



**The year ahead - bond & currency economics
' 2003 - recovery in a troubled world'**

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December 2002**

2003 - the economy

- ***US will lead the way to recovery***
- ***Eurozone and Japan still lagging behind***
- ***A gradual grind out of the doldrums***
- ***Inflation generally benign***
- ***Rate policy retains an easing slant for now***
- ***Pre-emptive US tightening will kick in during 2003***
- ***US's optimum growth trend restored in 2003***

2003 - the markets

- ***Stronger economic recovery means:***
- ***Fundamentals favour stocks***
- ***Bear market for government bonds***
- ***Asset allocation flows will favour equity products***
- **Interest rate strips diverging – US rates up/EMU down**
- **Government curves to normalise and flatten**
- **Short term steepening risk – on Iraq**
- **Relative growth dynamics favour EMU bonds over US**
- **But relative growth favours US stocks over EMU**

2003 - the risks

Non-systemic risks

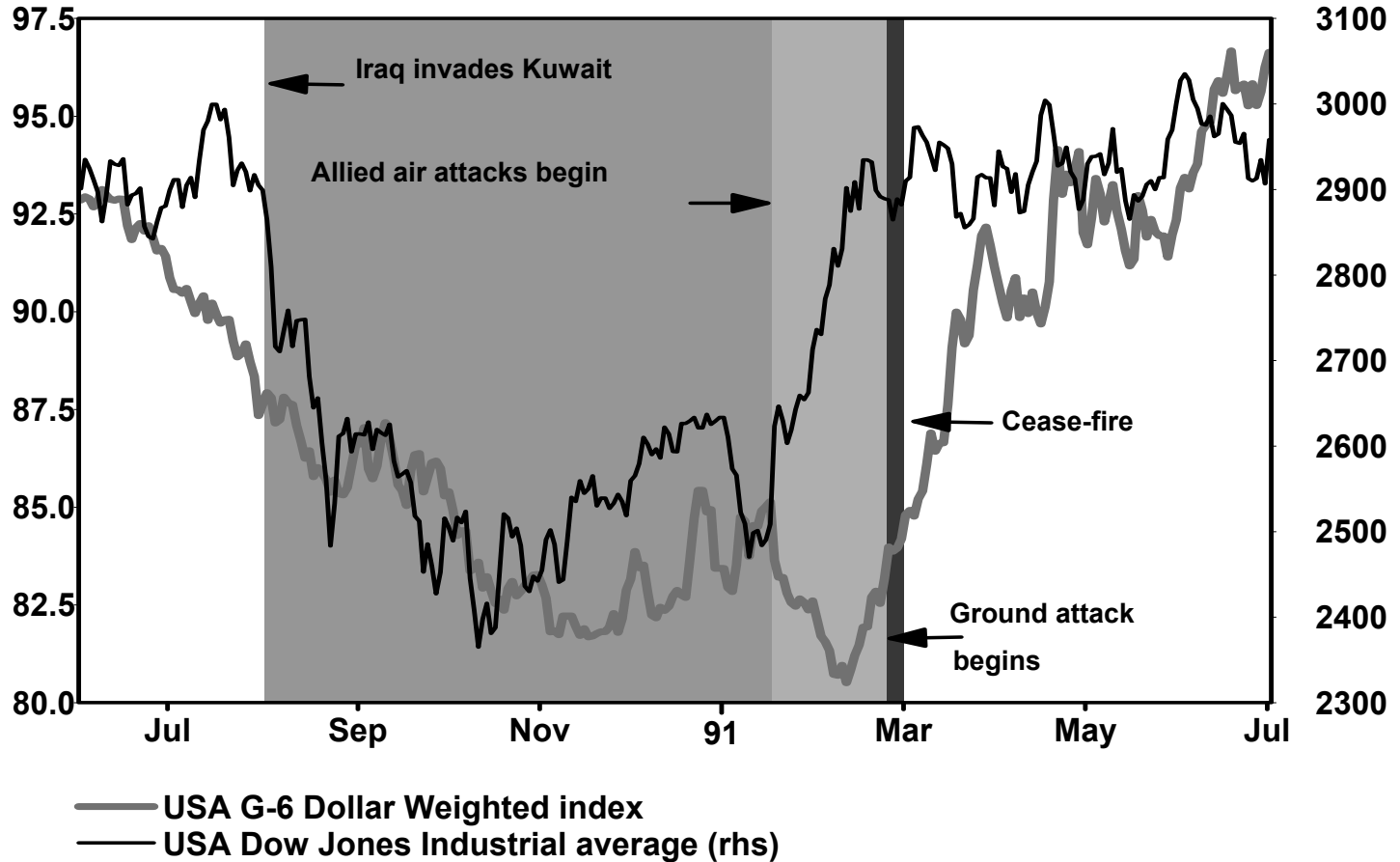
- *Geo-political risks*
- *Post-September 11 syndrome*
- *Attack on Iraq?*
- *Another oil price shock?*

