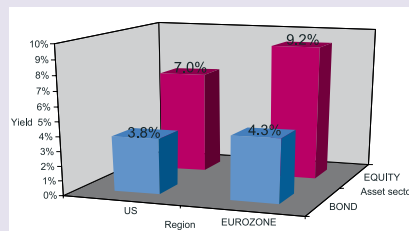


Global Investment Perspective

June 2008

Strong energy prices continue to highlight inflationary pressures around the globe. Inflation remains a serious concern for both developed markets and emerging markets. While growth still appears strong in emerging markets, it continues to be weak but positive in developed markets. Higher inflation has increased risk, especially for bond markets. As inflation and growth risk are now more balanced and the equity risk premium (the difference between equity and bond yields) suggests that investors are now adequately compensated for holding equities versus bonds, we have changed our view on equities versus bonds, from negative to neutral.



Regional Asset Yields

Source: HIS, Datastream, Bloomberg, Lehman Brothers

Within bond markets, we shifted US and Eurozone government bonds from positive to neutral, as increasing risk appetite and higher inflation have become negative for long dated bonds. We have also switched from negative to neutral for higher yield bonds, as it is benefited by valuations and improving sentiment. In currency markets, we remain neutral on the USD, EUR, GBP and JPY.

Overall our outlook on risky assets (such as equities and high yield), relative to "safer assets" (such as government bonds), is more neutral. But we emphasize that volatility is likely to remain elevated, thus suggesting caution against any aggressive asset allocation position in portfolios.

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Currency

USD

Attractive Valuation But Lacks Catalyst For Appreciation

Based on valuation, the USD is appealing but factors like the interest rate differential suggest cautiousness, causing us to reiterate our neutral view.

EUR

Overvalued But Will Still Benefit From A Favourable Interest Rate Differential

On valuation measures, the Euro continues to look overvalued versus the USD. But there could continue to be volatility in the currency, in either direction, and there are no likely catalysts for a sustainable depreciation. The currency can also still benefit from favourable interest rate differentials.

GBP

Expensive Valuation But High Interest Rates May Provide Near-Term Support

The economic slow down and housing market continues to negatively affect the GBP but high interest rates could provide some support for the currency in the near term. However, on long-term valuations measures, the GBP is overvalued against the USD.

JPY

Volatility Will Continue But The Currency Is Range Bound

The weak macro situation and low interest rate are not supportive for the JPY and volatility on JPY/USD exchange rate will continue in the near future. However, the exchange rate is likely to remain at the current level on a 12-month basis.

Interest rate

US Government Bond Inflation Reduces Attractiveness Of Government Bonds

The current high inflation is a big negative factor especially for long dated bonds as it could lead to higher interest rates and yields. We have moved from positive to neutral on this segment relative to riskier segments like High Yield.

Eurozone Government Bonds High Inflation Will Likely See ECB Keep Rates On Hold Despite Weak Growth

We continue to expect the European Central Bank to keep the rate on the main refinancing operations at 4% for the rest of the year, but we see the risks tilted to the upside. Given the improvement in risk appetite and inflation risk, we shift our view from positive to neutral relative to the riskier segments.

Asian Bonds Credit Spreads May Stabilize

Asian bonds continue to be correlated with movements of credit in the US as well as overall emerging market bonds. Overall Asian bond spreads are unlikely to decouple from global trend. As investors look past the trough of economic activity, which we expect to occur in the 2nd half of the year, Asian credit market should rally and we therefore maintain a more positive view on a 1 year basis.

Emerging Markets & High Yield Bonds Spreads Decreased While Credit Crisis Concerns Remain

Evidence of a more positive sentiment is an encouraging sign for High Yield Bonds. Hence we move our view from negative to neutral relative to the government peers. Persistent market volatility and inflation continue to be a negative factor for emerging market debt in the medium-term, thus we keep our negative stance on emerging market debt.

Market / Commodity

US

Equities Are Offering An Attractive Yield But Risks To Growth And Earnings Remain

Equities are now offering a higher yield than the yield on bonds, a factor that is seen as positive and leads us to have a more balanced view relative to bonds. Yet we continue to highlight the risks to economic and earnings growth.

Europe

Macro Data Suggests There Are Weak Patches In The Economy

Valuations are attractive on a historical basis and the risk premium for equities is now relatively attractive. But the risks to growth suggest a neutral view relative to bonds, and relative to other major equity markets.

Japan

Weakening Growth And Rising Inflation

Economic growth readings continue to be mediocre, and there is concern about the effects of rising inflation. Despite this, valuations are also not cheap, given weak earnings expectations.

Asia ex-Japan

Inflation Now A Key Risk

The region continues to be supported by strong structural growth. But weakening global growth and inflation, both continue to be key risks, which may limit the upside potential given valuations are not at bargain levels.

Emerging Markets

Inflation Is A Growing Concern For Equities

Oil-exporting countries continue to benefit from high prices, but inflation will continue to be a problem for emerging countries overall. Valuations are not cheap given the underlying risks to global growth.

Hong Kong & China

Market Consolidation In The Short Term But Long Term Remains Positive

Despite likelihood of continued market volatility, the fundamental environment in HK and China remains relatively supportive. Whilst growth is slowing it is still healthy. Inflation is the biggest concern and we expect that the Chinese authorities will keep monetary policy tight. With no real direction from global equities and no new positive trends in domestic conditions, we expect that HK and China markets will range trade in the coming months.

Oil

Prices Could Soften Over the Year

We continue to see high oil demand in emerging markets, and continued supply constraints, which may continue to support higher oil prices in the near-term. But we expect that oil prices would soften this year as global growth slows.