

HOLT Country Ranking Model

Asia dominates the top quintile, with Taiwan moving into the top spot

Market Commentary

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- Asia holds the top 5 spots of the country ranking model this month with attractive Valuation and CFROI® sentiment for most countries. Taiwan moved into the top spot this month, from fourth rank in February, due to improved market sentiment as well as CFROI sentiment. All countries within the Americas (Canada, United States, Mexico & Brazil) rank toward the middle of the pack.
- The following page takes a closer look at the drivers of CFROI in Taiwan over time, as well as recent momentum trends in the country on aggregate as well as by sector.
- **Biggest Movers:** This month's biggest positive mover was Hong Kong (+14 ranks) with improved market sentiment & CFROI sentiment over the past few weeks. The biggest negative mover was Finland (-15 ranks) due to weaker market sentiment & poor CFROI sentiment.
- **Performance:** Last month's top ranking countries (Korea, Japan, China, Taiwan, Switzerland) were down 0.1% on average in USD, while the MSCI AC World Index increased by 2.5% over the past month.

Figure 1: Global Country Ranking Model

	Sector	Ticker	Current Level	Warranted Level	1 Month Return	Beta	Valuation	Market Sentiment	CFROI® Sentiment	Overall Rank	Previous Overall Rank
Quintile 1	Taiwan	MXTW	309	397	4.1%	0.9	1	11	3	1	4
	Australia	MXAU	989	883	-1.3%	0.8	15	2	1	2	12
	Thailand	MXTH	465	464	7.9%	0.7	16	8	2	3	8
	China	MXCN	52	68	0.7%	1.1	2	17	14	4	3
	Japan	MXJP	787	891	-10.5%	1.1	3	15	11	5	2
Quintile 2	Germany	MXDE	127	146	1.4%	1.2	10	6	12	6	10
	Hong Kong	MXHK	11,081	11,009	2.0%	0.7	7	18	8	7	21
	Brazil	MXBR	1,045	1,050	13.8%	1.5	8	5	16	8	14
	Korea	MXKR	511	654	1.2%	0.7	4	4	20	9	1
	United States	MXUS	1,879	1,908	3.9%	1.0	11	13	6	10	18
Quintile 3	Sweden	MXSE	10,732	9,920	5.8%	1.1	21	7	5	11	17
	South Africa	MXZA	1,260	1,295	6.1%	1.0	14	12	13	12	22
	United Kingdom	MXGB	1,795	1,759	4.0%	1.0	22	9	4	13	16
	Mexico	MXMX	5,231	4,216	6.0%	1.3	24	1	9	14	15
	Malaysia	MXMY	582	513	0.8%	0.5	19	10	7	15	7
Quintile 4	Switzerland	MXCH	1,048	1,043	-2.3%	0.9	18	3	15	16	5
	Singapore	MXSG	1,407	1,422	4.5%	0.6	6	14	24	17	13
	Italy	MXIT	51	61	0.5%	1.2	5	22	23	18	11
	Canada	MXCA	1,652	1,542	4.1%	0.9	13	23	18	19	24
	France	MXFR	125	122	2.5%	1.1	17	16	17	20	6
Quintile 5	India	MXIN	905	898	-2.7%	0.7	12	25	21	21	23
	Spain	MXES	98	106	1.1%	1.3	9	24	25	22	19
	Indonesia	MXID	5,705	4,409	4.5%	0.6	25	21	10	23	20
	Finland	MXFI	110	110	-0.6%	1.2	20	19	22	24	9
	Netherlands	MXNL	118	103	2.6%	1.1	23	20	19	25	25