Systemic risks

- *Earnings concerns*
- *Worries about weak recovery and growth*

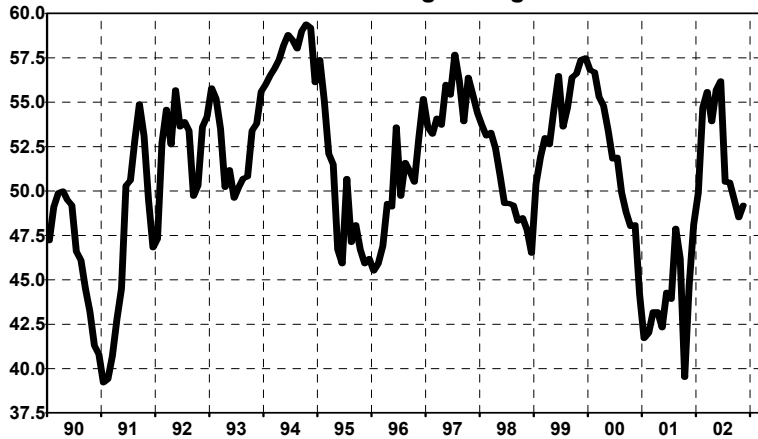
Gulf War II will not be so bad

The Gulf War - 1990/91

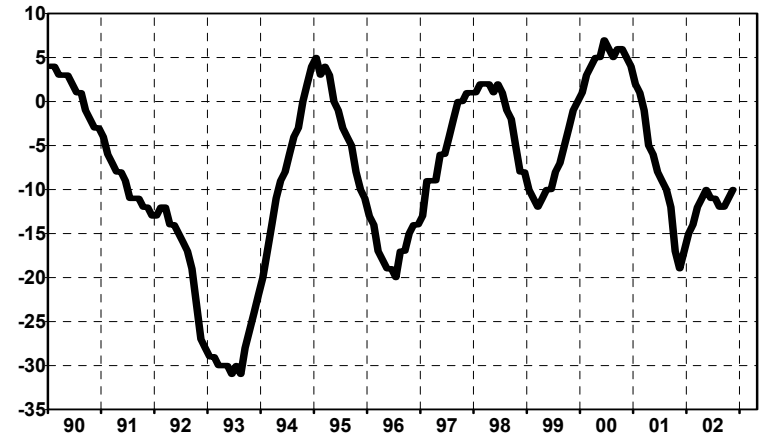


Business confidence still wary

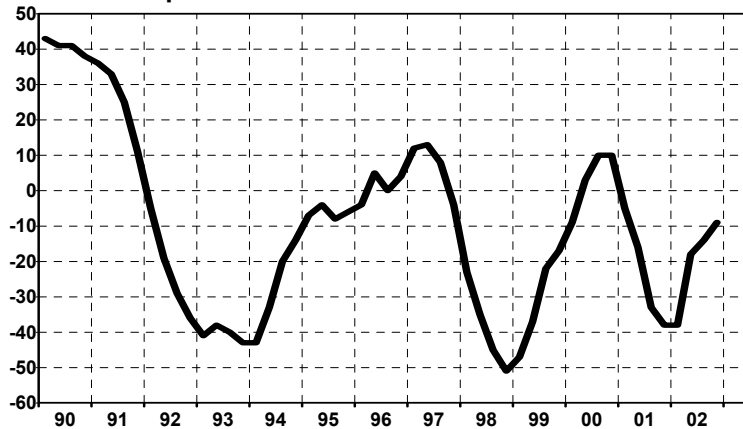
US NAPM Purchasing managers index



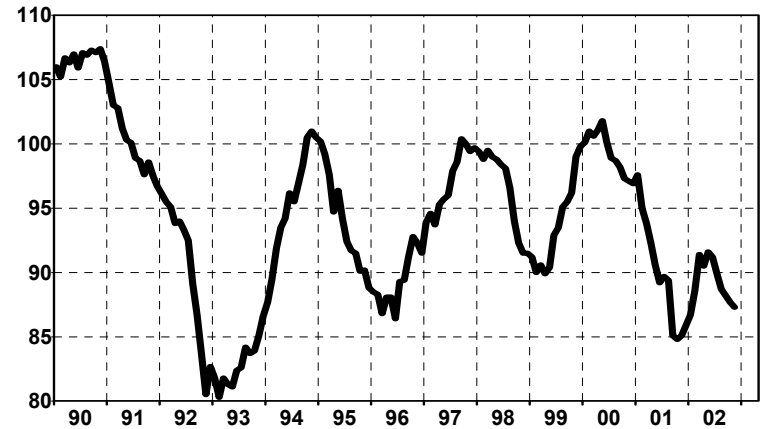
Eurozone business confidence



Japan Tankan business conditions index

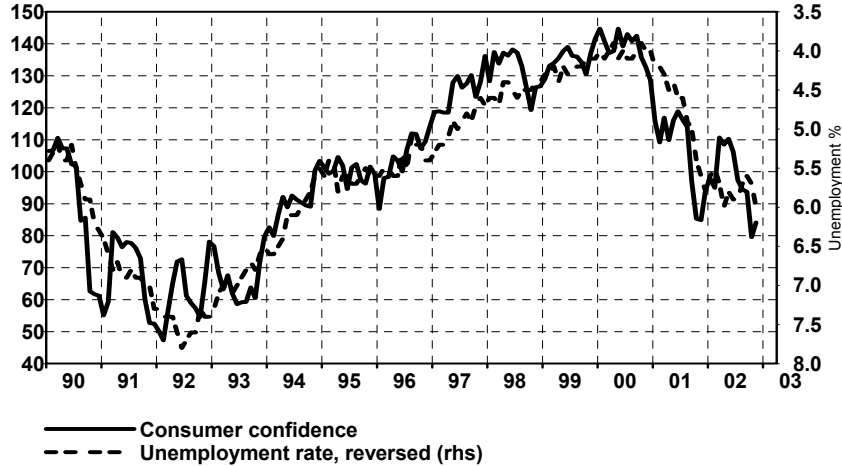


German IFO business climate index

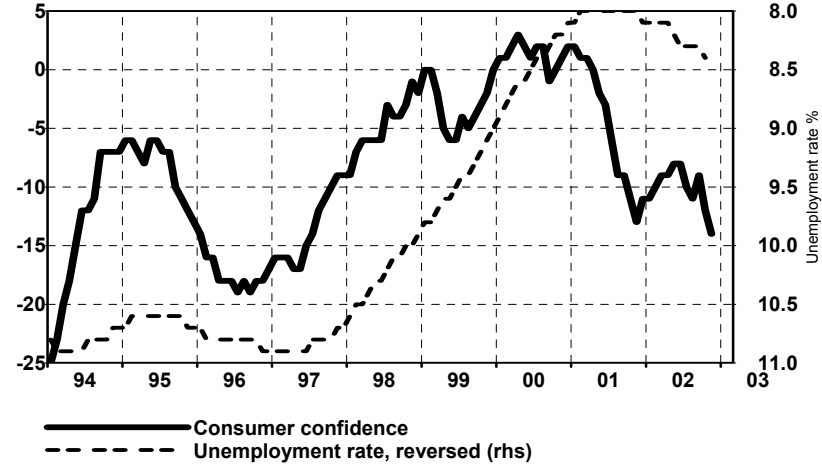


Consumer confidence downbeat

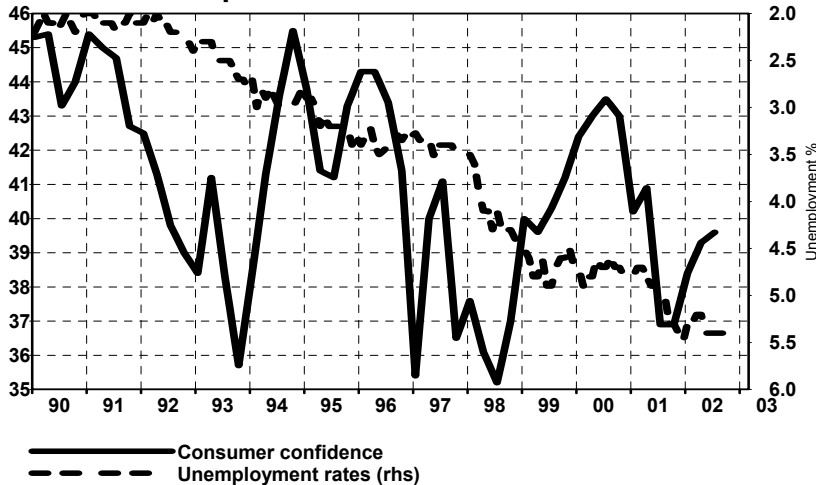
US consumer confidence



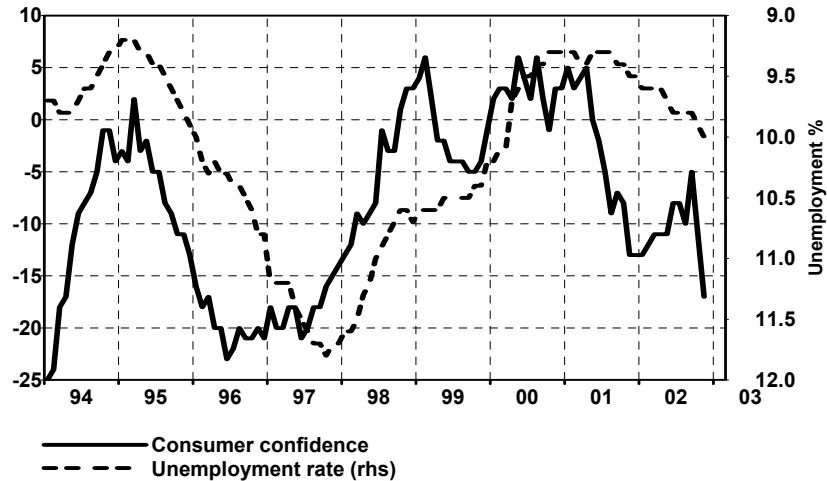
Eurozone consumer confidence



Japan consumer confidence



German consumer confidence

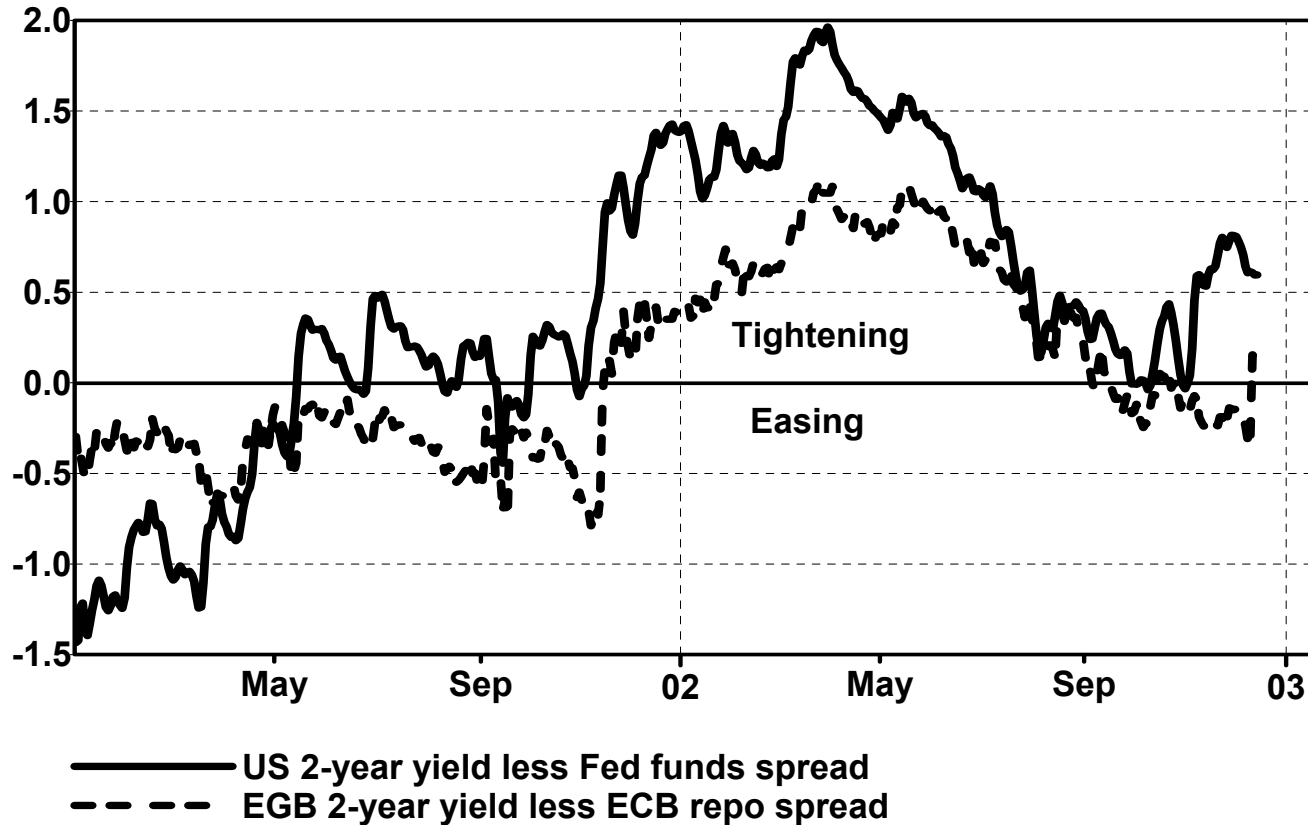


US - the strongest link in 2003

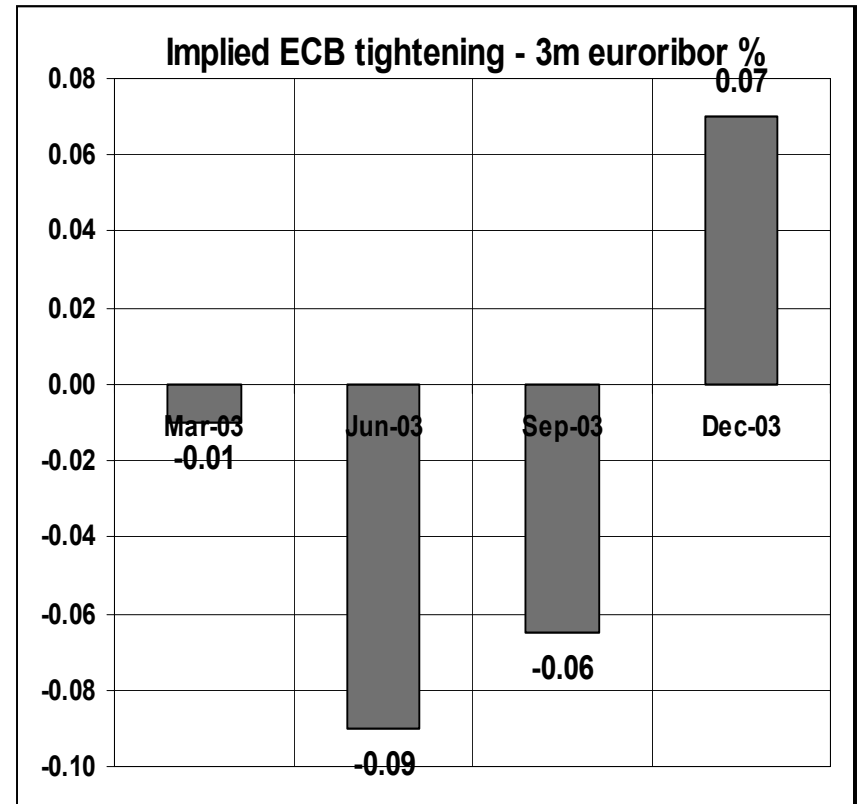
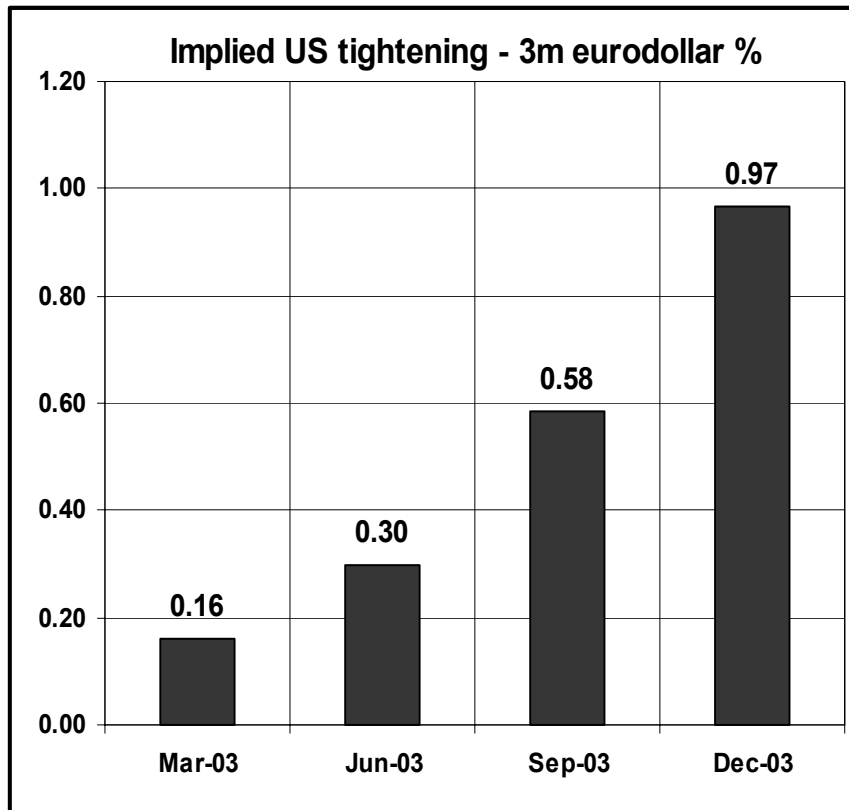
G7 GDP growth forecasts															
	2001				2002				2003				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
US															
q/q	-0.2	-0.4	-0.1	0.7	1.2	0.3	1.0	0.5	0.9	1.0	1.0	1.0	-	-	-
y/y	1.5	-0.1	-0.4	0.1	1.4	2.2	3.2	3.1	2.7	3.4	3.4	3.9	0.3	2.5	3.3
Japan															
q/q	0.3	-1.6	-1.4	-0.5	0.2	1.0	0.7	-0.2	-0.1	0.2	0.3	0.4	-	-	-
y/y	2.9	0.5	-1.3	-3.1	-3.2	-0.6	1.5	1.8	1.4	0.6	0.2	0.8	-0.3	-0.2	0.7
Canada															
q/q	0.2	0.1	-0.1	0.7	1.4	1.1	0.8	0.6	0.7	0.9	0.8	0.8	-	-	-
y/y	2.6	2.0	0.6	0.8	2.1	3.1	4.0	3.9	3.2	3.0	3.0	3.2	1.5	3.3	3.1
UK															
q/q	0.6	0.3	0.3	0.2	0.1	0.6	0.8	0.5	0.5	0.7	0.9	0.7	-	-	-
y/y	2.5	2.0	1.8	1.6	1.0	1.3	1.8	2.0	2.4	2.5	2.6	2.9	2.0	1.6	2.6
Eurozone															
q/q	0.5	0.0	0.2	-0.3	0.4	0.3	0.3	0.2	0.3	0.4	0.4	0.6	-	-	-
y/y	2.4	1.6	1.3	0.4	0.3	0.6	0.8	1.2	1.1	1.2	1.3	1.7	1.4	0.7	1.3
Germany															
q/q	0.6	0.0	-0.2	-0.3	0.3	0.2	0.3	0.2	0.1	0.1	0.3	0.4	-	-	-
y/y	1.8	0.7	0.4	0.1	-0.2	-0.1	0.4	0.9	0.7	0.7	0.7	0.9	0.7	0.2	0.7
France															
q/q	0.4	-0.1	0.4	-0.4	0.6	0.4	0.2	0.1	0.3	0.5	0.6	0.6	-	-	-
y/y	3.0	2.0	2.0	0.3	0.5	1.0	0.8	1.4	1.0	1.2	1.5	2.0	1.8	0.9	1.4
Italy															
q/q	0.6	0.1	0.0	-0.2	0.1	0.2	0.3	0.2	0.3	0.4	0.4	0.5	-	-	-
y/y	2.5	2.3	1.7	0.6	0.1	0.2	0.5	0.9	1.1	1.2	1.4	1.7	1.8	0.4	1.4

Interest rate expectations diverge

US & Eurozone rate expectations
(+) tightening/(-) easing

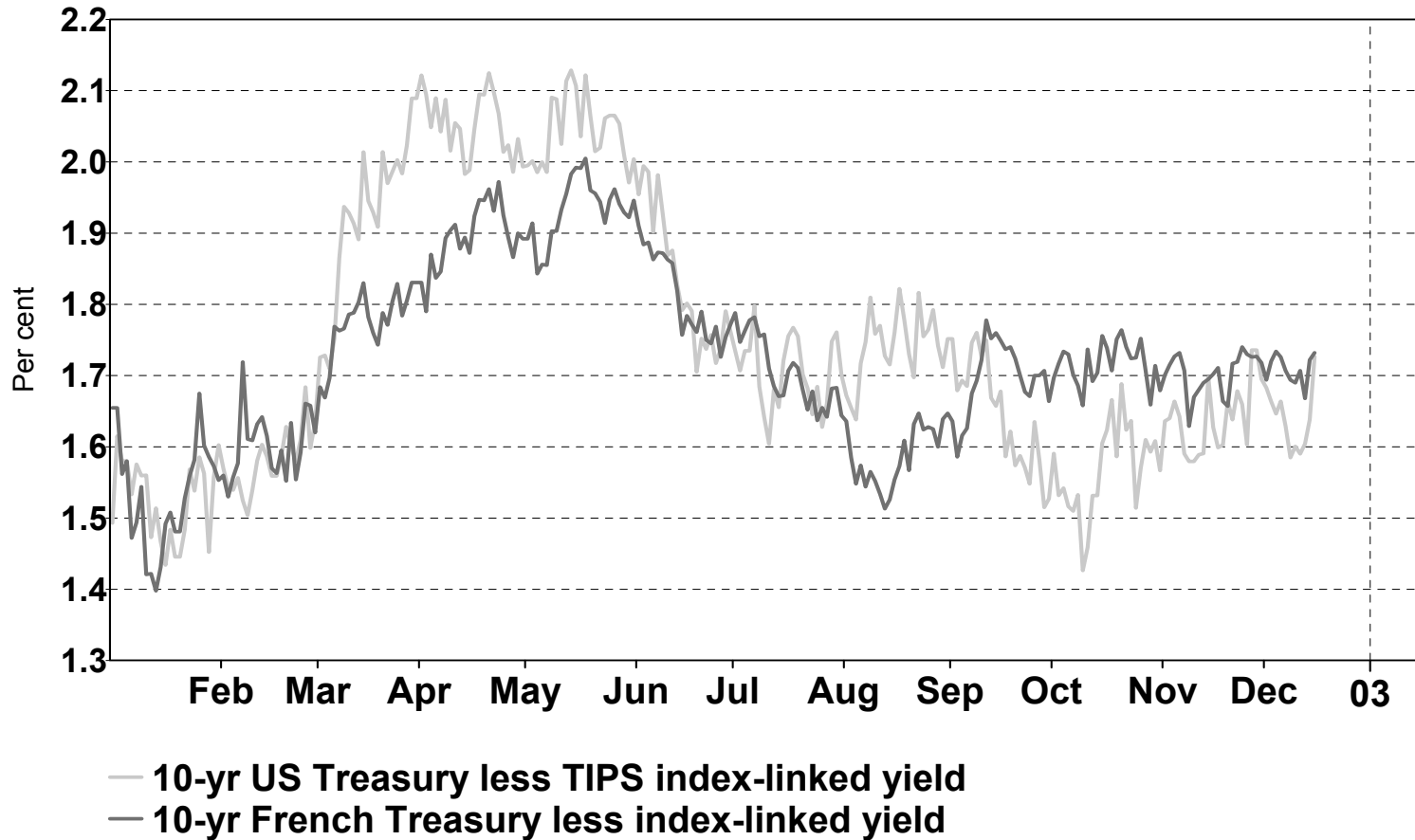


Interest rate expectations diverge



Inflation expectations benign

Market's inflation expectations



US leads the way to recovery in 2003

- ***Gradual recovery on the cards***
 - 2.5% growth in 2002, optimum 3.5%-4% output trend restored in 2003
- ***Consumer demand will come back***
 - as jobless fears relax and economic confidence recovers
- ***Inflation risks no worry for the Fed***
 - minimal cost-push and demand-pull inflation risks
- ***Fed will be patient on rate policy for H1 2003***
 - insurance ease maintained until US clears its economic 'soft spot'
- ***Budget deficit will widen more***
 - Bush committed to tax cuts, tax breaks and spending rises

