

Worst case debt scenario

Protecting yourself against economic collapse

Hope for the best, be prepared for the worst

Daniel Fermon

Phone: (331) 42 13 58 81

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Key recommendations

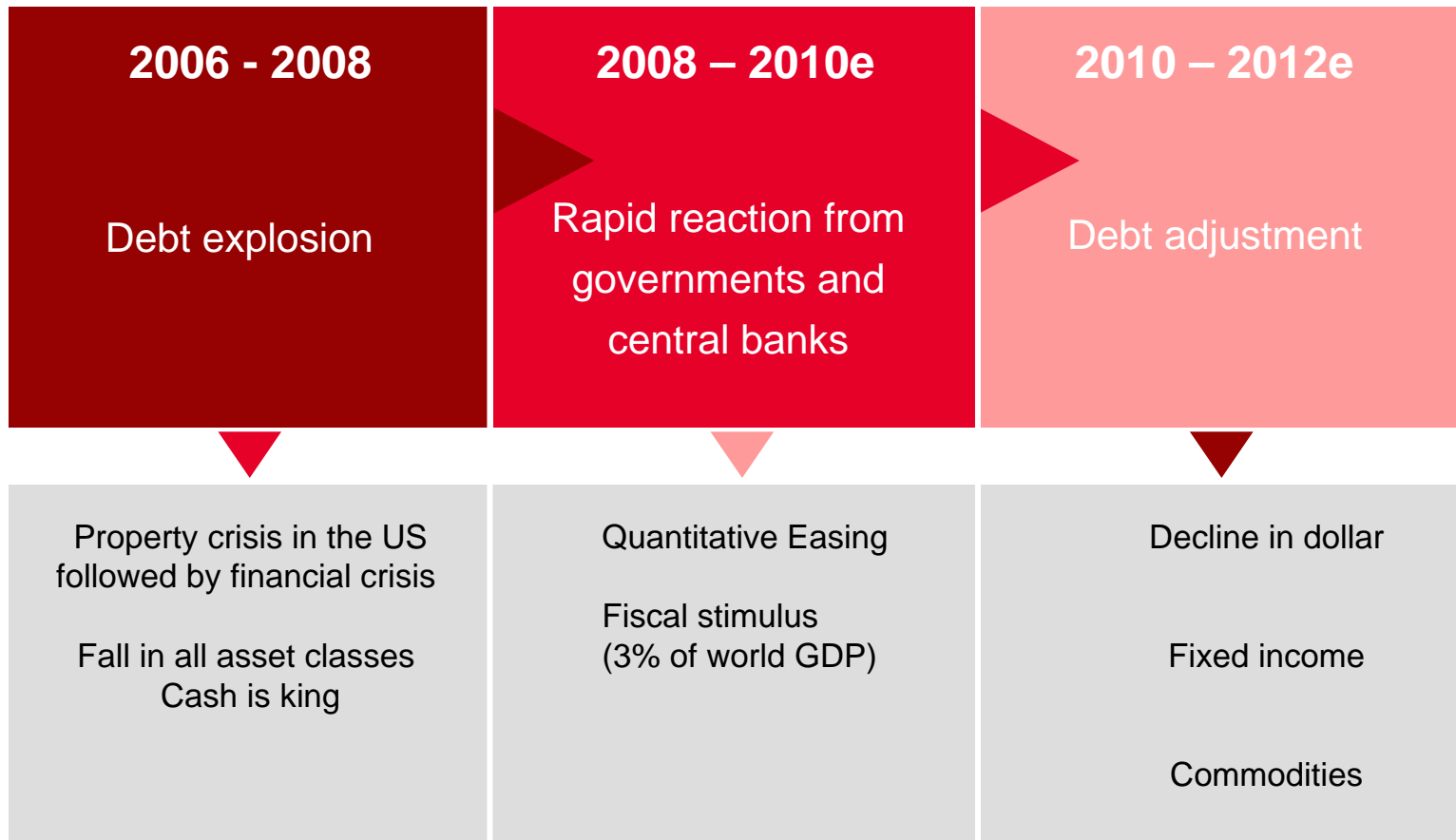


Asset class		Bear debt scenario (12m)	SG central scenario (12m)	Comments under a bear scenario
Currencies	Dollar	-	N	Future dollar worries stemming from US debt funding imbalance
Fixed income	Government bonds (10Y)	+	UW	10 YR bonds should perform well as long-term rates decline
	Investment grade (5-7Y)	=	N	Lower government yields should offset wider credit spreads
	High yield (3-5Y)	-	NA	Stay away from high-yield cyclicals as high risk aversion will heavily penalise these bonds
Equities	Indices	-	OW	Risk of a double bottom for equity markets as observed during past crisis
	US	-	N	Penalised by the weakness of the economy but benefiting from US corporates' global positioning
	Europe	-	N	Very fragile recovery. European companies penalised by a strong euro
	Emerging markets	=	UW	Difficult trade conditions should subdue any increase in domestic consumption
Commodities			OW	
	Oil	-		Short-term demand to fall, bringing Brent down to \$50 per barrel
	Mining	=		Mainly dependent on Chinese growth, with discrepancies between mining stocks
	Agricultural	+		Good trend in some agricultural products given lack of supply. Looks defensive

Source: SG Cross Asset Research, SG Global Asset Allocation Research and MAP Multi Asset Portfolio (UW = Underweight, N + Neutral, OW = Overweight)

