



UBS Investment Research

The Outlook For Equity Markets

David Cassidy
Chief Strategist
david.cassidy@ubs.com/61-2 9324 3721

UBS Equity Strategy

July 2007

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

www.ubs.com/investmentresearch

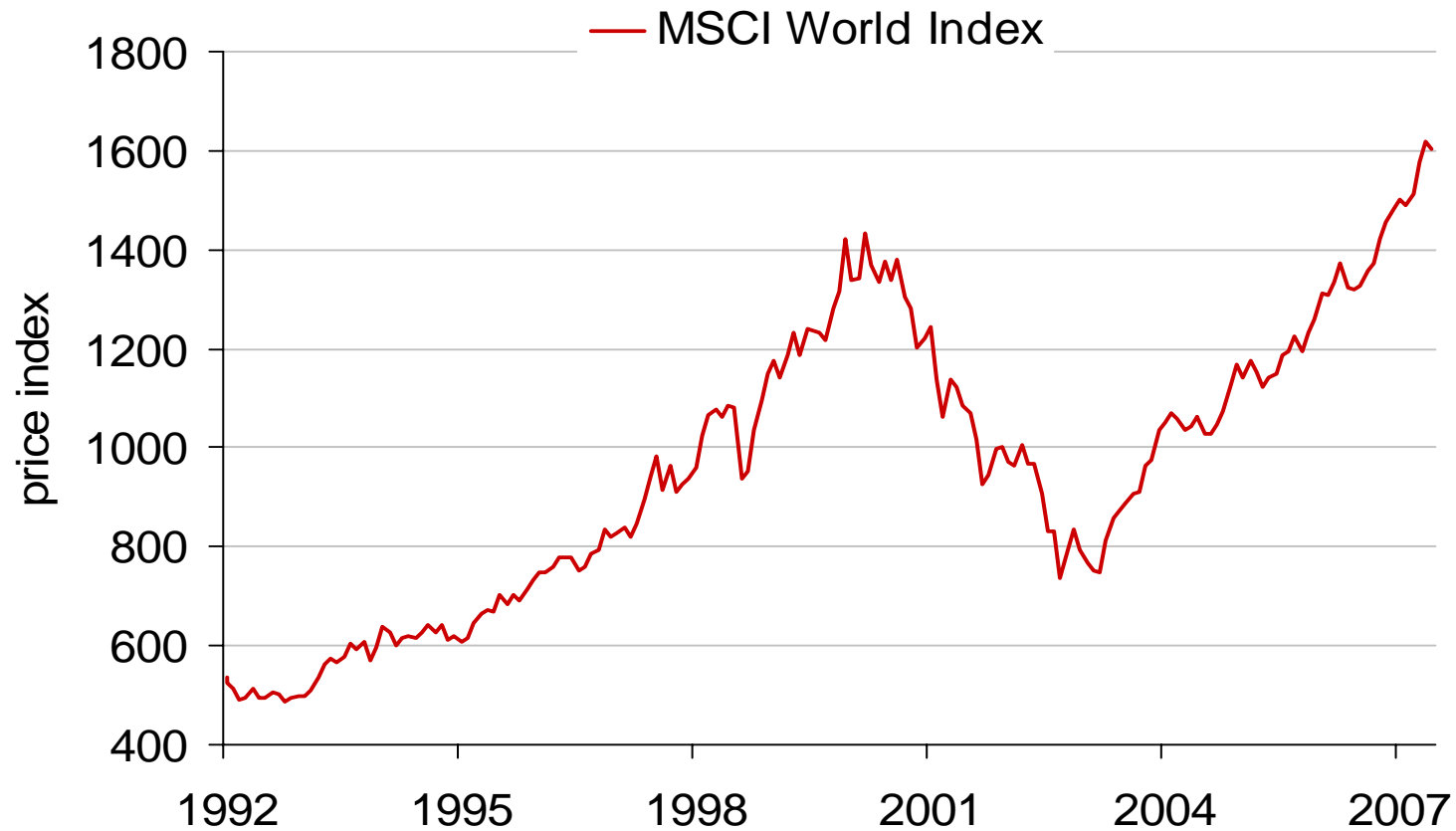
This material has been prepared by UBS Securities Australia Ltd

ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 53

Global Market Outlook - Positive

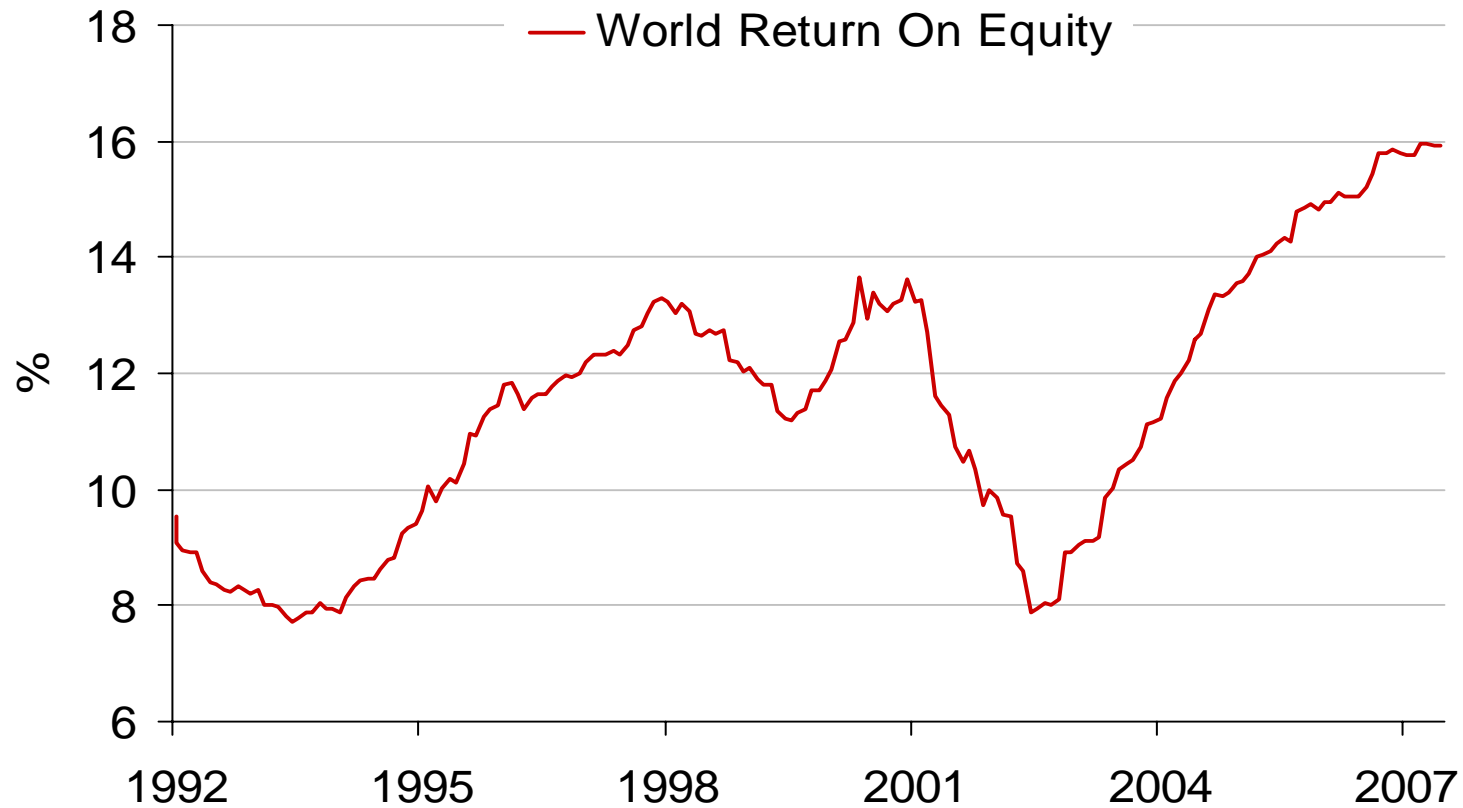
- ◆ The outlook for global equities remains bullish
- ◆ US soft landing is on track.
- ◆ Still a world of strong growth and low inflation
- ◆ P/E multiple expansion should help drive markets as earnings growth slows