US heading for recovery

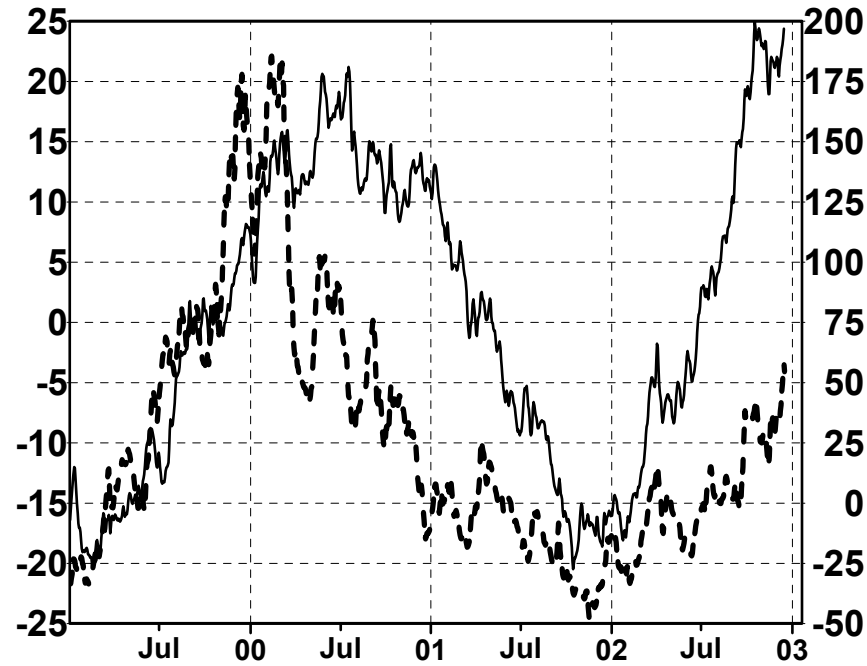
US GDP growth composition

	2001				2002				2003				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
	(%)				(%)				(%)				(%)		
Real GDP															
<i>q/q</i>	-0.2	-0.4	-0.1	0.7	1.2	0.3	1.0	0.5	0.9	1.0	1.0	1.0	-	-	-
<i>y/y</i>	1.5	-0.1	-0.4	0.1	1.4	2.2	3.2	3.1	2.7	3.4	3.4	3.9	0.3	2.5	3.3
Consumption															
<i>q/q</i>	0.6	0.3	0.4	1.5	0.8	0.4	1.0	0.4	0.8	0.9	0.9	0.9	-	-	-
<i>y/y</i>	2.8	2.4	1.8	2.8	3.0	3.1	3.7	2.7	2.7	3.2	3.1	3.6	2.5	3.1	3.1
Investment															
<i>q/q</i>	-1.4	-3.8	-1.5	-2.8	-1.5	-0.6	-0.2	0.6	1.3	1.7	1.9	2.0	-	-	-
<i>y/y</i>	1.1	-5.1	-7.4	-9.3	-9.4	-6.3	-5.0	-1.6	1.2	3.5	5.7	7.1	-5.2	-5.7	4.4
Gov. spending															
<i>q/q</i>	1.4	1.4	-0.3	2.5	1.4	0.4	0.8	1.0	0.9	0.9	0.9	0.9	-	-	-
<i>y/y</i>	3.0	3.3	3.2	5.1	5.1	4.0	5.1	3.5	3.0	3.5	3.6	3.6	3.7	4.4	3.4
Exports															
<i>q/q</i>	-1.6	-3.3	-4.6	-2.5	0.9	3.4	0.8	0.6	0.7	1.0	1.2	1.3	-	-	-
<i>y/y</i>	3.7	-3.1	-10.1	-11.4	-9.3	-3.0	2.5	5.8	5.7	3.2	3.6	4.4	-5.4	-1.2	4.2
Inflation															
<i>q/q</i>	3.4	3.4	2.7	1.9	1.3	1.3	1.6	2.2	2.3	1.8	1.7	1.6	2.8	1.6	1.8
Budget deficit (%Gdp)															
<i>q/q</i>	2.0	1.7	0.9	0.4	-0.5	-1.3	-1.7	-2.2	-2.3	-2.3	-2.2	-2.0	0.4	-2.2	-2.0

Inflation risks generally benign

No cost-push inflation - yet

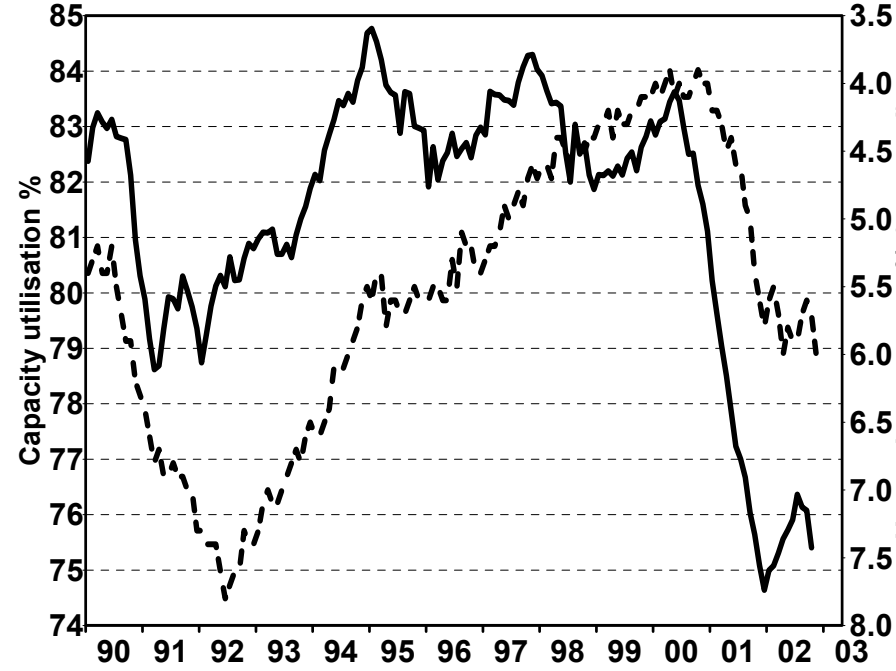
CRB and crude oil price inflation %



— Commodity Research Bureau index, % ch y/y
 - - - Crude oil , % ch y/y (rhs)