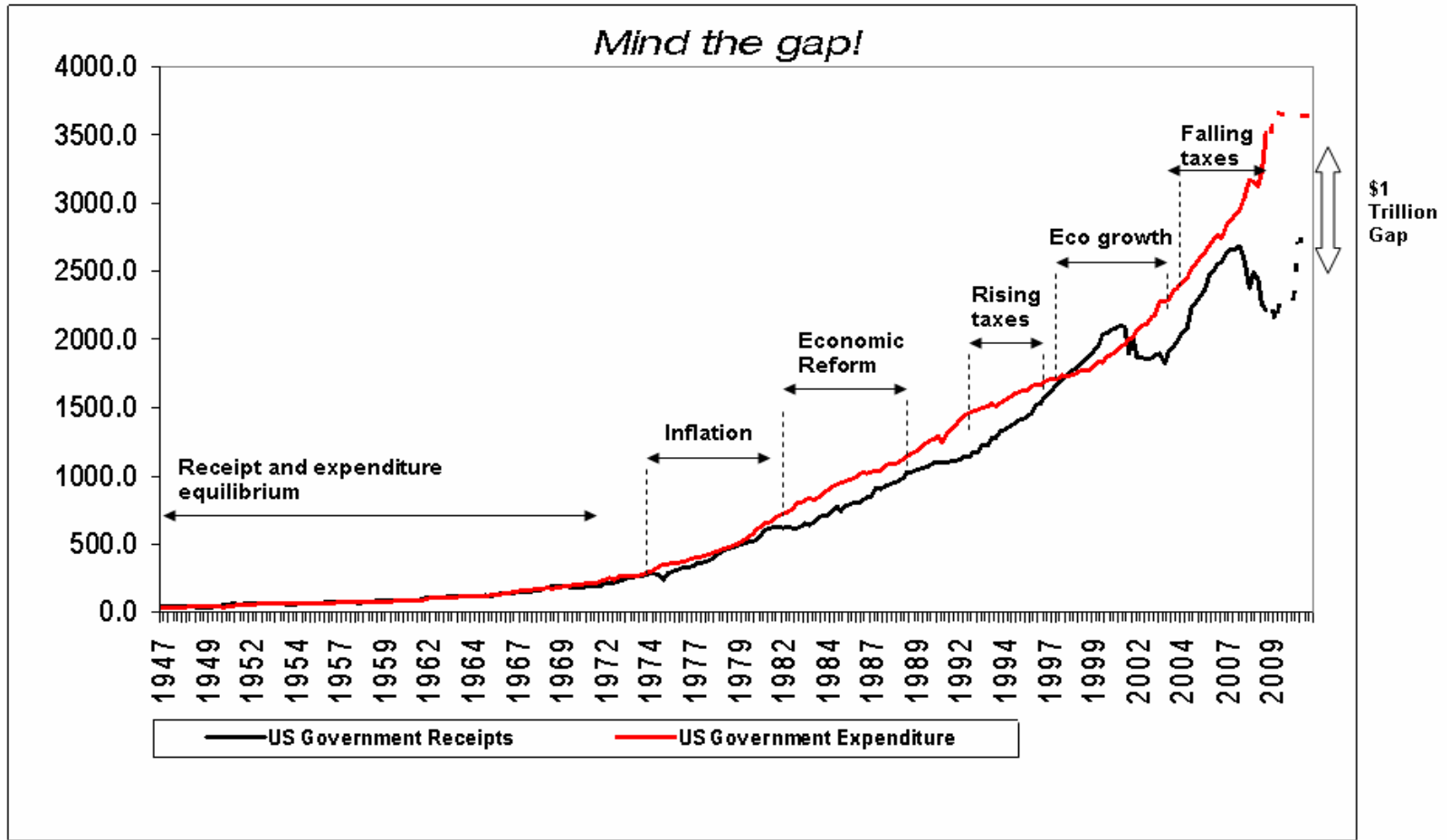
A three-step crisis

An enduring debt crisis



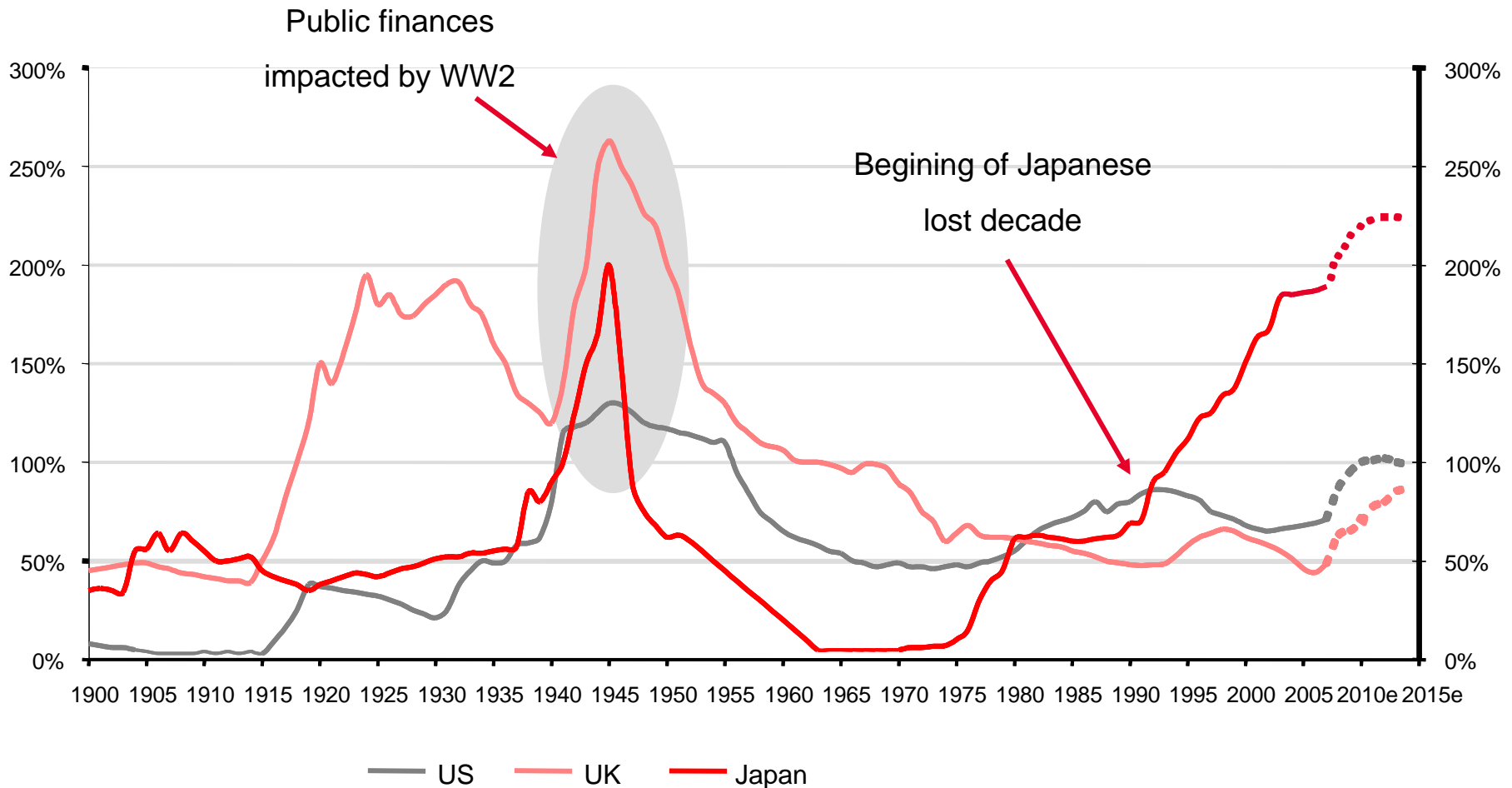
Public debt explosion in the US worrying for the economy and the dollar

1947-2009





State debt at historic high





Debt transfer from private to public sphere: government stimulus supporting demand in 2009-2010e



