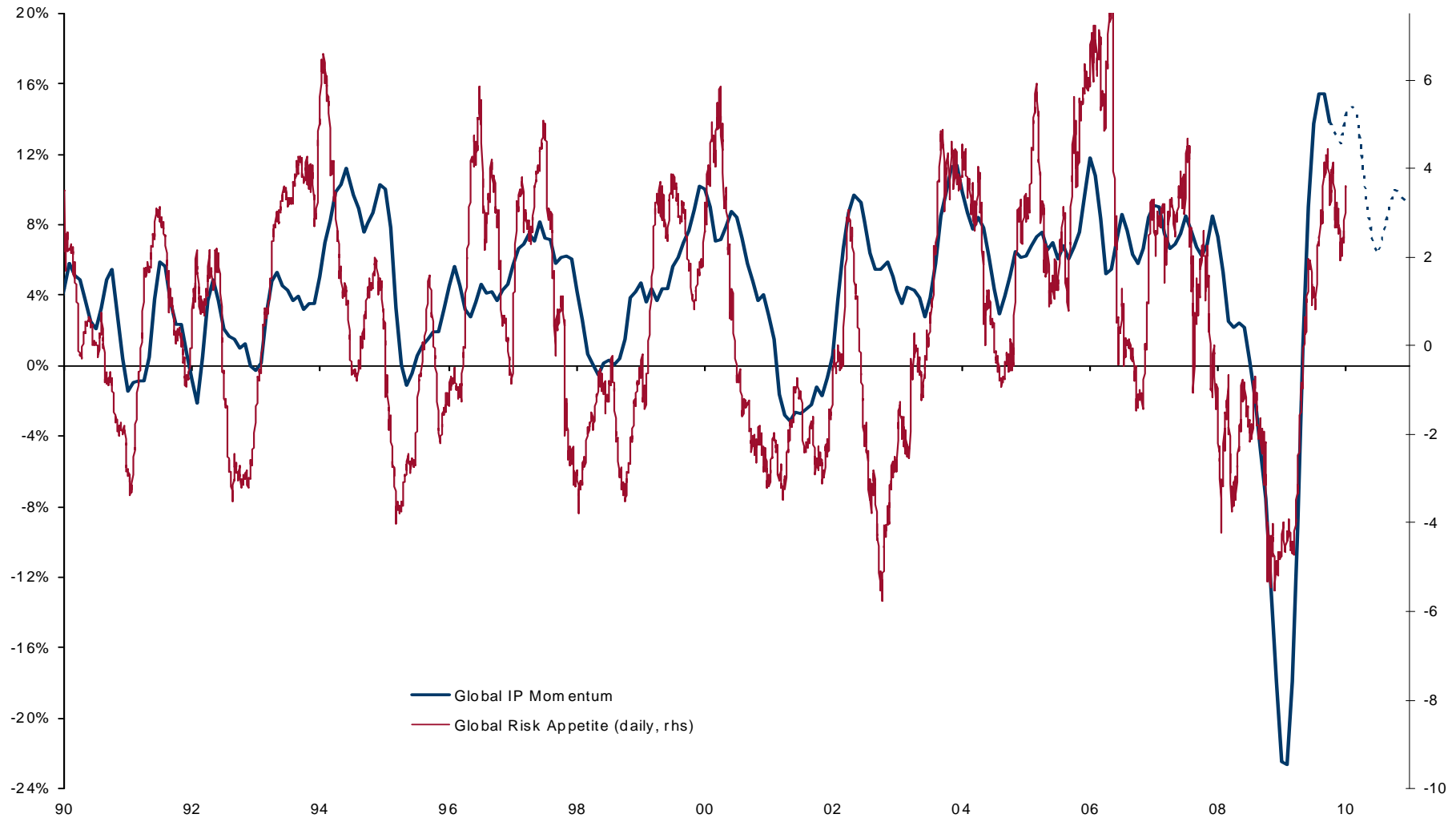
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Chinese Exports and ISM Import Orders



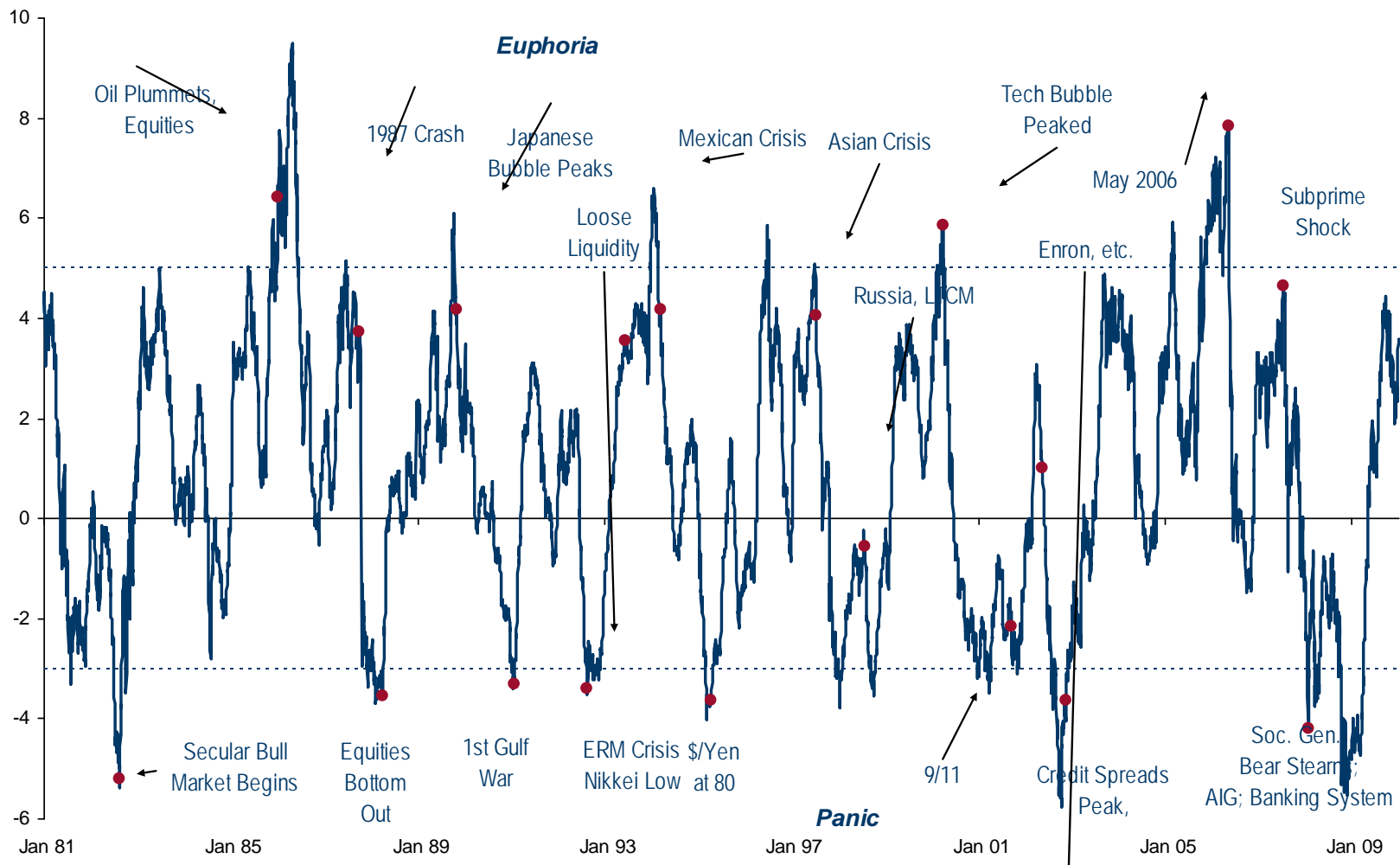
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Global IP Momentum and Risk Appetite



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

CS Global Risk Appetite



Last data point: 31.12.2009

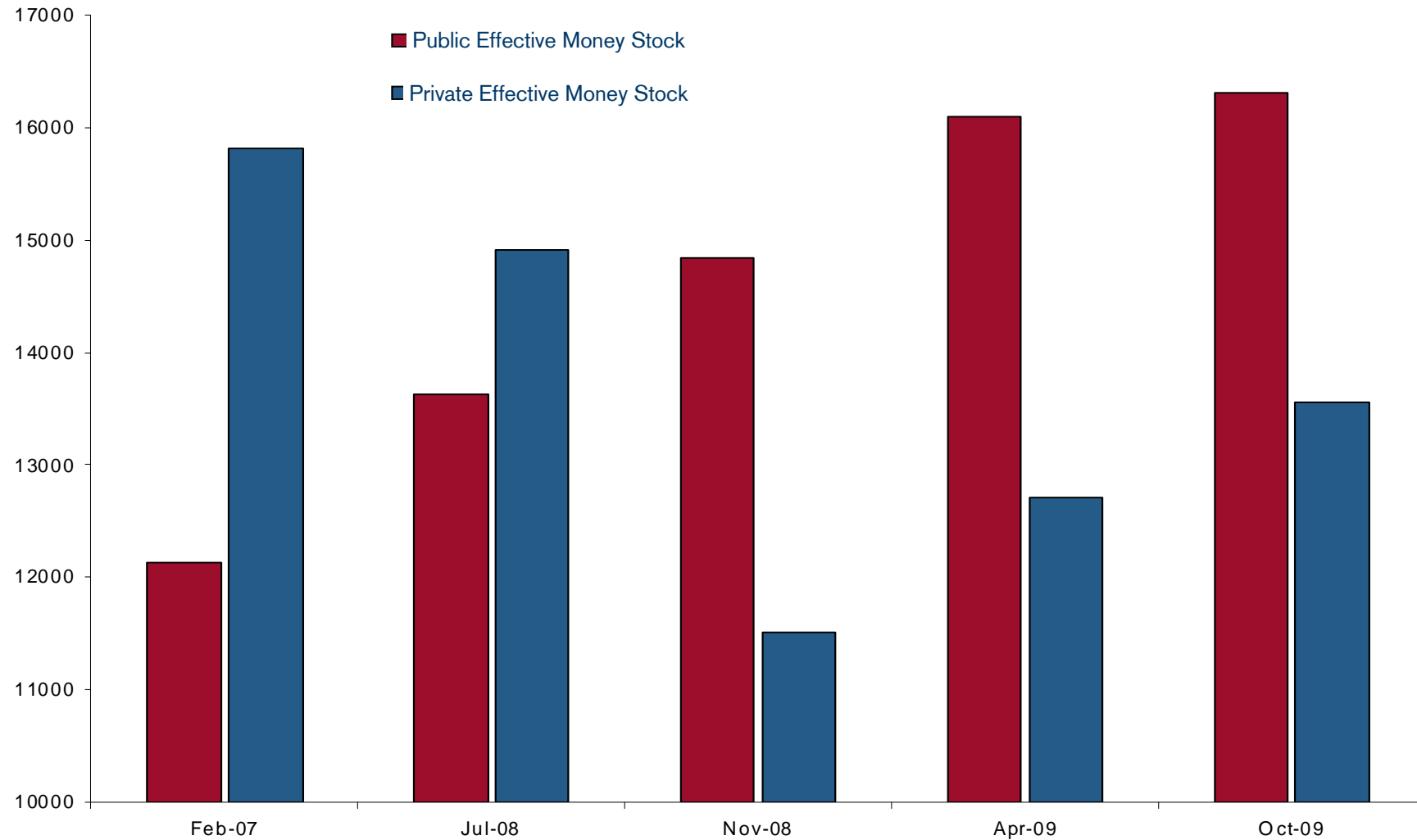
Source: CS Global Strategy / IDC





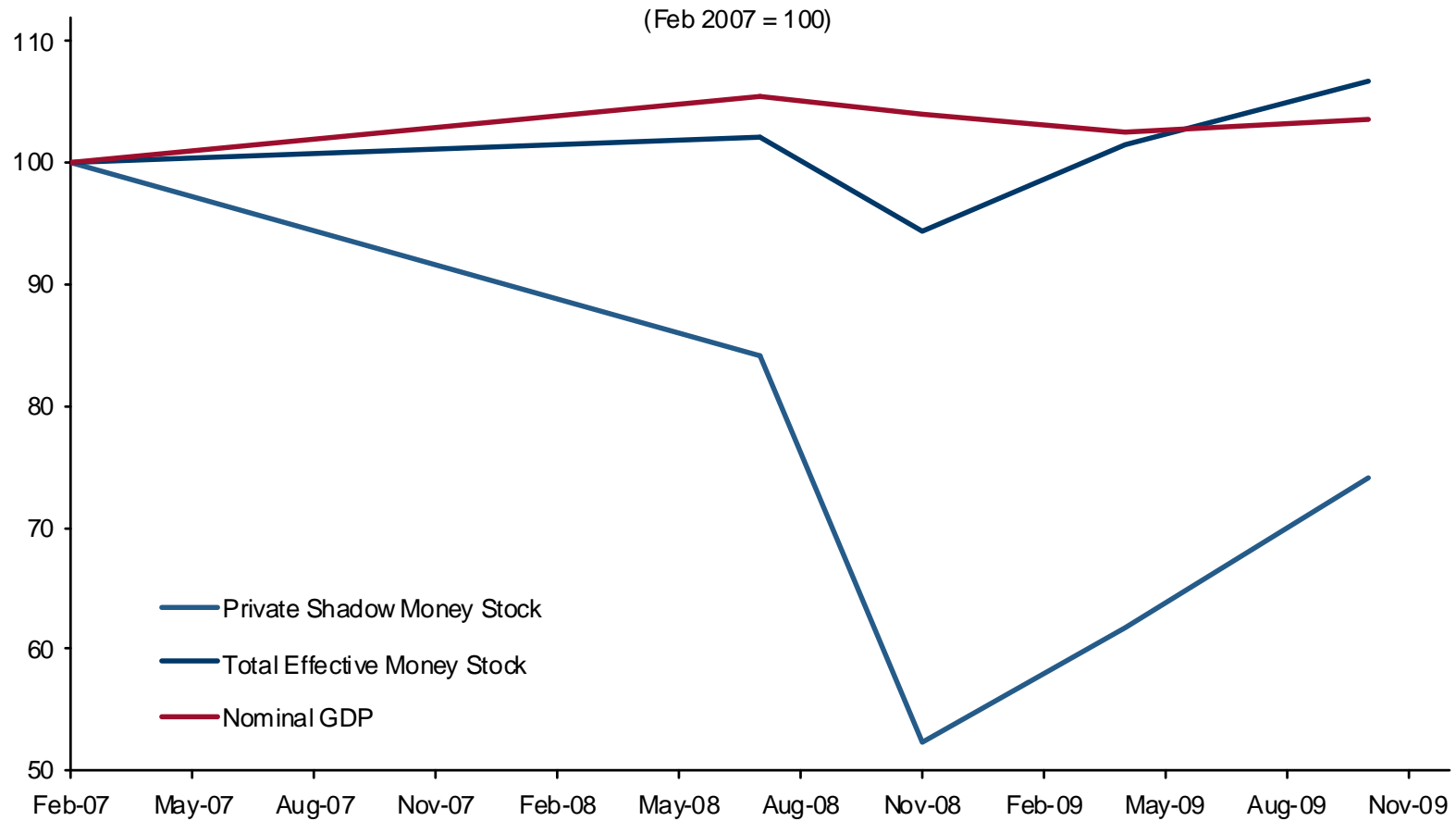
Shadow Money,
Inflation and Oil

US Effective Money Stock (\$bn)



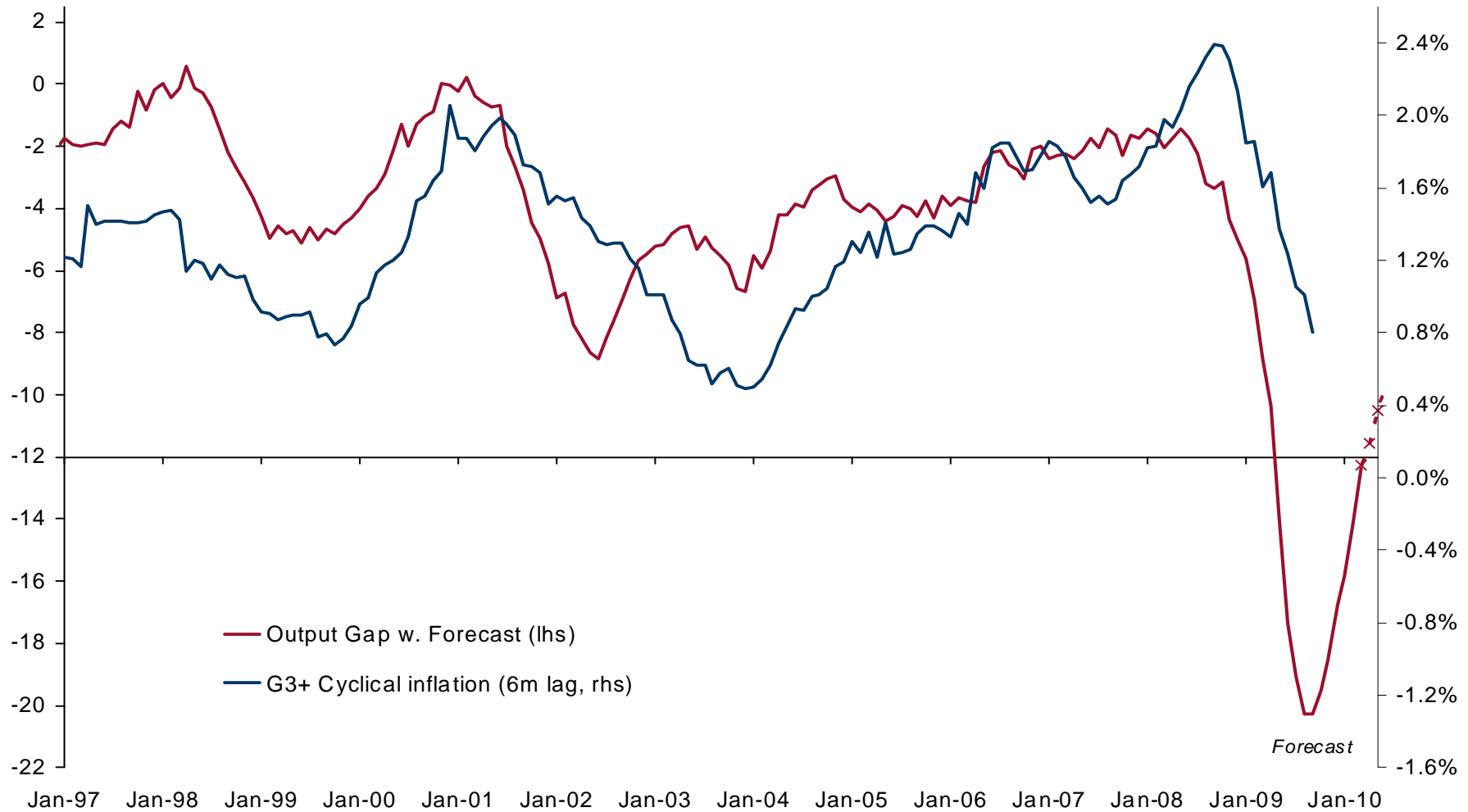
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

US Effective and Shadow Money Stock



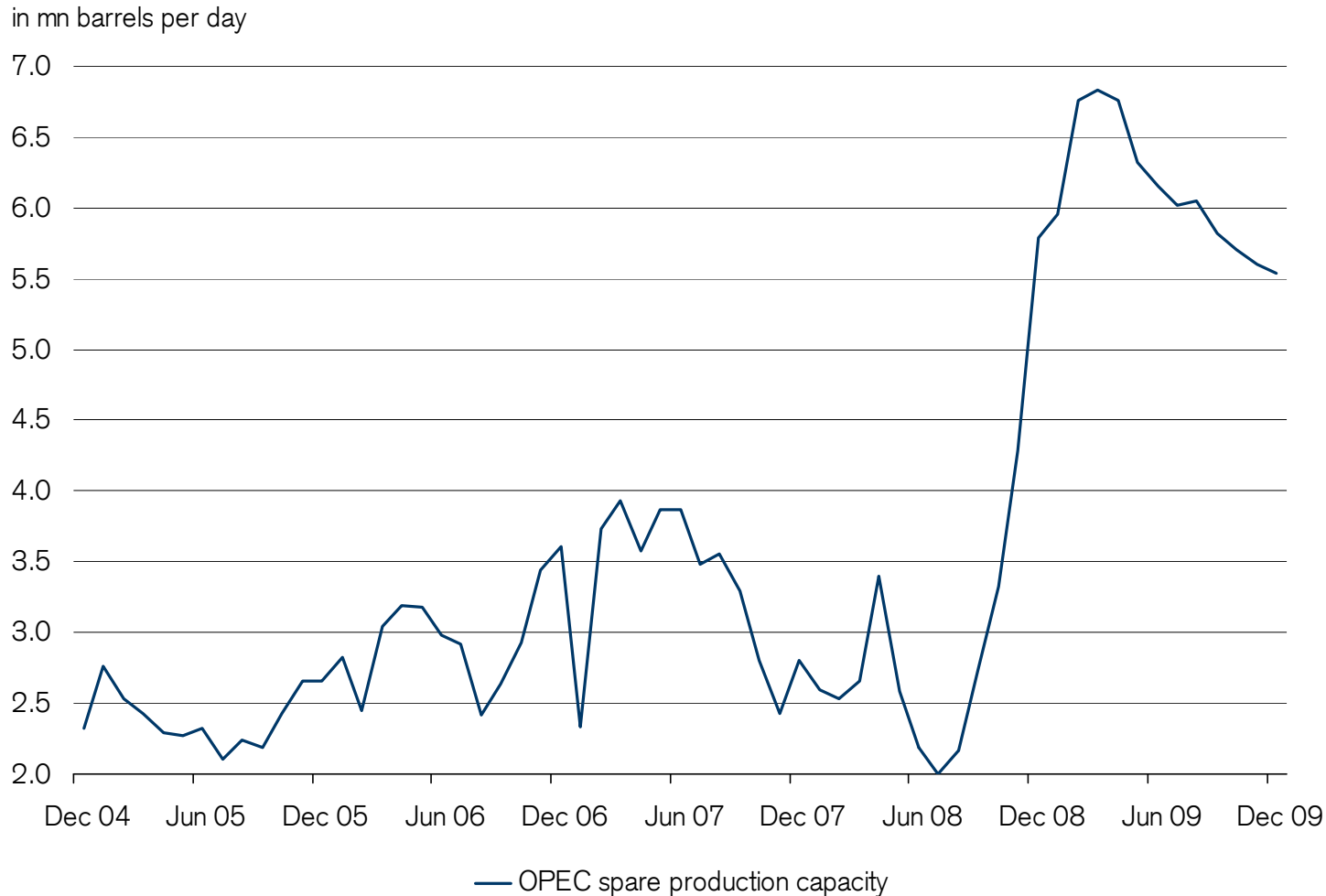
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

