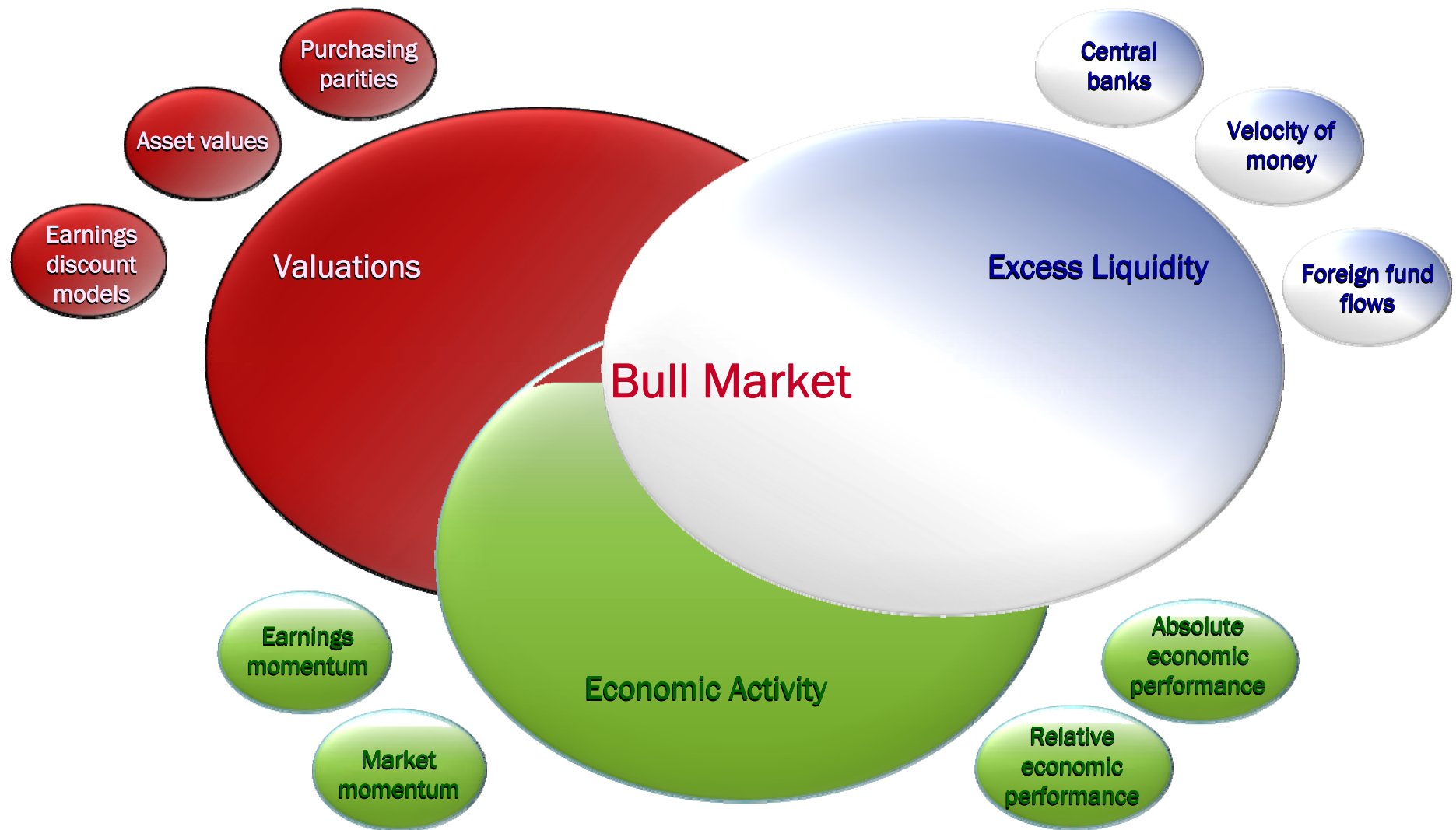


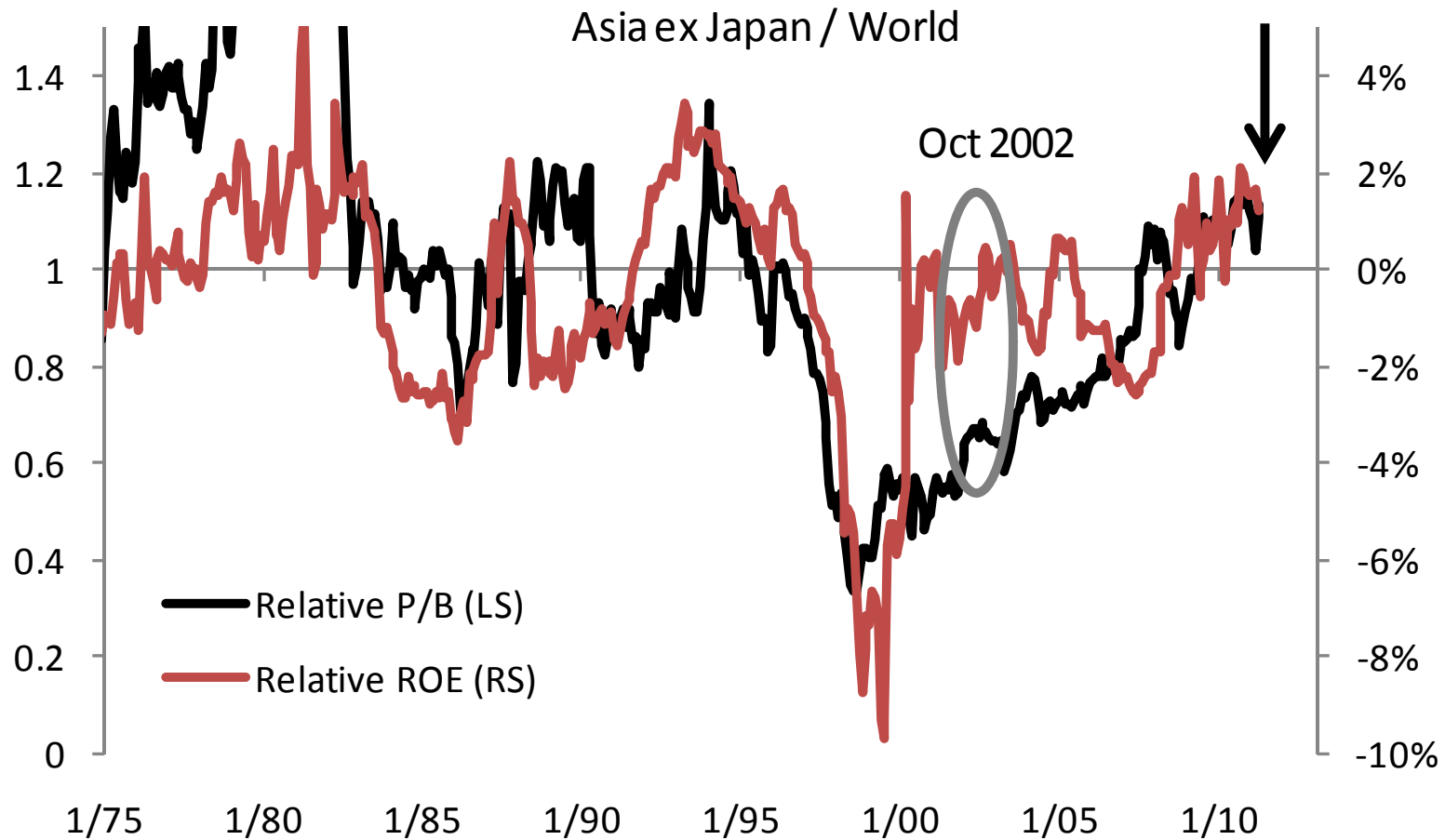


Investor Conference Call  
A Coming Turnaround in Asian Equity Markets?  
June 2011