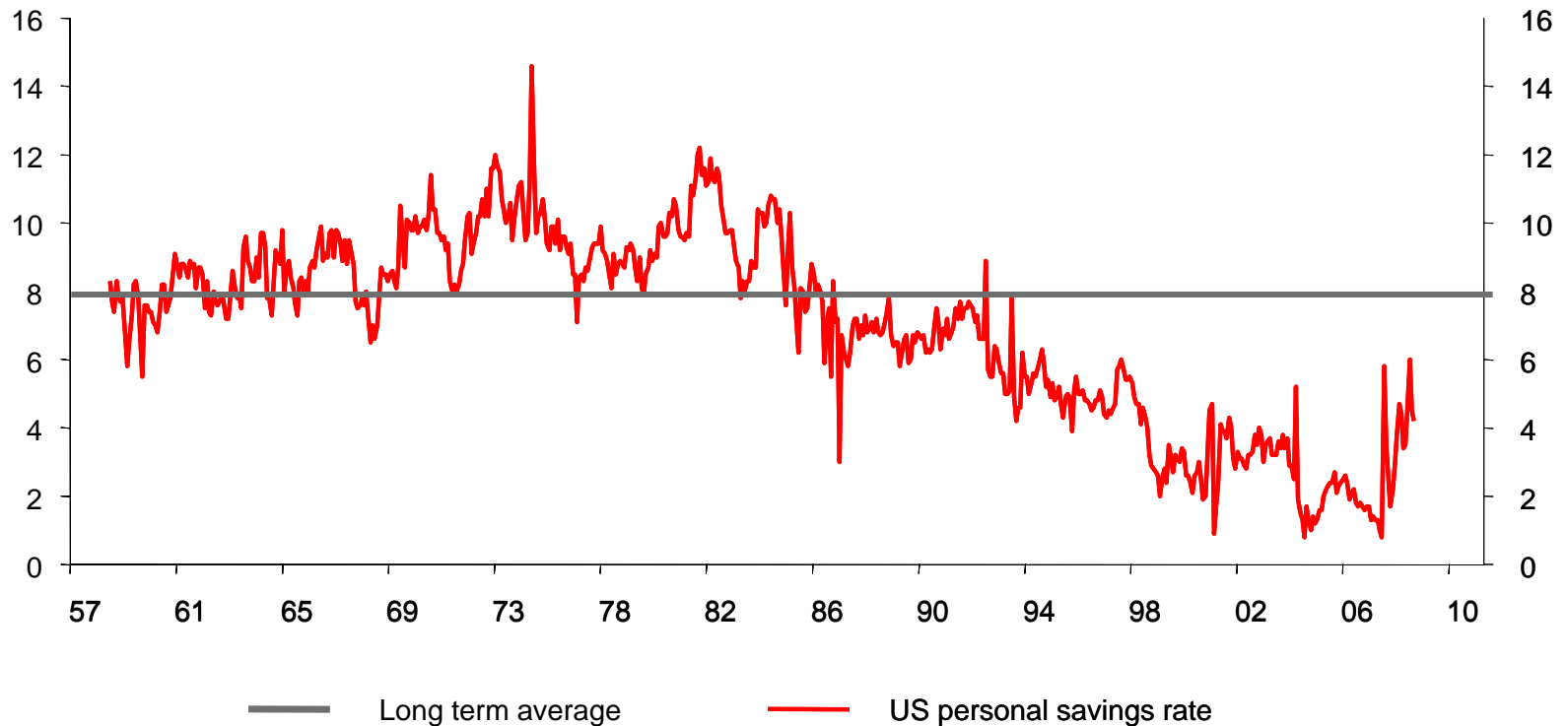
Stimulus plan

Country	US\$bn	As % of national GDP
US	787	6
China	586	15
Europe	298	2
Japan	154	3
Latin America	149	4
Emerging Asia	52	2
CEE	23	2
Russia	20	1
Total		3% of global GDP

Source: SG Cross Asset Research, FactSet

Counting on a come-back for the US consumer, but savings rate is still below historical average

US personal savings rate could return to the 8% long-term average – but would it be enough?

