

Economic & market outlook: a leap of faith?

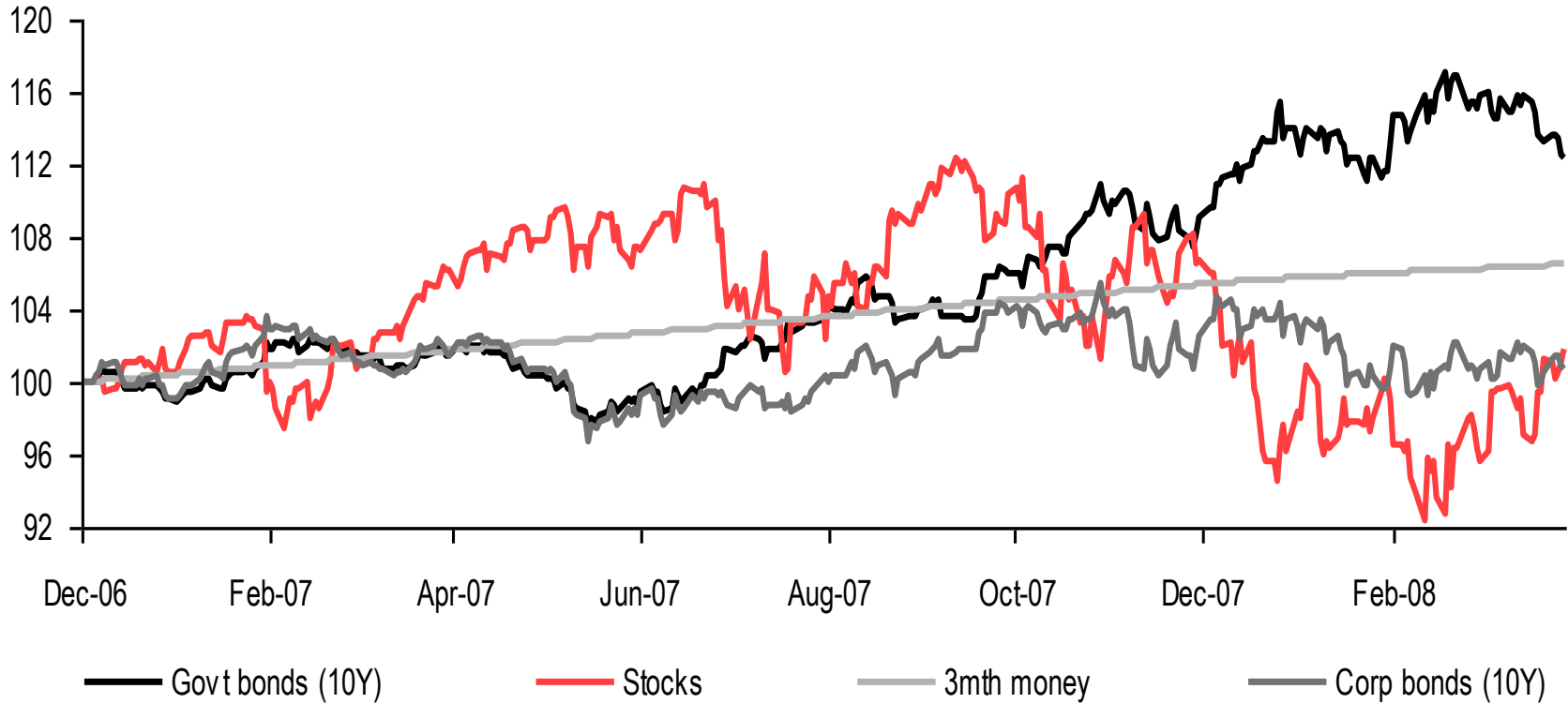
**AFGAP & ALMA Conference,
Paris, 30th May 2008**

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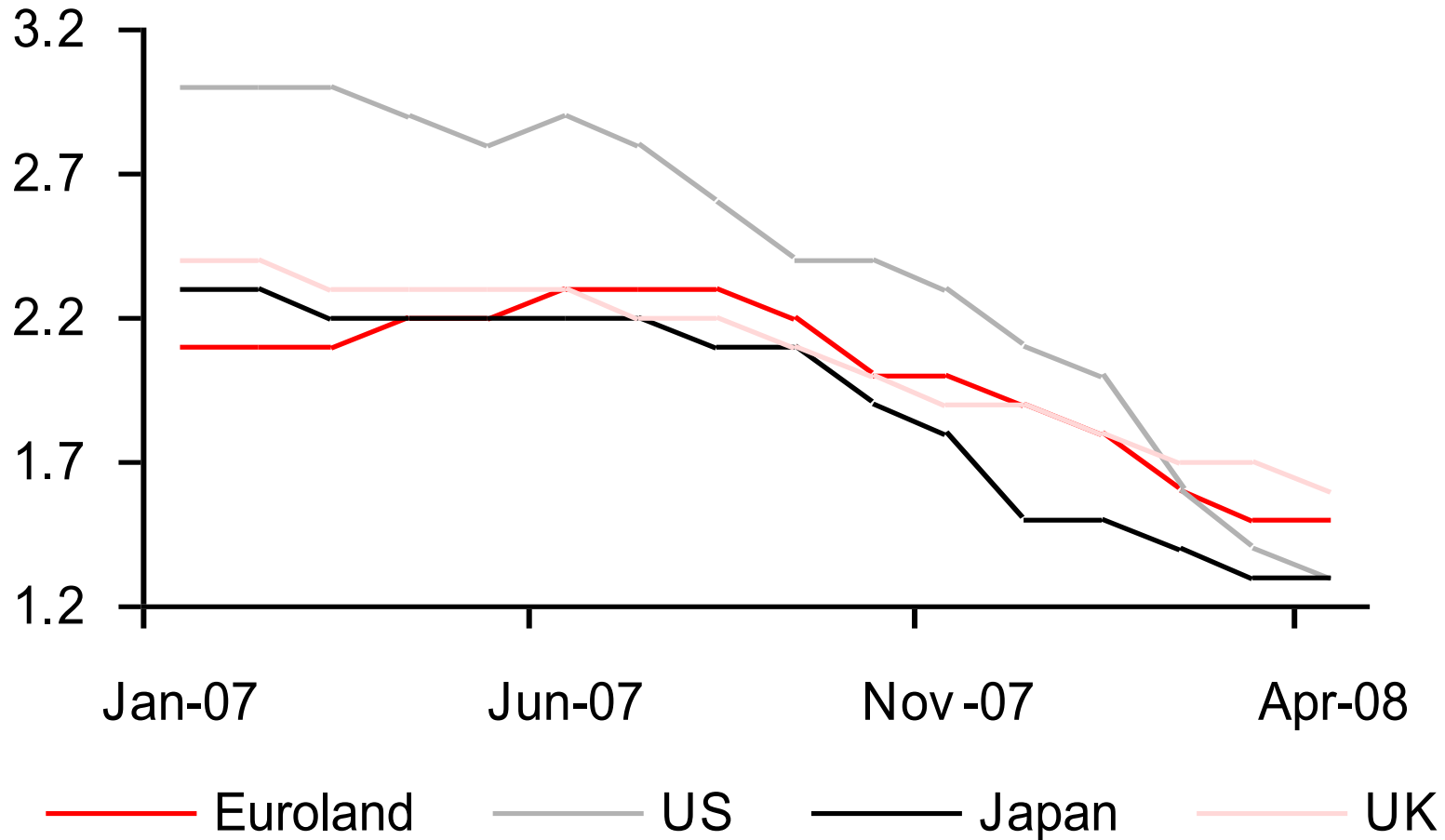