G3+ Cyclical Inflation and Global Output Gap



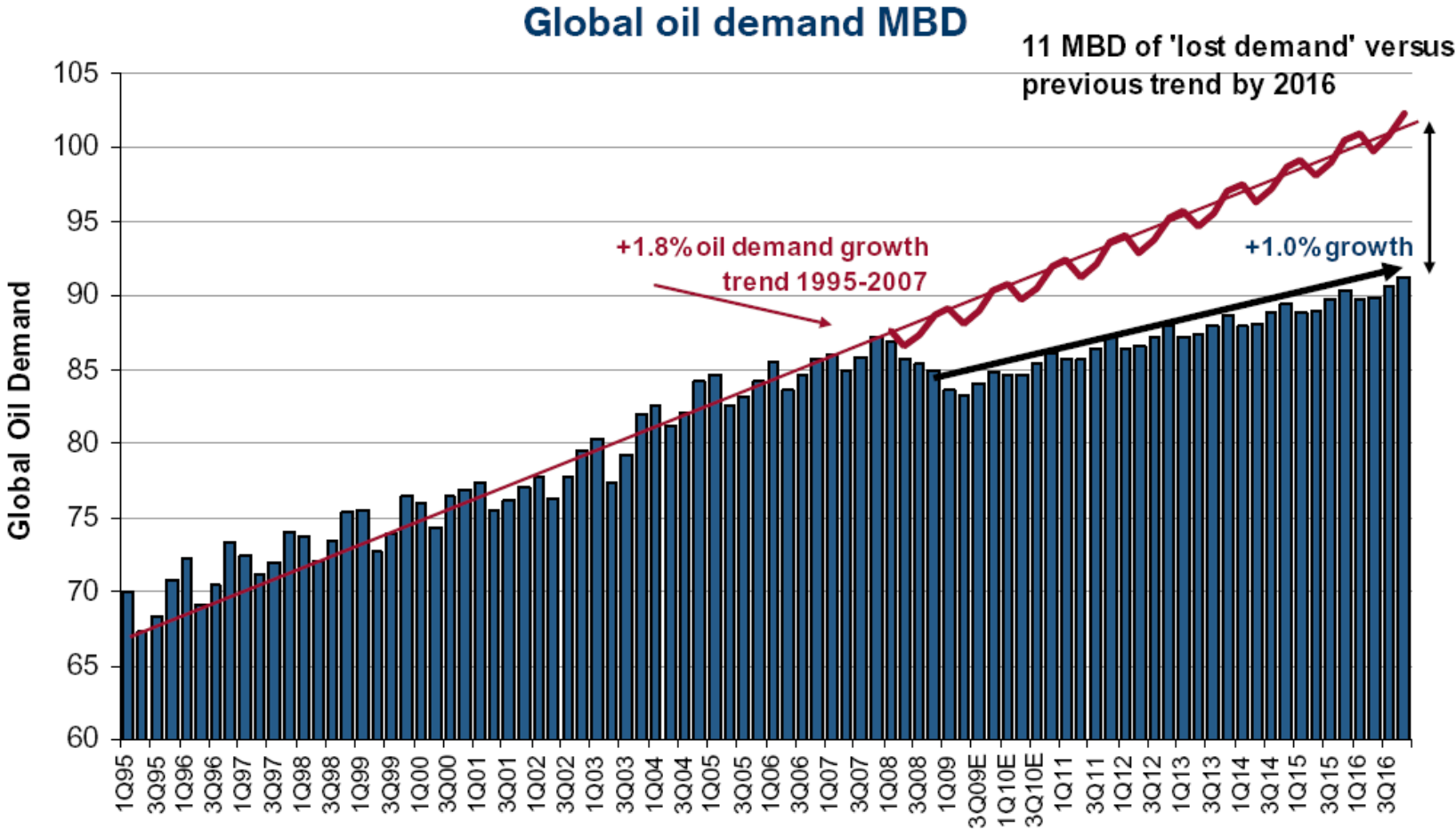
Source: CS Global Strategy

OPEC spare production capacity

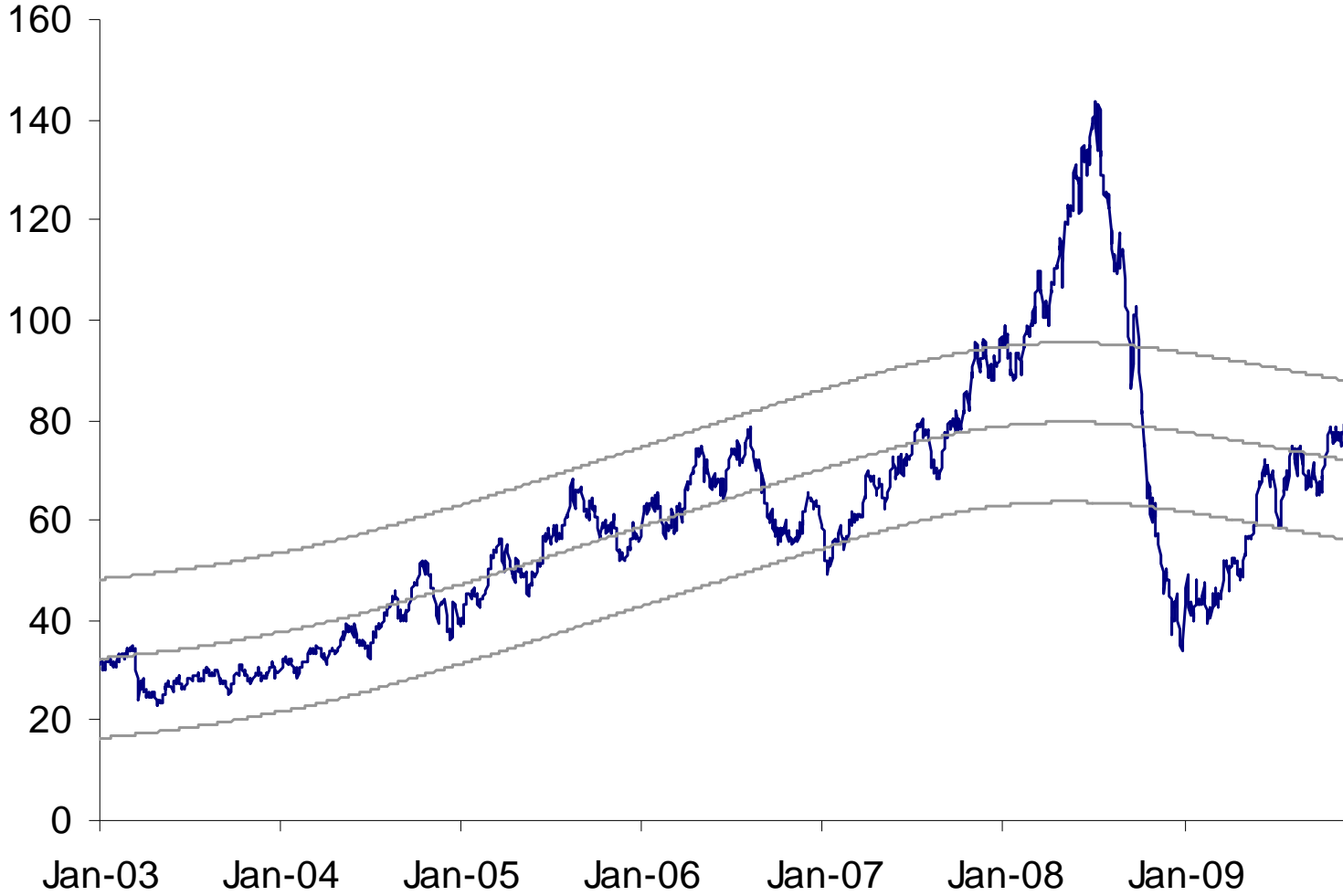


Source: Bloomberg, Credit Suisse / IDC

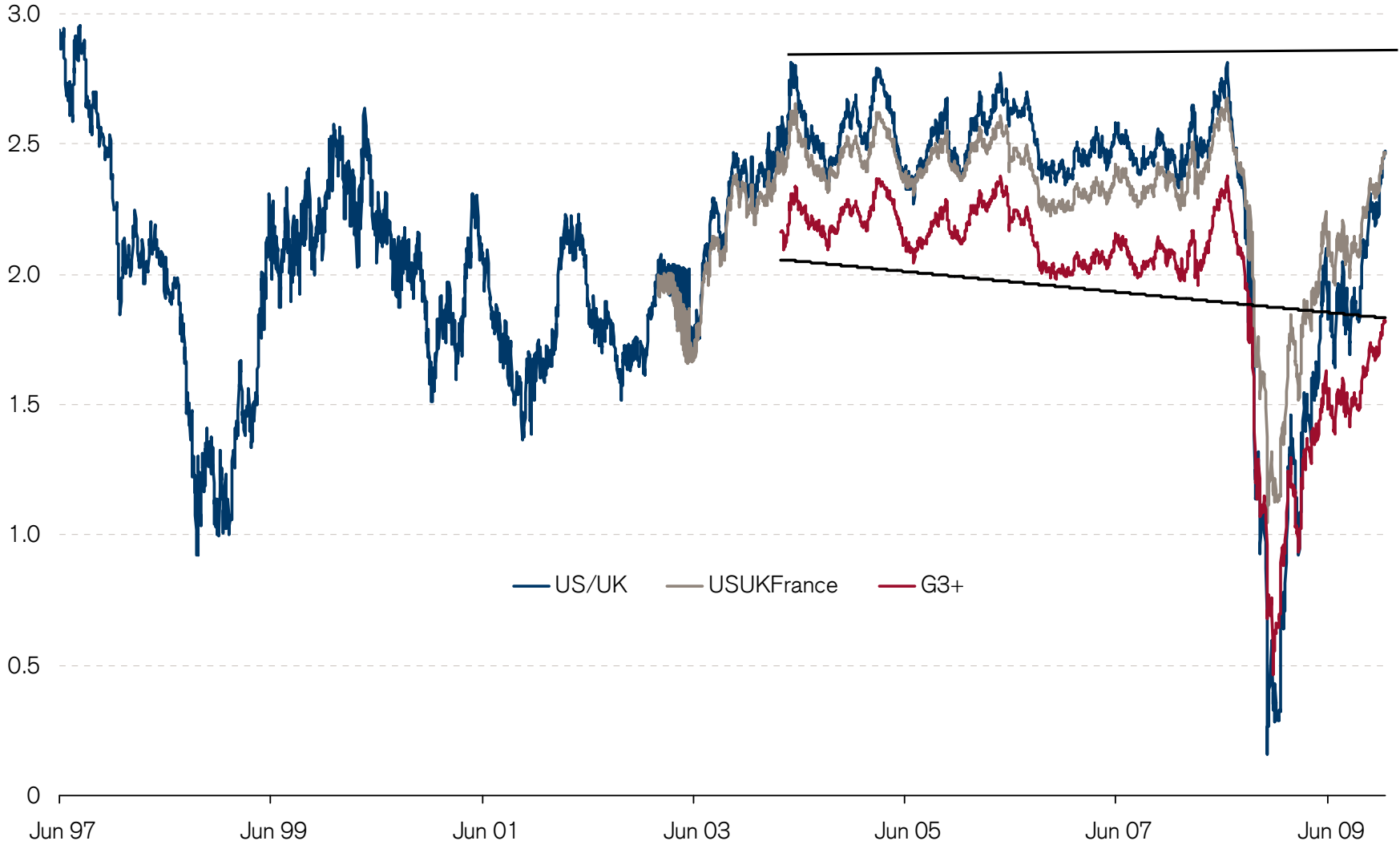
Global Oil Demand



Brent Crude Spot Price with Kernel Trend



10-year Breakeven Inflation Rates



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream



War and Peace

UK Long Run Nominal Bond Yield



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

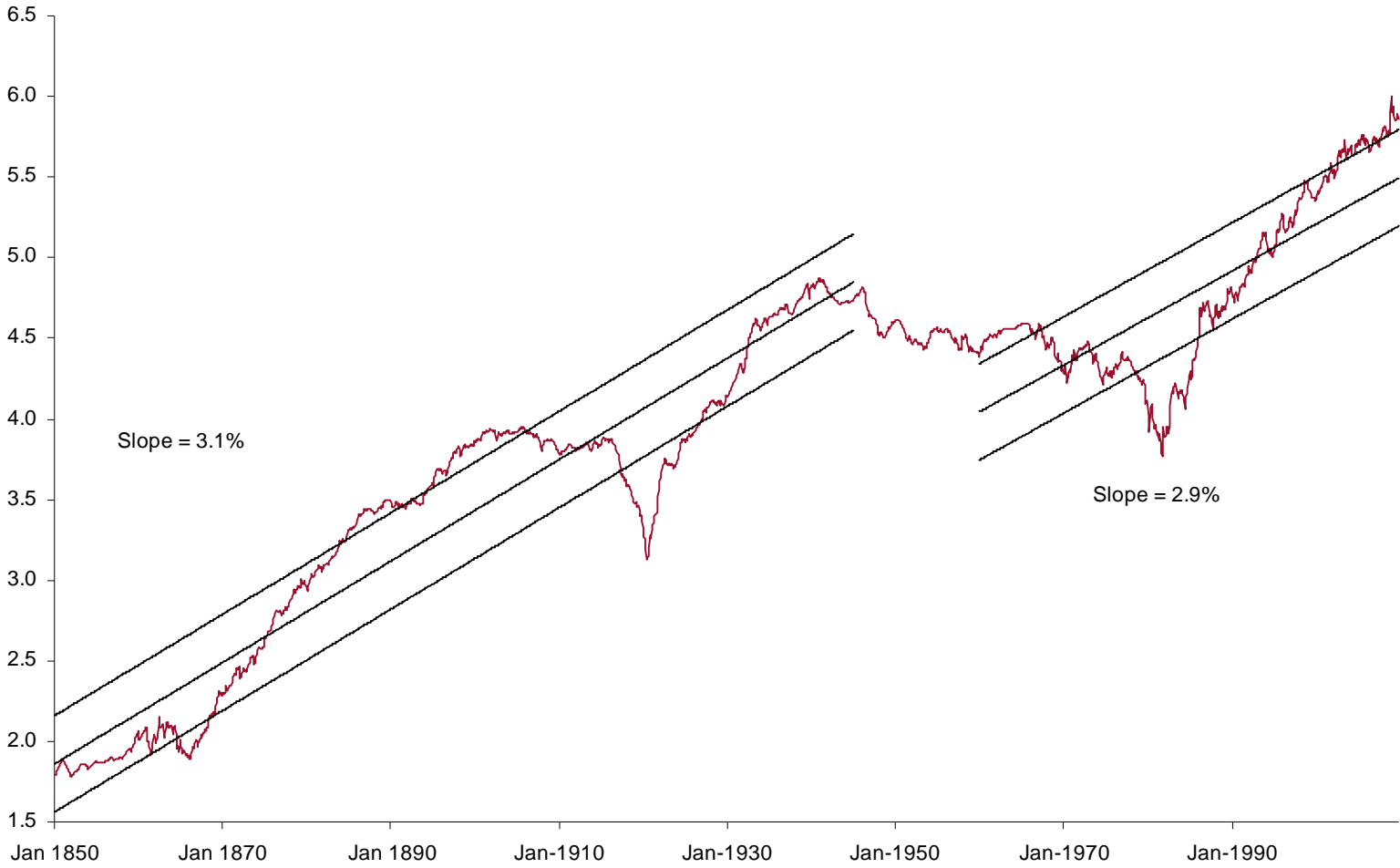
US Long Bond Yield



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

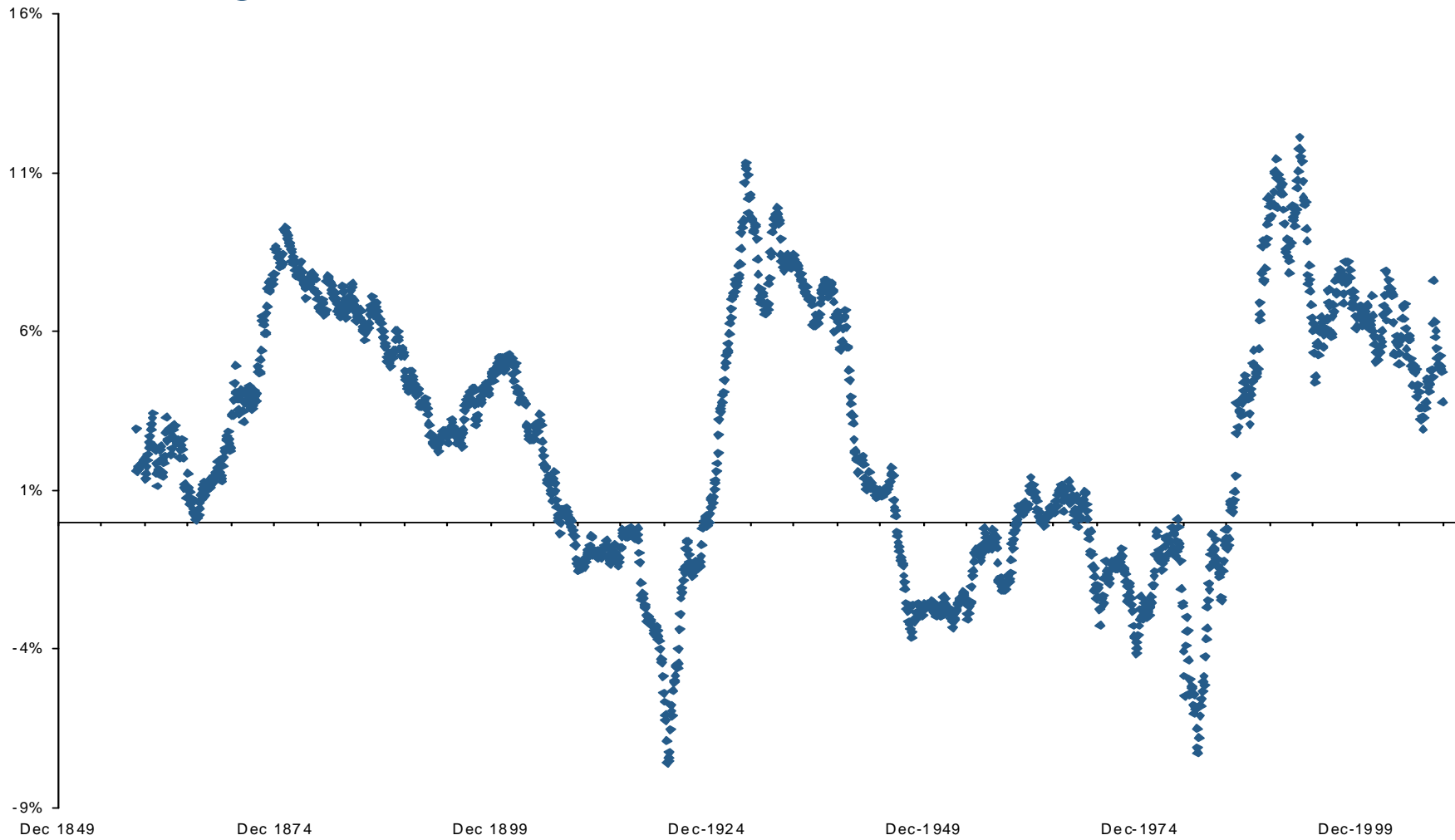


US Long Run Real Bond Returns



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

US Long-Run Real Equities