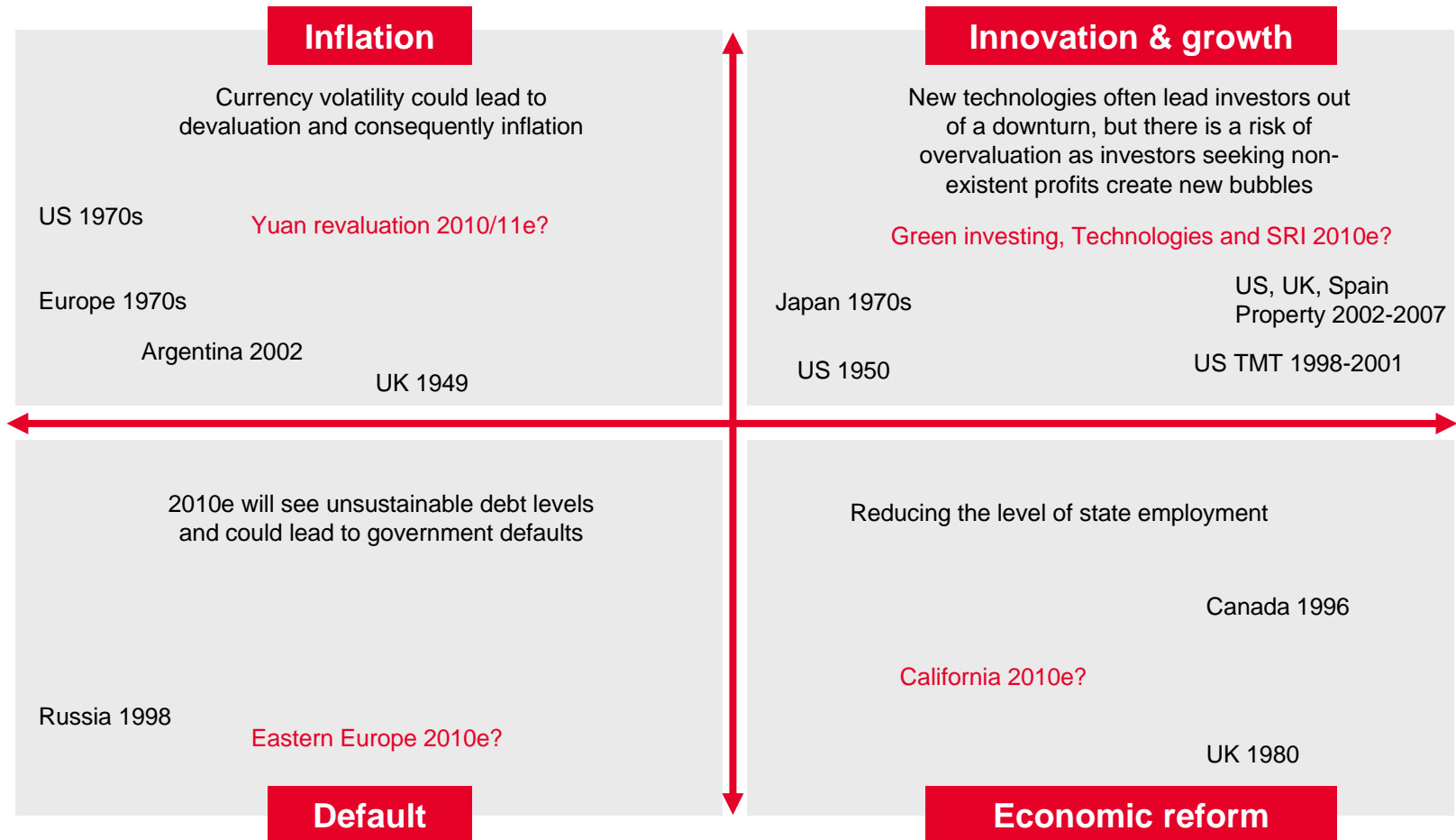




To understand how to invest, need to know
potential for debt reduction

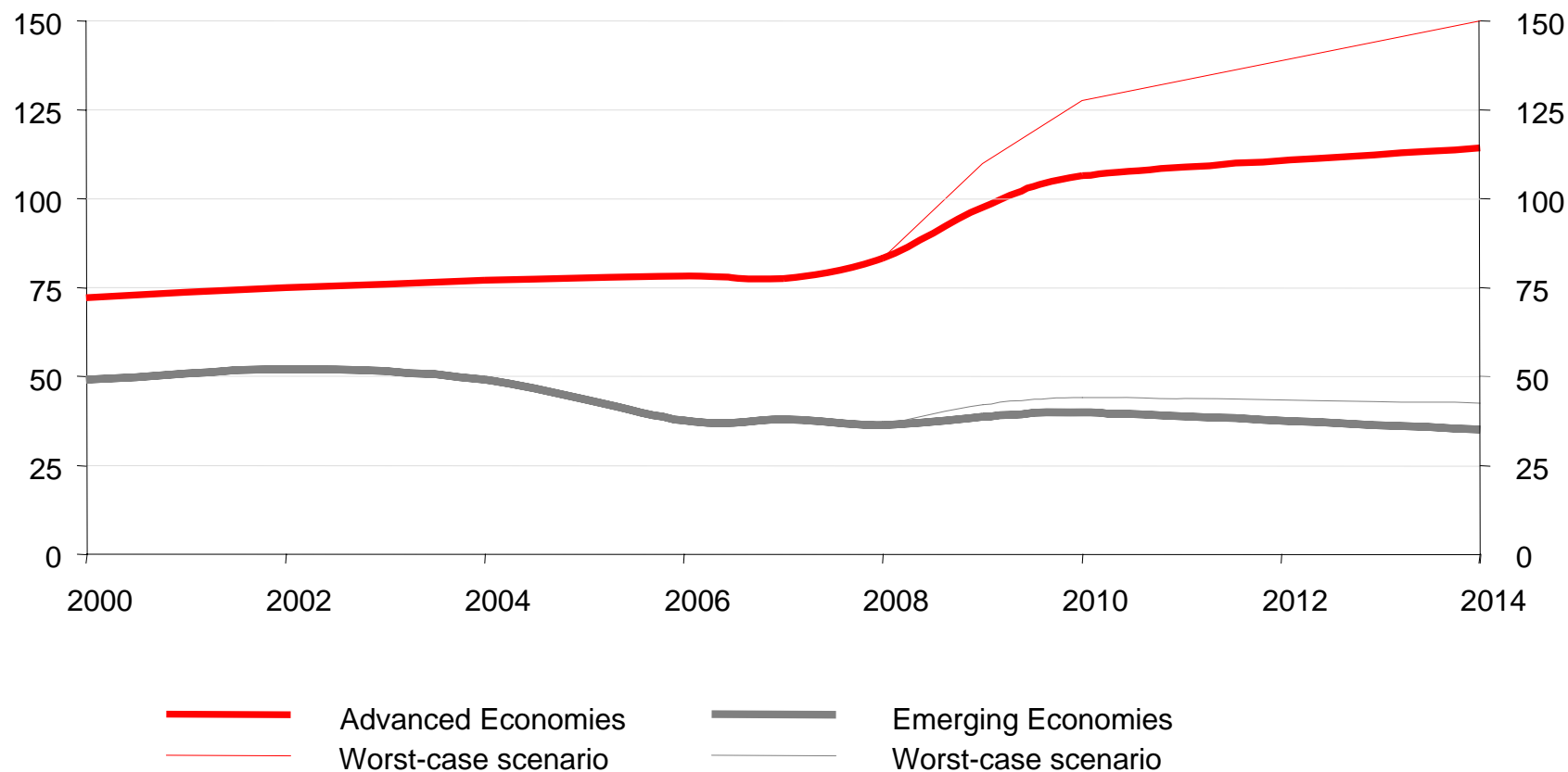
Solutions will be painful as global imbalance
remains