Sources: HSBC Research, Datastream, MSCI, IBES, Mergerstat, Consensus Economics

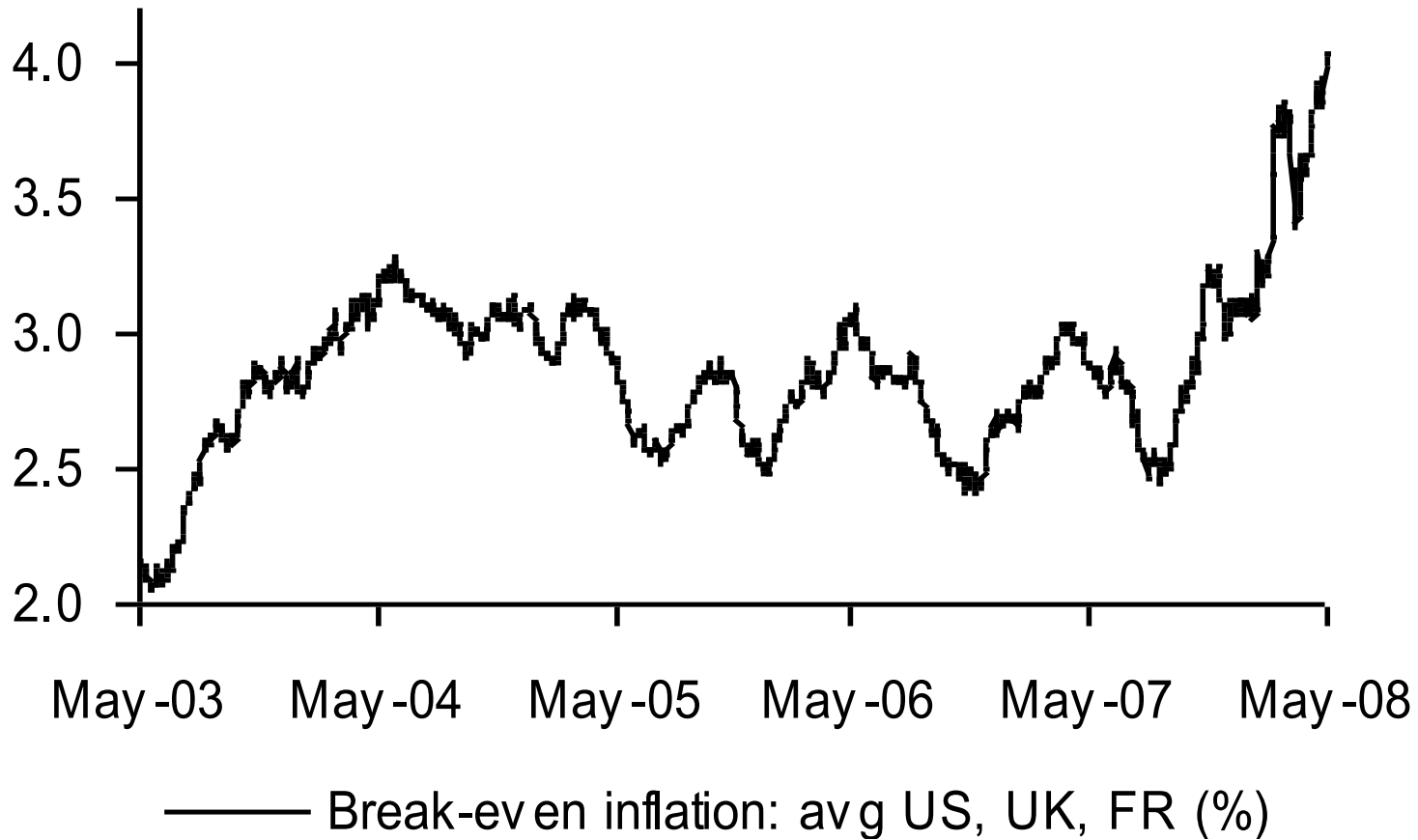
US assets, total return indices: end-2006 = 100



Consensus forecasts for 2008 GDP growth (%)



Implied inflation expectations

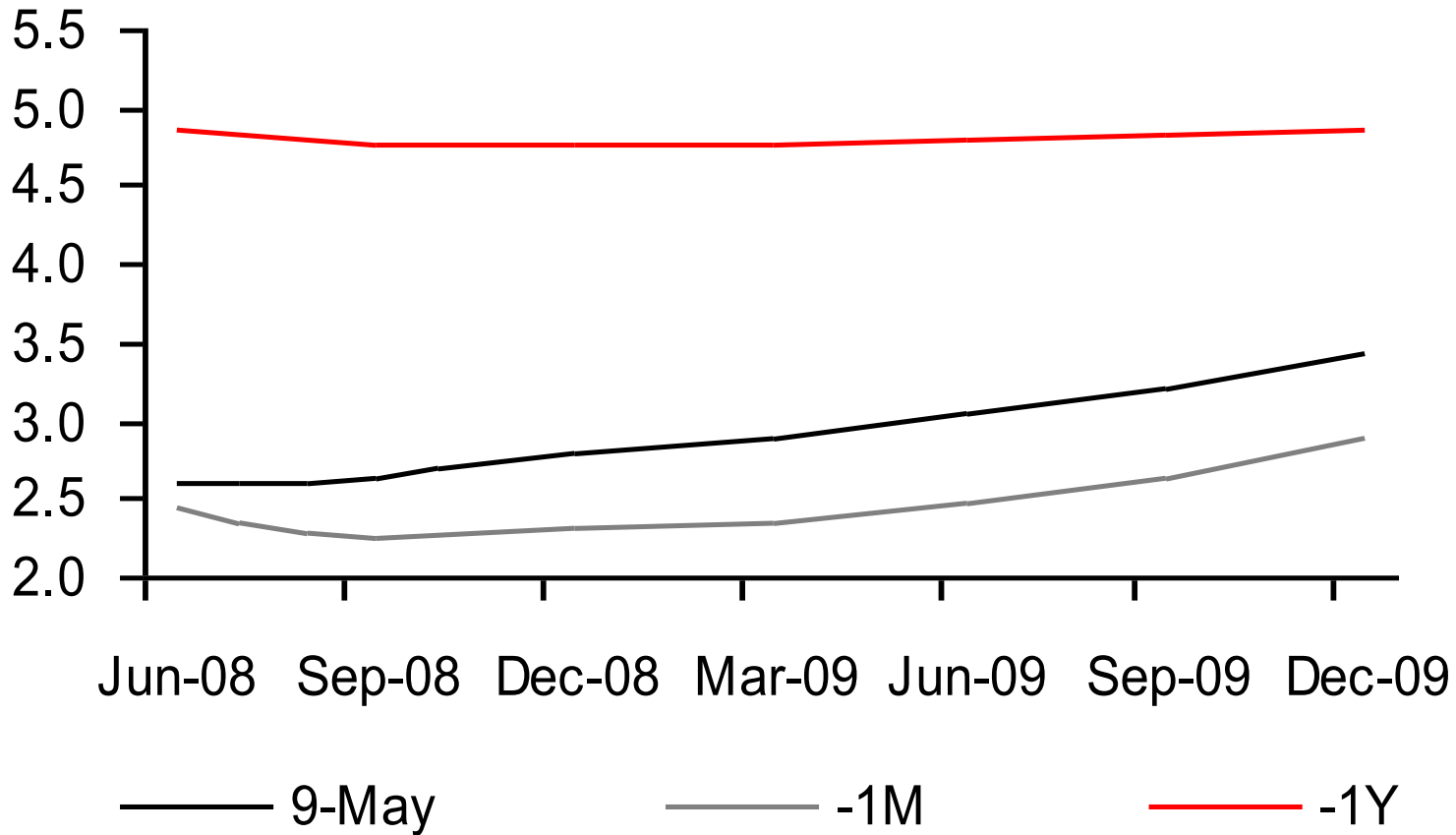


HSBC economic forecasts (%)

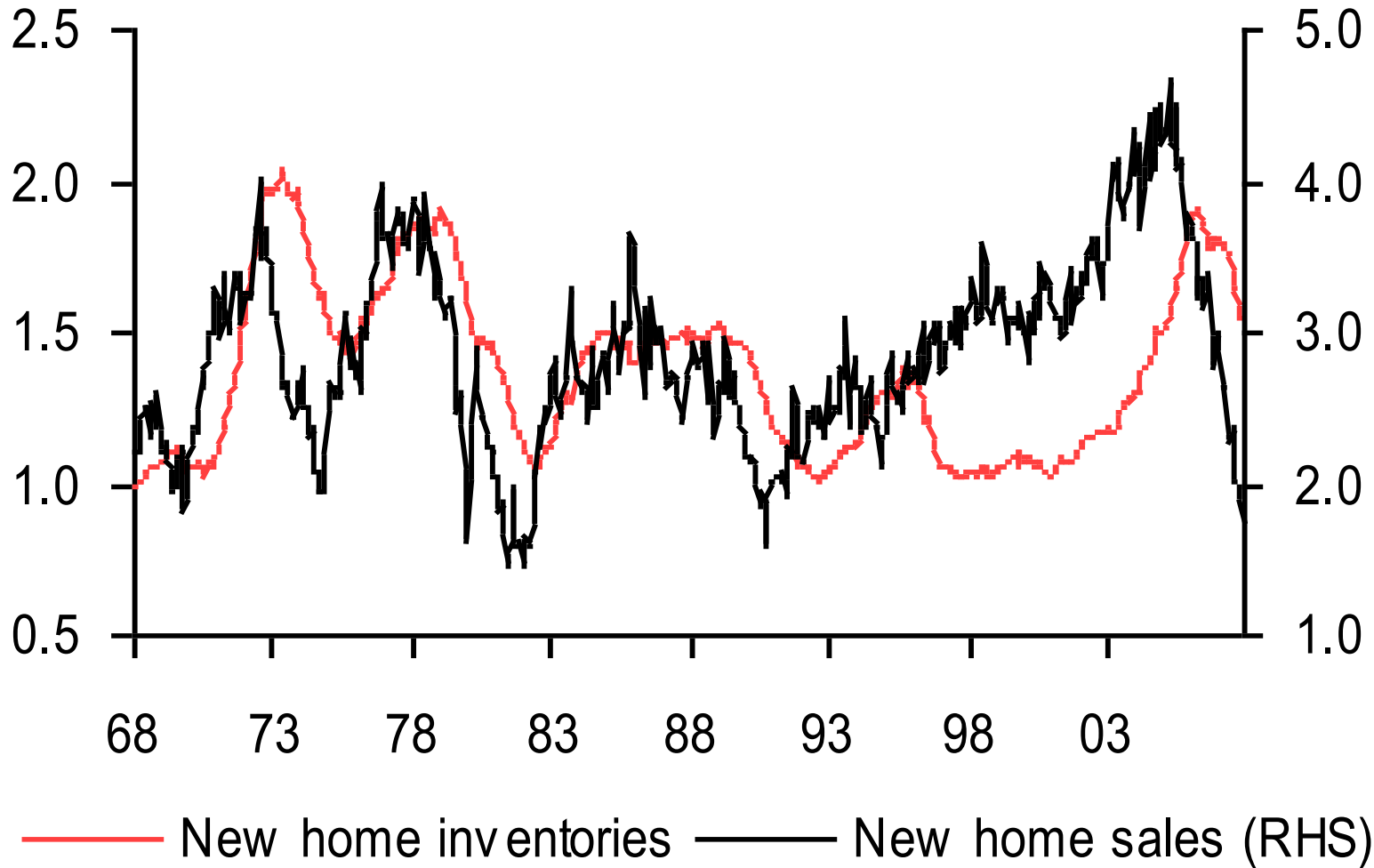
	GDP			Inflation		
	07	08	09	07	08	09
World	3.5	2.6	2.5	2.8	3.6	2.5
<i>Developed</i>	2.4	1.5	1.3	2.1	2.7	1.8
<i>Emerging</i>	7.5	6.5	6.2	5.5	6.6	5.2
US	2.2	1.5	1.2	2.9	3.5	2.0
EMU	2.6	1.4	1.3	2.1	2.8	1.9
UK	3.1	1.2	1.0	2.3	2.4	1.6
Japan	2.1	1.2	1.4	0.0	1.0	0.6
China	11.4	9.7	9.5	4.8	6.4	3.0

