

September 2009
Jason Wong, Head of Investment Strategy

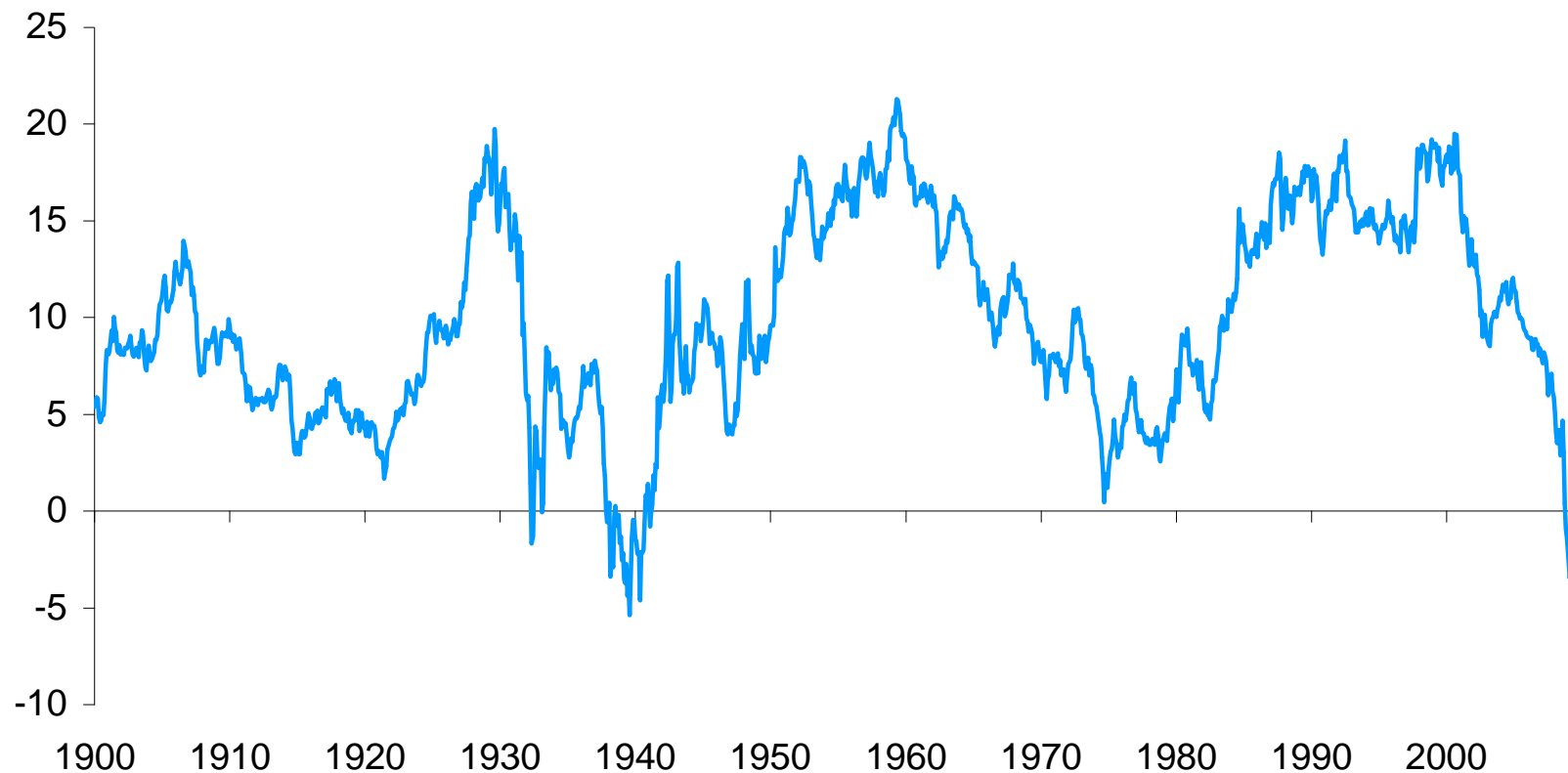


Asset allocation after the crisis



The last 10 years have been awful for equity investors

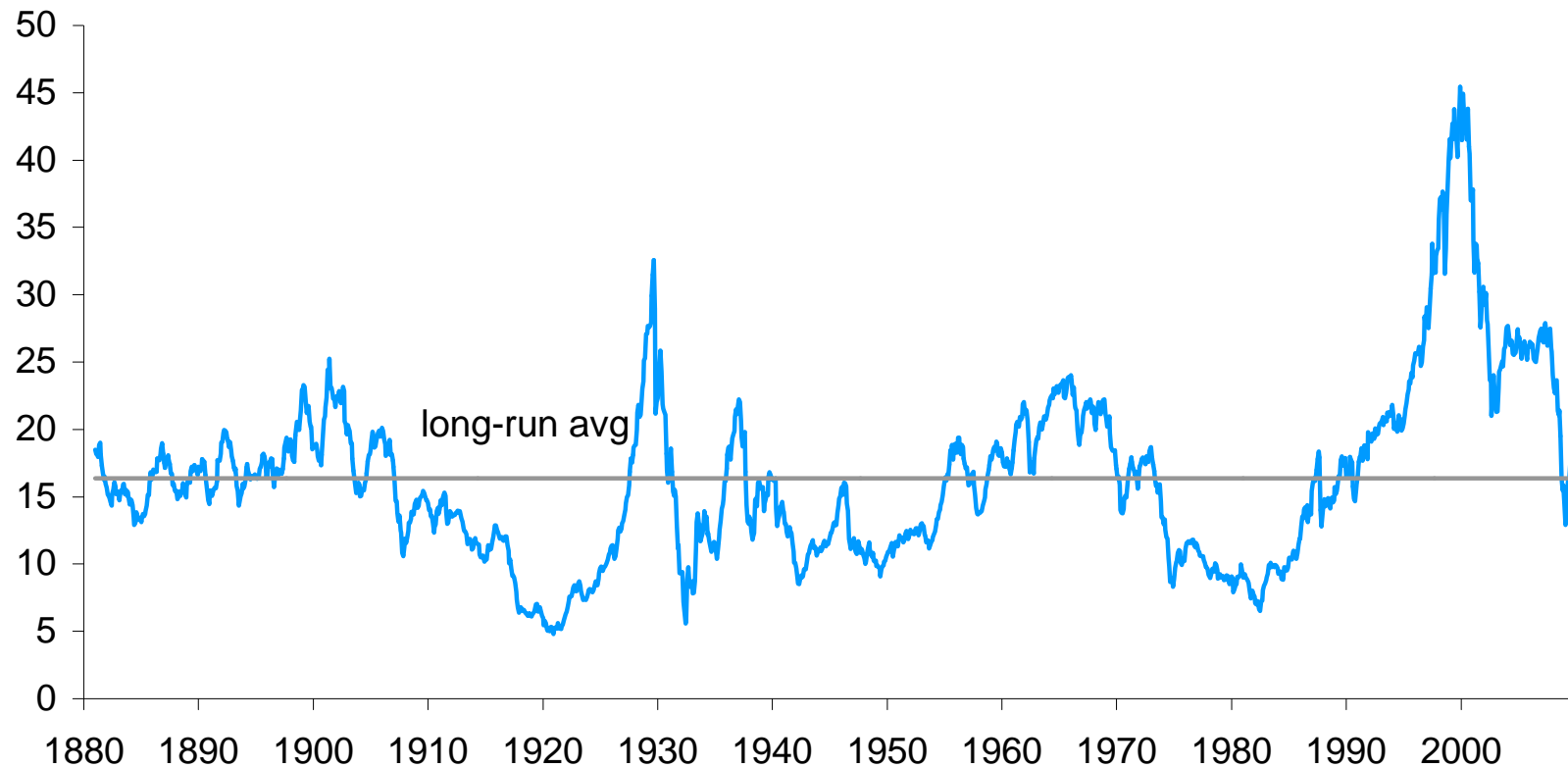
Rolling annualised 10-year US equity returns



Source: AMP Capital Investors

Equity valuations are (still) the best in almost 20 years

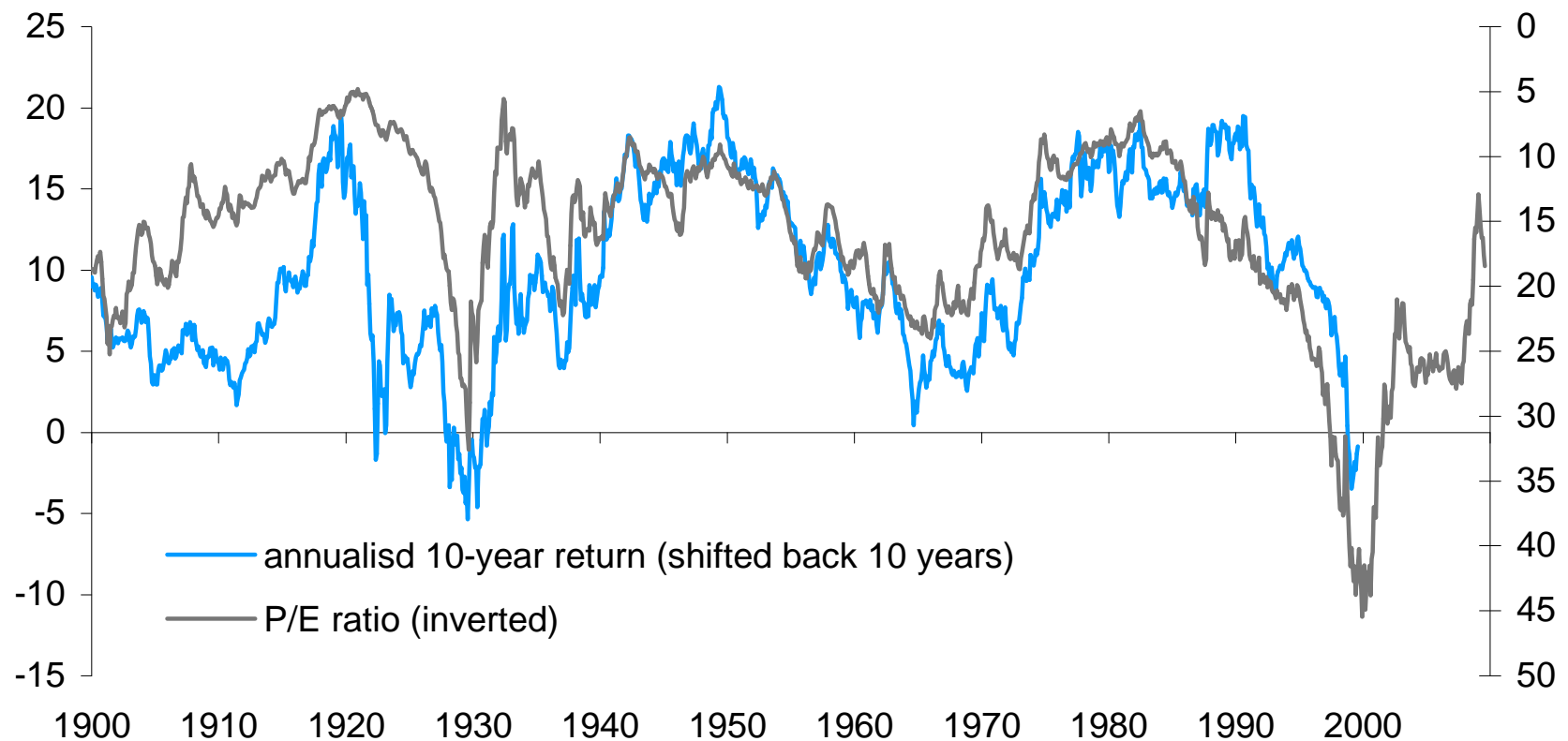
US P/E ratio on trailing average 10-year earnings