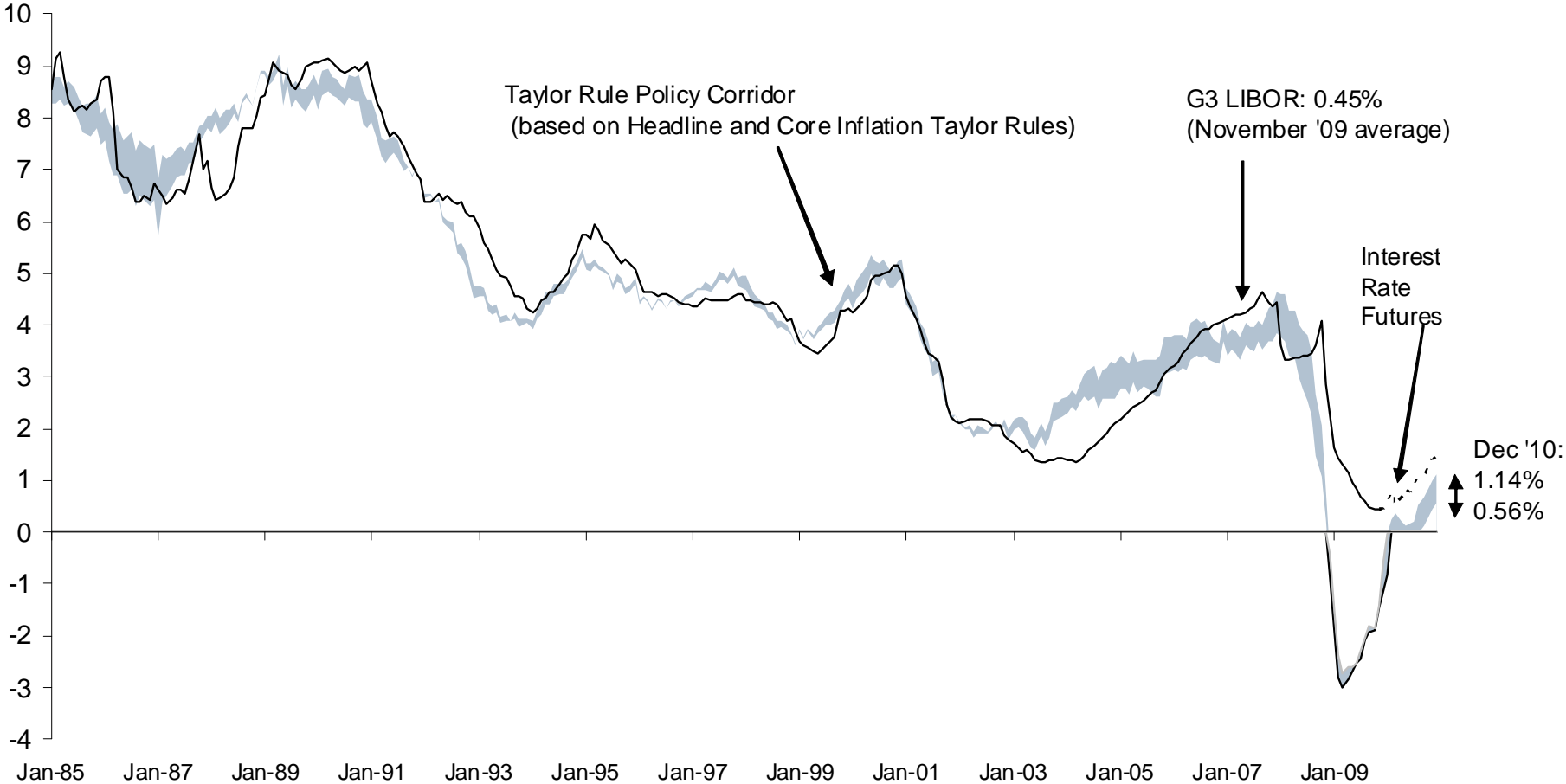


Source: Datastream, CS Global Strategy / IDC



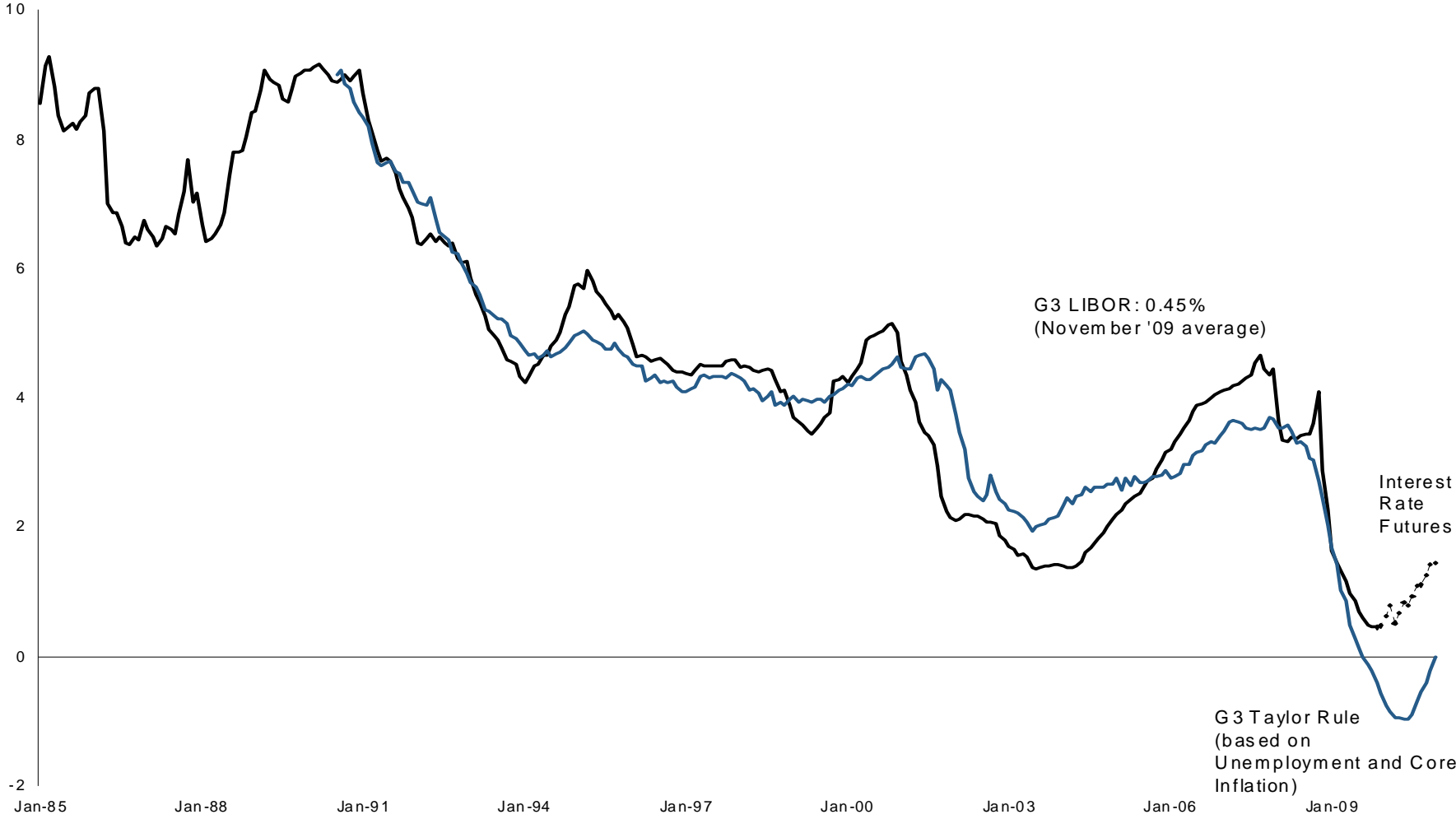
Rates, Curves and Spreads

G3+ Taylor Rule



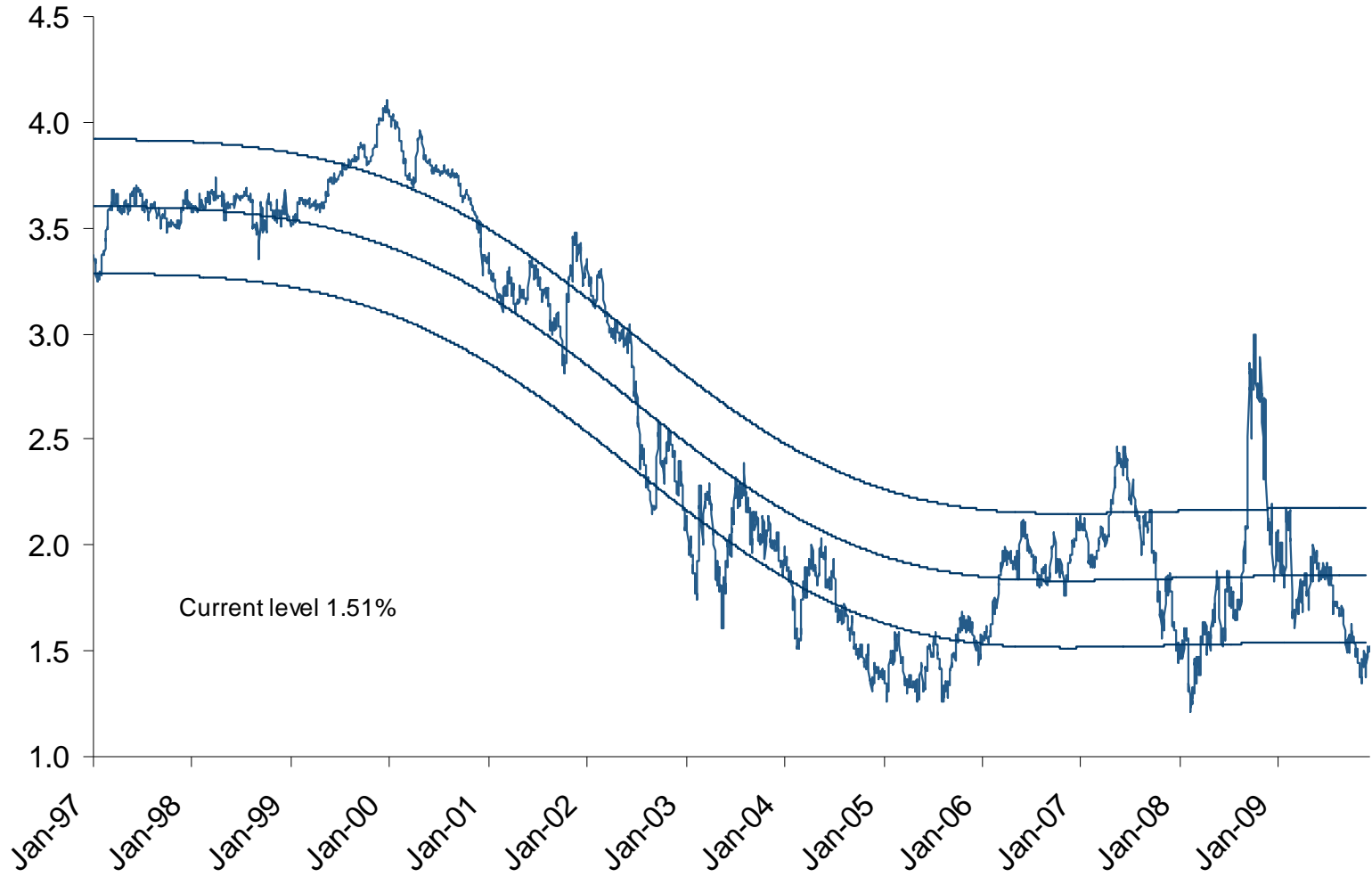
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

G3+ Taylor Rule Based on G3 Unemployment



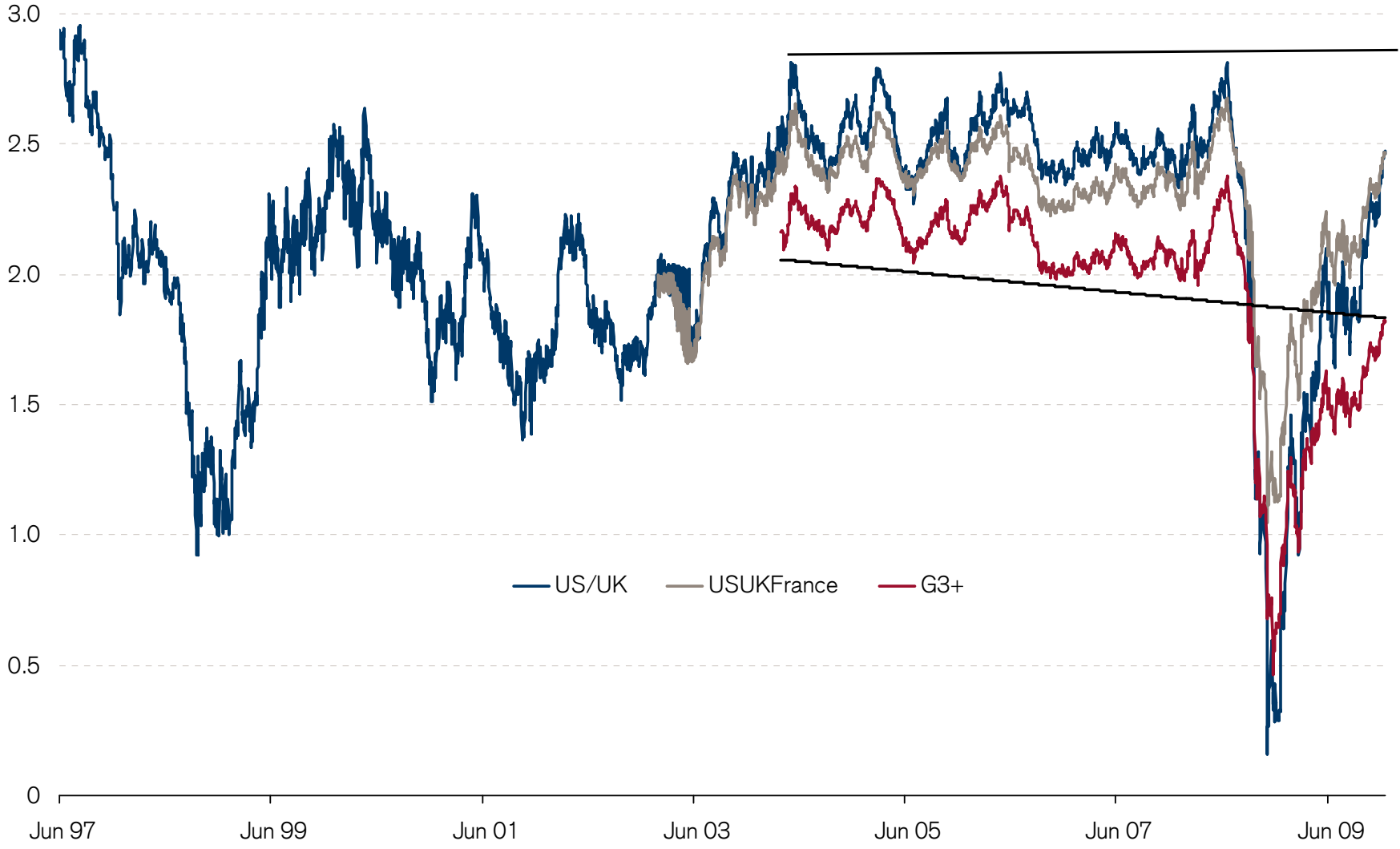
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

G3+ 10yr Real Yield with Kernel Trend



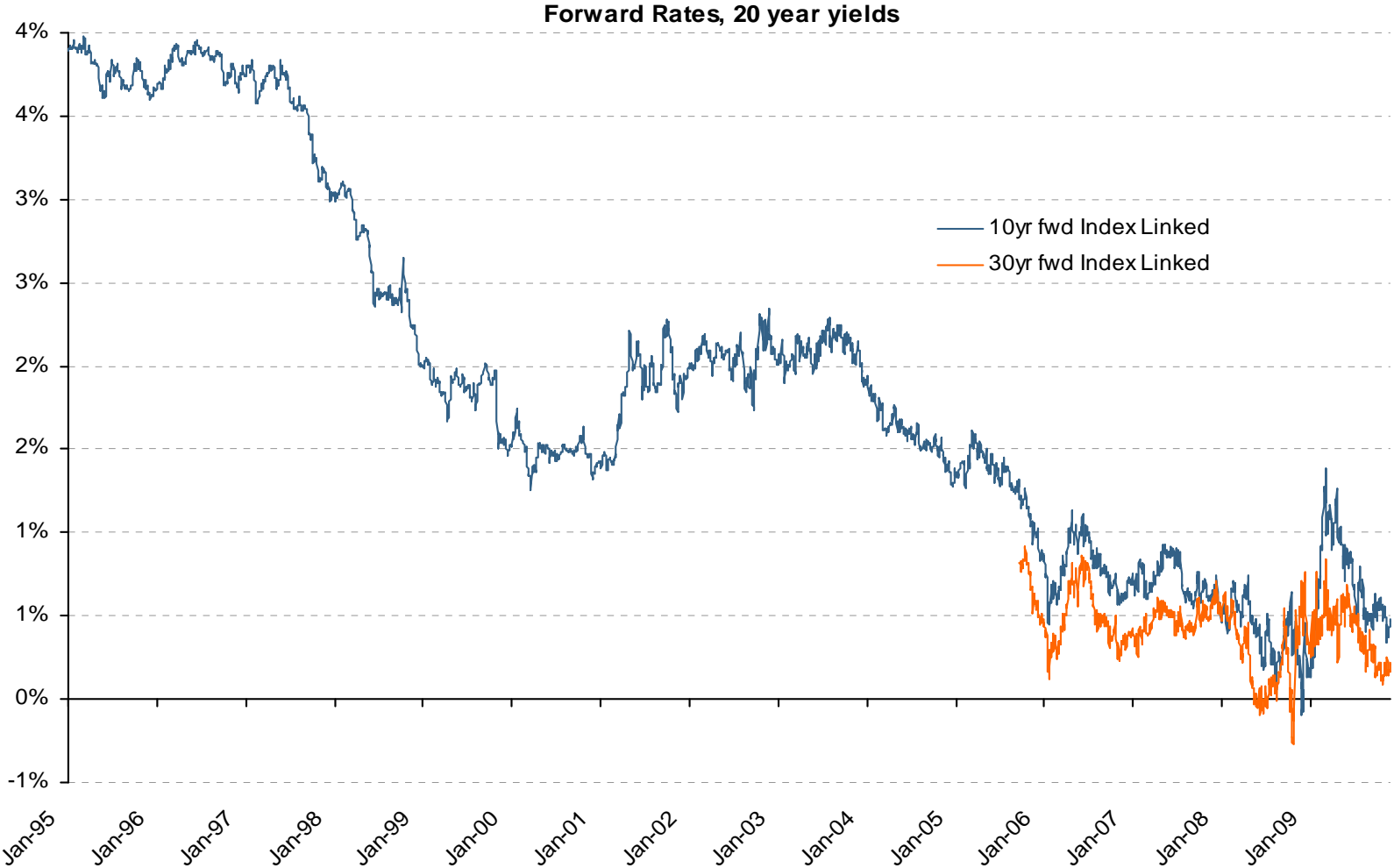
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

10-year Breakeven Inflation Rates



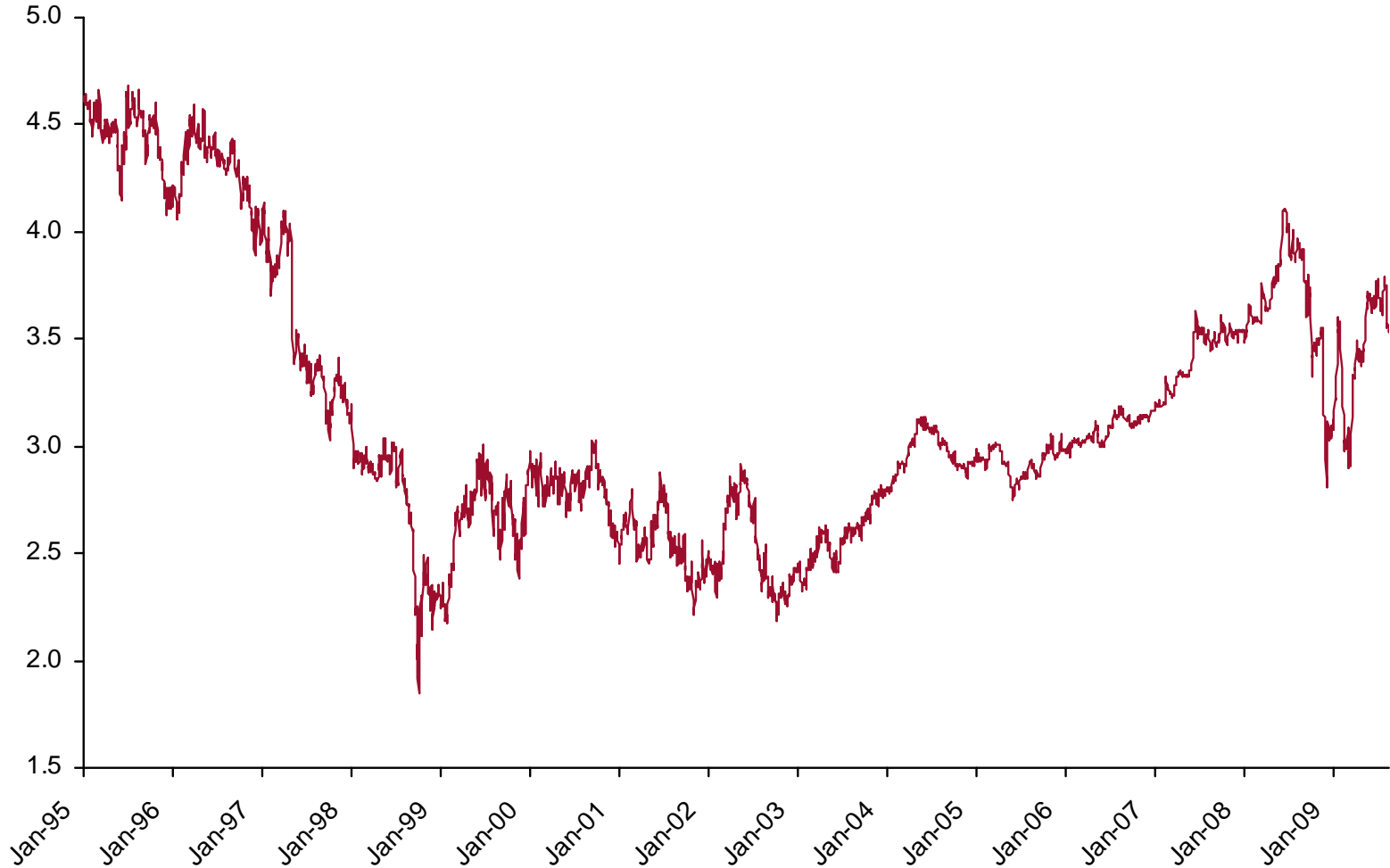
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

UK Real Forward Rates



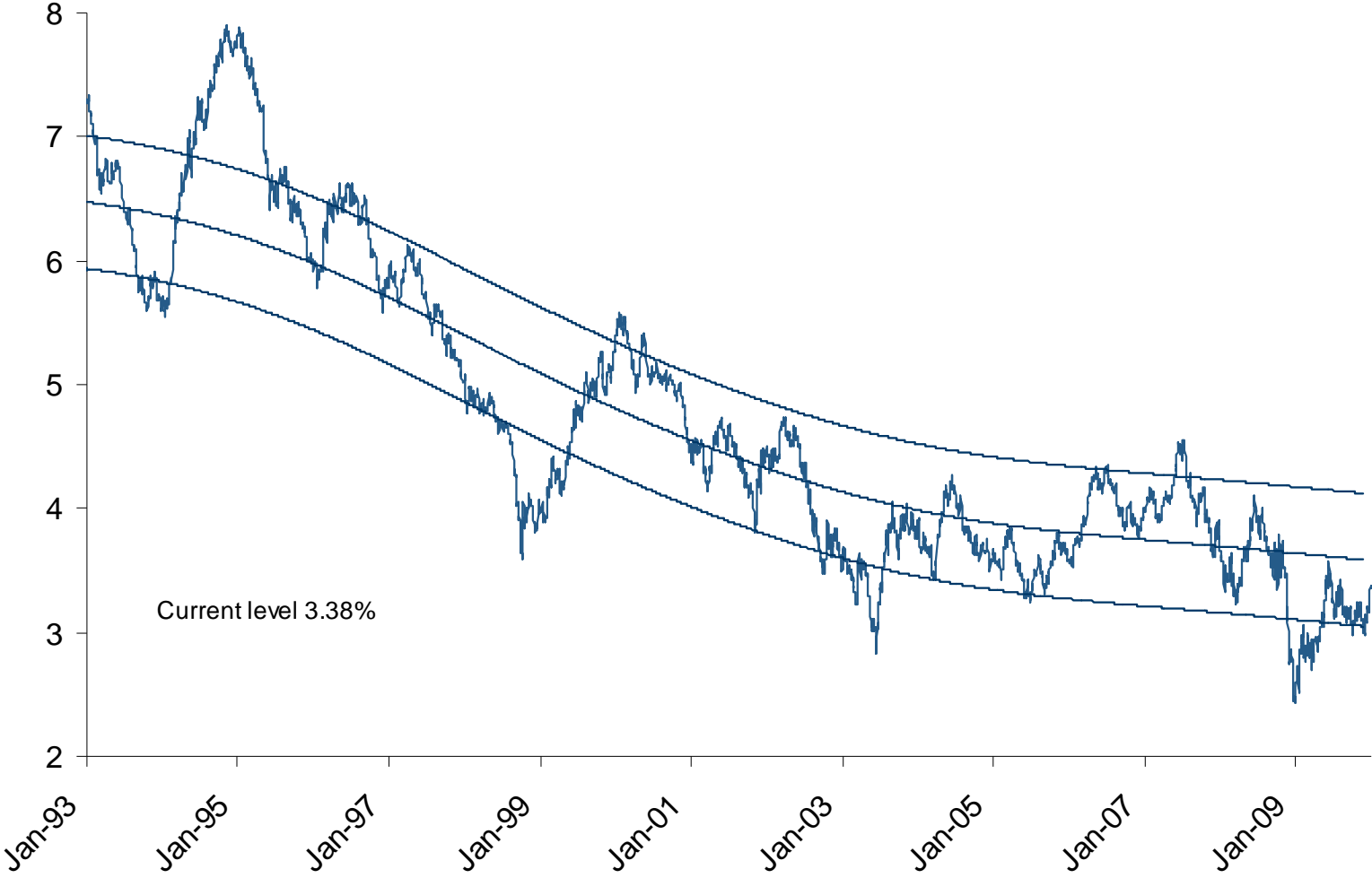
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