Big Rally In Global Equities



Source: MSCI, Datastream

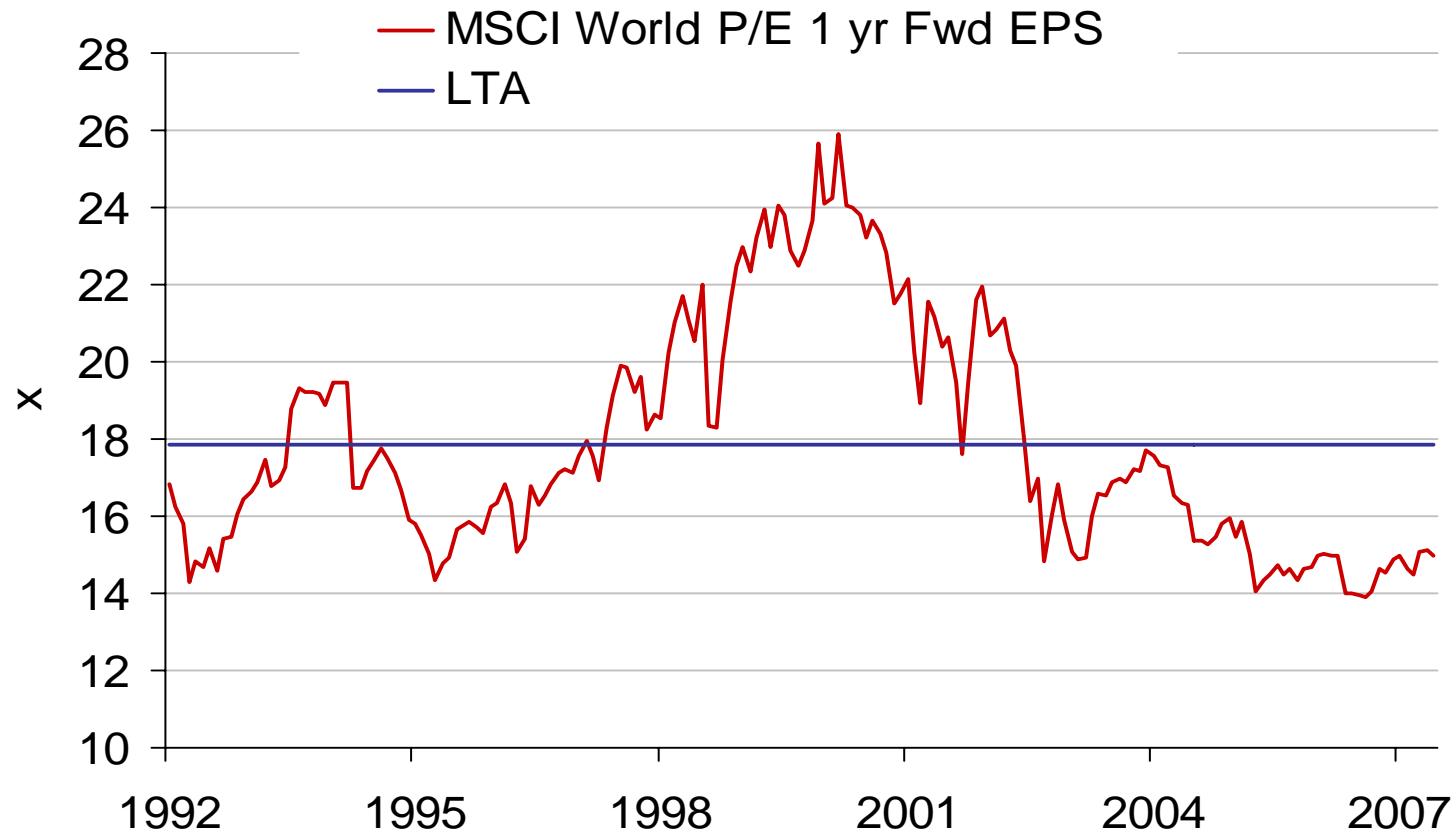
...Due To Sharply Rising Profitability...



Source: MSCI, UBS calculations

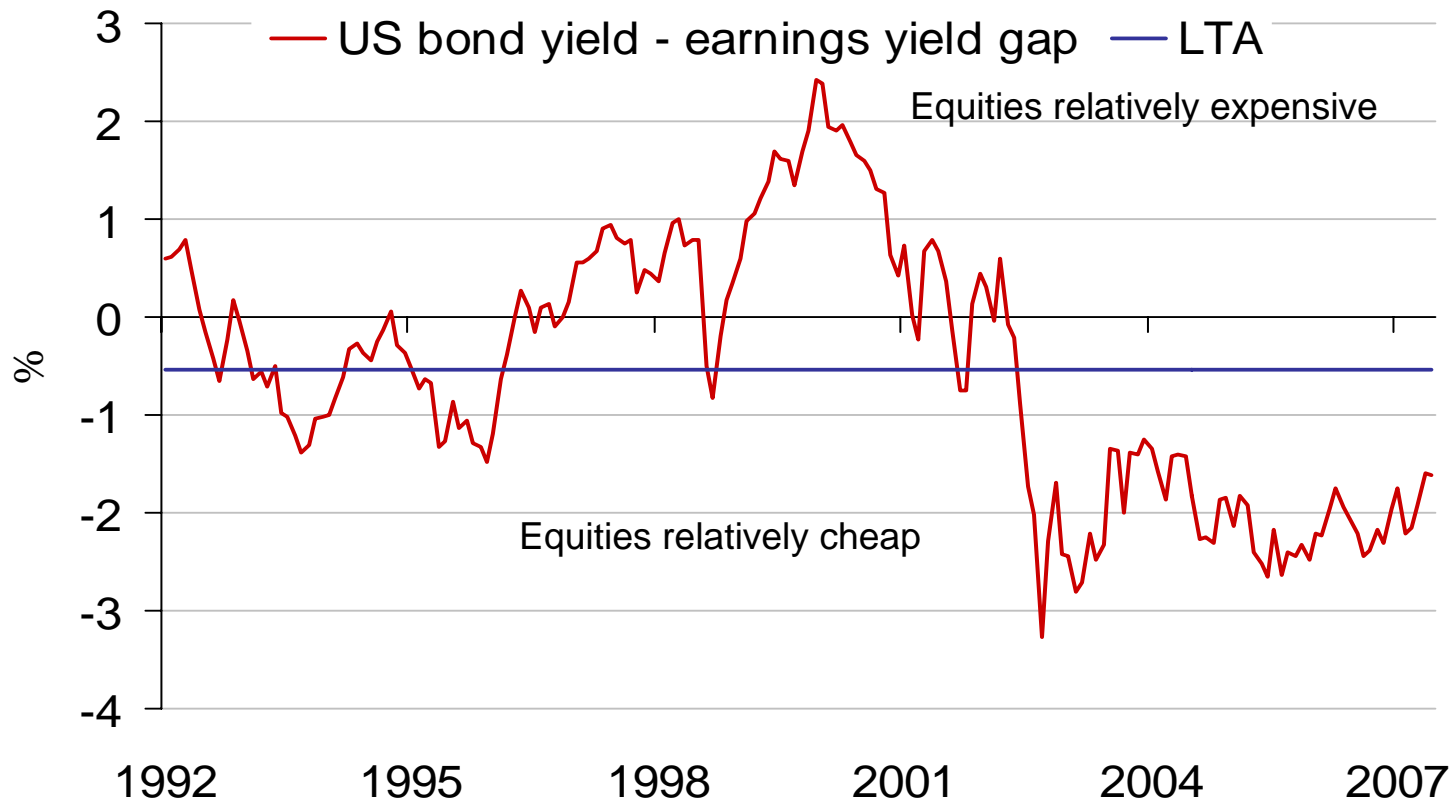
Global Equity Markets – Upside Valuation Risk