Source: Robert Shiller

P/E ratio suggests strong 10-year returns ahead for US equities

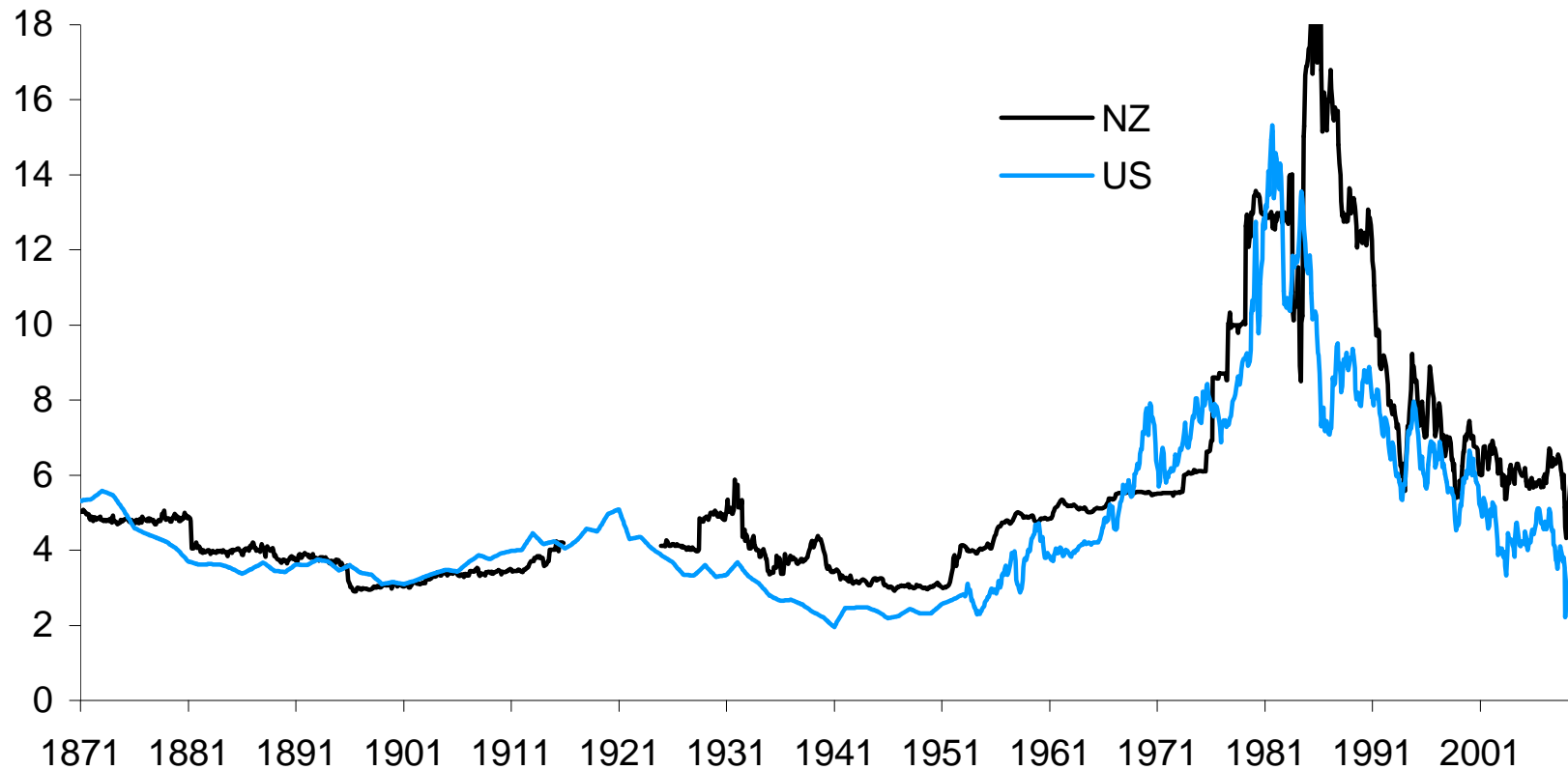
P/E ratio versus actual returns



Source: AMP Capital Investors

Bond yields have fallen to historically low levels

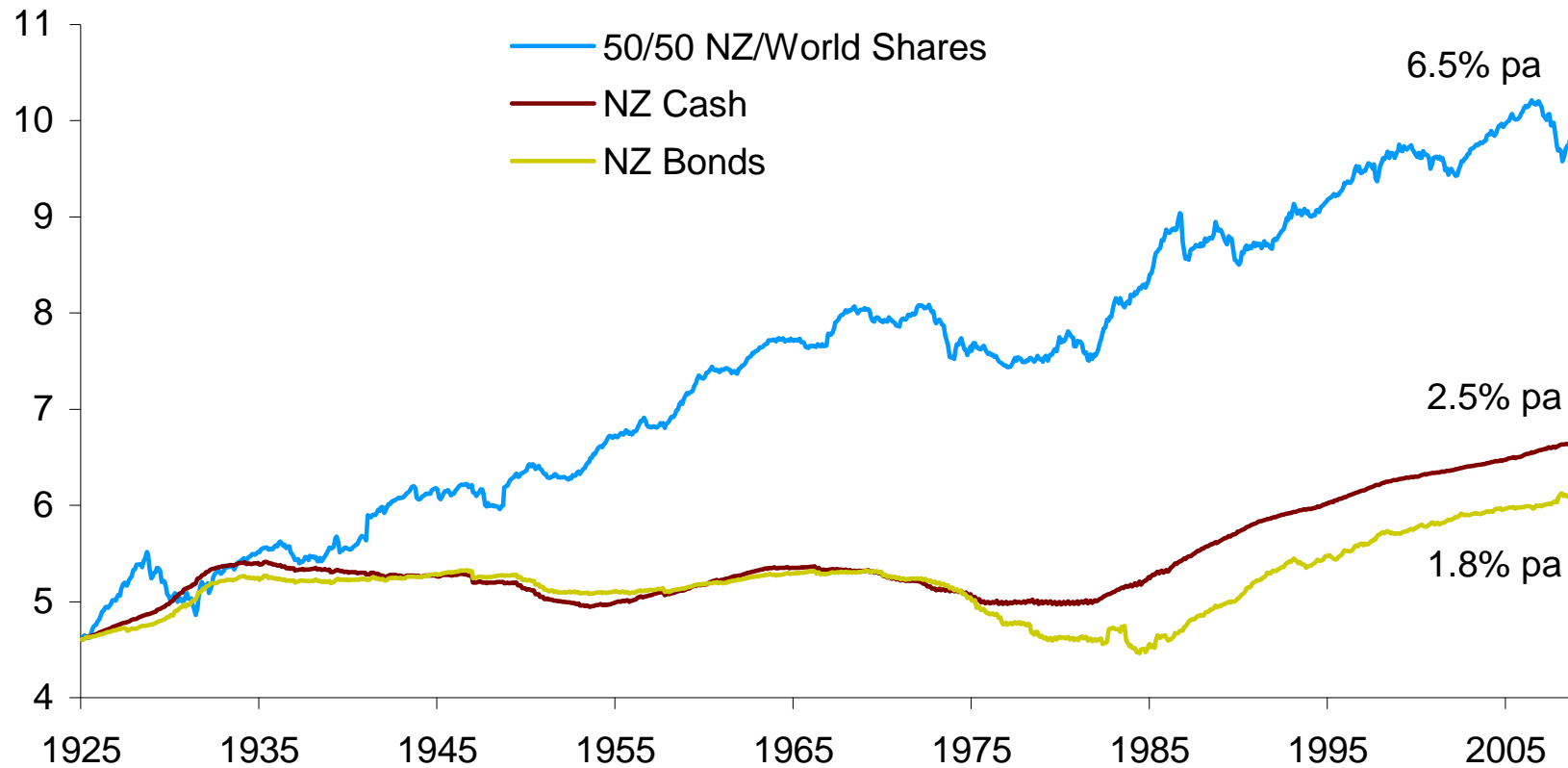
NZ and US long bond rate, %



Source: Global Financial Data

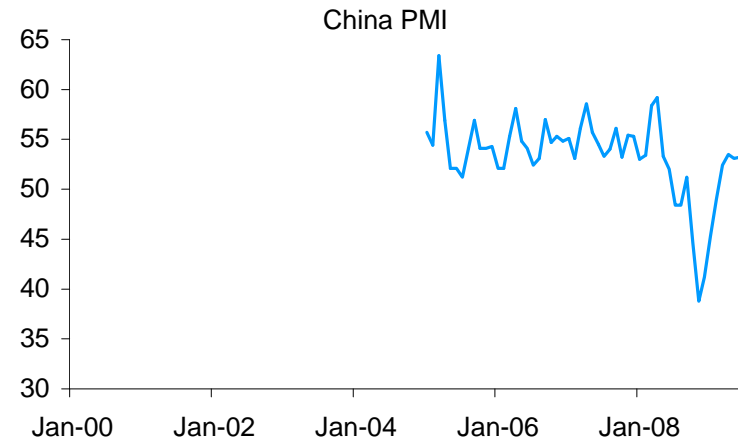
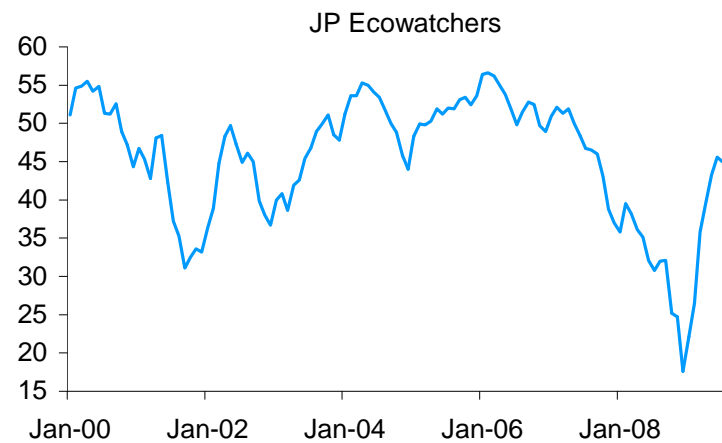
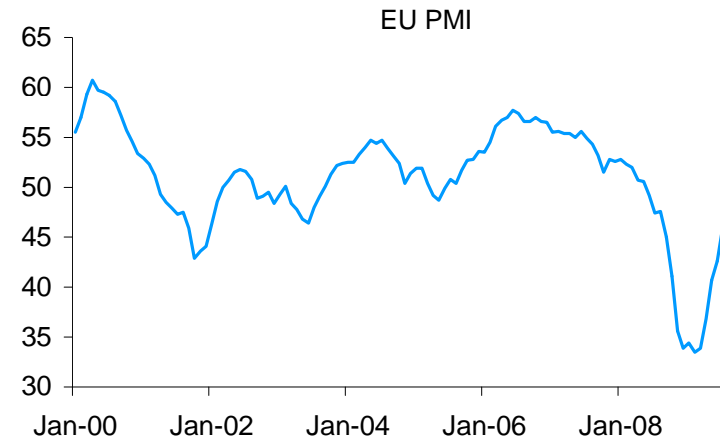
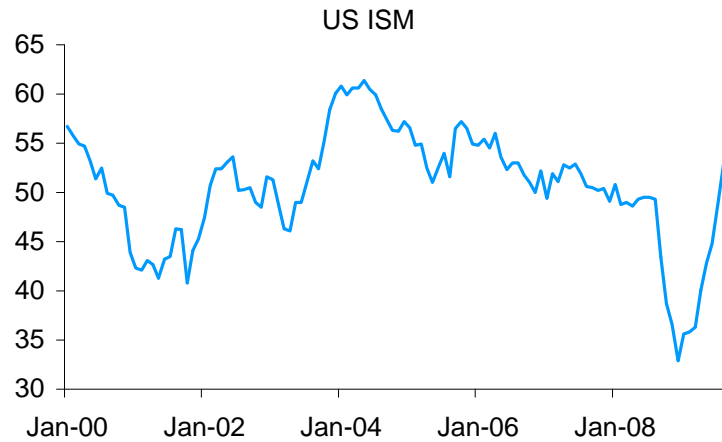
Shares remain a compelling long-term investment

Real return index (log scale)



Source: AMP Capital Investors

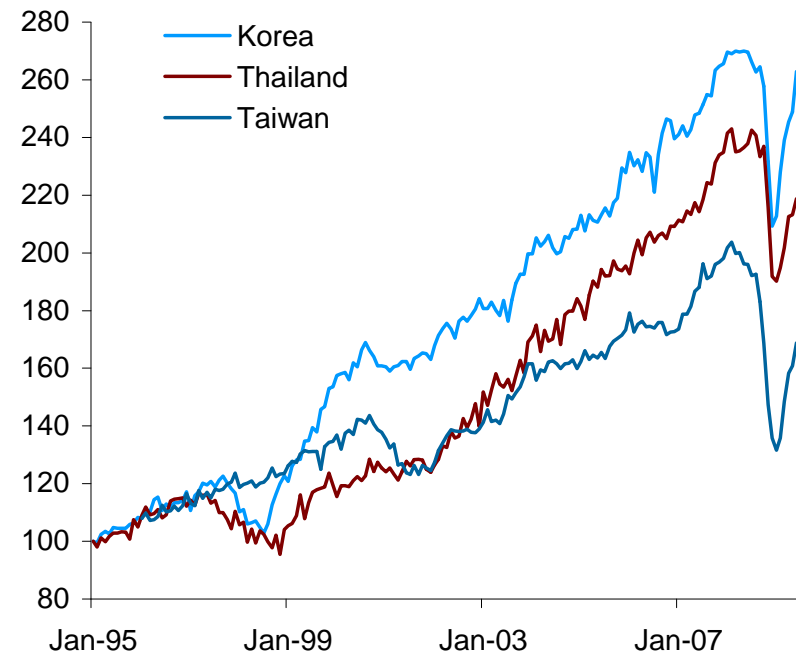
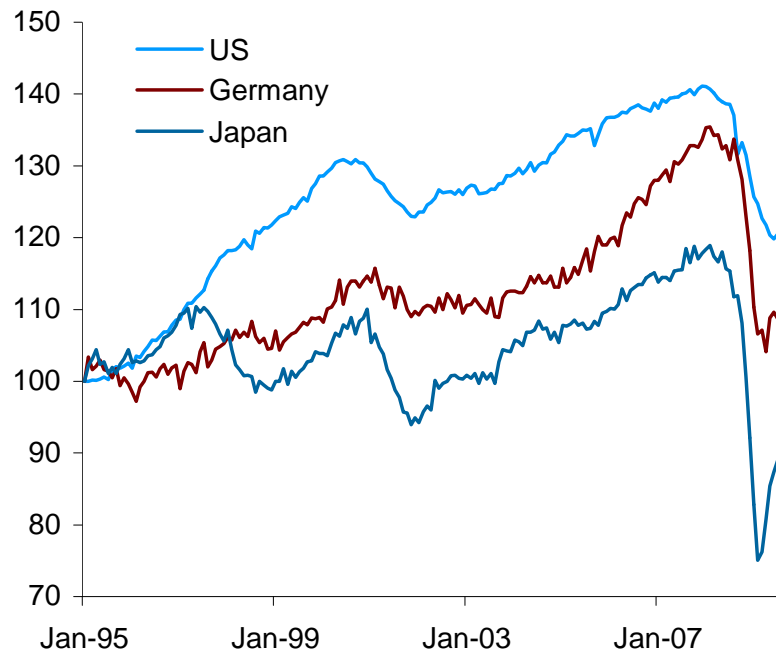
A V-shaped recovery in many leading indicators