## Equity Bull Markets Rest on 3 Pillars: Valuations, Excess Liquidity and Growth

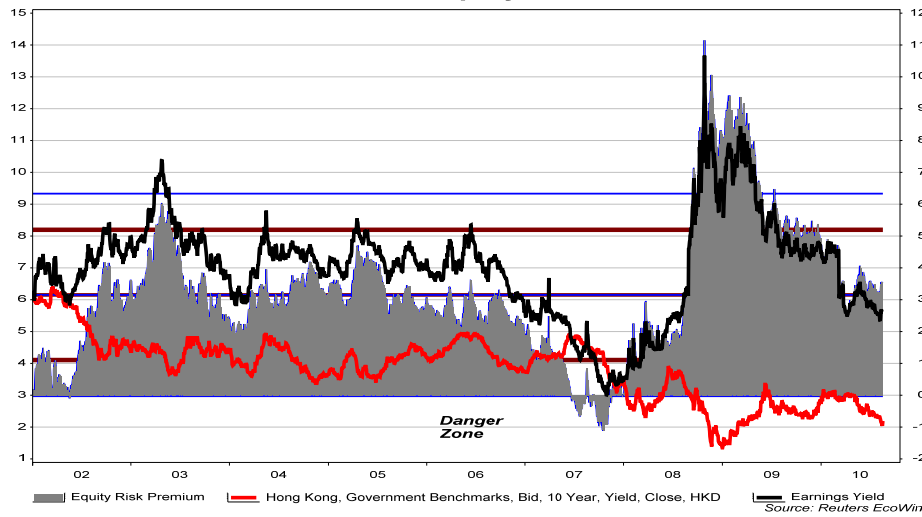


Valuations in Asia are broadly in line of what one would expect

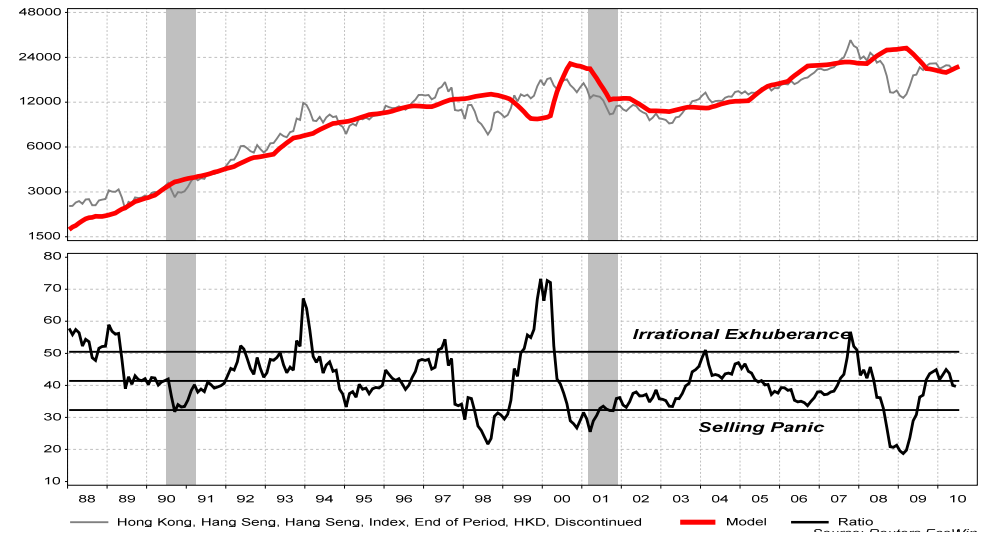


