Equities

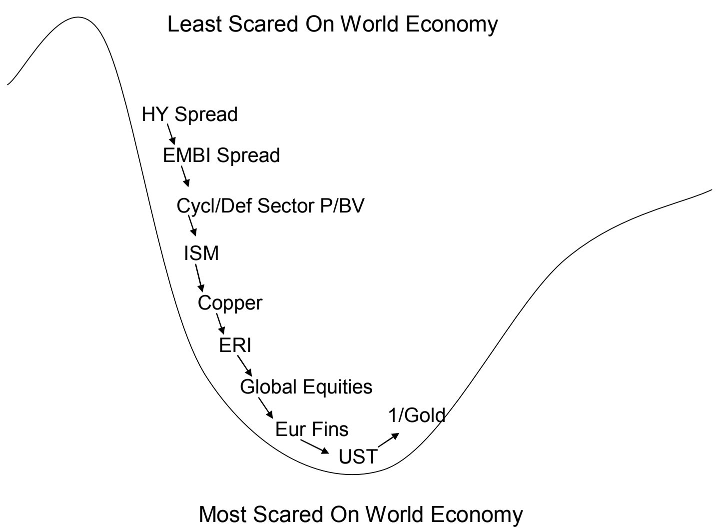
28 September 2011 | 24 pages

Global Equity Strategist

Riding The Roller-Coaster

- **Same movie** — The recent savaging of Emerging Market equities and bonds, sell-off in commodities and rally in the US dollar feels very much like 2008.
- **Bonds lead, commodities lag** — G4 government bond yields are beyond 2008-09 lows. Commodity markets look to be pricing in a more moderate downturn.
- **Global equities derated hard** — Equity valuations have moved fast to price in a pre-Lehman EPS recession, if not yet a post-Lehman EPS collapse. Such low expectations should provide support in the face of inevitable earnings downgrades in our view.
- **Front of roller-coaster** — Global equities lagged other assets in the 2008-09 recession and recovery. They are further advanced this time round. Rising government bond yields and falling gold may be the best indicators that the turn for equities is really here.
- **Back of roller-coaster** — High yield and EM bond spreads are further away from their 2008 extremes. Within equities, cyclical/defensive valuations are also some way off.

Figure 1. The Roller-Coaster: Asset Prices/Valuations Now Vs 2008/09



Source: Citi Investment Research and Analysis

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Riding The Roller-Coaster

We compare the latest shifts in asset prices to the moves seen in 2008-09. We find that gold and core government bond yields are already at their extremes. Global equities may already be pricing in a "normal" (25%) EPS recession but not the 50% contraction seen after the Lehman default. Commodity prices, HY spreads and cyclical/defensive valuations look less pessimistic.

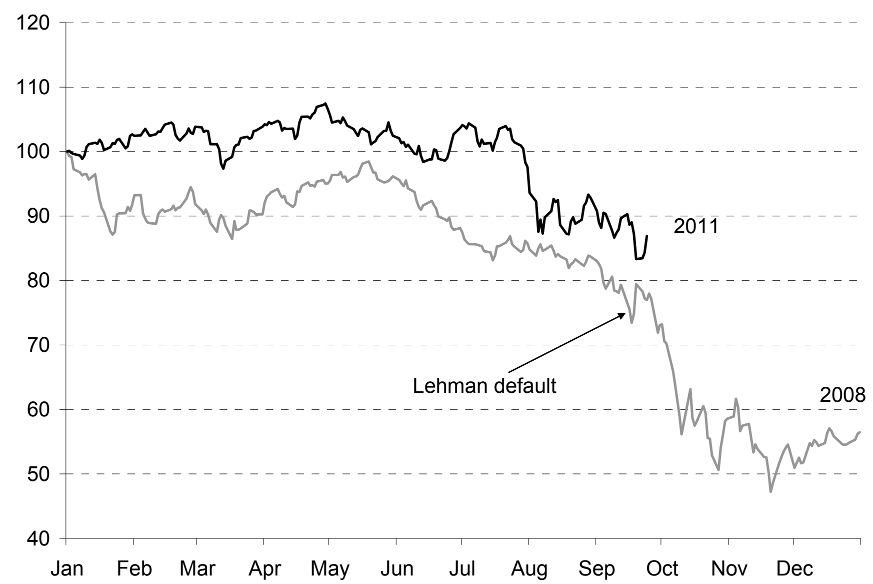
Inevitable Comparisons

2008's sell-off in the MSCI AC World benchmark split into two segments: a more orderly sell-off pre-Lehman (which defaulted on September 15th) and then an increasingly disorderly sell-off afterwards.

Looks like 2008

Figure 2 also shows the parallel progress of global equities in 2008 and 2011. A continuation would imply accelerating price falls over the rest of this year. Last week's sell-off made the similarities look even more alarming. A strong US dollar, weaker commodity prices and sharp sell-off in EM assets were all associated with the increasingly chaotic days after the Lehman default. Indeed Geoffrey Dennis, our Global EM strategist, noted that last Thursday EM equities suffered their worst day since November 2008.

Figure 2. MSCI AC World 2008 And 2011



Source: Citi Investment Research and Analysis, Datastream

Global EPS fell 55% in last bear market

In 2008, global stock prices had already declined by 20% before September 15th. Declines of this size have often been associated with a typical profits recession. The further fall in global equities after the Lehman collapse reflected the markets pricing in something even more serious. This was reflected in the eventual peak/trough 55% fall in global EPS, twice the average contraction.

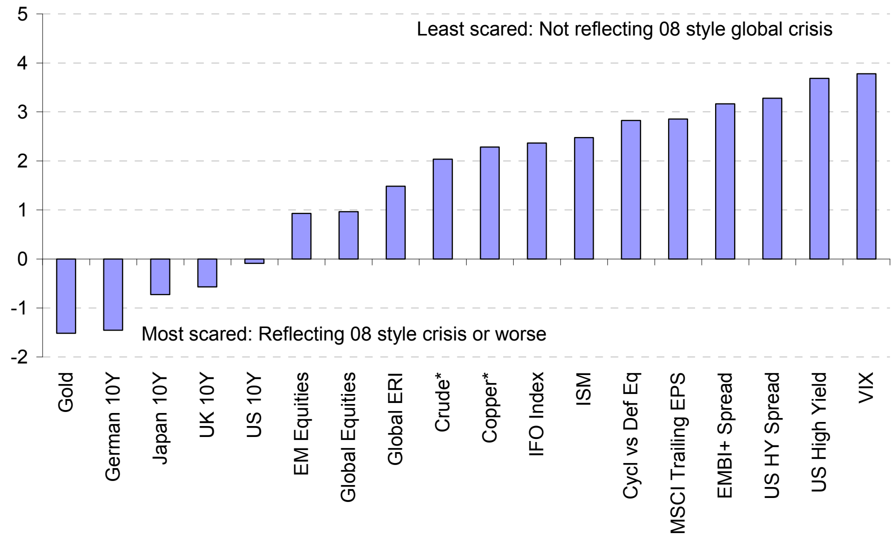
The moves in markets last week reflect rising investor concerns about the global economy entering into another disorderly financial crisis and subsequent deep recession. Indeed, our economists are now forecasting a recession in the Euro Zone[1] if not (yet) in the rest of the world. Policy makers don't seem to be on top of unfolding sovereign debt issues. We've seen this (horror) movie before.