Governments: choose the route to debt reduction

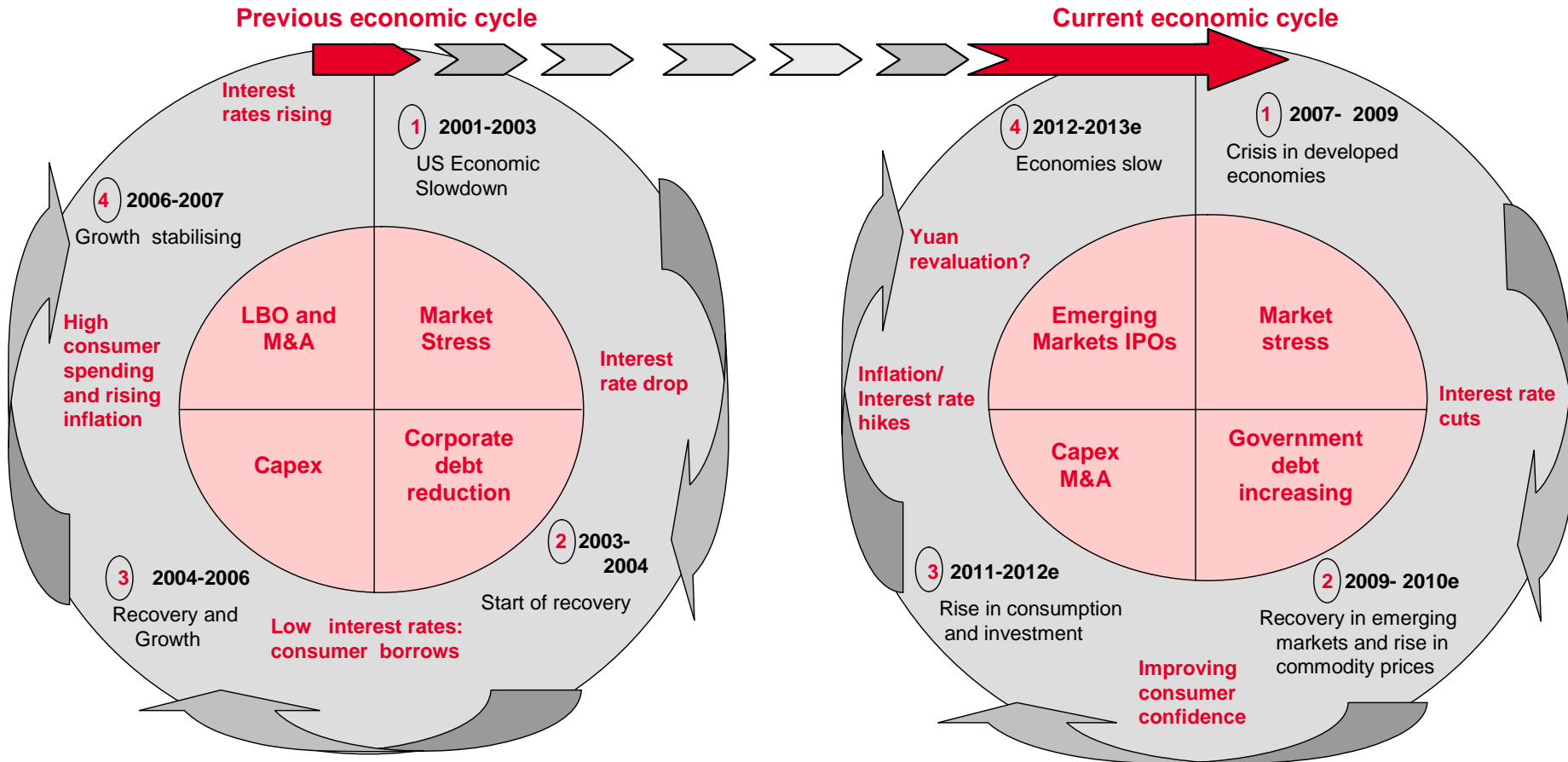


Differences between advanced and emerging economies

Debt to GDP ratio (%)



Emerging markets are leading a new economic cycle





Worst case scenario looks like Japan

Stress-testing assets under a bear scenario



Current situation: compelling similarities with Japan in the 90s

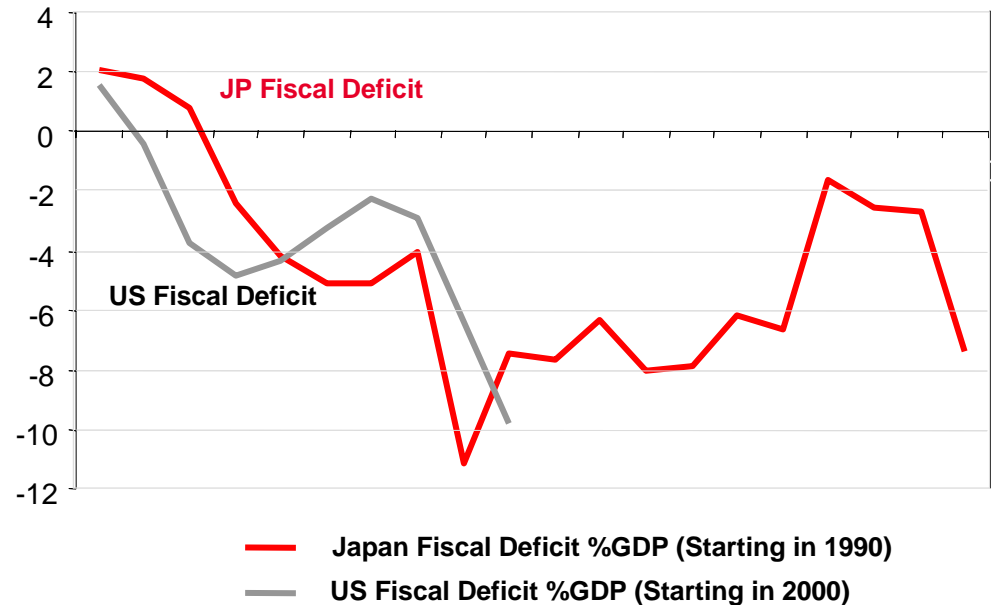
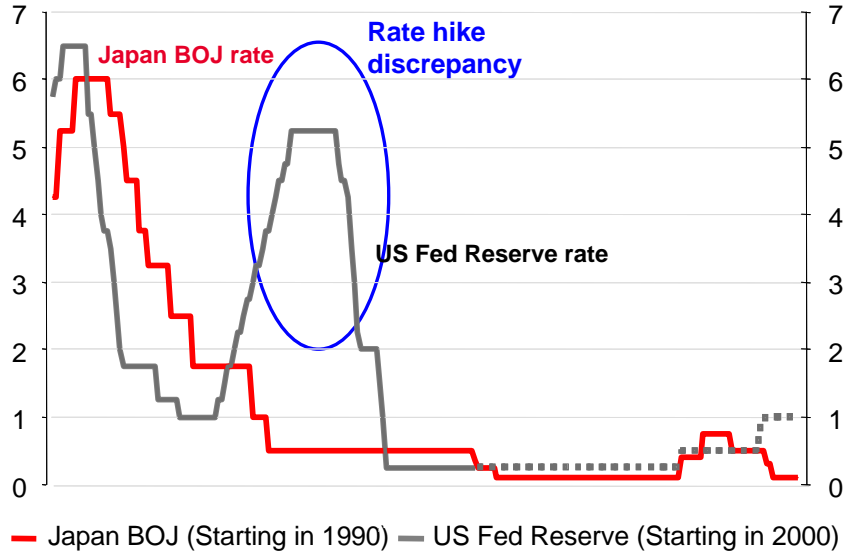
Counting the similarities

	Japan lost decade 1990	(US 2009-Present + US 2000/2001)		US New millennium crisis
Ballooning public debt	XX	XX		XX
Banking crisis	XX	XX		XX
Property crisis	XX	XX		XX
Corporate debt crisis	XX		XX	XX
High valuations going in	XX		XX	XX
Stock market crash	XX	X	X	XX
Low interest rates	XX	X	X	XX
Slow government reactor	XX			

