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Is the Worst over



Global equity markets ?

Kevin Scully, 18 July 2009

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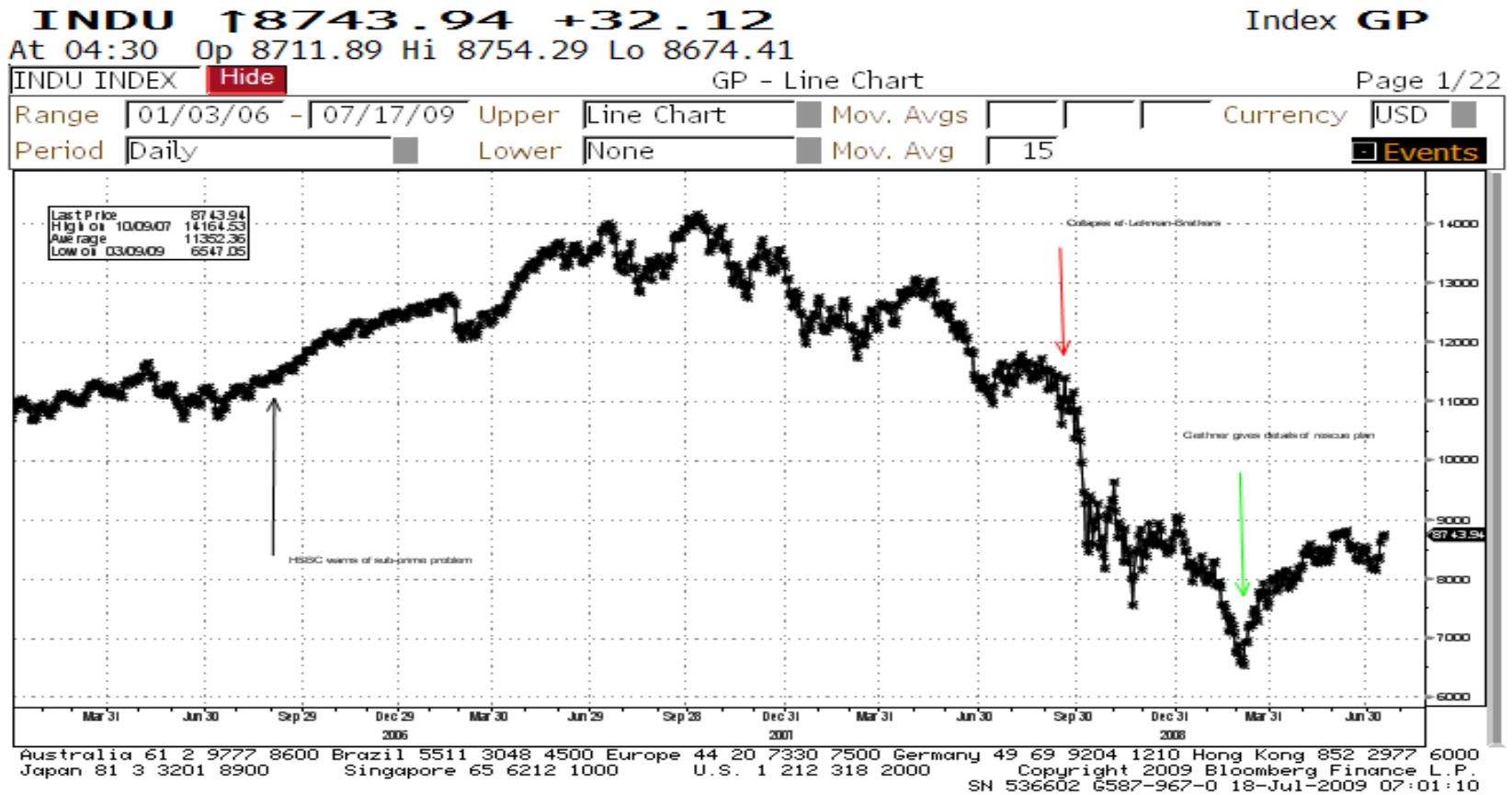


Sub-prime financial crisis of similar magnitude as Great Depression....

Can the Worst be over so soon ?.....