Asset Valuations

While recent price moves look increasingly similar to 2008, where have valuations got to? Are markets already there? Which asset class valuations are in 2008 crisis territory? Which are still some way away?

In Figure 3 we compare asset valuations now to the extremes they reached in the 2008/09 global financial crisis after the Lehman default. For bonds we look at yields (and spreads for HY and EM debt). For crude oil and copper our valuation measure is price relative to global nominal GDP. For equities we use P/BV (trailing) which provides a more stable comparison than volatile PEs.

Figure 3. Current Valuations vs Global Financial Crisis Extremes (St. Dev)



Source: CIRA. *Crude oil and copper price relative to global nominal GDP. Global Cyclical sectors are Materials, Industrials, IT, Consumer Disc. Defensives are Consumer Staples, Health Care, Telcos, Utilities.

Gold, government bonds already extreme

The gold price seems to be most bearish on the world economic outlook. It is well through its 2008-09 extreme. Core government bond yields also seem to be very bearish (or bullish if you look at them from a price perspective). Valuations for G4 government bonds are now beyond the post-Lehman extremes they reached in 2008. For example German 10 year yields are 2.0%, almost 2 standard deviations below those lows. US HY valuations are still some way off 2008 extremes. Perhaps this is testament to better corporate balance sheets this time round, but we might expect equities to reflect better balance sheets as well.

[1] Euro Weekly: Debt Restructuring Better Early Than Late, 23 September 2011

The overall valuation of the global equity market has fallen sharply but it has yet to price in a post-Lehman crisis. Within global equities, cyclical versus defensive sector valuations seem to have lagged the broader derating of the asset class. EM bond spreads are still some way from the extremes in 2008/09.

We also rank some fundamental leading indicators: US ISM and German IFO business confidence, Citi's Earnings Revisions Index (ERI[2]). They lag the downward shift in equity valuations and are way behind the collapse in government bond yields.

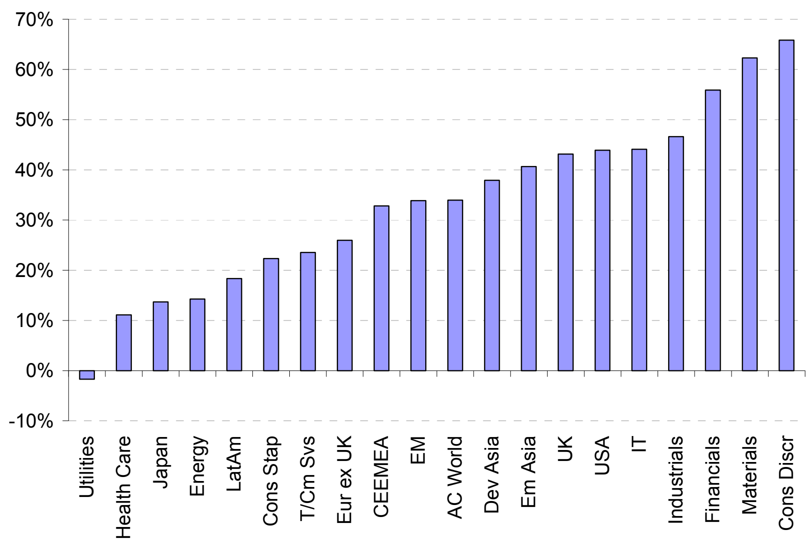
Too late to buy core sovereigns?

This suggests that, at current prices, bears on the global economy would be better served selling HY or underweighting cyclicals against defensives than buying more government bonds. As an asset class, equities sit somewhere in between. We suspect that they are already pricing in a typical recession[3] but not a post-Lehman financial collapse.

Global Equity Valuations

How do current valuations now look within the global equity market compared to 2008-09 lows? In Figure 4 we look at the percentage difference of price to book ratios now versus then for equity regions and global sectors.

Figure 4. Global Equity Regions and Sector P/BV vs 2008/09 Extremes (%)



Source: Citi Investment Research and Analysis

Only Global Utilities valuations are below the extremes of 2008/09. This reflects the current woes of the German and Japanese stocks in particular. Elsewhere, valuations are still to reach the lows back then, especially amongst the global cyclical sectors. Equity investors who think that the government bond markets are right to be pricing in a post-Lehman economic outlook should be heavily Underweight these economically sensitive sectors right now in our view. They probably need to derate by another 30-40%. We believe at a regional level they should favour Japan and Europe ex-UK over the UK and US. Within EM they should favour LatAm and CEEMEA over Asia.

[2] Global Equity Strategist: High Frequency Earnings, 14 September 2011

[3] Global Equity Strategist: August Sell-Off, First Thoughts, 9 August 2011

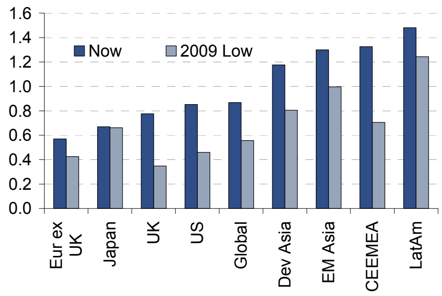
Global Financials

Global Financials valuations are still 50% above the troughs of 2009. So even the Financials are yet to price in a financial crisis. If we look at the Financials in each of the regions, we get a slightly mixed picture (Figure 5). Japanese Financials are at the valuations they reached in 2009 while those in LatAm are not that far away. Valuations fell to exceptionally low levels for the UK and US financials in 2008-09. This is why current valuations are currently double the levels back then. Investors obviously do not think these Financials will face the same issues as they did previously.

