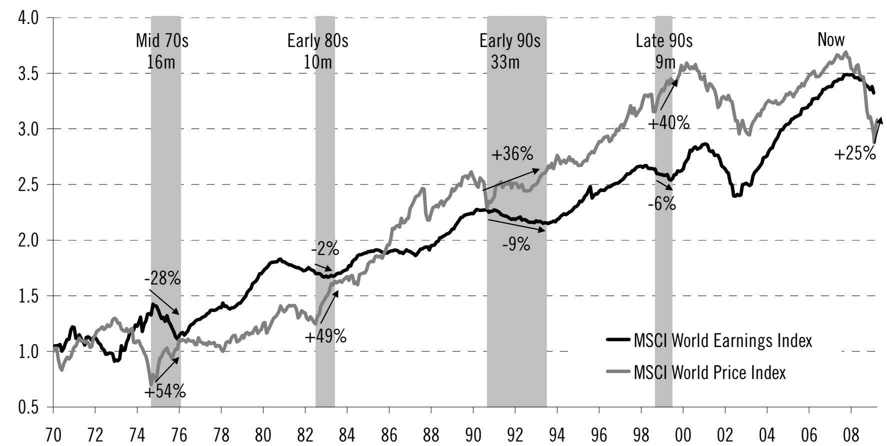
29 April 2009 | 24 pages

Global Equity Strategist

The Twilight Zone: A Playbook

- **Twilight Zone** — This is the phase in a global earnings recession where share prices start to rise despite further falls in corporate earnings. The beginning of the Twilight Zone is associated with sector rotation out of defensives into cyclicals.
- **This Could Be It** — The latest equity market rebound has occurred against a backdrop of cheap valuations, stabilising lead economic indicators and tightening credit spreads. All have been associated with previous Twilight Zones.
- **Market Strategy: More To Go For** — The recent 25% rebound in global equities represents the fastest ever start to a Twilight Zone and suggests that some consolidation may be appropriate. However, an average performance of 45% through previous global Twilight Zones suggests that investors should buy equities into any weakness
- **Sector Strategy: Don't Chase It** — Recent rotation towards cyclical sectors is already as large as seen in other Twilight Zones. This suggests that it may already be too late to make the switch.

Figure 1. MSCI World Prices And Earnings (Log), Grey Bars Mark Twilight Zones



Source: Citi Investment Research and Analysis, MSCI, Datastream

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Contents

The Twilight Zone: A Playbook

Last November, we suggested that global equities were set to enter the "Twilight Zone"[1]. This is the period towards the end of a slowdown when earnings are still falling but share prices stabilise. In effect, equity indices get so cheap that they discount further falls in profits and are even able to start looking towards an eventual recovery. We suspect that global equities are now back in the Twilight Zone — CIRA strategists around the world generally agree that March marked the low for this bear market.

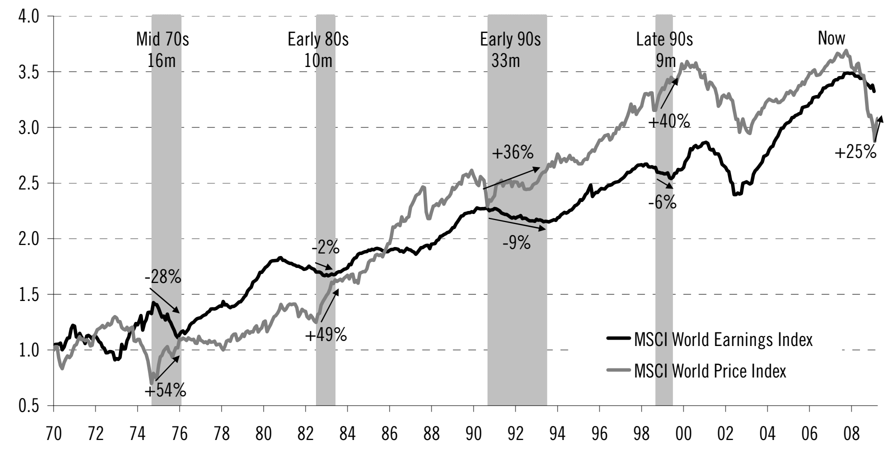
The Twilight Zone is full of contradictions. On one hand, falling company earnings suggest continued caution. On the other hand, better equity markets suggest a more aggressive strategy is appropriate. In this week's note, we provide some further guidance on appropriate strategies for these confusing times.

Global Twilight Zones

Equities and earnings can decouple

Figure 2 shows the MSCI World price and earnings indices over the past 40 years. We use trailing earnings so there will be some reporting lag. This chart confirms that over the long run share prices track corporate profits but they can diverge in the short-term. And of particular interest to us right now, there are four periods when share prices are rising despite earnings falling.

Figure 2. MSCI World Prices And Earnings (Log, Monthly), Grey Bars Mark Twilight Zones



Source: Citi Investment Research and Analysis, MSCI, Datastream

The first occurred between October 1974 and January 1976, where global equities rose by 54% despite earnings falling by 28%. Presumably this was because global equities had already halved before earnings rolled over. By the time the downturn started, it was already discounted in valuations.

The next Twilight Zone occurred in the early 1980s recession. Between August 1982 and May 1983, global equities rose by 49% despite earnings falling by 2%. This was more conventional than the mid-1970s experience. Equities were weak in the first part of the recession, but turned 10 months before corporate earnings.

[1] Global Equity Strategist: Twilight Zone, 19 November 2008

The early 1990s saw the longest Twilight Zone. Global equities bottomed in October 1990, a full 33 months before the turn in the earnings cycle. Concerns around the Gulf War drove share prices down sharply in 1990, which provided a low base for global equities to make decent progress even against a prolonged earnings downturn.

The late 1990s saw a short Twilight Zone associated with the Asian Crisis. Earnings fell by 9%. Over the same period, global share prices rose by 40%. This will have been a particularly confusing period in Asian equity markets where earnings were collapsing, but continued strength in US and European equity markets dragged indices higher.

No Twilight Zone last time round

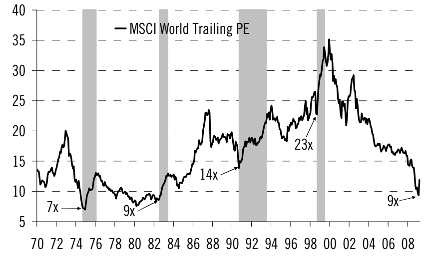
Figure 2 also shows that while most recessions do have a Twilight Zone, it is not always the case. For example, we saw a 38% contraction in global earnings at the start of the present decade. But share prices were not able to stabilise until earnings had stabilised. There was no Twilight Zone here.

Why a Twilight Zone?

This raises an obvious question: What makes us confident that we will even see a Twilight Zone in this cycle, let alone that we are in one now? Given that we expect global earnings to fall by another 30% over the next 12 months, why shouldn't equities make new lows?