No demand-pull inflation

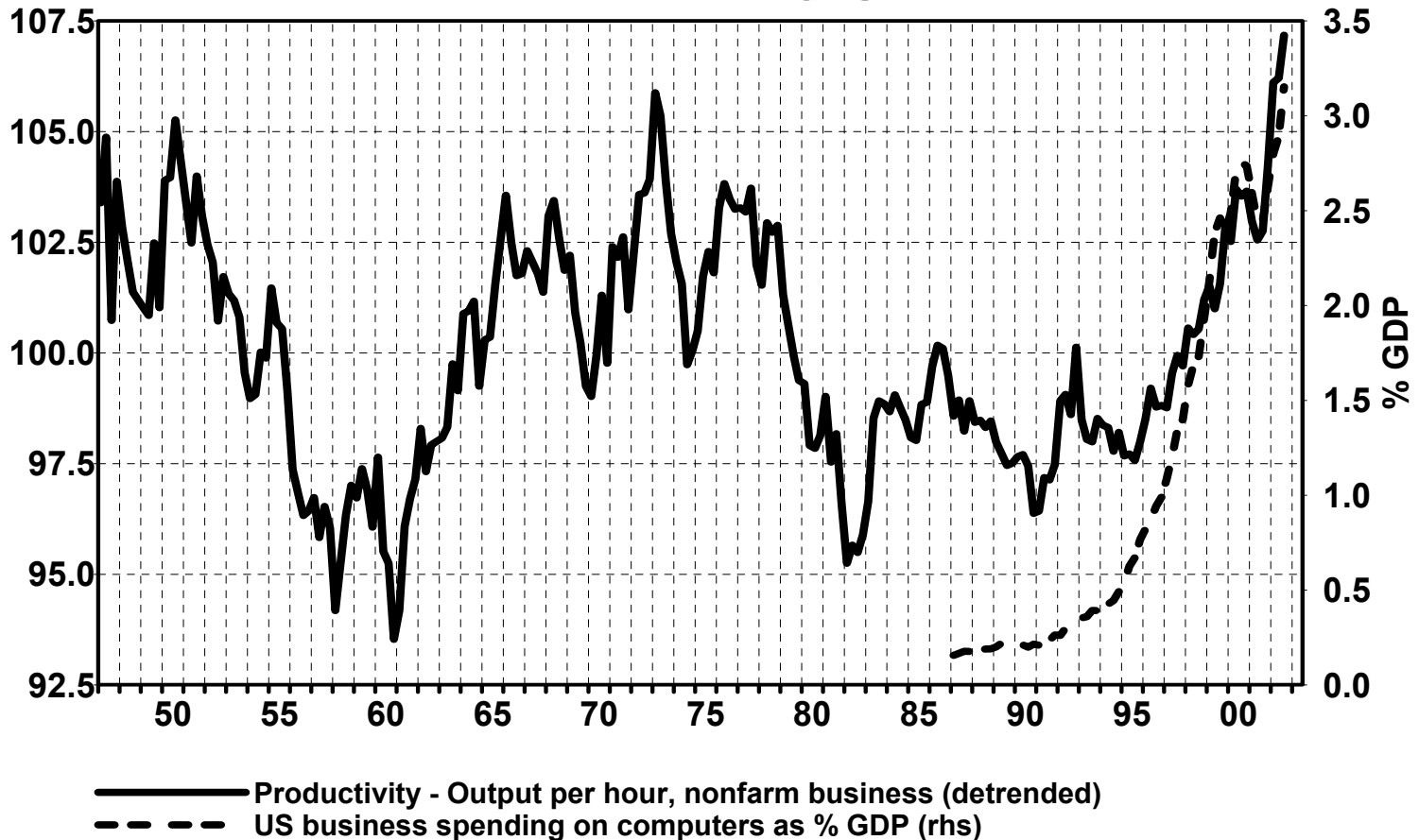
US capacity usage and unemployment



— Capacity utilisation
 - - - Unemployment rate

New era revolution alive and kicking

US productivity gains

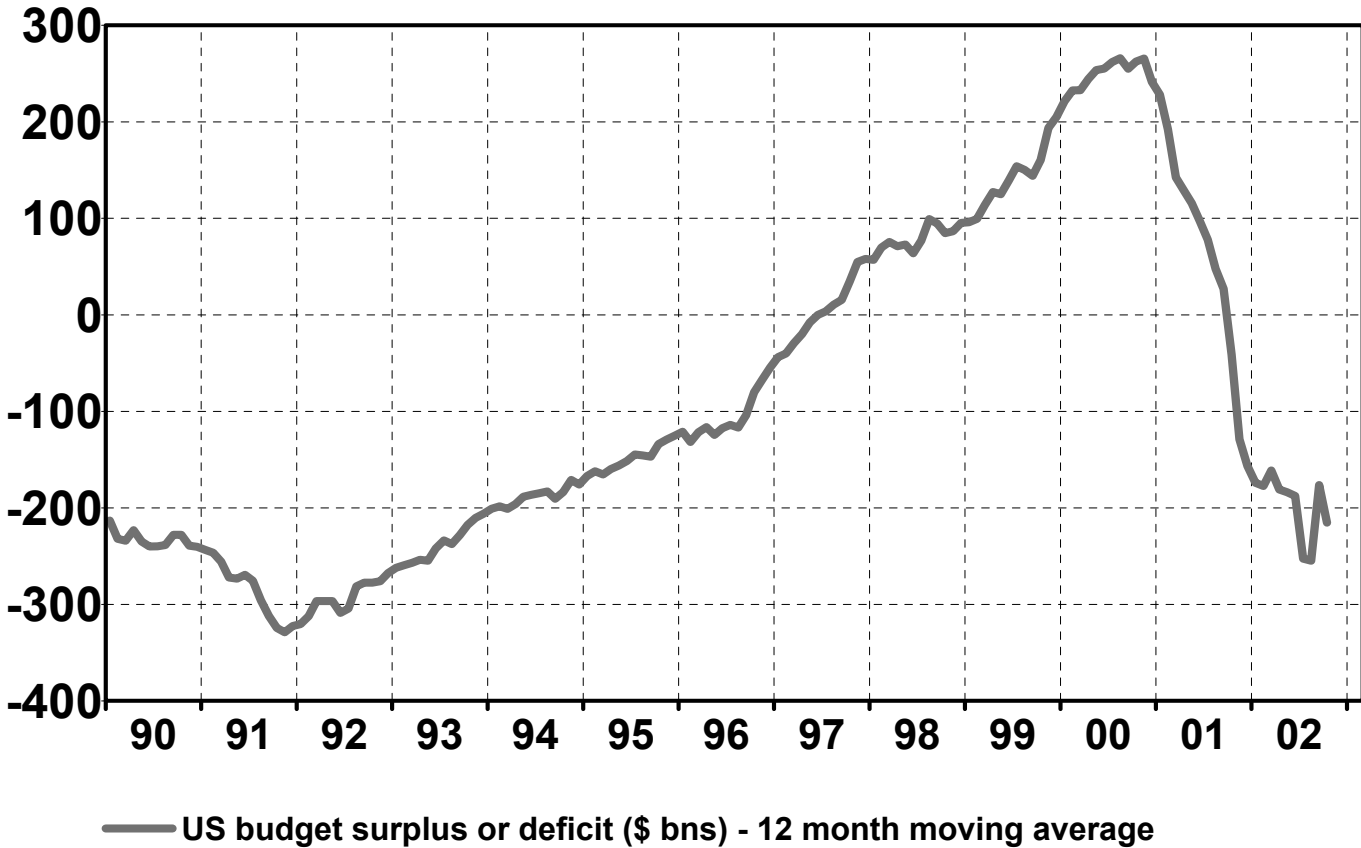


Fed stays steady

Company	Fed Action Jan-29	Fed Action Mar-18	Fed funds June 2003	First hike Qtr/Yr
ABN AMRO Inc	No Move	No Move	1.25	Q303
Banc of America Sec	No Move	No Move	1.25	Q303
Banc One Capital	No Move	No Move	1.25	Q303
Barclays Capital	No Move	No Move	1.25	Q303
Bear, Stearns & Co	No Move	No Move	1.25	Q303
BNP Paribas Corp.	No Move	No Move	1.25	2004
CIBC World Markets	No Move	Cut 25	1.00	2004
CSFB	No Move	No Move	1.25	--
Daiwa Securities	No Move	No Move	1.25	Q403
Deutsche Bank	No Move	No Move	1.25	Q303
Dresdner Kleinwort	No Move	Cut 50	0.75	2004
Goldman, Sachs	No Move	--	1.00	Q403
HSBC Securities	No Move	Cut 25	0.75	2004
J.P. Morgan	No Move	No Move	1.25	Q303
Lehman Brothers	No Move	Cut 25	1.00	Q303
Merrill Lynch	No Move	No Move	1.25	2004
Mizuho Securities	No Move	No Move	--	Q303
Morgan Stanley	No Move	No Move	1.25	Q303
Nomura Securities	No Move	No Move	1.25	Q403
RBS Greenwich Cap	No Move	--	1.25	Q303
Salomon Smith Barney	No Move	No Move	1.25	Q403
UBS Warburg	No Move	No Move	1.25	--

The great disappearing trick

US budget balance - bns



Japan still weak

- ***Japan's cyclical and structural weakness remain***
 - positive growth not restored until 2003, and then only 0.7%
- ***Deflation still kicking in***
 - Inflation –0.9% in 2002, -0.7% 2003
- ***BoJ monetary policy to stay overstimulative***
 - zero interest rate policy in place, plus quantitative measures
- ***Economic stimulus measures = more fiscal duress***
 - 'real' budget deficit/GDP ratio 10%, debt/GDP 140%
- ***JGBs and Nikkei remain unattractive***
 - especially with \$/yen set to test JPY135 in 2003

Japan in a deflationary mire

Japan GDP growth composition

	2001				2002				2003				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
	(%)				(%)				(%)				(%)		
Real GDP															
<i>q/q</i>	0.3	-1.6	-1.4	-0.5	0.2	1.0	0.7	-0.2	-0.1	0.2	0.3	0.4	-	-	-
<i>y/y</i>	2.9	0.5	-1.3	-3.1	-3.2	-0.6	1.5	1.8	1.4	0.6	0.2	0.8	-0.3	-0.2	0.7
Consumption															
<i>q/q</i>	1.3	0.1	-0.6	0.3	0.5	0.5	0.8	-0.4	-0.2	0.1	0.2	0.3	-	-	-
<i>y/y</i>	1.8	2.1	1.6	1.2	0.4	0.8	2.2	1.4	0.8	0.3	-0.2	0.4	1.7	1.2	0.3
Investment															
<i>q/q</i>	-1.4	-3.7	-2.2	-2.2	-1.3	-0.4	-1.0	-0.5	-0.2	-0.3	0.1	0.2	-	-	-
<i>y/y</i>	3.9	-0.5	-3.5	-9.2	-9.2	-6.0	-4.8	-3.2	-2.1	-2.0	-0.9	-0.2	-2.4	-5.9	-1.3
Gov. spending															
<i>q/q</i>	0.5	1.0	0.3	0.7	0.5	0.6	0.9	0.6	0.5	0.4	0.5	0.4	-	-	-
<i>y/y</i>	3.6	3.0	2.3	2.5	2.6	2.1	2.8	2.7	2.7	2.5	2.1	1.9	2.9	2.5	2.3
Exports															
<i>q/q</i>	-3.4	-4.1	-3.1	-1.7	4.8	5.9	0.5	0.3	1.3	1.8	1.8	1.8	-	-	-
<i>y/y</i>	1.5	-5.7	-9.9	-11.8	-4.3	5.7	9.6	11.9	8.1	4.0	5.4	6.9	-6.6	5.5	6.1
Inflation															
<i>q/q</i>	-0.5	-0.7	-0.8	-1.0	-1.4	-0.9	-0.8	-0.7	-0.3	-0.8	-0.9	-0.8	-0.7	-0.9	-0.7
Budget deficit (%Gdp)															
<i>q/q</i>	-6.1	-6.0	-6.2	-6.6	-7.2	-7.6	-8.0	-8.1	-8.2	-8.3	-8.3	-8.3	-6.6	-8.1	-8.3

Euroland's fundamentals are weak

- ***Eurozone's downturn deepens***
 - Germany to run a close shave with recession
- ***Eurozone business cycle lags US recovery***
 - by factor of six months
- ***EMU-12 inflation to dip below 2% early 2003***
 - with deflation risks growing in Germany
- ***ECB will cut rates by 50-bps again in February***
 - and could cut repo again to 2.00%
- ***No fiscal stimulus possible***
 - budgets constrained by Growth & Stability Pact

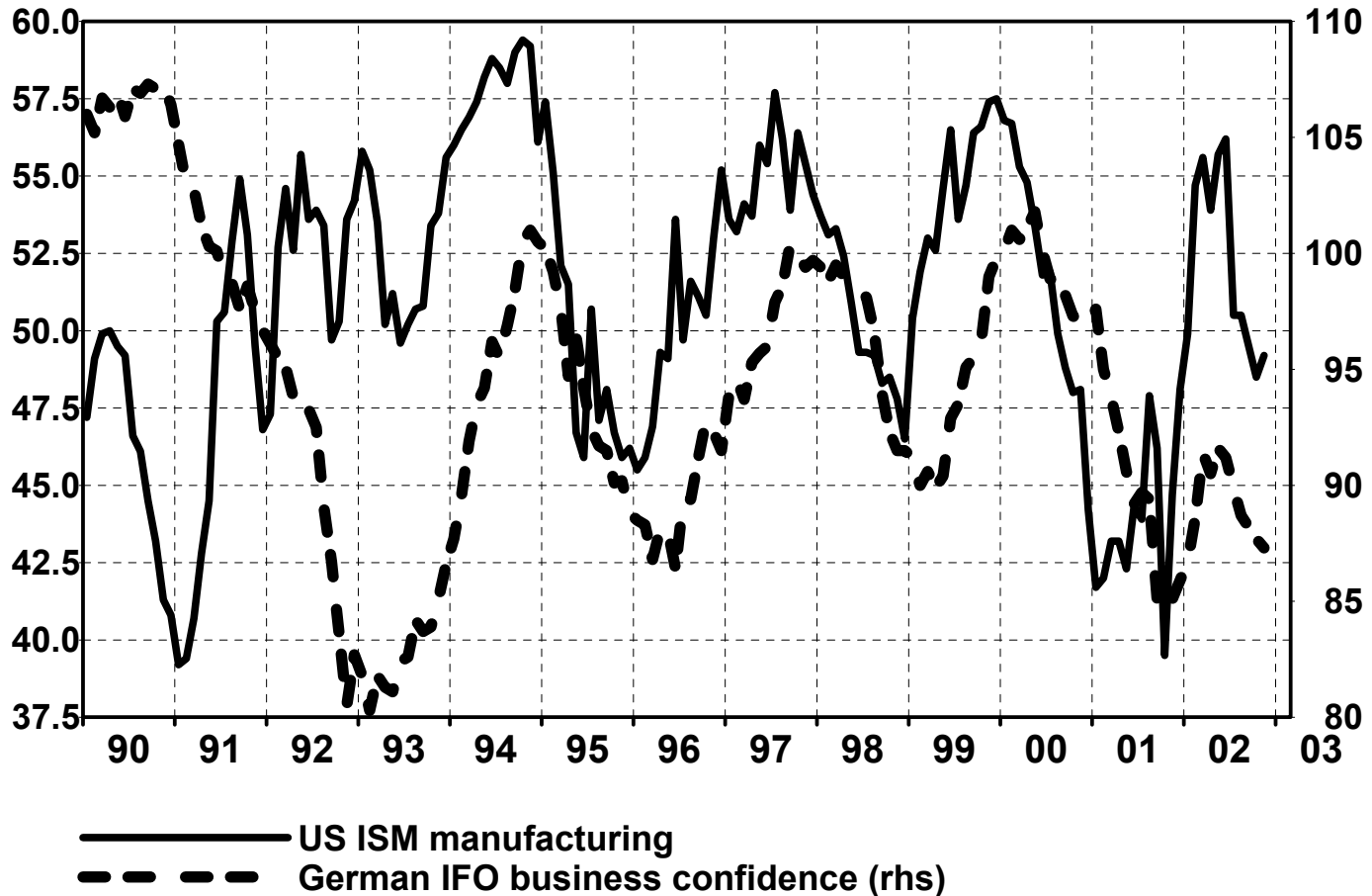
Eurozone recovery back on tap late-2003

Eurozone GDP growth composition

	2001				2002				2003				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
	(%)				(%)				(%)				(%)		
Real GDP															
<i>q/q</i>	0.5	0.0	0.2	-0.3	0.4	0.3	0.3	0.2	0.3	0.4	0.4	0.6	-	-	-
<i>y/y</i>	2.4	1.6	1.3	0.4	0.3	0.6	0.8	1.2	1.1	1.2	1.3	1.7	1.4	0.7	1.3
Consumption															
<i>q/q</i>	0.9	0.6	0.1	0.0	-0.2	0.2	0.5	0.3	0.1	0.3	0.3	0.6	-	-	-
<i>y/y</i>	2.1	1.8	1.8	1.6	0.5	0.2	0.6	0.9	1.1	1.2	1.0	1.3	1.8	0.5	1.2
Investment															
<i>q/q</i>	-0.3	-0.7	-0.7	-0.9	-1.0	-1.2	0.0	-0.8	-0.2	-0.3	0.1	0.5	-	-	-
<i>y/y</i>	1.7	-0.2	-1.6	-2.5	-3.2	-3.7	-3.0	-2.9	-2.2	-1.2	-1.1	0.2	-0.7	-3.2	-1.1
Gov. spending															
<i>q/q</i>	0.2	0.4	0.4	0.4	0.9	0.8	0.3	0.3	0.2	0.3	0.4	0.5	-	-	-
<i>y/y</i>	2.0	2.1	2.2	1.5	2.2	2.5	2.4	2.3	1.5	1.1	1.3	1.5	1.9	2.3	1.3
Exports															
<i>q/q</i>	0.0	-1.4	-0.2	-1.3	0.0	1.6	2.2	0.5	0.9	1.1	0.9	1.6	-	-	-
<i>y/y</i>	8.6	4.5	1.4	-2.8	-2.8	0.1	2.5	4.4	5.2	4.7	3.4	4.5	2.8	1.0	4.5
Inflation	2.3	3.1	2.4	2.2	2.6	2.1	2.1	2.2	1.9	1.6	1.6	1.7	2.5	2.2	1.7
Budget deficit (%Gdp)	-0.7	-0.7	-0.9	-1.3	-1.6	-1.9	-2.1	-2.3	-2.4	-2.4	-2.4	-2.3	-1.3	-2.3	-2.3