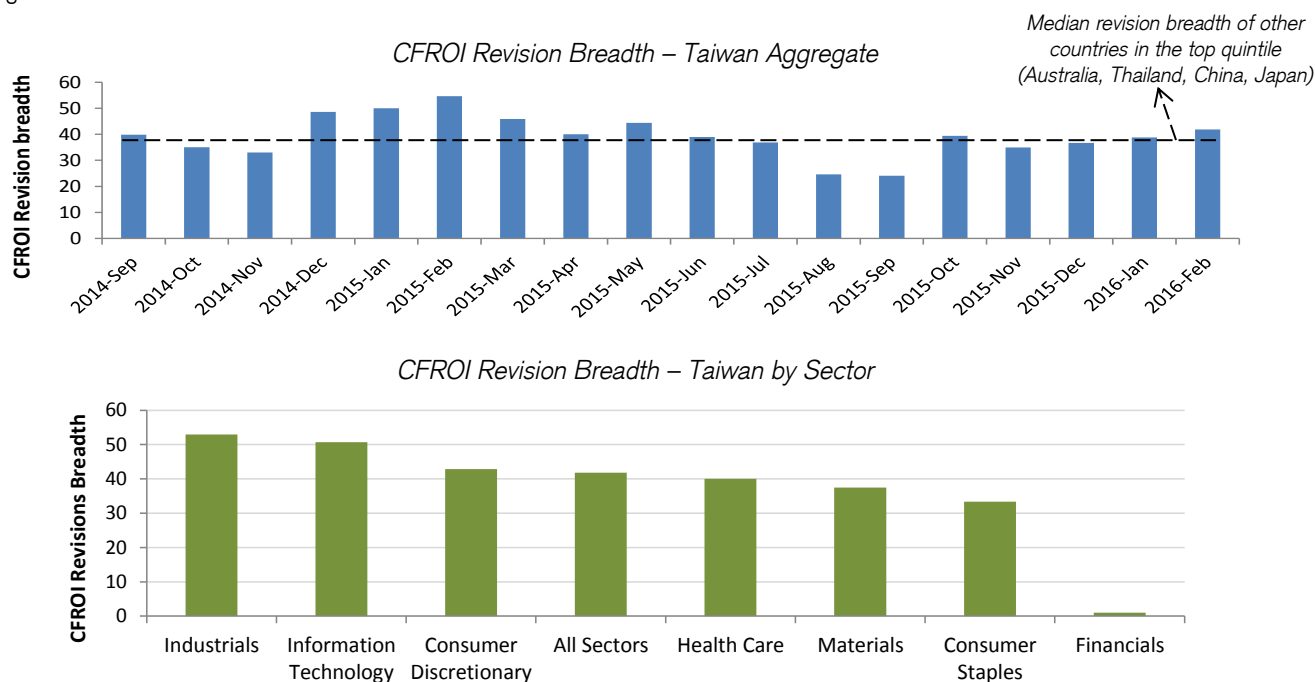
Note: Data as of March 01, 2016. 1 Month Returns are from February 02, 2016 to March 01, 2016 in local currencies. Beta is relative to the MSCI AC World Index. Please refer to the appendix for the factor definitions. Source: Credit Suisse HOLT

Figure 2: Drivers of CFROI in Taiwan

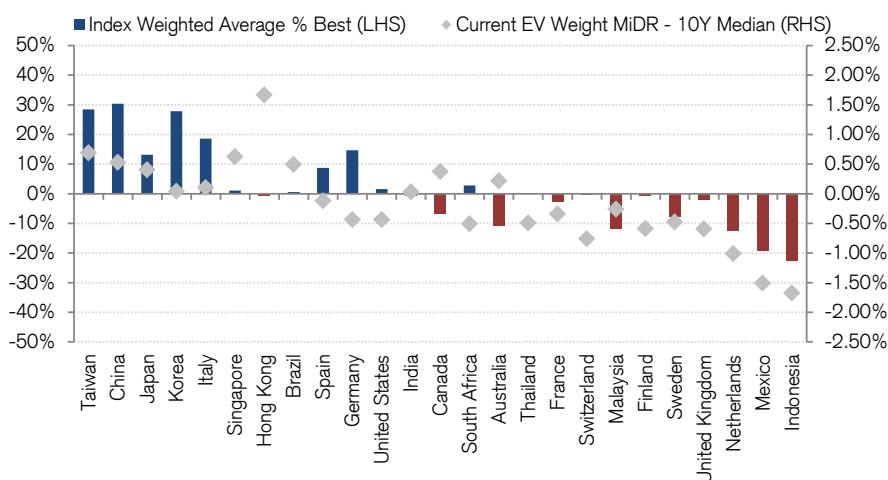
Taiwan's CFROI has generally remained at or above its cost of capital over time. After the Tech Bubble, CFROI improvement was driven by higher asset efficiency from robust sales growth. While asset efficiency has declined in recent years, it has been partially offset by margin expansion over the same period. Near term forecasts imply further improvement as tech manufacturers continue to move up the value chain and petrochemicals firms benefit from low oil prices (Technology firms account for 48% of the group by market cap; Materials firms account for 11%). Despite these trends, market expectations remain low, leading to Taiwan having the most attractive valuations out of all countries for the past few months.

**Figure 3: CFROI revision trends in Taiwan**

HOLT's CFROI Revision breadth metric illustrates the percentage of firms in a group with positive CFROI Revisions. While revision breadth in Taiwan remains low relative to last year, it has been trending upward over the past 5 months after reaching a trough in September. Recent revision breadth metrics in Taiwan are also slightly higher than in the other Asian countries ranking in the top quintile. At the sector level, both Industrials and Technology have achieved revision breadth above 50%, indicating more positive than negative revisions of late.