Source: Datastream

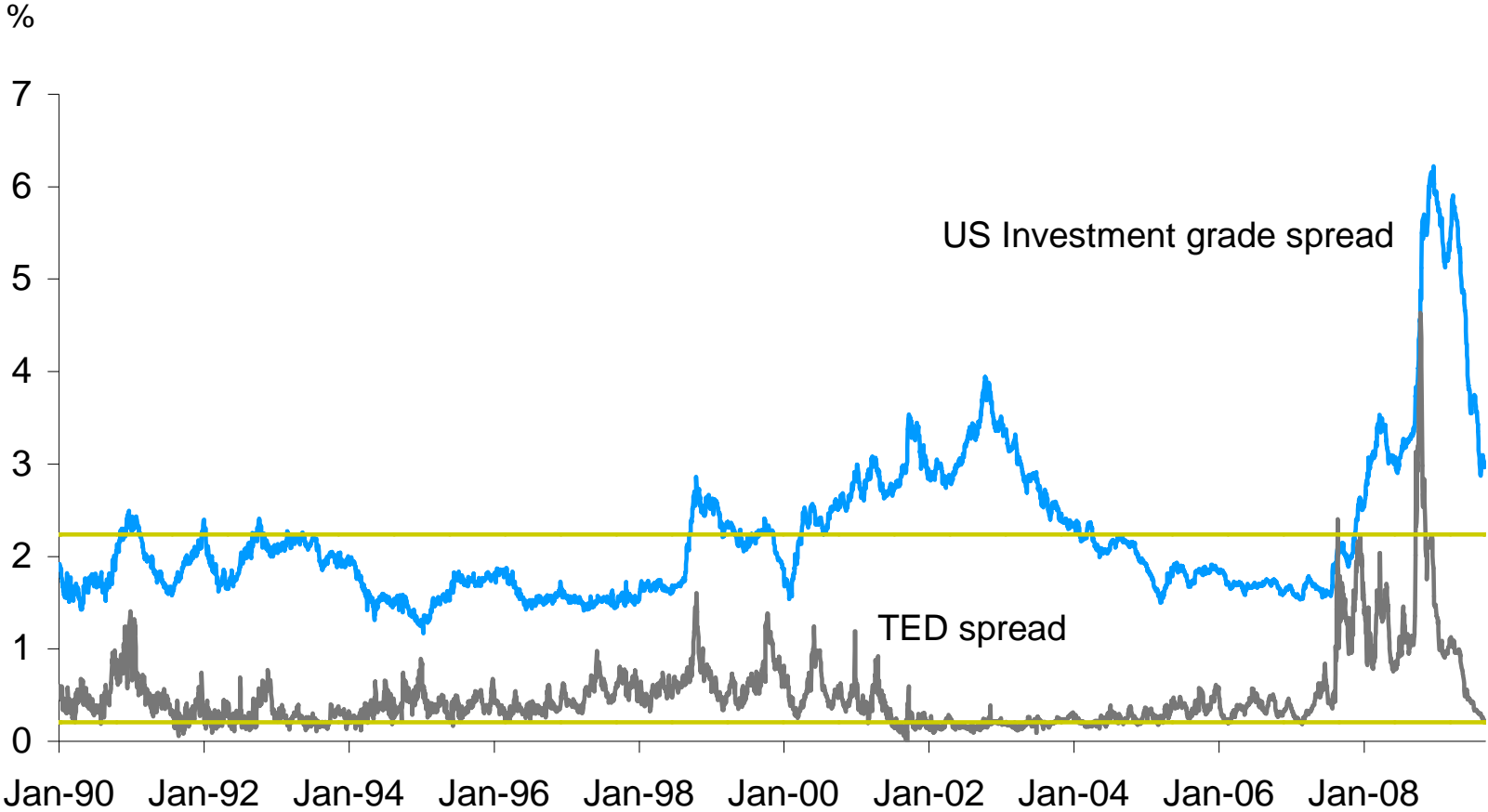
Global industrial production sharply increasing

Industrial production indices



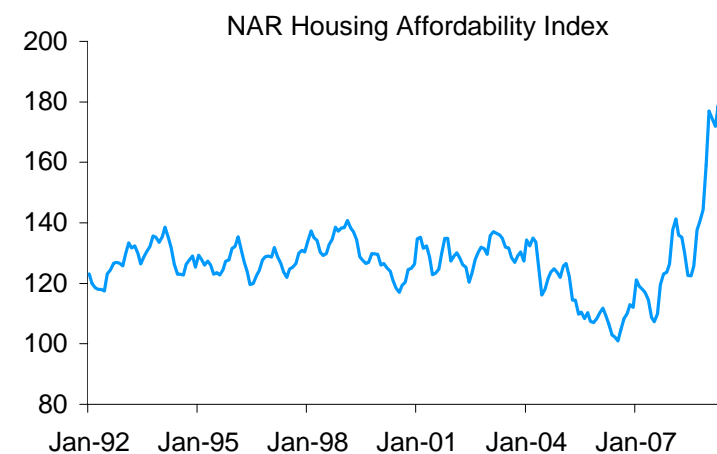
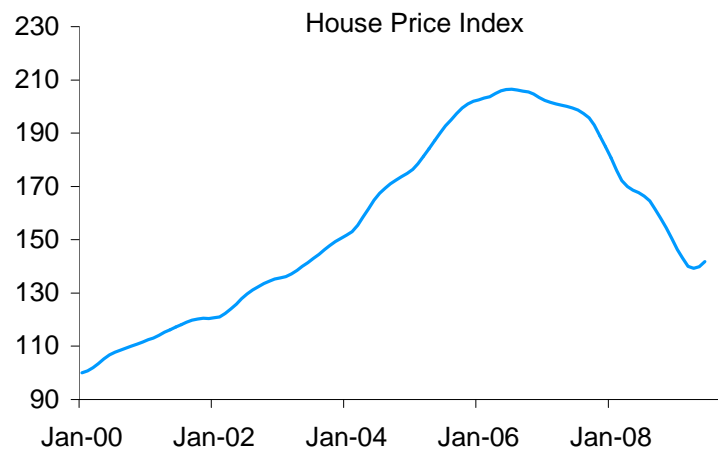
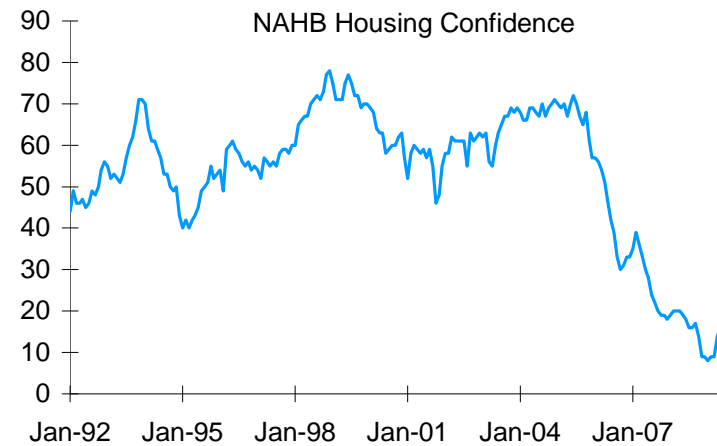
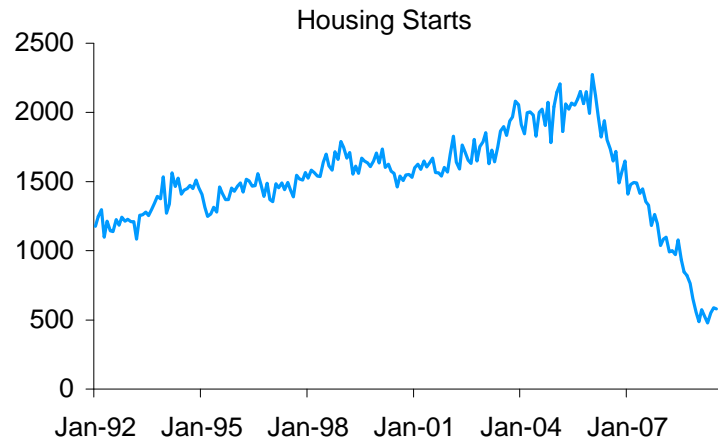
Source: Datastream

A remarkable easing in financial market conditions



Source: Bloomberg

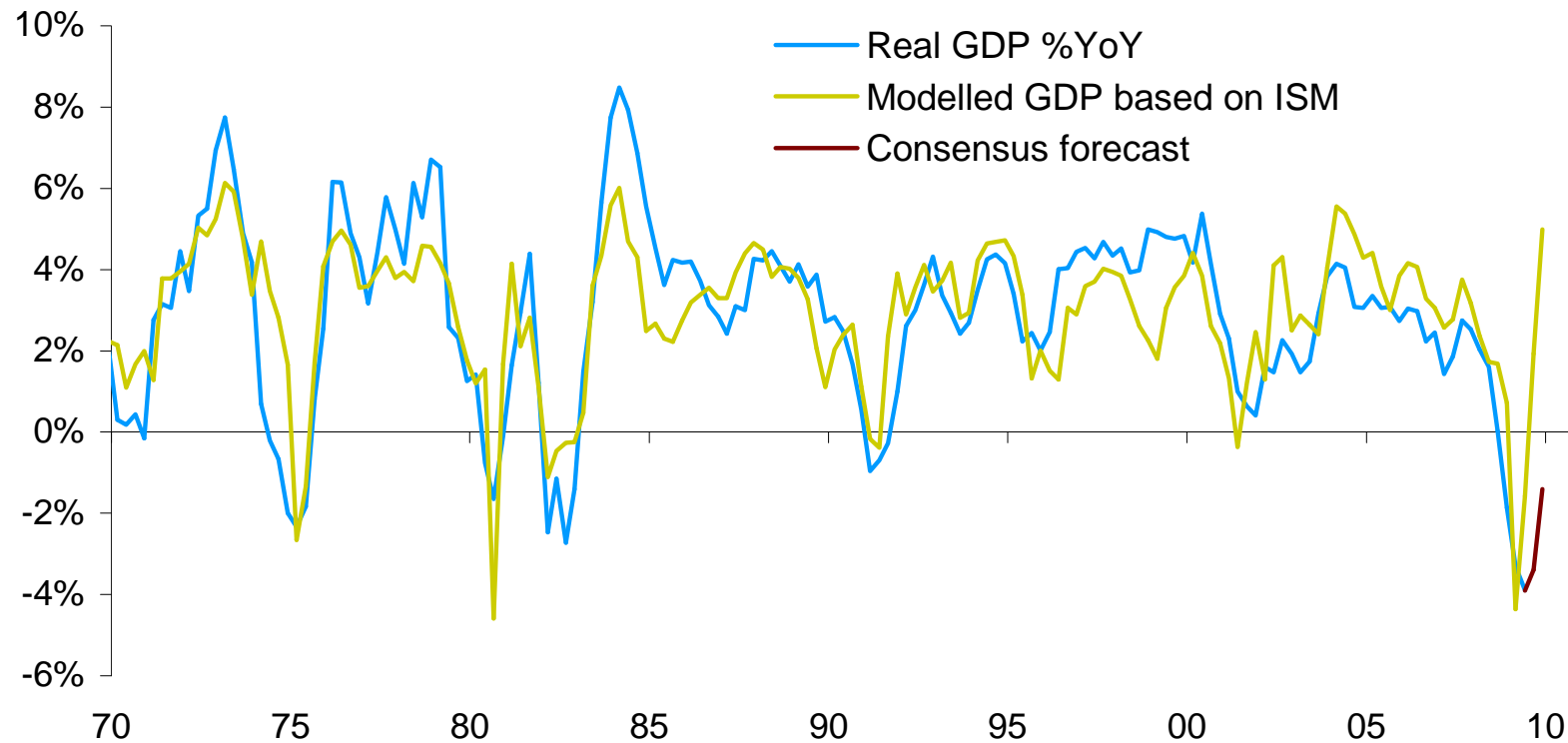
US housing market indicators looking much better



Source: Datastream

Is the consensus too bearish on the economy?