Figure 5. Financials PBV Now vs 09 Low

Source: Citi Investment Research and Analysis

Figure 6. Financials PBV Now & 09 Low



Source: Citi Investment Research and Analysis

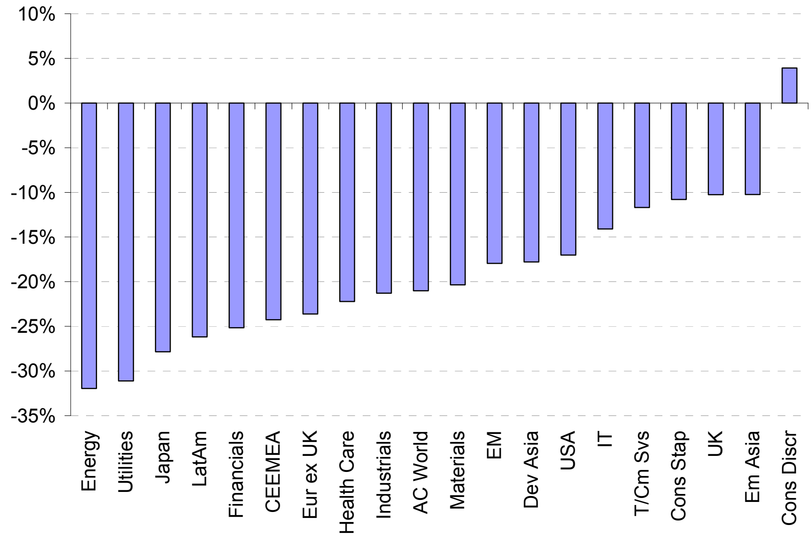
Europe ex UK Financials P/BV still 30% above previous low

For Europe ex UK Financials current valuations are at 0.6x price to book which makes them the cheapest in the world right now (Figure 6). This is still about 30% higher than the lows of last time. But Europe ex UK Financials are now closer to pricing in a financial crisis than in the UK and US.

Pre-Lehman comparison

Figure 4 confirms that global equity valuations are not yet at post-Lehman levels. But that does not necessarily mean that they are complacent. Figure 7 shows current global equity valuations compared to pre-Lehman lows generally reached in early September 2008. This tells a very different story. Valuations are now well below these levels. The MSCI AC World index trades on a P/BV valuation of 1.6x, already 20% below the pre-Lehman low.

Figure 7. Global Sector And Region P/BV Now Versus 2008 Pre-Lehman Low (%)



Source: Citi Investment Research and Analysis

But pre-Lehman, underlying fundamentals were already worse than they are now. The classic lead indicators were falling towards contraction territory. The US ISM was 43.8 (currently 50.6). The German IFO was 96.1 (currently 107.5). Consensus analyst forecasts for 2008 global EPS growth had already fallen from 12.7% at the start of the year to 3.3% just before the Lehman collapse.

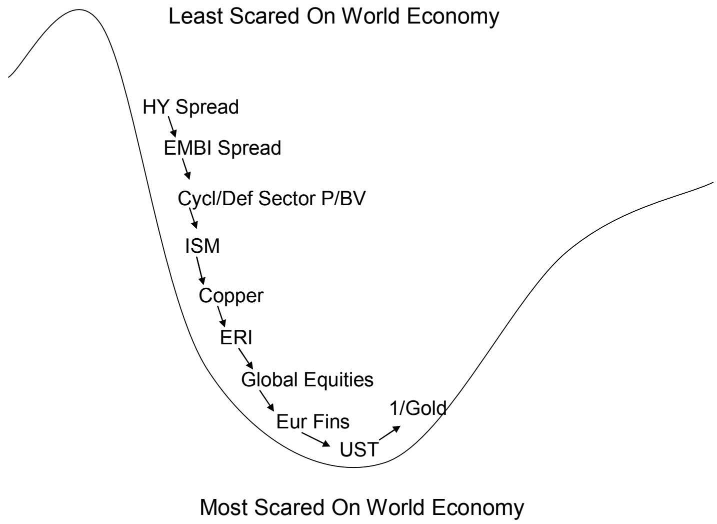
EPS downgrades to come, but plenty already in the price

Of course, bears would argue that this indicates corporate/analyst complacency and that there are significant profit downgrades to come. We agree. But Figure 7 suggests that global share prices are far from complacent. OK, they are not yet pricing in a post-Lehman crisis, but they are already pricing in something worse than a pre-Lehman recession. Perhaps just expecting a typical recessionary 25% contraction in global earnings (which probably would have occurred without the Lehman shock) may not be reason enough to be an aggressive seller from here. For that to be justified, a 50%+ contraction in global EPS would probably be needed. We are concerned about the global EPS outlook, but not that concerned.

The Roller-Coaster

Global financial markets seem to be on a downward roller-coaster ride (Figure 8). The front carriages (1/gold, US treasury/bund yields, European financial stocks) have been in free-fall for some time and are approaching or through valuation levels set in the last bear market. Others are not too far behind (global equities). Those carriages towards the back (credit spreads, cyclical vs defensive equities, commodities) are now picking up pace fast.

Figure 8. The Roller-Coaster: Asset Prices/Valuations Now Vs 2008/09



Source: Citi Investment Research and Analysis

This might help explain the apparently inexplicable behaviour of the gold price in the latest sell-off. Perhaps gold's shift from a negative to a positive correlation with risk assets reflects that it is the first carriage. It has gained the most as the asset roller-coaster tipped downwards, but will also be the first to head up the other side (ie fall in price terms). Government bond yields responded logically (they fell) in last week's risk sell-off, suggesting that they are still on the downward track. But they may be the next to rise up the other side.

The roller-coaster may be familiar from previous bear markets, but the order of the carriages can change. For example, Figure 9 ranks the same ten assets according to their post-Lehman extremes. The EM bond spread turned first, on 24 October 2008 just a month after the Lehman default. The Cyclical/Defensive equity trade turned in November. Next were HY Spreads and US treasuries in December. Global Equities didn't turn until 4 months after EMBI spreads. The more fundamental indicators such as ERI or ISM based out before equities.

Figure 9. Asset Price Turns in 2008-09 (After EM Bond Spreads)

	Lag	Low Date (08-09)
EMBI Spread	0	24/10/2008
Cycl vs Def Equities	27 days	20/11/2008
HY Spread	1 month 19 days	12/12/2008
US 10Y	1 month 25 days	18/12/2008
ERI	2 months 3 days	26/12/2008
Copper	2 months 8 days	31/12/2008
ISM	2 months 8 days	31/12/2008
European Financials	4 months 16 days	09/03/2009
Global Equities	4 months 16 days	09/03/2009
Gold	1 year 1 month 10 days	03/12/2009

Source: Citi Investment Research and Analysis

Just because equities lagged the turn in other asset classes last time round does not mean that they will this time. The global equity carriage seems to be nearer the front of the roller-coaster than it was in 2008-09. Waiting for EMBI spreads to start tightening might be leaving it too late. It may just need the gold price to peak and government bond yields to base for global equities to base this time round.