PE ratios are still very reasonable



Bonds Yields and Global Equity Valuation

Equities still relatively attractive despite the recent rise in bond yields

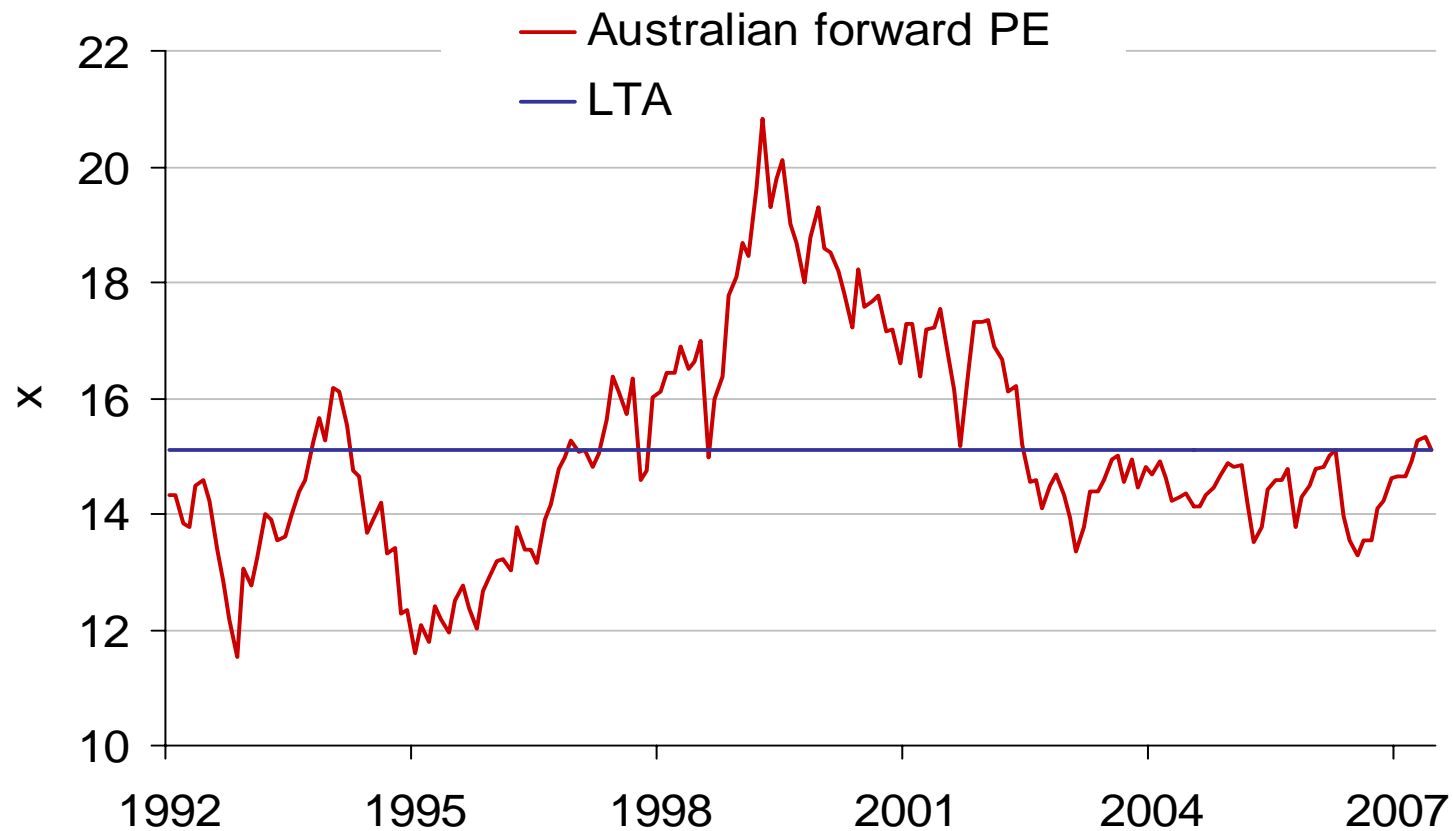


Australian Market Outlook – Positive 2007 View

- ◆ Macroeconomic nirvana (strong profits + benign CPI)
- ◆ Valuations somewhat stretched, particularly among industrials and real-estate sectors
- ◆ However, profits are strong and “liquidity” buoyant
- ◆ Valuations favour global shares longer term.

Australian Market Valuation

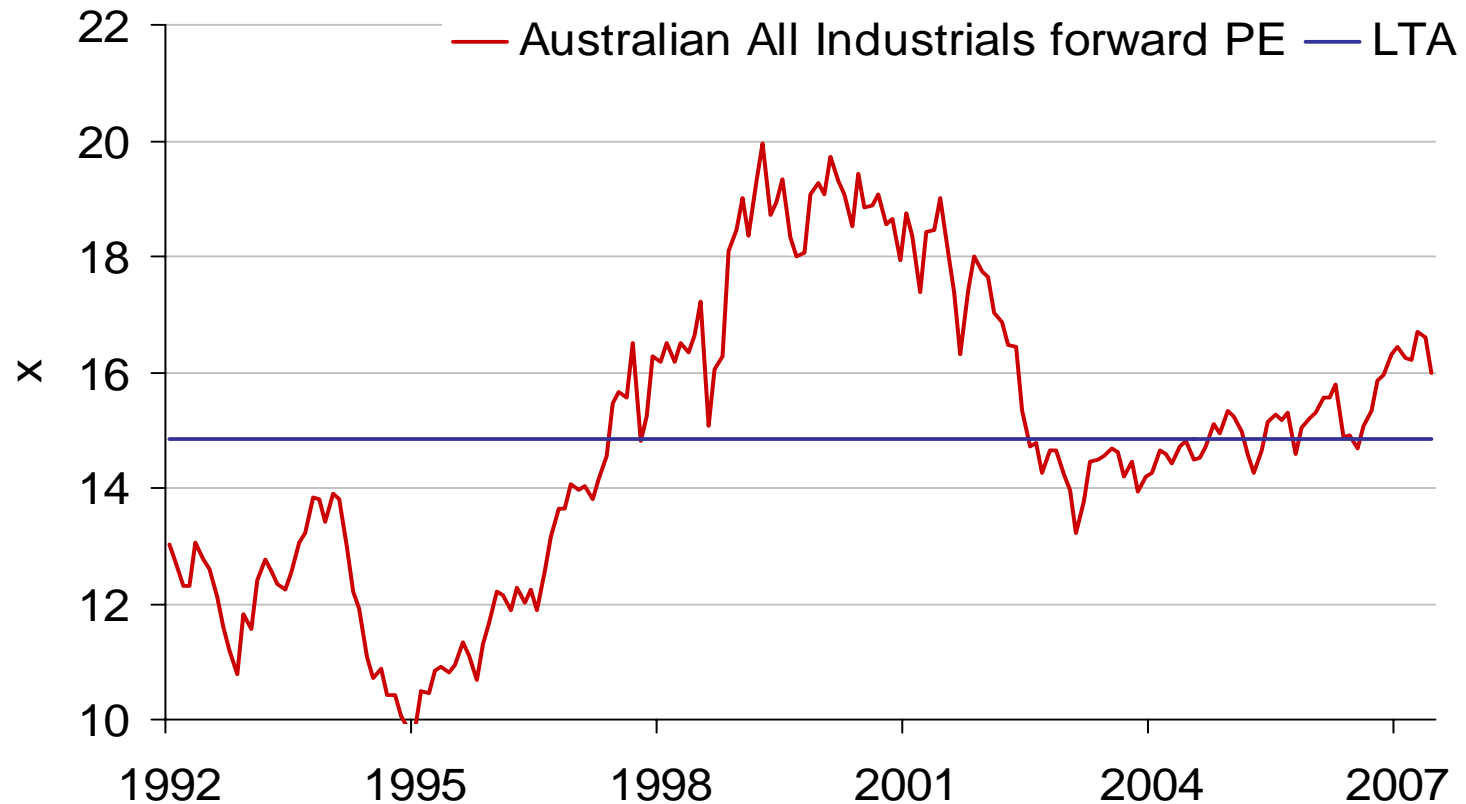
Overall market PE at long term average



Source: I/B/E/S, UBS calculations

Market Valuation – Excluding Resources

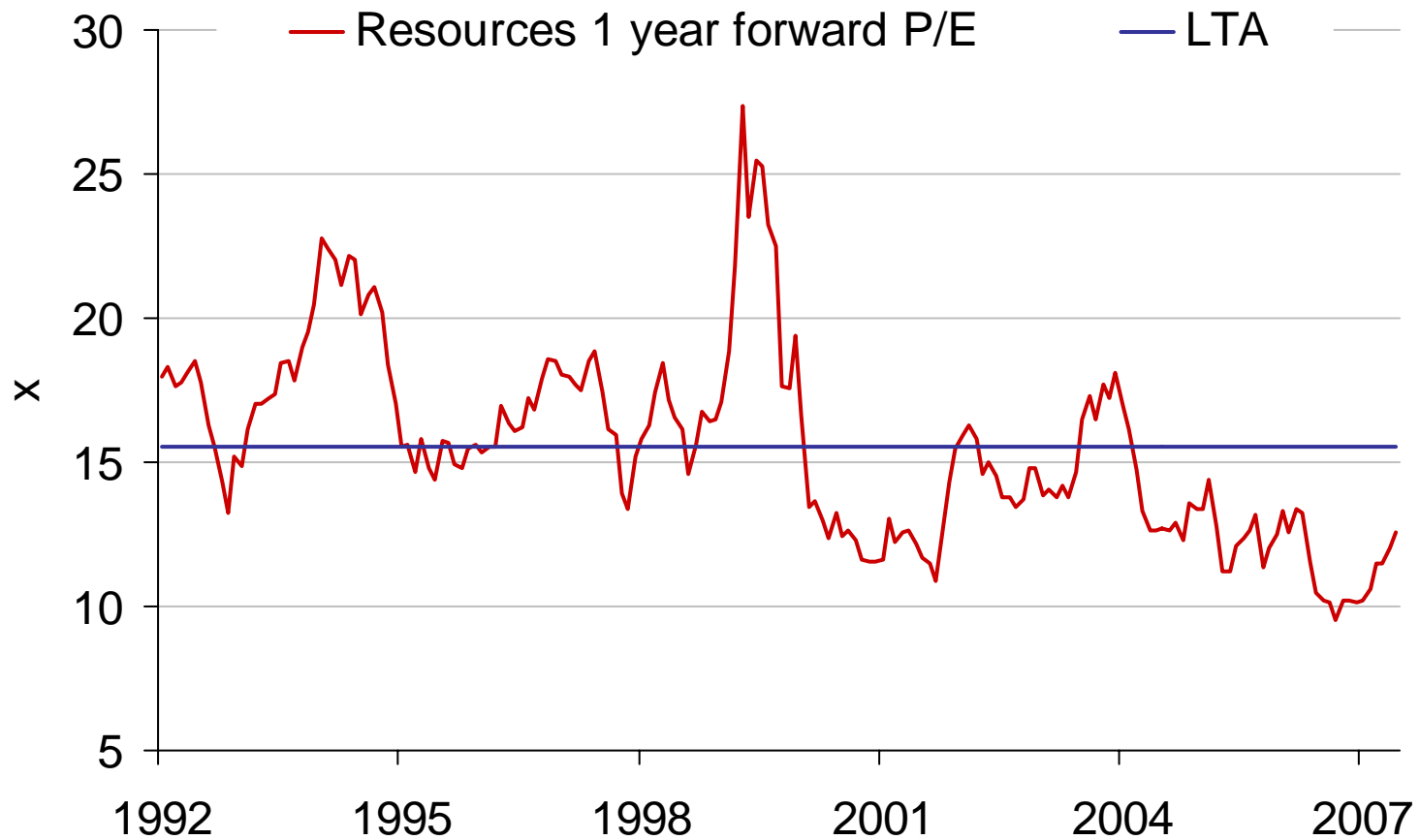
However looking somewhat stretched ex resources