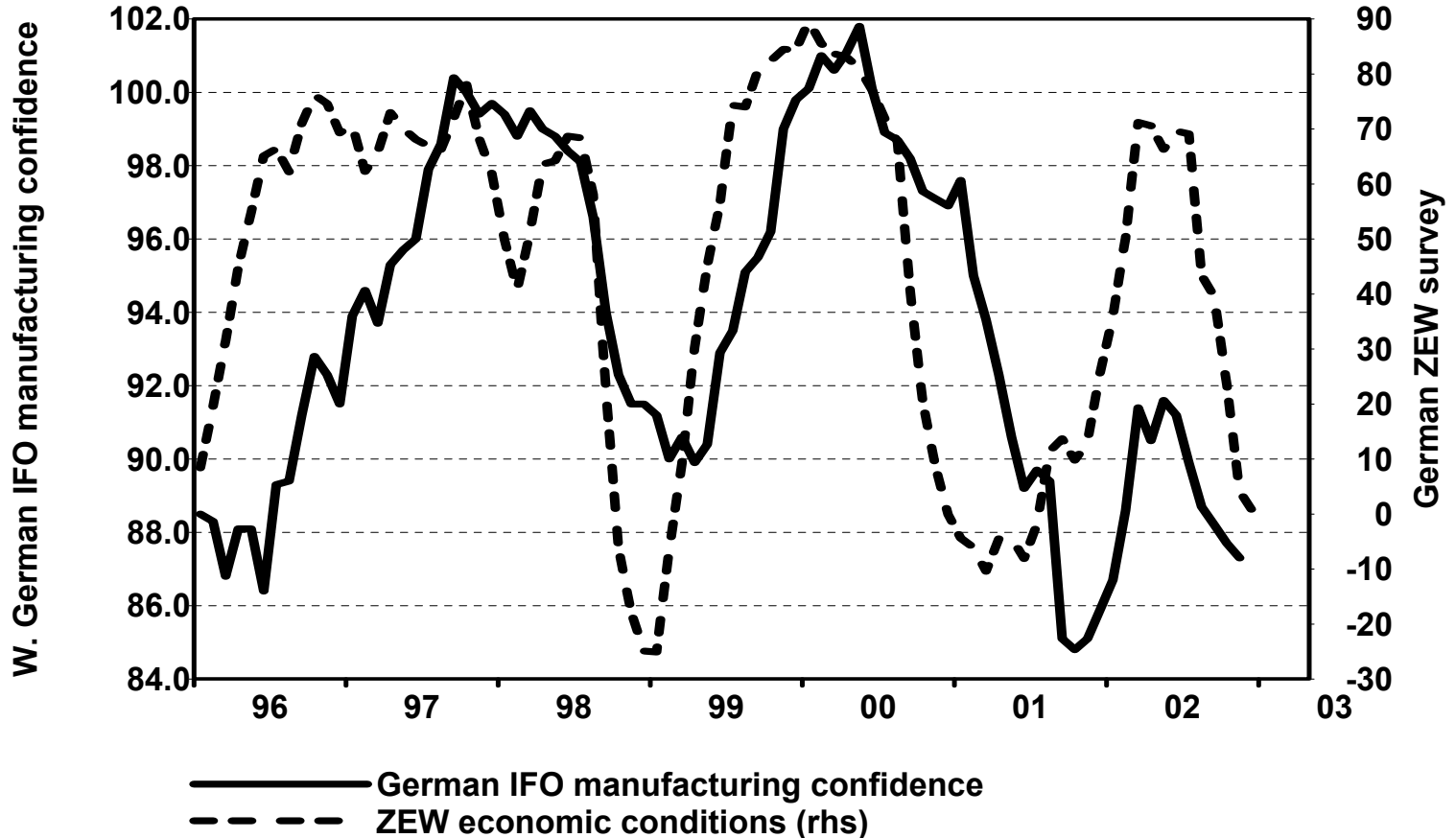
Germany lags US by 6 months

US ISM and German IFO index



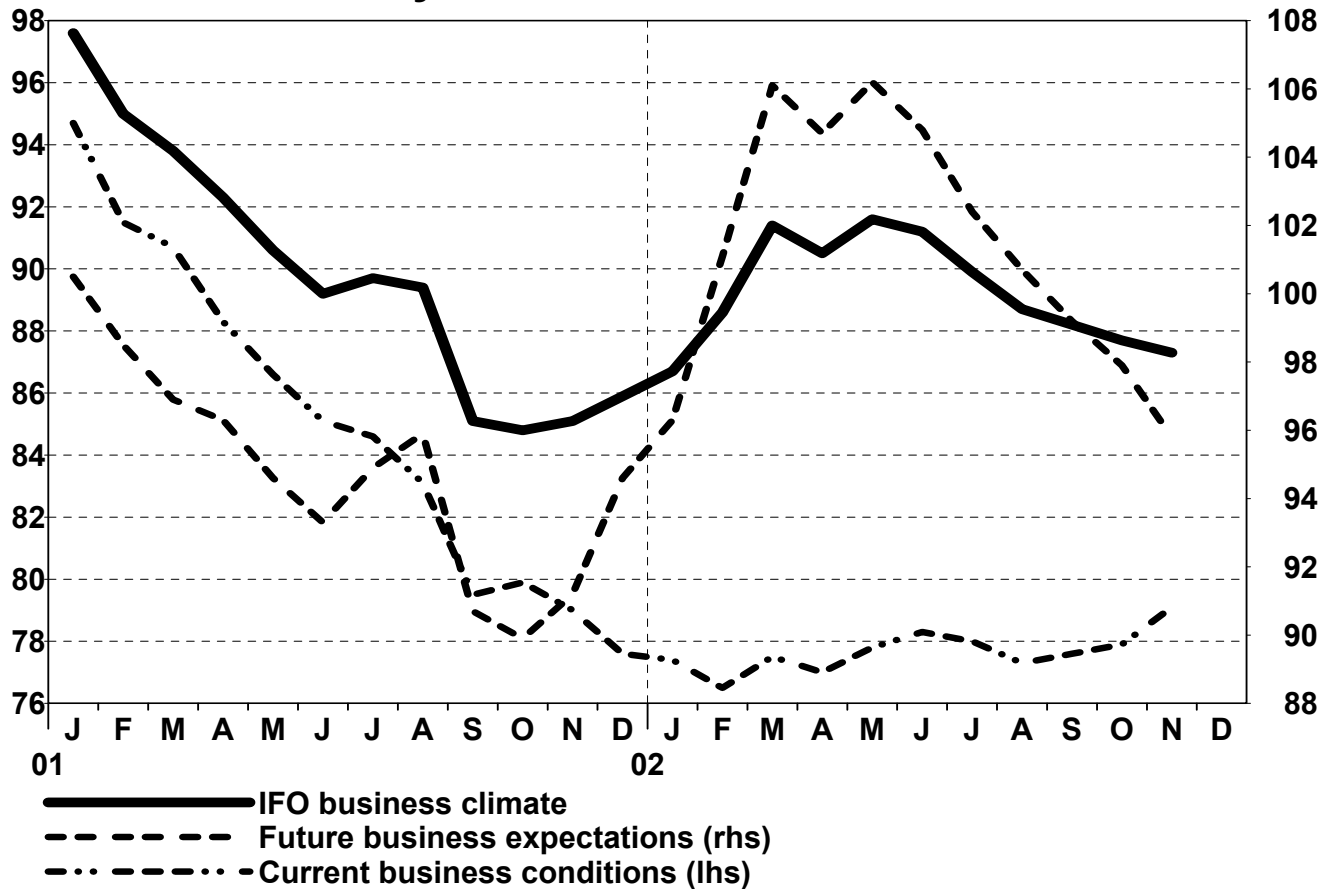
Germany double dipping

German IFO and ZEW Confidence



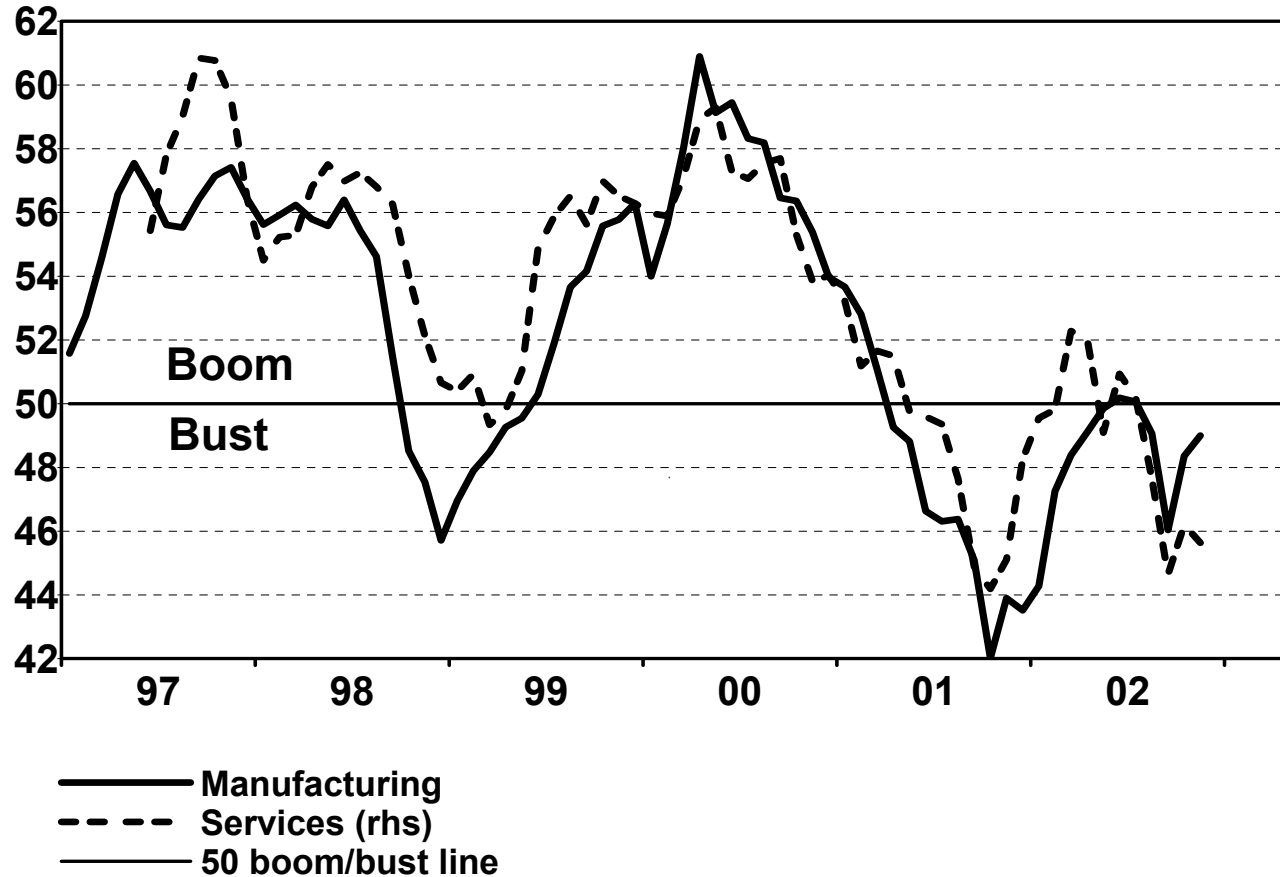
No signs of consolidation

Germany IFO business climate index



No signs of bottoming out

German PMI Business confidence



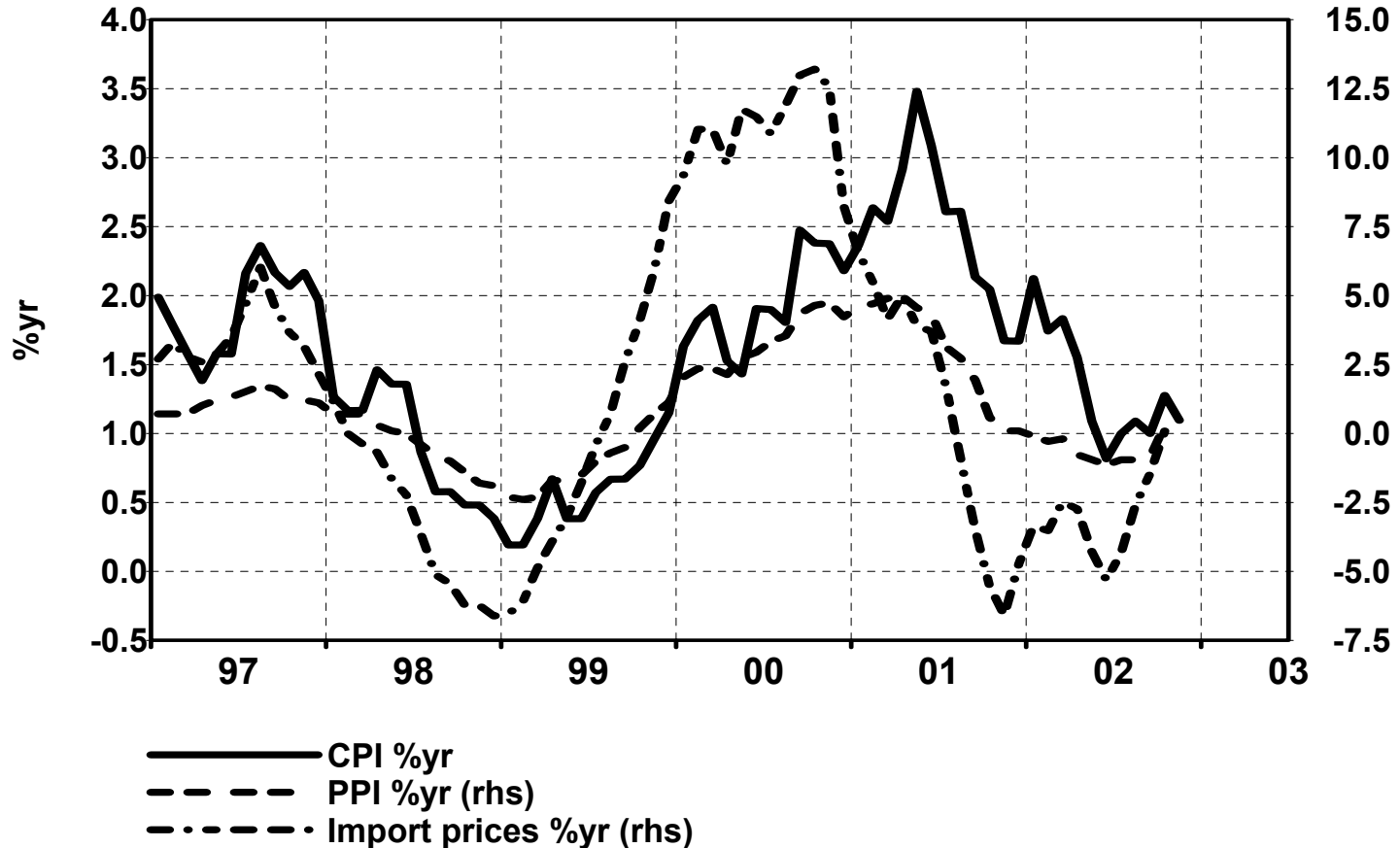
Germany in the doldrums

Germany GDP growth composition

	2001				2002				2003				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
	(%)				(%)				(%)				(%)		
Real GDP															
<i>q/q</i>	0.6	0.0	-0.2	-0.3	0.3	0.2	0.3	0.2	0.1	0.1	0.3	0.4	-	-	-
<i>y/y</i>	1.8	0.7	0.4	0.1	-0.2	-0.1	0.4	0.9	0.7	0.7	0.7	0.9	0.7	0.2	0.7
Consumption															
<i>q/q</i>	1.4	0.8	-0.2	-0.5	-0.6	0.1	0.5	-0.3	-0.1	-0.2	-0.2	0.0	-	-	-
<i>y/y</i>	2.0	1.4	1.5	1.6	-0.5	-1.2	-0.5	-0.4	0.1	-0.1	-0.8	-0.5	1.6	-0.7	-0.3
Investment															
<i>q/q</i>	-2.5	-1.6	-1.7	-1.3	-1.9	-3.0	-0.5	-1.5	-1.2	-0.7	0.1	0.4	-	-	-
<i>y/y</i>	-1.8	-4.2	-6.7	-7.0	-6.4	-7.8	-6.7	-6.9	-6.2	-3.9	-3.3	-1.5	-4.9	-6.9	-3.7
Gov. spending															
<i>q/q</i>	-0.4	0.1	-0.1	0.3	0.8	0.7	0.1	-0.2	0.0	0.0	0.1	0.2	-	-	-
<i>y/y</i>	0.9	1.1	1.3	-0.1	1.2	1.8	1.9	1.3	0.5	-0.2	-0.1	0.3	0.8	1.5	0.1
Exports															
<i>q/q</i>	0.0	-0.5	0.9	-1.0	0.5	1.1	2.7	0.0	0.8	1.0	1.1	1.2	-	-	-
<i>y/y</i>	10.7	7.0	5.2	-0.5	0.0	1.6	3.3	4.3	4.7	4.5	2.9	4.2	5.4	2.3	4.1
Inflation	2.5	3.1	2.5	1.9	1.8	1.2	1.0	1.1	0.6	0.5	0.7	0.8	2.5	1.3	0.6
Budget deficit (%Gdp)	0.2	-0.8	-1.7	-2.7	-2.8	-2.9	-3.1	-3.3	-3.5	-3.7	-3.6	-3.6	-2.7	-3.3	-3.6