## Hard to see signs of irrational exuberance in current valuations

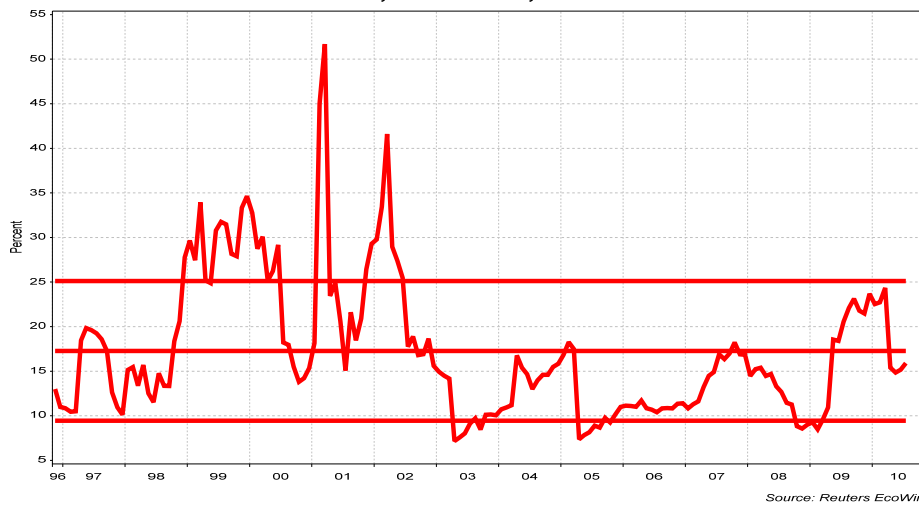
### China H Shares Equity Risk Premium



### Hong Kong Mulhenkamp Model



### KOSPI Index, P/E Ratio, End of Period

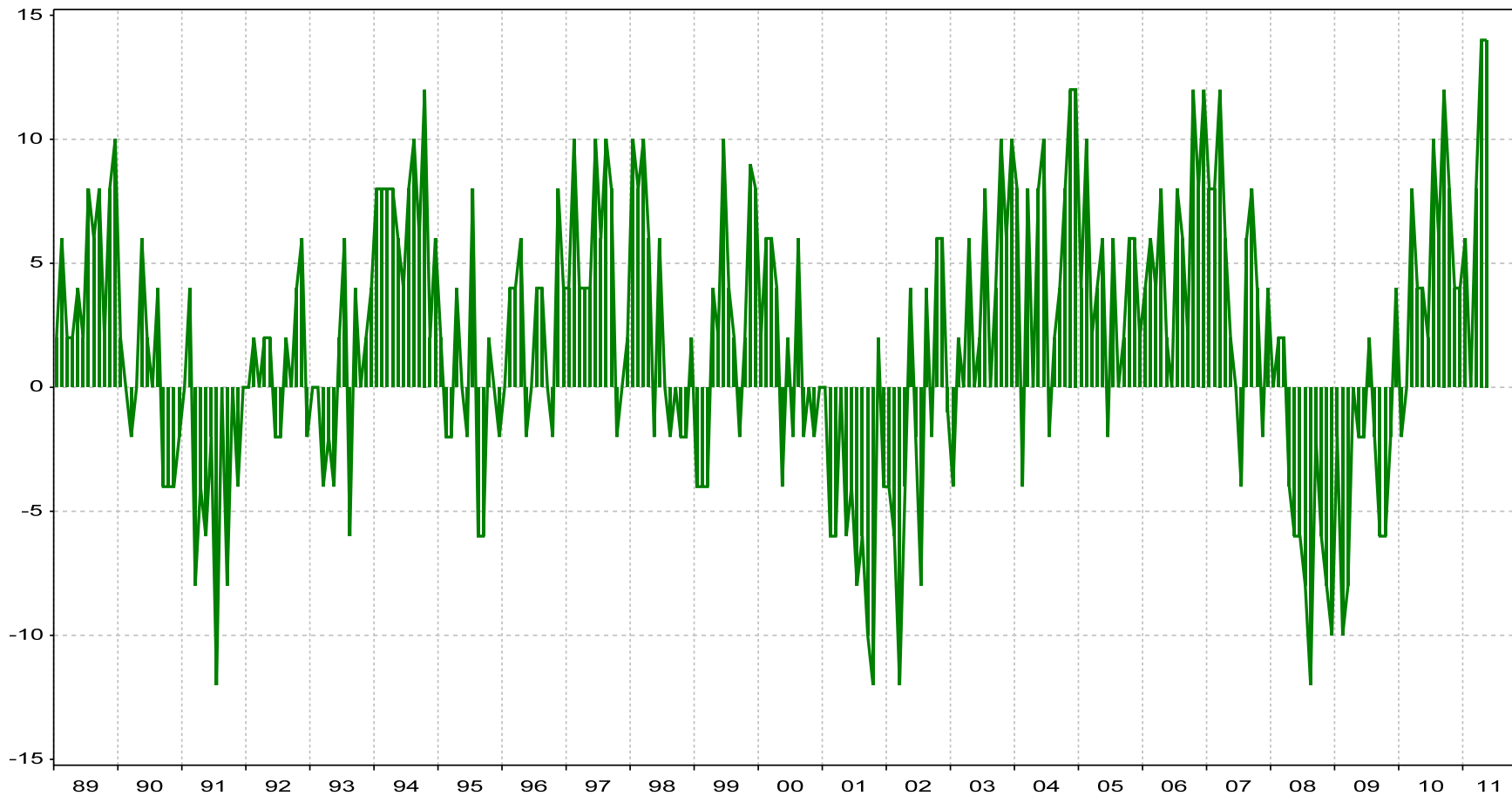


