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Abrupt deterioration in the world economy

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Highlights

- The world economy is showing signs of a surprisingly rapid deterioration. This poses a serious challenge to policymakers worldwide, as their room for maneuver has narrowed. Against this backdrop, the European debt crisis is likely to worsen. On a more positive note, inflationary pressures in emerging markets are set to weaken, which is a most welcome development.

- Equities have suffered badly over recent months and we believe it is still too early to anticipate a rebound. In the short term, we think that the risk of another downward move is somewhat larger than an upward move. Key factors here are the ongoing worries about the state of the global economy and the deepening concerns about the eurozone debt crisis.

- Although we think that government bonds are overpriced and unattractive in the long run because of long-term inflationary risks, it is too early to write off the asset class. We believe that the increasing stress in the eurozone will prevent bonds from falling.

- The outlook for corporate bonds has become challenging. But this has already been reflected in the sharp rise of credit spreads. We feel that current spreads are reasonable in this environment. Elevated levels of uncertainty are likely to continue.

- Within equities, we maintain our preference for defensive sectors over financials, despite a performance gap of around 20 percentage points in favor of the former over the last six months.

- **There has been increasing market talk in recent months about stocks being cheap. In this month's Special, we make the case for focusing on absolute valuation. At current prices, this metric suggests that equities are neutrally valued. An analysis that uses trend earnings over the last 30 years comes to a similar conclusion.**

Summary

The world economy is showing signs of a surprisingly rapid deterioration. This poses a serious challenge to policymakers worldwide, as their room for maneuver has narrowed. Against this backdrop, the European debt crisis is likely to worsen. On a more positive note, inflationary pressures in emerging markets are set to weaken, which is a most welcome development.

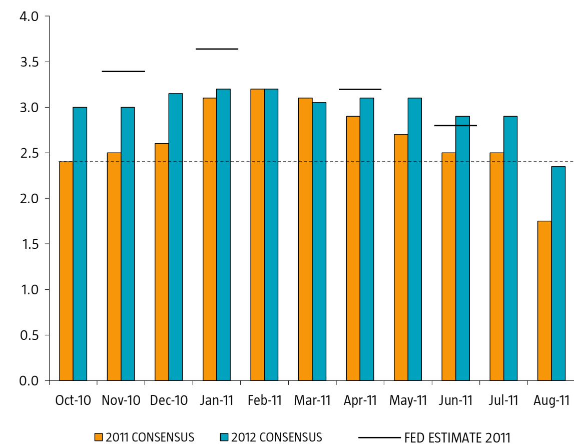
Macroeconomic view

Growth momentum in the world economy is slowing abruptly. Policymakers are running out of ammunition and showing signs of a certain lack of conviction about the tools that are available.

North America

The most striking aspect of the US economic slowdown is that it seems to have come as such a big surprise. Why the surprise? At the end of last year, everybody and his brother agreed that the US—which was in deleveraging mode and facing a continued correction in the housing market—would only be able to produce low growth. Everybody but the Fed, that is. The US central bank expected real growth in 2011 to reach 3.4%; the consensus expected a more realistic 2.4%. So how is it possible to be shocked when this forecast of low—we are tempted to use the word sub-prime here—growth actually materializes? We think there are two reasons for this. First, at the beginning of the year, realism was replaced by optimism, with consensus growth estimates being upgraded to 3.2% in February (see chart to the right). That optimism was based on solid H2 2010 earnings, positive sentiment in financial markets and signs that the US labor market was finally recovering. It didn't last long, though. A surge in commodity prices (more specifically energy) and the Japanese tsunami (which resulted in supply-side issues) took their toll. In other words, part of the "surprise" is related to a return to a more realistic assessment of the US's growth potential. Second, growth estimates for 2011 have dropped considerably below the 2.4% expected at the end of last year: the consensus is now expecting growth of only 1.75% for 2011, though that is a figure more likely to be revised down than up in the months ahead. And that's the real surprise: how is it possible that the US economy, despite ultra-low interest rates (in nominal and real terms) and a healthy corporate sector, has been so deeply affected by higher oil prices (which peaked four months ago) and supply-side disruptions in Japan? We believe that there is no simple, all-encompassing explanation for this weakness; instead, there have been a number of smaller factors which, added together, have negatively impacted sentiment. The bickering about the US debt ceiling, the apparent political stalemate about how to move forward, the downgrade of the US credit rating by S&P and the growing uncertainty regarding the eurozone have all played a role. In normal circumstances, none of these factors would have seriously dented growth by themselves. But added together, they formed a cocktail that had negative repercussions on sentiment indicators, eventually driving down riskier assets in financial markets as well. In a structurally weak economic environment, even small things can have a negative impact.