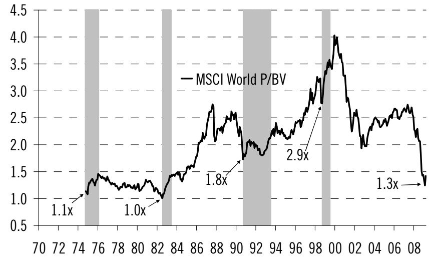
If the Twilight Zone begins at the moment that share prices have fallen far enough to discount the ongoing earnings collapse, then we would expect cheap valuations to be present. Figure 3 overlays the global Twilight Zones on the MSCI World trailing PE. Figure 4 does the same for P/BV.

Figure 3. MSCI World Trailing PE



Source: CIRA, MSCI

Figure 4. MSCI World P/BV



Source: CIRA, MSCI

Valuations now look cheap

The MSCI trailing PE hit a low of 9x back in March. This is well below the levels reached at the beginning of the two 1990s Twilight Zones and consistent with the early 1980s. Only the 1970s was lower at 7x. And perhaps this helps to explain why we never saw a Twilight Zone in the last earnings downturn — valuations never got cheap enough.

Of course, it is questionable to use trailing multiples when there is such uncertainty about earnings. However, that is always the case in the Twilight Zone. There is a sharp re-rating — falling earnings and rising prices mean that the market always exits the Twilight Zone on a significantly higher PE than it enters. And if we assume that global earnings have another 30% to fall from here then, at current share prices, that would assume an exit multiple of 18x — higher than the mid-1970s or early 1980s (both 13x) but well below the early 1990s (22x) or late 1990s (34x).

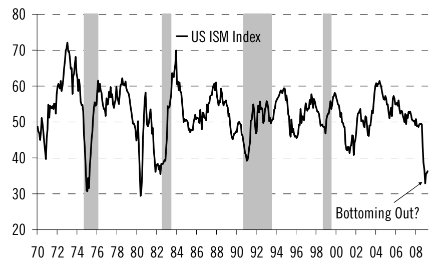
Even P/BV now looks cheap

Perhaps we should look at more stable valuation metrics at times when the earnings outlook seems so unclear. P/BV valuations, a favourite of Markus Rosgen, our Asia Pac strategist, strip out much of the cyclicality displayed by a trailing earnings index. Figure 4 shows P/BV valuations for the MSCI World index. The recent 1.3x low is again well below the Twilight Zone entry points of the 1990s but still above the 1.0x troughs seen in the 1970s and 1980s. Nevertheless, the severe de-rating beforehand is compatible with previous experience.

Lead Indicators

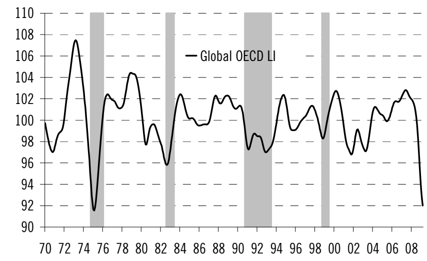
Another characteristic of previous Twilight Zones is improving macro lead indicators. Figure 5 shows the US ISM index. A turn in this key lead indicator seems to be a key characteristic of all previous Twilight Zones. This helps to improve investor risk appetites even though contemporary profitability suggests continued caution. It helps share prices decouple from falling earnings.

Figure 5. US ISM Index



Source: CIRA, Datastream

Figure 6. OECD Global Lead Indicator



Source: CIRA, Datastream

Figure 6 gives a global perspective. The OECD composite leading indicator looks at a wide range of global data series (including the ISM) that have historically given a decent lead on the global economy and corporate earnings. Again, it tends to be recovering from a very low point during the Twilight Zone. One notable exception is the double dip of the early 1990s, but at least the OECD CLI did not make significant new lows.

Green shoots are key

So it does seem that macro green shoots are characteristic of the Twilight Zone. Global equity indices choose to follow these signals rather than dwelling too much on continued misery in the corporate sector. Stocks are less sensitive to bad news. Company analysts write research notes suggesting that they can see little fundamental justification for the rebound in cyclical company share prices. Sound familiar? Currently, there are some green shoots that have encouraged investors to look through poor corporate newsflow. The ISM has stabilised, although at very low levels. We would expect the OECD CLI to do the same soon. For a more detailed discussion of global green shoots please see a recent Global Equity Strategist[2].

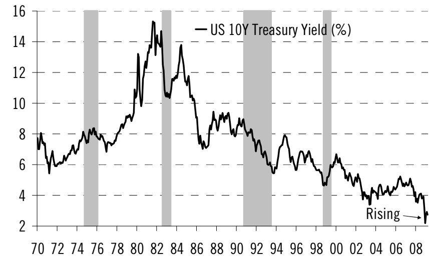
[2] Global Equity Strategist: Head Fakes And Real Deals, 15 April 2009

Interest Rates

Rates much lower this time round

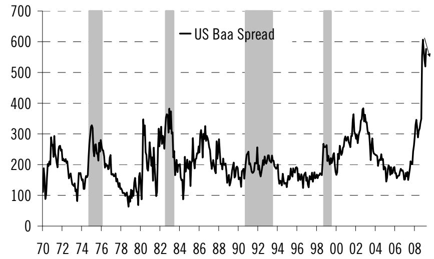
We can also look at the direction of interest rates in previous Twilight Zones. Figure 7 shows US treasury yields. This shows a big difference between the current Twilight Zone and those seen in the mid-1970s, early 1980s and 1990s. Back then interest rates rose sharply beforehand and were either stabilising (mid-1970s) or falling sharply (early 1980s and 1990s) as global equity indices recovered. This reflects the inflationary origins of those three recessions. Interest rates were hiked aggressively to squeeze out high inflation. This slowed the global economy sharply and so put downwards pressure on corporate earnings. But as inflation dropped, interest rates fell. We might expect this to have had a positive effect on equity investor risk appetites. The corporate outlook remained bleak, but at least lower interest rates offered some prospect of redemption.

Figure 7. US Treasury Yields (%)



Source: CIRA, Datastream

Figure 8. US Credit Spread (Bp)



Source: CIRA, Datastream

The situation is now very different. Interest rates are already very low. In fact, the recent improvement in equity investor risk appetites has been associated with rising, not falling, government bond yields. Some have argued that, compared to previous cycles, this constrains the ability for share prices to decouple from weak corporate earnings compared to previous major recessions. And therefore we will not get a Twilight Zone this time round.

We have some sympathy with this argument — given that interest rates are already very low, we cannot expect the fall in rates often associated with previous early cyclical recoveries in share prices. However, we would counter with a couple of points. First, the low level of interest rates could be turned into a positive — equities look very cheap against bonds now. For example, the global dividend yield has been around half the 10 year US treasury yield at the beginning of previous Twilight Zones. Right now global equities yield 1.5x US treasuries.