It took the S&P almost 25 years to recover post 1929 depression levels

First signs appeared in Sept 2006



Stocks markets in Asia have risen sharply since beginning of 2009

| Index | 31-Dec-08 | 9-Mar-09 | 17-Jul-09 | YTD gain % | 9 Mar gain % |
|------------|-----------|----------|-----------|------------|--------------|
| Dow | 8776.4 | 6547.1 | 8743.9 | -0.4% | 33.6% |
| Hang Seng | 14387.5 | 11344.6 | 18805.1 | 30.7% | 65.8% |
| Shanghai | 1820.8 | 2118.7 | 3189.7 | 75.2% | 50.5% |
| Nikkei 225 | 8859.6 | 7086.1 | 9395.3 | 6.0% | 32.6% |
| STI | 1761.6 | 1456.9 | 2430.9 | 38.0% | 66.9% |

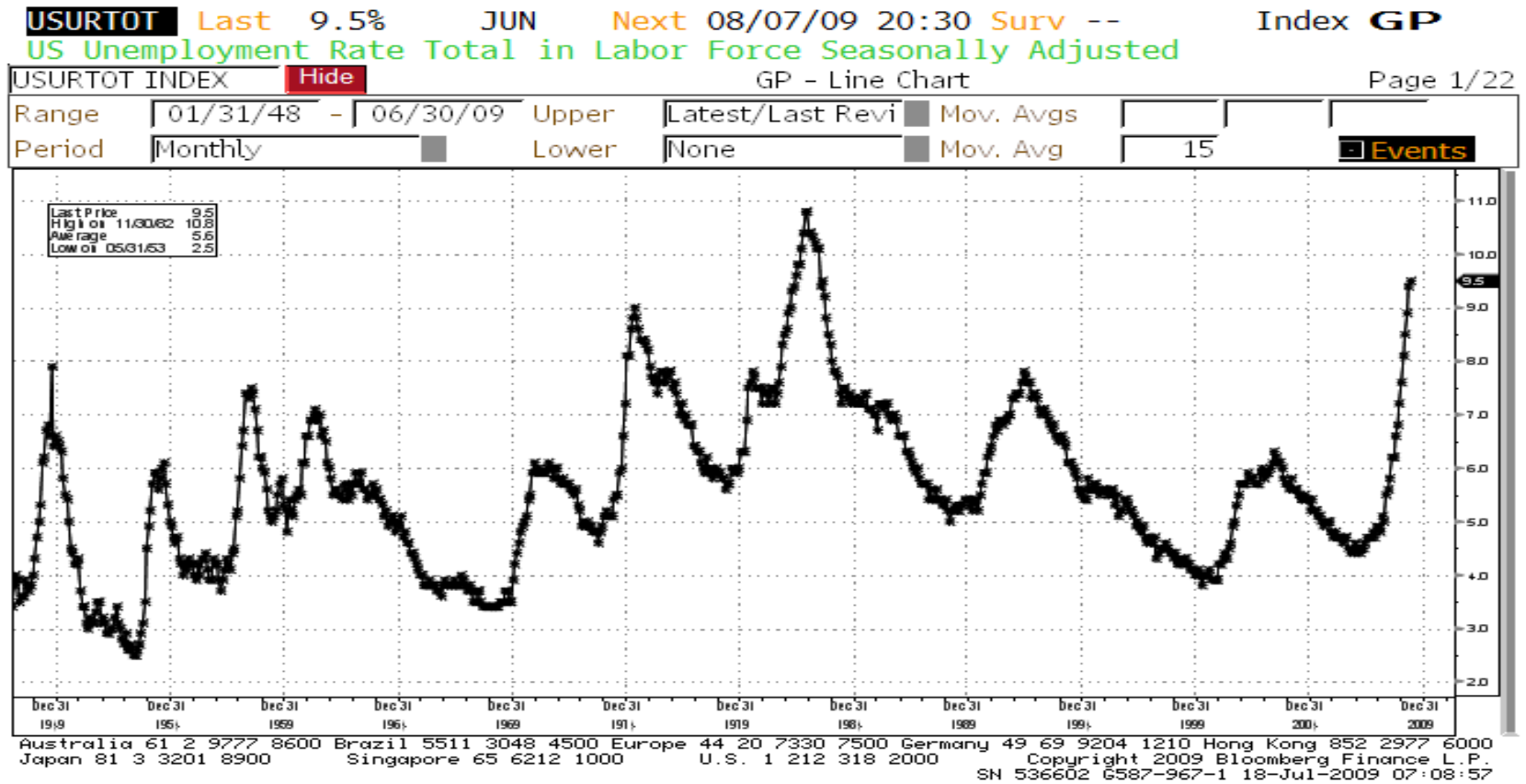
Rise can be attributed to:

- Easing of credit markets
- Bargain hunting because stocks which were trading at distressed values
- Huge amounts of liquidity as Central Banks and Governments brought interest rates to near zero
- Expectations of “green shoots”

Macro picture especially in OECD still looks bleak

- IMF forecasts Global growth to contract by 1.3% in 2009 and expand by 1.9% in 2010
- Considered a weak recovery and predicated on fiscal spending equal to 2% of and 1.5% in 2009 and 2010 respectively
- Can these fiscal packages be sustained long enough for the real economy to recover ?