REAL GDP GROWTH EXPECTATIONS RETURN TO NORMAL AND THEN DROP FURTHER (%)



SOURCE: BLOOMBERG, ROBECO

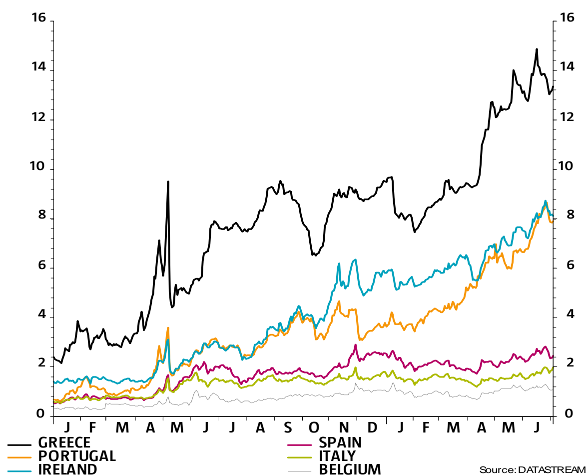
So: are we heading for a double dip? We continue to think it is unlikely. At the same time, however, we are worried by the rapid deterioration in the economic data. If sentiment continues to worsen, negative expectations can become self-fulfilling. The one reason why we continue to expect growth—albeit of a lackluster nature—is that the Federal Reserve is ultimately willing to do whatever it takes to keep the economy going. So far, the Fed has refused to announce a fresh round of quantitative easing (QE3). That is probably linked to the limited *economic* impact of QE2. But with the latest, weak payrolls report (zero jobs were added in August), it is now expected that some new policy measures will be announced at the next FOMC meeting.

Europe

In the second quarter, UK economic growth slowed to 0.2%. The outlook for the third quarter is weak. Despite the economy coming to a virtual standstill, the Bank of England has little room for maneuver, as inflation rose to 4.4% on a yearly basis in July (EU harmonized). Core CPI rose as well, hitting 3.1%.

Growth in the eurozone economy is also slowing. In the second quarter, growth in the region fell back to 0.2%. The risk that the eurozone will slip back into recession has clearly risen. It is likely that the ECB will start to reverse its policy of gradually hiking rates, starting later this year. In the meantime, the European debt crisis is showing signs of escalation. Greece is failing to hit its targets and the so-called troika has broken off its inspection. It is turning out to be difficult to arrange a satisfactory level of voluntary private-sector participation in the Greek bailout. The embarrassing discussions about collateral arrangements have not borne fruit. The risk of a default by Greece on short notice has clearly risen. A default would be very destabilizing, as it would create havoc in the shaky European banking sector. In the meantime, skepticism about Italy and Spain has risen, forcing a reluctant ECB to intervene in the bond market. As the flexible EFSF has not yet been ratified by all eurozone member states, the role of stabilizing the bond markets has fallen to the ECB.

YIELD SPREADS VIS-A-VIS GERMANY

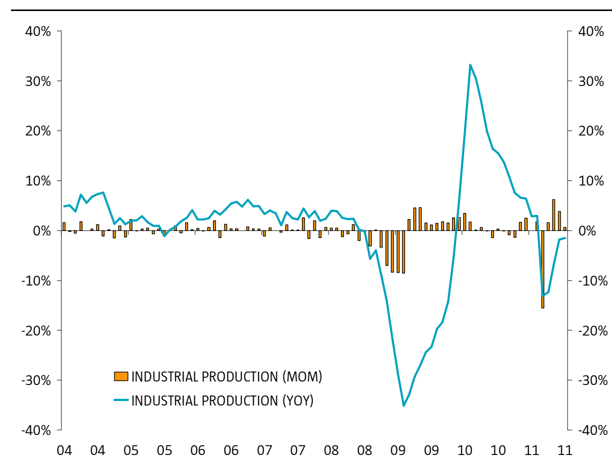


However, not only is this policy unpopular in Germany, but it is also apparent that the ECB is prepared to go only so far in intervening. This remains a destabilizing and unpredictable factor for both the ongoing crisis and the gradual drying-up of interbank liquidity within the eurozone. Against the backdrop of a rapidly weakening economic environment, the crisis will probably intensify.

Pacific

With the US grappling with its debt ceiling, the UK trying to escape from stagflation and the eurozone simply struggling to survive, one could almost forget about Japan. To start with the good news: data initially showed that the Japanese economy was on track for a classical post-disaster recovery. It even managed to surprise positively at times. The bounce back by industrial production was one such surprise, while second-quarter GDP also came in higher than forecast, albeit after the much-weaker-than-expected Q1 reading. It raised hopes that Japan would be able to draw a line under the tsunami, which hit the country at the beginning of March. More recently, however, the data has started to weaken again. Industrial production came in lower than expected in July (0.6% versus 1.4% expected) and machinery orders took a dive (-8.2% versus -4.2% expected), while the weaker current-account numbers indicated that the export engine is taking a breather. The steady rise of the yen against its main trading partners

JAPANESE REBOUND IN INDUSTRIAL PRODUCTION IS LOSING MOMENTUM



SOURCE: BLOOMBERG, ROBECO

(despite the Bank of Japan's interventions), the slowdown of the world economy and the lingering post-earthquake issues (intermittent power supplies) have all had a negative impact. More volatility in the data in the months ahead is to be expected, and we remain cautious.

As a sideline, the prime minister, Naoto Kan, finally stepped down and was replaced by Yoshihiko Noda, a former finance minister. Noda has advocated raising taxes in order to tackle the Japanese debt-vortex problem. But it is highly questionable whether he will even be able to win over his own party, the ruling DJP, never mind the upper house, in which opposition parties are in the majority.

Slightly more positive news has come from Australia, with the latest GDP figures showing that the flood-related GDP decline in Q1 was less severe than initially announced (it was revised up from -1.2% to -0.9%), while Q2 growth came in higher than expected (+1.2%). For sure, Australia is set to feel the negative impact from the slowing world economy, though it should be pointed out that—so far—commodity prices in general have not been hit too hard.

