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Eye on the Market 2011 Outlook
Please contact your JP Morgan representative for a bound color version of the Outlook

The Printing Press. As we head into 2011, global profits are rising, U.S. household incomes and debt burdens are improving, the Asian production boom continues, global services are starting to rebound, and Germany is seeing its largest manufacturing and consumer revival since reunification. So far, so good. But to generate this outcome, most Central Banks and Treasuries around the world have been running in overdrive since January 2008 to create or redistribute money. A resulting measure of global imbalances has never been higher.

Do these imbalances matter given positive economic momentum in the US, Germany and China; low P/E multiples on both developed and emerging equity markets; and mountains of household, corporate and Sovereign Wealth Fund cash capable of driving asset prices higher? We think they do, since the risks of unintended consequences are higher when the magnitude of imbalances (and experimentation) is this high as well.

We have invested client portfolios in the belief that the world will *not* suffer a major relapse, with significant holdings in public and private equity, credit, hedge funds, commodities and real estate. We expect 2011 to be like 2010: volatile, and with modest returns on a balanced portfolio of financial assets. That these returns are made more attractive by the world's *Printing Press* policy**, which renders cash savings useless as a store of value, is a mixed blessing at best. This publication reviews our market, investment and portfolio stance as 2011 begins.

Michael Cembalest
Chief Investment Officer

** As per the Fed Chairman himself; see page 10