# Market Focus

Global Strategy

## The First 100 Days

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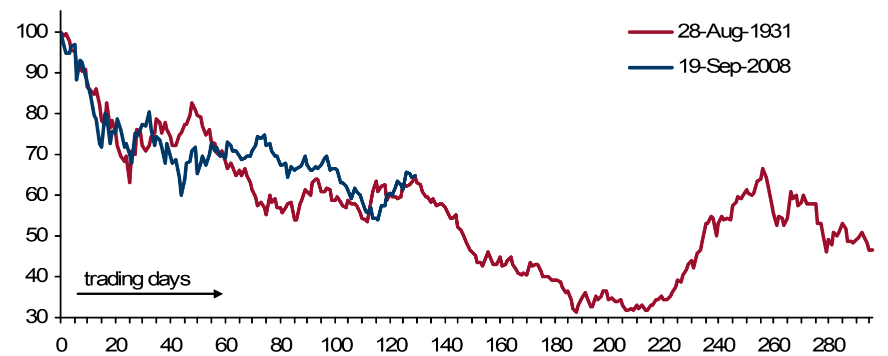
Are we heading for this?

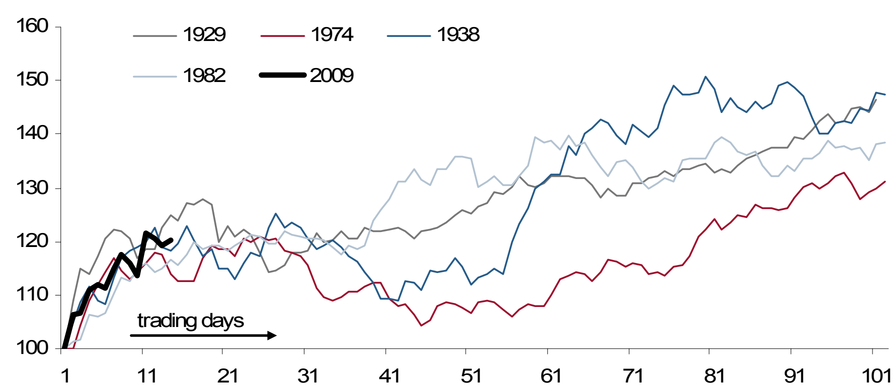
**Exhibit 1: S&P 500 During Major Sell-offs**




Source: Credit Suisse

Or this?

**Exhibit 2: S&P 500 - 100 Days from Major Troughs**




Source: Credit Suisse

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# The First 100 Days

And no, we are not referring to the Obama administration. This is a short note about what the first 100 days of significant equity market recoveries usually look like.

It's much more relevant now for three reasons:

First, in the contest between the dark forces of deflation and policy, central banks and governments have finally started to pull out all the stops. Or at least, nearly all. Their determination to go even further if necessary will become yet more apparent at next week's G20 summit in London.

Second, we still think global growth momentum is starting to base out, and that some of the conditions are slotting into place for a sharp inventory-driven recovery in global industrial production later this year.

Third, this is a very deep and long risk appetite panic on a par with those in 1982 and 2002, but here too there are signs that global risk appetite is in the process of turning up out of the panic zone. Credit risk appetite already has, and so has equity risk appetite.

It is a characteristic of major lows that virtually all market participants lose faith in the effectiveness of policy action just before it begins to gain some traction. We certainly had that in February.

We also had a near unanimous consensus that any short-term bounce would be no more than an exciting but ephemeral bear market rally, driven as usual by short covering, before the primary downtrend re-asserted itself.

Another frequently cited argument from the heavily populated bearish camp was the lack of a new high in the VIX, or other measures of volatility. This apparently reflected complacency, hardly the mood we found among our clients a few weeks ago.

More telling in our view is the huge migration of both speculative positioning and hedging activity into the ETF (short) space, with short financial sector ETFs a particular favourite. Monday was a bloodbath for many of those strategies.