Emerging markets

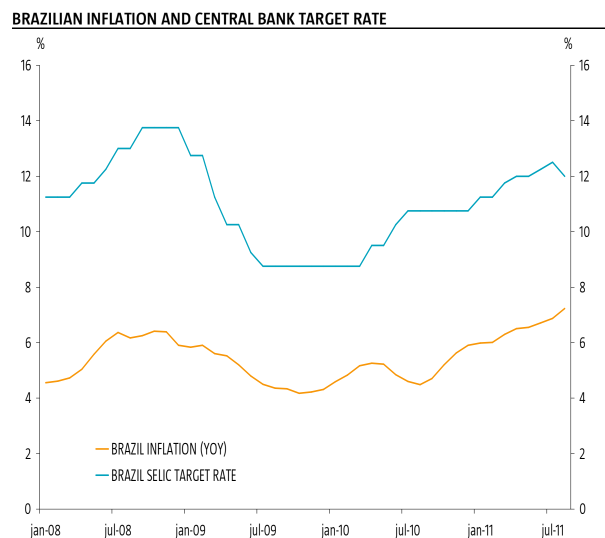
The slowdown of the world economy is also making itself felt in the major emerging markets. As a consequence, inflationary risks in the region are diminishing, relieving the pressure on monetary policymakers.

In July, Chinese inflation jumped to a three-year high of 6.5%. Despite the slowing of the world economy, the Chinese authorities will be in no hurry to loosen monetary policy.

Indian growth slowed slightly in the second quarter, slipping from 7.8% to 7.7%. The benchmark wholesale price index fell a little in July, though only to the still uncomfortably high level of 9.2% on a yearly basis.

The Brazilian central bank unexpectedly lowered interest rates. It was a pre-emptive move to maintain growth, as inflation quickened towards 7.2% in August. The *real* weakened.

BRAZILIAN INFLATION AND CENTRAL BANK TARGET RATE



SOURCE: BLOOMBERG, ROBECO

Russian inflation came down to 8.2% in August, which should allow the central bank to keep rates on hold for the foreseeable future.

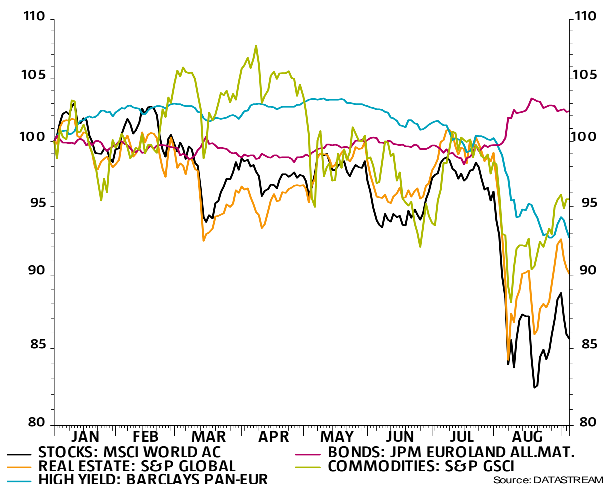
Outlook financial markets

Asset mix

Last month's review

Last month, there were sharp divergences in performance across the asset classes. Although equities have tended to trade sideways over recent weeks, as shown in the chart, they declined by 3.1% when measured over the last month. High yield was the biggest loser, however, falling by 5.1%, as investors worried about the worsening economic data. Real estate held up surprisingly well and was roughly flat over the month. Commodities, meanwhile, rose by 2.9%. Less surprising, given the market environment, was the rise of bonds, which gained 2.1% over the last month. Finally, oil prices was up by USD 10/bbl, the euro weakened a few cents and the VIX remained at high levels.

PERFORMANCE OF ASSET CLASSES (TOTAL RETURN EUR)



PERFORMANCE OF ASSET CLASSES (TOTAL RETURN IN EUROS)

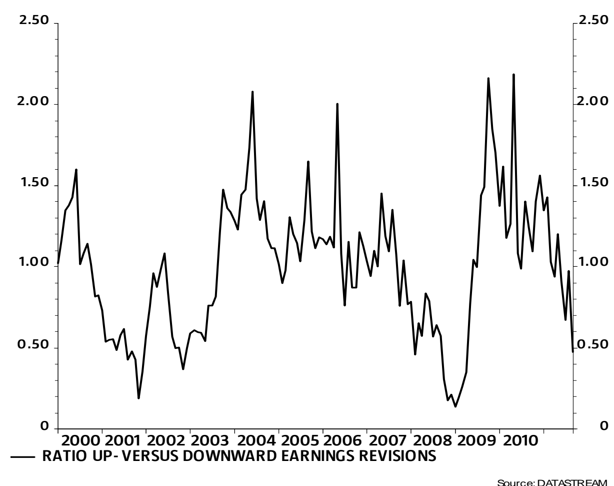
	-1M	-3M	-6M	-12M	-3Y	-5Y
STOCKS (MSCI AC WORLD)	-3.1%	-8.9%	-13.9%	-5.7%	2.0%	-8.8%
REAL ESTATE (S&P GLOBAL REITS)	0.6%	-5.8%	-8.1%	-3.2%	5.9%	-17.8%
HIGH YIELD (BARCLAYS PAN-EUR)	-5.1%	-9.6%	-9.9%	-7.4%	9.1%	-13.9%
BONDS (JPM EUROLAND ALL MAT.)	2.1%	2.1%	3.4%	-1.5%	14.3%	20.9%
COMMODITIES (S&P GSCI)	2.9%	-1.2%	-9.8%	10.1%	-36.7%	-29.4%