### Japan, Nikkei 225 Price to Book Value



At first glance, we should not have too many concerns on growth either

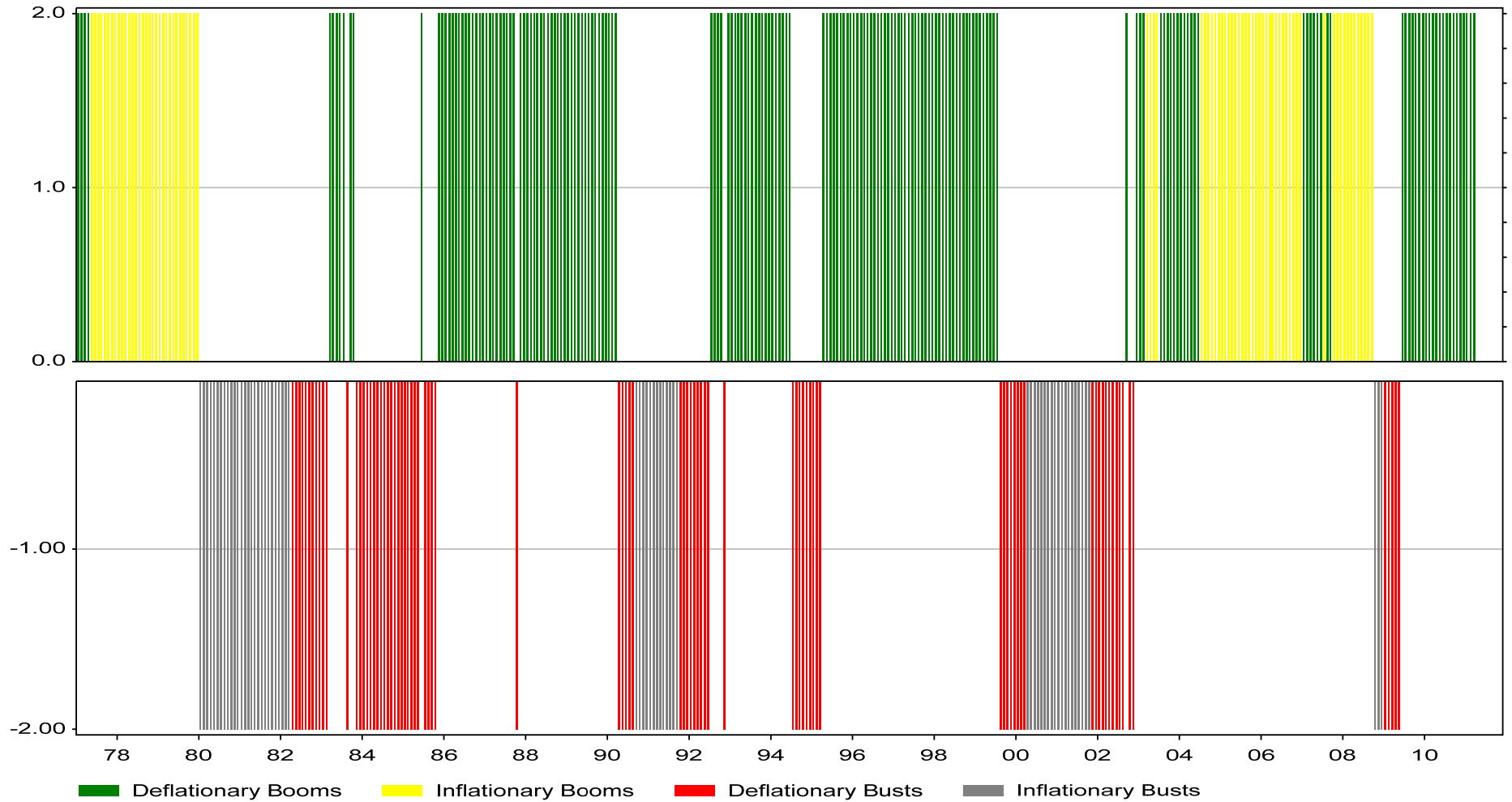
### GaveKal Global Growth Indicator



Source: Reuters EcoWin

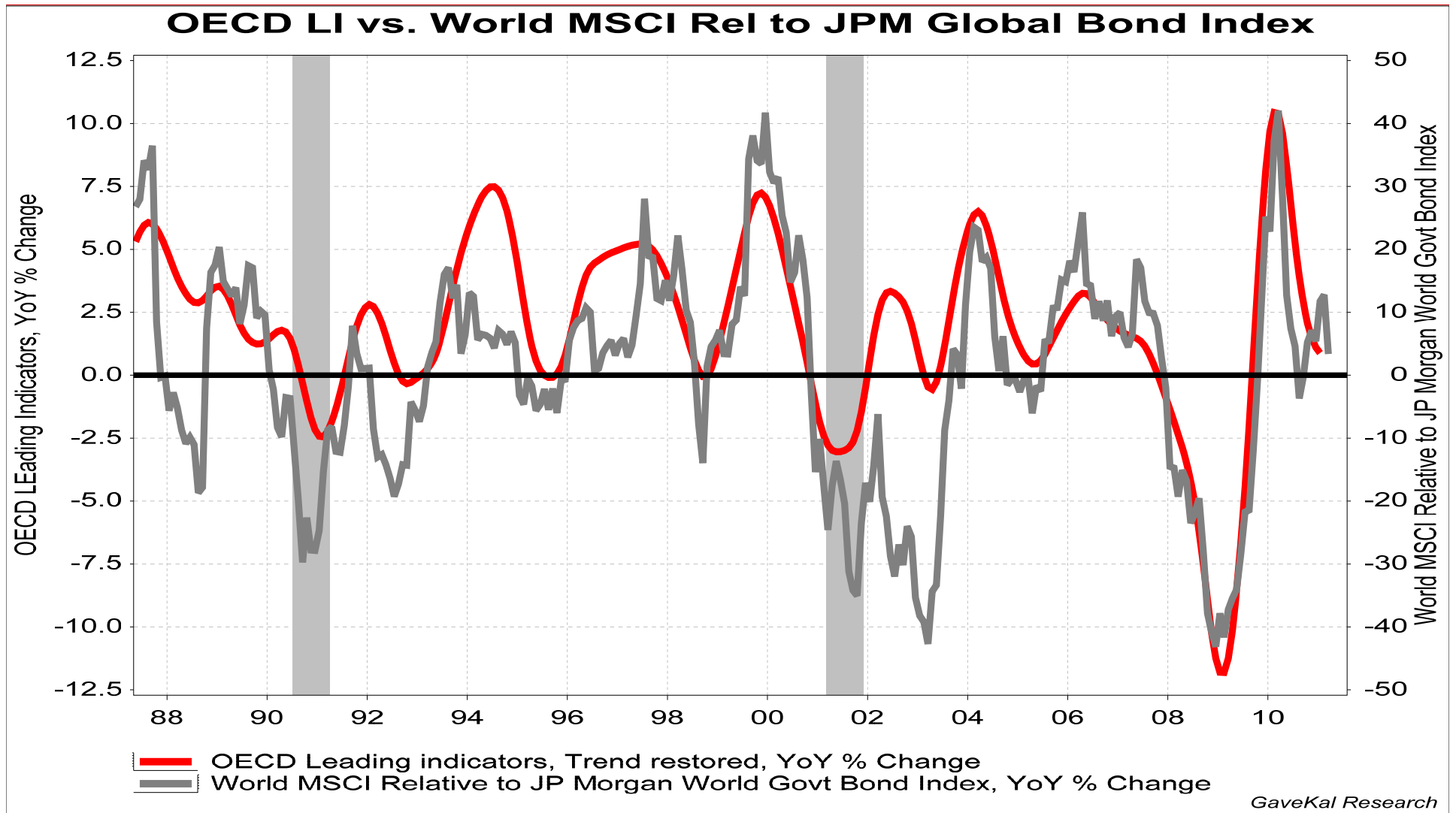
Though as 2008 showed, things can turn on a dime