UK 30yr Breakevens



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

G3+ 10yr Nominal Yield with Kernel Trend



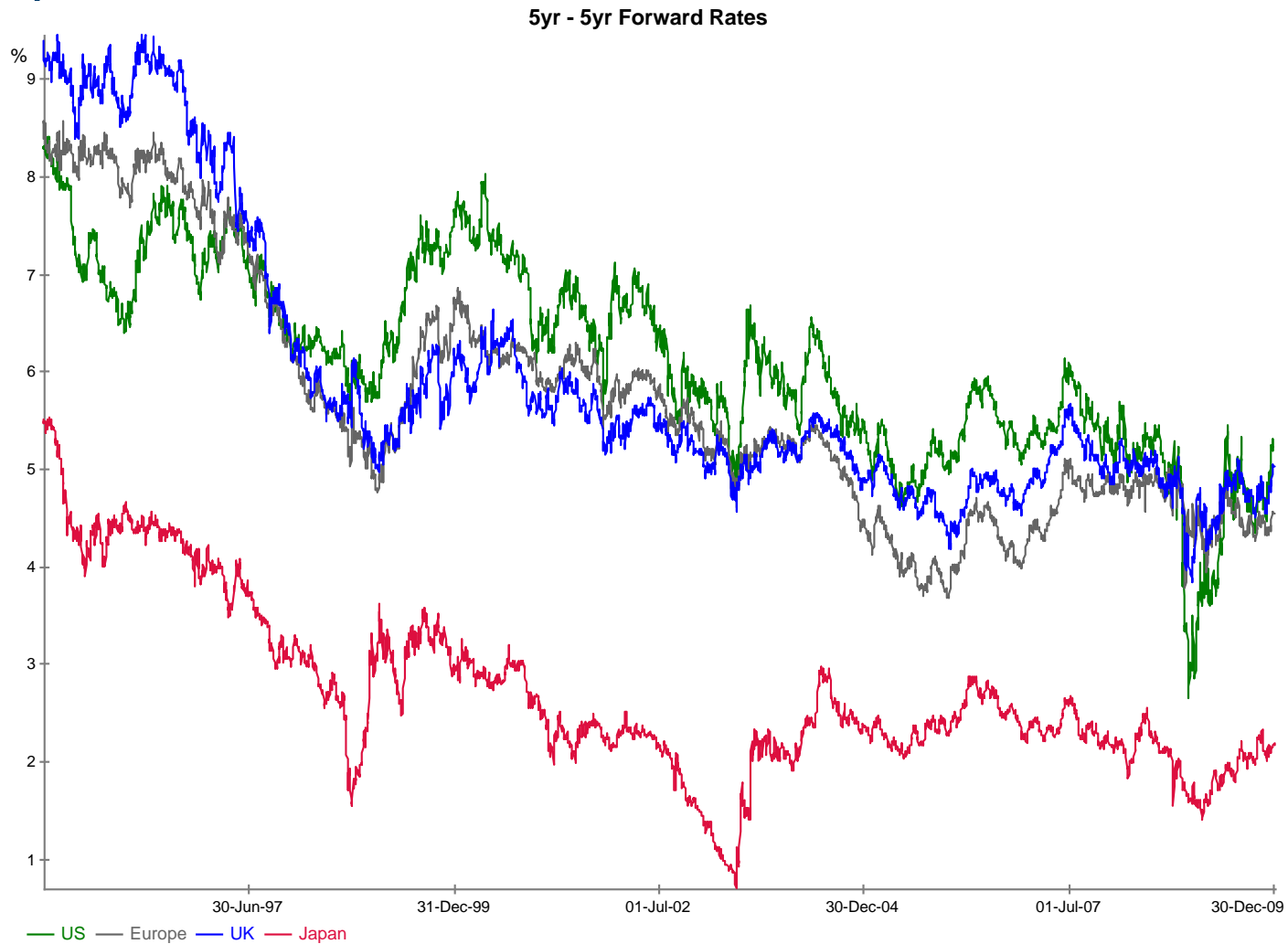
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

G3+ Average 5yr-5yr Forward Rates



Source: Datastream, CS Global Strategy / IDC

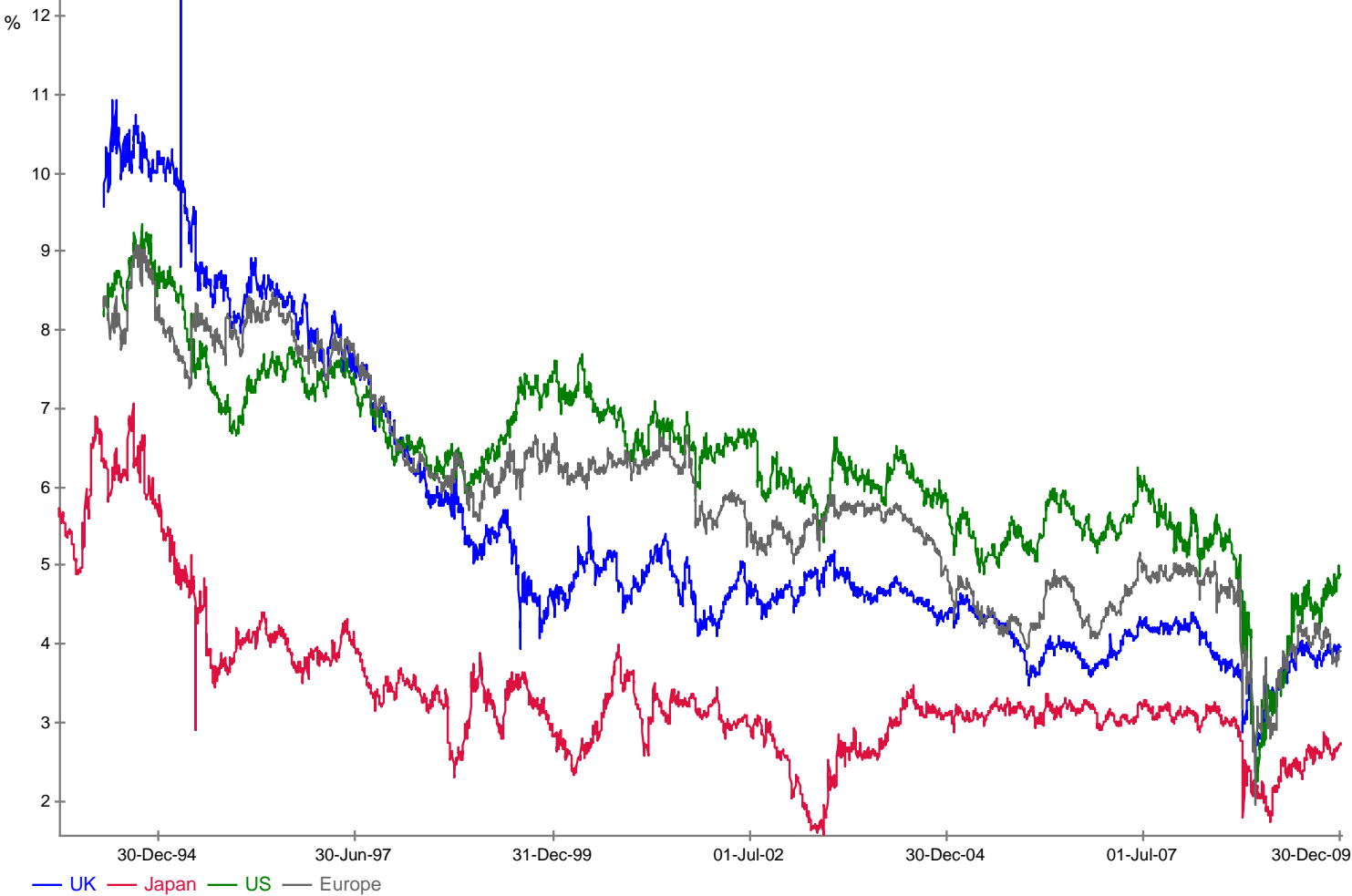
5yr -5yr Forward Rates



Source: DataStream, CS Global Strategy / IDC

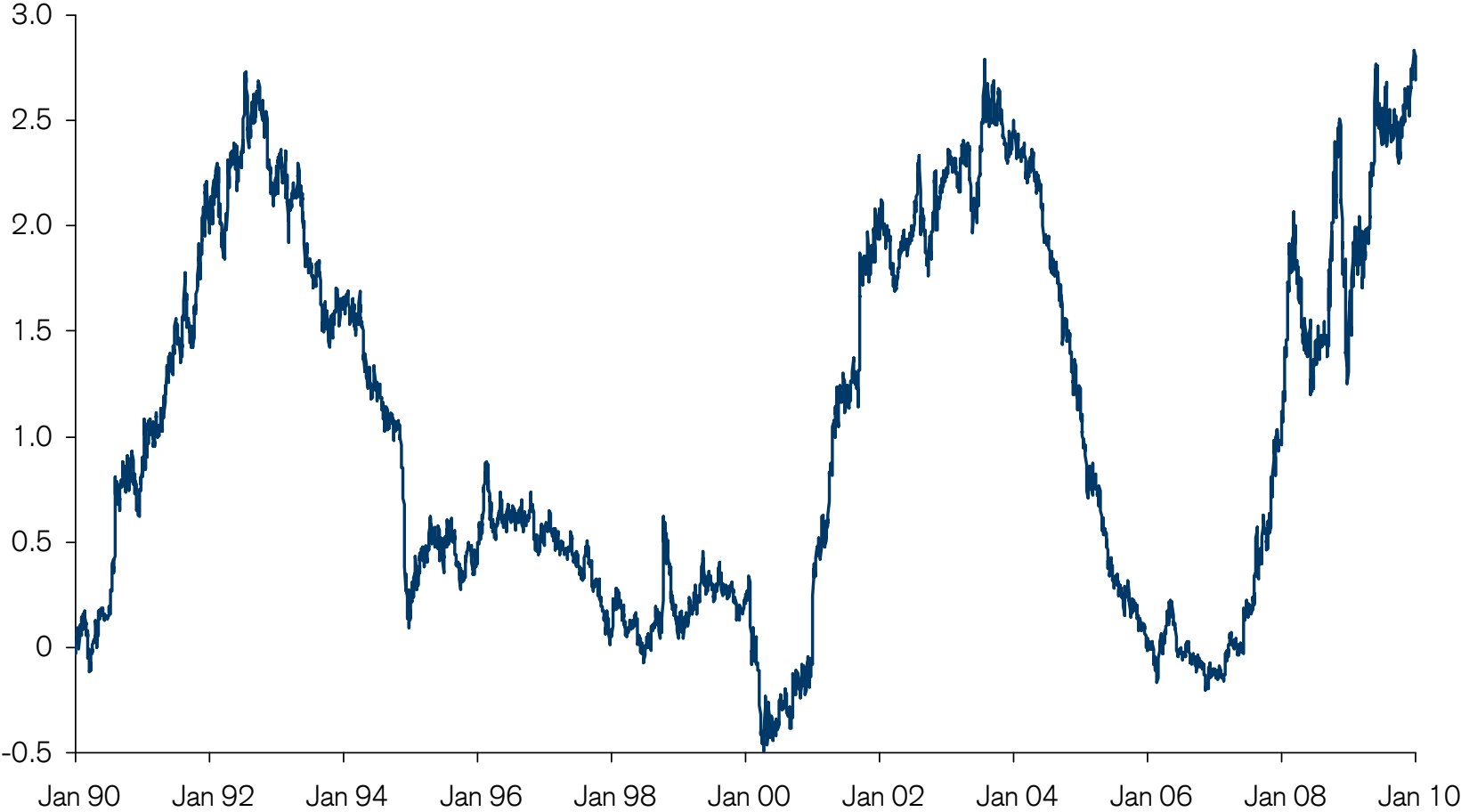
15yr -15yr Forward Rates

15yr -15yr Forward Rates



Source: DataStream, CS Global Strategy / IDC

US 2s10s Spread



— US 2s10s Spread

Last data point: 01.01.2010

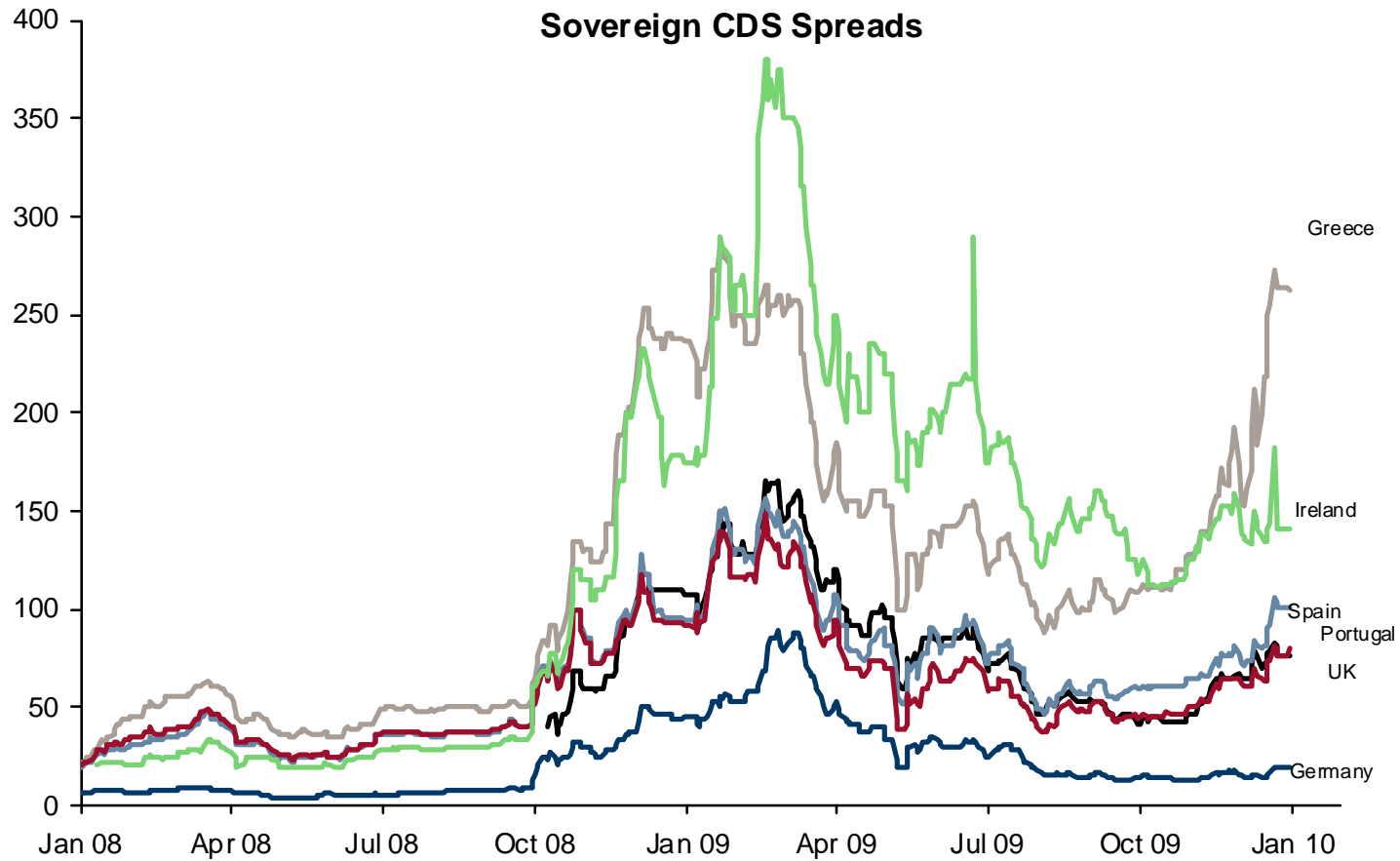
Source: DataStream, CS Global Strategy / IDC

High Yield Credit Spreads



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Euro Area CDS Spreads

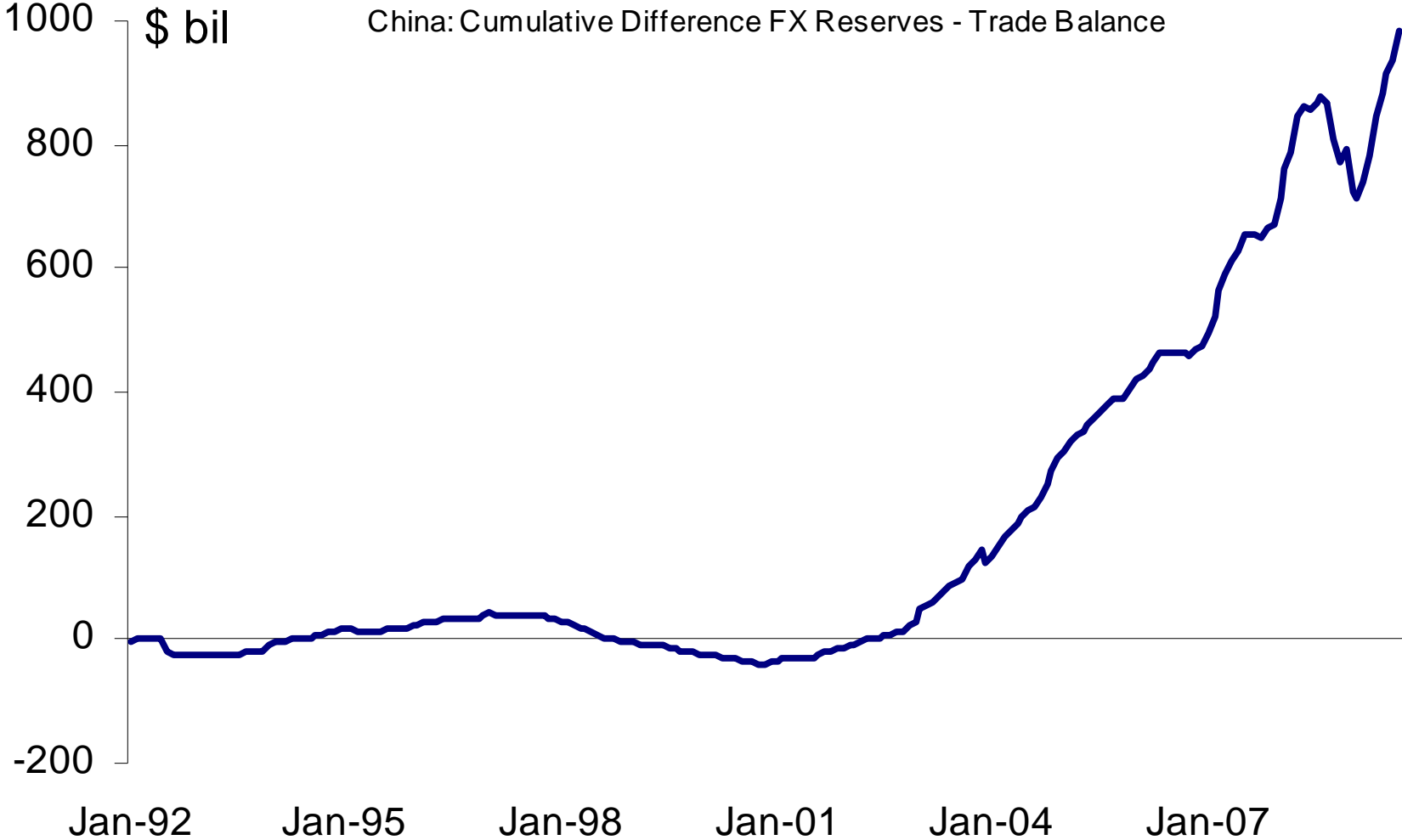


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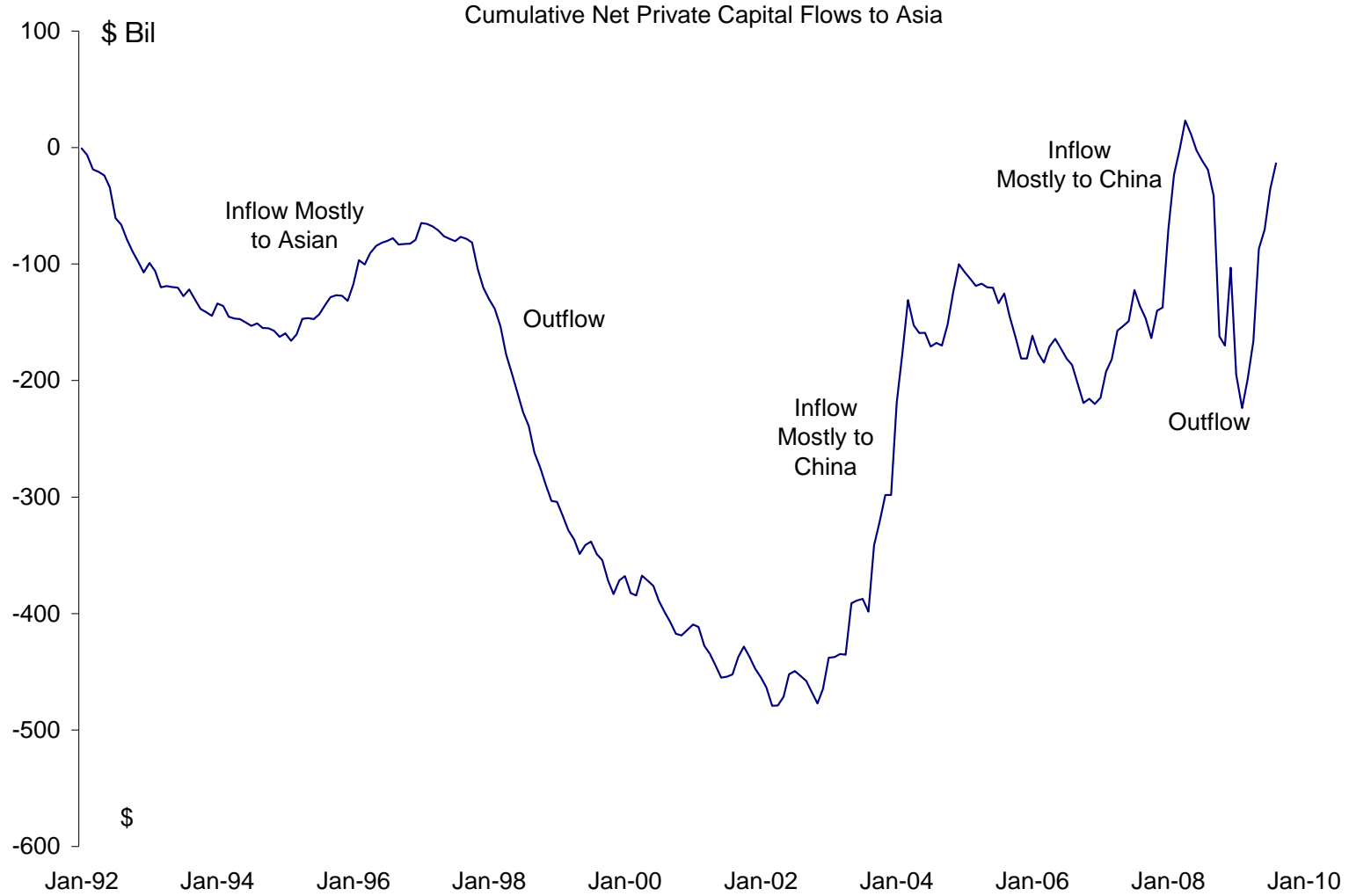
Bubble Talk