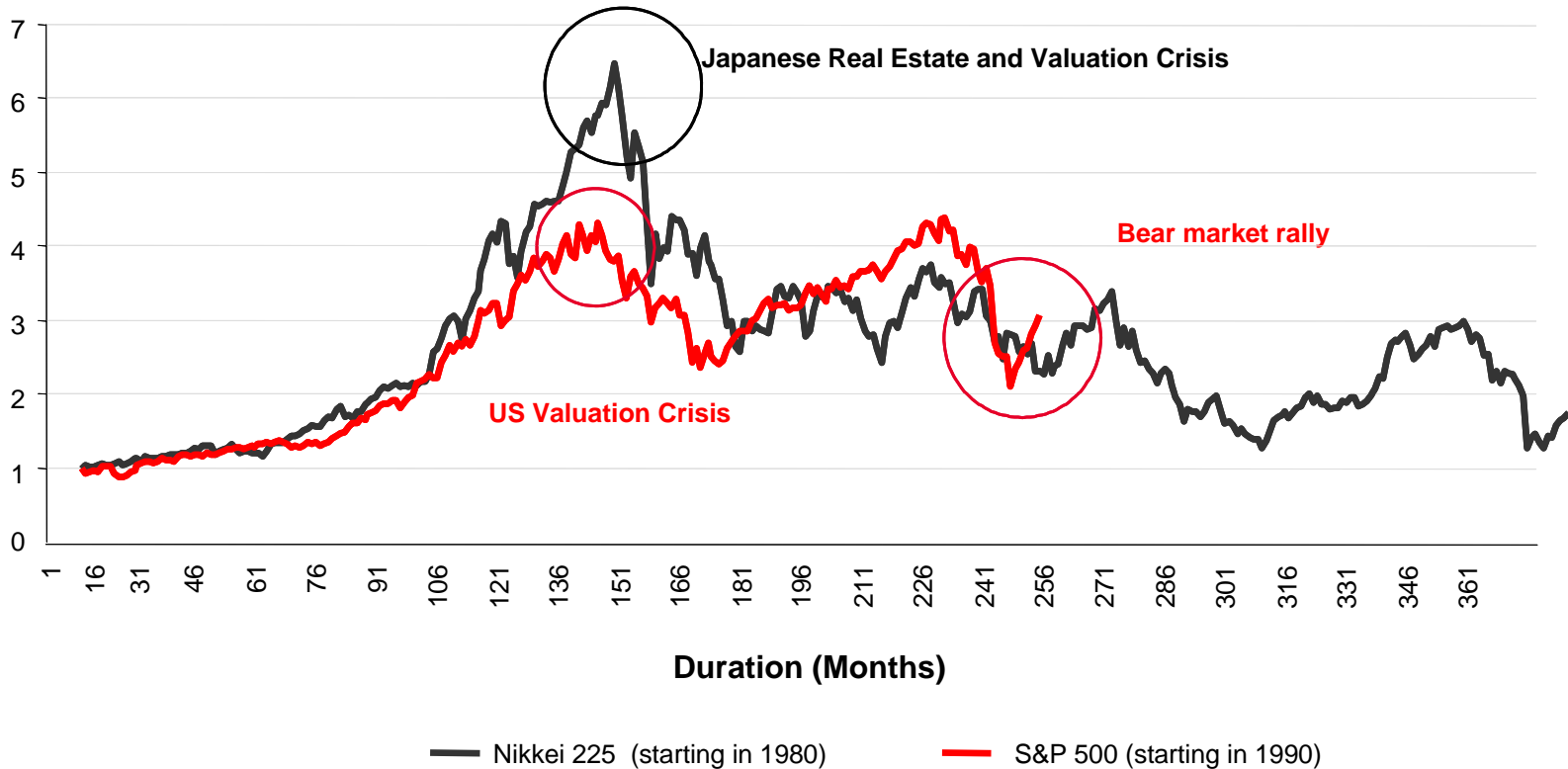
Source: SG Cross Asset Research



Shifting forward Japan's interest rates and debt by 10 years suggests a similar story



End of market rally for equities? Look at Japan!