Source: HSBC Note: weights are nominal GDP

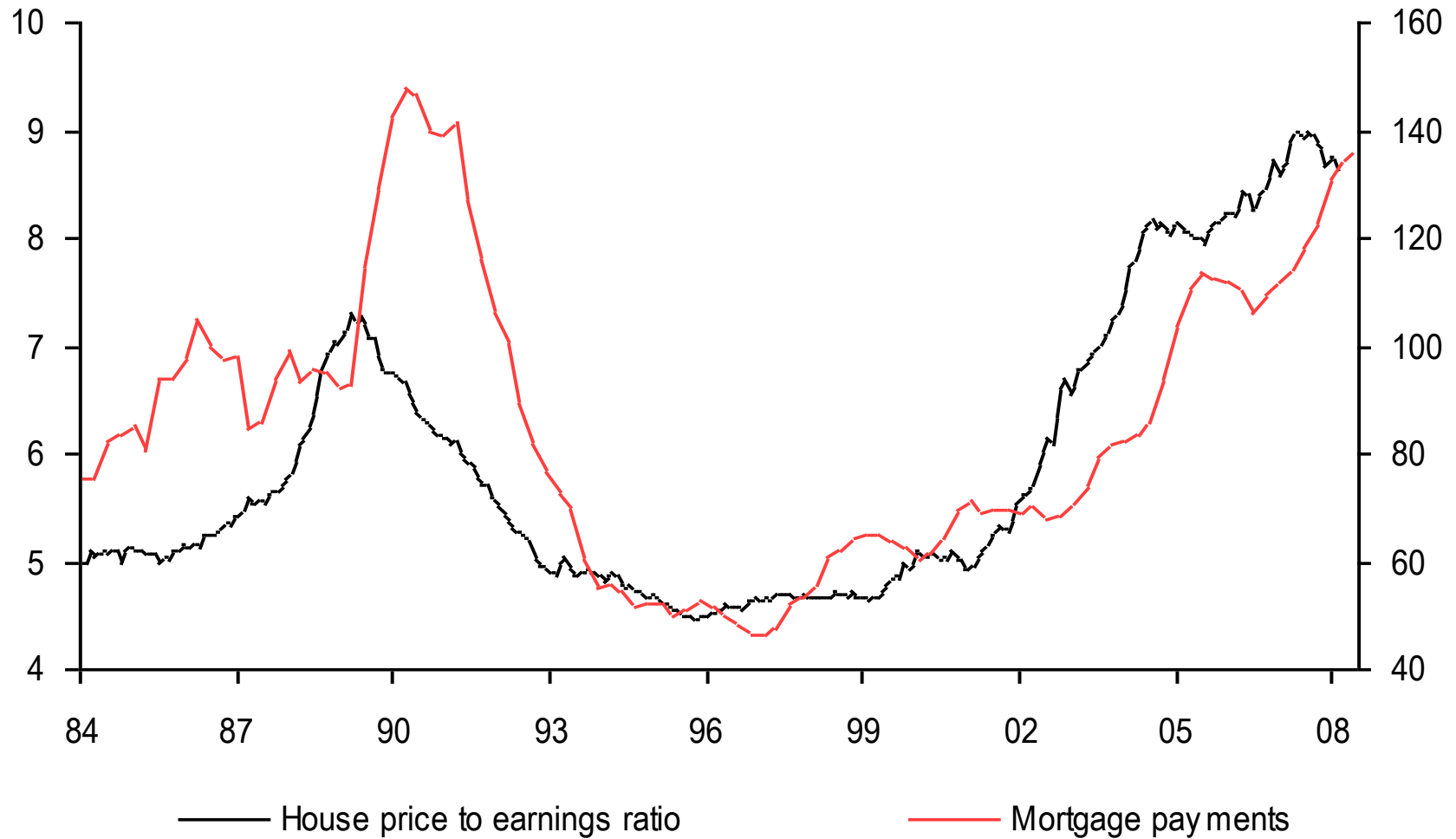
Implied 3-month US interest rates (%)



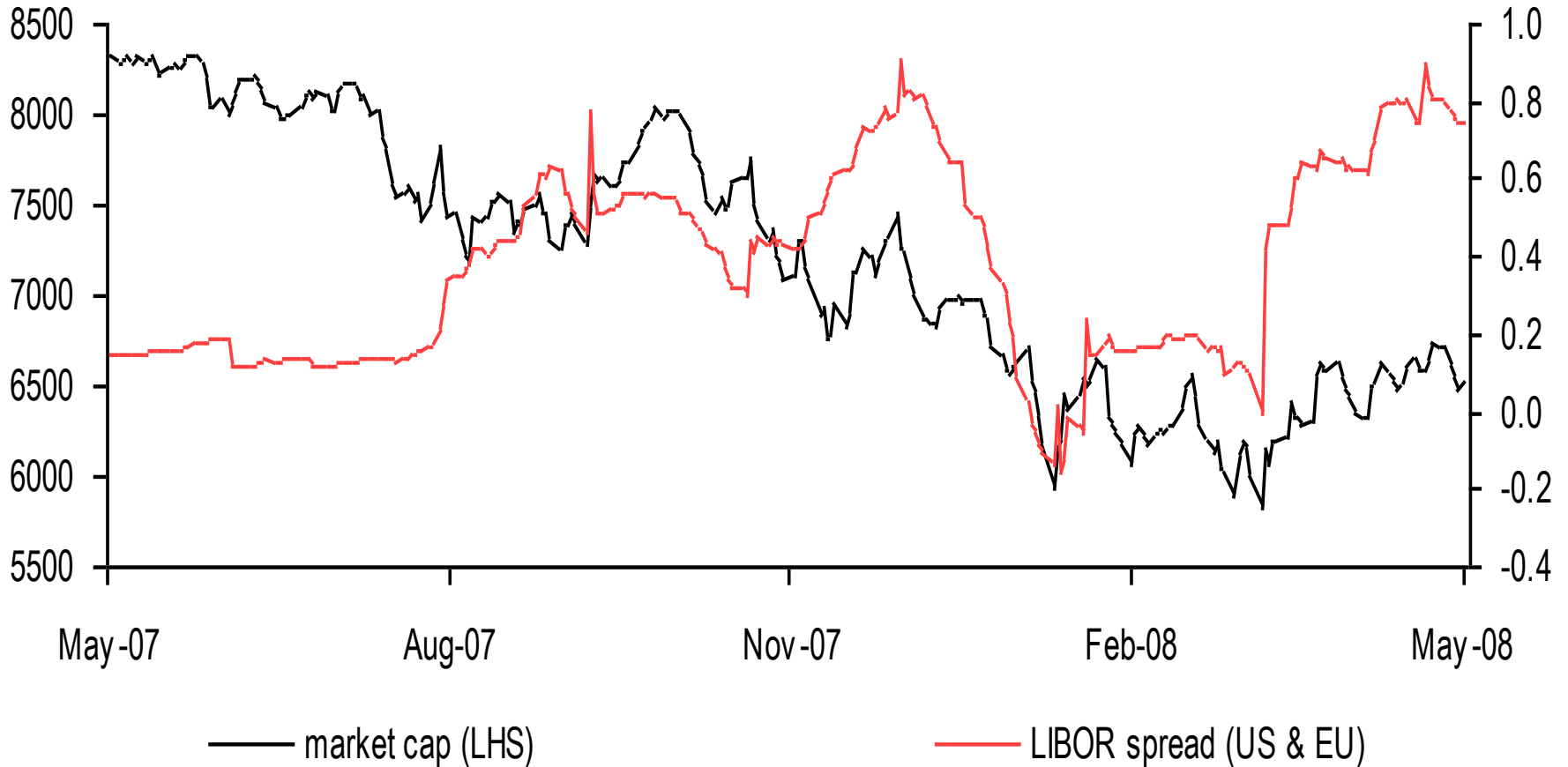
US new home sales/population ratio: close to 40-yr low