Germany a deflation risk

German inflation trends



2-speed UK poses BOE dilemma

- ***UK growth on a relatively strong track***
 - GDP growth will accelerate to 2.6% in 2003 (after 1.6% 2002)
- ***Twin speed economy causes headache for BOE***
 - does it target buoyant consumers or manufacturing recession?
- ***Inflation risks may be on the rise***
 - core inflation picked up above target to 2.8%
- ***MPC to switch to an upside inflation bias?***
 - very unhappy about booming housing market (30% inflation)
- ***Budget policy too accommodative***
 - government continuing to ramp up public spending

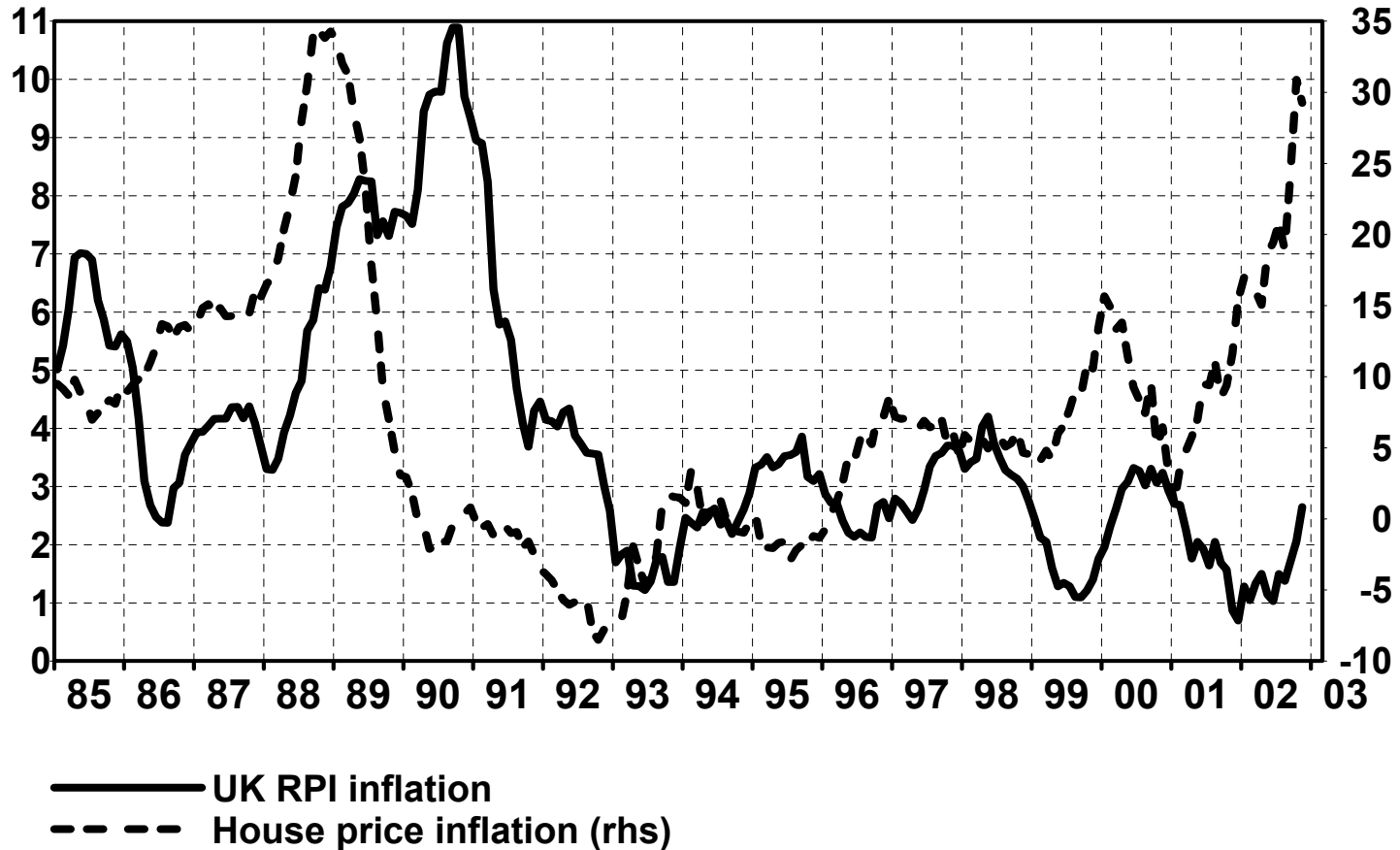
UK growth remains relatively robust

UK GDP growth composition

	2001				2002				2003				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	2003
	(%)				(%)				(%)				(%)		
Real GDP															
<i>q/q</i>	0.6	0.3	0.3	0.2	0.1	0.6	0.8	0.5	0.5	0.7	0.9	0.7	-	-	-
<i>y/y</i>	2.5	2.0	1.8	1.6	1.0	1.3	1.8	2.0	2.4	2.5	2.6	2.9	2.0	1.6	2.6
Consumption															
<i>q/q</i>	1.2	0.8	1.0	1.1	0.5	1.4	0.8	1.0	0.8	0.6	0.6	0.6	-	-	-
<i>y/y</i>	4.2	3.9	3.9	4.2	3.5	4.1	3.8	3.7	4.0	3.3	3.0	2.6	4.1	3.8	3.2
Investment															
<i>q/q</i>	-2.4	-0.6	-0.9	-3.2	-1.6	-0.1	-2.0	0.3	0.2	0.2	0.5	0.8	-	-	-
<i>y/y</i>	4.5	3.0	1.0	-6.9	-6.1	-5.6	-6.7	-3.4	-1.7	-1.4	1.2	1.7	0.3	-5.4	-0.1
Gov. spending															
<i>q/q</i>	2.0	-1.2	2.7	1.8	2.9	-2.7	1.3	1.0	1.0	1.0	1.0	1.0	-	-	-
<i>y/y</i>	3.1	1.0	2.9	5.3	6.3	4.6	3.2	2.5	0.5	4.4	4.1	4.1	3.1	4.1	3.2
Exports															
<i>q/q</i>	1.8	-2.1	-3.2	-1.6	-0.1	3.5	-1.7	1.0	1.2	1.8	2.0	2.0	-	-	-
<i>y/y</i>	8.8	3.4	-1.8	-5.0	-6.8	-1.6	0.0	2.6	3.9	2.2	6.0	7.1	1.2	-1.6	4.8
Inflation	2.6	1.9	1.8	1.0	1.2	1.2	1.5	2.4	2.6	2.8	2.7	2.8	1.8	1.6	2.8
Budget deficit (%Gdp)	1.6	1.3	1.2	0.8	0.0	-0.5	-1.2	-1.6	-1.8	-2.1	-2.2	-2.2	0.8	-1.6	-2.2

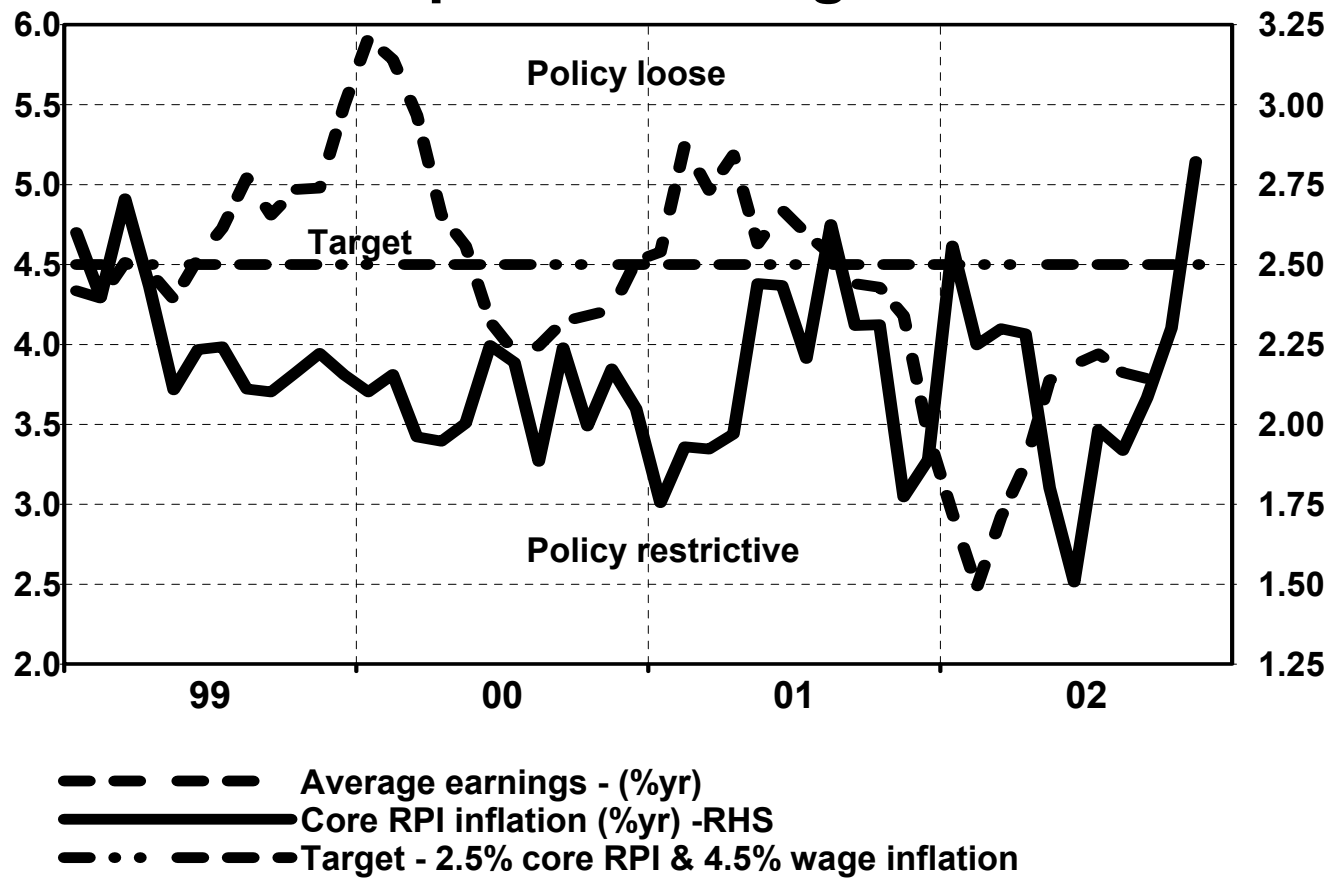
What keeps Eddie George awake at night?