Second, we suspect that bond yields will rise in non-inflationary Twilight Zones. In effect, bond yields fall beforehand as investors rush for safety. They rise in the Twilight Zone as investors head back into riskier assets in search of higher returns. This is exactly what happened in the late 1990s Twilight Zone and is also occurring right now.

Falling credit spreads

It is also reflected in credit spreads (Figure 8). US investment grade Baa rated corporate bond spreads have stabilised or contracted in previous Twilight Zones, presumably for the same reasons that equity markets are rising. A combination of cheap valuations and improving macro data help investors to look through rising default rates. The current situation looks similar. This is likely to be the worst corporate earnings and credit downturn seen in the past 40 years, but our credit strategists suspect that this is already reflected in spreads. Indeed, credit markets are showing signs of stabilisation even though defaults continue to rise.

Welcome To The Twilight Zone

We suspect that there is enough evidence to support the view of CIRA's strategists that we have entered the Twilight Zone. Valuations are cheap, spectacularly so if we compare to government bonds and cash. Economic lead indicators are basing out. Treasury yields are rising and credit spreads have stopped widening, suggesting that risk appetites have stabilised.

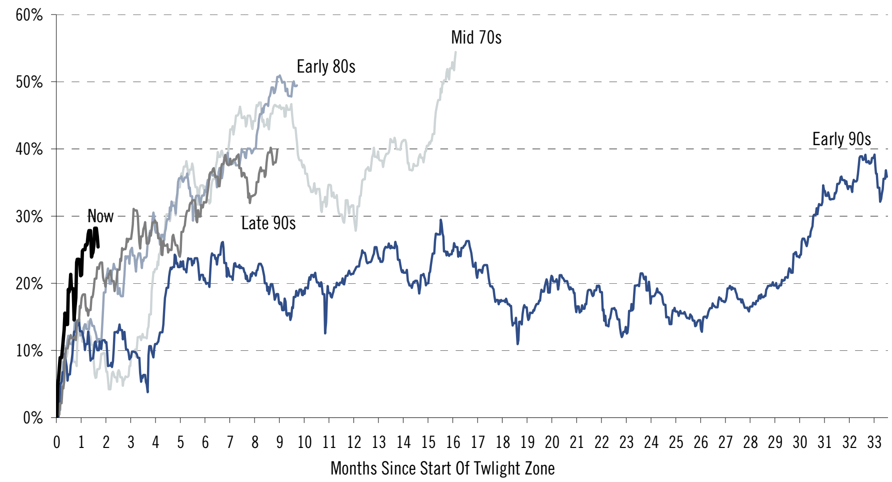
We expect global earnings to fall another 30%

Of course, the fundamental outlook for profits remains dire. We do not expect the corporate earnings cycle to bottom out for another 12 months, and at a level 30% lower than now. We are likely to see more analyst downgrades. But this is always the case in the Twilight Zone. Cheap valuations and improving macro indicators should help the global equity market see through the continued flow of bad corporate news. We expect global share prices to stay decoupled from falling earnings over the next 12months.

Strategy For The Twilight Zone

So, if we do make the major assumption that for this cycle the global equity market entered the Twilight Zone around the lows of March 9th, how does current equity performance compare to previous experience (Figure 9)?

Figure 9. Global Equity Market Performance During Twilight Zones (% Perf From Start)



Source: Citi Investment Research and Analysis, MSCI

Big bounce

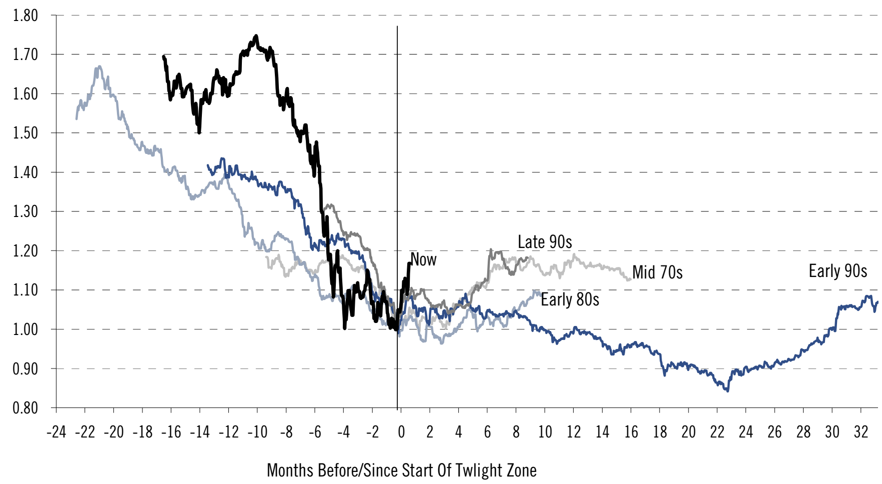
We can see that global equities have bounced harder than at the beginning of previous Twilight Zones, perhaps reflecting that they had fallen that much further beforehand, and are now up around 25%. Previous experience suggests that there could be some consolidation from here, but that the equity market may rally again towards the end of the Twilight Zone (defined as the point when earnings finally turn upwards). Assuming that we are right and that global earnings bottom in around twelve months' time, then this would suggest that there is no rush to buy now but that investors should be positioned for a further burst of performance around the end of the year. Those waiting for a chance to buy at recent March lows could be disappointed. Even in the very long drawn-out Twilight Zone of the 1990s, the global equity market only gave back around a half of its initial rally.

Sectors

Fierce rotation

We can also take a look at shifts in sector performance trends as global equities enter the Twilight Zone. To do this, we consider a strategy that buys the three worst and sells the best three sectors from the preceding equity market sell-off. This will produce a strategy that favours cyclicals over defensives and anticipates significant sector rotation as risk appetites recover. Right now, such a sector strategy would be long Financials/Industrials/Materials and short Healthcare/Consumer Staples/Telcos. We then subtract the average performance of the three shorts from the three longs (Figure 10). We also show the performance of this sector strategy before the Twilight Zone begins which is, by definition, dreadful.

Figure 10. Sector Rotation Strategy Performance Before/After Twilight Zone Begins (Start=100)



Source: Citi Investment Research and Analysis

The sharp rebound in global indices over the past few weeks has been accompanied by a fierce switch back towards cyclical sectors away from defensives. In fact, by this measure, we have seen the most ferocious rotation ever seen at the beginning of a Twilight Zone. Investors tempted to switch their defensive stocks into cyclicals should take note — it may already be too late.

Sector alpha falls

Sector themes are not as spectacular as may be expected in the Twilight Zone. Although there is sharp rotation back towards cyclicals, it is never enough to reverse the underperformance of the previous 12-18 months. Our previous analysis suggests that while the Twilight Zone can drive significant rotation between defensive and risk asset classes, its impact on rotation between defensive and risk equities is more constrained. Perhaps stock-pickers, who may drive relative performance within the equity market, prefer to see more evidence that the earnings cycle is on the turn before taking the plunge into riskier sectors.