US unemployment set to rise above 10%....I think 12-13% - some countries in the EU could be as high as 18%



National balance sheets are strained....yield curve is very steep

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UNITED STATES GENERIC RATES

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| SECURITY | TIME | LAST | CHANGE | OPEN | HIGH | LOW | CLOSE |
|---------------------------|------|---------|--------|---------|---------|---------|---------|
| Generic T-Bills | | | | | | | |
| 01 Month | 7/17 | .1359 | -- | .1399 | .1420 | .1349 | .1359 |
| 03 Month | 7/17 | .1623 | -- | .1653 | .1674 | .1603 | .1623 |
| 06 Month | 7/17 | .2670 | -- | .2680 | .2731 | .2558 | .2670 |
| 01 Year | 7/17 | .4383 | -- | .4373 | .4455 | .4241 | .4383 |
| Generic Notes/Bond | | | | | | | |
| 02 Year | 7/17 | .9868 | -- | .9786 | 1.0111 | .9381 | .9868 |
| 03 Year | 7/17 | 1.5591 | -- | 1.5430 | 1.5806 | 1.5000 | 1.5591 |
| 05 Year | 7/17 | 2.4965 | -- | 2.4460 | 2.5268 | 2.4024 | 2.4965 |
| 07 Year | 7/17 | 3.1993 | -- | 3.1338 | 3.2245 | 3.0887 | 3.1993 |
| 10 Year | 7/17 | 3.6433 | -- | 3.5692 | 3.6550 | 3.5286 | 3.6433 |
| 30 Year | 7/17 | 4.5350 | -- | 4.4475 | 4.5470 | 4.4223 | 4.5350 |
| Mkt Matrix Spread | | | | | | | |
| 10Sell 3M/Buy 6M | 7/17 | 10.472 | -- | 10.270 | 10.778 | 9.557 | 10.472 |
| 17Sell 3M/Buy 1Y | 7/17 | 27.609 | -- | 27.204 | 28.019 | 25.877 | 27.609 |
| 18Sell 3M/Buy 2Y | 7/17 | 82.346 | -- | 81.289 | 84.476 | 77.581 | 82.346 |
| 19Sell 3M/Buy 3Y | 7/17 | 139.443 | -- | 137.514 | 141.292 | 133.226 | 139.443 |
| 20Sell 3M/Buy 5Y | 7/17 | 233.079 | -- | 227.761 | 235.807 | 223.777 | 233.079 |

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National balance sheets are strained....yield curve is very steep

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UNITED KINGDOM GENERIC RATES

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| SECURITY | TIME | LAST | CHANGE | OPEN | HIGH | LOW | CLOSE |
|-------------|------|-------|--------|-------|-------|-------|-------|
| BGN Pricing | | | | | | | |
| 33 Month | 7/17 | .453 | -- | .479 | .479 | .453 | .453 |
| 46 Month | 6/26 | .588 | -- | .602 | .602 | .588 | .588 |
| Gilts | | | | | | | |
| 71 Year | 7/17 | .650 | -- | .607 | .696 | .585 | .650 |
| 82 Year | 7/17 | 1.169 | -- | 1.120 | 1.192 | 1.084 | 1.169 |
| 93 Year | 7/17 | 2.131 | -- | 2.073 | 2.163 | 2.051 | 2.131 |
| 104 Year | 7/17 | 2.731 | -- | 2.677 | 2.766 | 2.654 | 2.731 |
| 115 Year | 7/17 | 2.906 | -- | 2.861 | 2.941 | 2.839 | 2.906 |
| 126 Year | 7/17 | 3.104 | -- | 3.067 | 3.139 | 3.033 | 3.104 |
| 137 Year | 7/17 | 3.371 | -- | 3.336 | 3.406 | 3.299 | 3.371 |
| 1410 Year | 7/17 | 3.813 | -- | 3.777 | 3.846 | 3.736 | 3.813 |
| 1515 Year | 7/17 | 4.328 | -- | 4.281 | 4.348 | 4.259 | 4.328 |
| 1620 Year | 7/17 | 4.483 | -- | 4.443 | 4.504 | 4.421 | 4.483 |
| 1730 Year | 7/17 | 4.473 | -- | 4.437 | 4.494 | 4.412 | 4.473 |