SOURCE: THOMSON FINANCIAL DATASTREAM

Equities

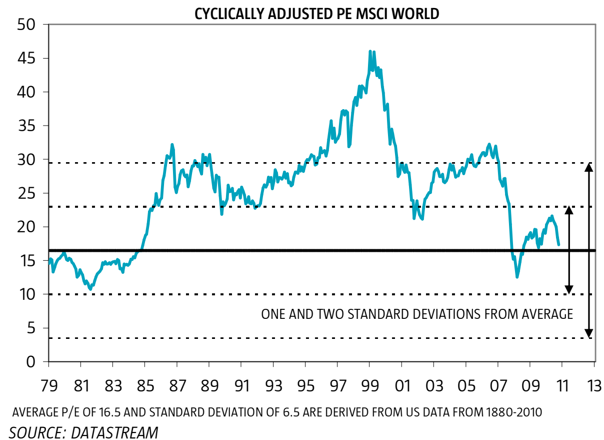
Equities have suffered badly over recent months and we believe it is still too early to anticipate a rebound. In the short term, we think that the risk of another downward move is somewhat larger than an upward move. Key factors here are the ongoing worries about the state of the global economy and the deepening concerns about the eurozone debt crisis. However, a double dip is by no means a certainty yet. A temporary slowdown of economic growth during the recovery phase is not unique. Furthermore, neither rising oil prices nor shortages of Japanese components are any longer functioning as a brake on the economy. What's more, retail sales in emerging markets are still on the rise. Nevertheless, it is evident that we are in—at best—a muddling-through scenario, thanks to the need for governments to deleverage. That is one of the reasons why we believe that earnings estimates can decline further, as the consensus earnings growth rate is currently at 14% for both 2011 and 2012.

UPWARD VERSUS DOWNWARD EARNINGS REVISIONS



As for the debt crisis in the eurozone, we maintain the view that things will have to get worse before they can get better. Pressures are still on the rise due to the lengthy decision-making processes, as well as the lack of consensus between the various policymakers. Financial markets could well force the ECB into massive purchases of bonds, which could be good for equities if defaults are circumvented. Meanwhile, a Greek default might be the step needed to bring some clarity and reduce the uncertainty. Initially, though, it could have precisely the opposite effect. Financial markets look set to remain a hostage of the eurozone debt crisis until its endgame becomes more obvious. As argued in this month's Special, we do not believe that valuation is a reason to step in.

VALUATION OF EQUITIES

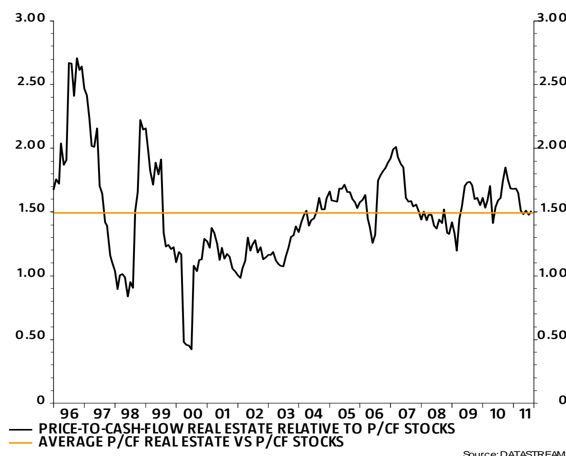


SOURCE: DATASTREAM

Real estate

Real estate is holding up better than equities. We believe this pattern is likely to continue. Real estate's cash flow pattern is more stable and thereby it is somewhat more defensive. In addition, earnings revisions are—for now—not as bad as for equities. From a valuation perspective, real estate is comparable to equities. The price-to-cash flow ratio for real estate is 1.5 x the one for stocks (see chart right), which is exactly in line with the historical average.

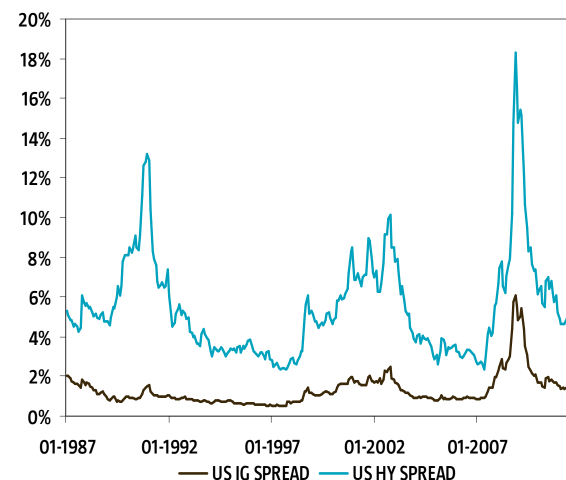
VALUATION OF REAL ESTATE VERSUS EQUITY (x)



Corporate bonds

The outlook for corporate bonds has become challenging. But this has already been reflected in the sharp rise of credit spreads. We feel that current spreads are reasonable in this environment. Elevated levels of uncertainty are likely to continue. The outcome of the eurozone debt crisis is still unclear, as is the effect of uncertainty on economic growth. For now, we prefer to take a neutral view on both high yield and investment-grade corporate bonds. If Greece does default, we believe it is by no means certain that uncertainty would decline in the short term. In fact, uncertainty could actually increase in that scenario.