Chinese Net Private Capital Flow



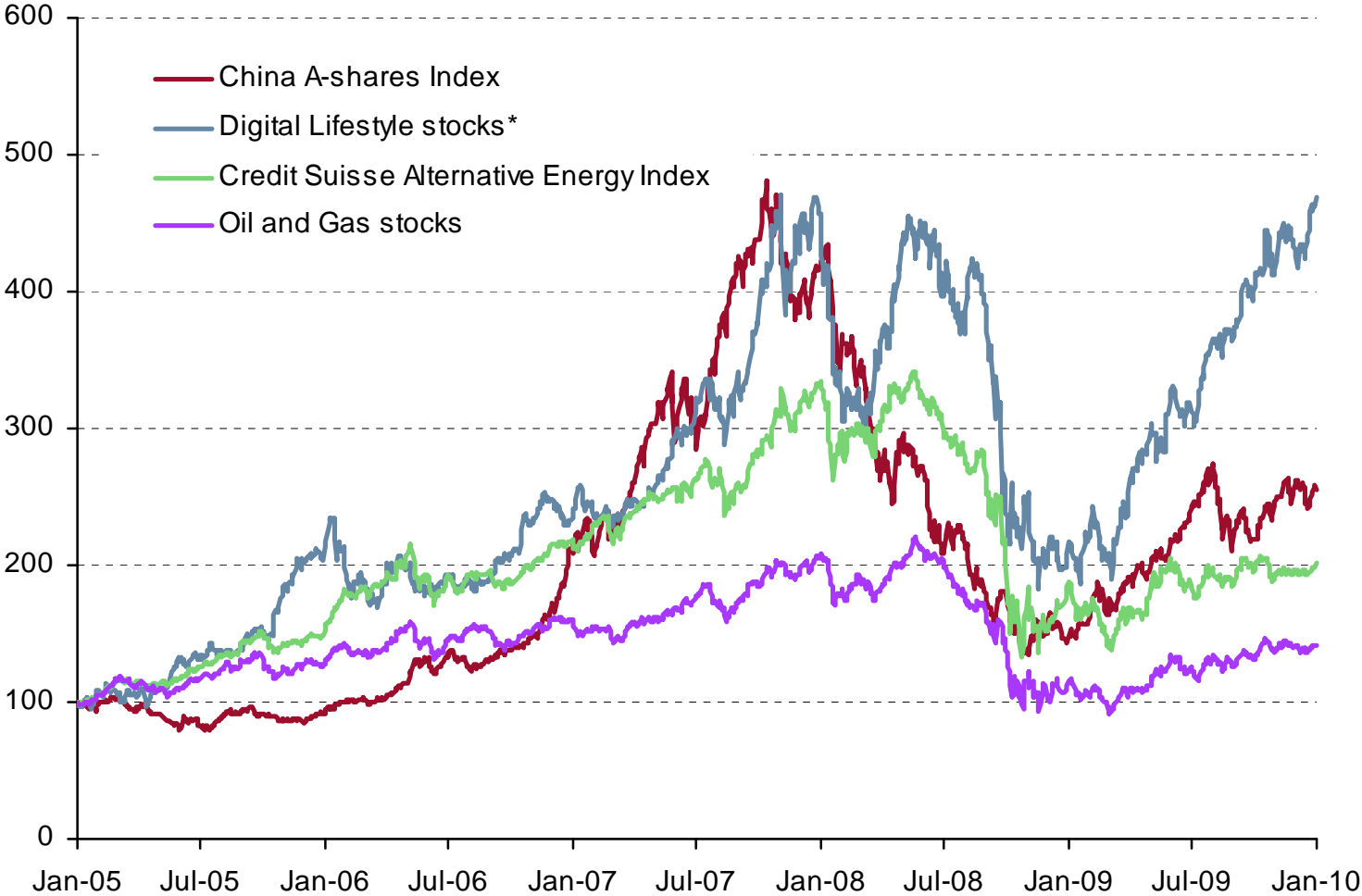
Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

Asian Private Capital Flow



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

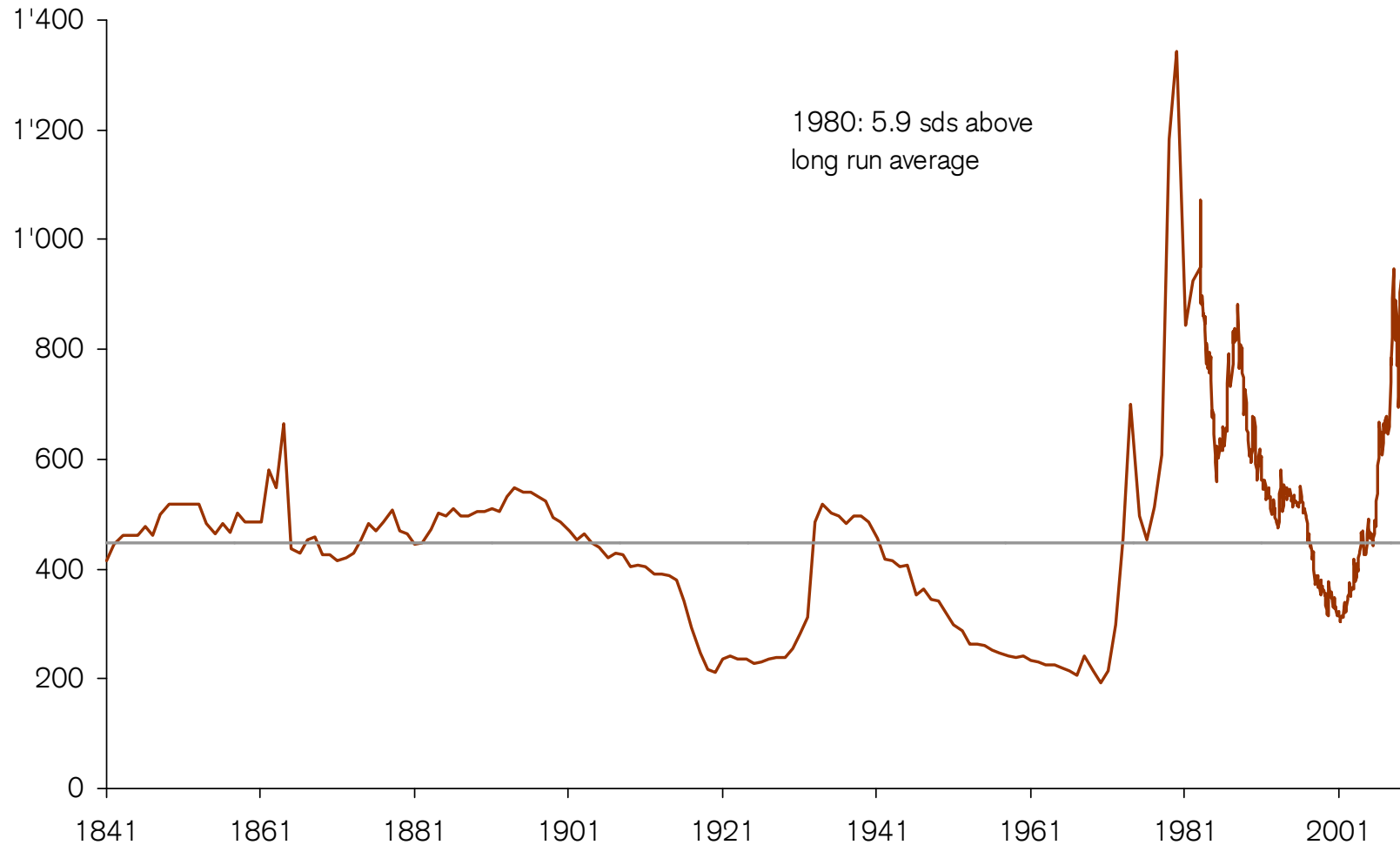
Digital Lifestyle, Chinese A-shares and Energy



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

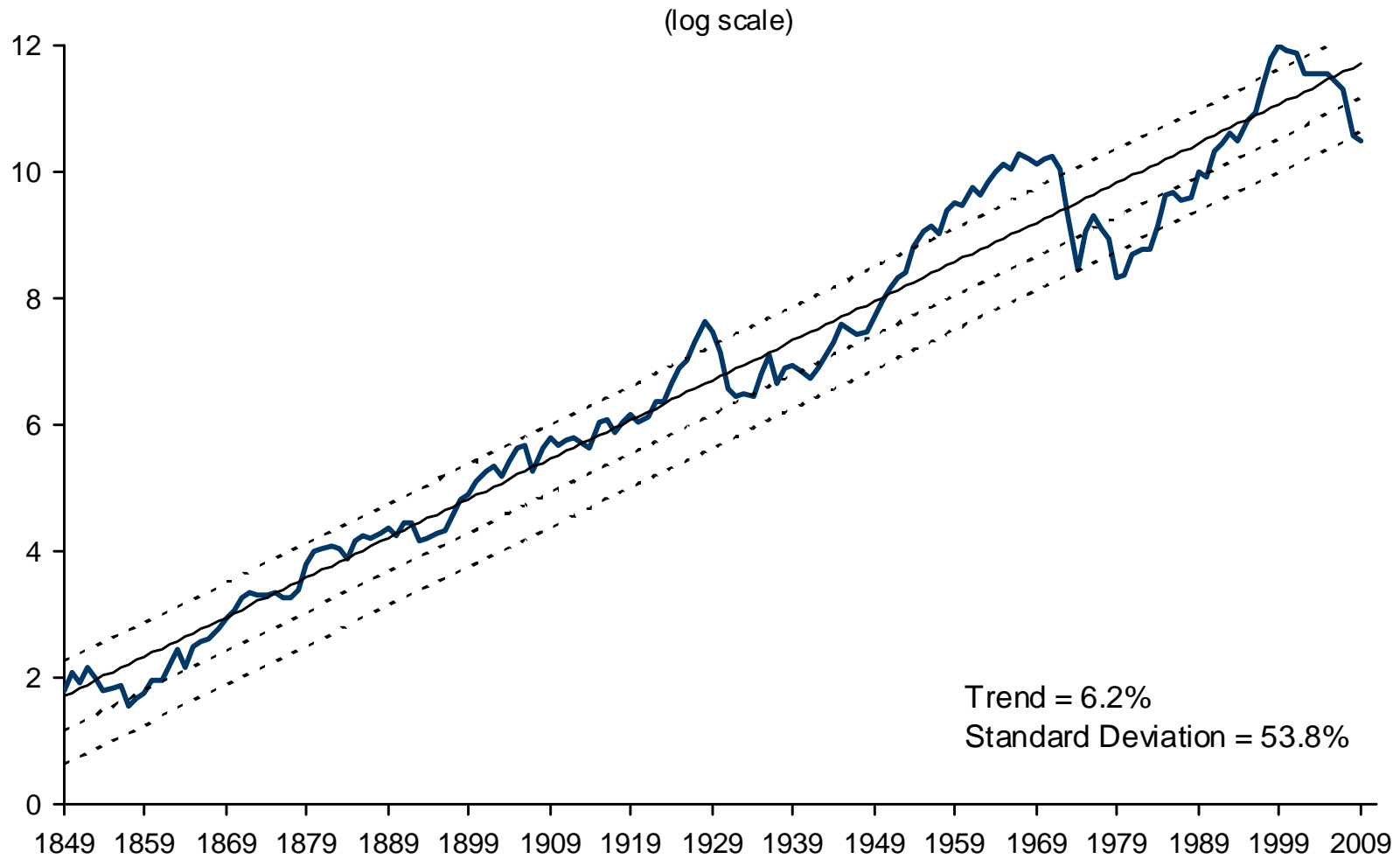
Long-Run Real Gold Price (in 2007 dollars)

Annual 1841-1983, Monthly 1983-Date



Source: Credit Suisse, the BLOOMBERG PROFESSIONAL™ service, © Datastream International Limited ALL RIGHTS RESERVED

Long-Run US Equity Returns Measured in Gold



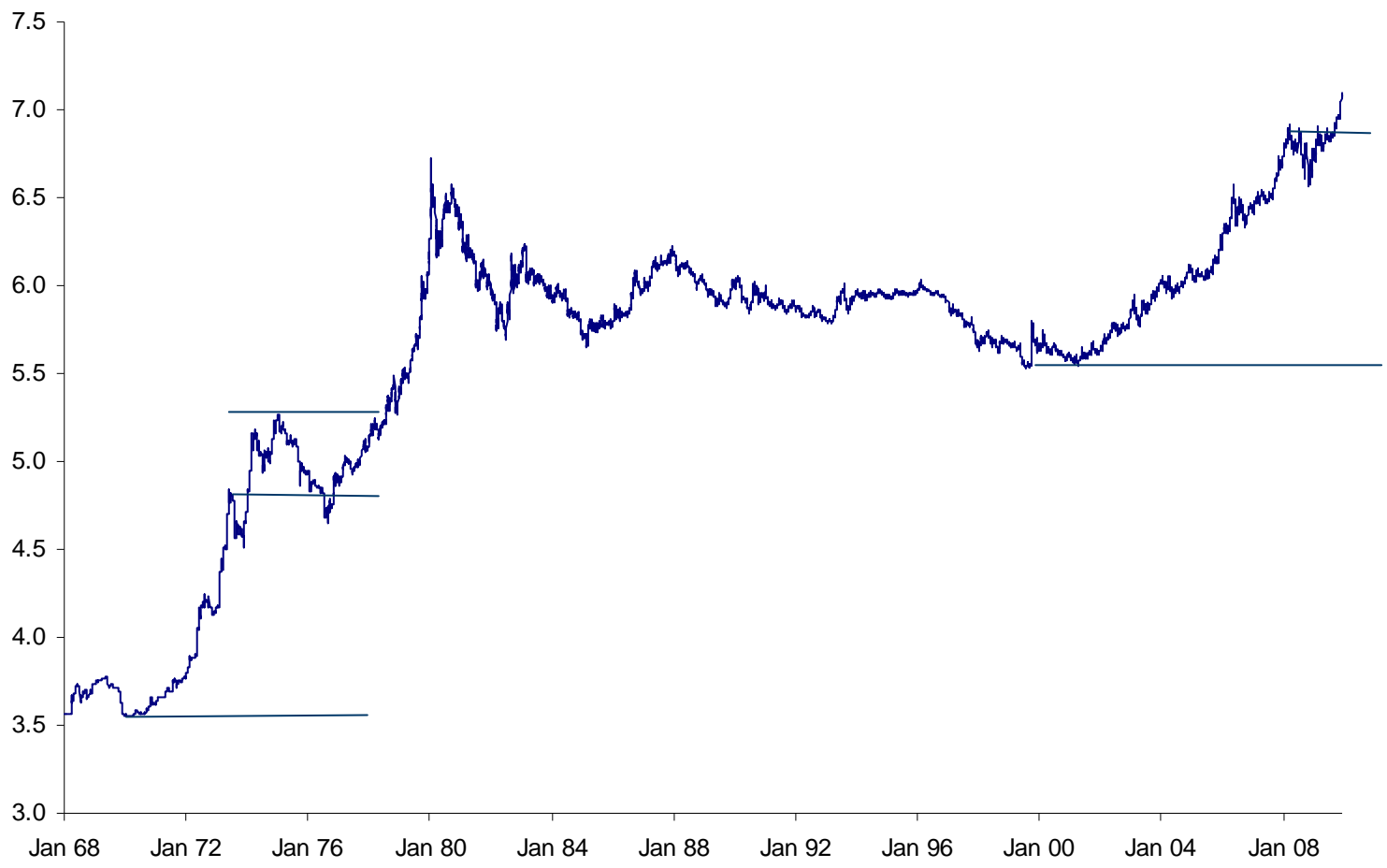
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Gold Price



Source: Credit Suisse, © Datastream International Limited ALL RIGHTS RESERVED

Gold Price (log scale)



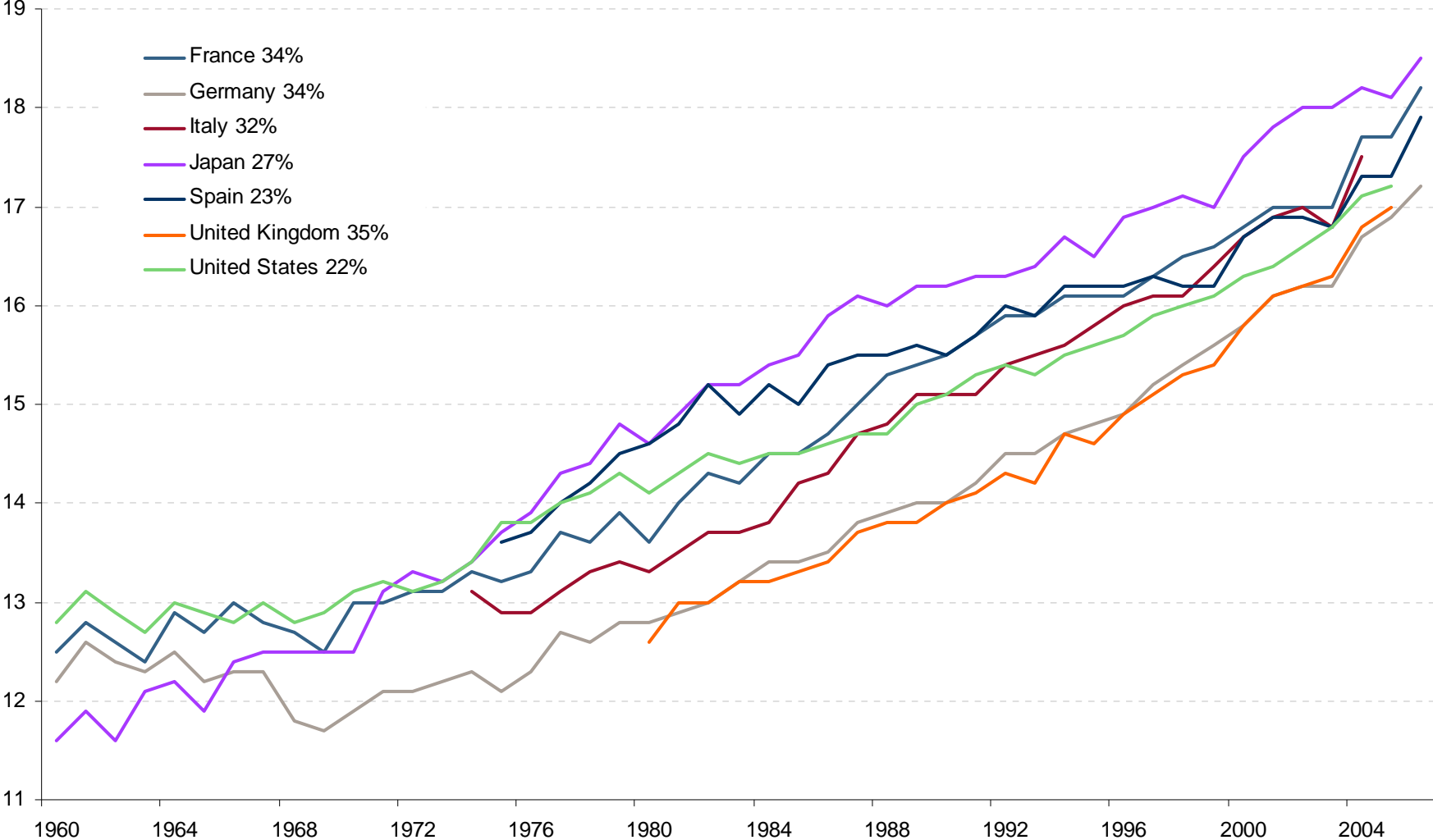
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Appendix:
Fiscal Sustainability

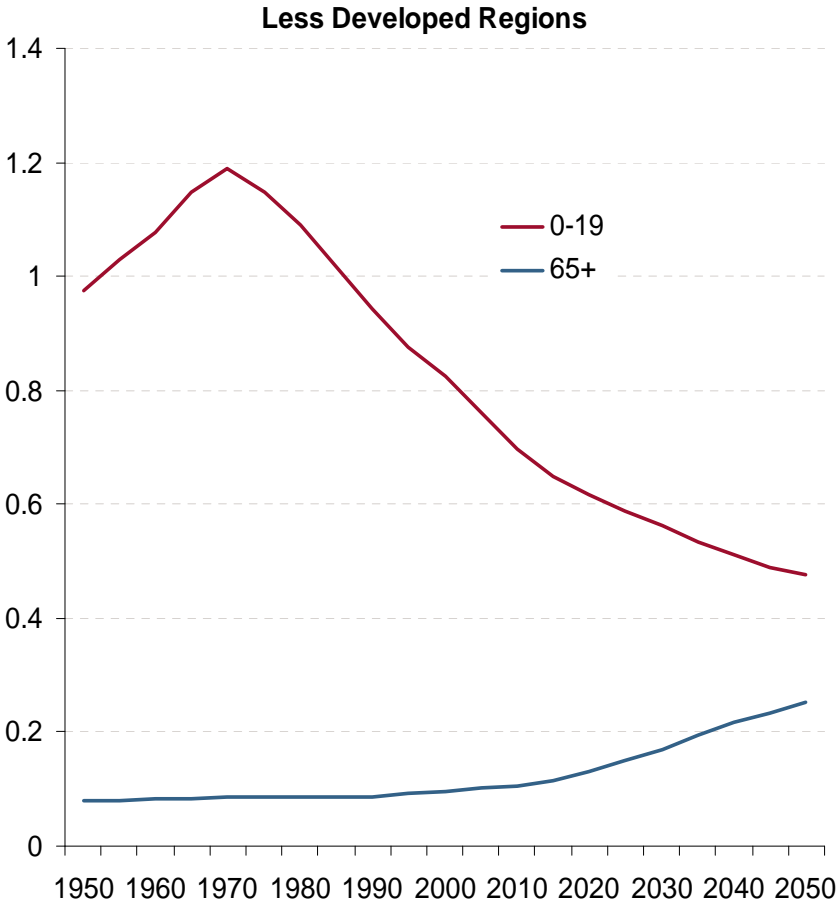
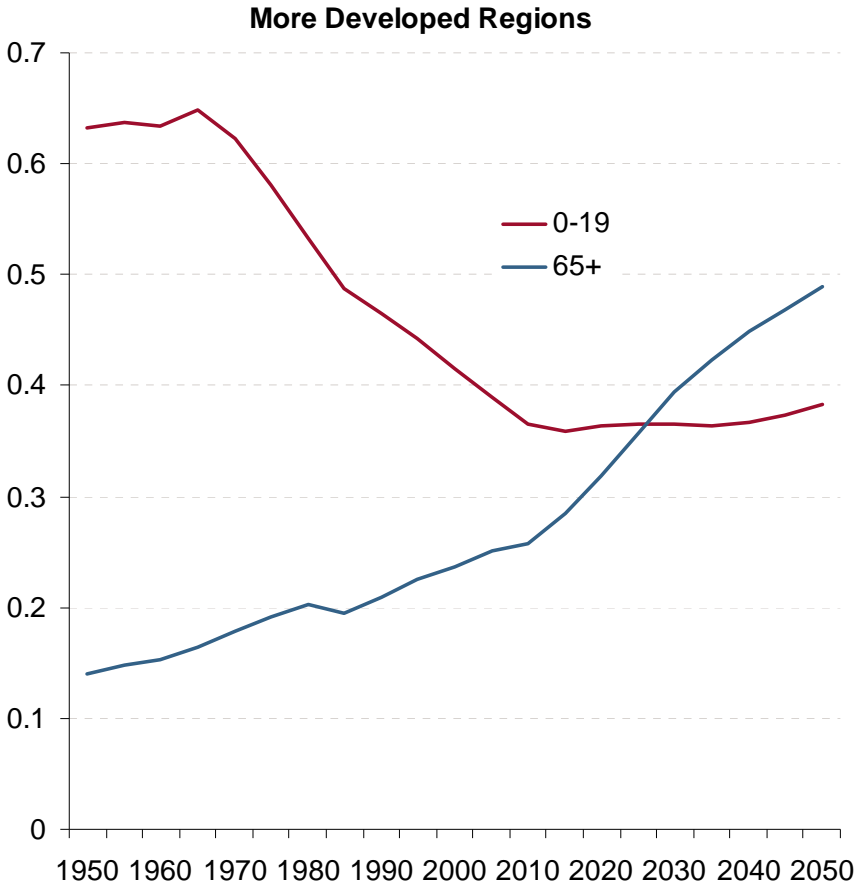
Increases in Life Expectancy at age 65