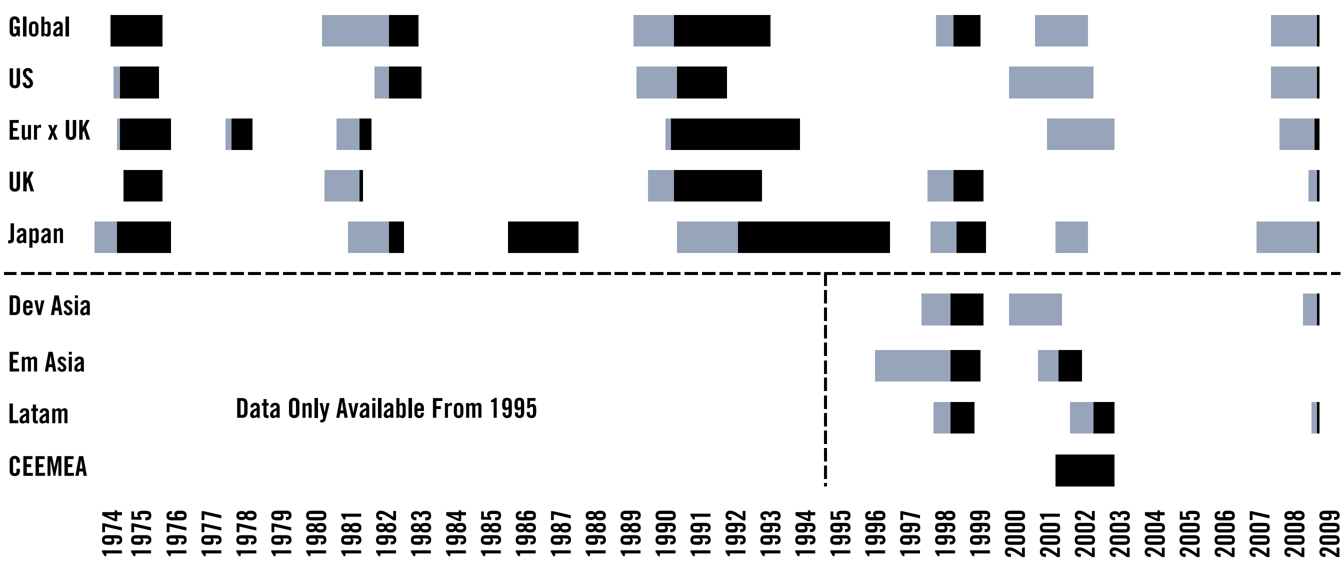
Regions

We have also looked at regional strategy in previous global Twilight Zones. Is there clear rotation as global risk appetites improve? That might suggest buying the underperforming regions from last year and selling outperformers. But we struggle to find a clear message. Compared to sectors, it is much harder to split regions into defensives and cyclicals. Once a Twilight Zone has been identified, it is difficult to add alpha through regional selections.

Regional Twilight Zones

We can also look for regional Twilight Zones. Figure 11 breaks MSCI World earnings recessions out into regions. Each block represents an earnings downturn. The black part of the box represents the Twilight Zone, where share prices are rising despite falling earnings.

Figure 11. Regional Earnings Recessions and Twilight Zones (in black)



Source: Citi Investment Research and Analysis

Even Japan has Twilight Zones

This current slowdown does look relatively synchronized. Perhaps only the mid-1970s looks similar. Other slowdowns are characterised by regional earnings falling into and coming out of recessions at different times. For example, in the early 1990s, the US fell into an earnings recession first, but also came out first. Japan went into an earnings recession (which was to last 73 months) later. But even Japan enjoyed a Twilight Zone back then — in the last 53 months of that downturn, the MSCI Japan rose by 34% despite earnings contracting by 49%.

We can identify three US Twilight Zones. In the mid-1970s, share prices rose by 31% despite earnings falling another 14%. In the early 1980s, prices rose a spectacular 55% despite earnings contracting a further 13%. In the early 1990s, the MSCI US index rose by 34% while trailing earnings fell by another 25%.

The key point is that there are plenty of precedents for the Twilight Zone - we highlight 26 regional examples in Figure 11. On average across these regional Twilight Zones, share prices have managed to rise 34% despite earnings falling an average 23%.

Strategy Outlook

The Twilight Zone is a strange period towards the end of most (but not all) earnings recessions, where low share prices reflect so much revulsion that investors become harder to disappoint. A combination of cheap valuations, improving macro-economic lead indicators and stabilising credit markets drive a recovery in share prices despite the protestations of bottom-up analysts who can see nothing but more bad news.

Buy equities on weakness

We suspect that the March low marked the beginning of the Twilight Zone for this market cycle. We are still bearish on the outlook for global corporate earnings (we expect another 30% fall), but suspect that global equity indices may be able to decouple further from the ongoing bad newsflow. Of course, there are risks that any improvement in the economic backdrop will prove stillborn, but we suspect that cheap valuations should allow equities to at least hold recent lows. Our analysis suggests that any sell-off over the summer should be seen as a buying opportunity ahead of the global earnings trough expected in 1H2010.

Don't chase sector rotation

However, we would argue against getting too carried away. Sector rotation out of global defensives into cyclicals is already as significant as seen in previous Twilight Zones. Accordingly, our current sector strategy is fairly cautious. From here, we would rather chase the market than sector rotation.

Macro Out-takes

We provide brief summaries compiled by Bruce Rolph in the Globaliser presenting our colleagues' most recent work. Please let us know if you would like more detail.

Regional Strategy

US
Tobias Levkovich
24-Apr-09

US Equity Strategy: Monday Morning Musings – Valuation Still Matters

'Of the 187 S&P 500 companies that had reported 1Q09 earnings through April 23', tallies Strategist Levkovich, '128 had beaten estimates and 47 had missed… for a 1Q09 positive-to-negative surprise ratio of 2.72x vs 1.91x in 4Q08, and 2.17x in 1Q08… in aggregate, 1Q09 share weighted results are also beating expectations by 14.1% but are down 26.7% (thus far) from a year ago… consumer discretionary, financials, industrials, materials, leading the way in terms of topping estimates thus far for 1Q09… add the fact, valuation remains compelling on various methodologies, and we do not see the current rally backing off just yet… even if stock prices have climbed meaningfully from March lows.

CEEMEA
Andrew Howell
24-Apr-08

CEEMEA Strategy Notebook: Taking the pulse in CEEMEA

'CEEMEA equities are now 31% above their lows', marvels Strategist Andrew Howell, 'and in positive territory for the year (+ 5.2%), albeit remains 56% below their late-07 peak… head fake or real deal?... we see rising evidence the worst is behind us … but the vigor of the rally now in its 7th week, looks to us unlikely to persist… also, the percentage of CEEMEA stocks trading above their 50-day moving is close to 90% - indicating that markets may have moved too far, too fast… thus, while we do not expect a re-test of the early March lows, we see a near-term pullback as increasingly likely… and, would use any significant weakness to add to positions… Russia, Turkey, Czech Republic and Egypt are our top markets… vs our 'Underweights' in South Africa and Hungary'.