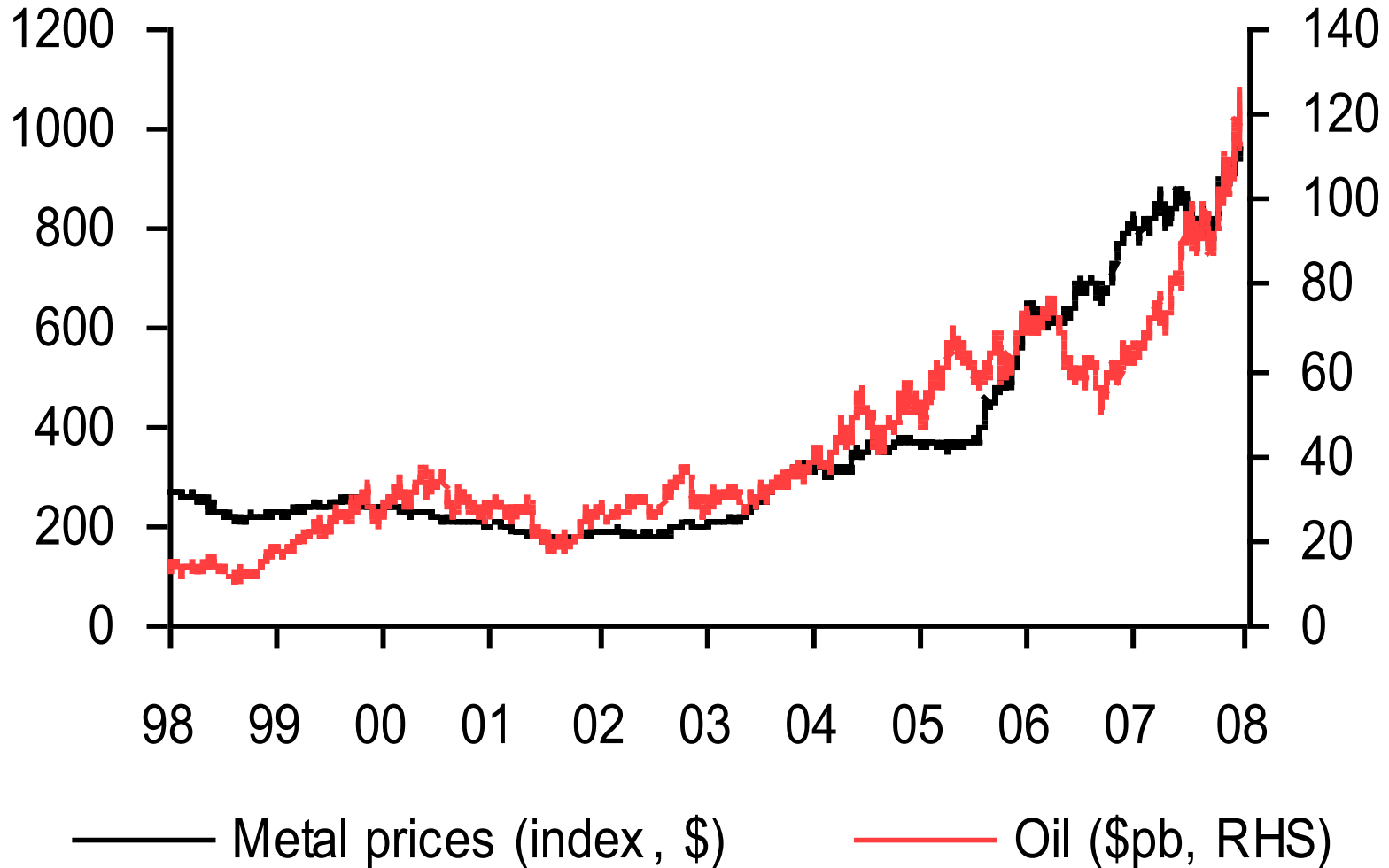
UK housing market: valuations stretched



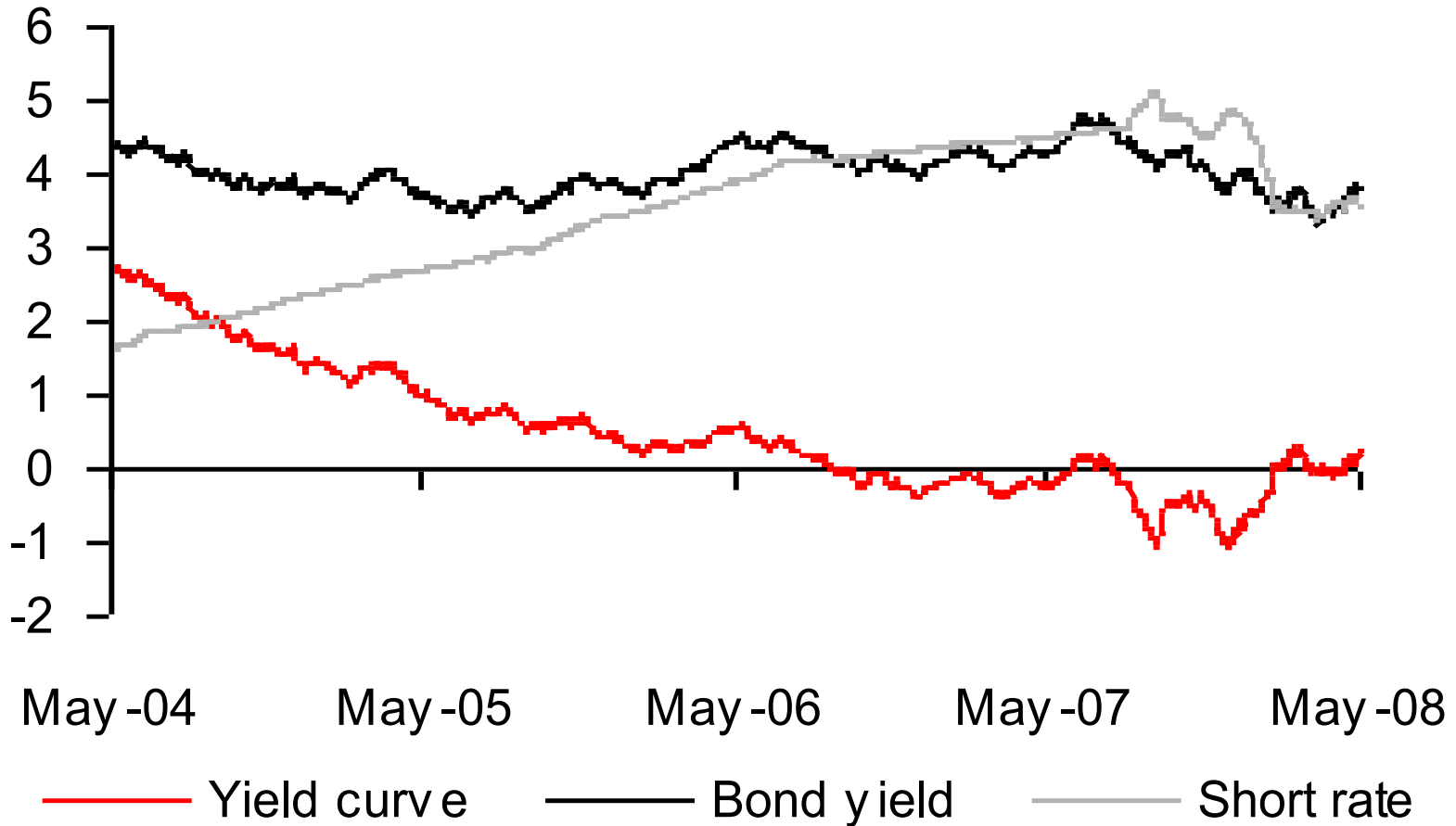
LIBOR spread (%); financials' market cap (\$ bn)