### The Four Scenari: Inflationary & Deflationary Booms & Busts



Source: Reuters EcoWin

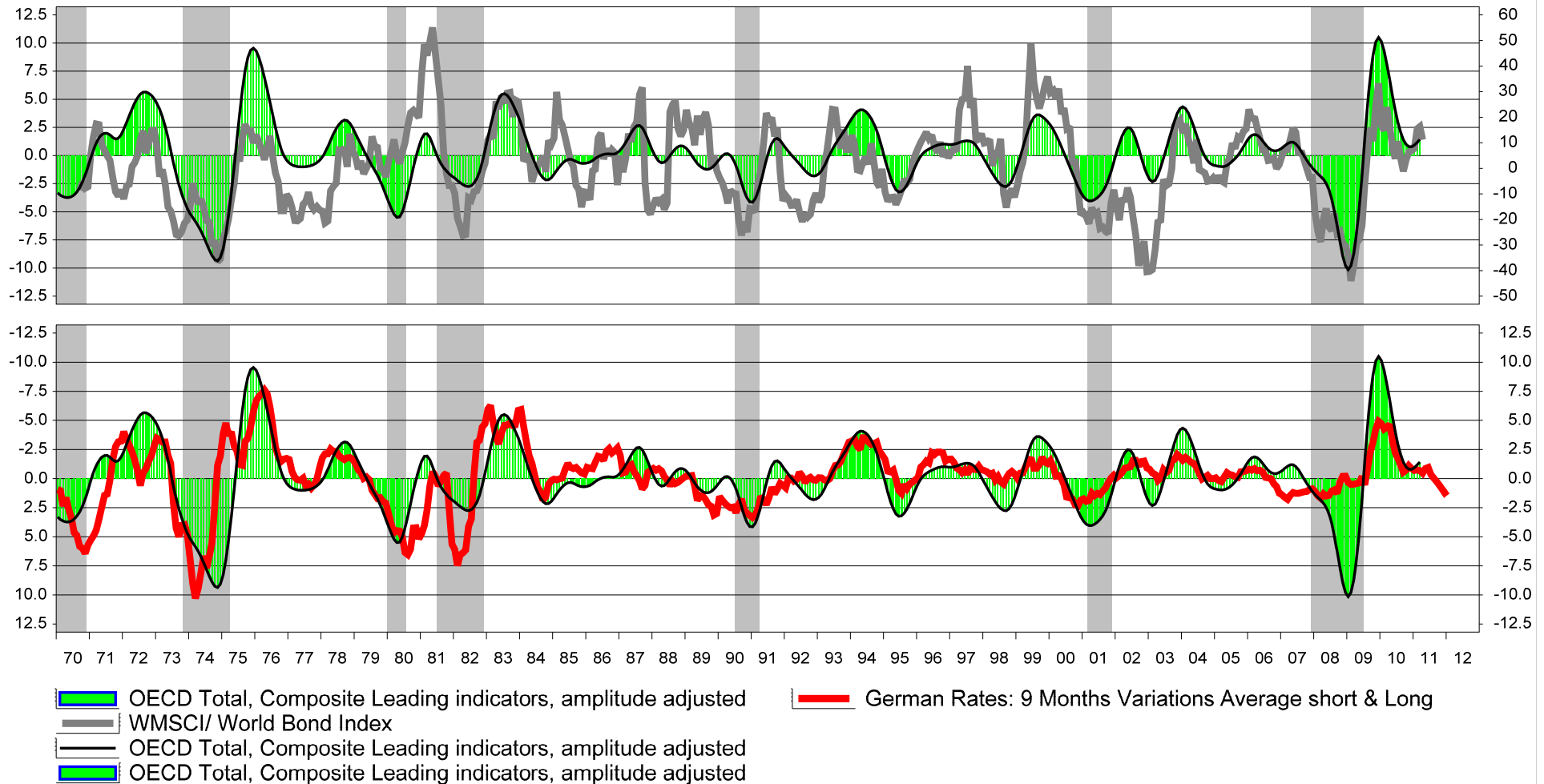
The message from leading indicators, and the markets, is troubling



Source: MW GaveKal / GaveKal Research  
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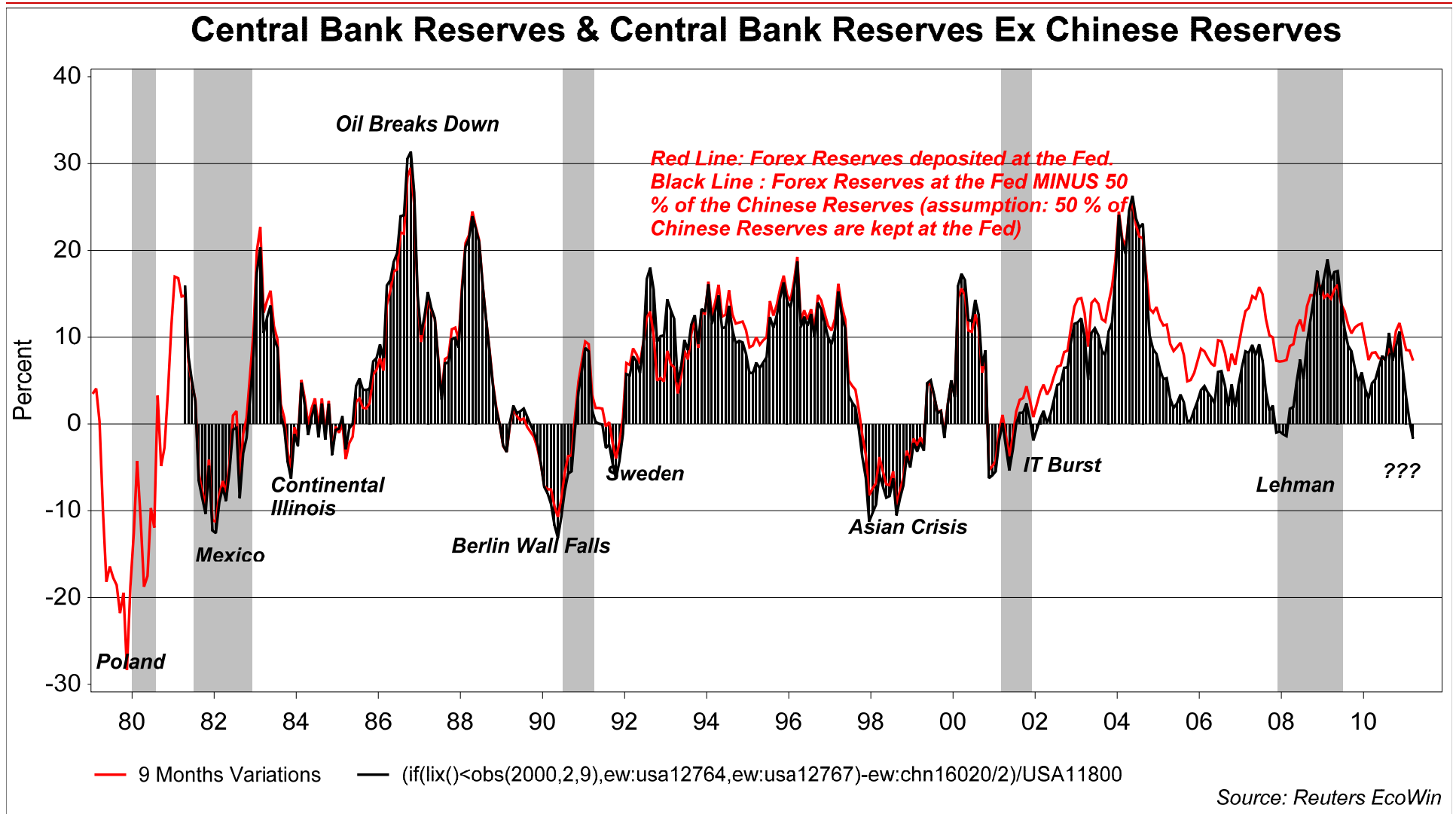
If leading indicators move into negative territory, things will get challenging