US INVESTMENT GRADE AND HIGH YIELD SPREADS

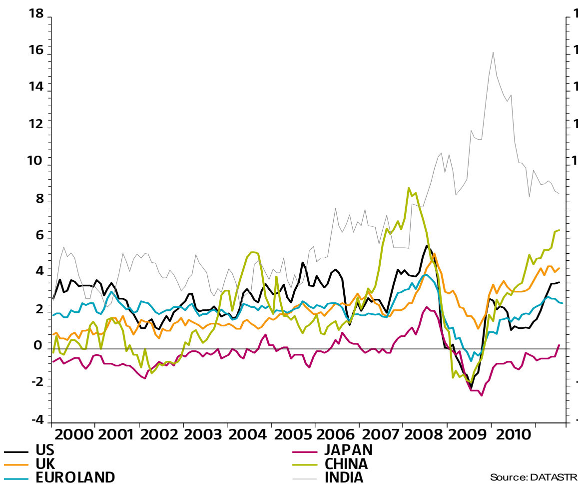


SOURCE: BARCLAYS, ROBECO

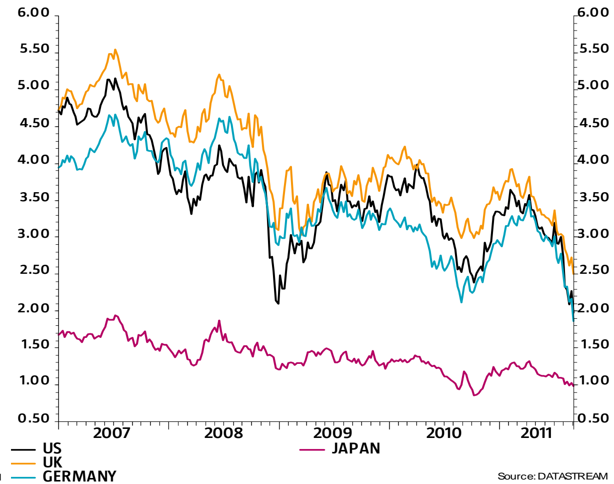
Government bonds

Government bond yields have fallen dramatically. Worries about the downgrade of US government debt and the long-term inflationary threat of central banks holding increasing amounts of money have been outweighed by fears of a recession and defaults in the eurozone. Short-term inflation risk is currently fading somewhat. But it will probably take the ECB a while to acknowledge that the last two rates hikes were a bit early. Although we think that government bonds are overpriced and unattractive in the long run because of the long-term inflationary risks, it is too early to write off the asset class. We believe that the increasing stress in the eurozone will prevent bonds from falling.

INFLATION RATES (%)



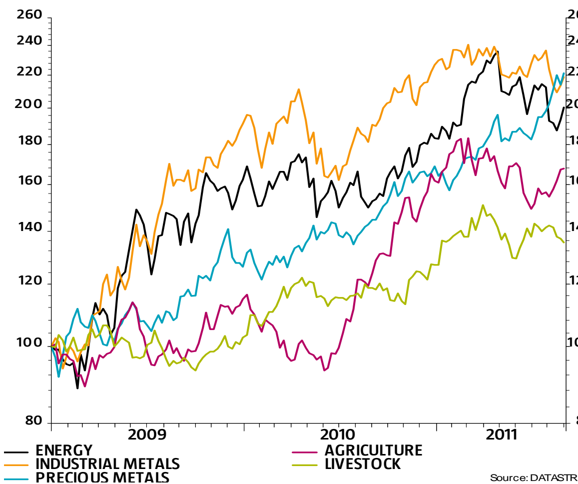
TEN-YEAR INTEREST RATES (%)



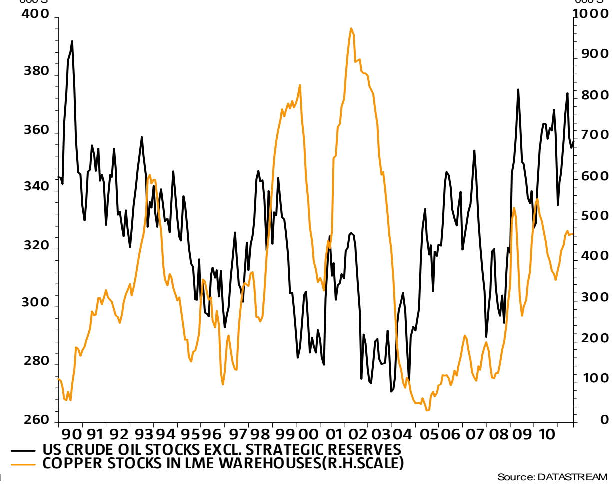
Commodities

The performance of all five commodity indices in the graph below left is surprising, though in a positive way. The risks of a recession are on the rise. But most indices have, on balance, hardly changed over the last few months. The asset class as a whole—not just gold—has probably benefited from investors hedging against the monetization of the piles of debt. Furthermore, emerging markets economies are holding up pretty well, which is supporting demand. Given the ongoing tensions about handling the debt crisis in the eurozone, however, it is not the perfect time for a risk-on trade. Nor does the sideways trading pattern convince us that it is the right time to add to positions. We maintain our neutral view on the asset class.