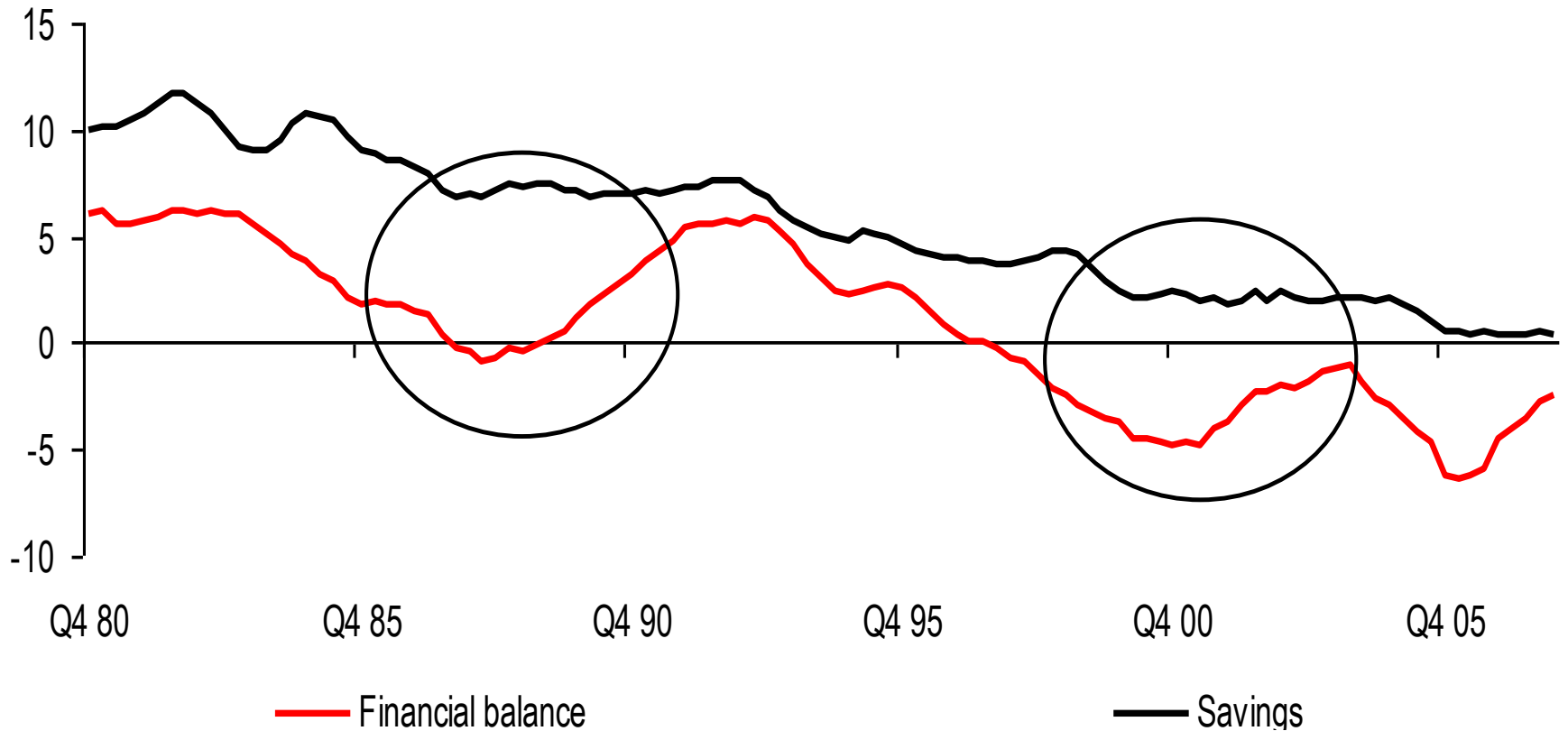
Oil and metal prices defying gravity?



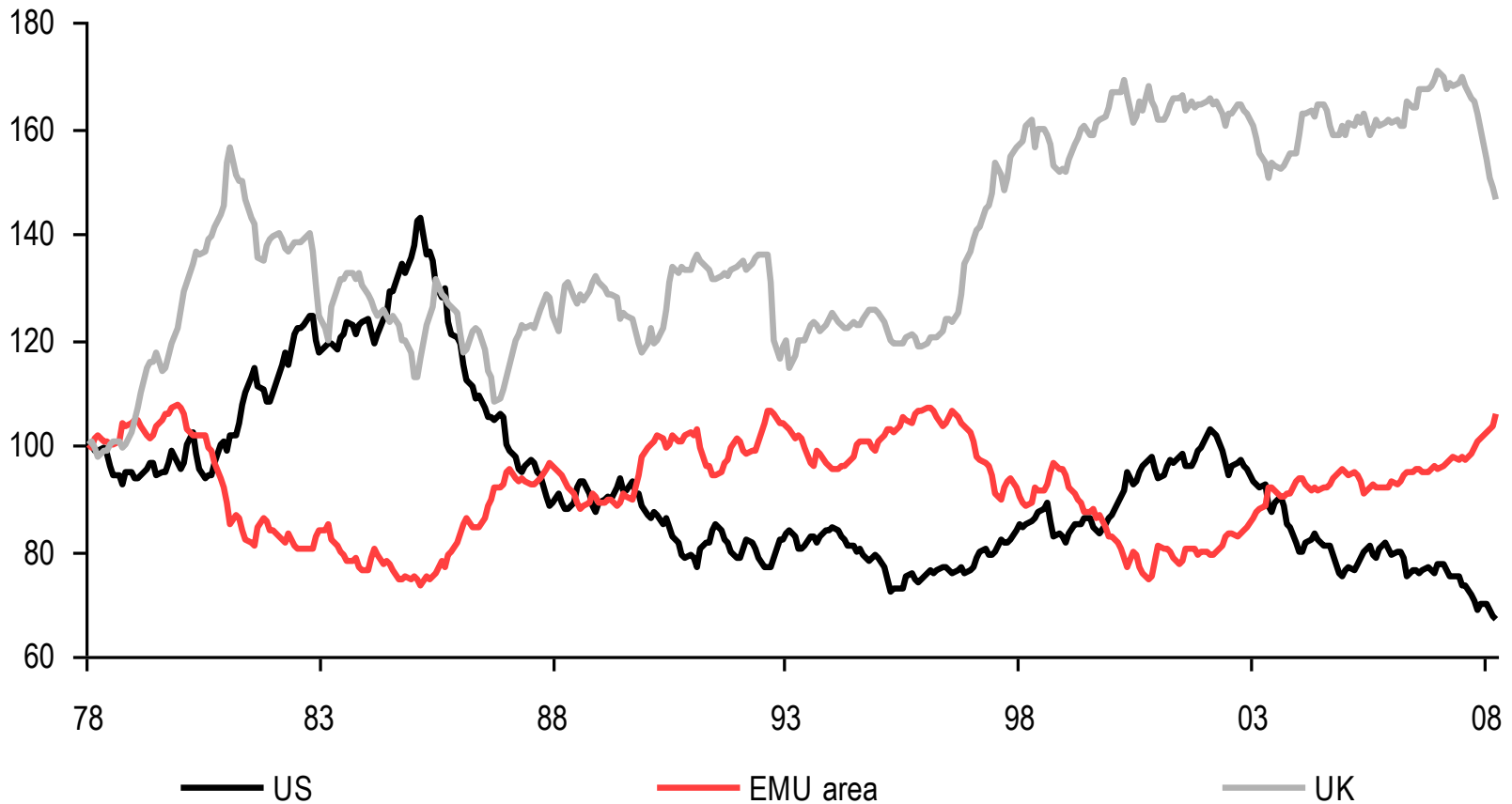
G3 yield curve (10yr - 3mths, %)



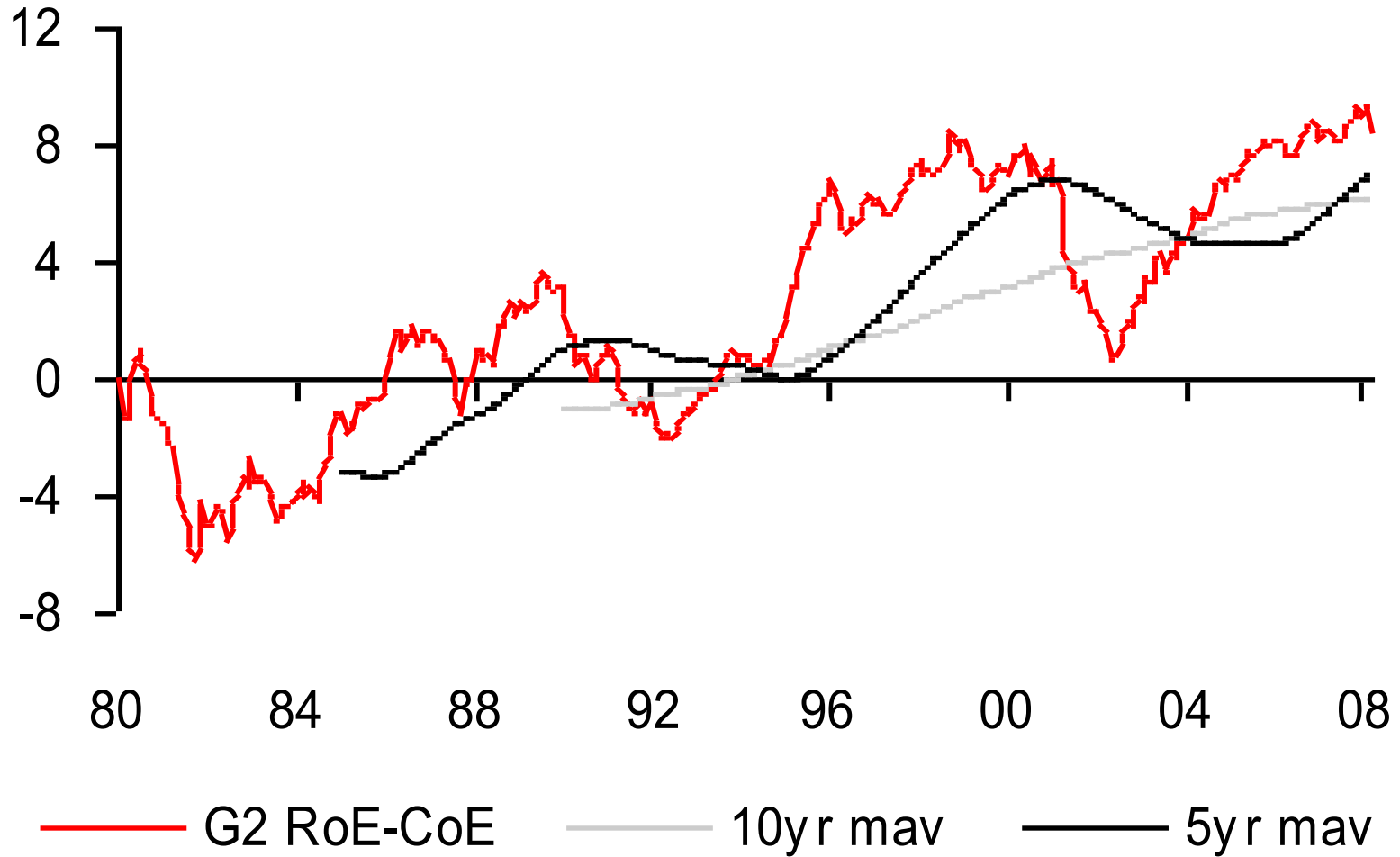
US consumers: saving ratio & financial balance (%pdi)