UK consumer price inflation



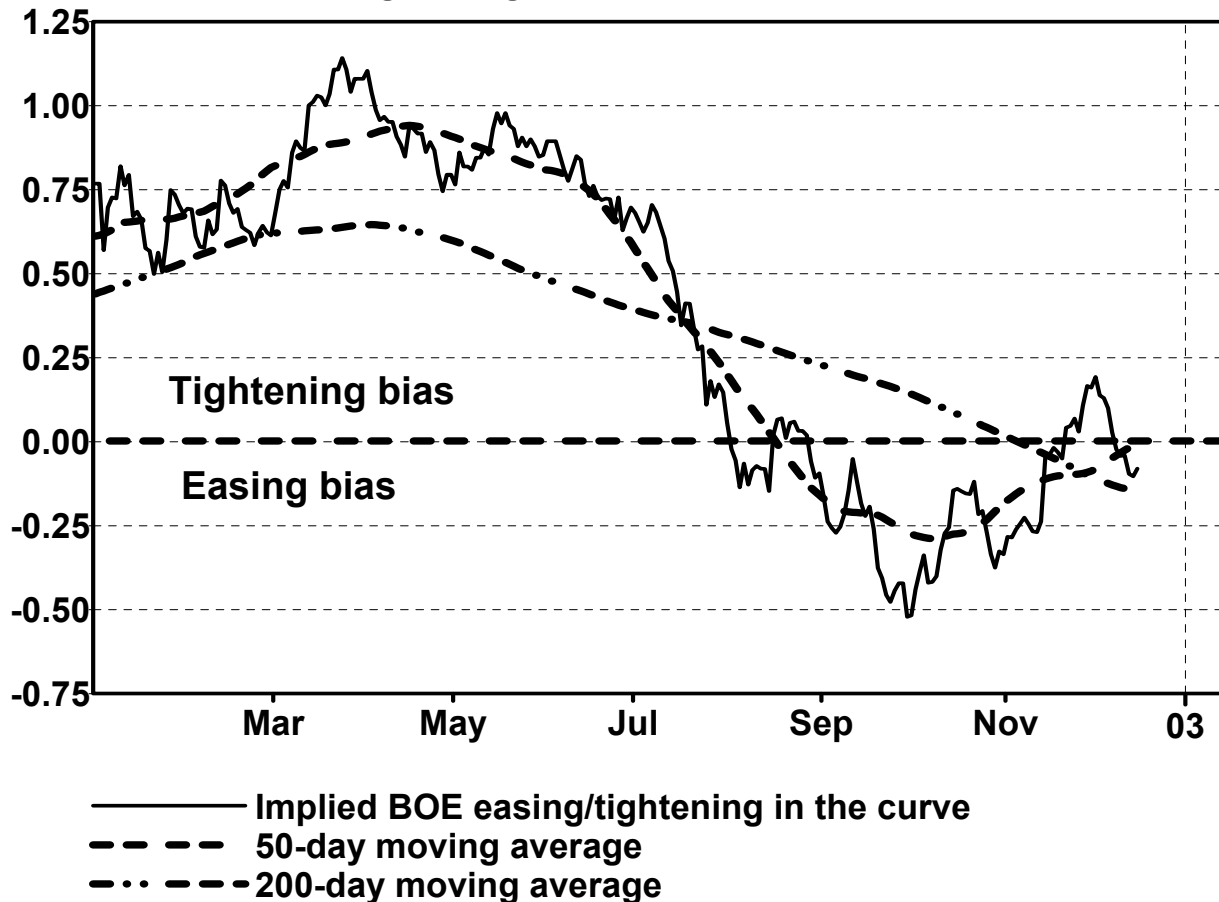
Inflation risks rise

UK retail price and wage inflation

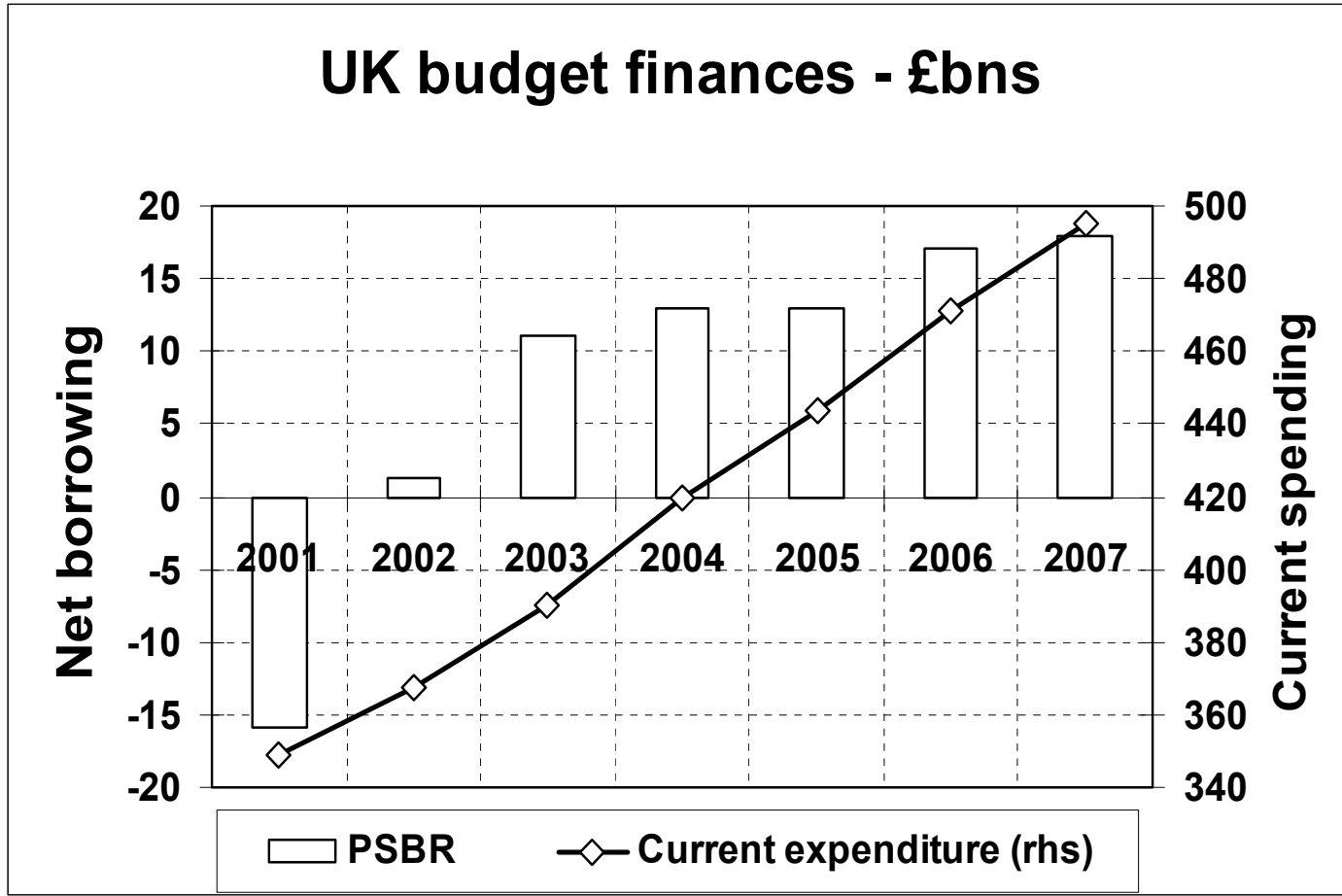


UK rate bias should be up

UK 2-year yield minus base rates



UK budget finances deteriorate



Bonds enter a bear market

- *Growth will move into recovery mode*
- *Inflation expectations benign for now, but will rise in 2003*
- *Rate policy still supportive*
- *Bull market for stocks – biggest risk for bonds*
- *10-year government yields to go back to 4.75%-5.00%*
- *Euro curve will normalise and flatten*
- *Watch out for Middle East tensions – flight-to-quality*
- *But safe haven premium demand to fade*
- *Stay overweight Eurozone relative to US Treasuries*

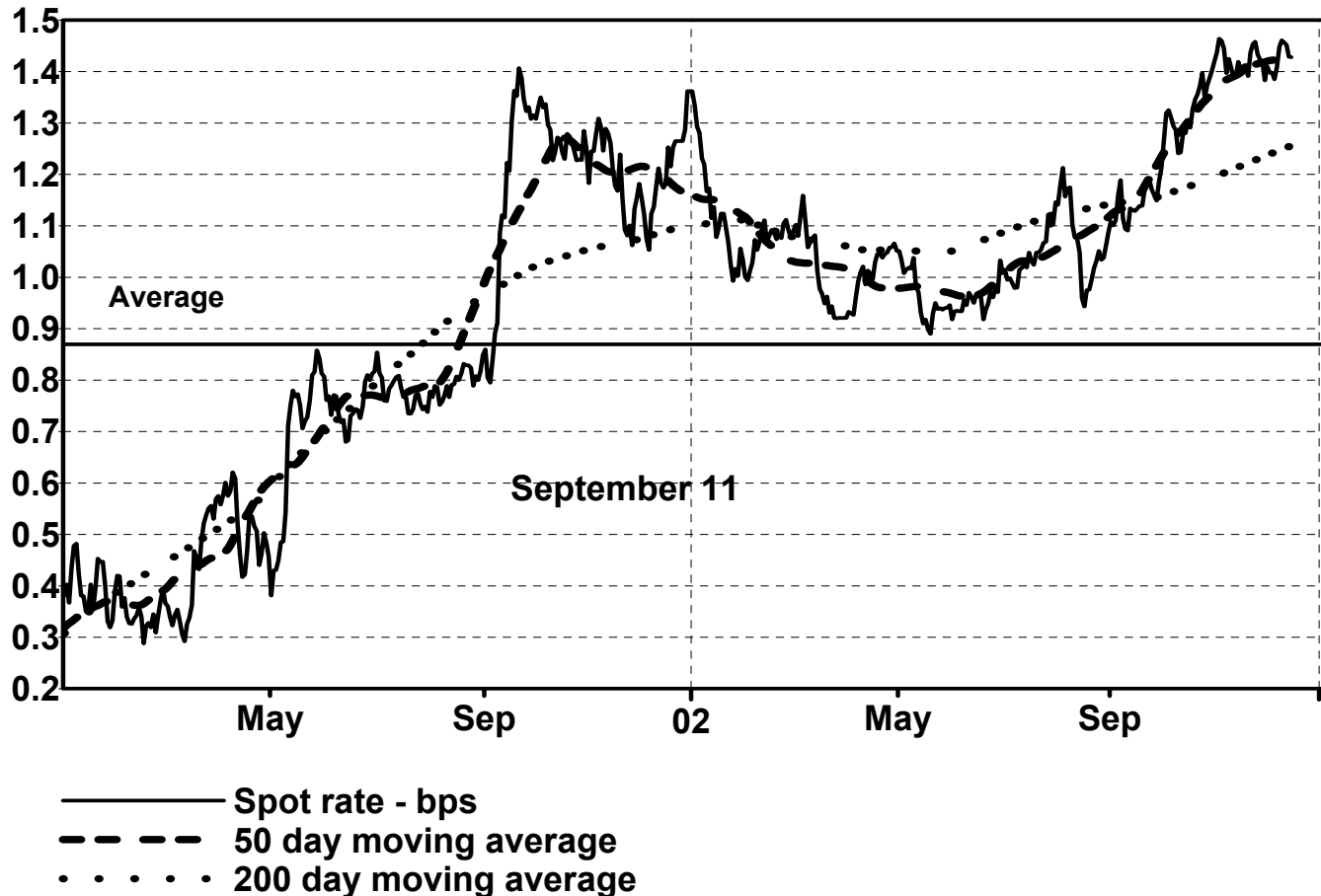
Yields going higher in 2003

Fixed Income Forecasts

		Current	Q1	Q2	Q3	Q4
US	Fed funds	1.25	1.25	1.25	1.75	2.25
	2 years	1.88	2.60	2.90	3.50	3.75
	5 years	3.08	3.65	4.00	4.60	4.80
	10 years	4.12	4.50	4.75	5.25	5.40
	10s-2s	223	190	185	175	165
Japan	3 months	-0.03	0.15	0.25	0.35	0.45
	2 years	0.06	0.35	0.65	0.80	0.85
	5 years	0.30	0.75	1.00	1.20	1.30
	10 years	0.96	1.50	1.85	2.05	2.15
	10s-2s	90	115	120	125	130
Eurozone	ECB repo	2.75	2.25	2.25	2.75	3.00
	3 months	2.96	2.75	2.75	3.25	3.40
	2 years	2.86	3.40	3.75	4.40	4.55
	5 years	3.55	4.05	4.30	4.90	5.00
	10 years	4.33	4.60	4.75	5.25	5.35
	10s-2s	148	120	100	85	80
UK	Base rate	4.00	4.00	4.00	4.50	4.50
	3 months	4.00	4.10	4.15	4.55	4.65
	2 years	3.87	4.40	4.70	5.30	5.40
	5 years	4.42	4.95	5.15	5.65	5.65
	10 years	4.59	4.85	5.00	5.50	5.55
	10s-2s	73	45	30	20	15