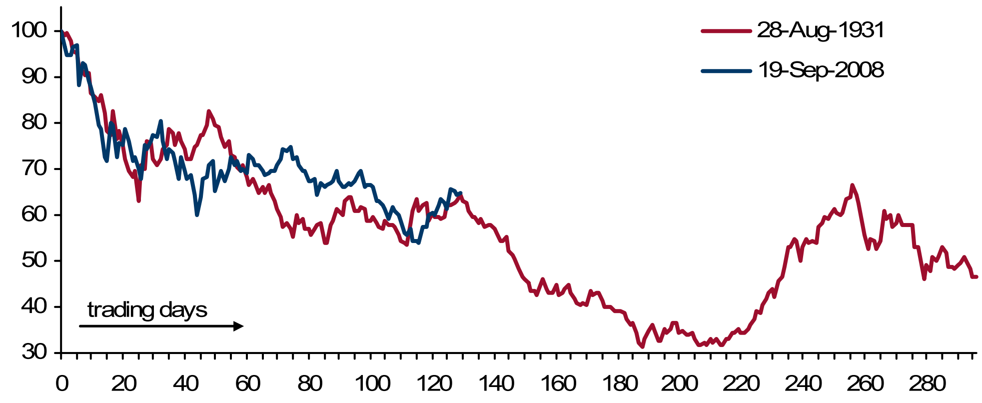
Meanwhile, the favourite area to reset shorts was around 20-25%, up from the (closing) lows in global equities and the S&P500. From a technical perspective, somewhere in the 818 to 826 area for the latter, or at worst 868 to 878, have been cited as the ideal re-entry points for perma-bears.

So we are now at a critical point for the favoured bearish view, and we expect short-term profit-taking, resetting of shorts and re-buying of puts to weigh on the market in coming weeks. And the litmus test for judging the potential success or otherwise of the TALF program and efforts to stabilise the financial sector more generally may come in early May rather than the next few days and weeks.

But for the really bearish story to maintain credibility, we need to re-test and break the old lows fairly quickly. Within a couple of months or so.

In which case you can argue that this chart is very compelling!

**Exhibit 3: S&P 500 During Major Sell-offs**




Source: Credit Suisse

Otherwise, the rest of the charts below will become increasingly relevant.

The first two illustrate the pattern emerging across our risk appetite indices.

**Exhibit 4: Global Risk Appetite, Equity-only and US Credit Risk Appetite**

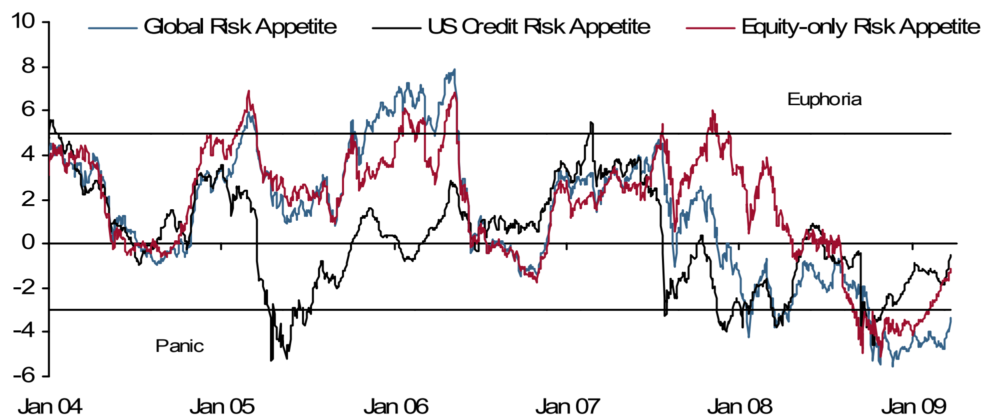
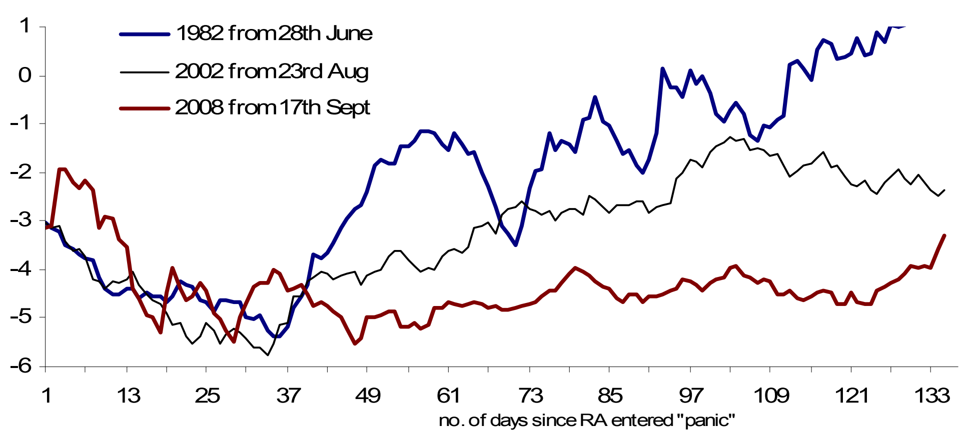