Strategy Outlook

We may be heading into another global recession, but the very fact that we have only just come out of the last one means that investors have been quicker to price in a severe downturn. The price action parallels with 2008 are beguiling and would imply further significant falls in equities before the end of this year. But if we have all seen this movie before then, even if the economic outturn is similar (which we don't not think it will be), the market outturn from here will probably be different.

Lots of bad news already priced in

Core government bond yields and gold are already pricing in events as bad as 2008-09. From here the risks for those asset classes might be that we do not see a repeat. Global equity valuations have already fallen to levels that seem to be pricing in an outcome somewhere in between a "normal" global recession and another post-Lehman melt-down. To be an aggressive seller of equities from here, then we would have to be predicting something nearer a post-Lehman 50% fall in global EPS not the 25% fall seen in a typical global economic recession. We still think the latter is unlikely, let alone the former. Of course, we need to see some more meaningful resolution of the EMU crisis, and it will probably take further falls in share prices to force that[4]. But once that does come the upward move in global equities should be significant in our view.

[4] Global Equity Strategist: Vigilante Battle, 31 August 2011

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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

Global Emerging Markets
Geoffrey Dennis
27-Sept-11

Global Emerging Markets Strategy: Carried Out

'Emerging market currencies collapse', declares Strategist Geoffrey Dennis, 'exacerbating losses for equity investors and creating somewhat of a panic on several occasions in recent weeks… of the shocking 17.6% decline in MSCI GEMs so far in Sep – the worst month for the asset class since Oct-'08 – over 40% has been due to currency declines… with Europe forecast to fall back into recession, several financial assets show some similarities with 2008-9, but we reject the full comparison between today and the global financial crisis... modest dollar strength and some bounce in EM currencies need not be a major negative for EM equities… in a strong dollar environment, we show the relative winners are Latin America; India, Malaysia, Colombia and Mexico… in any dollar relapse, winners should be CEEMEA and Latin America; Indonesia, Thailand, Brazil, Russia and CE3'.

Asia Pacific
Markus Rosgen
26-Sept-11

Asia-ex Strategy: And Now… a Stronger US Dollar

'US dollar strong = Asia weak', accepts Asian Strategist Markus Rosgen, 'for as the US dollar rallies, liquidity gets tighter, export prices weaken, ROE and earnings begin to fall… that has been the refrain over the last 30 years… and it looks to be the same again now… on a US dollar rally, avoid the commodity, industrial and real estate sectors – only defensives outperform… the good news is, the US dollar rally this time has started at the lowest valuations we've seen since 1975: past periods of US dollar strength happen when we are trading above 2x book – we are now at 1.5x book… and based on cyclically adjusted earnings, valuations shows recession now priced in, with Asia ex now cheaper than 1990 recession or SARS and at 2001 levels… compared to 2008, we have 13% to go'.

US
Tobias Levkovich
23-Sept-11

US Equity Strategy: Monday Morning Musings – Cash Considerations

'US non-financial corporations are sitting on $2trn of cash', reminds Strategist Levkovich, 'that can be used across a wide spectrum of options… the recent pick-up in junk bond yields argues for some higher hurdle rates for deal activity notably for private equity purchasers – thus, one cannot expect a huge uptick in M&A to drive shares in the near term… nevertheless, US households also appear to be hoarding cash in spite of low deposit rates, with nearly $8trn of deposits currently… implying cash held by households and corporates equals ~80% of the S&P500's market cap – well above the levels seen in both 2000 and 2007 when stock prices peaked… thus, at the very least, such cash does protect shareholder downside and could unleash substantive upside when CEOs feel more empowered'.

Europe
Jonathan Stubbs & Adrian Cattley
22-Sept-11

European Portfolio Strategist: No Growth

'Increasingly, growth is being priced out and value emerging', notices the European Portfolio Strategist, 'for at the stock level, 62% of European stocks under coverage now appear priced for no growth against the 6 year average of 47%... this figure reached 81% at the end-'08 so we are not at the extremes currently, but we are getting closer… falling markets and a de-rating should bring out the bargain hunters in all of us... this is always difficult… we screen for stocks we estimate are currently priced for no growth in perpetuity that are also trading within 5% of their 52 week lows and 20% of their 2008/9 lows… or the sort of stocks that we think should react positively if there is evidence that macro events are stabilizing'.

CEEMEA
Andrew Howell
22-Sept-11

CEEMEA Strategy: The Currency Slide – Watch local bond markets/What to buy

While August was a particularly rough month for share prices in Central Eastern Europe Middle East & Africa (CEEMEA), September has been more about the currencies. Currencies are down 10-15% so far this month, in the worst 3 weeks for CEEMEA FX since Oct-'08. The currency moves are also being felt in other asset prices, with local bond yields starting to move higher in September. To some degree, latest currency moves have brought about what central banks have wanted for some time: greater competitiveness and import suppression. However, we also need to watch these rates closely: a sell-off in bonds could indicate a tightening in financial conditions that could deal a further blow to the growth outlook.

Japan
Kenji Abe
20-Sept-11

Japan Equity Strategist Flash: US trip report - Go with the flow

'With concerns about eurozone sovereign risk intensifying and euro equities sinking dramatically', notices Japan Strategist Kenji Abe, 'it seems the number of US investors hiking their Japanese equity weightings has increased… from our latest trip, more US investors were overweight Japanese equities now than when we visited in May… their holdings are still biased toward exporters such as machinery names and auto stocks… but, we got the impression this is likely to shift soon, into domestic-demand stocks… thanks to expansionary fiscal policy, yen strengthening against the dollar, and the slowdown in the global economy… among domestic demand plays, we recommend: 1) retailers that look undervalued; 2) telecoms, which is benefiting from the spread of smartphones; and 3) real estate, where interest cost burdens are expected to lighten under monetary easing'.