Source: I/B/E/S, UBS calculations

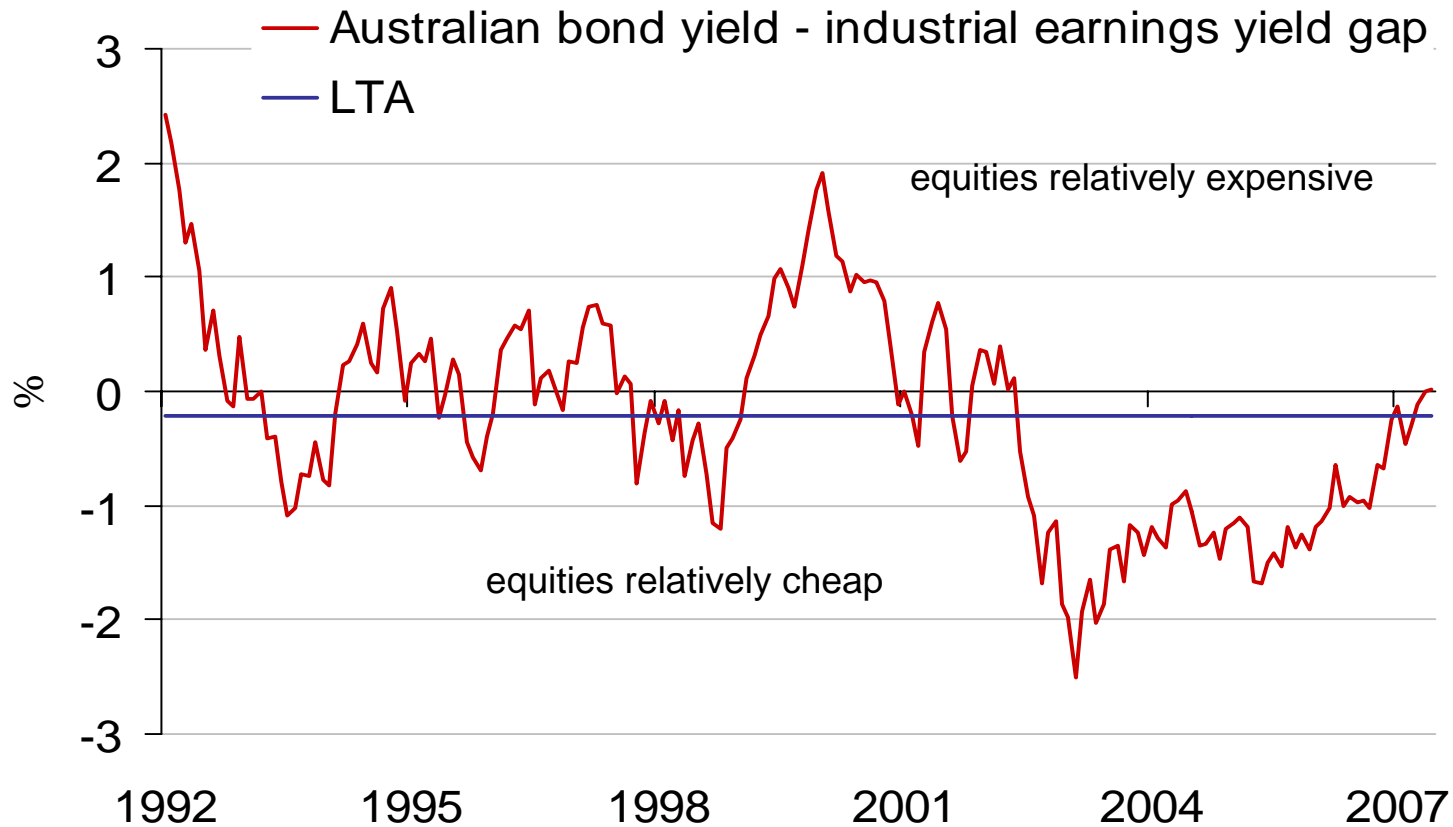
Resources Valuation Still Looking Cheap

1 year forward EPS is still too low



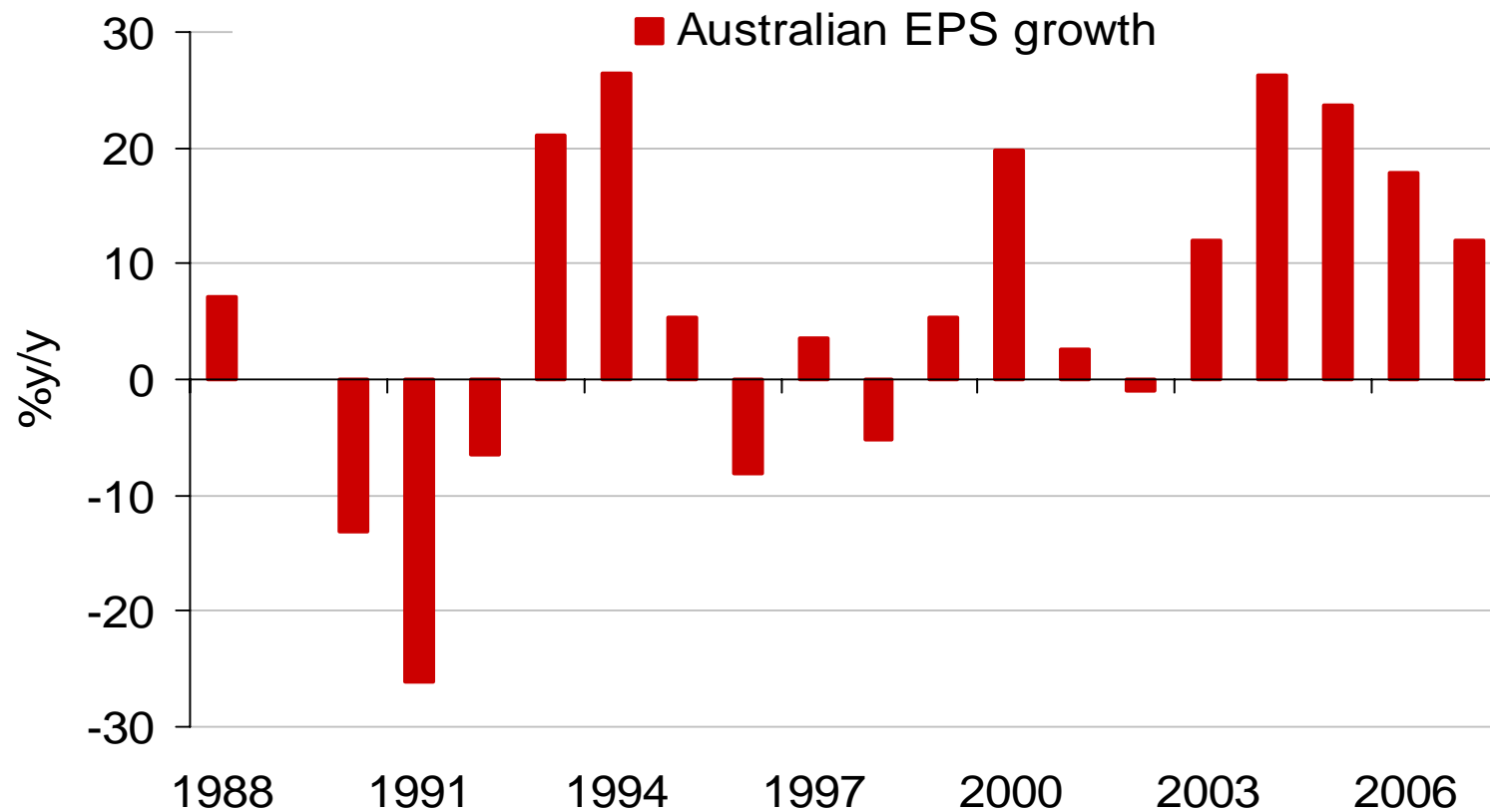
Source: I/B/E/S, UBS calculations

Industrial Stocks Starting to Look Stretched V Bonds



2007 – 5th Year Of Double-Digit Earnings Growth

Not just a liquidity driven market



Corporate Sector Still on Track for Double Digit Growth

Aggregate Bottom-Up EPS Growth

	FY07E UBS	FY07E consensus		FY08E UBS	FY08E consensus
Market	11.8%	11.6%		9.6%	10.2%
Resources	12.5%	14.2%		9.2%	10.5%
Financials	12.8%	11.8%		8.3%	8.8%
of which Banks	14.3%	14.4%		10.5%	10.0%
& Financials ex banks	11.0%	8.6%		5.5%	7.4%
Industrials	9.3%	8.6%	↓	12.7%	12.3%

Earnings Momentum Remains Robust

Recent upward momentum in FY08 Resources eps estimates should extend

Consensus EPS Revisions Q207