**Exhibit 5: Extreme Risk Appetite Cycles**




Source: Credit Suisse

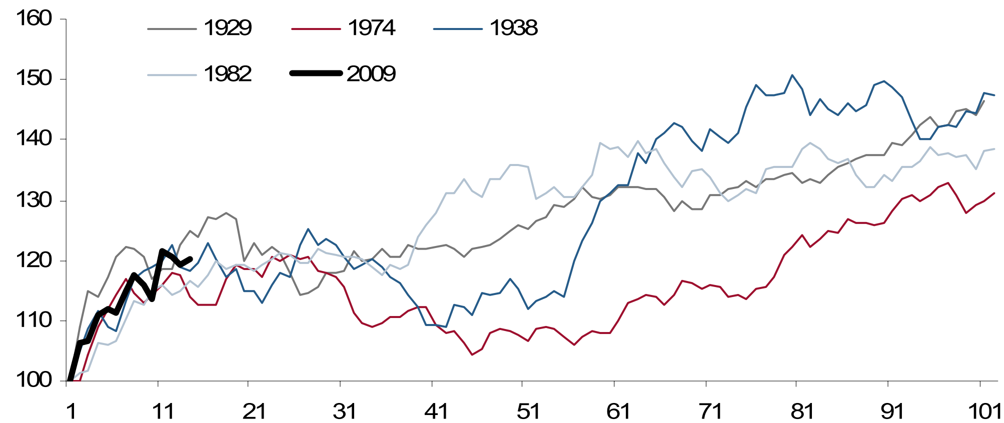
The next three below show the diversity of performance around the first 100 days of major market lows in US equities.

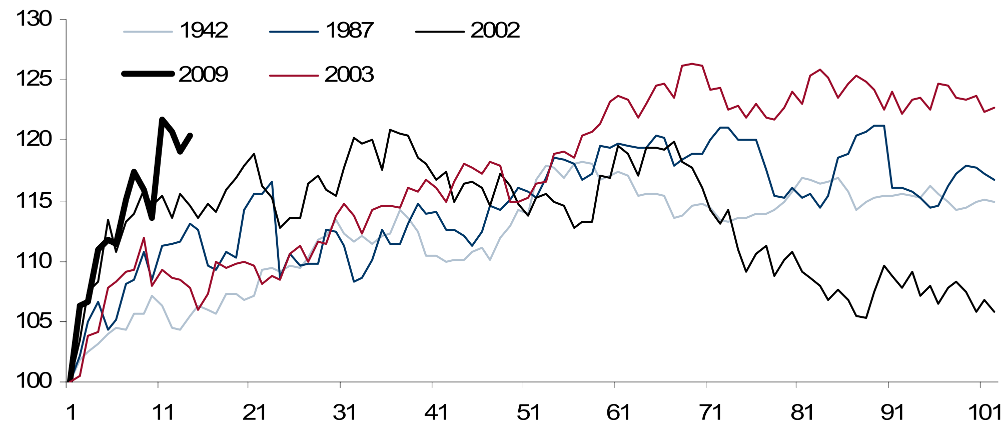
The first of these shows the past episodes that might turn out to be the most relevant. Note that one of these is the post 1929 crash bear market rally – it just happened to be 46% or so over five months.  Which is actually typical of the first year of major bull markets!

The second shows some less exciting episodes that were nonetheless significant market bottoms rather than mere staging posts towards significant new lows.

The third chart is of more academic interest: today's equity market is in some respects more oversold than the S&P500 was in June 1932, but it is no where near as extremely undervalued. The interesting part about that cycle is just how volatile the market remained in the first part of its recovery, something that – on a somewhat less extreme level – may well be true in 2009.