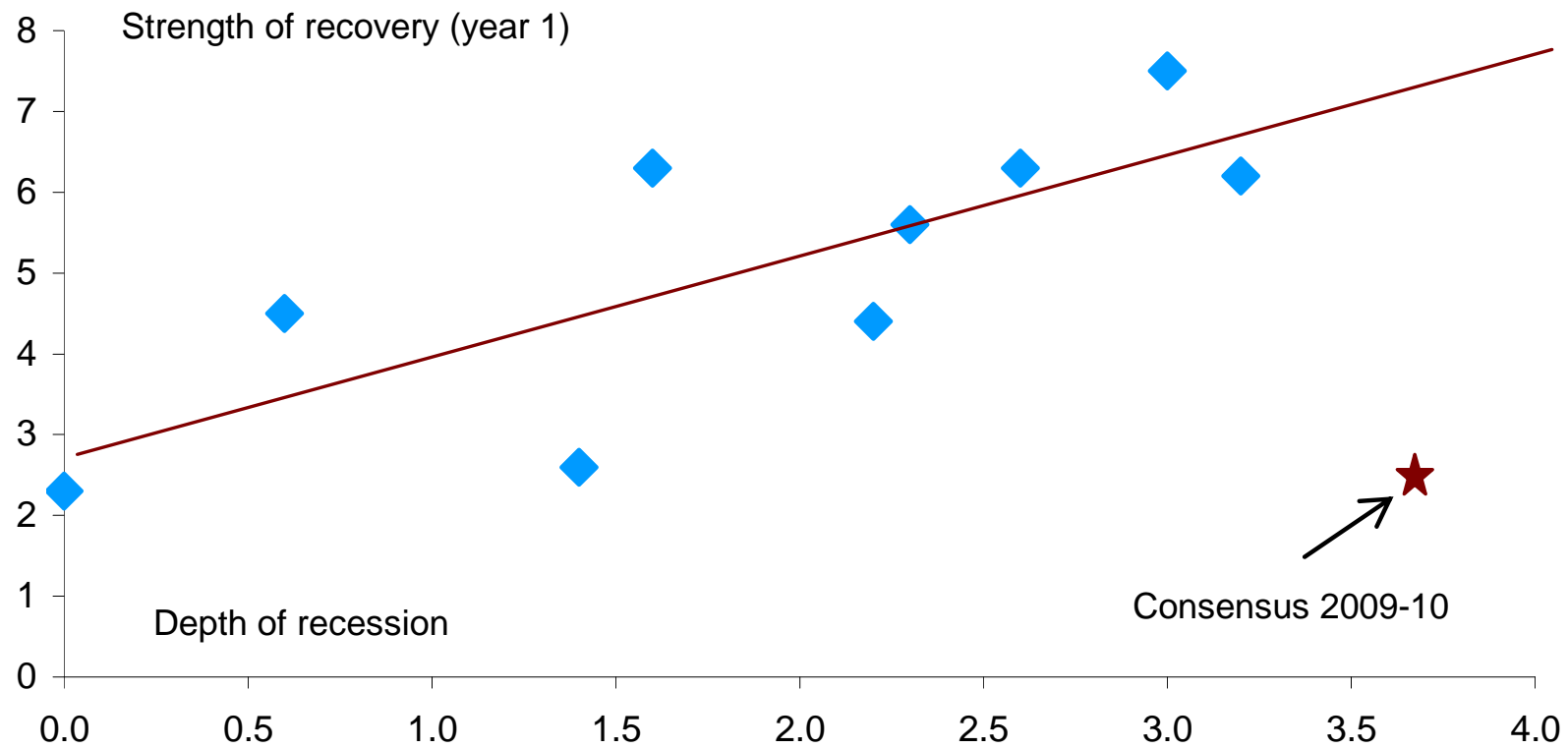
Strong link between ISM new orders indicator and GDP



Source: Datastream, AMP Capital Investors

Is the consensus too bearish on the economy?

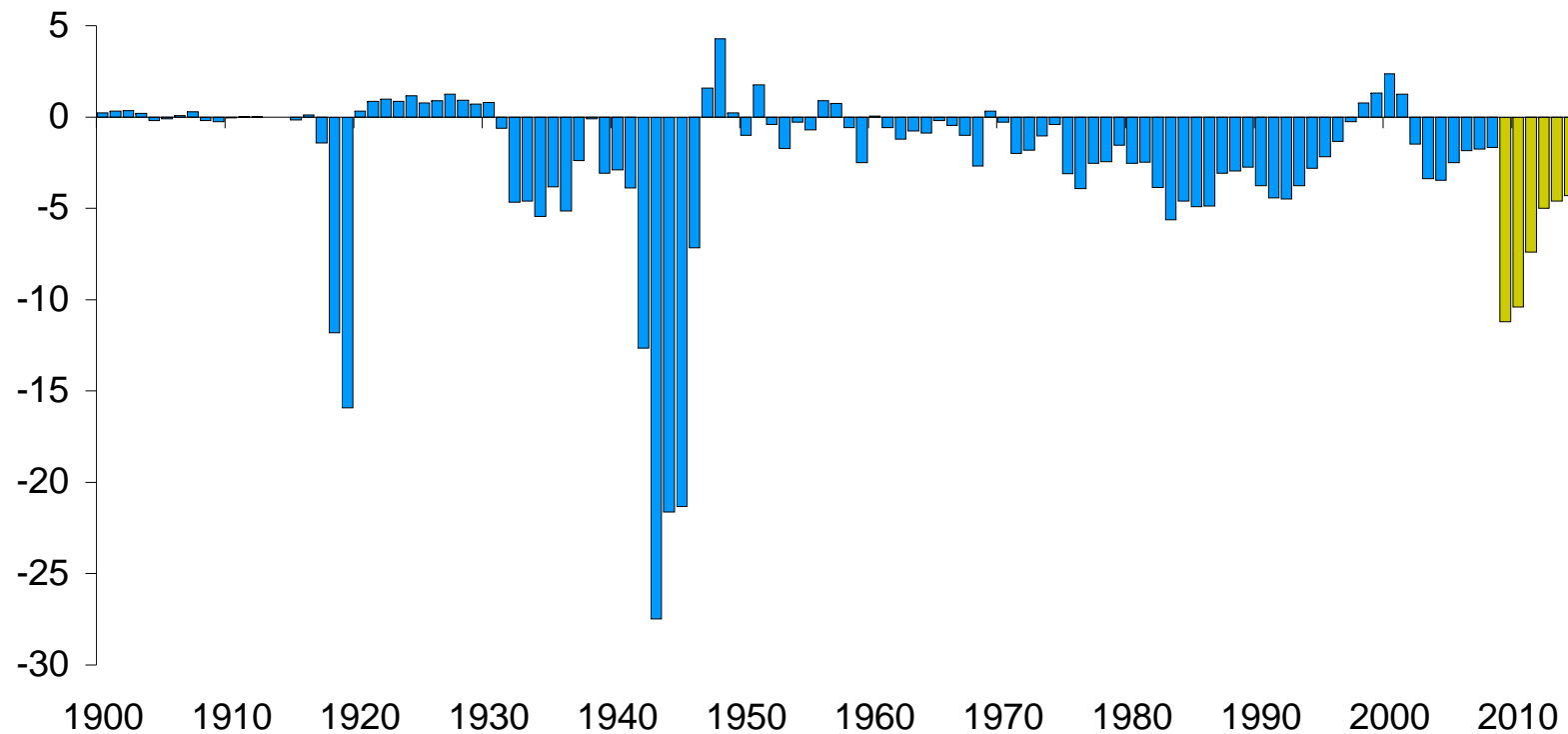
Strong link between recession and recovery