	FY07e	FY08e
Market	-0.5%	+1.0%
Resources	-1.1%	+4.1%
Financials	-0.2%	+0.7%
Industrials	-0.2%	-1.8%

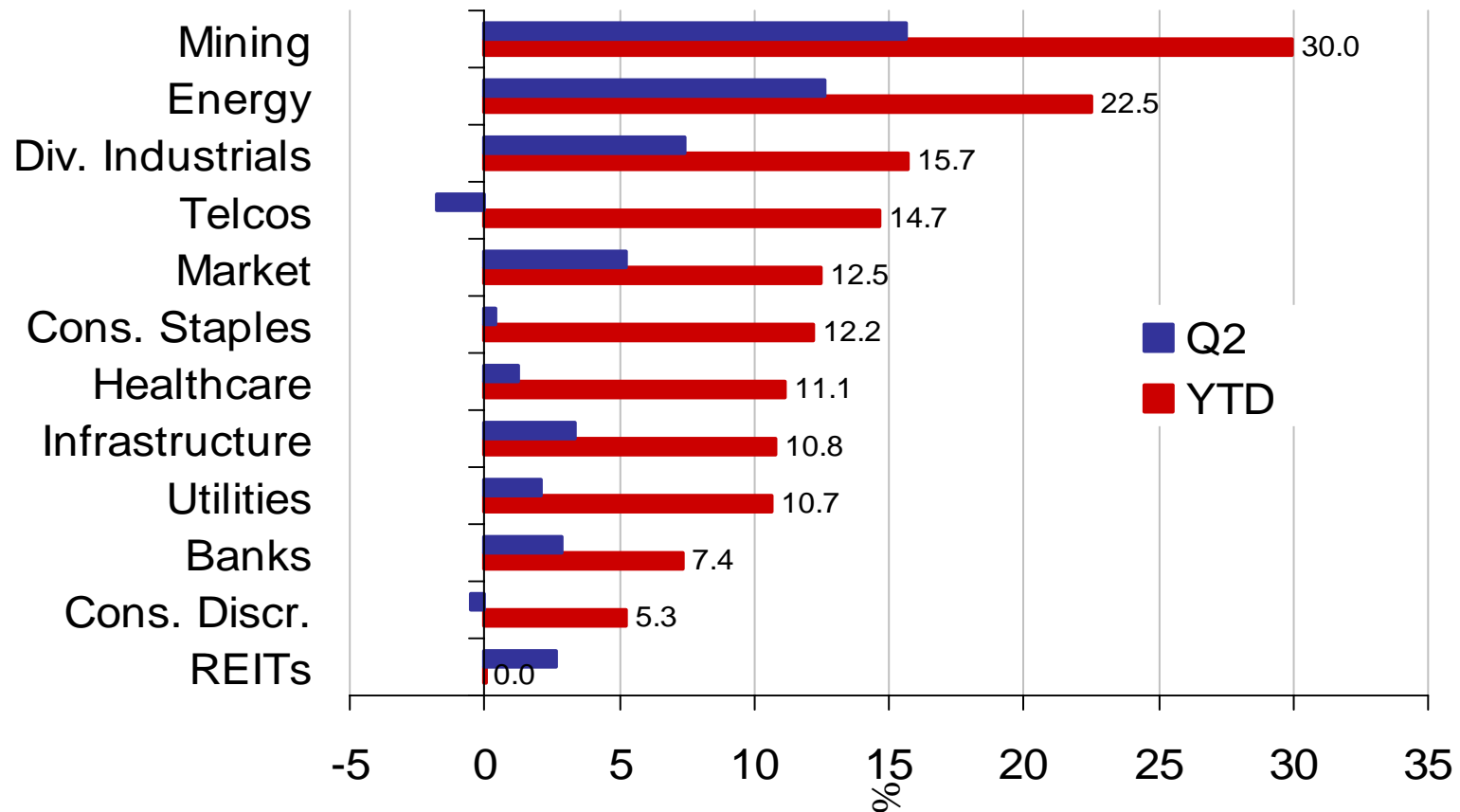
PE Ratios Across the Market

Industrials and LPTs still the areas with the most valuation stretch

1-year forward consensus P/E

Market	15.1
Resources	12.6
Financials	14.9
of which Banks	13.7
and Property Trusts	17.7
Industrials	18.2

Market Leadership Back With Resources



Portfolio Strategy: Themes

Commodities Stronger For Longer: Resources & resource capital spending beneficiaries

Financial Services Super-Cycle; credit cycle, superannuation, asset securitisation (corporates & govt)

Quality Franchises Are Relatively Cheap: eg healthcare, gaming and consumer franchises, selected div financials

Sub Themes: strong consumer, rural recovery, A\$ earnings risk, mining costs & bottlenecks.