### OECD LI & World MSCI vs WORLD BONDS and German Rates



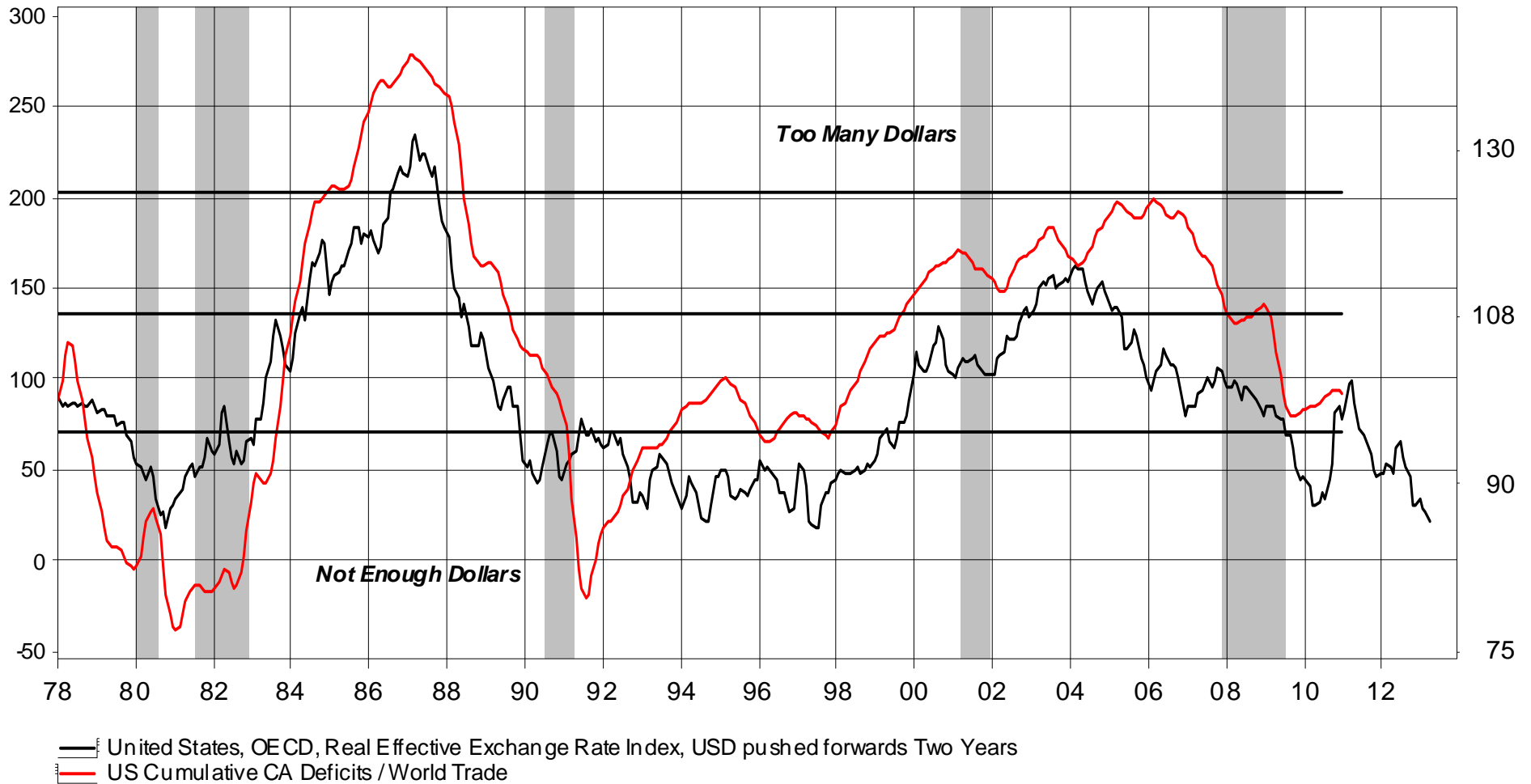
Source: Reuters EcoWin

The concern is on liquidity



## US consumer set to export a lot less US\$

**US Cumulative CA Deficits as a % of World Trade & US \$TW**

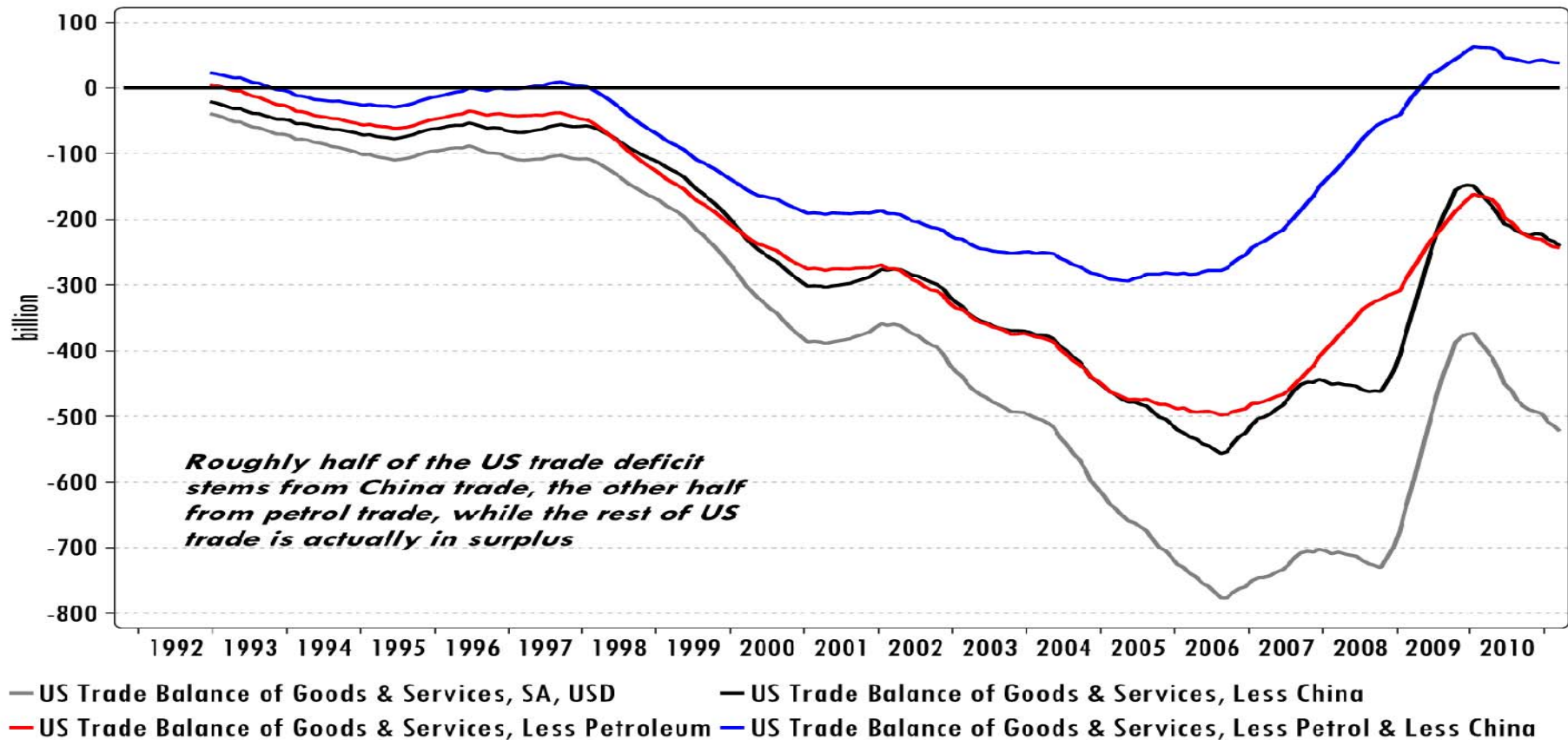


Source: Reuters EcoWin

Already, if you're not China or an oil producer, you're not earning US\$!

