From: US GIO <[redacted]>
To: Undisclosed recipients:;
Subject: JPMorgan View 11.18.2011
Date: Fri, 18 Nov 2011 22:46:07 +0000
Attachments: JPM_View_11.18.2011-pdf.zip
Inline-Images: image003.png

J.P.Morgan

Global Asset Allocation
J.P.Morgan Chase Bank NA, J.P. Morgan Securities Ltd.
Nov 18, 2011

The J.P. Morgan View

EMU now more clearly in a liquidity crisis, affecting all

- **Economics** — Q4 GDP growth in US raised to 3%, even as Q3 was probably only 2%. We reduce UK 2012 growth from 0.8% to 0.5%, with a mini-recession in H1.
- **Portfolio strategy** — Near -term volatility as EMU plays poker.
- **Fixed Income** — Economic momentum favours UK gilts over JGBs.
- **Equities** — Continue to focus on country trades favouring Germany and BRICs.
- **Credit** — Senior French bank bonds vs. OATS look attractive in very good, and very bad, states of the world.
- **Foreign exchange** — We remain short EUR/JPY through options to hedge adverse outcomes in Europe.
- **Commodities** — We raise our WTI forecast to reflect our view that the Brent-WTI spread should narrow to only $4/bbl by the end of next year.

- Markets remain extremely volatile and continue to react to the latest political statements out of Europe on who will or will not, or should or should not, do what to resolve the Euro sovereign debt crisis. Economic data in the rest of the world, and especially the US, were supportive for risk markets, but were outshouted by the political chaos in Europe, leaving riskier assets significantly down over the week.

- US activity data continue to impress, relative to subdued expectations, and are bringing our forecast for Q4 up to 3%, even as we downsize Q3 to only 2%. The average for H2 stays at 2.5%, much better than the 1% pace we projected only two months ago. This good news improves the glide path of the economy into 2012, but itself does not eliminate the downside risk due to the expiring of a number of fiscal stimulus measures at the end of this year. There remains no sign of compromise in Washington on the 2012 budget nor on the Supercommittee's effort to reduce the 10-year out deficit by $1.5 trillion. One could hope that both sides know the nation needs clarity and will compromise at the last minute, but time is running out. Monday should bring news from the Supercommittee.

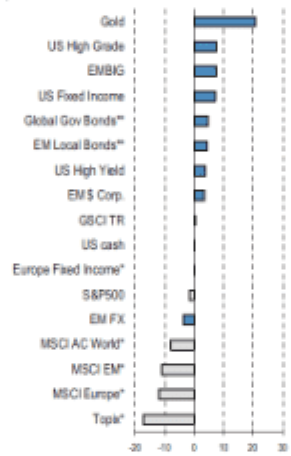
- Elsewhere, we see further evidence that slower growth this year is now starting to bring **headline inflation down.** By our forecast, global headline inflation should fall from 3.6% oya this quarter to 2.4% oya in 6 months' time. Our latest Inflation Expectations Survey (*Garayo and Chordia*, Nov 11) revealed that investors have raised their probability of deflation over 2 of the next 5 years by 5% to 10% in the US and 15% in the Euro Area (EA). For the EA, this equals their probability of high inflation (>4%).

- **Falling inflation and inflation expectations** should provide both support to consumers and comfort to central bankers that they should be thinking about providing greater stimulus, through rate cuts in EM and quantitative easing in the major developed markets. The **Bank of England** is in the midst of raising its

The certifying analyst is indicated by an AC. See page 7 for analyst certification and important legal and regulatory disclosures.

Jan Loeys[AC]
[redacted]
John Normand
[redacted]
Nikolaos Panigirtzoglou
[redacted]
Seamus Mac Gorain
[redacted]
Matthew Lehmann
[redacted]
Leo Evans
[redacted]

YTD returns through Nov 17
%, equities are in lighter colour.



Source: J.P. Morgan, Bloomberg. Returns in USD. *Local currency. **Hedged into USD. Euro Fixed Income is iBoxx Overall Index. US HG, HY, EMBIG and EM $ Corp are JPM indices. EM FX is ELMI+ in $.

[redacted]