Key Sector & Stock Views

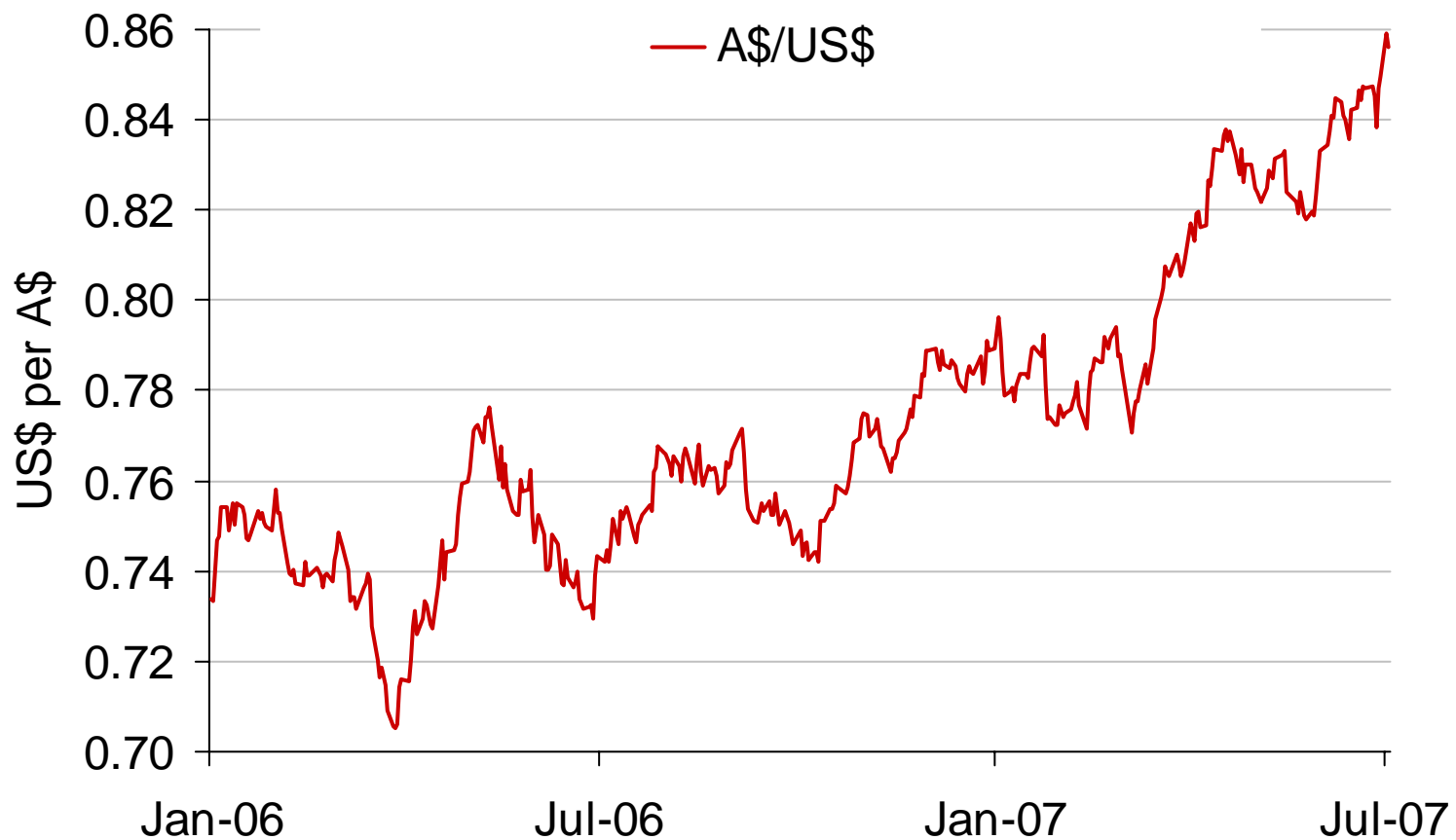
OVERWEIGHT

- ◆ Diversified Miners + Energy
- ◆ Resource “Capex” Plays
- ◆ Banks
- ◆ Selected Growth Franchises

UNDERWEIGHT

- ◆ Property Trusts
- ◆ Telcos
- ◆ Selected Industrials

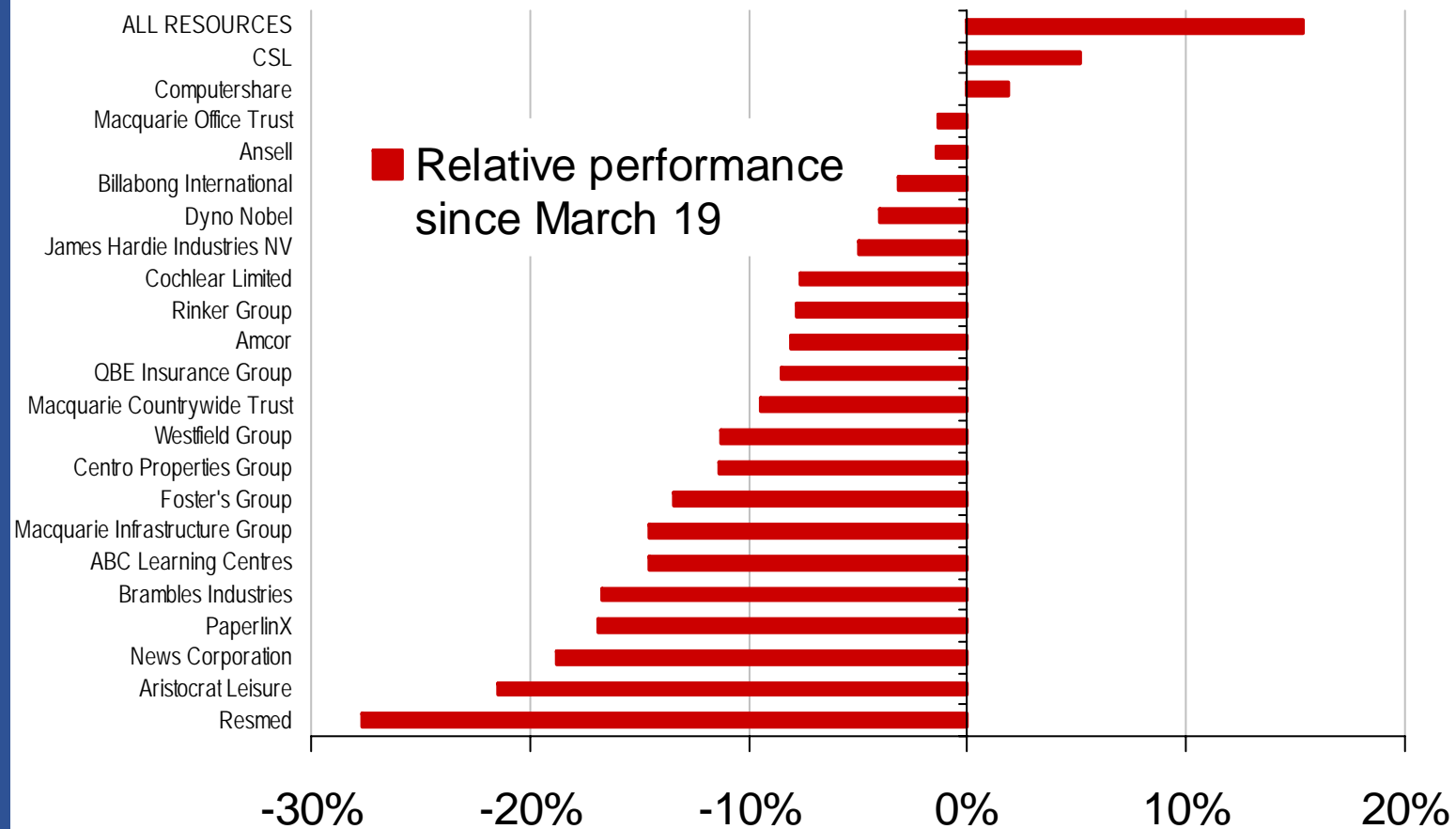
A\$ Creating Earnings Headwinds...For Some



Source: Datastream

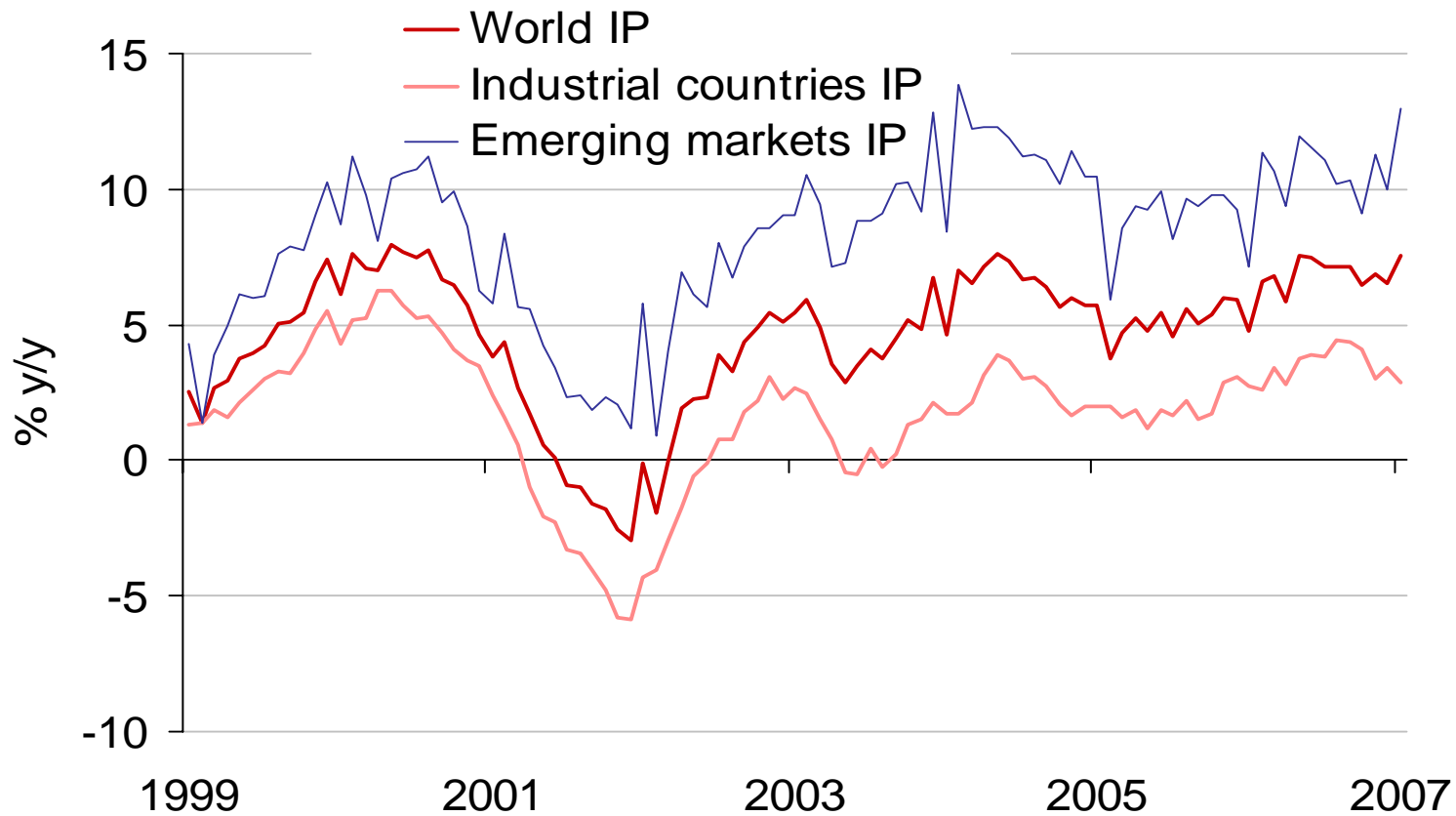
80c+ A\$ Has Hampered US\$ Exposed Industrials