### US Total Trade Balance, Less Petrol, and Less China

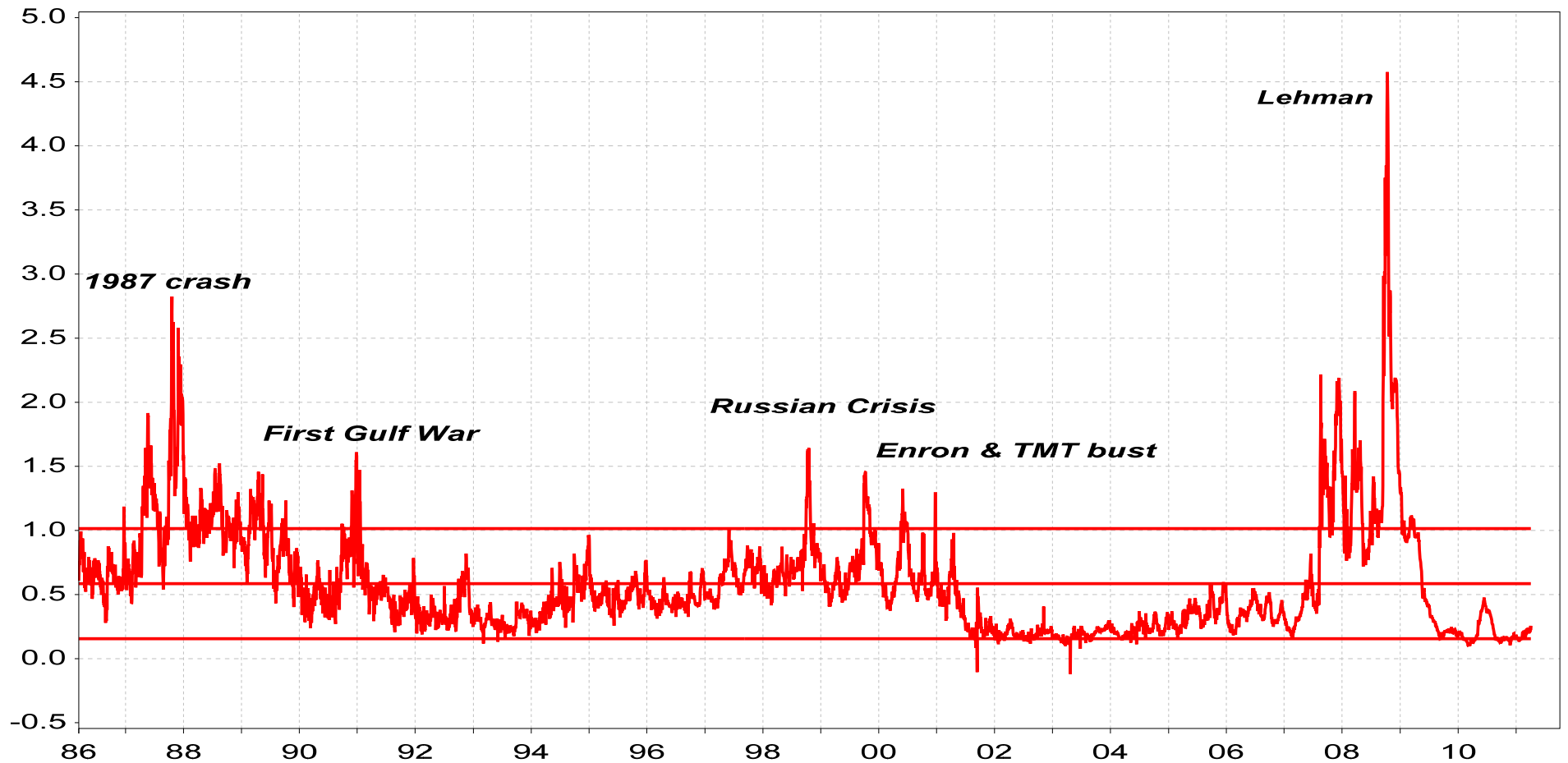
12 Month Moving Sum



GaveKal Research

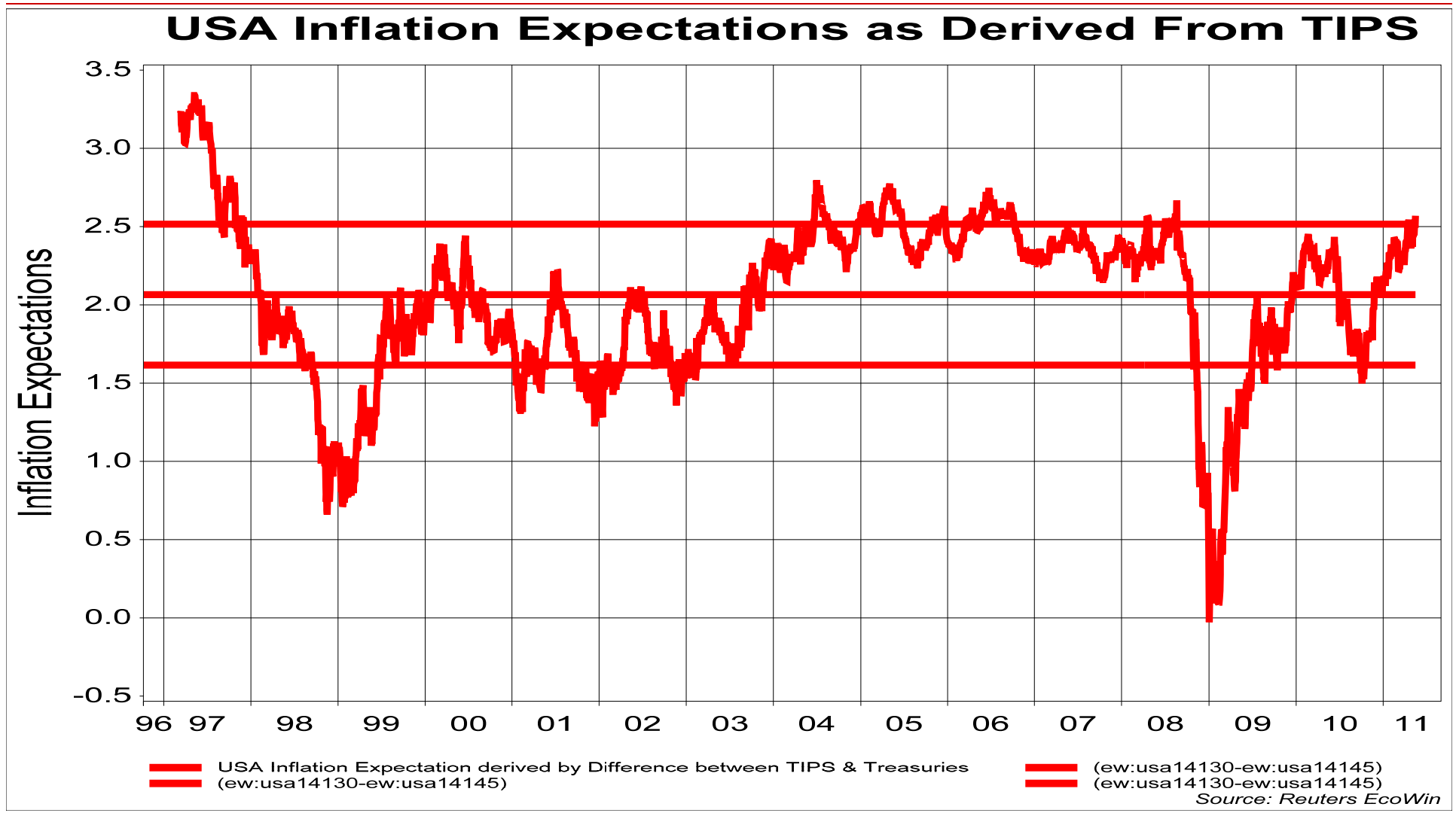
Borrowing US\$ is not a problem – but could that change?