Latin America
Jason Press
14-Sept-11

Latin America Equity Strategy: Flush with Cash

'Capex levels remain healthy, but growth is decelerating', notices Latam Strategist Jason Press, 'and, after a surge in regional M&A in 2010 to $94bn, the annualized rate for '11 suggests a large decline in activity to ~$60bn (-52%)… due to macro uncertainty, Latam managements are spending less on capex and M&A, and are instead, increasing dividends and buyback activity… on the one hand, dividends and buybacks demonstrate a commitment to shareholders… on the other, lower investment rates could result in further uncertainty and lower long-term growth… either way, we stay Overweight Brazil, where the market is still pricing in an earnings recession - too pessimistic, in our view'.

Economics Analysis

Economics
Michael Saunders
23-Sept-11

Euro Weekly: Debt Restructuring Better Early Than Late

'We now expect a substantial and probably coercive debt restructuring of the Greek sovereign', laments the Euro Weekly, 'by the end of 2012 at the latest and likely much sooner… we expect Ireland and Portugal to follow soon afterwards, mainly because of "political contagion"… in order to reduce debt-to-GDP levels to 60% in 2012, it would require debt haircuts (ex-IMF) of 67% in Greece and 53% in Portugal and Ireland… and with multiple restructurings taking place, we expect the euro area to fall back into recession and the ECB to cut rates back to 1.0% by 1Q'2012'.

Market Outlook

The ongoing sovereign crisis in Eurozone, US debt downgrade and worries about global growth caused a sharp pullback in global equities. We think the stock market is questioning the sustainability of current corporate earnings and pricing a global EPS contraction of up to 25% for 2012. This is unlikely to happen in our view. Our forecasts for global EPS growth are 12% for 2011 and 9% in 2012. Our MSCI ACWI 2011 year-end target is 360 (currently 290). Cheap equity valuation relative to history and ultra-low interest rates, make us expect more de-equitisation (M&A/buybacks) as a result.

Regional Strategy

Our key regional and global sector recommendations are summarised in Figure 10. Emerging Markets remain our preferred structural growth play. EM economic and EPS momentum remain robust compared to DM. We stay Overweight. We are also Overweight Japan, which is our recovery play. The post-earthquake EPS downgrades have reversed and we believe Japan can benefit from positive earnings trends from this point. We are Neutral on US. The 2Q earnings season has been strong and a weaker US$ should support US equities. Europe ex UK has been one of the worst performers recently due to ongoing sovereign concerns. Although we see some risk to earnings in Europe ex UK, cheap valuations and expectations of a market rebound keep us at Neutral. We are Underweight UK and Developed Asia.

Sector Strategy

Our global sector strategy keeps a cyclical tilt. We prefer to buy operational leverage rather than financial leverage. Our Overweights include IT, Materials and Industrials. We think these sectors are likely to benefit from a market rebound. Despite the recent poor performance we keep Financials at Neutral as we think short-term performance may be strong in any improvement in investors' risk appetites. Our Underweights have a clear defensive tilt and include Telecoms, Health Care and Consumer Staples. Other than being defensive, these sectors still see weak relative earnings trends and relative valuations are not particularly attractive (other than Telecoms).

Risk

The biggest risk to our outlook is another deep economic recession.

Figure 10. Regional And Global Sector Recommendations

Overweight	Neutral	Underweight
Global Emerging Markets	US	UK
Japan	Europe ex-UK	Developed Asia

Overweight	Neutral	Underweight
IT	Consumer Disc.	Consumer Staples
Materials	Energy	Health Care
Industrials	Financials	Telecoms
	Utilities	

Source: CIRA

GDP	2010F	2011F	2012F
Global	4.1	3.0	2.9
US	3.0	1.7	1.9
Euro zone	1.7	1.6	-0.2
Japan	4.0	-0.4	2.1
EM	7.3	6.1	5.6
Asia	9.2	7.4	7.3
CPI	**2010F**	**2011F**	**2012F**
Global	2.7	4.0	3.2
US	1.6	3.2	1.9
Euro zone	1.6	2.7	1.9
Japan	-0.7	0.0	-0.3
EM	5.3	6.5	5.7
Asia	4.2	5.8	4.7
Interest Rates	**Current**	**4Q11**	**2Q12**
US Fed Funds	0.25	0.25	0.25
ECB	1.50	1.00	1.00
UK Base	0.50	0.50	0.50
Japan Call	0.10	0.10	0.10
10Yr Yield	**Current**	**4Q11**	**2Q12**
US	1.98	2.00	2.20
Euro zone	1.93	1.50	1.35
UK	2.34	2.00	1.65
Japan	1.01	1.20	1.10
Ex Rates	**Current**	**4Q11**	**2Q12**
US$/€	1.36	1.28	1.25
£/US$	1.56	1.51	1.51
€/£	0.87	0.84	0.83
US$/¥	76	75	76