Europe
Jonathan Stubbs
23-Apr-09

European Portfolio Strategist: The Good, the Bad and the Bulky

'The market is due to consolidate', suspects the European Portfolio Strategist, 'looking at the relationship of credit to equity or the number of stocks trading above their 50-day moving average… what now?... one way of looking to maintain beta exposure but to lock in recent gains would be to reduce exposure to the best performing beta (Banks and Insurance) and switching it into Tech, Basic Resources and Industrials… also, while we continue to view a strategy of adding risk as the year progresses as the right one, there is still a place for defensives in a portfolio… for with the end of freely available credit, we can expect long-run outperformance from those companies that will benefit from the destruction of capacity…. some of which will be in cyclical industries and some in the more defensive'.

Law passed on injections of public funds: Government bailouts to be thoroughgoing

Japan
Tsutomu Fujita
22-Apr-09

'We find it hard to paint the scenario of another sharp fall in stock prices', declares Japan Strategist Tsutomu Fujita, 'at least near term, with the Government and opposition parties, now in agreement on the need to rescue troubled companies... and protect employment.... indeed, if share prices plunge, there's a scheme in place under which the government will buy large amounts of equities... recently passed revisions to the Industrial Revitalization Law meanwhile, means that despite substantial deterioration in their balance sheets, the risk of high-tech firms with large numbers of jobs at stake going bankrupt has now been reduced to virtually zero... further, the government now stands at the ready to pump large amounts of financial assistance into corporations to stave off business failures... little by little, we fear the market is turning into something more and more difficult to figure out on the basis of economic rationality'.

Asia ex Strategy: Better Than Expected = Good

Asia Pacific
Markus Rosgen
20-Apr-09

'New bull market or bear rally', questions Asian Strategist Markus Rosgen, 'well, given our long term bull indicator — a back test of which shows it captured the US up-cycle 100% of the time on an 18 and 24 month basis — is still falling, it's a rally in a bear, not a new bull··· yes, recent economic data coming in better than expected has given the market hope the worst may be behind, but better-than-expected good··· consensus was just more bearish than actual numbers··· yes, there also appears to be plenty of liquidity but if earnings don't come through then the question is why buy equities?... also, despite plenty of downward revisions to consensus, IBES forecasts for 09 suggest only a -11.5% decline in earnings... implying this will be the 2nd shallowest recession in Asia ex... all the while, export prices continue to tumble, and volumes remain weak... we're not out of the woods yet... own what others don't... like North Asia over ASEAN'.

Latin American Strategy Notebook: No "Green Shoots" in the Highlands

Latin America
Geoffrey Dennis
20-Apr-09

'A long overdue pause may be starting', suspect Latin American Strategists Geoffrey Dennis & Jason Press, 'but we doubt any correction goes very far: we expect MSCI Latin America to fall by no more than 10-15%... nor do we think that investors should turn overly bearish... this should prove to be a "pause that refreshes".... as the prior rally was not, in our view, a "bear market rally"... thus, while we stay defensive for now - with Overweights for a near-term pause in Chile and Colombia – we would look to add to higher-beta markets on more sustained weakness'.

Economics & Quantitative Analysis

Global Economic Outlook & Strategy: From the Emergency Room to Intensive Care

Economics
Don Hanna
22-Apr-09

'This month is the first since last September', exclaims Don Hanna's "Global Economic Outlook & Strategy", 'in which we have not lowered our growth forecasts for the G3 and emerging markets... for after 5 months of declines in output and trade that rival the Great Depression, current data point to a slowing pace of contraction in the global economy and a better tone to financial markets... consistent with our forecast of recovery later this year or early next, depending on the country... but, this forecast also requires further improvement in financial conditions and success in the next stage of financial stabilization — greater transparency on the quantity of losses and how they will be absorbed... the 'patient' has moved from the emergency room to intensive care... whether treatment in the ICU is up to the depth of the problems the patient faces, though, will be the key challenge going forward'.

Market Outlook

While global earnings are already down almost 30%, our forecast of a 50% peak/trough decline suggests that there is further to go. Analyst consensus forecasts are still probably 20% too high for 2009. The credit default cycle also has a lot further to go. Deflation is fast becoming a reality. The reasons for equity investors to sell into this brief rally still seem compelling. However, we would resist the temptation to be too bearish. Valuations look attractive. Of course, valuation alone is not enough for the equity market to make a meaningful recovery — we will need to see some stabilisation in the fundamentals for that to happen. It still seems too early to make that call, although we continue to watch lead indicators closely[3]. We think that we are now in the Twilight Zone. This is a time when it is right for investors to gradually increase their risk exposure, but there is no need to chase rallies too hard. To us, 2009 still looks like a trading range year — don't get too depressed after a 20% fall and don't get too optimistic after a 20% rally.

GDP	**2008E**	**2009E**	**2010E**
Global	2.1	-2.0	2.0
US	1.1	-2.7	1.4
Euro zone	0.7	-4.2	0.2
Japan	-0.6	-6.7	0.0
EM	5.4	1.3	4.5
Asia	6.3	4.1	6.4
CPI	**2008E**	**2009E**	**2010E**
Global	4.8	1.6	2.4
US	3.8	-1.0	0.3
Euro zone	3.3	0.3	0.8
Japan	1.4	-1.1	-0.6
EM	8.5	5.2	5.7
Asia	6.6	1.3	2.7
Interest Rates	**Current**	**2Q09**	**4Q09**
US Fed Funds	0.13	0.13	0.13
ECB	1.25	1.00	1.00
UK Base	0.50	0.50	0.50
Japan Call	0.10	0.10	0.10
10Yr Yield	**Current**	**2Q09**	**4Q09**
US	3.01	2.80	3.00
Euro zone	3.18	3.10	3.30
UK	3.44	3.32	3.76
Japan	1.41	1.40	1.30
Ex Rates	**Current**	**2Q09**	**4Q09**
US$/€	1.32	1.32	1.34
£/US$	1.47	1.45	1.47
€/£	0.89	0.91	0.91
US$/¥	96	98	95

Source: Factset, Citi Investment Research

Regional Strategy

We still favour the European equity markets. They remain the cheapest in the world. We have downgraded the US to Underweight as valuations do not look particularly attractive and we expect returns to be better elsewhere. Japan has been raised from Underweight to Neutral. A weaker Yen should temper the downgrade onslaught, while valuations are reasonable. Within Emerging Markets we favour CEEMEA and Emerging Asia over Latin America.

Sector Strategy

Our sector strategy remains defensive with Overweights in Health Care and Consumer Staples. However, we have added some cyclical risk by moving Industrials to Overweight, replacing the defensive Telecoms sector. Our Underweights are Materials, IT and Consumer Discretionary. All have outperformed strongly in 1Q 09, which looks hard to justify given the poor state of the global economy. Financials remains a Neutral.