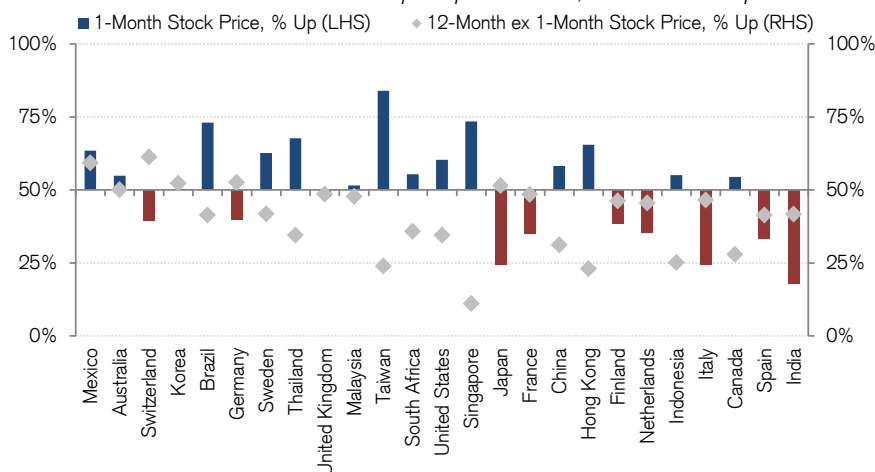


Source: Credit Suisse HOLT

Figure 4: HOLT Country Ranking Model – Valuation*Absolute & Relative Valuation*

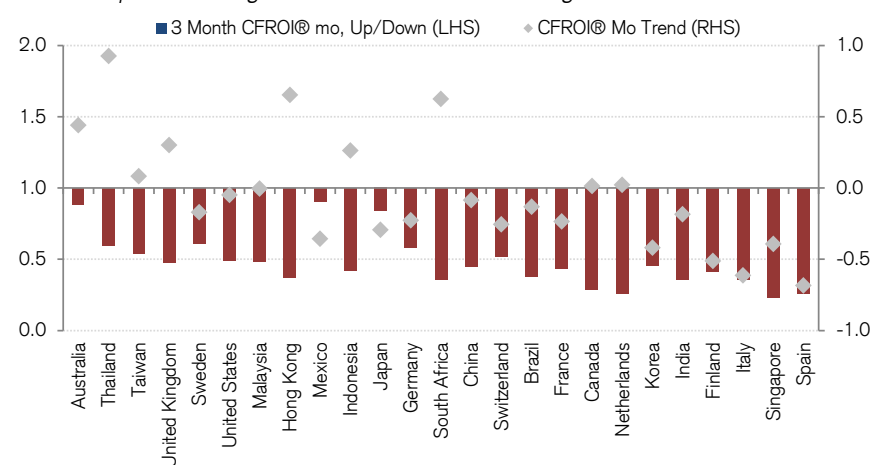
Taiwan, China and Korea are the countries with the highest Valuation ranks this month.

Source: Credit Suisse HOLT

Figure 5: HOLT Country Ranking Model – Market Sentiment*Breadth of short term and medium term price performance, % of firms with positive revisions*

Many countries saw positive market sentiment over the past month, with Taiwan being the highest.

Source: Credit Suisse HOLT

Figure 6: HOLT Country Ranking Model – CFROI Sentiment*Breadth of positive to negative CFROI revisions and change in momentum breadth*

All countries now have negative 3 month CFROI revisions.

Source: Credit Suisse HOLT

HOLT Country Ranking Model – Methodology

- The Valuation ranking is a measure of the attractiveness of the country based on its aggregate intrinsic value and relative value:
 - Intrinsic value is based on an index weighted-average of HOLT default DCF valuations for the stocks in the country.
 - Relative value measures the country's potential upside/downside assuming the cash yield of the country reverts to its 10-year median level.
- The Market and CFROI rankings are based on the breadth measures of changes in price and CFROI:
 - Market sentiment measures the long-term as well as the short term price sentiment of the stocks in the country,
 - CFROI sentiment measures the monthly trend as well as the cumulative changes in future cash-flow returns across the countries based on I/B/E/S consensus estimates.
- The Overall ranking of the countries is a combination of the ranked valuation, Market sentiment, and CFROI sentiment.
- The warranted level is the expected index level based on the intrinsic value.

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