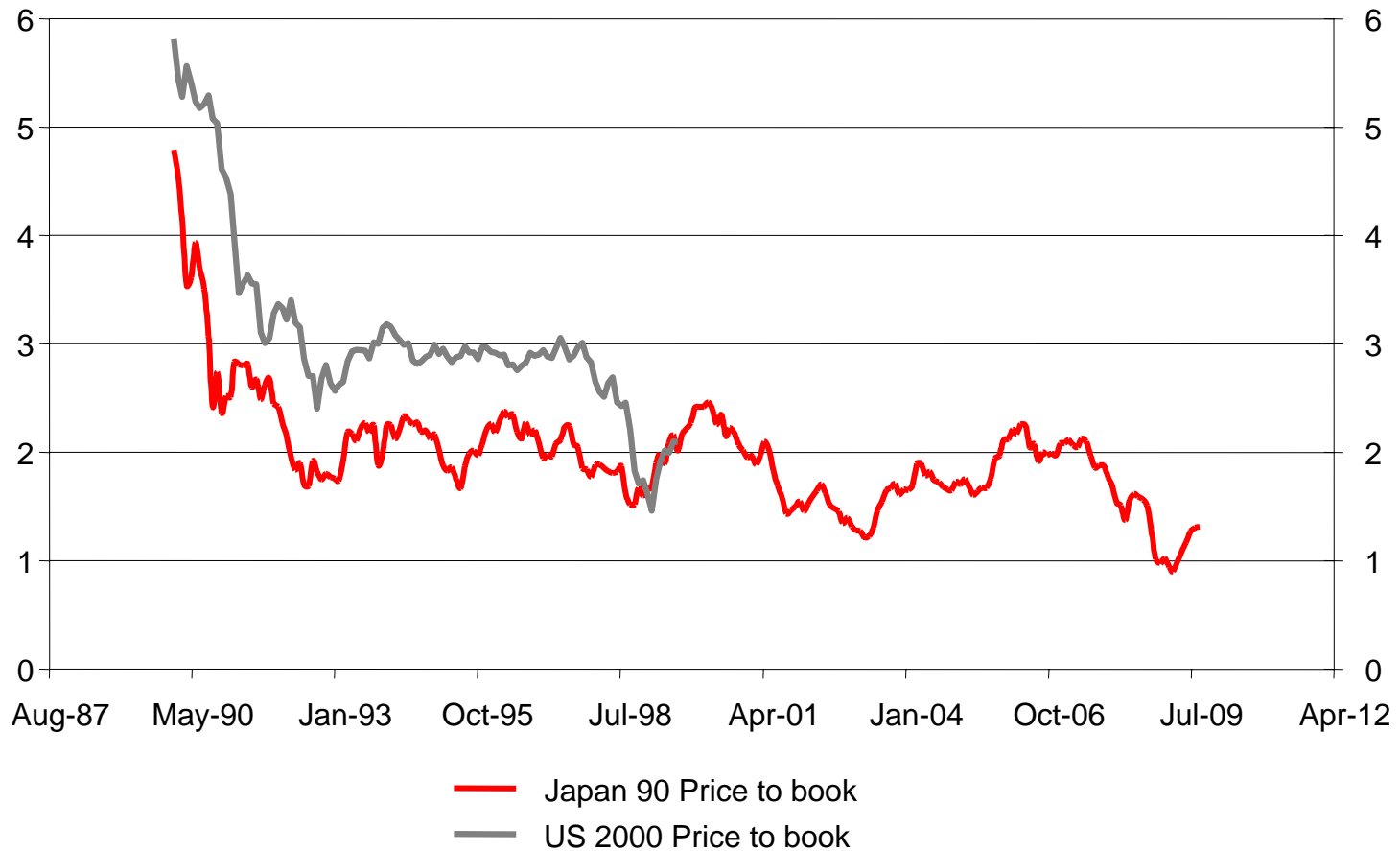




US/Japanese valuations close, but ROEs not so close



Counting the similarities



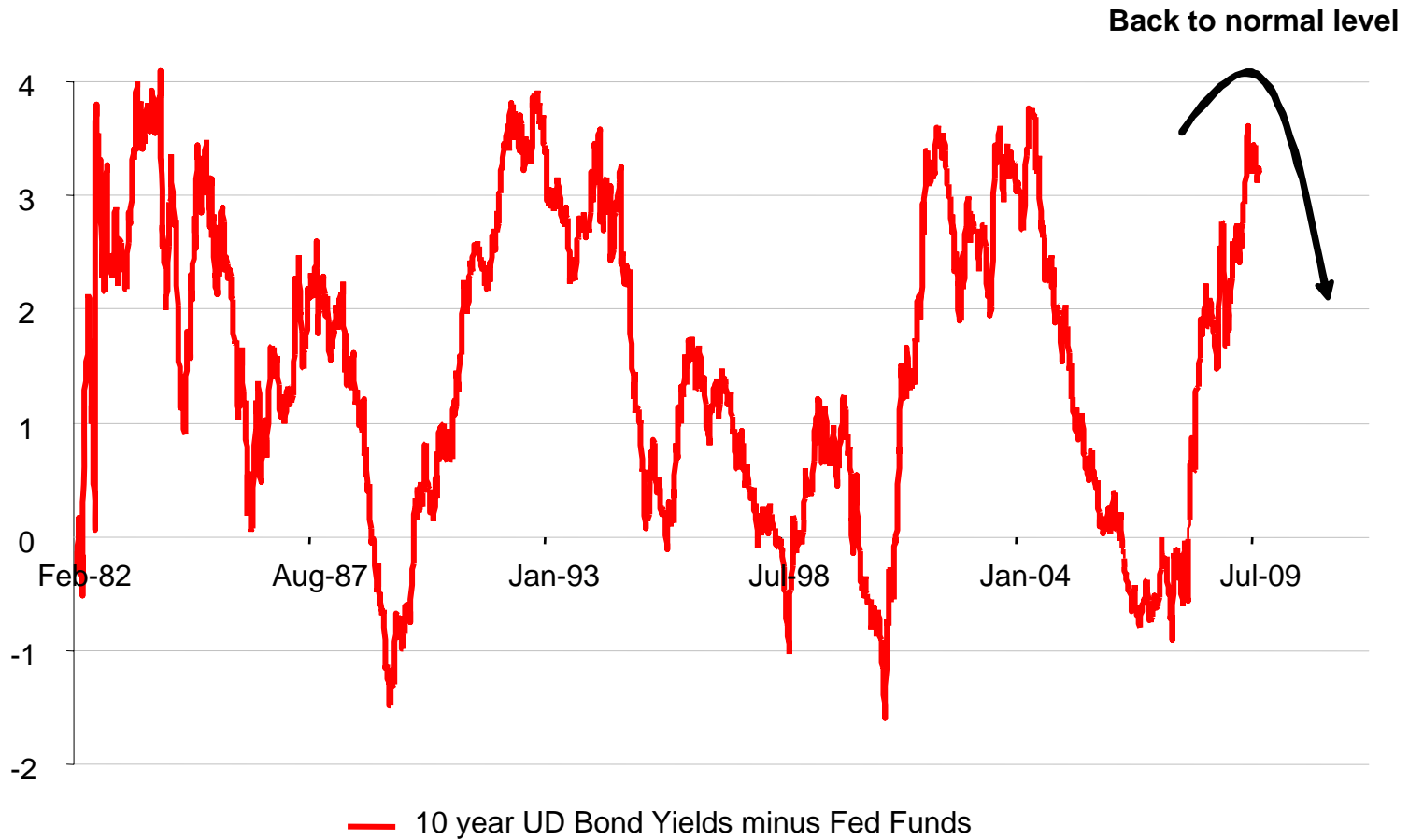


Worried about inflation? Japan suggests deflation more of a risk





Rates should return to normal



3 scenarios, 1 constraint...

HIGH PUBLIC DEBT

**Worst case
Bear economic scenario**

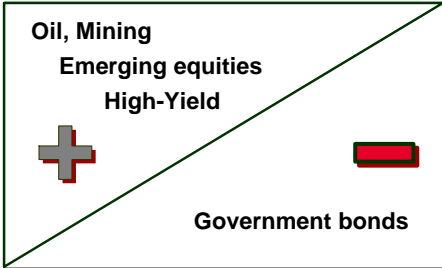
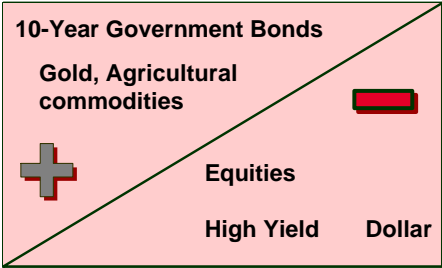
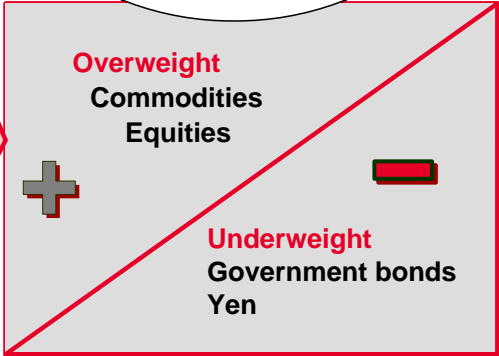
Rapid rise in public deficit
No GDP growth
Deflation
Low interest rates