Risk

The biggest risk to our outlook is a worse and more extended downturn for the global economy and corporate earnings than we currently forecast. Valuations discount recession, but not depression and deflation.

Figure 12. Regional And Global Sector Recommendations

Overweight	**Neutral**	**Underweight**
UK	Japan	US
Europe ex UK	Developed Asia	Lat Am
CEEMEA, Em Asia		
Overweight	**Neutral**	**Underweight**
Health Care	Telecoms	IT
Consumer Staples	Utilities	Consumer Disc.
Industrials	Energy	Materials
	Financials	

Source: CIRA

[3] Global Equity Strategist: Drowning in Downgrades, 4 March 2009

Global Market Intelligence

Figure 13. Market Intelligence by Region

24 Apr 09	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US$bn	%	08E	09E	10E	08E	09E	10E	09E	09E	09E	07	07	Weekly	YTD
Global	**18,064**	**100**	**11.5**	**13.8**	**11.3**	**-22.3**	**-12.4**	**24.6**	**1.5**	**10.2**	**3.3**	**1.3**	**6.8**	**-0.3**	**-1.1**
Developed World	16,047	88.8	11.5	13.9	11.4	-23.2	-12.7	24.5	1.5	10.4	3.3	1.3	6.9	-0.4	-2.7
Emerging World	2,017	11.2	11.2	12.5	10.2	-13.5	-10.5	24.9	1.5	9.2	3.1	1.4	6.3	0.6	14.8
North America	**8,688**	**48.1**	**11.1**	**14.0**	**11.7**	**-11.6**	**-13.0**	**23.7**	**1.7**	**12.4**	**2.7**	**1.4**	**7.5**	**-0.3**	**-2.8**
USA	7,972	44.1	11.1	14.0	11.7	-13.0	-12.1	24.0	1.8	12.5	2.6	1.4	7.6	-0.4	-3.6
Canada	716	4.0	10.7	13.7	11.4	4.9	-22.1	20.9	1.5	10.9	3.3	2.0	5.8	1.0	7.0
Europe	**4,815**	**26.7**	**9.7**	**11.1**	**9.5**	**-23.4**	**-13.0**	**17.4**	**1.3**	**11.5**	**4.6**	**1.2**	**6.2**	**0.1**	**-3.6**
United Kingdom	**1,506**	**8.3**	**7.7**	**11.1**	**9.6**	**-8.2**	**-30.4**	**15.1**	**1.4**	**13.3**	**4.9**	**1.1**	**6.2**	**1.5**	**-6.1**
Europe ex UK	**3,309**	**18.3**	**10.9**	**11.2**	**9.5**	**-30.5**	**-2.3**	**18.4**	**1.2**	**10.8**	**4.4**	**1.2**	**6.1**	**-0.5**	**-2.4**
France	790	4.4	8.6	11.2	9.3	-10.2	-23.8	20.4	1.1	9.6	4.7	1.1	5.7	0.4	-2.6
Germany	614	3.4	12.1	11.5	9.1	-43.3	5.4	25.5	1.1	10.0	4.3	1.2	6.9	-0.9	-4.5
Switzerland	569	3.1	40.4	11.7	10.2	-72.6	245.6	15.0	1.7	14.3	3.6	1.9	7.4	-1.3	-6.6
Spain	318	1.8	7.7	9.0	8.4	1.9	-14.0	6.4	1.3	14.7	6.5	1.7	6.2	-1.9	-3.5
Italy	263	1.5	7.0	10.2	9.0	-9.8	-31.6	13.7	0.9	8.4	5.0	1.2	4.2	0.9	-4.0
Sweden	187	1.0	11.5	15.9	13.9	-24.3	-28.0	14.6	1.5	9.3	3.2	1.0	6.2	2.2	19.4
Netherlands	167	0.9	14.9	11.3	8.6	-60.0	31.8	30.9	1.3	12.0	4.7	1.0	7.4	-2.5	-6.1
Finland	100	0.6	8.6	14.6	11.8	-29.1	-41.2	23.8	1.7	11.4	4.1	0.9	6.7	-1.0	-2.6
Belgium	70	0.4	79.4	8.5	10.8	-94.2	837.0	23.0	1.2	9.5	4.6	2.6	9.1	1.5	11.3
Denmark	66	0.4	12.0	15.7	12.0	-11.0	-23.7	30.9	1.6	10.1	1.5	1.1	4.9	2.6	6.7
Norway	53	0.3	6.4	9.9	7.9	4.5	-35.0	26.0	1.2	11.7	3.5	0.9	3.3	-1.6	4.9
Greece	38	0.2	6.8	8.0	7.6	-15.0	-14.0	4.6	1.0	13.0	4.9	1.5	7.3	-3.3	5.5
Portugal	26	0.1	11.6	11.0	10.0	-15.9	5.4	10.4	1.5	13.9	5.3	1.7	7.4	-2.7	2.3
Austria	25	0.1	6.8	8.9	7.7	-20.2	-23.6	15.1	0.8	9.4	4.2	0.9	5.4	-2.7	5.7