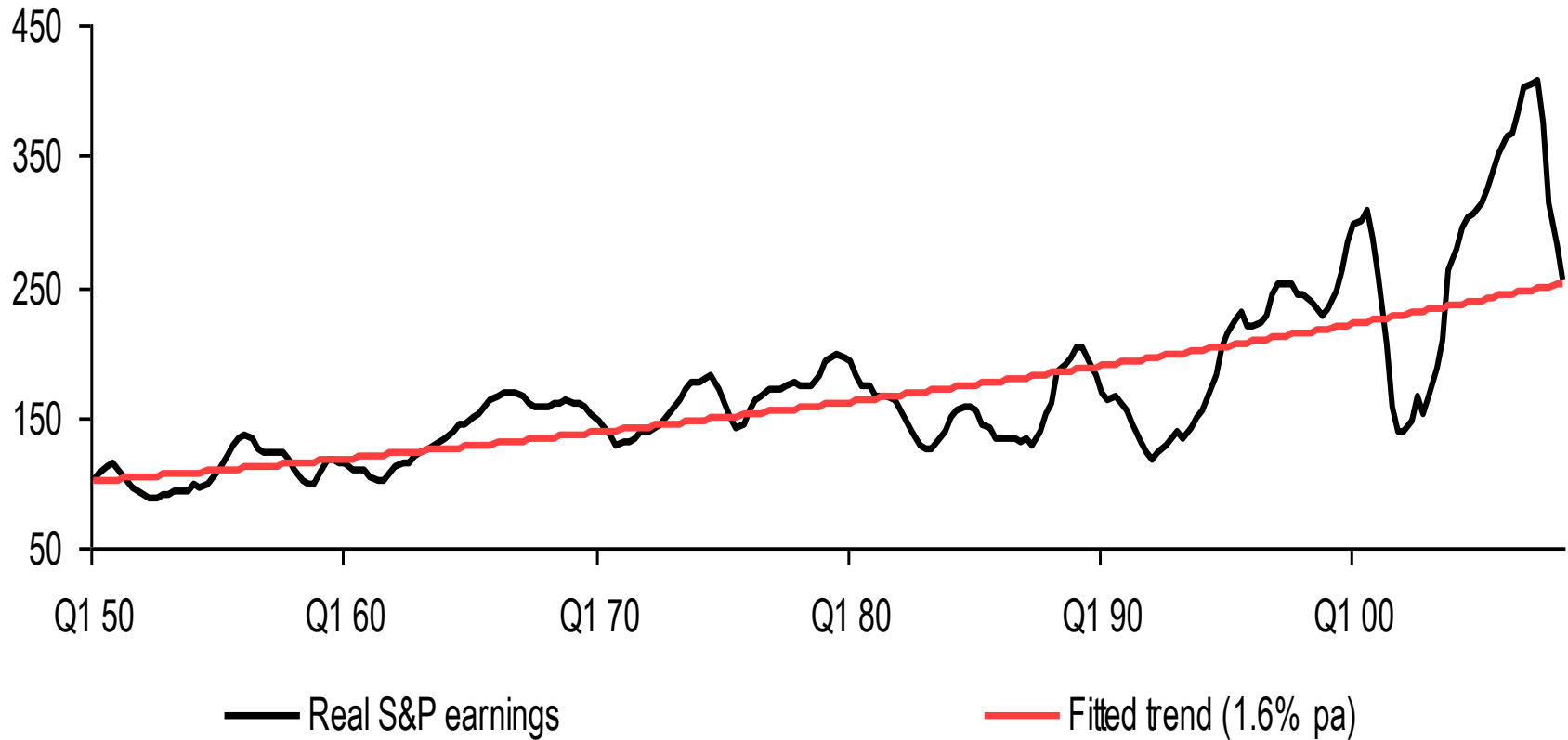
Real trade-weighted exchange rates (IMF indices)



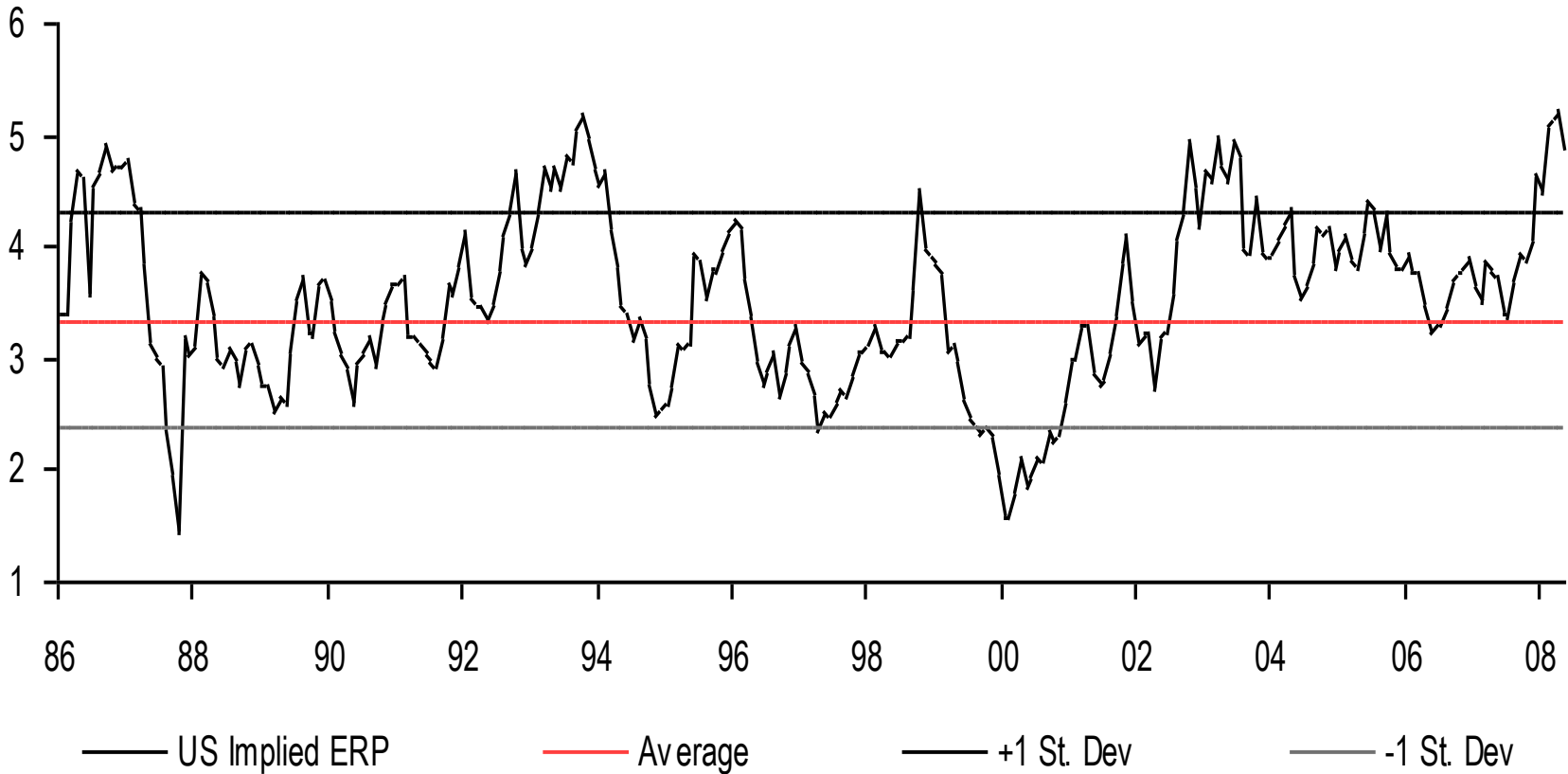
Corporate value-added: RoE – CoE, US & EU (%)