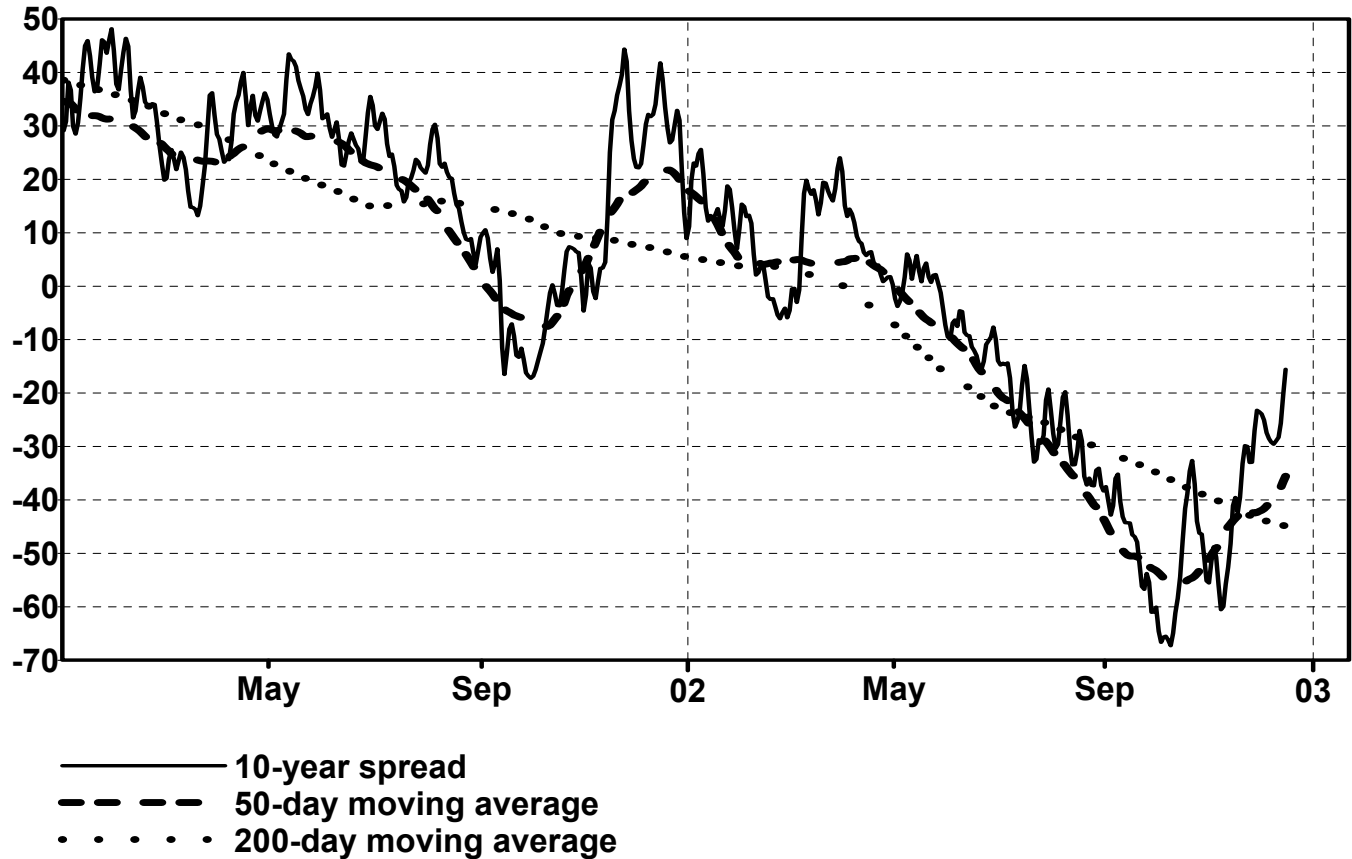
Structural flattening bias

German 10-2 year spread



Relative growth dynamics mean Eurozone debt will outperform US as yields rise

10-year US Treasury - Bund spread

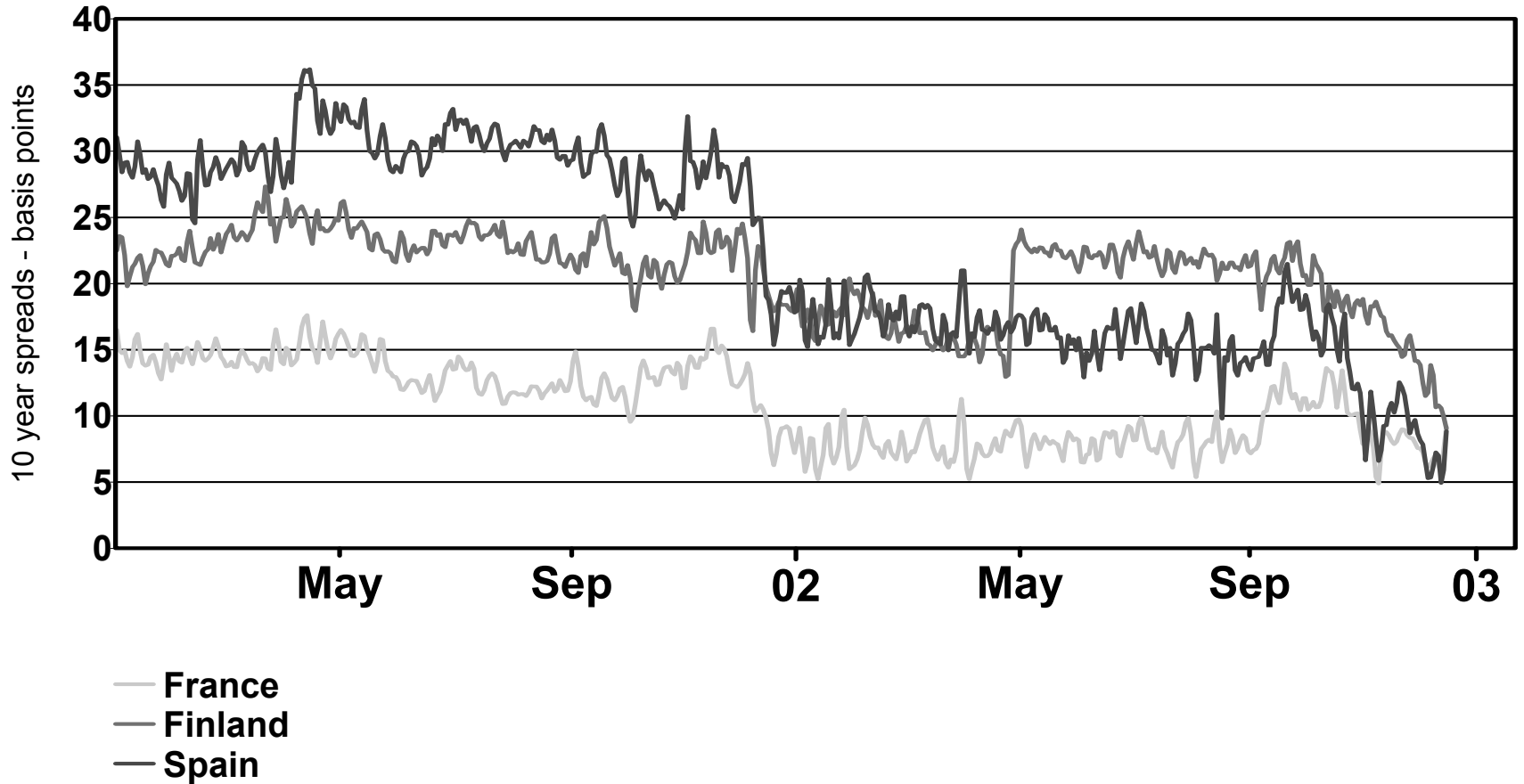


Germany trading under a cloud

- *Could Germany lose its AAA status?*
- *S&P and Moody's reaffirmed Germany's AAA rating*
- *But doubts raised about long run sustainability*
- *Germany must pull fiscal socks up - or else!!!*
- *Japan lost its AAA rating in November 1998*
- *If Germany downgraded, it will lose its benchmark status*
- *We would see France's star ascending*
- *More convergence between Eurozone debt*
- *France, Spain and others would trade through bunds*

Convergence momentum builds

Eurozone 10-year spreads to bunds

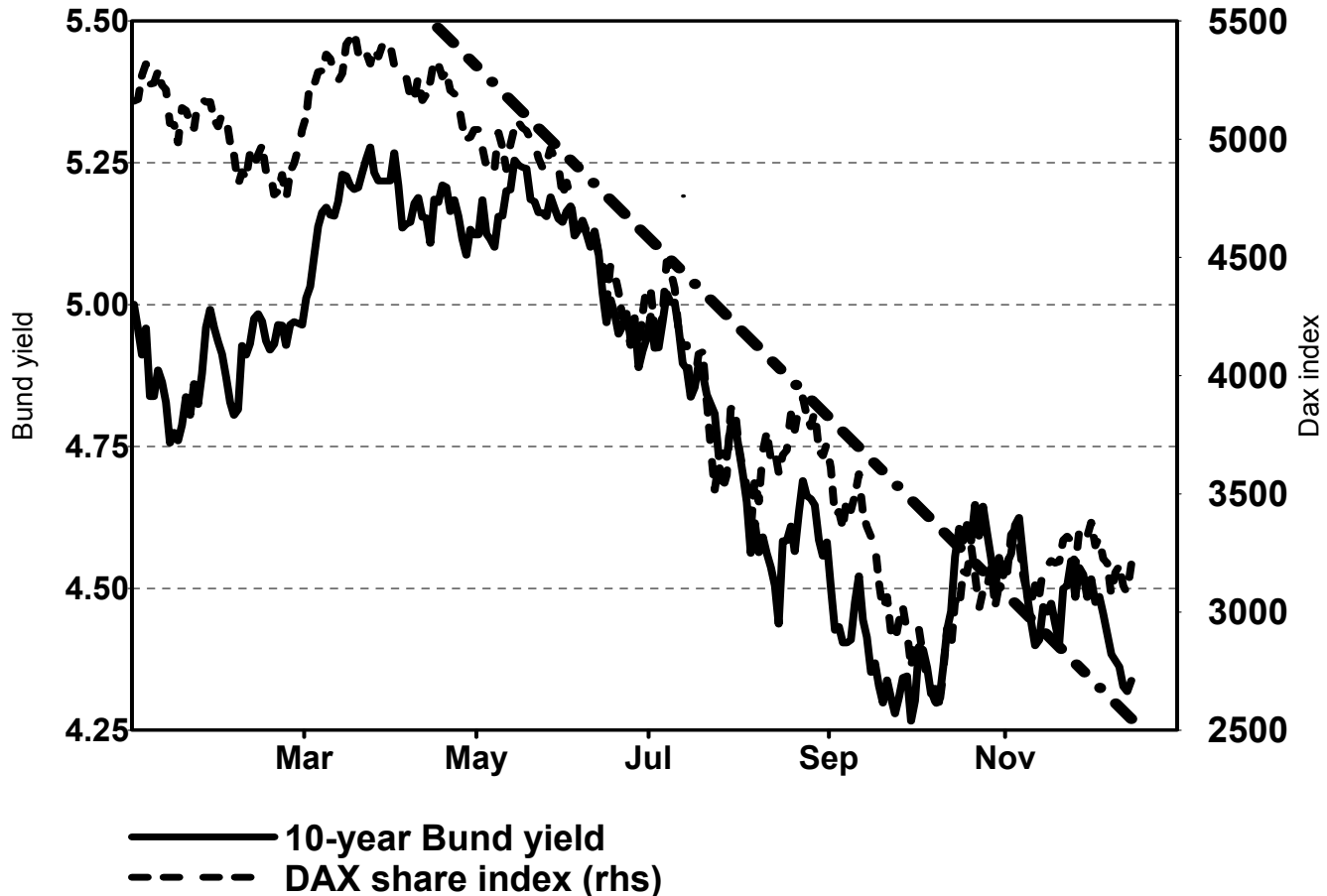


2003 bull rally for stocks

- *A re-balancing of relative economic fortunes*
- *A re-balancing of asset allocation weightings*
- *Investors underweight stocks/overweight govt. debt*
- *Stocks will be discounting stronger 2003 recovery*
- *Better earnings expectations in 2003*
- *Inflation set to remain low, margins will improve*
- *Best to be overweight US versus Eurozone initially*
- *Move overweight Eurozone versus US for 2nd leg*

Still no solid breakout

German stocks and bonds



FX forecasts

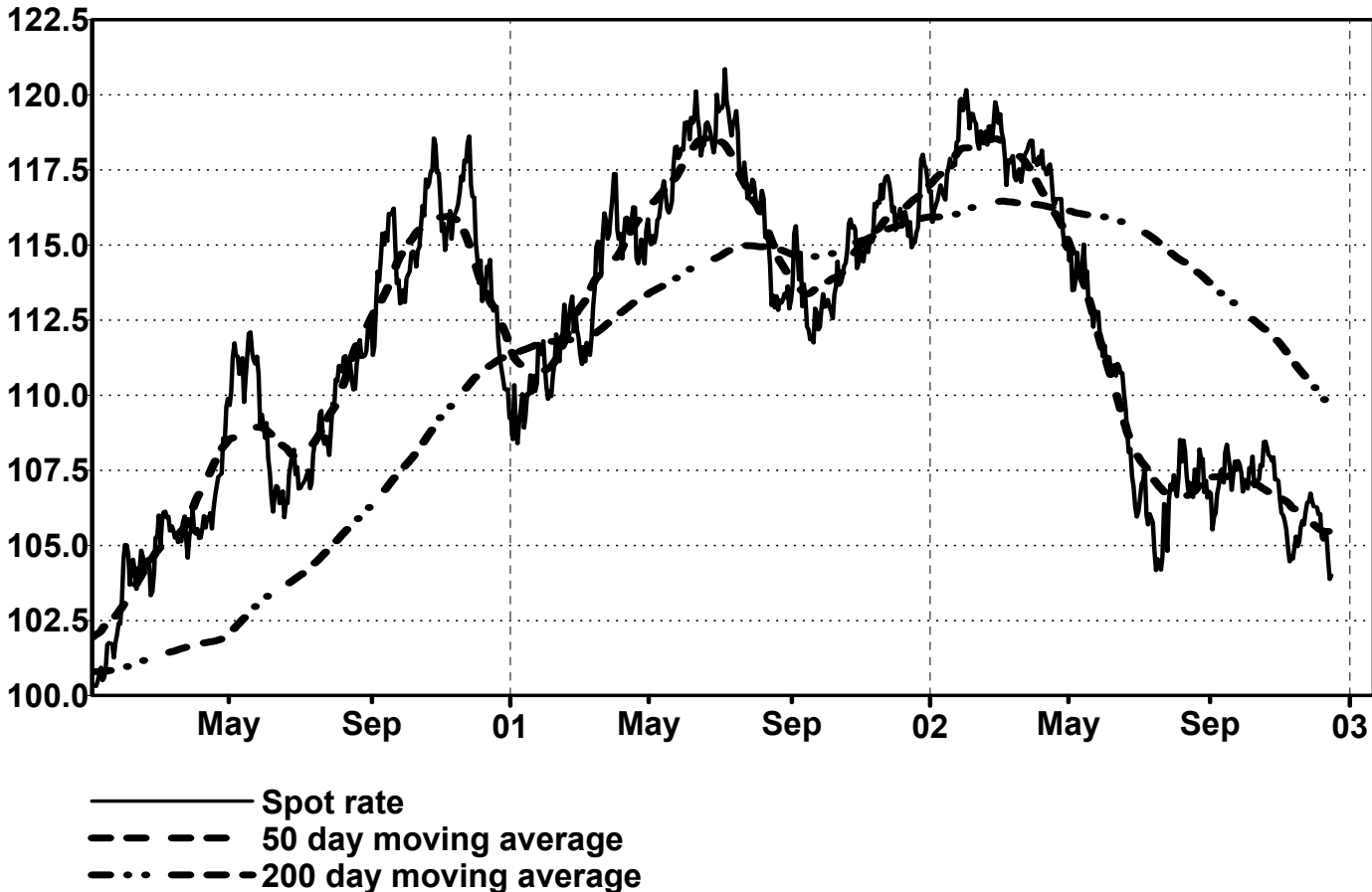
Bear Stearns vs. forward		1-month		3-month		6-month		12-month	
	Current	forward	forecast	forward	forecast	forward	forecast	forward	forecast
Majors									
EUR/USD	1.02	1.02	1.00	1.02	0.95	1.01	1.00	1.01	1.10
USD/JPY	121	121	120	120	127	120	130	119	135
GBP/USD	1.59	1.58	1.59	1.58	1.56	1.57	1.56	1.55	1.64
USD/CHF	1.45	1.44	1.46	1.44	1.54	1.44	1.50	1.43	1.41
Major crosses									
EUR/GBP	0.64	0.64	0.63	0.64	0.61	0.65	0.64	0.65	0.67
EUR/JPY	123	123	120	123	121	122	130	120	149
EUR/CHF	1.48	1.47	1.46	1.47	1.46	1.46	1.50	1.45	1.55
GBP/JPY	192	191	190	190	198	188	203	185	222

Bear Stearns vs. consensus *		1-month		3-month		6-month		12-month	
	Current	consensus	forecast	consensus	forecast	consensus	forecast	consensus	forecast
EUR/USD	1.02	1.00	1.00	1.01	0.95	1.00	1.00	1.02	1.10
USD/JPY	121	124	120	125	127	124	130	125	135
GBP/USD	1.59	1.56	1.59	1.57	1.56	1.57	1.56	1.58	1.64
EUR/GBP	0.64	0.64	0.63	0.64	0.61	0.64	0.64	0.65	0.67
EUR/JPY	123	123	120	124	121	124	130	125	149

* The consensus is represented by Reuters monthly currency poll of approximately 60 forecasters

What happened to the strong dollar mantra?

US dollar weighted index



Investment objectives for 2003

- *Stock-bond market roller-coaster still volatile short term*
- *A lot will depend on Iraq short term – it could clear the air!*
- *Fed stays steady for 6 months, but ECB strikes again in February*
- *Stocks set for strong rally in 2003 – equities very undervalued*
- *European equities to rebound 30%-35% in 2003*
- *Euro curve normalises - bear-flattening in vogue*
- *10-year US & German yields target 4.75%-5.0% in next 6 months*
- *Euro rallies above parity and heads towards \$1.05-\$1.07*
- *Watch the yen – which is still on a mission to JPY135*