Males (% increase shown is 1980 to current)



Dependency Ratios

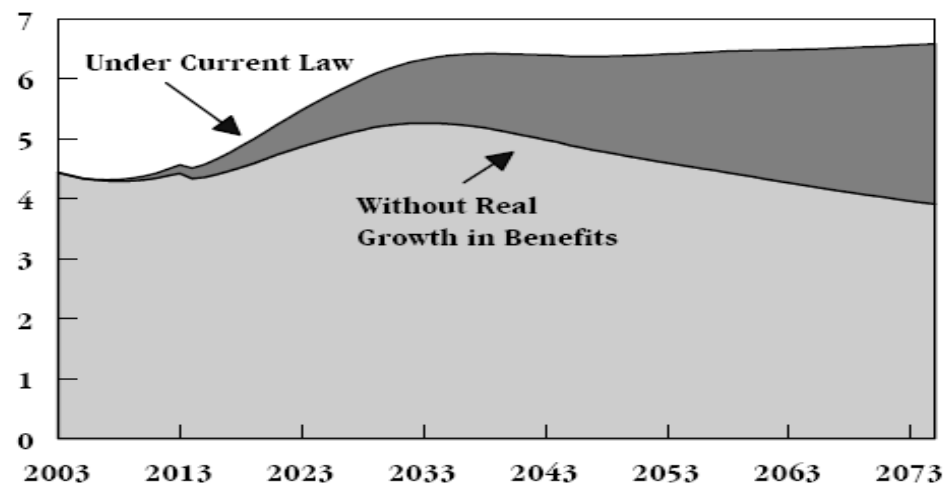
The number of people aged 0-19 or 65+ per person of working age



Fiscal Sustainability

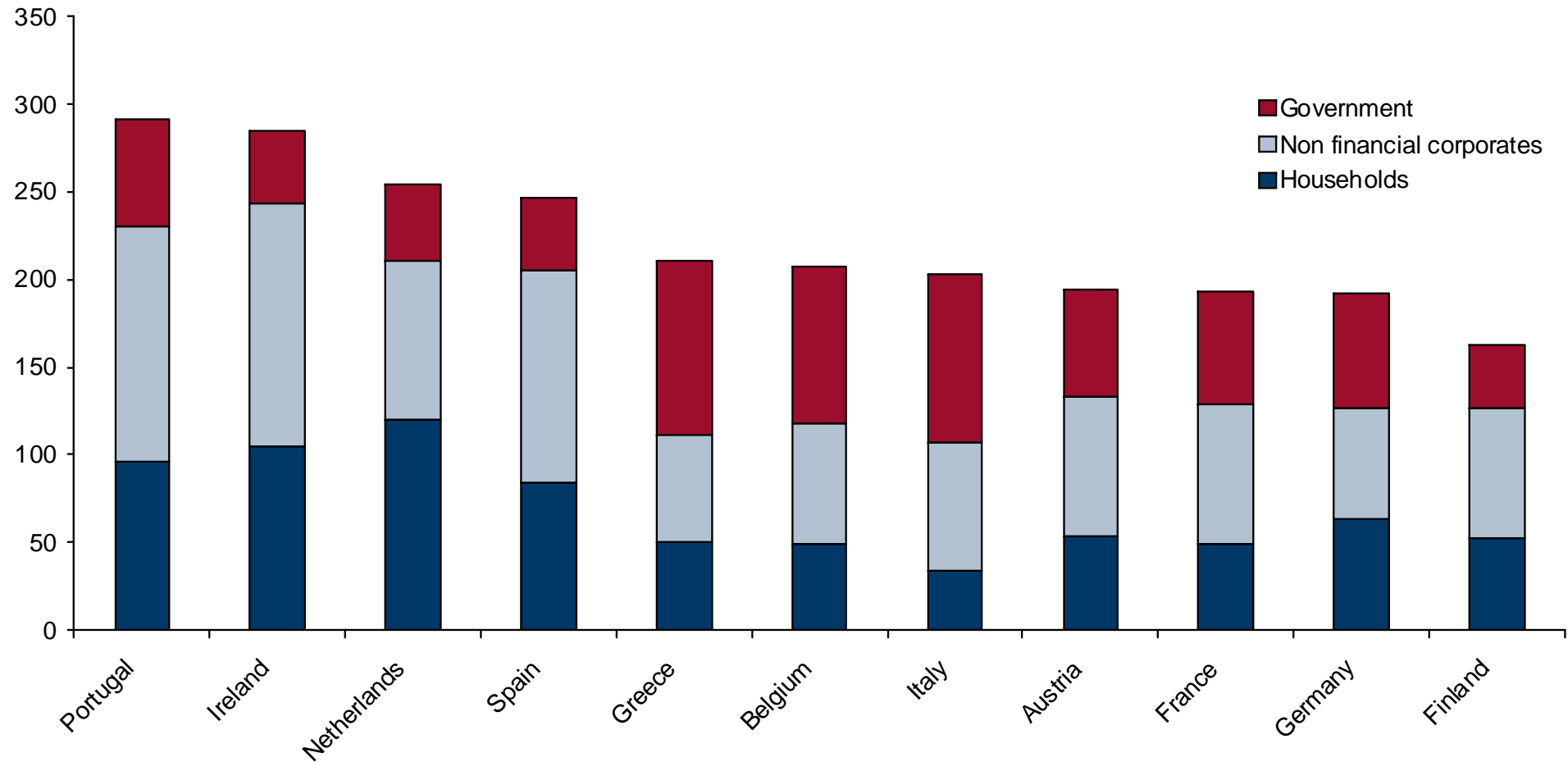
Projected Rise in Social Security Spending as a Share of Gross Domestic Product from 2003 to 2075

(Percentage of GDP)



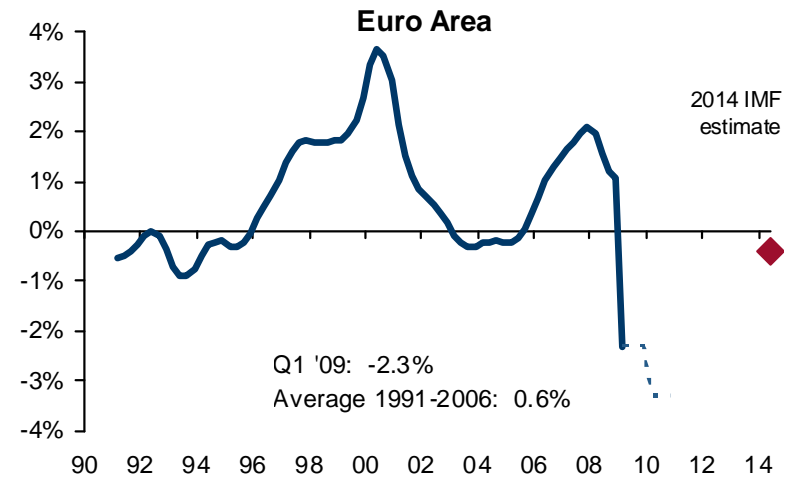
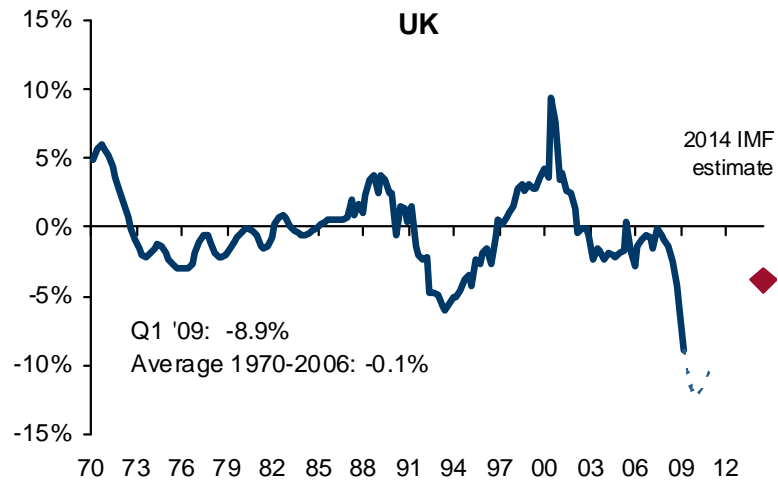
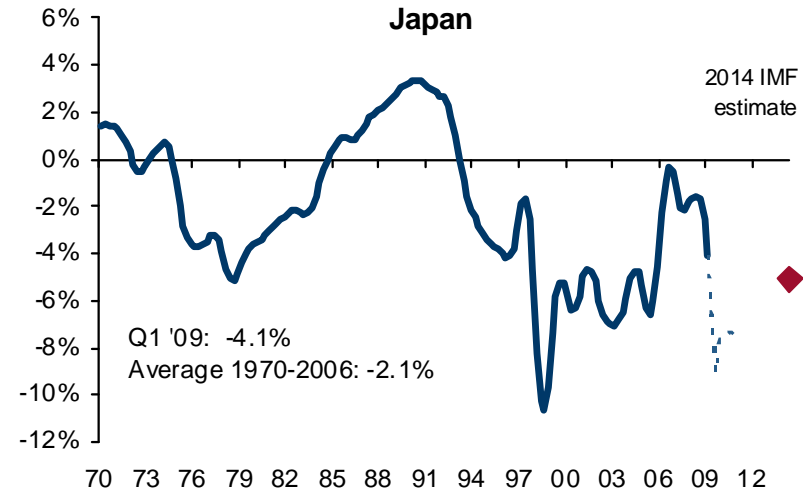
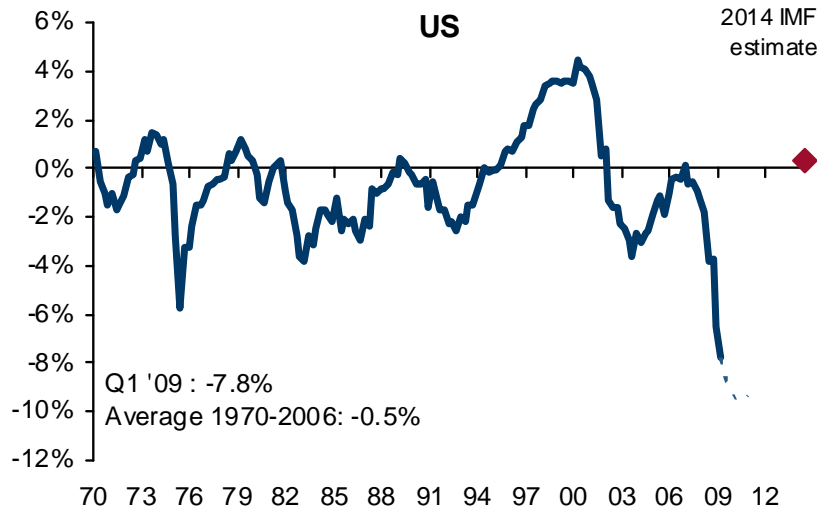
	Cost / Savings	Source
Fiscal Stimulus Program	\$0.7tn	Credit Suisse
Iraq War	\$0.7tn	CBO, Credit Suisse
Financial Bailout	\$1.8tn	IMF
vs.		
Cumulative Savings from Social Security Re-Indexing	\$11.2tn	CBO, Credit suisse
(Present Value of Savings until 2075):		

Euro Area Debt to GDP Ratios (%)



Source: Credit Suisse European Economics, © Datastream International Limited ALL RIGHTS RESERVED

Primary Deficits

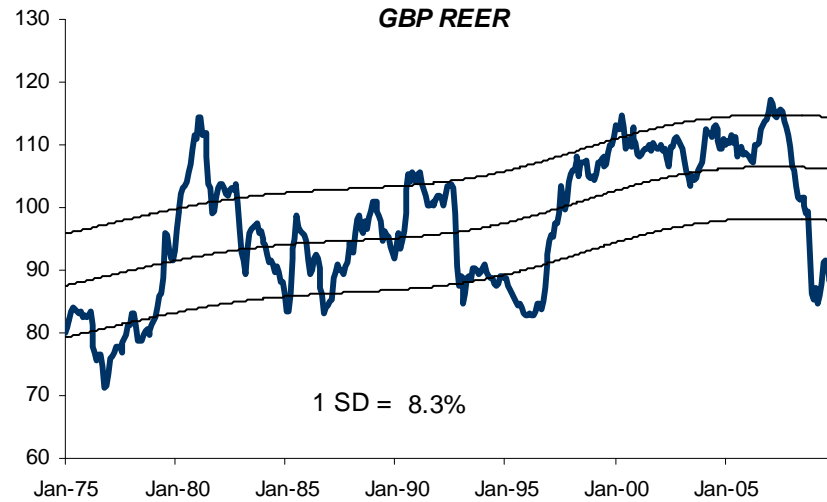
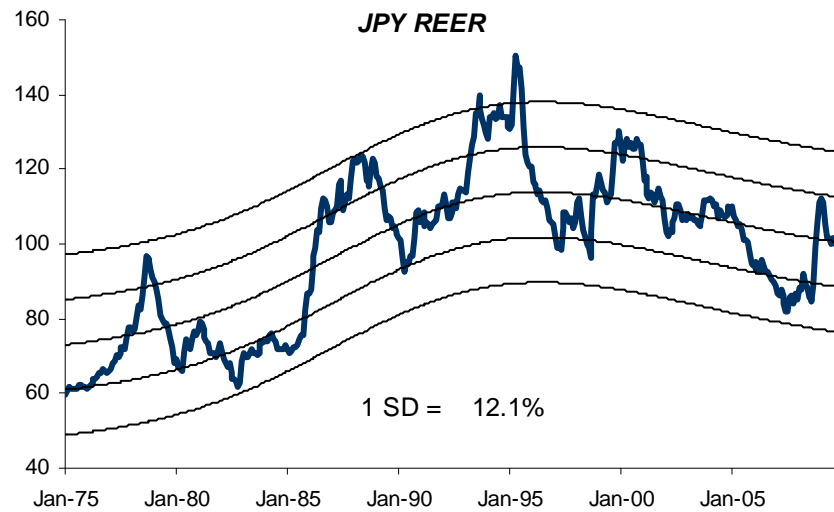
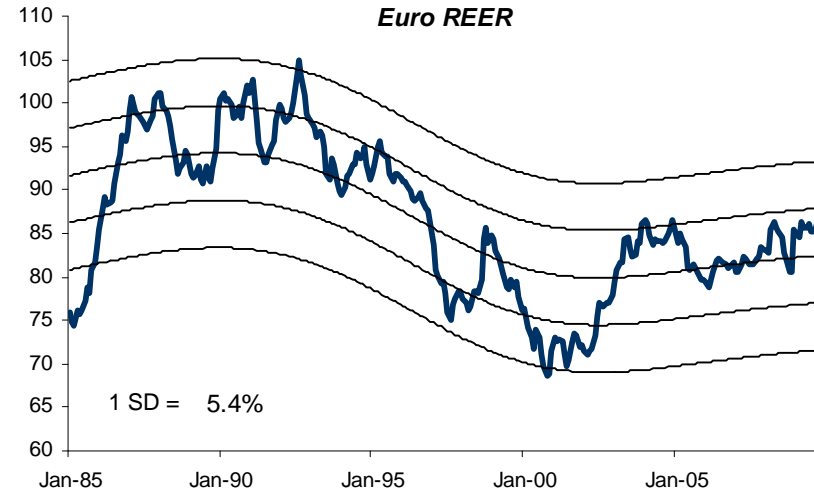
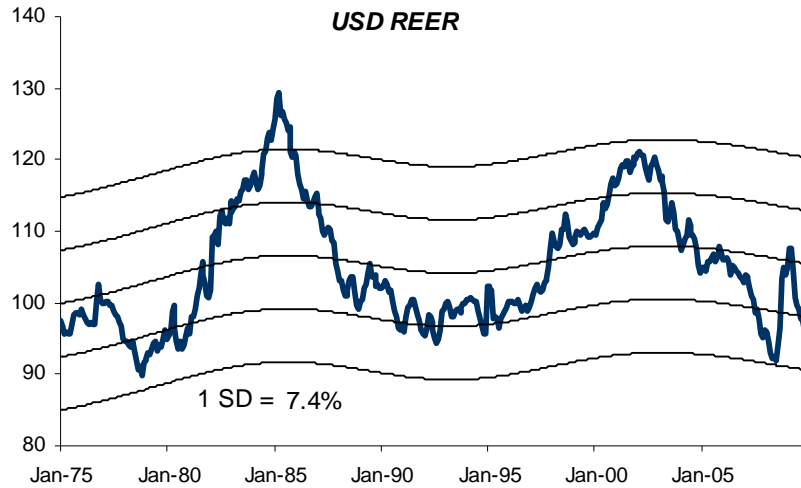


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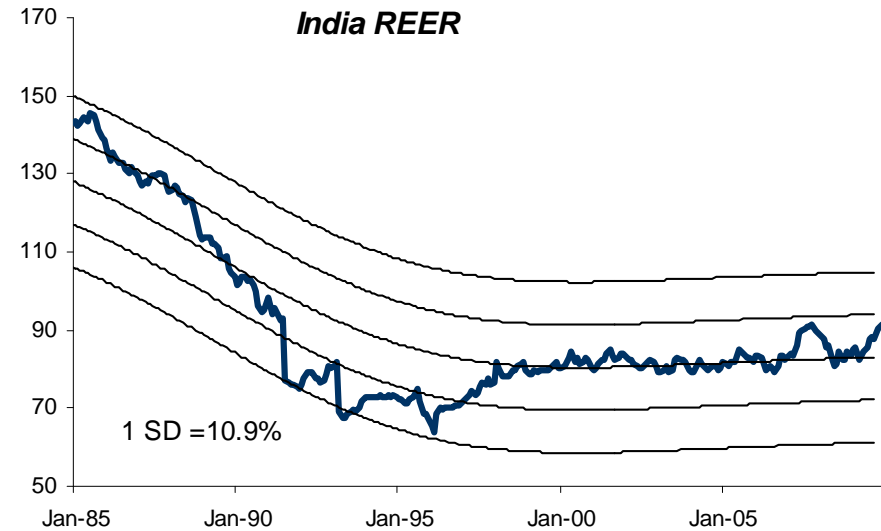
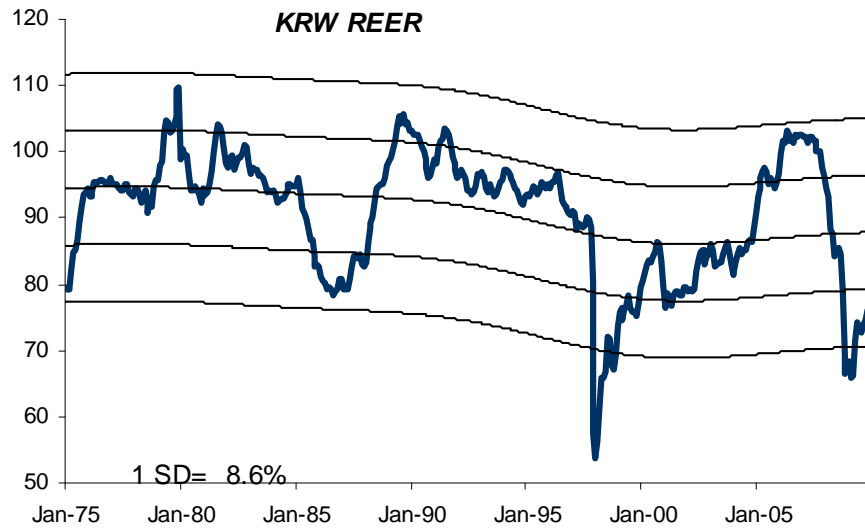
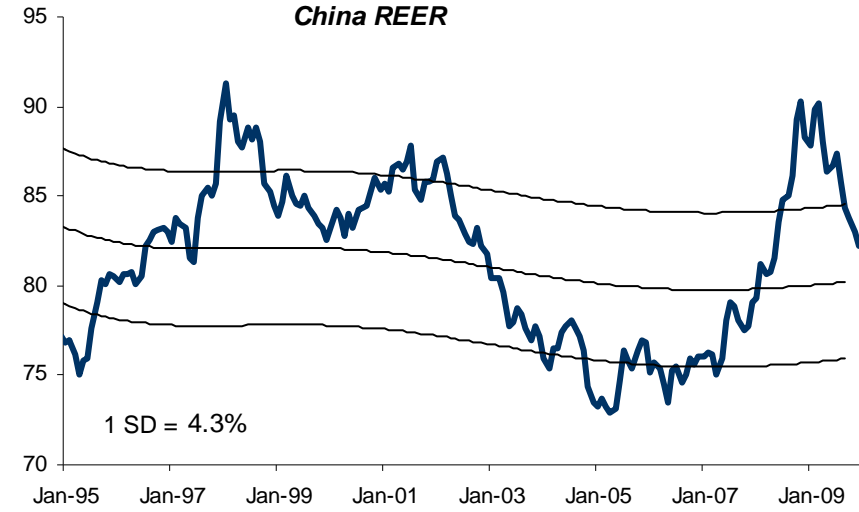
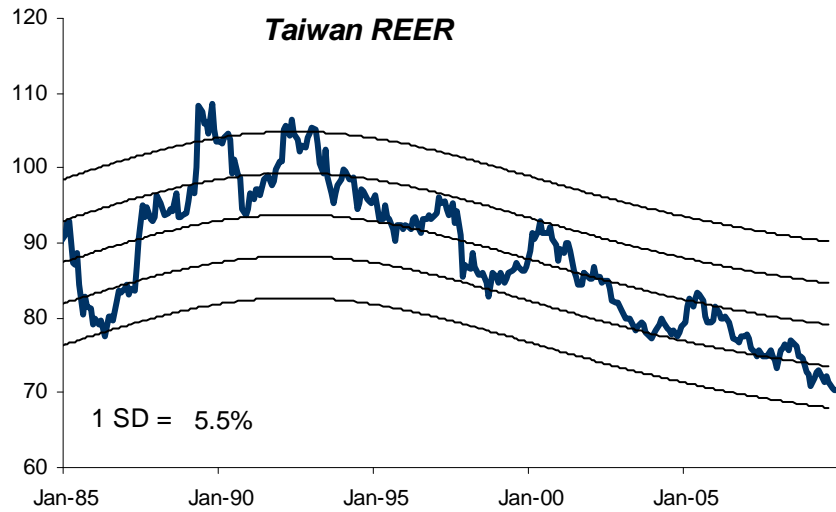


