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To: Undisclosed recipients;

Subject: JPM View 08.31.2012

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Attachments: JPM_View_08.31.2012-pdf.zip

Inline-Images: image003.png

The J.P. Morgan View

Adding risk in the US

- **Asset allocation** — Cover long EMFX funded in euros and instead go outright long US equities as US has least event risk in September, upside risk on the economy and a more supportive central bank.
 - **Economics** — Upside risks on US, due to better consumption, are offset by downside risks on China and Japan to keep our global growth forecasts and risk balance unchanged.
 - **Fixed Income** — Portugal 2-yr yields include some 3% in EMU exit premium, making a clear case for new ECB SMP buying.
 - **Equities** — Overweight US industries that benefit from sustained housing recovery.
 - **Credit** — US HY and CMBS should benefit from any move to QE3, and are less exposed to event risk in Europe.
 - **Currencies** — Shorts on EUR/USD are about 75% covered.
 - **Commodities** — Stay OW energy vs. base metals.
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- **Markets have been largely in a holding pattern over the past fortnight, though giving back a touch of the risk rally of the previous fortnight.** Equities are a percent or so lower, credit spreads a few bp wider and government bond yields some 10bp lower. With little news, investors are waiting for the potential policy fireworks over the next few weeks to decide which way to tilt their holdings.
 - **Two weeks ago, we upgraded our global growth outlook from a negative risk bias to a more balanced one.** There has not been a lot of news since then, but the releases we did receive appear to be confirming that a bottoming process has taken place in world growth. We currently have the world economy expanding at a 2% pace in Q3, slightly up from Q2. We have seen no reason to change our 2012 and 2013 global projections for the past month now. Across regions, better consumer spending is creating some upside for Q3, but only modestly so given the recent rise in gas prices. European data are largely tracking our forecast for continued contraction of the economy. In Asia, weaker data are creating downside risks to both Japan and China.
 - **Economic data not getting worse is no source of comfort, as the current growth pace is some 1% below potential and risks driving the world into global deflation, if not depression. Hence, our eyes remains on what policy makers can do to prevent this.** The US Federal Reserve is probably closest to having exhausted its armory, but is also seen as the policy maker most willing to do whatever it takes to reverse conditions. Hence, the preference of many investors to hold US equities relative to the rest of the world. Mr Bernanke today confirmed his commitments again at Jackson Hole, but is making us wait to the next FOMC meeting for details. He will then likely extend rate guidance for another year, with close to even odds of another bout of balance sheet extension.

See page 7 for analyst certification and important disclosures.

Global Asset Allocation

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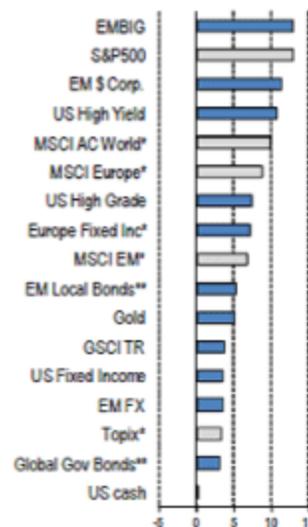
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YTD returns through Aug 30

% , equities are in lighter color.



Source: J.P. Morgan, Bloomberg. See blue box on page 2 for description.