Source: Factset, CIRA

Global Market Intelligence

Figure 11. Global Market Intelligence by Region

23 Sep 11	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US$bn	%	10E	11E	12E	10E	11E	12E	11E	11E	11E	10	10	Weekly	YTD
Global	**23,909**	**100**	**12.1**	**10.6**	**9.5**	**44.7**	**14.2**	**13.0**	**1.4**	**13.4**	**3.2**	**1.5**	**7.8**	**-6.2**	**-15.5**
Developed World	20,886	87.4	12.4	10.9	9.6	45.7	13.9	13.3	1.4	13.1	3.2	1.5	7.9	-5.9	-14.8
Emerging World	3,023	12.6	10.8	9.4	8.4	38.8	15.9	11.5	1.4	15.2	3.4	1.5	7.1	-7.7	-20.1
North America	**11,872**	**49.7**	**13.7**	**11.8**	**10.3**	**46.3**	**16.9**	**13.9**	**1.8**	**15.1**	**2.3**	**1.8**	**8.4**	**-6.6**	**-10.1**
USA	10,773	45.1	13.6	11.7	10.3	49.4	15.9	13.8	1.8	15.3	2.3	1.7	8.4	-6.6	-9.5
Canada	1,099	4.6	15.6	12.2	10.6	19.2	28.0	14.9	1.6	13.3	2.9	2.7	9.0	-6.4	-15.7
Europe	**5,637**	**23.6**	**9.7**	**9.0**	**8.1**	**37.6**	**7.3**	**11.7**	**1.2**	**13.3**	**4.8**	**1.3**	**7.2**	**-5.7**	**-21.0**
United Kingdom	**2,007**	**8.4**	**10.6**	**8.9**	**8.1**	**35.0**	**18.8**	**10.5**	**1.4**	**15.9**	**4.3**	**1.3**	**8.0**	**-5.5**	**-13.8**
Europe ex UK	**3,630**	**15.2**	**9.3**	**9.0**	**8.1**	**38.9**	**1.8**	**12.3**	**1.1**	**12.1**	**5.1**	**1.4**	**6.9**	**-5.8**	**-24.4**
France	800	3.3	8.8	8.1	7.5	48.7	8.1	8.2	0.9	11.3	5.5	1.2	6.5	-7.2	-25.3
Switzerland	763	3.2	11.1	11.7	10.1	13.8	-5.7	15.5	1.8	15.3	4.1	2.0	10.1	-3.0	-18.4
Germany	683	2.9	8.9	8.1	7.3	111.3	3.6	11.9	1.0	12.9	4.6	1.2	6.4	-6.9	-27.2
Spain	303	1.3	7.9	8.1	7.3	-1.4	-2.0	11.0	1.0	12.7	8.3	1.8	6.0	-4.4	-19.3
Sweden	253	1.1	10.1	10.3	9.4	50.9	-4.0	9.6	1.5	15.0	5.1	1.7	9.7	-7.4	-26.1
Netherlands	211	0.9	8.7	8.0	7.6	109.0	8.9	4.3	1.2	14.7	4.2	1.3	7.8	-5.3	-24.7
Italy	200	0.8	7.2	6.8	6.5	14.5	7.1	16.6	0.7	8.1	6.9	1.4	5.3	-6.4	-31.7
Denmark	90	0.4	13.8	13.8	11.4	84.0	0.4	21.3	1.6	11.8	2.4	1.7	7.1	-2.6	-25.7
Belgium	85	0.4	11.5	10.9	9.1	14.5	-11.4	41.5	1.2	9.0	3.8	2.1	8.2	-4.3	-18.6
Norway	81	0.3	10.3	8.8	7.8	38.6	17.0	13.3	1.2	14.0	5.6	1.3	4.7	-6.5	-21.0
Finland	79	0.3	9.4	11.1	9.8	17.6	-15.4	12.9	1.2	10.7	5.6	1.0	8.0	-9.3	-36.2
Portugal	23	0.1	11.4	11.2	10.0	-2.1	1.4	12.0	1.3	9.2	6.0	1.8	8.4	-6.7	-19.4
Austria	23	0.1	7.9	7.1	5.9	17.7	10.4	21.0	0.7	9.8	5.3	1.1	6.0	-12.0	-38.4
Ireland	22	0.1	20.3	15.6	13.1	-6.8	30.5	19.4	1.2	7.7	3.2	1.0	9.7	-3.8	-15.8
Greece	14	0.1	5.4	16.2	6.0	-44.4	-66.9	171.3	0.7	2.7	3.9	1.1	5.0	-9.5	-50.3
Japan	**2,120**	**8.9**	**14.7**	**12.5**	**10.7**	**138.7**	**21.3**	**20.5**	**0.9**	**6.9**	**2.6**	**1.0**	**7.1**	**-3.0**	**-18.5**
Asia Pac ex Jp	**2,986**	**12.5**	**11.8**	**10.4**	**9.4**	**36.2**	**13.0**	**11.7**	**1.5**	**14.0**	**3.9**	**1.4**	**7.9**	**-7.3**	**-20.0**
Pacific ex Jp	**1,196**	**5.0**	**12.9**	**10.9**	**10.2**	**20.6**	**17.4**	**6.5**	**1.4**	**13.0**	**4.8**	**2.1**	**10.2**	**-5.8**	**-18.3**
Australia	763	3.2	12.7	10.5	9.4	18.0	21.3	11.1	1.5	14.7	5.5	2.1	9.9	-5.9	-18.2
Hong Kong	259	1.1	13.3	11.3	12.4	30.6	14.7	-9.2	1.2	10.3	3.3	2.6	14.2	-7.5	-19.6
Singapore	162	0.7	12.7	12.2	11.3	20.2	3.9	8.2	1.4	11.1	4.0	1.8	9.0	-3.1	-17.4
New Zealand	13	0.1	15.4	14.1	12.4	-2.1	9.0	14.5	1.5	10.9	5.3	1.5	8.3	0.3	4.3
Em Asia	**1,790**	**7.5**	**11.1**	**10.2**	**8.9**	**47.2**	**10.5**	**14.9**	**1.5**	**14.6**	**3.2**	**1.2**	**7.2**	**-8.3**	**-21.1**
China	519	2.2	10.0	8.4	7.4	40.7	18.0	14.2	1.4	16.5	3.9	1.3	7.2	-11.3	-26.0
Korea	430	1.8	9.0	8.3	7.4	59.9	11.8	11.9	1.1	13.5	1.7	0.8	5.9	-7.8	-19.6
Taiwan	345	1.4	11.8	13.3	11.1	79.5	-12.6	23.5	1.5	11.3	4.9	1.4	7.4	-7.1	-21.9
India	228	1.0	16.9	14.5	12.4	20.5	16.9	15.6	2.4	16.1	1.7	2.2	10.5	-4.2	-21.9
Malaysia	103	0.4	15.5	14.0	12.2	23.2	10.9	14.5	1.9	13.6	3.9	2.4	9.5	-5.1	-11.3
Indonesia	87	0.4	15.6	12.9	11.0	20.6	20.6	17.1	3.1	24.1	3.0	2.6	8.3	-11.3	-8.8
Thailand	59	0.2	12.3	10.1	9.1	32.9	21.7	11.4	1.8	18.0	4.1	1.2	7.3	-7.2	-9.3
Philippines	20	0.1	14.3	13.9	12.4	44.9	2.9	12.3	2.3	16.6	3.2	2.8	8.8	-9.3	-12.8
Latin America	**682**	**2.9**	**11.6**	**9.8**	**8.9**	**26.5**	**18.9**	**9.3**	**1.5**	**15.5**	**3.7**	**2.2**	**7.3**	**-6.5**	**-20.2**
Brazil	446	1.9	9.8	8.3	7.8	32.4	17.6	7.3	1.3	15.3	4.2	2.1	6.8	-6.1	-21.9
Mexico	139	0.6	19.1	15.0	12.4	-1.7	27.0	19.0	2.3	15.4	2.2	2.3	8.4	-7.2	-13.7
Chile	49	0.2	15.5	13.8	12.0	24.1	12.0	15.2	1.9	13.5	3.2	2.8	10.8	-6.8	-22.4
Colombia	29	0.1	20.8	17.6	15.9	36.9	18.4	11.0	2.5	17.4	2.9	3.8	12.2	-5.4	-7.9
Peru	18	0.1	14.0	10.2	9.4	26.8	37.4	8.7	3.0	29.2	4.0	9.6	18.2	-12.7	-30.1
CEEMEA	**551**	**2.3**	**9.3**	**7.3**	**6.9**	**31.0**	**27.5**	**5.7**	**1.2**	**16.3**	**3.8**	**1.5**	**6.2**	**-7.2**	**-16.3**
South Africa	232	1.0	14.9	11.8	9.6	21.5	25.3	23.1	2.1	17.3	3.8	1.6	8.8	-3.6	-5.4
Russia	193	0.8	6.3	4.7	4.8	48.0	34.7	-2.6	0.7	16.5	3.1	1.4	4.8	-12.4	-23.6
Poland	45	0.2	10.4	7.7	7.8	18.9	35.2	-1.7	1.1	14.4	6.2	1.7	5.6	-8.3	-23.6
Turkey	44	0.2	9.6	9.8	8.7	12.1	-2.4	12.7	1.5	15.2	3.1	1.5	8.0	-2.6	-15.1
Egypt	11	0.0	10.4	8.5	7.6	-11.0	18.2	15.3	1.1	12.2	4.6	2.4	7.5	0.1	-37.4
Czech Republic	11	0.0	8.5	9.6	9.0	-3.2	-11.5	7.0	1.6	16.4	7.9	2.6	5.4	-6.2	-16.2
Hungary	9	0.0	7.2	6.5	5.7	8.8	10.8	13.7	0.7	11.4	5.0	1.1	6.8	-13.6	-34.3
Morocco	6	0.0	14.4	14.0	12.9	12.2	2.6	9.2	4.0	27.8	5.3	4.4	7.6	-0.4	-10.3
Israel	**60**	**0.3**	**8.6**	**7.6**	**6.8**	**22.4**	**13.3**	**11.6**	**1.3**	**17.4**	**4.1**	**2.7**	**9.6**	**-4.2**	**-29.3**