Appendix:
Real Effective Exchange Rates

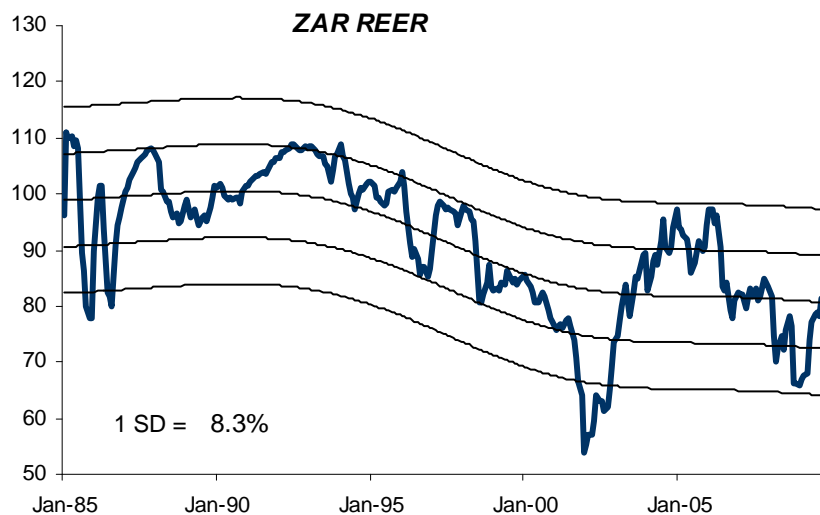
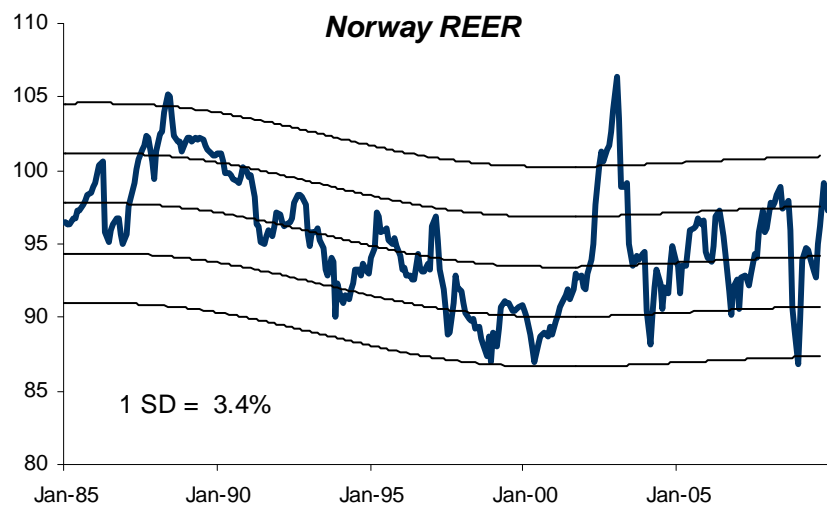
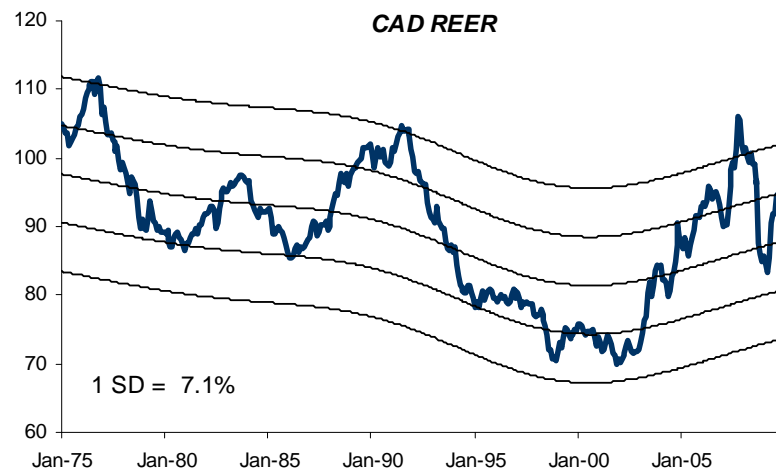
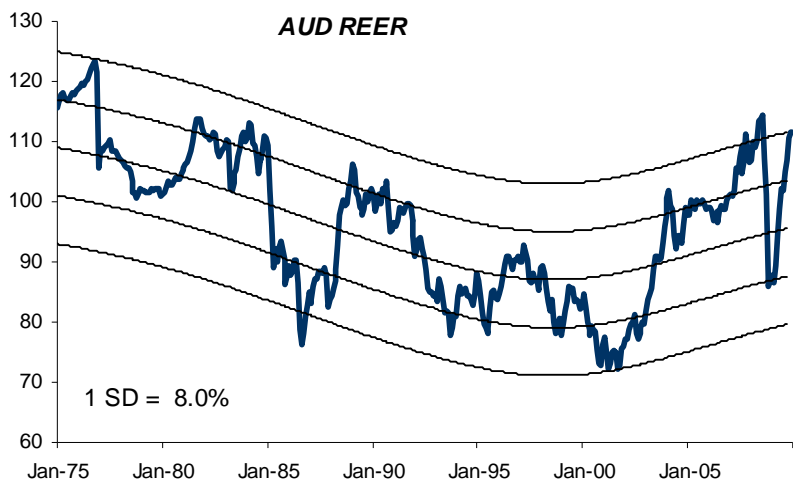
Real Effective Exchange Rates: G3+



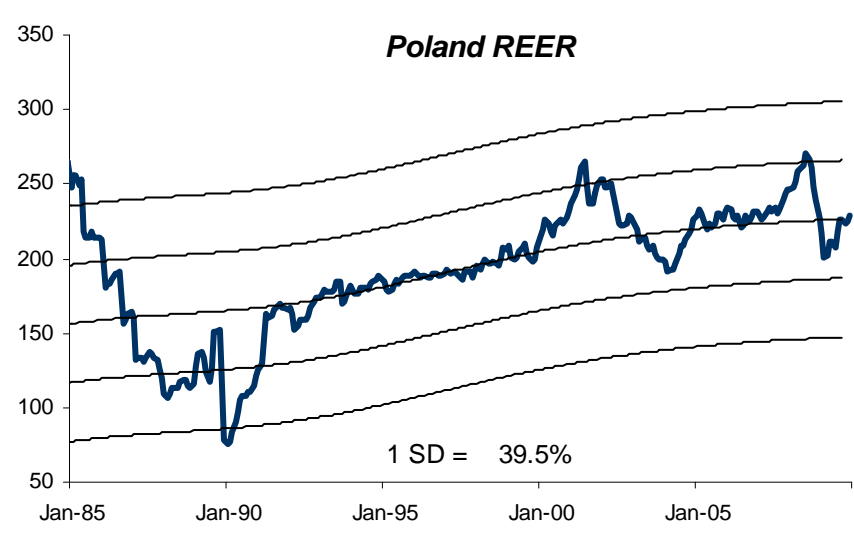
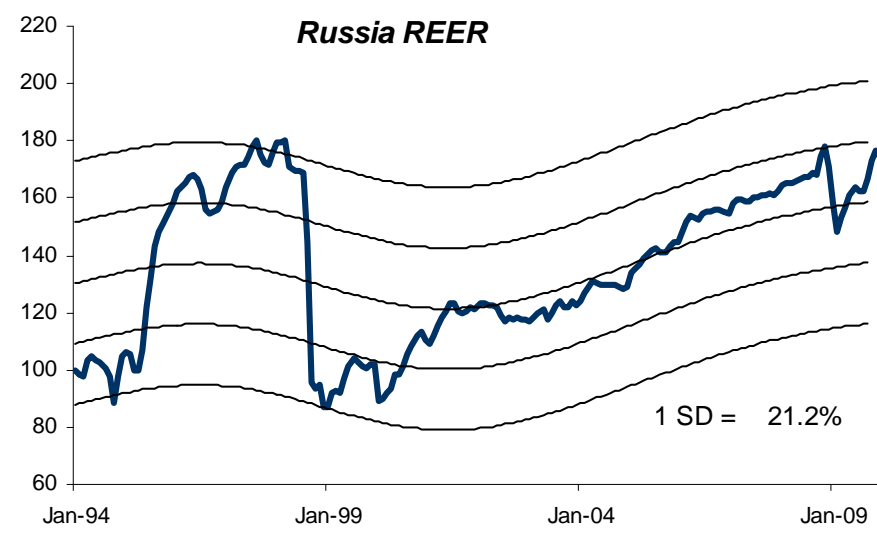
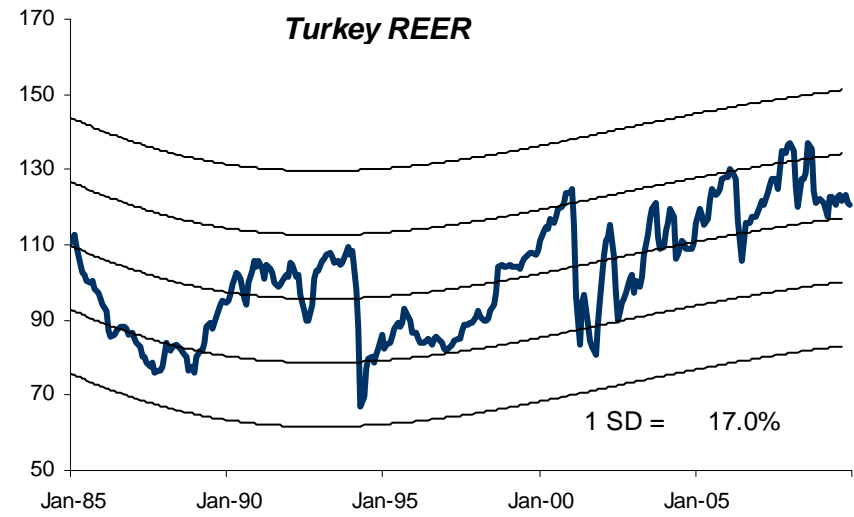
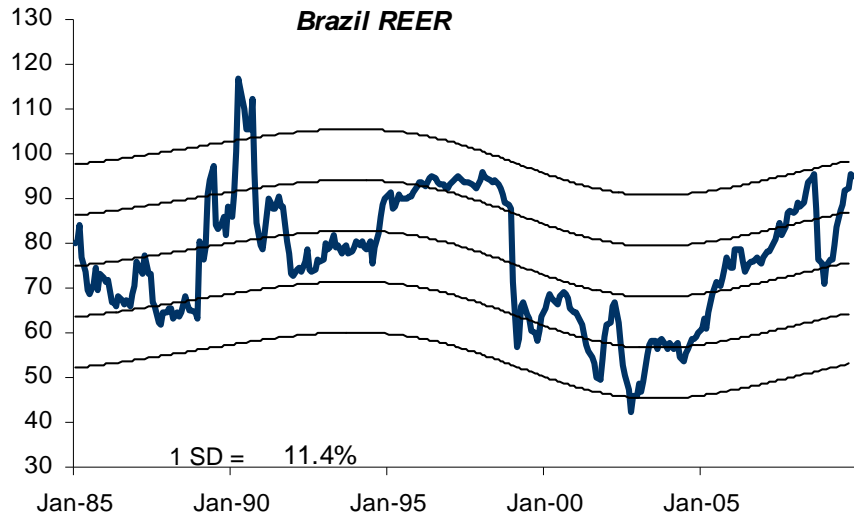
Real Effective Exchange Rates: Asia



Real Effective Exchange Rates: Commodity Exporters



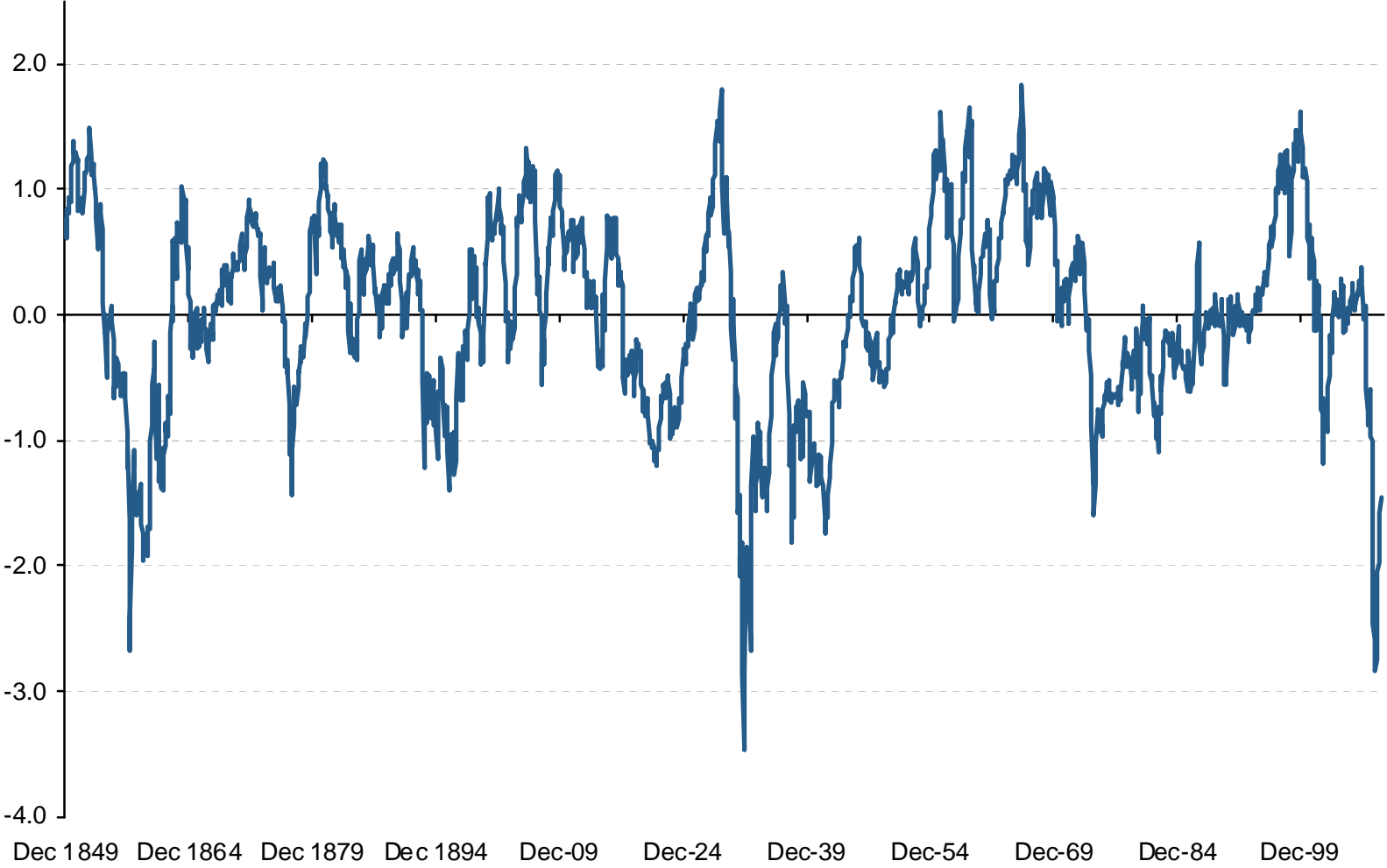
Real Effective Exchange Rates: EM





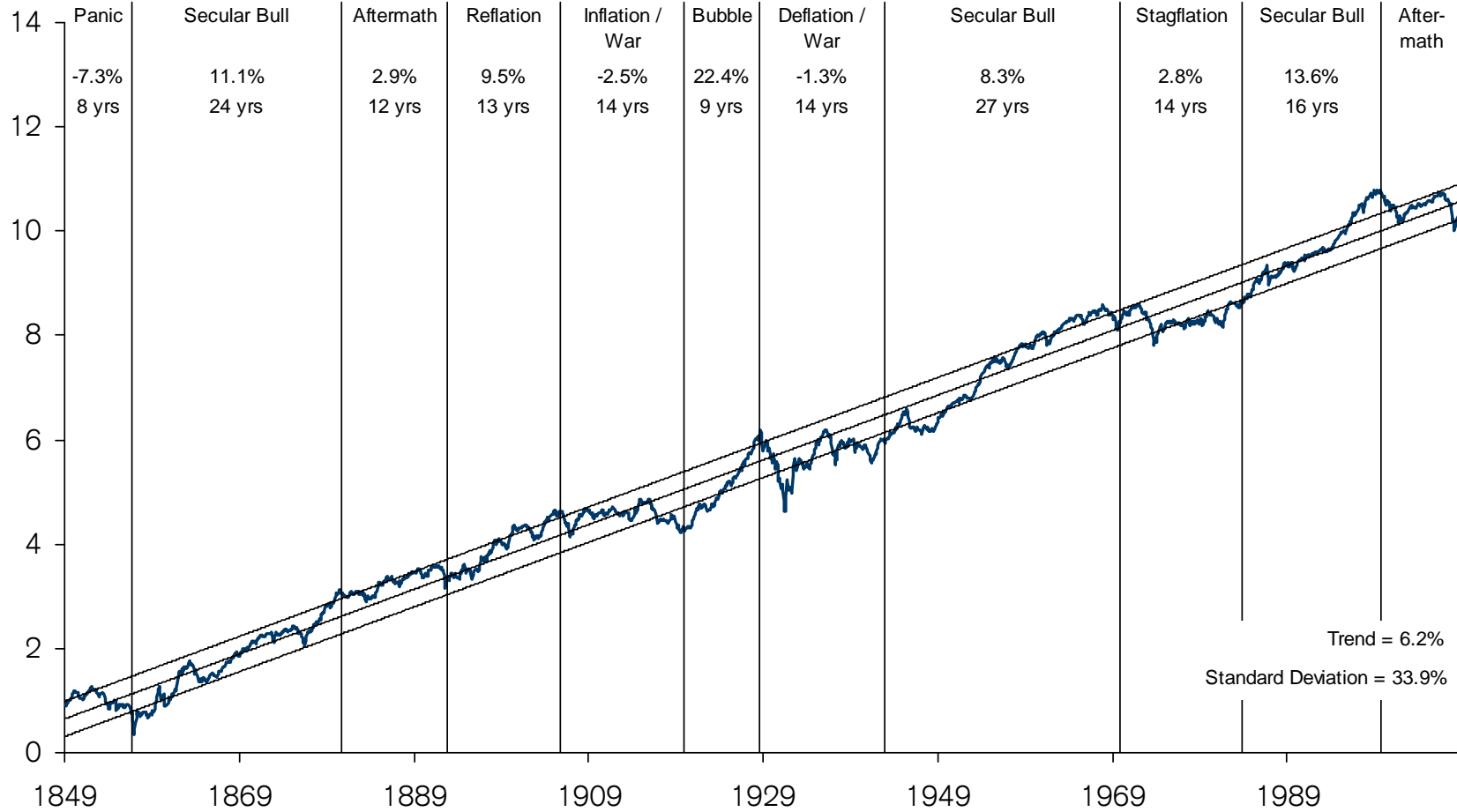
Appendix: Valuation

US Composite Valuation Indicator (CVI)



Credit Suisse; the BLOOMBERG PROFESSIONAL™ service; DataStream

US Long-Run Real Equity Returns



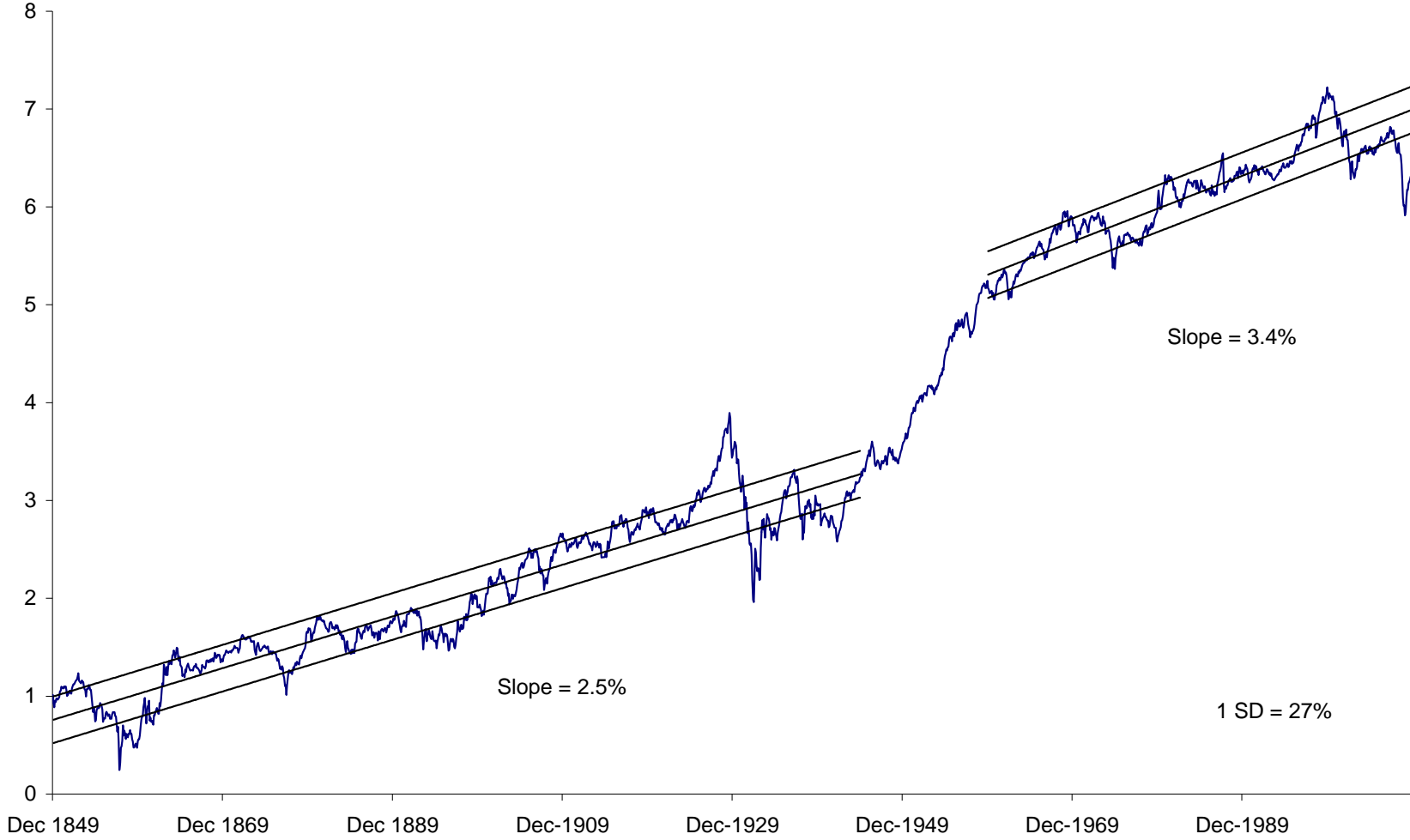
— US Long term Real Equity Returns (log level index - returns per annum)