Selected stocks looking oversold

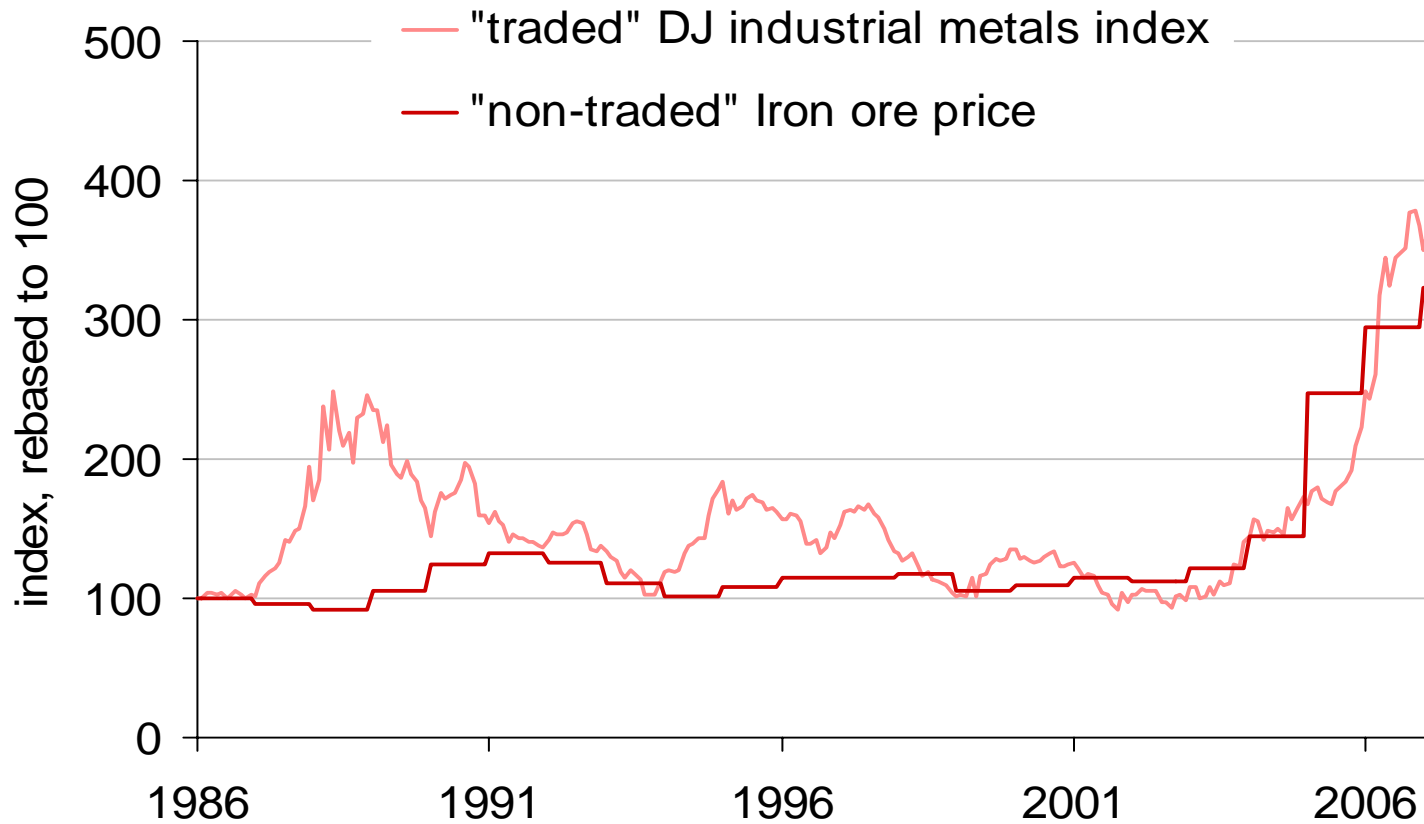


Macro Environment Looking Supportive For Resources

The world continues to grow strongly led by the developing world

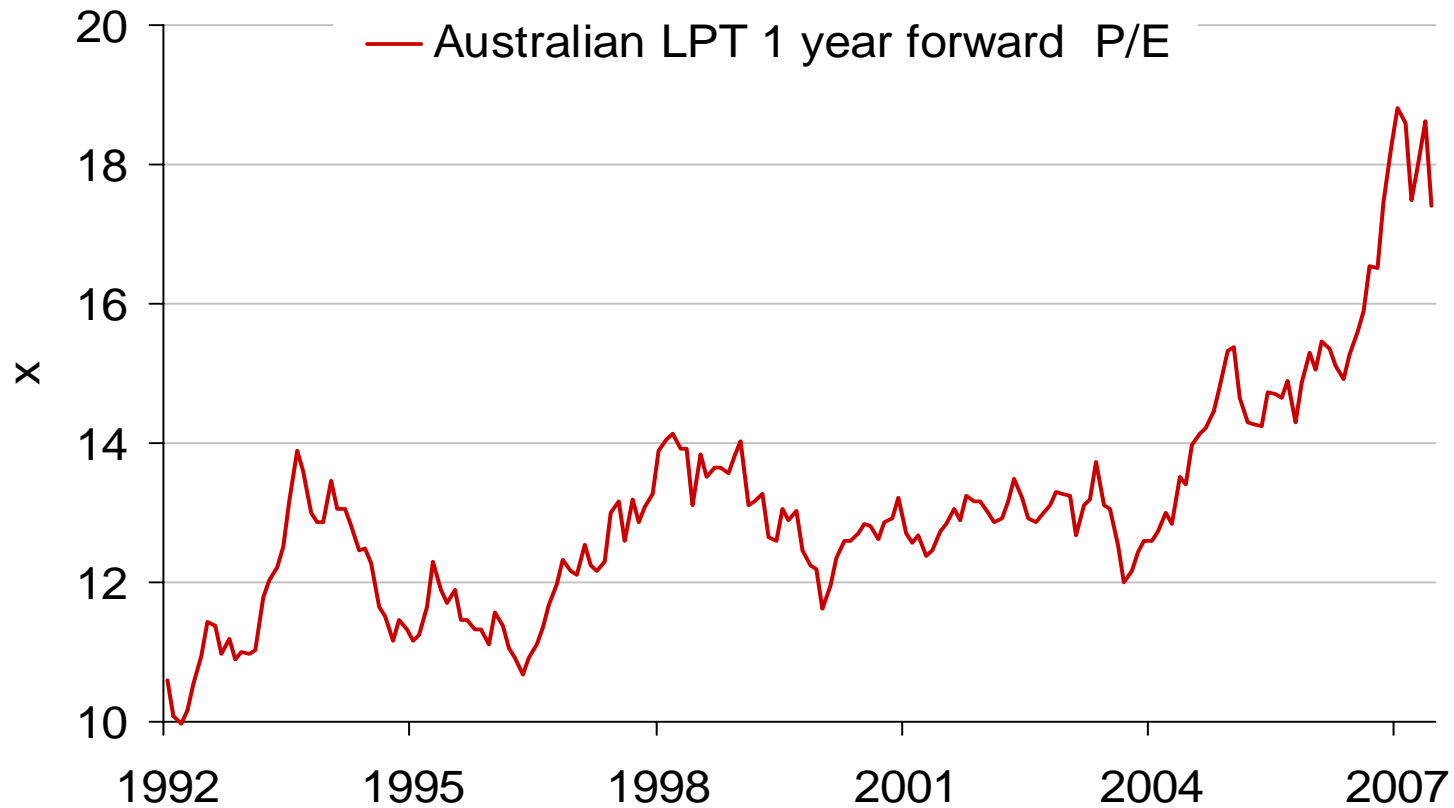


Commodity Price Rises: Bubble Or Super-Cycle?