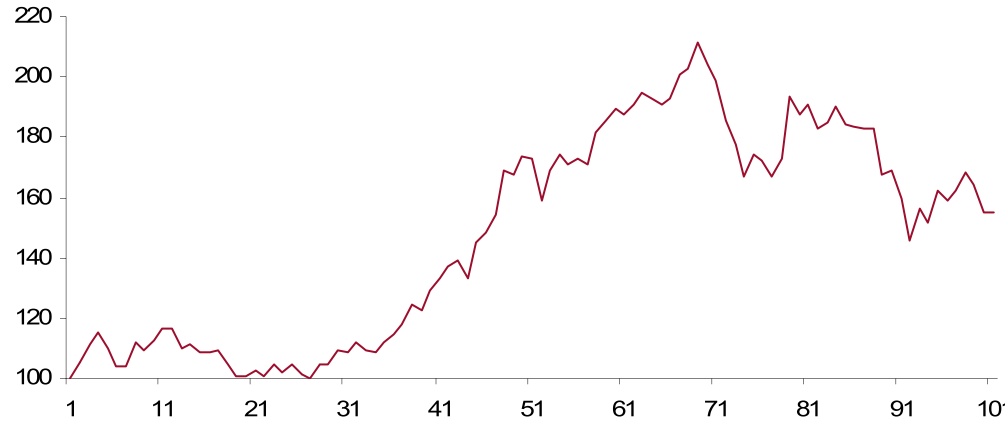
**Exhibit 6 & 7: S&P 500 - 100 Days from Major Troughs**




Source: Credit Suisse

**Exhibit 8: S&P 500 - 100 Days from Major Troughs: 1932**

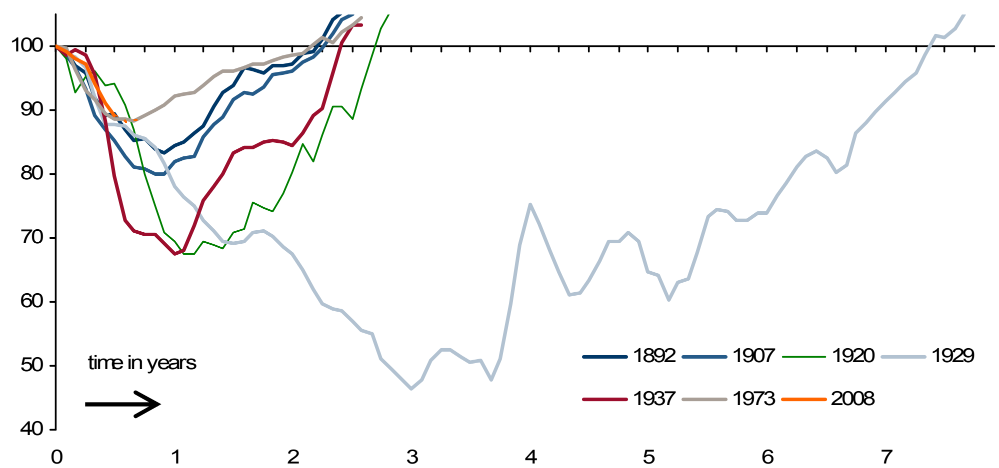



Source: Credit Suisse

# Notes For the G20 Meeting

1. Making recovery possible (stimulus) and making a repeat of this crisis impossible (new financial architecture) are equally important. But the former is much more urgent: there are perhaps only months left to prevent a large secondary downturn in global trade and growth, whereas reforms can and need to be carefully implemented over a longer period.
2. The economic crisis is now just as much about collapsing corporate cash flow as a shortage of credit.
3. Improved financial confidence and stabilising final demand are the two keys to making recovery possible. Because output is now falling even faster than demand, the first stage of recovery would be surprisingly rapid as the current brutal and global de-stocking cycle went into reverse.
4. Short-term key to financial confidence: funding the illiquid higher quality assets on bank balance sheets, (making TALF work, bad bank structures etc), followed by marking down the truly bad assets and further capital raising.
5. Key to stabilising demand is consumer and business cash flow: quant easing may need to be supplemented by further fiscal effort. This should focus on measures to immediately boost cash flow (temporary tax rebates, VAT holidays etc).
6. Among the most desirable and tractable long-term reforms: a "mark-to-funding" accounting regime where assets backed by longer-term funding can be marked to (externally vetted) model, not to market. Even in the short-run, this would be very helpful for insurance companies and pensions funds, whose capacity to buy credit and equities is being hampered by the artificially low current prices of illiquid legacy assets.

**Exhibit 9: Global IP Cycle vs. Major Historic US IP Cycles**

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