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National balance sheets are strained....yield curve is very steep

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CHINA GENERIC RATES

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| SECURITY | TIME | LAST | CHANGE | OPEN | HIGH | LOW | CLOSE |
|-------------------|------|-------|--------|-------|-------|-------|-------|
| Government Bond | | | | | | | |
| CFIF Pricing | | | | | | | |
| 3) 3 Month | 7/17 | 1.21 | -- | 1.21 | 1.21 | 1.21 | 1.21 |
| 4) 6 Month | 7/17 | 1.34 | -- | 1.34 | 1.34 | 1.34 | 1.34 |
| 5) China 1 Year | 7/17 | 1.530 | -- | 1.530 | 1.530 | 1.530 | 1.530 |
| 6) China 2 Year | 7/17 | 1.720 | -- | 1.720 | 1.720 | 1.720 | 1.720 |
| 7) China 3 Year | 7/17 | 2.460 | -- | 2.460 | 2.460 | 2.460 | 2.460 |
| 8) China 4 Year | 7/14 | 2.230 | -- | 2.230 | 2.230 | 2.230 | 2.230 |
| 9) China 5 Year | 7/17 | 2.960 | -- | 2.960 | 2.960 | 2.960 | 2.960 |
| 10) China 6 Year | 7/17 | 3.060 | -- | 3.060 | 3.060 | 3.060 | 3.060 |
| 11) China 7 Year | 7/17 | 3.180 | -- | 3.180 | 3.180 | 3.180 | 3.180 |
| 12) China 10 Year | 7/17 | 3.430 | -- | 3.430 | 3.430 | 3.430 | 3.430 |
| BFV Pricing | | | | | | | |
| 14) 3 Month | 7/17 | 1.26 | -- | 1.26 | 1.26 | 1.26 | 1.26 |
| 15) 6 Month | 7/17 | 1.32 | -- | 1.32 | 1.32 | 1.32 | 1.32 |
| 16) 1 Year | 7/17 | 1.47 | -- | 1.47 | 1.47 | 1.47 | 1.47 |
| 17) 2 Year | 7/17 | 1.75 | -- | 1.75 | 1.75 | 1.75 | 1.75 |
| 18) 3 Year | 7/17 | 2.26 | -- | 2.26 | 2.26 | 2.26 | 2.26 |
| 19) 4 Year | 7/17 | 2.62 | -- | 2.62 | 2.62 | 2.62 | 2.62 |
| 20) 5 Year | 7/17 | 2.99 | -- | 2.99 | 2.99 | 2.99 | 2.99 |

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Until Governments lower the long
end of yield curve.....I think by
talking deflation

..... Liquidity from near zero short
term interest rates will drive stock
markets in the short term



Easy money is over.....stock
markets no longer cheap

.....earnings season needs to
Validate rise in stock prices

Liquidity will significantly increase
market volatility

Current expectations....only Shanghai and Hong Kong have positive EPS growth in 2009

| | Historic PER | Forecasted PER | Earnings growth % |
|-----------|--------------|----------------|-------------------|
| Dow | 11.7 | 13.9 | -15.8% |
| Hang Seng | 16.8 | 16.6 | 1.4% |
| Shanghai | 33.1 | 24.1 | 37.3% |
| STI | 13.6 | 16.5 | -17.1% |

Check the quality of earnings....

- Are better earnings driven by cost cutting, ie the top line is still weak ?
- Bank earnings should be high....give that cost of funds is near zero....so spreads are wide. Some have benefitted from demise of competitors....have they also stopped impairing their toxic assets; NPLs and credit card defaults rising
- Watch for deteriorating receivable days
- Corporate credit default swap rates still high...so corporate solvency risks still remain
- No visibility in forward guidance...most companies have at best two months