GSCI COMMODITY SPOT PRICES (USD)



OIL AND COPPER STOCKS



Regional mix

PERFORMANCE OF REGIONS (MSCI AC WORLD; UNHEDGED TOTAL RETURNS IN EUROS)

	-1M	-3M	-6M	-12M	-3Y	-5Y
NORTH AMERICA (49%)	-1.0%	-5.0%	-11.3%	-0.7%	3.4%	-5.8%
EUROPE (24%)	-6.8%	-17.7%	-19.1%	-12.0%	-9.4%	-21.0%
PACIFIC (14%)	-3.3%	-4.0%	-14.9%	-8.0%	3.5%	-17.4%
EMERGING MARKETS (14%)	-3.7%	-9.6%	-11.7%	-8.0%	24.4%	31.0%
AC WORLD (100%)	-3.1%	-8.9%	-13.9%	-5.7%	2.0%	-8.8%

SOURCE: THOMSON FINANCIAL DATASTREAM

Emerging markets are still our favorite region, while Europe and the Pacific remain out of favor. The performance of emerging markets has been roughly in line with the broader market over the last year. Nor is there any significant difference to the market in terms of emerging markets' expected earnings growth, recent earnings revisions or valuation. We thus remain positive largely because deleveraging is not an issue in emerging markets. For Europe, we acknowledge that valuation is low relative to the broader market, but we are hesitant to act on that as long as there is no sign of a credible roadmap for an exit from the debt crisis. Earnings estimates have also been severely hit by downward revisions. For the Pacific, our pessimistic fundamental view on the Japanese economy is the major factor behind our negative call.

EARNINGS AND VALUATION DATA OF REGIONS (MSCI AC WORLD)

	EARNINGS GROWTH (%)			ST.DEV. ESTIMATES (%)		EARN. REV. INDEX		P/E ON 12M FWD EARN.	
	FY1	FY2	12M	CURRENT	10Y AVG.	3M	1M	CURRENT	10Y AVG.
NORTH AMERICA	17.5	14.0	14.5	7.5	5.5	9.0	-31.4	11.4	15.1
EUROPE	7.9	12.1	10.8	15.2	12.9	-34.5	-55.6	8.8	13.3
PACIFIC	16.0	17.8	16.0	1.1	1.1	-18.3	-22.3	11.6	16.8
EMERGING MARKETS	13.1	12.8	13.2	15.0	10.0	-25.0	-31.0	9.3	10.8
AC WORLD	13.7	13.7	13.4	2.8	2.0	-13.2	-35.6	10.4	14.3

THE EARNINGS REVISIONS INDEX IS CALCULATED AS THE DIFFERENCE BETWEEN THE NUMBER OF UP- AND DOWNWARD REVISIONS RELATIVE TO THE NUMBER OF TOTAL REVISIONS.
SOURCE: THOMSON FINANCIAL DATASTREAM

Sector mix

PERFORMANCE OF SECTORS (MSCI AC WORLD; UNHEDGED TOTAL RETURNS IN EUROS)

	-1M	-3M	-6M	-12M	-3Y	-5Y
ENERGY (12%)	-3.5%	-10.1%	-18.7%	1.9%	-0.3%	4.3%
MATERIALS (9%)	-1.5%	-9.1%	-15.4%	-2.3%	12.7%	22.9%
INDUSTRIALS (10%)	-5.2%	-13.6%	-18.2%	-7.5%	-0.4%	-6.6%
CONSUMER DISCRETIONARY (10%)	-3.6%	-7.6%	-11.4%	-1.0%	19.9%	-0.8%
CONSUMER STAPLES (10%)	0.9%	-0.8%	2.2%	3.2%	26.5%	31.5%
HEALTH CARE (9%)	1.1%	-4.9%	-2.5%	2.2%	11.5%	-1.0%
FINANCIALS (19%)	-7.1%	-15.3%	-22.5%	-19.2%	-23.0%	-46.2%
IT (12%)	-3.4%	-6.9%	-14.9%	-3.2%	11.0%	1.5%
TELECOM SERVICES (5%)	-1.4%	-3.1%	-4.7%	-2.3%	14.5%	17.4%
UTILITIES (4%)	-0.5%	-3.4%	-10.1%	-12.4%	-10.2%	-5.6%
AC WORLD (100%)	-3.1%	-8.9%	-13.9%	-5.7%	2.0%	-8.8%

SOURCE: THOMSON FINANCIAL DATASTREAM

We maintain our preference for defensive sectors over financials, despite a performance gap of around 20 percentage points in favor of the former over the last six months. In addition to momentum and earnings revisions, there are two other reasons for this call. First, defensives such as consumer staples and telecom may benefit from the ongoing uncertainty about the eurozone debt crisis, as they did last month. Second, the seasonal factor is still supportive: the May to October period is generally good for defensive stocks. For financials, we would like to see quantitative indicators improving before considering whether the sector really is cheap, given the current circumstances.