Ireland	22	0.1	10.4	14.8	14.0	1.1	-30.1	5.8	1.4	10.9	2.6	0.9	6.9	-3.9	-5.6
Japan	**1,781**	**9.9**	**39.4**	**41.7**	**18.8**	**-77.6**	**0.0**	**128.5**	**1.0**	**2.4**	**2.2**	**1.0**	**6.6**	**-1.9**	**-2.6**
Asia Pac ex Jp	**1,892**	**10.5**	**13.3**	**14.7**	**12.0**	**-24.0**	**-8.6**	**24.1**	**1.5**	**9.9**	**3.6**	**1.4**	**7.2**	**-0.1**	**11.6**
Pacific ex Jp	**763**	**4.2**	**11.9**	**13.8**	**12.4**	**-20.5**	**-14.0**	**11.2**	**1.4**	**10.0**	**4.8**	**2.0**	**8.7**	**-1.4**	**3.7**
Australia	495	2.7	11.9	13.2	11.9	-11.1	-11.1	10.8	1.6	11.7	5.2	2.1	9.0	-1.7	0.6
Hong Kong	175	1.0	13.8	16.3	14.6	-43.7	-15.7	11.8	1.1	6.8	3.8	2.1	8.9	0.7	13.3
Singapore	86	0.5	9.7	12.9	11.4	-12.9	-24.6	13.3	1.2	9.5	4.4	1.6	7.1	-3.2	4.2
New Zealand	7	0.0	10.3	13.0	12.6	-19.1	-21.1	3.8	1.4	11.0	6.8	1.5	5.9	-2.9	2.0
EM Asia	**1,129**	**6.2**	**14.6**	**15.4**	**11.8**	**-26.9**	**-3.7**	**34.8**	**1.6**	**9.7**	**2.8**	**1.2**	**6.7**	**0.7**	**17.3**
China	368	2.0	13.6	13.1	11.3	-10.4	3.5	16.4	1.8	13.5	2.9	1.1	6.5	-1.6	11.4
Korea	271	1.5	15.6	15.0	10.2	-34.6	3.0	47.8	1.2	8.2	1.6	0.9	6.3	2.1	20.7
Taiwan	230	1.3	18.8	30.1	16.7	-59.0	-35.0	180.3	1.5	3.2	3.6	1.4	6.1	1.5	24.1
India	134	0.7	13.5	14.0	12.3	-1.7	-3.1	10.6	2.0	14.5	1.9	2.6	10.4	2.9	20.2
Malaysia	61	0.3	13.1	15.0	13.5	-23.4	-12.6	10.9	1.6	10.5	3.5	2.3	8.2	2.8	14.9
Indonesia	30	0.2	9.3	10.8	9.8	4.5	-12.2	10.3	2.4	21.8	4.1	1.7	5.5	-3.9	16.6
Thailand	26	0.1	10.8	9.8	8.4	97.7	10.0	17.5	1.2	12.2	4.5	2.2	5.3	3.3	6.4
Philippines	10	0.1	14.7	12.7	11.3	-15.9	15.9	11.8	1.8	13.8	4.4	1.5	5.7	0.8	13.5
Latin America	**449**	**2.5**	**11.4**	**11.0**	**9.8**	**-7.2**	**1.3**	**11.7**	**1.7**	**8.4**	**3.5**	**1.5**	**4.8**	**1.1**	**14.9**
Brazil	296	1.6	10.8	10.5	9.6	-16.1	12.7	9.1	1.7	6.8	3.8	1.4	4.6	1.0	22.1
Mexico	98	0.5	12.1	11.4	10.0	12.3	-19.7	14.4	1.9	19.9	2.6	1.8	5.0	2.4	0.1
Chile	28	0.2	18.3	16.3	12.6	8.2	12.4	29.4	1.4	7.7	2.9	1.8	7.1	-0.3	11.1
Peru	13	0.1										5.3	42.0	-1.5	7.8
Colombia	11	0.1	10.0	10.0	9.1	-2.3	-9.7	10.1	1.5	34.5	7.7	3.0	6.9	2.6	5.2
Argentina	2	0.0	4.1	4.9	4	15.3	-21.3	34.4	0.9	18.9	7.4	0.7	2.8	-3.5	-7.8
CEEMEA	**439**	**2.4**	**7.1**	**9.3**	**7.7**	**4.2**	**-24.0**	**20.2**	**1.1**	**9.0**	**3.5**	**2.2**	**7.3**	**-0.1**	**9.0**
South Africa	149	0.8	9.9	9.5	8.4	1.4	4.5	12.8	1.6	6.5	4.1	2.1	7.0	-0.4	-2.7
Russia	133	0.7	4.4	8.0	6.3	9.0	-44.2	28.6	0.8	10.3	2.1	2.6	7.1	0.8	26.9
Israel - Domestic	64	0.4	13.4	12.5	10.1	-2.1	7.2	24.8	1.4	13.6	3.6	2.2	17.6	-2.4	19.1
Turkey	27	0.2	6.6	8.1	6.7	-7.9	-18.3	20.4	1.0	12.6	3.9	1.0	6.1	0.3	7.9
Poland	24	0.1	8.1	10.8	9.6	-11.0	-25.0	13.1	1.1	10.1	3.3	2.5	3.9	4.0	-4.6
Czech Republic	13	0.1	8.9	9.2	9.1	15.3	-3.4	0.5	1.5	16.7	6.8	2.6	5.3	-2.1	-0.8
Egypt	12	0.1	7.4	8.9	7.2	6.8	-16.2	22.3	1.7	20.2	4.9	3.8	9.8	-0.8	3.8
Hungary	9	0.0	4.3	7.0	6.3	13.4	-39.6	12.2	0.8	11.5	4.0	0.7	3.3	-1.8	-0.9
Morocco	9	0.0	19.2	17.4	13.1	20.6	10.2	17.3	4.1	29.6	5.8	2.5	8.7	4.4	2.2