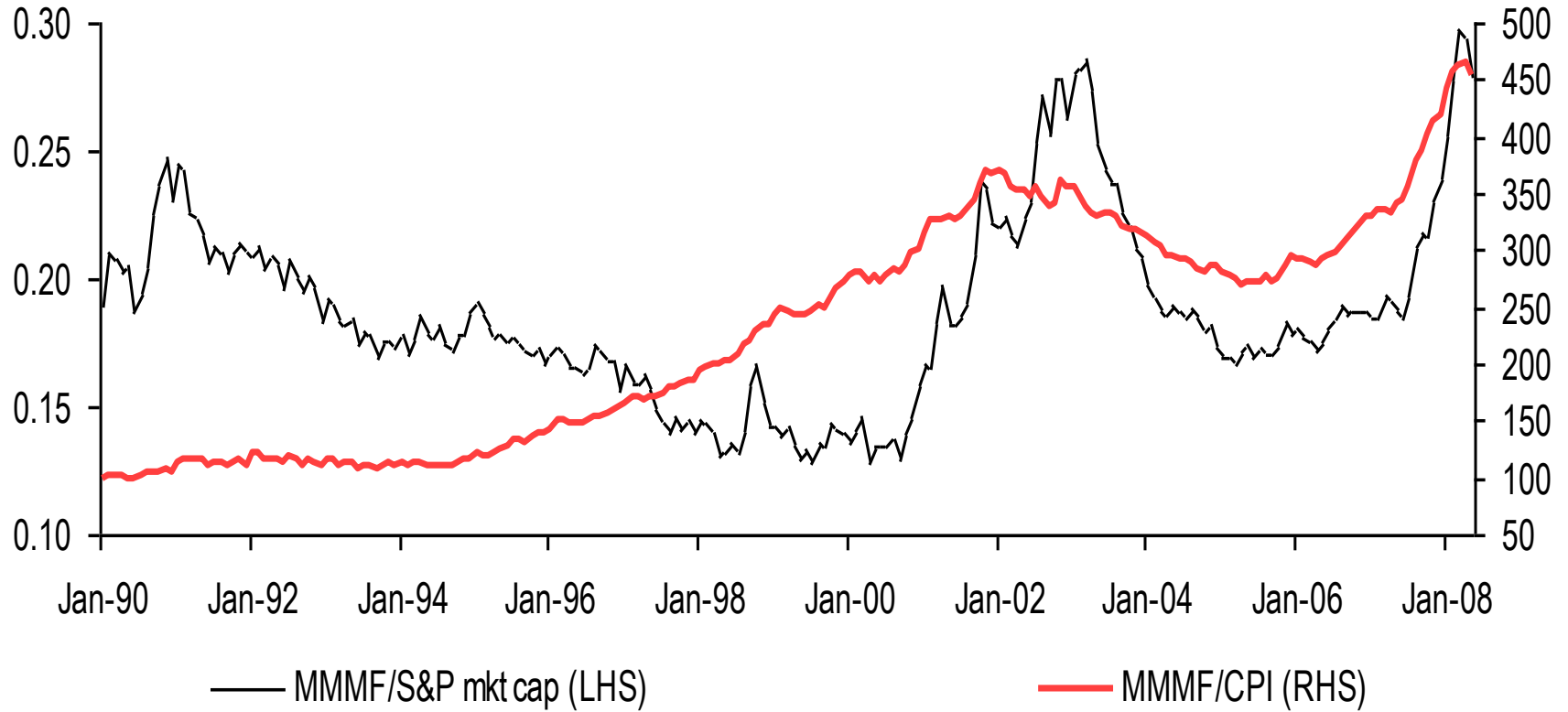
Real S&P earnings and trend: 1950 - Q2 2008(E)



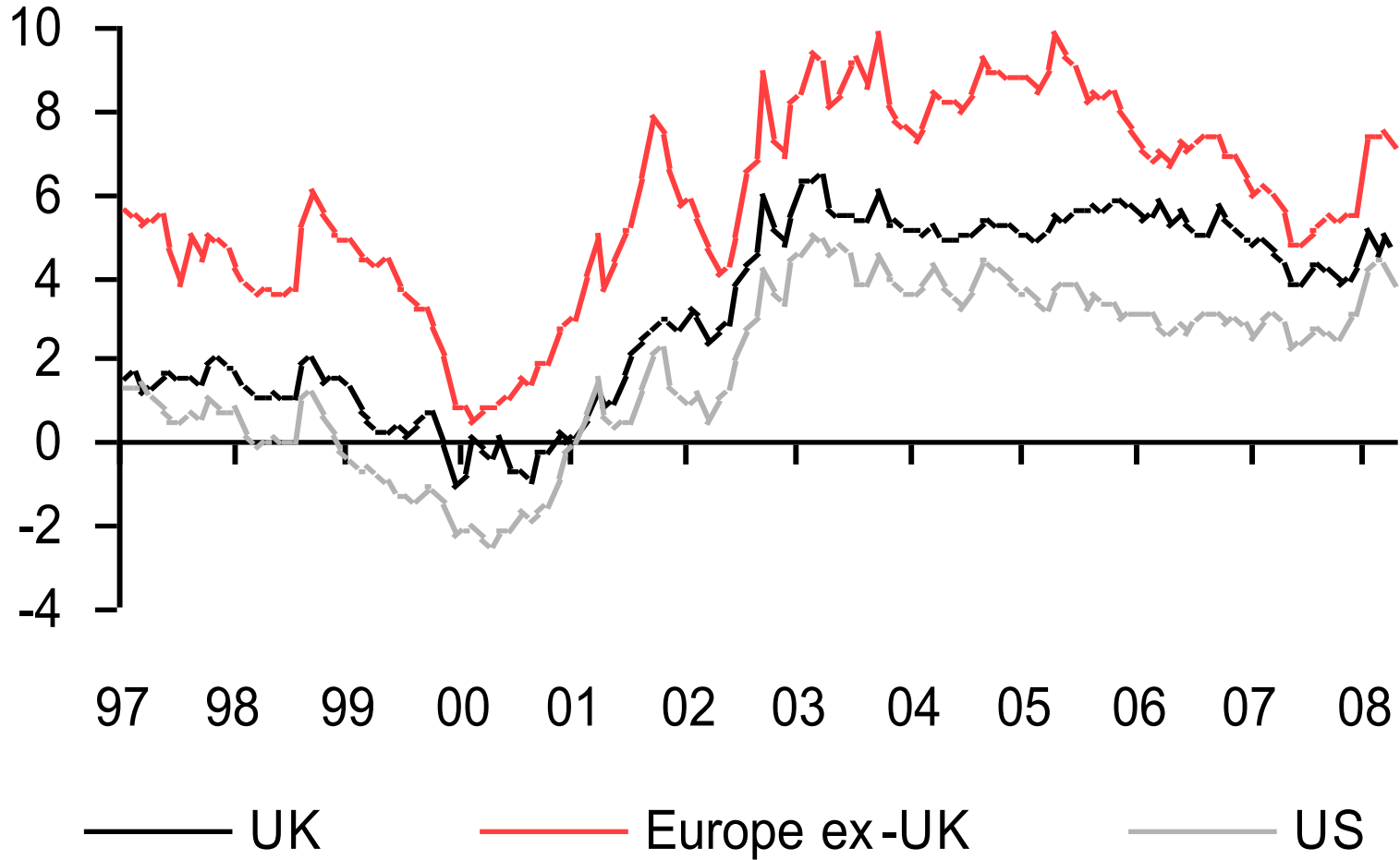
Estimated forward-looking US equity risk premium (%)



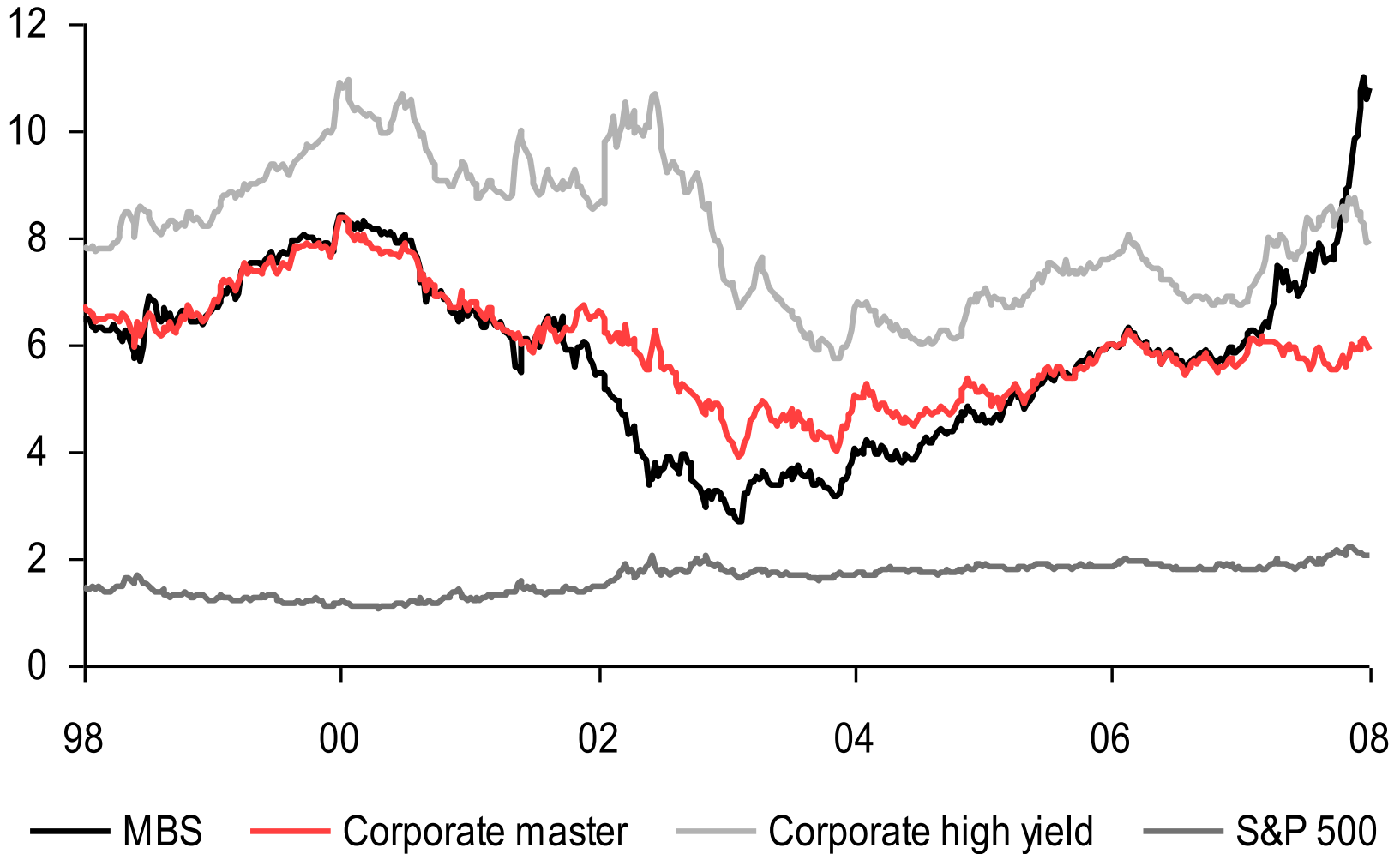
US money-market mutual funds (rel. to S&P, CPI)