Source: Datastream, AMP Capital Investors

Some serious fiscal issues need to be faced in years to come

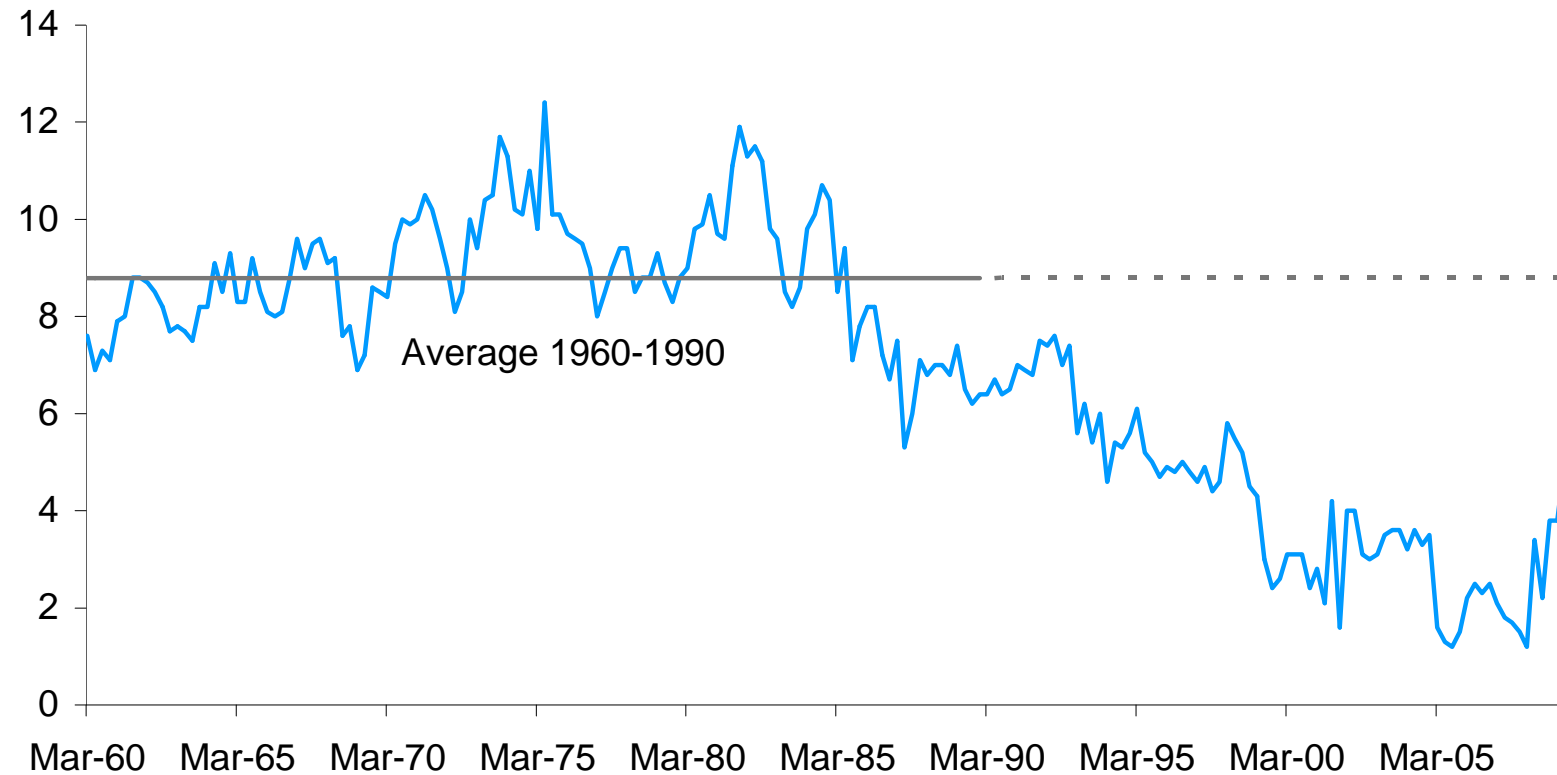
US federal budget balance, % of GDP



Source: White House

US households need to live within their means

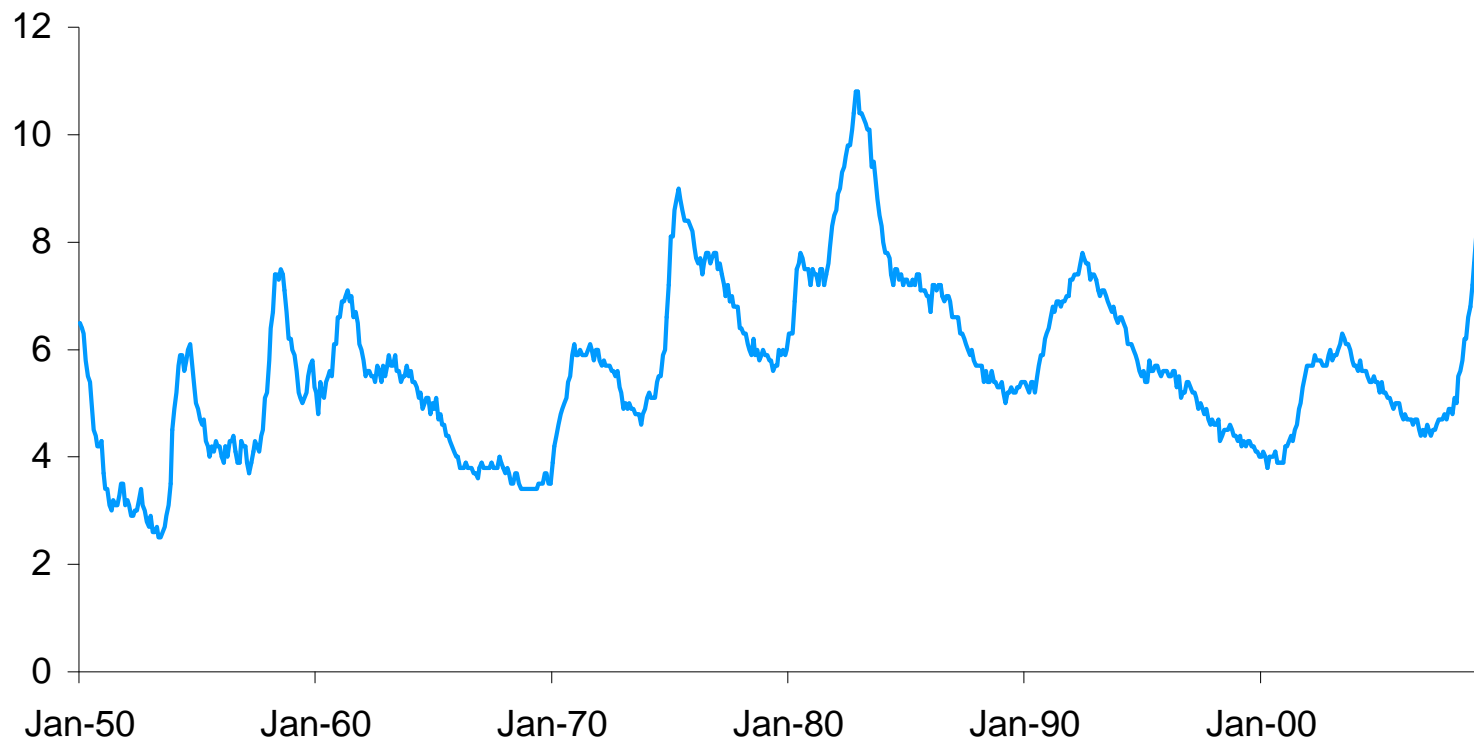
US household savings rate (%)



Source: Datastream

US households constrained by a weak labour market

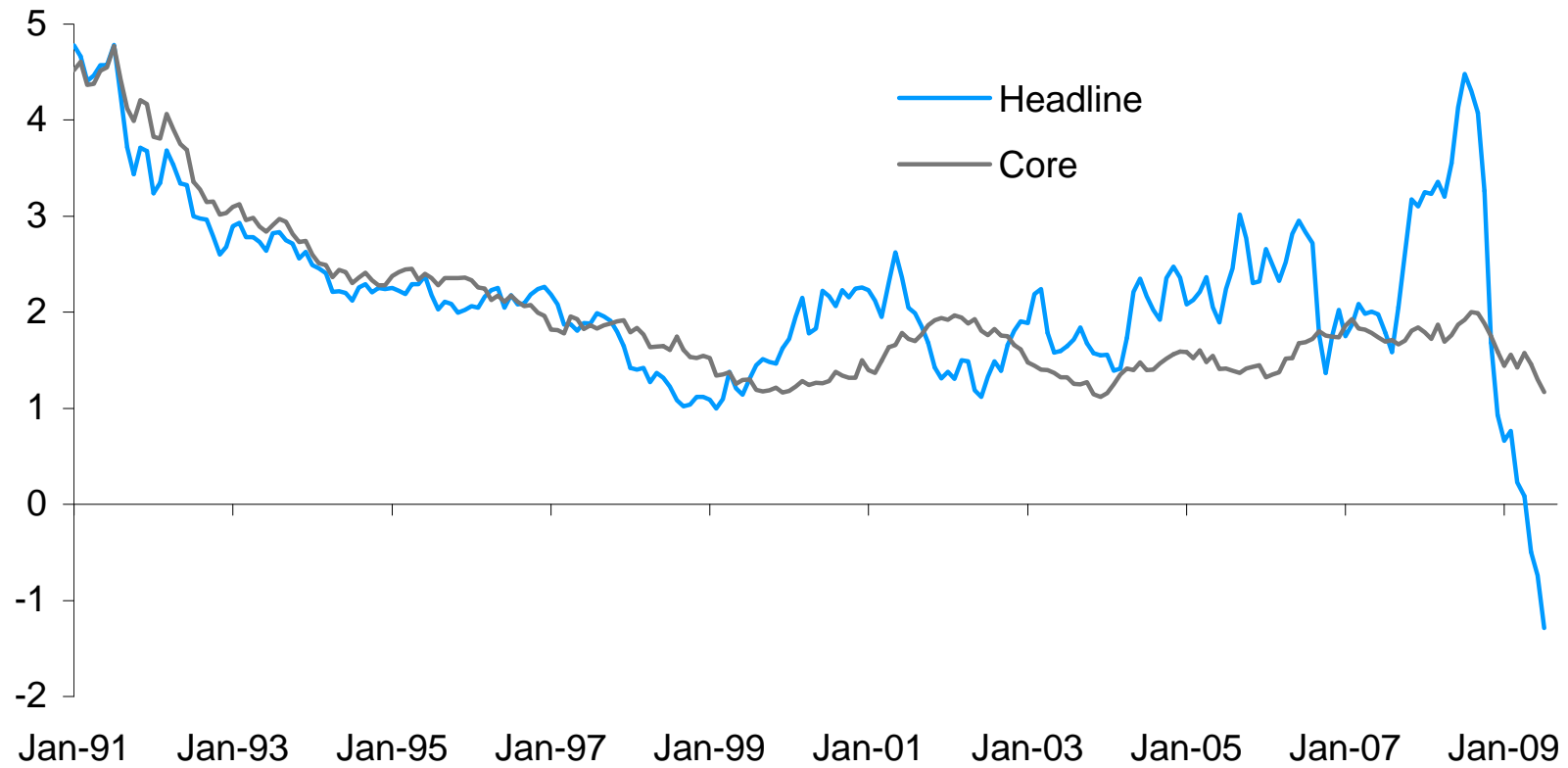
US unemployment rate (%)



Source: Datastream

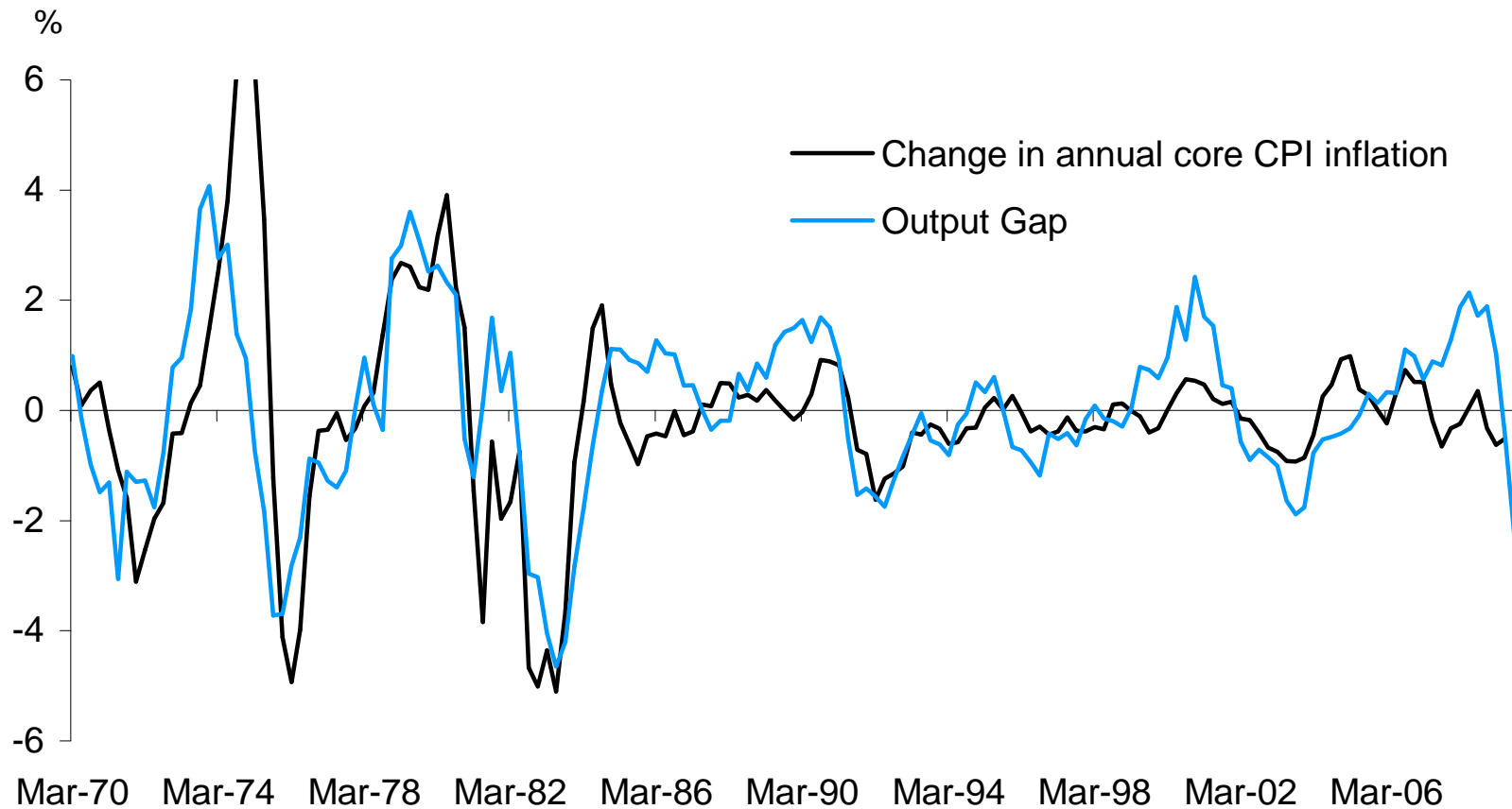
G5 CPI inflation tracking lower

Annual % change



Source: Datastream, AMP Capital Investors

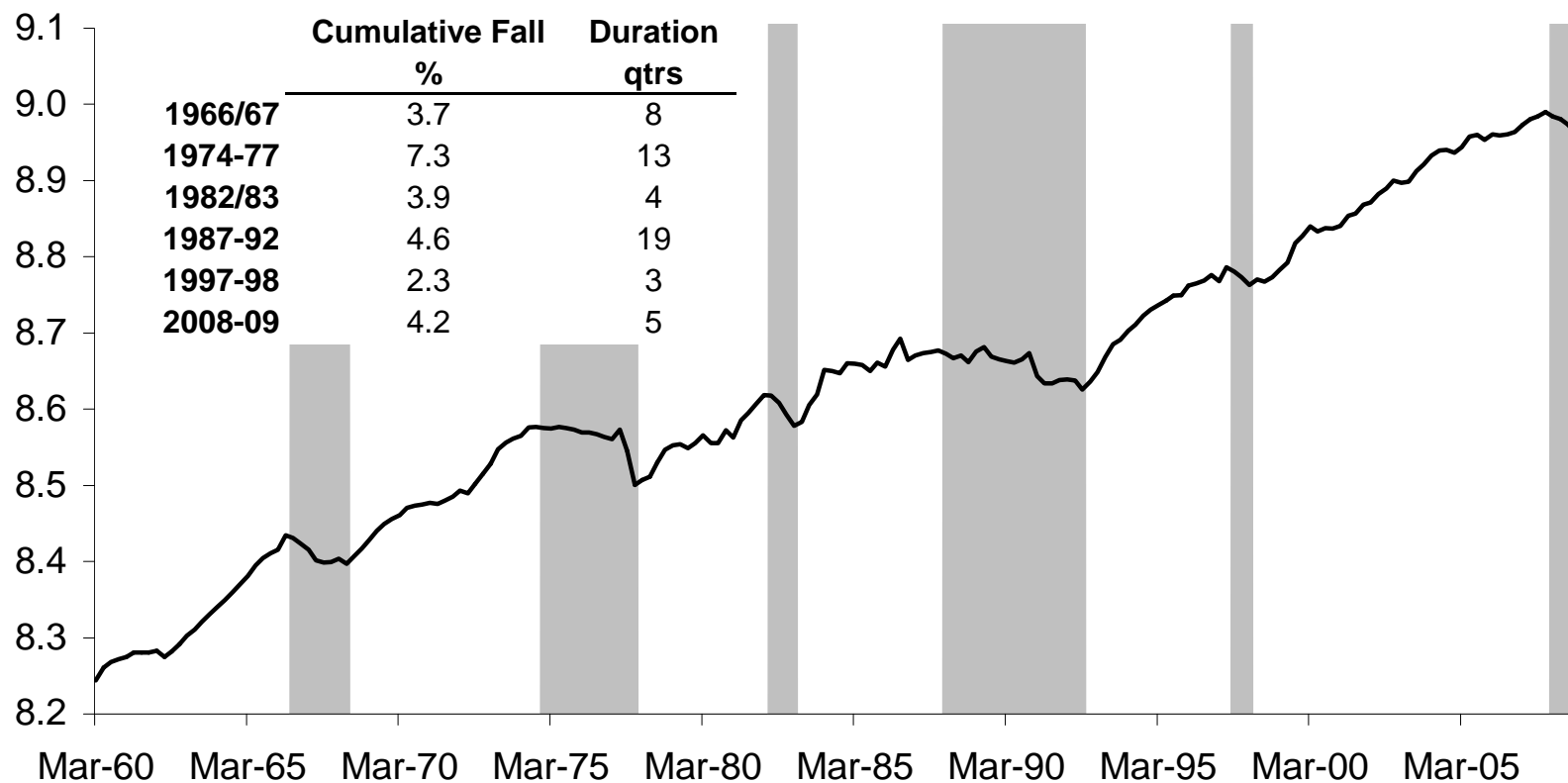
Deflationary pressures remain over the year ahead