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EARNINGS AND VALUATION DATA OF SECTORS (MSCI AC WORLD)

	EARNINGS GROWTH (%)			ST.DEV. ESTIMATES (%)		EARN. REV. INDEX		P/E ON 12M FWD EARN.	
	FY1	FY2	12M	CURRENT	10Y AVG.	3M	1M	CURRENT	10Y AVG.
ENERGY	24.0	9.4	12.6	3.6	2.6	-6.0	-25.8	8.7	12.0
MATERIALS	35.7	14.9	18.0	4.2	2.6	-27.2	-34.4	9.4	13.0
INDUSTRIALS	15.6	13.8	13.9	1.1	0.7	-15.9	-35.2	10.8	15.3
CONSUMER DISCRETIONARY	17.4	18.5	17.2	0.9	0.7	2.2	-27.3	11.7	16.6
CONSUMER STAPLES	7.6	10.3	10.0	0.5	0.3	-21.0	-49.1	14.0	16.1
HEALTH CARE	5.7	5.5	5.7	0.4	0.3	3.3	-20.5	11.0	15.9
FINANCIALS	10.1	18.6	17.0	0.9	0.9	-24.4	-38.1	8.7	11.8
IT	10.7	13.1	11.0	0.7	0.4	-10.5	-57.7	11.3	19.8
TELECOM SERVICES	2.1	8.6	6.7	0.5	0.5	-10.2	-11.5	11.1	19.4
UTILITIES	-3.4	22.7	13.7	1.3	0.8	-16.6	-26.6	13.2	13.3
AC WORLD	13.7	13.7	13.4	2.8	2.1	-13.2	-35.6	10.4	14.3

THE EARNINGS REVISIONS INDEX IS CALCULATED AS THE DIFFERENCE BETWEEN THE NUMBER OF UP- AND DOWNWARD REVISIONS RELATIVE TO THE NUMBER OF TOTAL REVISIONS.

SOURCE: THOMSON FINANCIAL DATASTREAM

	FY1	FY2	12M	CURRENT	10Y AVG.	3M	1M	CURRENT	10Y AVG.
AC WORLD REITS	3.5	7.5	7.3	4.0	N.A.	-0.2	-0.2	21.1	N.A.

Special: valuation metrics for the aggregate equity market

There has been increasing market talk in recent months about stocks being cheap. Those who make that argument often refer to relative valuation. In essence, their case is that stocks must be cheap because interest rates are low. Although there is some truth in this contention, we believe that absolute-valuation metrics (such as the P/E ratio) are a much more credible way of exploring future nominal or real returns than a relative-valuation alternative (such as the earnings yield/bond yield ratio). In fact, we prefer absolute valuation methods to relative valuation alternatives even when investigating whether equities are attractive relative to bonds.

Using the Shiller database, we constructed a monthly total return index for both stocks and bonds. We then calculated one- and five-year (nominal and real) equity returns, as well as the performance of stocks versus bonds for both investment horizons. For valuation metrics, we used the realized P/E, the Shiller P/E and the earnings yield/ten-year bond yield ratio (EY/BY). We then broke down historical performance[1] on the basis of these three metrics and calculated averages by quintile. The table below shows the results.

VALUATION METRICS AND SUBSEQUENT ONE- AND FIVE-YEAR RETURNS

	1 YR	5 YR	1 YR	5 YR	1 YR	5 YR
	NOMINAL RETURN ON STOCKS		REAL RETURN ON STOCKS		STOCKS OVER BONDS	
P/E						
CHEAP	16.6%	117.0%	10.8%	88.0%	11.8%	71.2%
	13.5%	64.8%	12.1%	43.6%	8.2%	36.5%
	10.2%	45.8%	8.8%	32.1%	5.4%	18.9%
	7.2%	43.2%	5.0%	29.2%	3.9%	17.0%
EXPENSIVE	5.9%	50.2%	3.9%	34.0%	1.1%	17.2%
SHILLER P/E						
CHEAP	19.5%	120.4%	15.1%	91.5%	12.9%	63.2%
	13.9%	71.9%	10.8%	45.4%	10.0%	50.7%
	7.9%	44.9%	7.6%	34.6%	3.5%	18.5%
	6.2%	49.4%	4.0%	36.3%	1.7%	21.4%
EXPENSIVE	5.8%	34.4%	3.1%	19.1%	2.3%	7.1%
EY/BY						
CHEAP	18.5%	100.3%	14.5%	76.5%	15.5%	77.5%
	8.0%	44.8%	7.3%	40.1%	4.7%	22.3%
	6.7%	39.6%	6.1%	29.3%	2.9%	16.0%
	8.3%	58.1%	4.4%	30.7%	5.6%	29.3%
EXPENSIVE	11.9%	78.1%	8.2%	50.3%	1.8%	15.7%