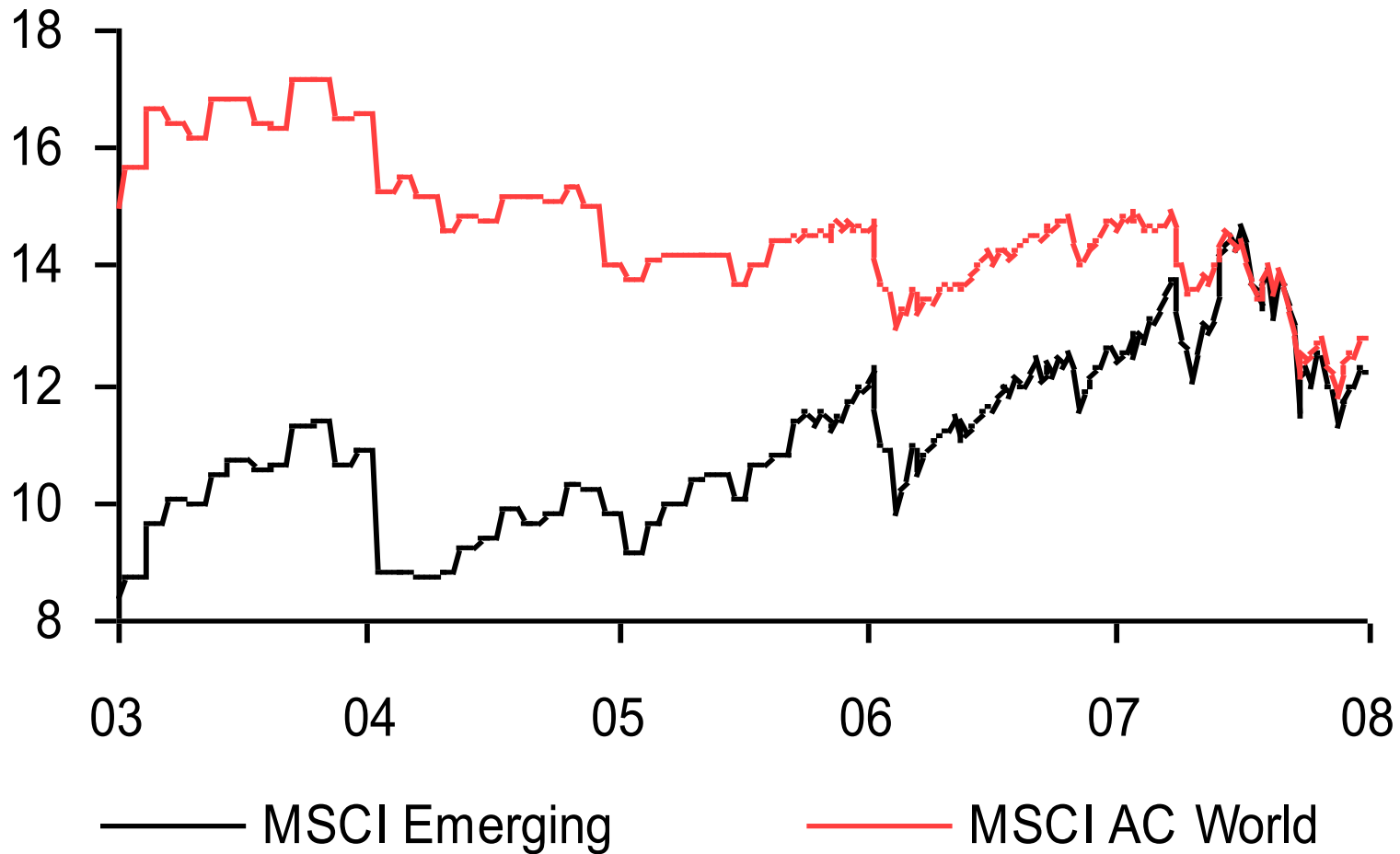
Cash earnings yields less credit yields (%)



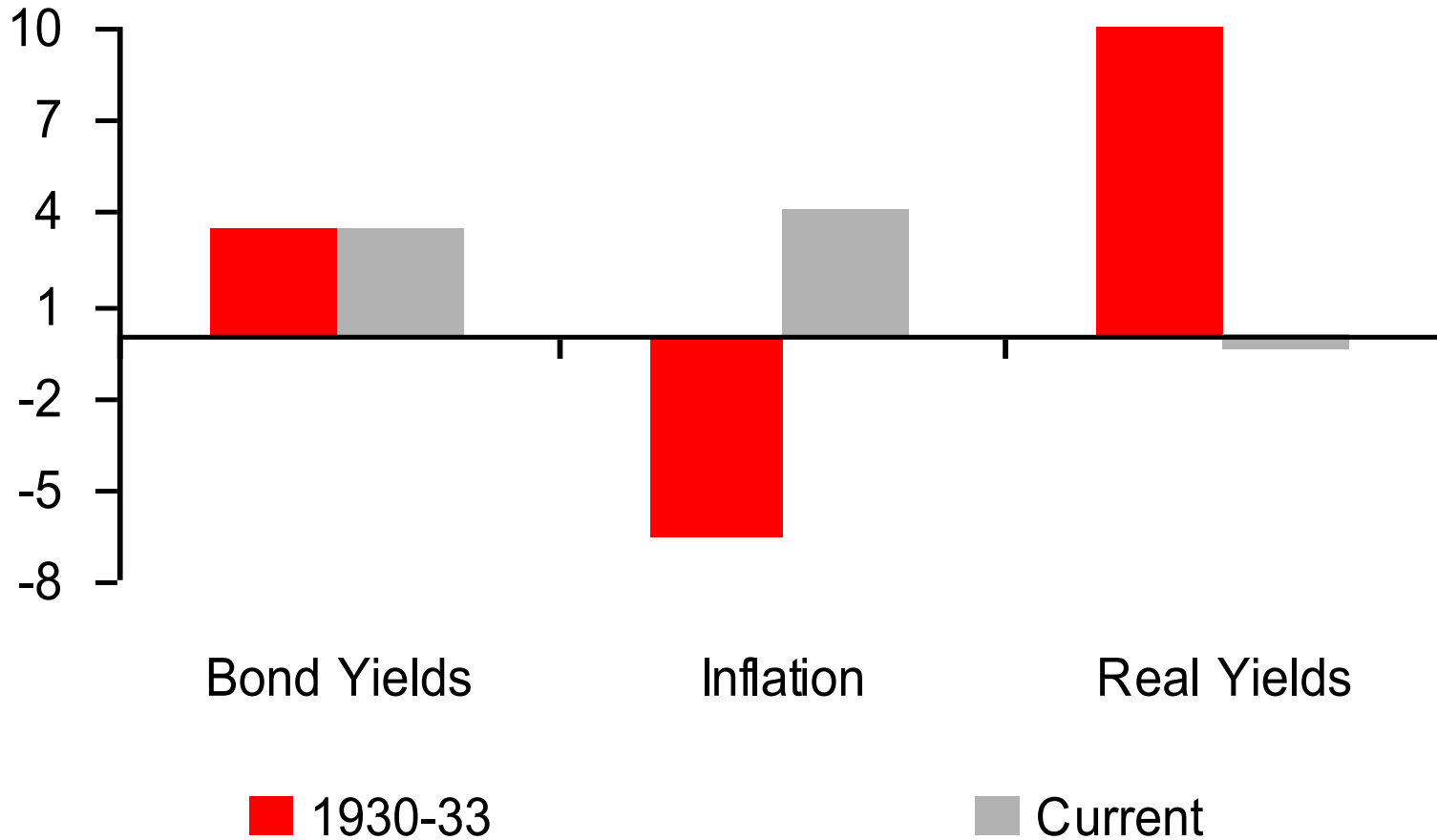
Yields bite back: a TMT moment for MBS? (%)



Emerging markets no longer look cheap: trailing PEs



Learning from past errors? US real interest rates (%)



Conclusions

- **US economy: W-shaped profile, below-trend growth into 2009**
- **Rates: Fed on hold; BoE to cut in summer; ECB cut at end-08**
- **Govt bonds: expensive, still partly priced for “crisis”**
- **Inflation: a tactical sell but strategic buy...**
- **Credit: spreads to fall, but govt yields & leverage cap gains**
- **Equities: volatility to stay high, but a (financial) recovery story**
- **Commodities and GEMs: neutral – life is exciting enough**
- **Private equity: watch this space**