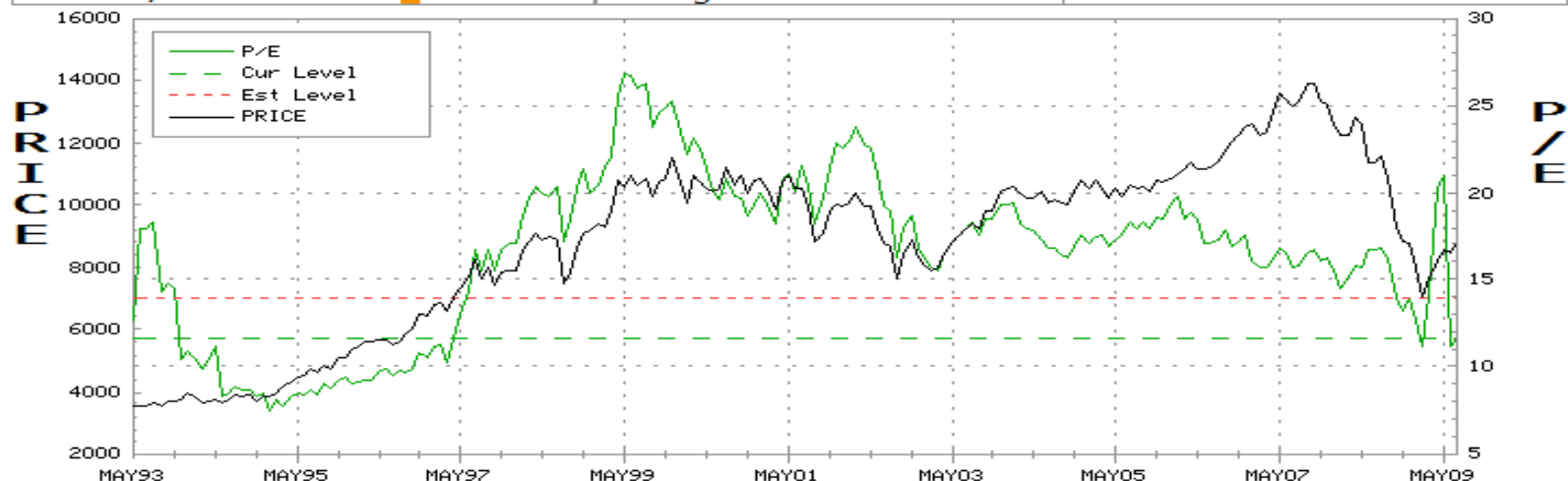
PER of the Dow...below historical range

INDU ↑8743.94 +32.12
 At 04:30 Op 8711.89 Hi 8754.29 Lo 8674.41

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VALUATION GRAPH FOR INDU

| | | | | | |
|----------------------|--------------------|---------|---------|------------|------------------|
| DOW JONES INDUS. AVG | | Est P/E | 13.92 | Est EPS | 627.98 |
| Range | 5/31/93 To 7/17/09 | P/E | 11.72 | EPS | 745.79 |
| Graph Type | 1 P/E | P/E chg | 18.76 | EPS chg | -15.80 |
| Period | M Monthly | High | 5/31/99 | High Price | 13930.0110/31/07 |
| Hi/Lo Graph | N Price graph Y | Low | 1/31/95 | Low Price | 3516.08 6/30/93 |
| Cur/est level | Y | Average | 16.50 | | |



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PER of Shanghai Index matching earnings growth rate....

SHCOMP 3189.741Y as of close 7/17

Index GE

Vol 164,690y

VALUATION GRAPH FOR SHCOMP

SHANGHAI SE COMPOSIT

| | | | | | |
|---------------|--------------------|---------|----------------|------------|-------------------|
| Range | 4/28/00 To 7/17/09 | Est P/E | 24.13 | Est EPS | 132.20 |
| Graph Type | 1 P/E | P/E | 33.14 | EPS | 96.25 |
| Period | M Monthly | P/E chg | -27.19 | EPS chg | 37.34 |
| Hi/Lo Graph | Y Price graph Y | High | 11/30/00 63.64 | High Price | 5954.765 10/31/07 |
| Cur/est level | Y | Low | 10/31/08 12.60 | Low Price | 1060.738 5/31/05 |
| | | Average | 34.41 | | |