Source: Citi Investment Research and Analysis, MSCI, Worldscope, Factset Consensus estimates

Figure 12. Global Market Intelligence by Sector

23 Sep 11	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US$bn	%	10E	11E	12E	10E	11E	12E	11E	11E	11E	10	10	Weekly	YTD
Global	**23,909**	**100**	**12.1**	**10.6**	**9.5**	**44.7**	**14.2**	**13.0**	**1.4**	**13.4**	**3.2**	**1.5**	**7.8**	**-6.2**	**-15.5**
Sectors - Level One															
Energy	2,681	11.2	10.6	8.2	7.7	36.3	28.5	7.6	1.3	15.7	3.2	1.2	6.5	-9.6	-16.8
Materials	1,993	8.3	12.4	9.0	8.0	83.1	37.4	13.7	1.4	15.9	2.9	1.8	8.3	-10.3	-23.8
Industrials	2,459	10.3	12.9	11.1	9.7	47.7	16.6	13.6	1.6	14.1	3.0	1.4	9.1	-7.0	-20.3
Consumer Disc.	2,459	10.3	15.2	12.8	10.9	157.6	20.0	17.3	1.7	13.3	2.1	1.3	7.7	-5.6	-11.8
Consumer Staples	2,520	10.5	15.8	14.6	13.2	11.2	8.1	10.8	2.6	17.9	3.2	1.5	9.5	-3.2	-3.1
Health Care	2,208	9.2	12.0	11.0	10.4	8.1	9.1	5.8	2.2	20.0	3.0	2.0	8.9	-3.2	-2.6
Financials	4,418	18.5	9.9	9.0	7.7	73.1	7.8	18.4	0.8	9.2	4.1	NA	NA	-7.4	-25.7
IT	2,987	12.5	13.3	12.2	10.8	67.9	8.9	13.4	2.2	18.3	1.5	1.7	7.7	-4.2	-10.7
Telecoms	1,215	5.1	11.8	11.4	10.5	4.1	3.8	8.2	1.5	13.5	6.0	1.9	5.7	-4.1	-8.3
Utilities	969	4.1	11.6	13.4	12.1	-11.5	-9.7	18.1	1.2	7.8	4.9	1.6	7.5	-3.1	-11.6
Sectors - Level Two															
Energy	2,681	11.2	10.6	8.2	7.7	36.3	28.5	7.6	1.3	15.7	3.2	1.2	6.5	-9.6	-16.8
Materials	1,993	8.3	12.4	9.0	8.0	83.1	37.4	13.7	1.4	15.9	2.9	1.8	8.3	-10.3	-23.8
Capital Goods	1,813	7.6	12.5	10.2	9.1	39.3	22.4	12.1	1.5	15.1	3.1	1.3	9.6	-7.4	-21.4
Comm Svc & Supp	173	0.7	16.0	14.5	12.7	15.0	9.9	13.9	2.1	13.9	3.0	1.3	9.2	-4.2	-13.6
Transport	473	2.0	13.9	14.4	11.8	125.9	-5.3	21.3	1.5	10.2	2.6	1.6	7.8	-6.4	-18.1
Autos	601	2.5	10.2	8.5	7.5	506.8	20.9	15.2	1.0	12.4	2.2	0.9	6.4	-7.1	-20.8
Consumer Durables	362	1.5	21.2	17.0	12.7	109.5	33.1	33.4	1.5	8.8	2.0	1.5	7.9	-5.8	-18.0
Consumer Services	356	1.5	19.0	16.3	14.5	22.0	16.2	12.8	3.0	18.1	2.3	2.2	10.8	-4.1	-4.9
Media	506	2.1	15.7	12.8	10.9	23.4	23.0	17.3	1.8	14.6	2.3	2.1	8.0	-5.3	-9.9
Retailing	634	2.7	18.0	16.4	13.9	25.5	12.1	14.7	2.7	16.7	1.8	1.2	8.9	-5.2	-3.2
Food & Staples	553	2.3	14.2	13.3	11.8	11.7	6.9	13.0	1.8	13.7	3.0	0.7	7.5	-3.5	-8.7
Food Bev & Tobac.	1,555	6.5	16.2	14.8	13.4	11.8	9.5	10.3	2.9	19.7	3.4	2.1	10.1	-2.9	-0.6
Household Products	412	1.7	16.6	15.8	14.5	8.1	4.9	9.4	3.3	20.7	3.0	2.1	11.0	-4.0	-4.1
Health Care	554	2.3	14.1	12.8	11.4	14.1	10.5	11.6	2.1	17.2	1.3	1.2	8.7	-5.1	-1.0
Pharma & Biotech	1,654	6.9	11.4	10.5	10.1	6.5	8.7	4.2	2.2	21.0	3.6	2.5	8.9	-2.5	-3.3
Banks	2,054	8.6	9.4	8.0	7.1	63.2	13.6	13.3	0.9	10.7	4.8	NA	NA	-6.3	-25.4
Div Financials	930	3.9	8.5	9.0	6.9	238.4	-5.3	31.2	0.7	7.5	2.4	NA	NA	-9.4	-32.9
Insurance	846	3.5	9.8	9.4	7.5	28.2	4.9	25.1	0.8	8.7	4.3	NA	NA	-8.2	-24.1
Real Estate	588	2.5	17.5	14.9	14.5	33.9	18.0	3.1	1.1	7.3	4.3	NA	NA	-7.1	-15.7
Software & Services	1,262	5.3	15.4	13.5	12.0	18.0	14.4	12.5	3.4	24.9	1.3	2.7	9.1	-4.3	-4.5
Tech	1,192	5.0	13.1	11.5	10.0	85.5	13.7	15.6	1.8	15.4	1.3	1.3	7.6	-4.0	-15.7
Semi & Semi Equip	533	2.2	10.5	11.3	10.4	245.2	-8.5	10.4	1.9	16.2	2.5	1.7	5.6	-4.0	-12.7
Telecom	1,215	5.1	11.8	11.4	10.5	4.1	3.8	8.2	1.5	13.5	6.0	1.9	5.7	-4.1	-8.3
Utilities	969	4.1	11.6	13.4	12.1	-11.5	-9.7	18.1	1.2	7.8	4.9	1.6	7.5	-3.1	-11.6