SOURCE: SHILLER, ROBECO

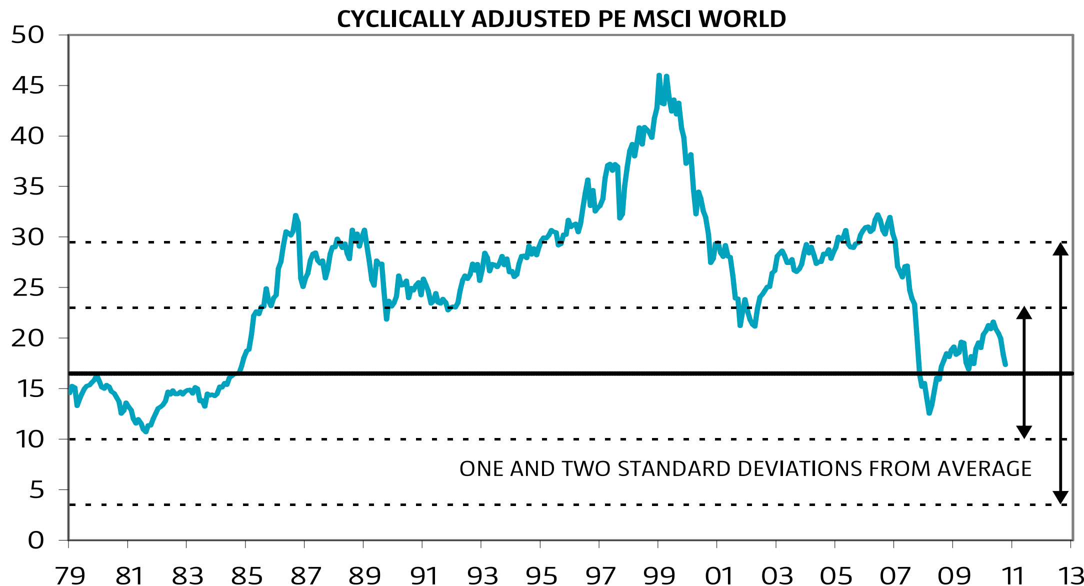
For nominal and real returns, the P/E and Shiller P/E show, almost monotonously, that the lower the valuation metric, the higher the subsequent return. For the EY/BY ratio, the pattern is less clear. First, the dispersion between the cheap and expensive quintiles is smaller. Furthermore, the ranking results in a less-clear pattern. For example, the most-expensive fifth quintile delivers returns that are higher than the second quintile.

For the performance of stocks versus bonds, the absolute valuation metrics once again result in almost monotonously declining returns. This is less so for the EY/BY ratio; for example, there is hardly a difference between the second and fourth quintiles, or the third and the fifth quintiles.

[1] As we need the first ten years to get the Shiller cyclically adjusted P/E and as we also calculate five-year returns, our data set ranged from 1881 to 2005, rather than from 1871 to 2010.

We believe it makes little sense to look at relative valuation metrics, as absolute valuation is a superior indicator. From 1960 to 2000, there was a strong relation between the P/E and long-term interest rates. But that was a unique period. In fact, the performance history over both the long-term and the last decade shows that the EY/BY ratio is an inferior valuation metric that can provide false signals. For those in doubt, we have a suggestion. Think about where stocks will be when US and German ten-year interest rates drop to the 0.5-1.0% range. As a clue, take a look at the last few decades in Japan.

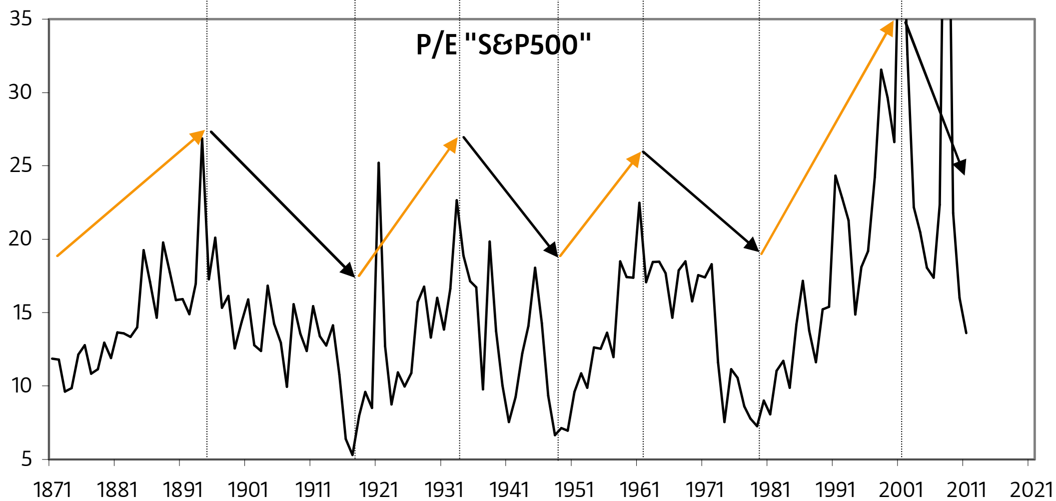
What are absolute valuation metrics telling us at present? The graph below shows the Shiller P/E for the MSCI World index. As long-term global data is unavailable, we have derived the average from historical US performance over the 1880-2010 period. At current prices, this valuation metric is in line with what we consider a neutral valuation. An analysis that uses the trend earnings over the last 30 years results in a comparable conclusion.



AVERAGE P/E OF 16.5 AND STANDARD DEVIATION OF 6.5 ARE DERIVED FROM US DATA FROM 1880-2010

SOURCE: DATASTREAM

Another chart suggesting that valuation is not particularly attractive is the realized P/E for the US from 1871 to 2011 (see below).



SOURCE: SHILLER, ROBECO

Closing date text and tables 08 September 2011.
In our text and data tables, we do not refer to calendar months but look back from this closing date.

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