## The Ted Spread

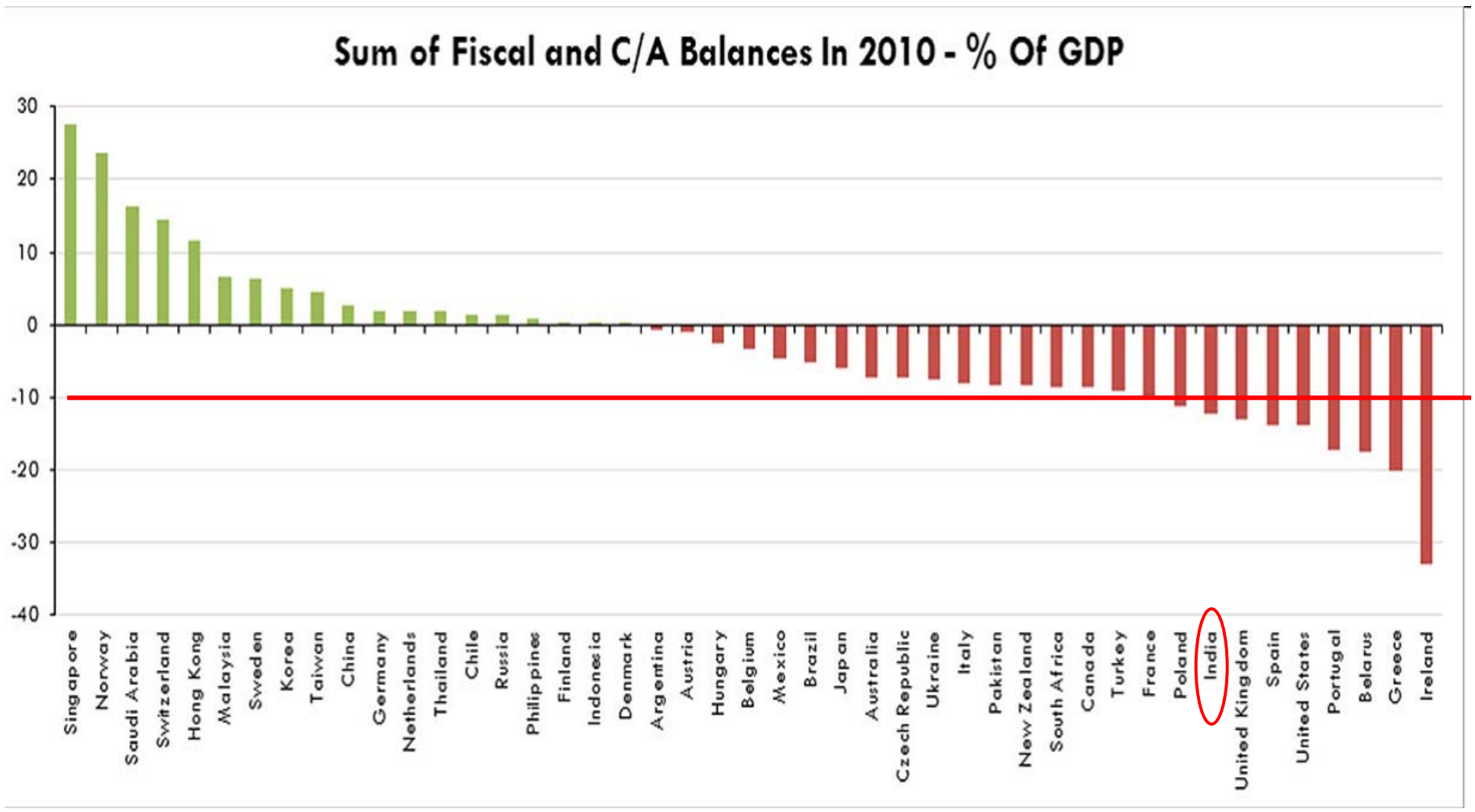


GaveKal Research

What happens if US inflation expectations continue to rise?



In a liquidity squeeze, cash-flow negative countries are to be avoided



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