Source: Datastream, AMP Capital Investors

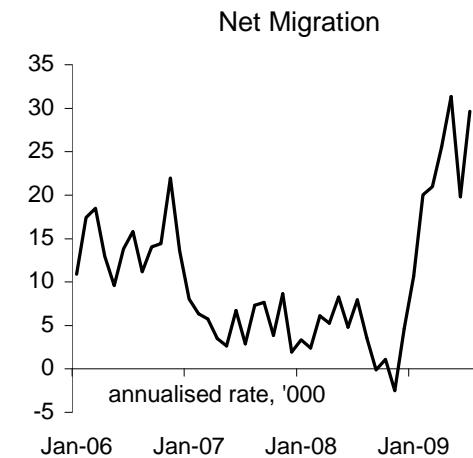
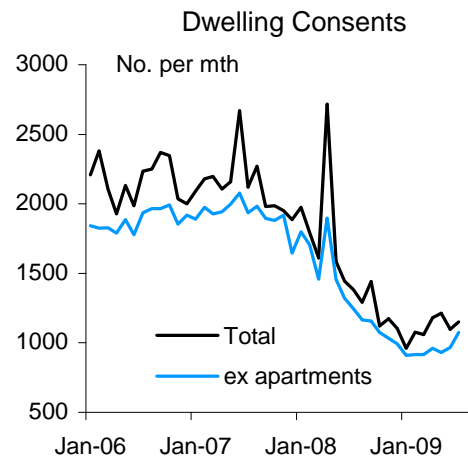
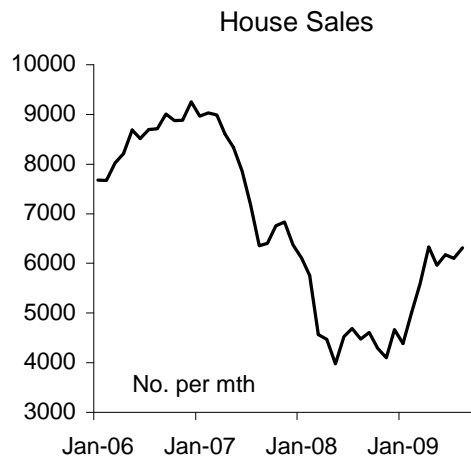
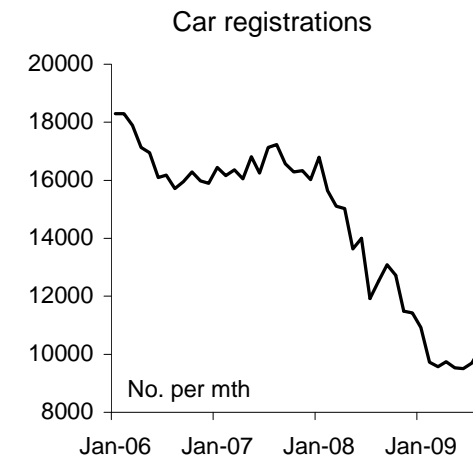
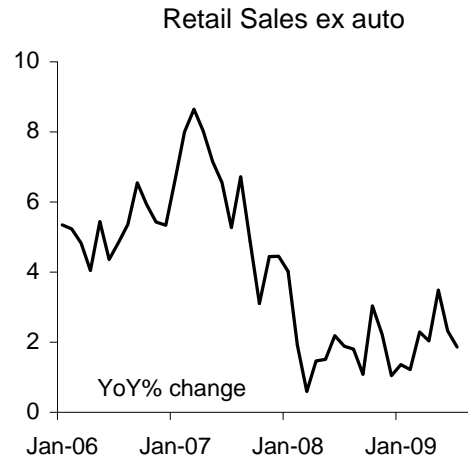
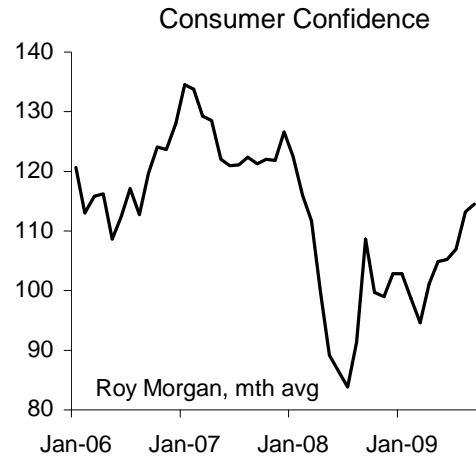
A historical perspective of NZ's economic recession

NZ Real GDP per capita, log scale



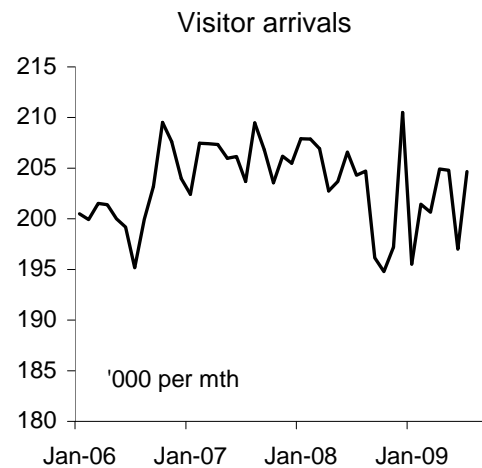
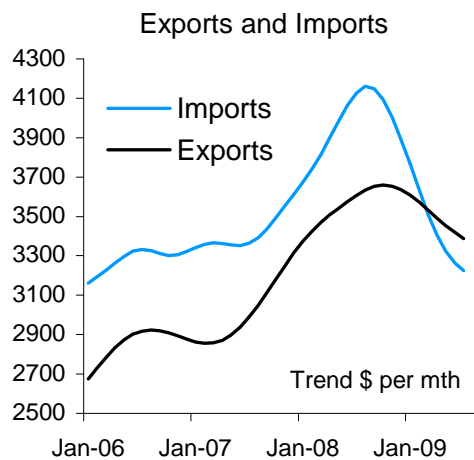
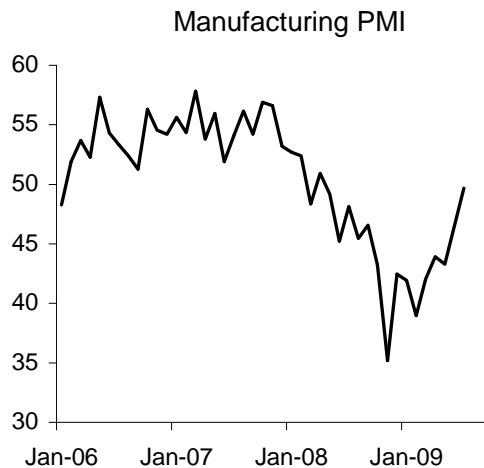
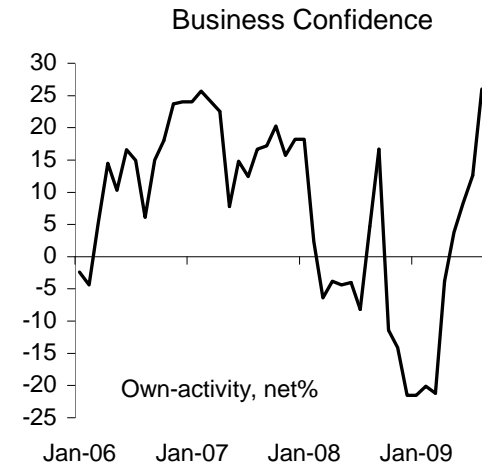
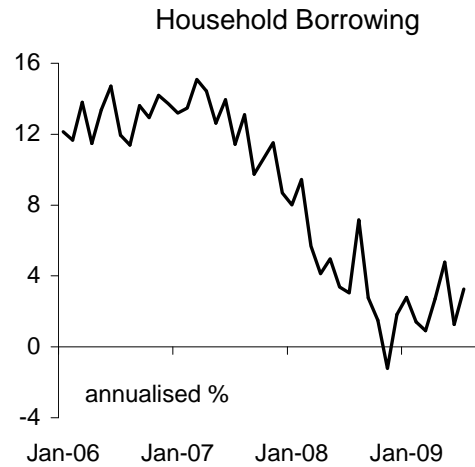
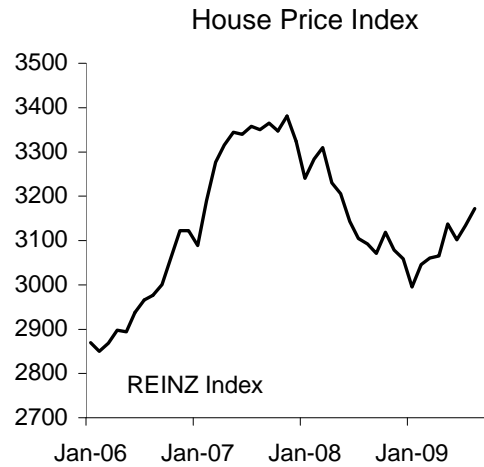
Source: AMP Capital Investors