Source: Citi Investment Research and Analysis, MSCI, Worldscope, Factset Consensus estimates

Figure 13. 2011 P/E Estimates by Region and Sector

23 Sep 11 P/E 11E	Global	DM	GEM	US	Eur ex UK	UK	Jap	Dev Asia	Em Asia	Lat Am	CEEMEA
Region	**10.6**	**10.9**	**9.4**	**11.7**	**9.0**	**8.9**	**12.5**	**10.9**	**10.2**	**9.8**	**7.3**
Sectors - Level One											
Energy	8.2	8.8	6.1	9.0	7.0	7.3	6.1	16.8	8.3	7.8	4.2
Materials	9.0	9.4	8.0	10.1	9.4	6.1	11.9	9.1	8.3	7.0	9.3
Industrials	11.1	11.1	10.5	11.9	10.5	11.1	10.0	10.5	9.7	16.6	10.6
Consumer Disc.	12.8	13.1	10.7	14.0	9.3	11.8	16.3	13.8	9.8	13.2	14.1
Consumer Staples	14.6	14.3	18.9	14.4	14.1	12.9	18.1	14.9	18.5	19.7	17.8
Health Care	11.0	10.9	18.4	11.1	10.5	9.1	15.2	15.8	20.4	21.4	13.8
Financials	9.0	9.2	8.5	10.8	6.2	8.7	9.7	10.2	8.2	9.8	8.4
IT	12.2	12.1	13.5	11.9	12.0	28.5	14.1	16.0	13.5	14.1	7.3
Telecom Services	11.4	11.2	11.8	17.1	8.3	9.7	10.4	12.1	12.5	11.2	11.2
Utilities	13.4	13.7	11.5	13.6	9.3	12.2	-111.4	16.4	16.2	10.0	8.6
Sectors - Level Two											
Energy	8.2	8.8	6.1	9.0	7.0	7.3	6.1	16.8	8.3	7.8	4.2
Materials	9.0	9.4	8.0	10.1	9.4	6.1	11.9	9.1	8.3	7.0	9.3
Capital Goods	10.2	10.3	9.3	11.5	10.2	9.7	8.7	7.5	9.0	12.7	10.3
Comm Svc & Supp	14.5	14.5	14.5	14.4	13.4	14.2	16.4	16.4	14.5		
Transport	14.4	14.1	17.0	13.2	11.5		17.9	17.1	15.2	21.8	14.6
Autos & Components	8.5	8.5	8.5	6.4	5.8	7.9	13.4		8.5		
Consumer Durables	17.0	18.3	9.6	16.2	15.2	23.4	32.9	7.6	14.1	6.8	8.8
Consumer Services	16.3	16.5	13.2	17.8	11.0	12.7	22.9	14.4	12.9	17.4	
Media	12.8	12.5	18.8	12.7	11.0	11.7	20.6	11.6	19.0	17.9	19.2
Retailing	16.4	16.4	16.7	16.8	18.1	10.1	17.4	14.5	16.0	25.0	12.0
Food & Staples Retailing	13.3	12.7	21.7	13.1	10.1	10.5	16.5	14.6	20.5	22.9	21.4
Food Bev & Tobacco	14.8	14.6	17.1	14.5	14.8	13.7	17.8	15.6	16.2	18.9	13.0
Household Products	15.8	15.4	25.1	15.4	14.8	13.1	21.5		28.2	18.6	
Health Care Equip & Svc	12.8	12.7	19.5	11.8	17.7	11.7	22.1	15.8	26.6	21.4	13.3
Pharma & Biotech	10.5	10.5	17.9	10.8	9.9	9.0	14.3	15.8	19.4		14.2
Banks	8.0	8.1	7.9	9.5	5.7	8.6	7.1	9.4	7.7	9.0	7.6
Div Financials	9.0	8.9	10.8	9.7	6.0	9.7	17.2	15.3	9.6	17.2	9.7
Insurance	9.4	9.1	12.7	9.7	6.9	7.6	16.6	12.1	13.7	8.9	10.6
Real Estate	14.9	16.2	7.8	28.8	12.8	16.6	17.8	10.5	6.6	21.5	11.7
Software & Services	13.5	13.2	18.4	13.0	12.9	20.8	20.1	14.0	19.8	14.1	7.3
Tech Hardware & Equip	11.5	11.2	15.6	11.0	12.6		12.6	-174.5	15.6		
Semi & Semi Equip	11.3	11.3	11.2	10.7	9.4	51.1	40.0	11.8	11.2		
Telecom	11.4	11.2	11.8	17.1	8.3	9.7	10.4	12.1	12.5	11.2	11.2
Utilities	13.4	13.7	11.5	13.6	9.3	12.2	-111.4	16.4	16.2	10.0	8.6

Source: Citi Investment Research and Analysis, MSCI, Worldscope, Factset Consensus estimates

Notes

Notes

Appendix A-1

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