Last data point: 04.01.2010

Source: Datastream, CS Global Strategy / IDC



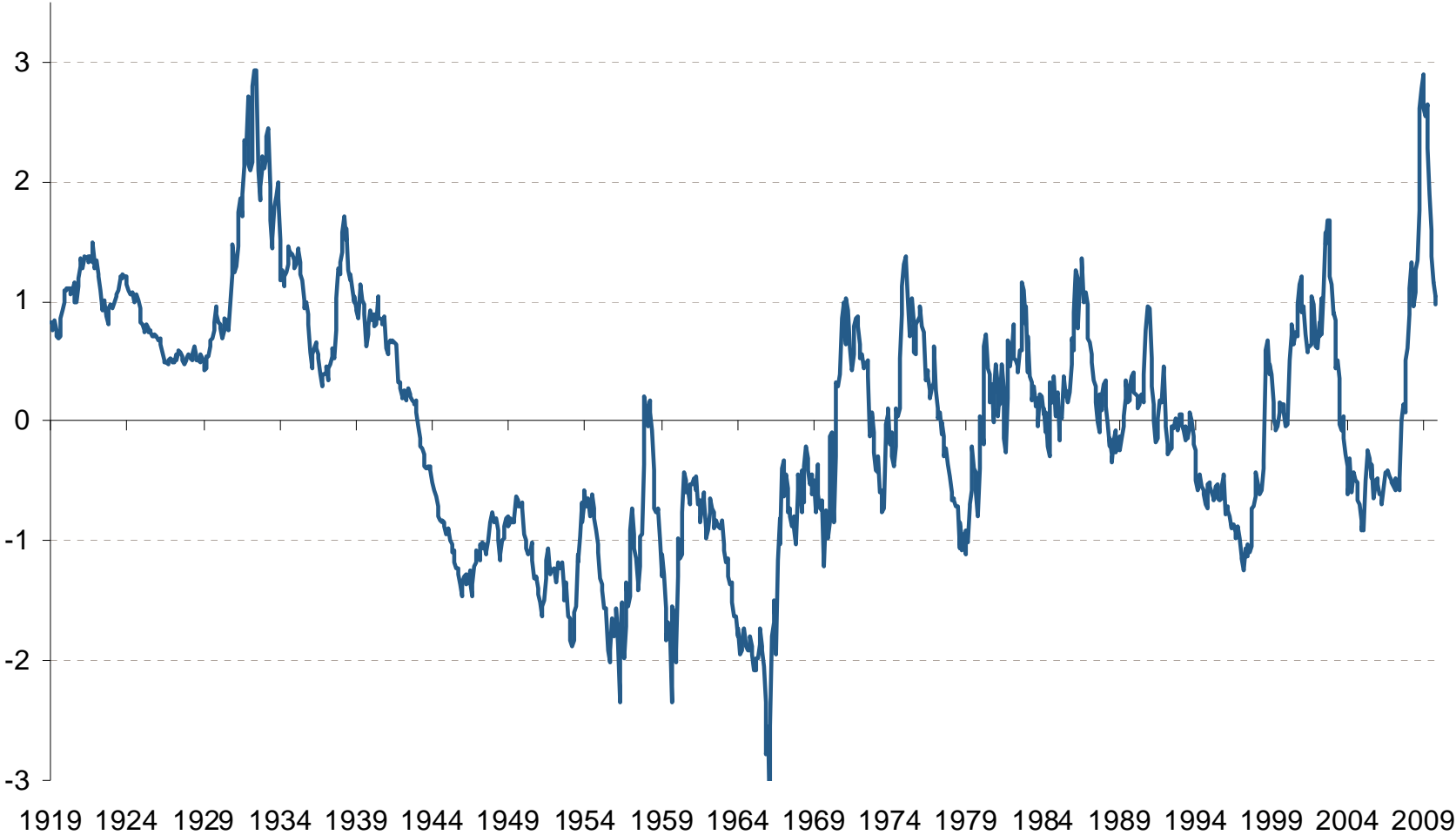
US Long Run Bond vs Equity Returns



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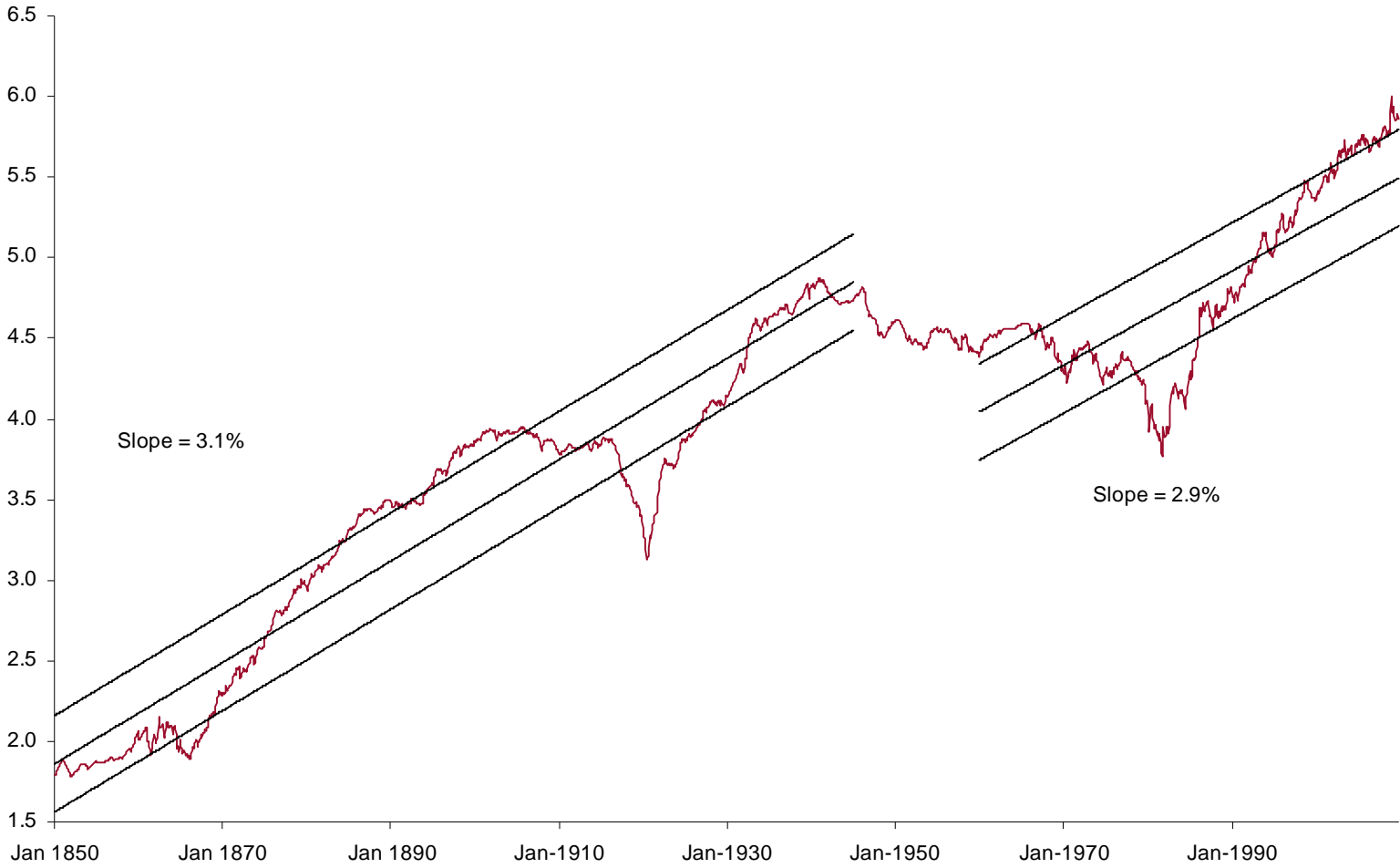
US BBB Spreads

(Log Std Dev)



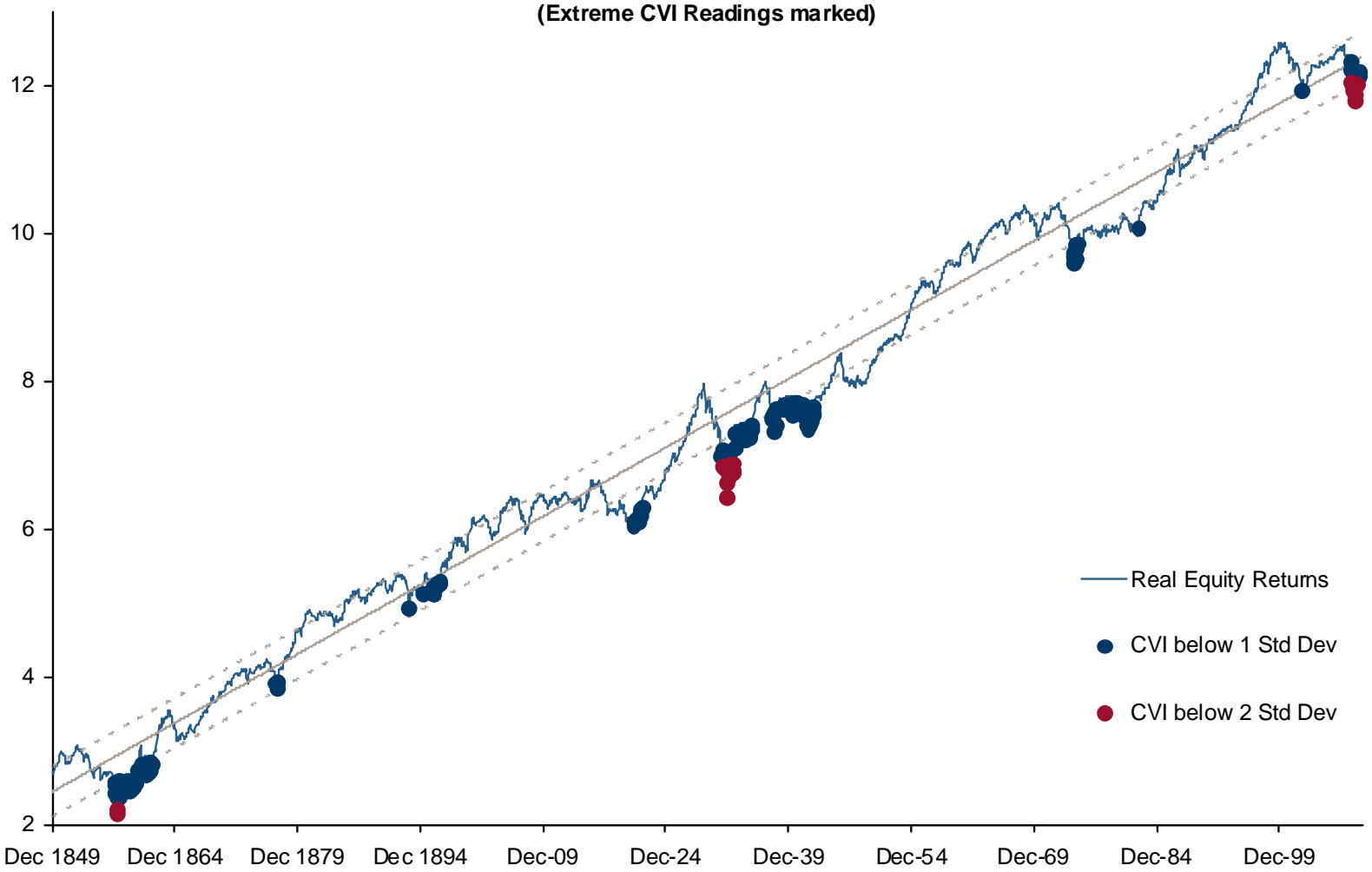
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US Long Run Real Bond Returns



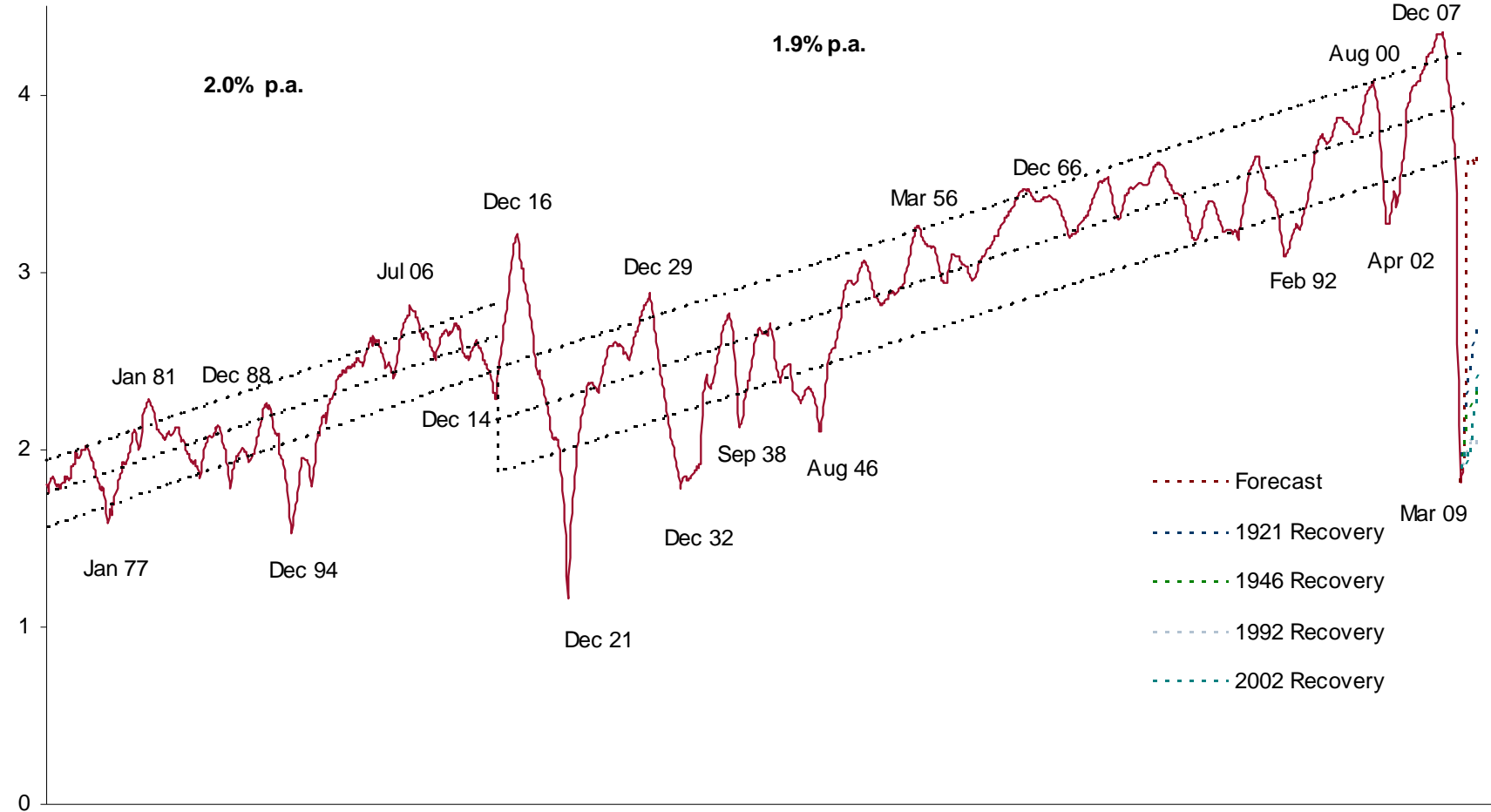
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US Real Equity Returns with Extreme CVI Readings



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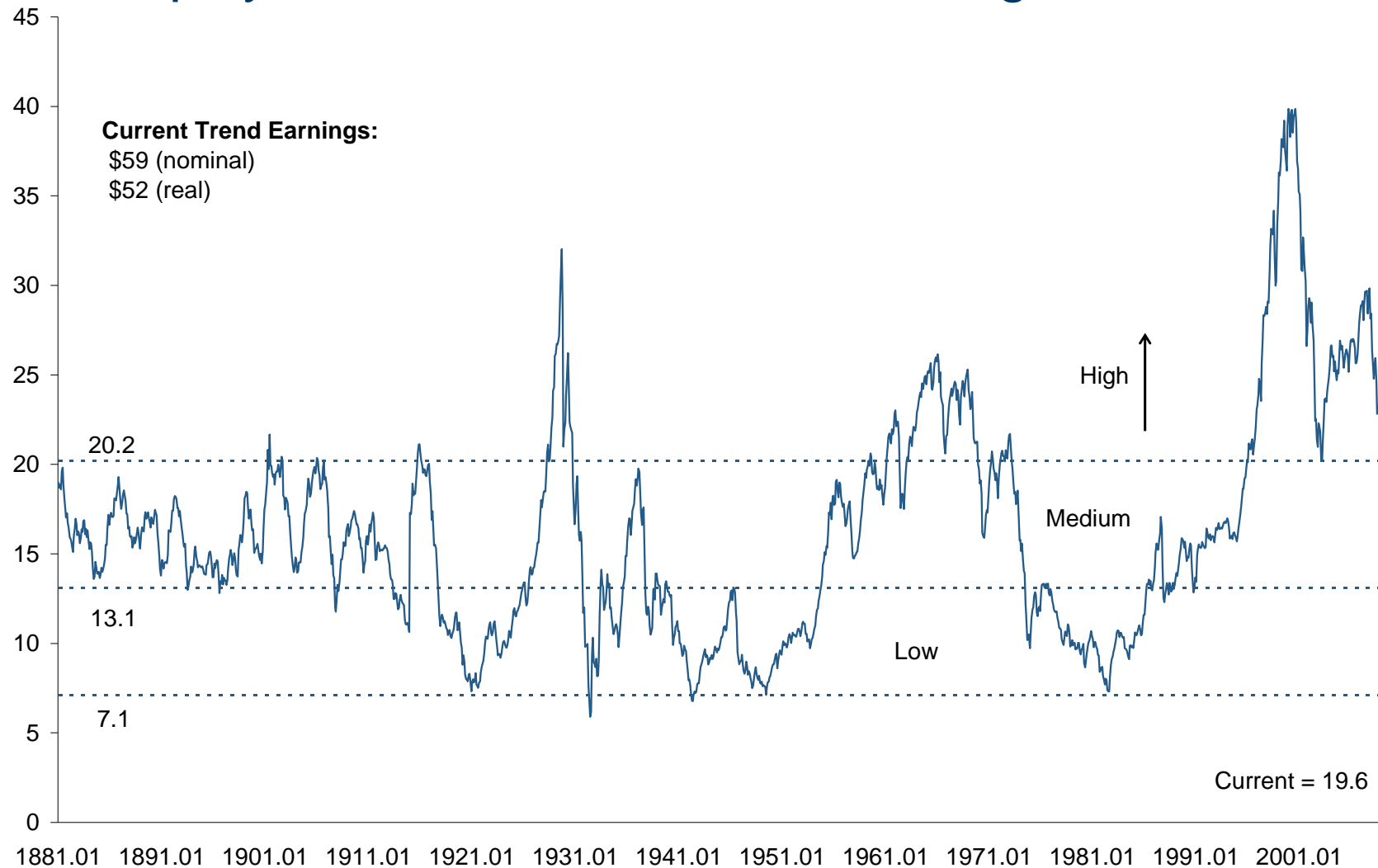
US Long-Run EPS



Jan 1871 Jan 1881 Jan 1891 Jan-1901 Jan-1911 Jan-1921 Jan-1931 Jan-1941 Jan-1951 Jan-1961 Jan-1971 Jan-1981 Jan-1991 Jan-2001 Jan-20

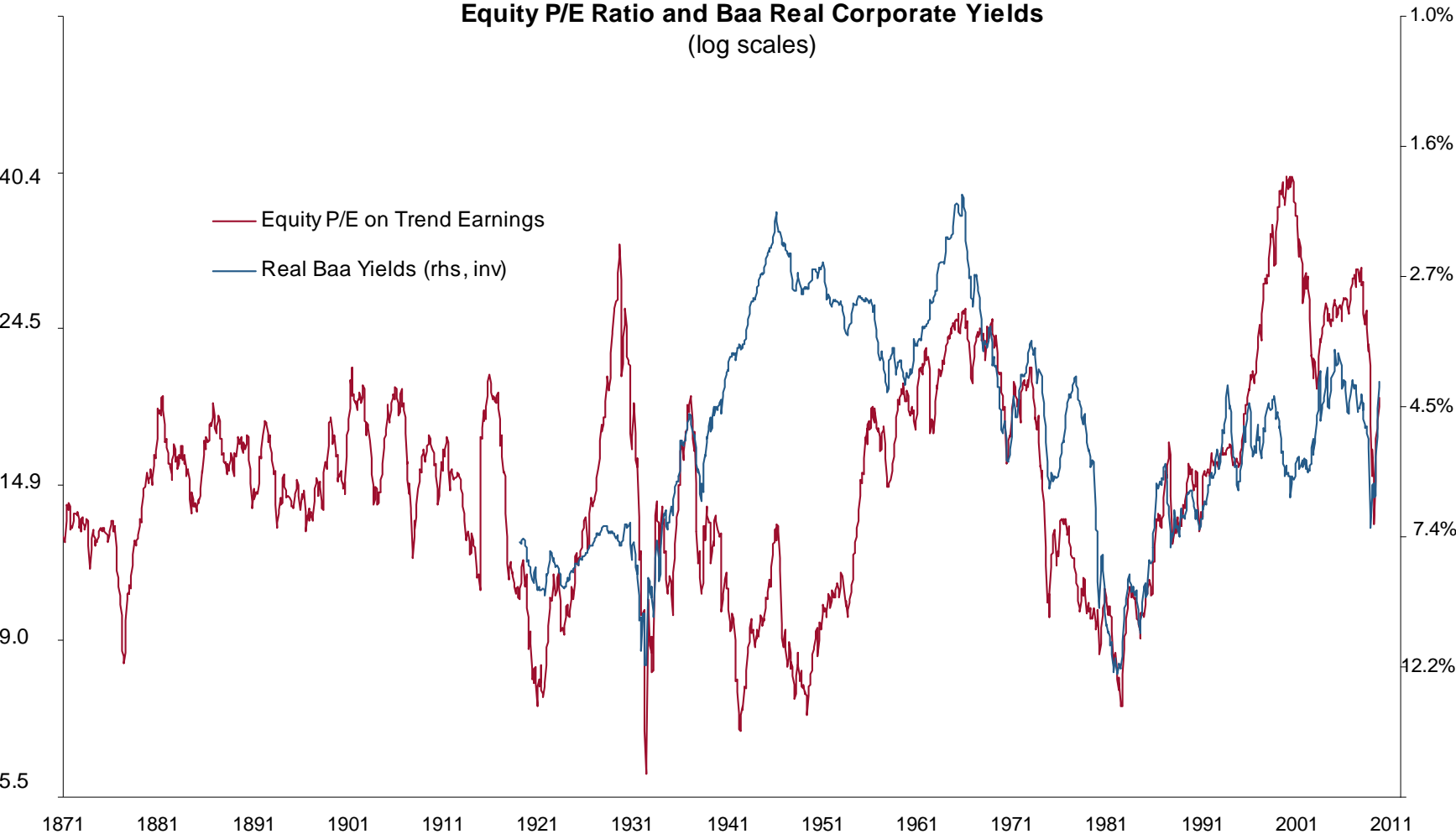
Source: Datastream, CS Global Strategy

US Equity Market P/E on Trend Earnings



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Corporate Real Yield and P/E Ratio



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Disclosure Appendix

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Disclosure Appendix cont'd

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