Bull economic scenario

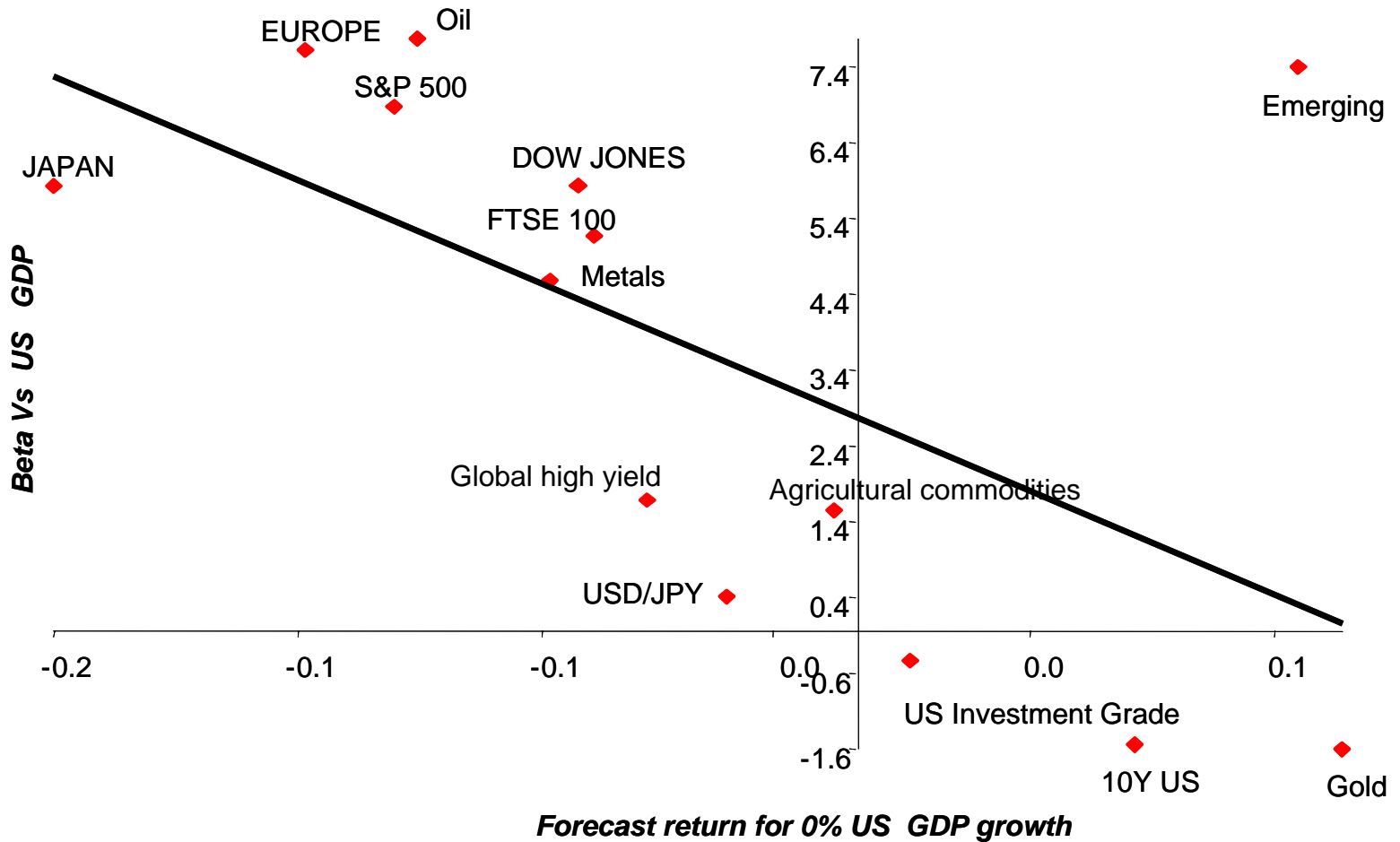
Reducing deficit but still high
High GDP growth
High inflation
Higher interest rates

**Central scenario
(SG MAP*)**

Public deficit rises
Limited GDP growth
Limited inflation, no deflation
Slow increase in interest rates

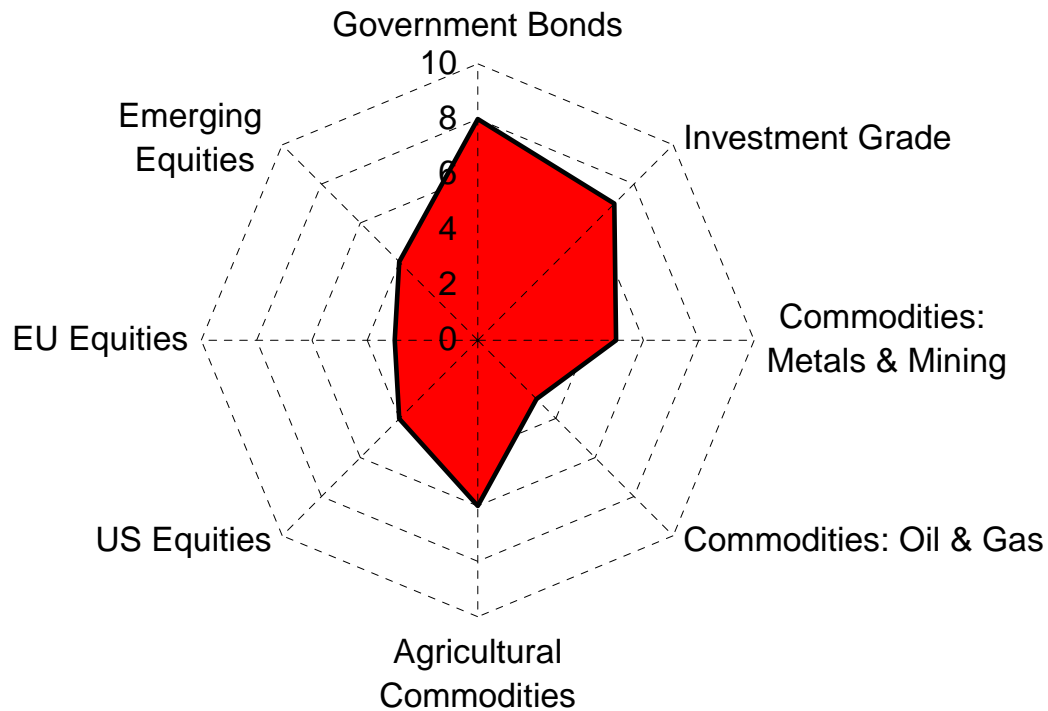


Gloomy scenario: focus on fixed income, emerging markets, gold and agricultural commodities





Bear scenario recommendations





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Equity

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- #1 Research on French Equity
- #1 Thematic Research
- 22 sector teams in the Top 10

Fixed Income

EUROMONEY
2009

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- #1 in 11 out of 14 categories

Economics

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- #2 Pan-European Economics

Commodities

RISK COMMODITY RANKINGS 2009

- #1 Research in Oil
- #2 Research in Metals
- #3 Research in Power and Gas

Equity Derivatives

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- Equity Derivatives Research
- #3 Flow Product
- #3 Structured Product