NZ Green Shoots Watch list: Part I



Source: AMP Capital Investors

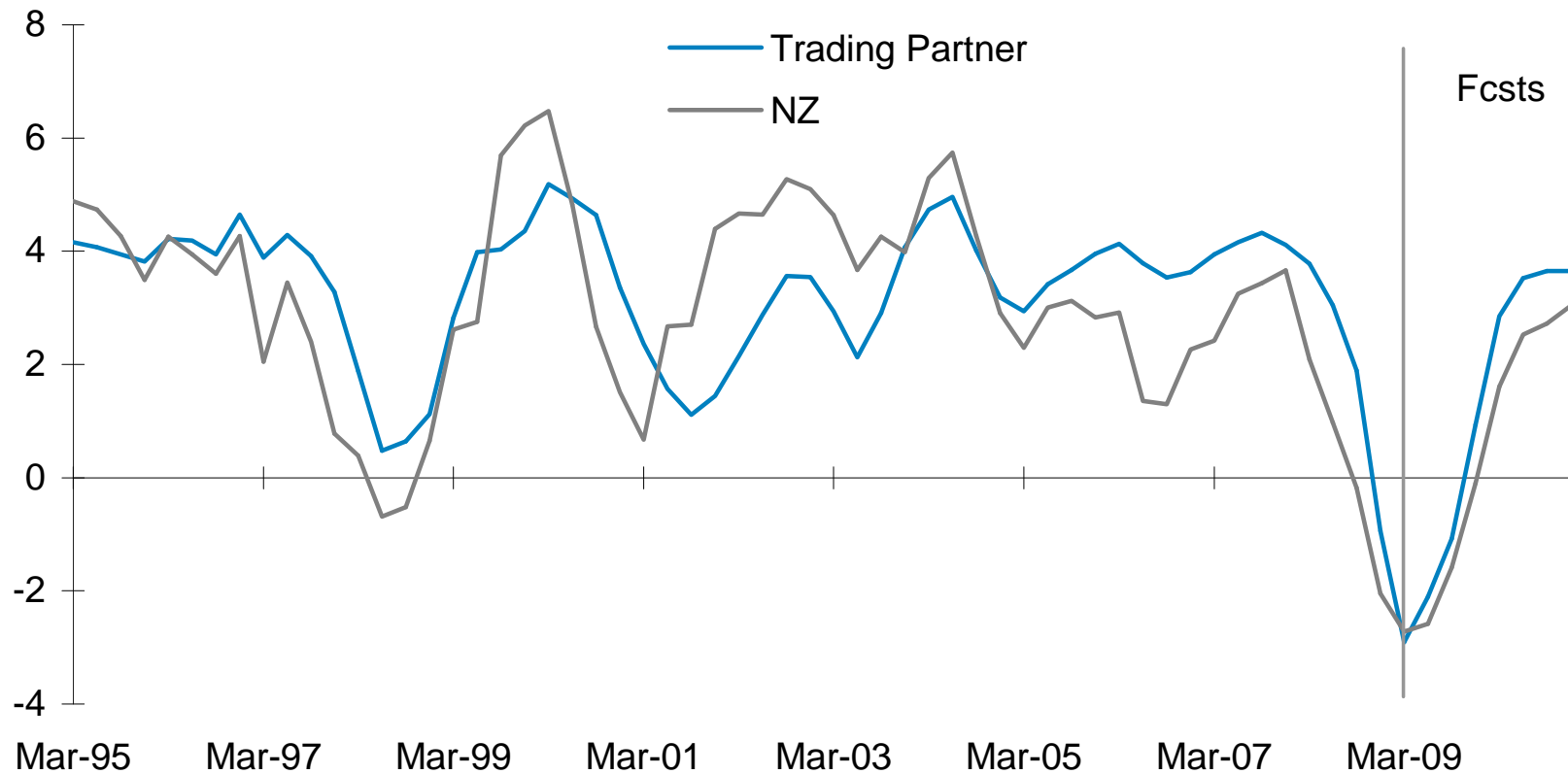
NZ Green Shoots Watch list: Part II



Source: AMP Capital Investors

NZ's economic fortunes to closely track that of its major trading partners

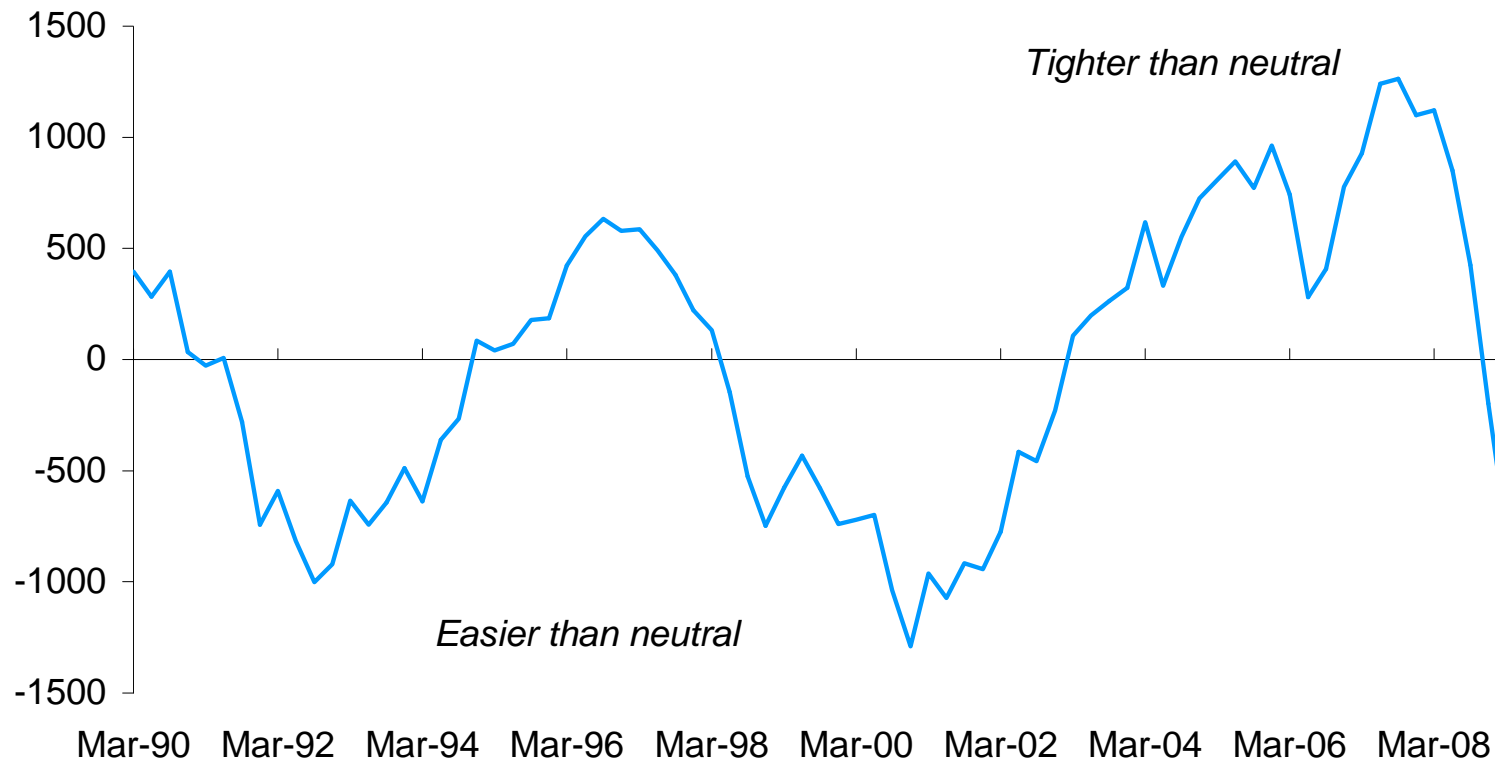
Real GDP, YoY% change



Source: AMP Capital Investors

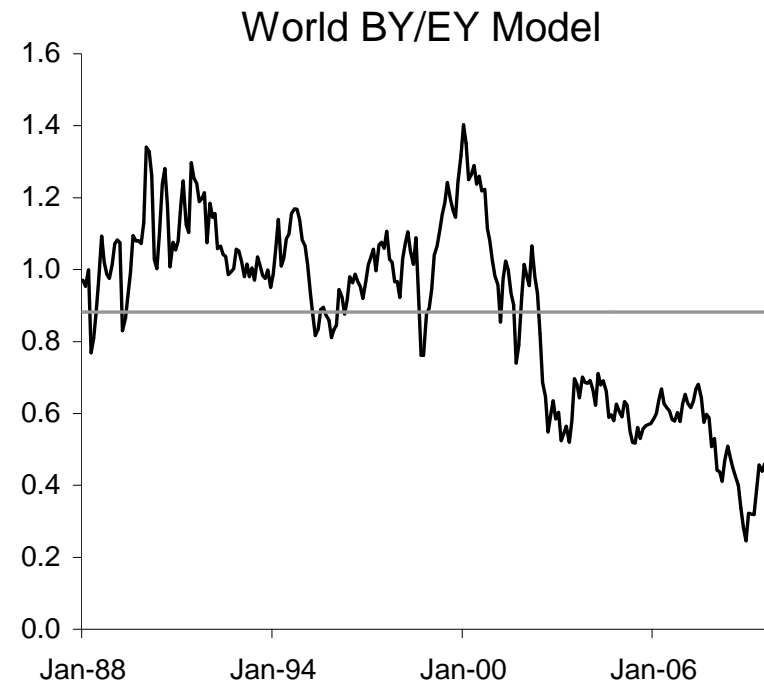
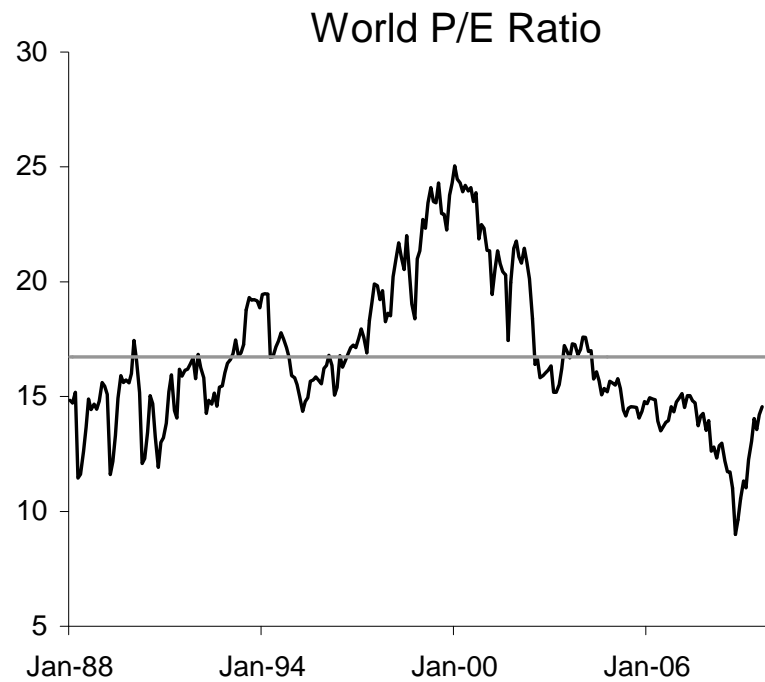
A premature tightening in NZ monetary conditions?

Real MCI relative to long-run average



Source: AMP Capital Investors

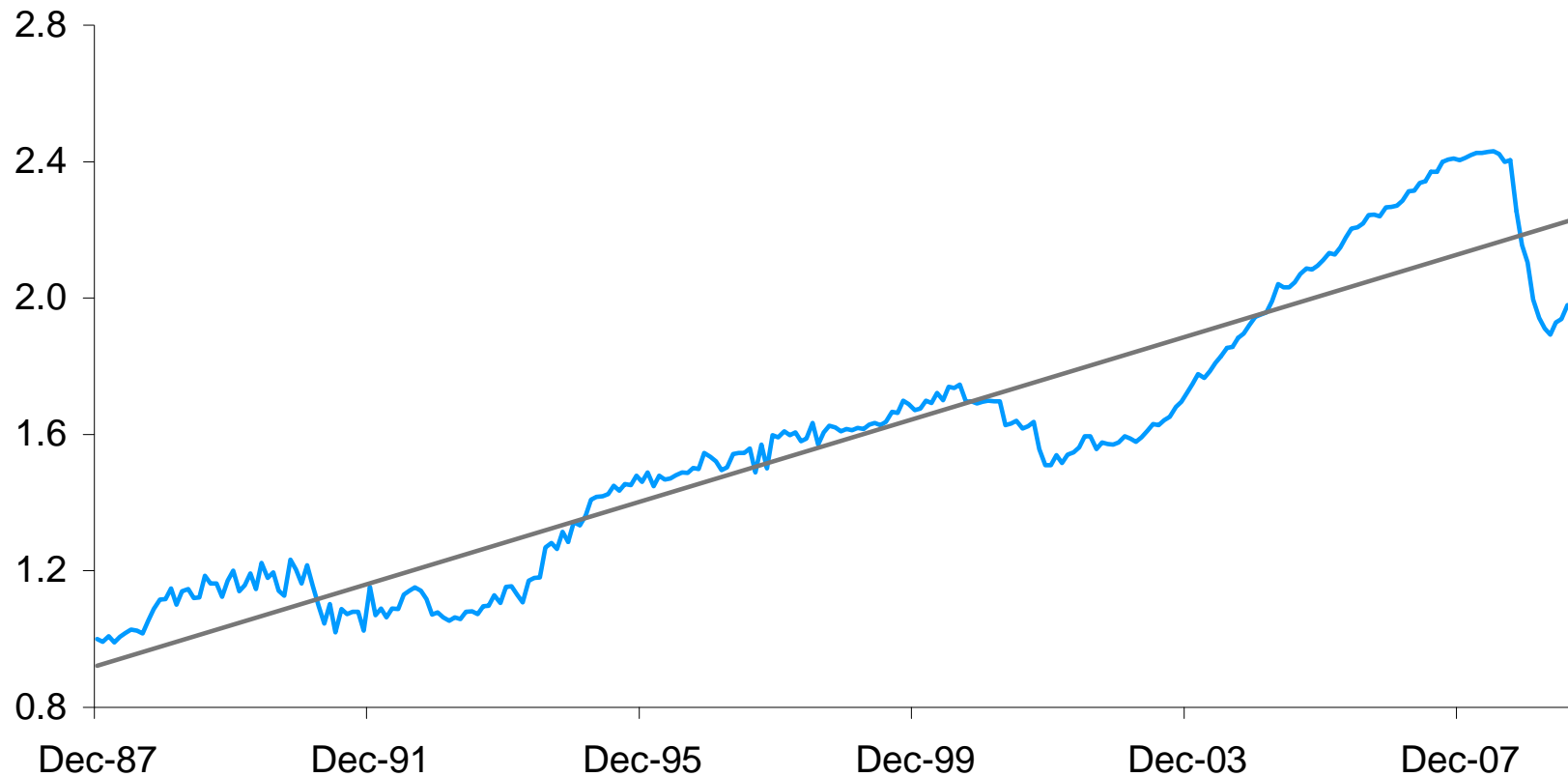
Still comfortable with equity market valuations