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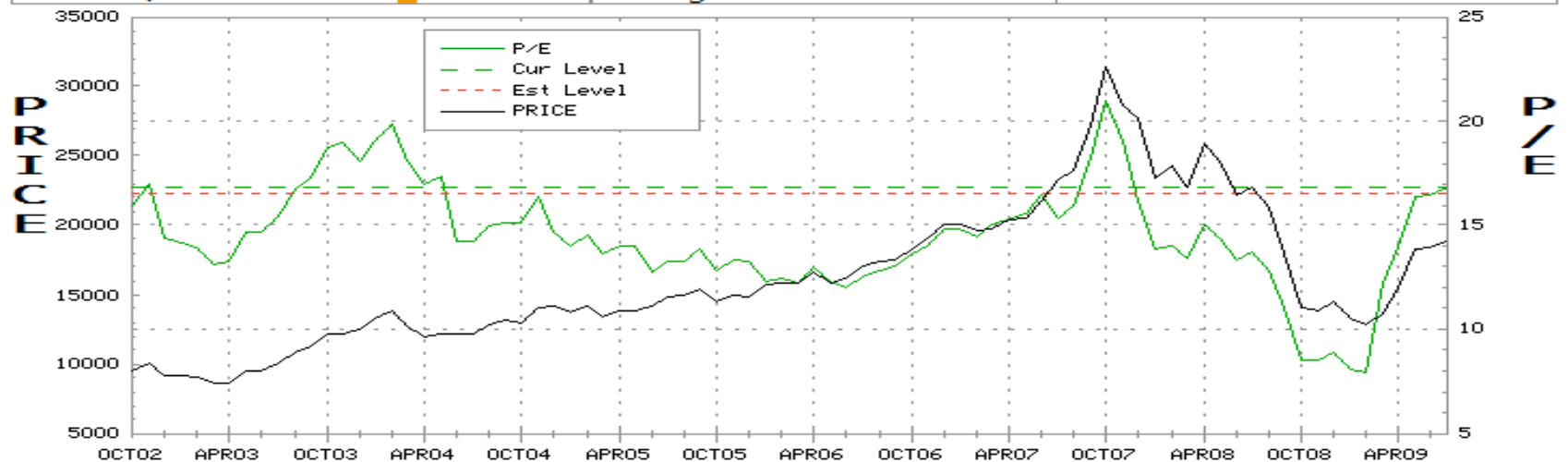
PER of Hang Seng Index – trading above historic levels

HSI 18805.66Y as of close 7/17

Index GE

VALUATION GRAPH FOR HSI

| | | | | | |
|-----------------|---------------------|---------|----------------|------------|-------------------|
| HANG SENG INDEX | | Est P/E | 16.59 | Est EPS | 1133.80 |
| Range | 10/31/02 To 7/17/09 | P/E | 16.83 | EPS | 1117.57 |
| Graph Type | 1 P/E | P/E chg | -1.43 | EPS chg | 1.45 |
| Period | M Monthly | High | 10/31/07 20.99 | High Price | 31352.58 10/31/07 |
| Hi/Lo Graph | N Price graph Y | Low | 2/27/09 7.93 | Low Price | 8634.45 3/31/03 |
| Cur/est level | Y | Average | 14.48 | | |



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PER of FSSTI Index....fairly valued....needs upward earnings revisions for index to trend higher

FSSTI 2430.96Y as of close 7/17

Index GE

VALUATION GRAPH FOR FSSTI

STRAITS TIMES INDEX

| | | | | | |
|---------------|--------------------|---------|----------|------------|---------|
| Range | 1/11/08 To 7/17/09 | Est P/E | 16.45 | Est EPS | 147.78 |
| Graph Type | 1 P/E | P/E | 13.65 | EPS | 178.16 |
| Period | W Weekly | P/E chg | 20.56 | EPS chg | -17.05 |
| Hi/Lo Graph | Y Price graph | High | 6/ 5/09 | High Price | 3287.34 |
| Cur/est level | Y | Low | 10/31/08 | Low Price | 1513.12 |
| | | Average | 9.98 | | |



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Summary

- Markets unlikely to retest March 2009 lows...some of the biggest companies have failed. Unless we have a war between the US/Russia, there isnt any major negative factor to bring markets to their knees
- Economic deceleration slowing but recovery in 2010 likely to be benign
- Demand from OECD likely to remain muted due to massive wealth destruction
- Huge liquidity from Central Banks to increase market volatility....if you have no appetite for this volatility/risks – stay sidelined

My strategy.....

- Stock selection is more important now !
- Take profit in positions where valuations are stretched....too early to pay a liquidity and growth premium
- Buy selectively on dips....paying close attention to strength of balance sheets
- Have a balanced portfolio of defensives and growth for now
- Have some China exposure through S chips owned by Singaporeans in infrastructure
- You can follow the stocks in my “stock picks/model portfolio” for your Singapore exposure



Thank You

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