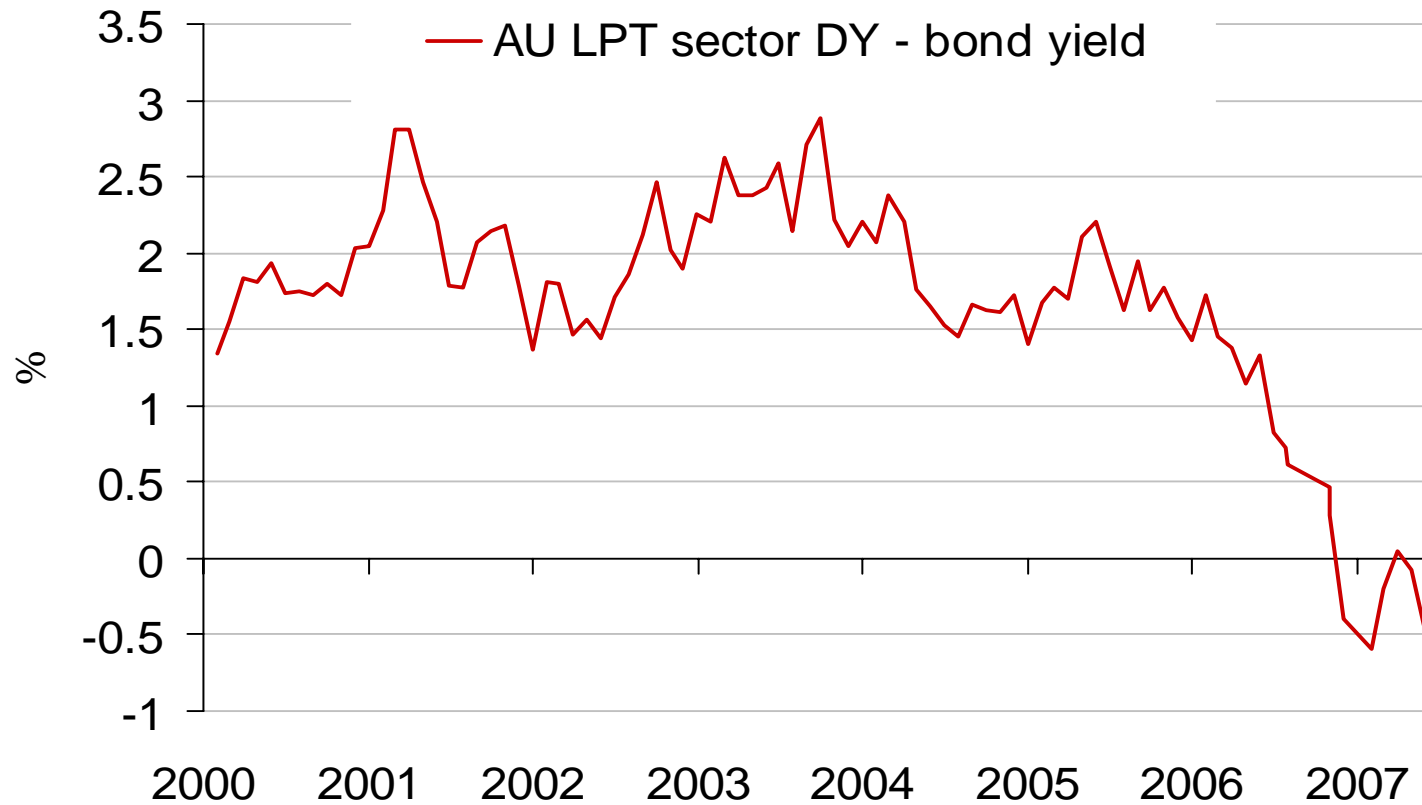
Source: Datastream

Property Trusts Still Expensive...



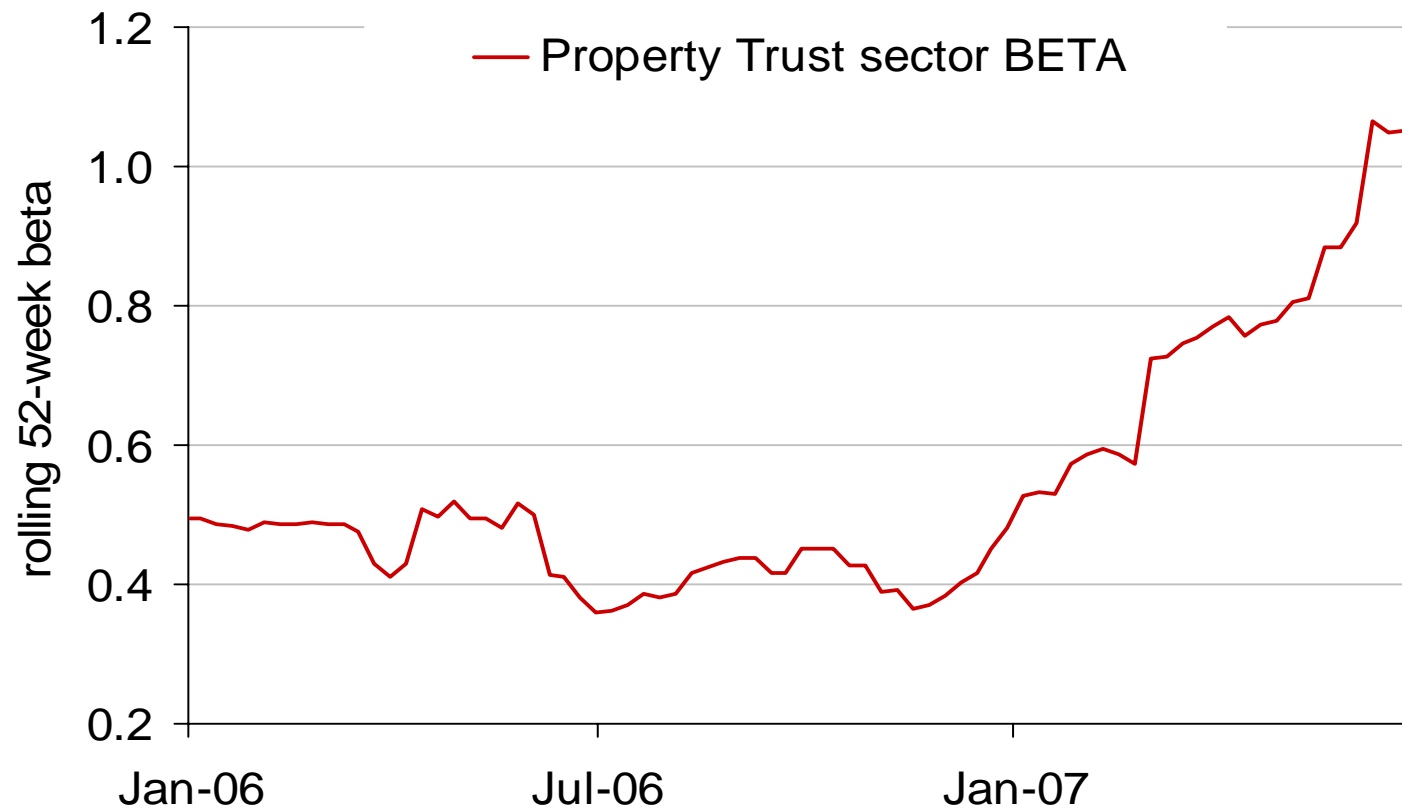
Source: I/B/E/S, UBS calculations

Property Trusts Expensive...



Source: I/B/E/S, UBS calculations

...and Riskier



Source: Datastream, UBS calculations

Contact Information

UBS Securities Australia Ltd
David Cassidy
Chief Strategist
david.cassidy@ubs.com

Tel: +61-2 9324 3721
Fax:

Level 25
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

www.ubs.com



Global Disclaimer

Global Disclaimer

This material was produced by: UBS Securities Australia Ltd

Local office: UBS Securities Australia Ltd, Level 25, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000 Phone: +61-2-9324 2000

Head office: UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP, UK Phone: +44-20-7567-8000

This material has been prepared by UBS AG or an affiliate thereof ("UBS"). In certain countries UBS AG is referred to as UBS SA.

This material is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS, its directors, officers and employees (excluding the US broker-dealer unless specifically disclosed under required disclosures) or clients may have or have had interests or long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in them as principal or agent. UBS (excluding the US broker-dealer unless specifically disclosed under Required Disclosures) may act or have acted as market-maker in the securities or other financial instruments discussed in this report, and may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant companies. Employees of UBS may serve or have served as officers or directors of the relevant companies. UBS may rely on information barriers, such as "Chinese Walls," to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. **Additional information will be made available upon request.**

United Kingdom and rest of Europe: Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are market counterparties or intermediate customers (as detailed in the FSA Rules) and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, private customers. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Should persons receiving this research in Italy require additional information or wish to effect transactions in the relevant securities, they should contact Giubergia UBS SIM SpA, an associate of UBS SA, in Milan. **South Africa:** UBS Securities South Africa (Pty) Limited (incorporating J.D. Anderson & Co.) is a member of the JSE Securities Exchange SA. UBS South Africa (Pty) Limited is an authorised Financial Services Provider, Licence No 7328. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Singapore Pte. Ltd. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd.

© 2005 UBS. All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect.