Source: Thomson Financial, AMP Capital Investors

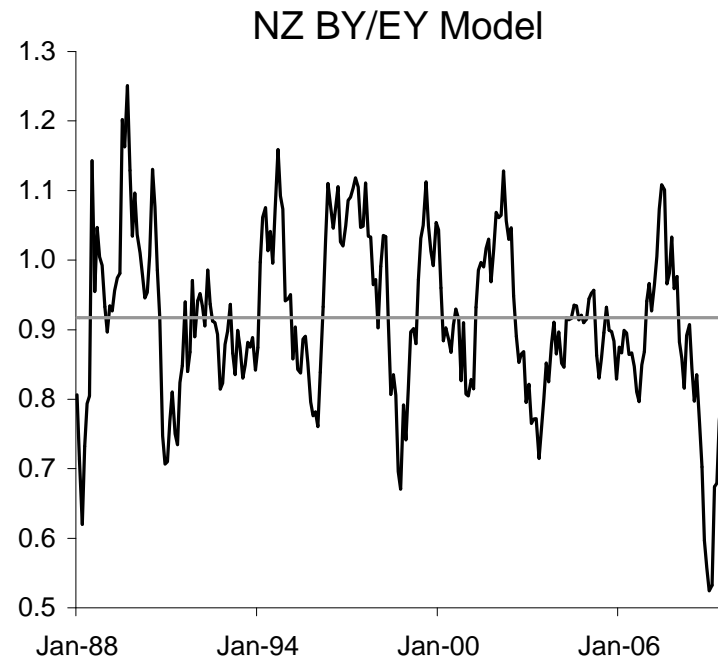
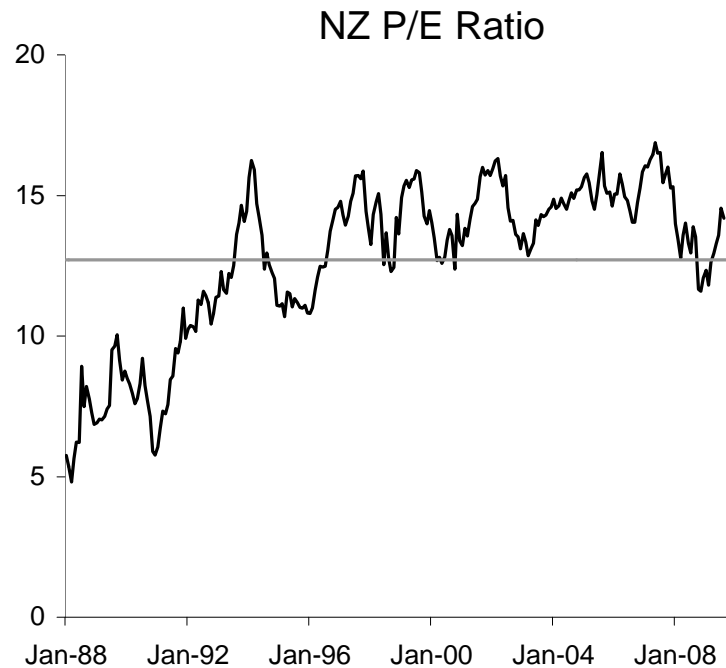
World earnings already on a recovery path

World EPS 12-months ahead, log scale



Source: Thomson Financial

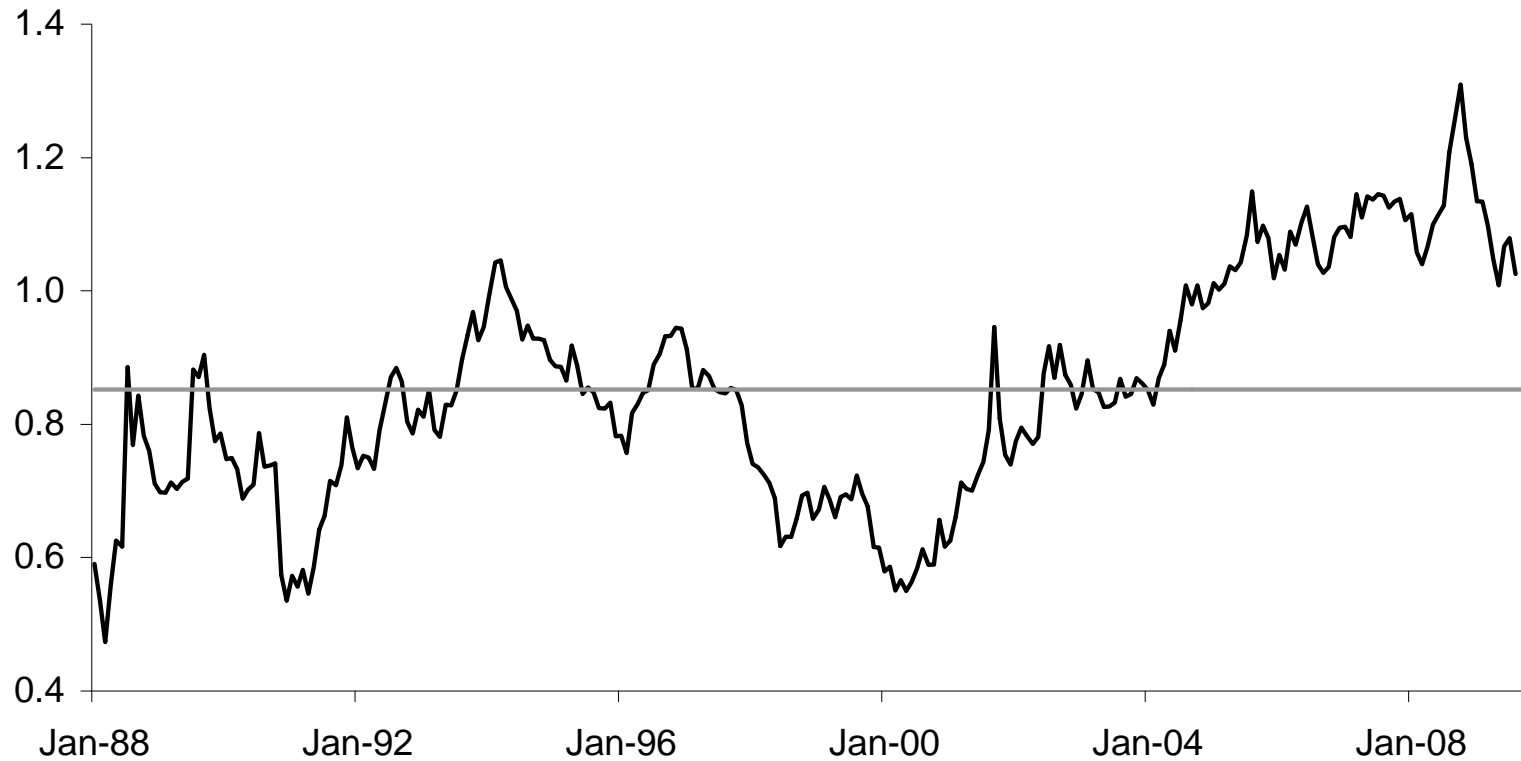
A more mixed picture for NZ equity valuations



Source: Thomson Financial, AMP Capital Investors

NZ equities expensive relative to world equities

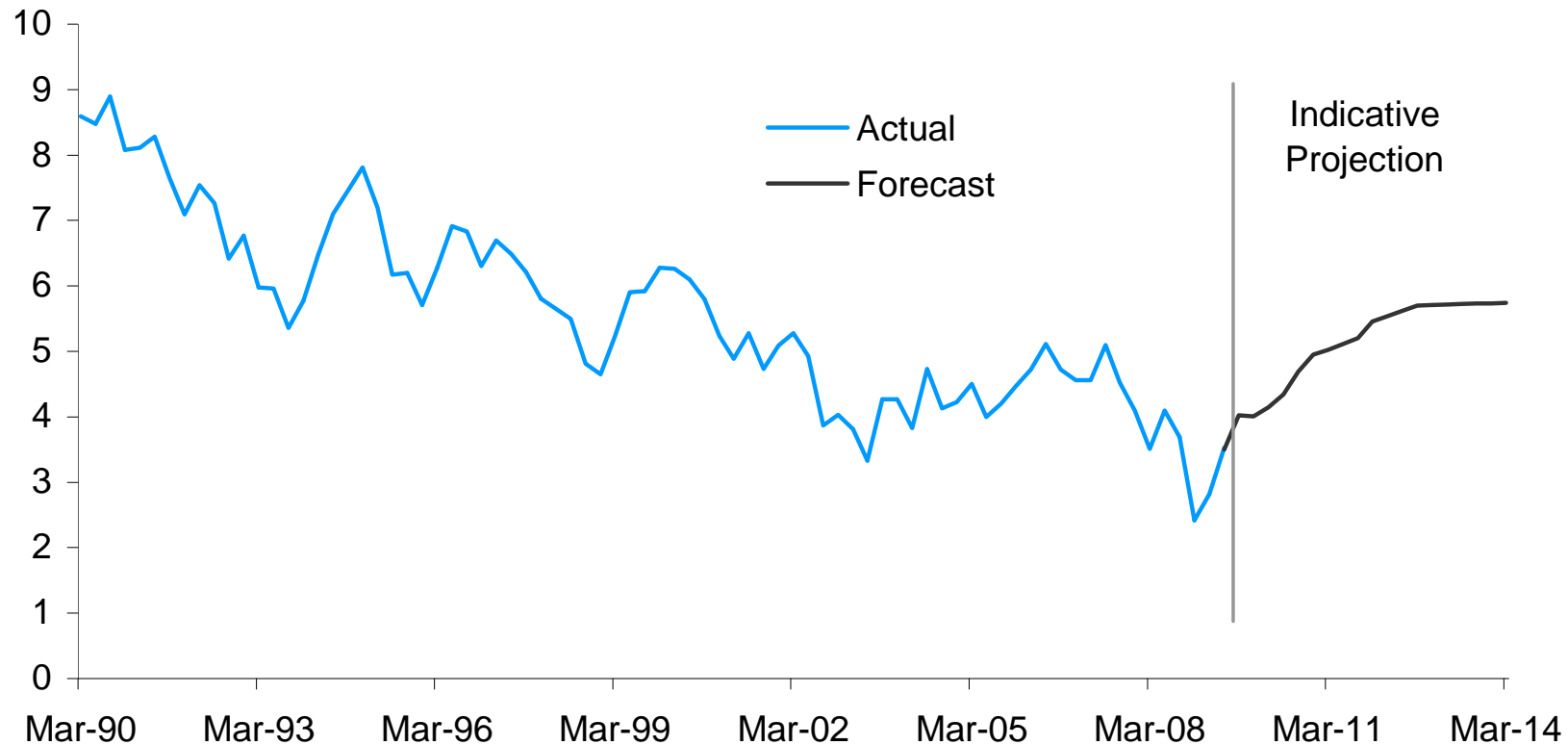
NZ/World PE Relative Ratio



Source: Thomson Financial, AMP Capital Investors

US bond model points to flat rates over near term, but higher rates over medium term

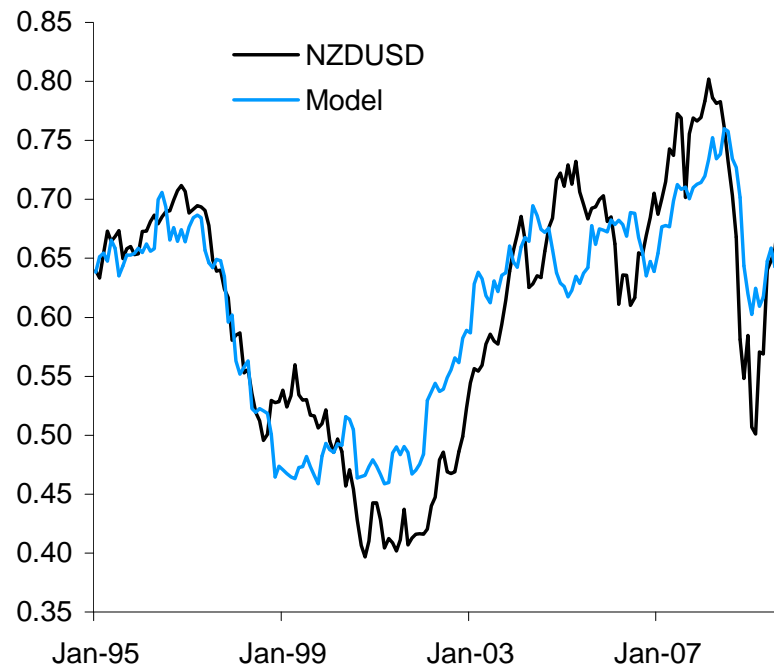
US 10-year yield, %



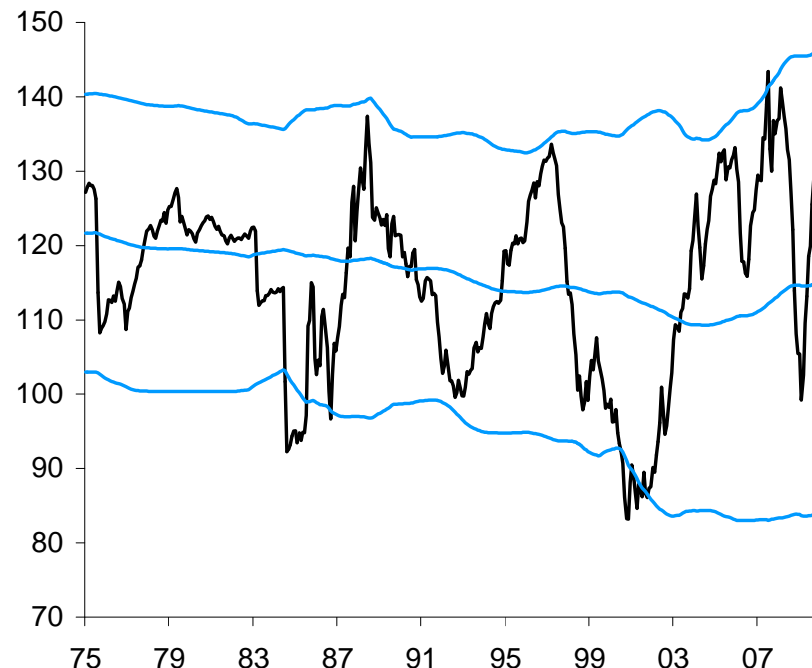
Source: AMP Capital Investors

NZD fair-value on short-term model; starting to get stretched on long-term model

Short-term NZD/USD model



Long-term NZD model



Source: AMP Capital Investors

Important note

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