Source: Citi Investment Research and Analysis, MSCI, Worldscope, I/B/E/S/estimates

Figure 14. Market Intelligence by Sector

24 Apr 09	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US$bn	%	08E	09E	10E	08E	09E	10E	09E	09E	09E	07	07	Weekly	YTD
Global	**18,064**	**100**	**11.5**	**13.8**	**11.3**	**-22.3**	**-12.4**	**24.6**	**1.5**	**10.2**	**3.3**	**1.3**	**6.8**	**-0.3**	**-1.1**
Level One															
Energy	2,213	12.2	6.8	12.9	10.0	20.1	-47.2	29.3	1.5	11.6	3.4	0.9	4.5	1.8	0.2
Materials	1,327	7.3	9.5	16.9	12.4	-14.7	-45.0	36.2	1.4	6.9	2.7	1.4	6.9	1.0	10.7
Industrials	1,881	10.4	10.5	13.6	12.2	-12.5	-22.7	11.3	1.5	10.4	3.2	1.2	7.6	0.6	-2.0
Consumer Disc.	1,699	9.4	16.6	22.2	15.5	-46.8	-36.7	88.6	1.4	5.7	2.3	1.1	7.0	1.0	11.0
Consumer Staples	1,770	9.8	12.8	12.7	11.6	2.4	1.2	9.5	2.3	18.7	3.6	1.3	8.8	-1.3	-8.8
Health Care	1,742	9.6	11.0	10.6	9.5	6.3	4.1	10.7	2.0	20.2	3.3	2.1	9.2	-3.1	-11.0
Financials	3,389	18.8	14.8	13.0	10.0	-63.8	81.0	32.8	0.9	7.1	3.7	NA	NA	-1.6	-4.4
IT	2,163	12.0	16.6	20.1	14.8	-18.8	-17.8	41.7	2.3	11.4	1.5	1.5	7.3	1.5	15.6
Telecoms	1,007	5.6	10.2	10.6	9.8	1.4	-5.7	7.9	1.5	14.4	5.8	1.9	5.4	-2.6	-8.2
Utilities	873	4.8	11.7	11.2	10.2	-5.6	6.1	10.3	1.2	11.2	5.1	1.6	7.8	-0.9	-12.9
Level Two															
Energy	2,213	12.2	6.8	12.9	10.0	20.1	-47.2	29.3	1.5	11.6	3.4	0.9	4.5	1.8	0.2
Materials	1,327	7.3	9.5	16.9	12.4	-14.7	-45.0	36.2	1.4	6.9	2.7	1.4	6.9	1.0	10.7
Capital Goods	1,373	7.6	9.8	12.8	11.8	-9.8	-23.6	8.7	1.5	10.8	3.3	1.2	7.9	1.1	-0.7
Comm Svc & Supp	126	0.7	13.1	15.5	13.8	-3.3	-15.6	12.3	1.8	11.4	3.0	1.4	8.4	0.6	-4.6
Transport	382	2.1	13.3	16.8	13.6	-25.7	-20.5	23.6	1.5	8.7	2.7	1.4	6.6	-0.8	-5.9
Autos	405	2.2	32.6	-123.9	28.2	-106.4	-578.6	132.1	1.0	-0.7	1.5	1.0	7.1	0.2	27.0
Consumer Durables	268	1.5	37.6	36.6	18.2	-68.5	5.9	101.0	1.4	3.7	2.1	0.8	6.3	3.5	15.2
Consumer Services	226	1.2	13.5	14.7	13.3	4.4	-8.2	10.2	2.5	16.6	3.0	1.7	8.9	1.9	-2.0
Media	371	2.1	10.0	11.6	10.3	11.5	-16.1	12.6	1.2	9.9	3.1	1.8	6.8	-1.4	-4.1
Retailing	429	2.4	15.1	17.5	15.6	-12.8	-13.8	12.3	2.0	7.7	2.2	0.8	7.0	1.8	18.4
Food & Staples	477	2.6	13.2	13.2	12.1	10.9	-0.3	10.2	1.8	13.3	2.5	0.8	7.4	0.0	-5.1
Food Bev & Tobac.	985	5.5	12.3	12.2	11.1	-4.4	1.4	10.2	2.5	21.4	4.1	1.6	9.3	-1.6	-8.6
Household Products	307	1.7	13.6	13.2	12.4	14.7	2.8	6.1	3.0	22.7	3.3	2.0	9.8	-2.6	-14.8
Health Care	405	2.2	11.8	10.9	9.8	1.0	8.2	11.2	1.8	16.4	1.1	1.4	9.1	-3.6	-4.8
Pharma & Biotech	1,337	7.4	10.8	10.5	9.5	7.8	3.0	10.5	2.1	21.6	3.9	2.6	9.2	-2.9	-12.7
Banks	1,574	8.7	10.4	13.1	10.2	-44.7	-16.5	29.6	1.0	7.2	3.9	NA	NA	-1.3	-2.4
Div Financials	787	4.4	-108.5	18.8	11.1	-127.6	221.2	79.7	0.9	4.4	2.2	NA	NA	-1.4	1.1
Insurance	684	3.8	11.3	8.7	7.3	-49.4	827.9	20.6	1.0	11.1	4.0	NA	NA	-2.6	-13.0
Real Estate	345	1.9	13.2	16.1	15.8	-16.2	-19.9	1.8	1.0	5.9	5.2	NA	NA	-1.2	-5.7
Software & Services	758	4.2	14.5	14.1	12.8	13.0	2.4	10.0	3.1	22.1	1.3	2.8	10.2	3.9	9.8
Tech	1,055	5.8	16.7	21.3	14.7	-24.2	-21.3	47.7	2.1	9.8	1.3	1.1	6.3	0.4	18.6
Semi & Semi Equip	349	1.9	24.3	85.3	23.8	-57.3	-93.8	4,583.7	2.0	0.5	2.5	1.4	5.8	0.0	20.5
Telecom	1,007	5.6	10.2	10.6	9.8	1.4	-5.7	7.9	1.5	14.4	5.8	1.9	5.4	-2.6	-8.2
Utilities	873	4.8	11.7	11.2	10.2	-5.6	6.1	10.3	1.2	11.2	5.1	1.6	7.8	-0.9	-12.9

Source: Citi Investment Research and Analysis, MSCI, Worldscope, I/B/E/S/estimates

Figure 15. 2009 P/E Estimates by Region and Sector

24 Apr 09 **P/E 09E**	**World**	**US**	**Eur ex UK**	**UK**	**Japan**	**Dev Asia**	**Asia Pac xJ**	**Em Asia**	**Lat Am**	**CEEMEA**
Region	**13.8**	**14.0**	**11.2**	**11.1**	**41.7**	**13.8**	**14.7**	**15.4**	**11.0**	**9.3**
Energy	12.9	15.3	9.4	11.5	27.9	21.8	12.6	11.0	9.7	6.9
Materials	16.9	24.4	14.3	12.8	106.9	14.5	14.4	14.4	10.3	11.9
Capital Goods	12.8	12.5	12.0	9.4	19.5	11.8	12.2	12.4	11.6	8.5
Comm Svc & Supp	15.5	15.2	14.2	12.9	31.3	12.1	12.2	12.9		
Transport	16.8	15.2	15.2	14.1	16.8	54.8	42.9	35.2	12.8	
Autos & Components	-123.9	63.0	-178.2		-39.8		11.3	11.3		5.9
Consumer Durables	36.6	19.8	14.7	14.9	-31.7	9.5	20.8	27.1	8.1	4.5
Consumer Services	14.7	15.5	13.5	11.9	22.0	13.5	13.5	13.4		10.5
Media	11.6	12.3	9.5	11.4	22.9	10.7	11.2	17.4	15.0	11.5
Retailing	17.5	18.6	16.6	15.3	17.0	13.3	13.6	14.3	22.3	9.1
Food & Staples Retailing	13.2	12.9	12.0	12.7	15.6	15.5	15.5	15.2	21.0	12.0
Food Bev & Tobacco	12.2	12.1	12.2	10.8	18.6	12.8	13.1	13.3	16.5	11.6
Household Products	13.2	12.5	14.3	14.4	18.8		20.7	20.7	15.2	
Health Care Equip & Svc	10.9	10.3	14.4	11.4	34.5	14.1	14.1			10.1
Pharma & Biotech	10.5	10.5	10.4	7.9	14.4	16.7	16.4	16.0		13.7
Banks	13.1	26.8	9.7	22.1	24.6	12.0	11.8	11.7	9.8	9.7
Div Financials	18.8	21.8	10.8	38.9	-14.6	16.9	17.5	18.2	18.0	7.8
Insurance	8.7	7.4	7.7	5.5	34.4	12.2	16.9	23.4	9.0	8.5
Real Estate	16.1	24.5	12.6	12.5	16.7	13.0	13.2	14.7		11.7
Software & Services	14.1	14.1	15.0	13.1	12.3	13.3	16.4	16.9	15.5	13.2
Tech Hardware & Equip	21.3	15.1	18.8		-33.1	12.9	39.5	42.4		14.6
Semi & Semi Equip	85.3	59.3	-19.3		-20.4	80.8	47.4	47.3		
Telecom	10.6	14.1	9.1	7.9	10.1	11.0	11.3	11.4	10.0	10.3
Utilities	11.2	10.6	9.4	9.5	22.1	16.4	17.3	18.5	10.3	8.6

Source: Citi Investment Research and Analysis, MSCI, Worldscope, I/B/E/S/estimates

Notes

Notes

Notes

Appendix A-1

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