From: US GIO <[redacted]>
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J.P.Morgan

Global Asset Allocation
J.P.Morgan Chase Bank NA, J.P. Morgan Securities Ltd.
Jan 27, 2012

The J.P. Morgan View

The rally is getting fundamental support

- **Asset Allocation** — Start switch from the US into EM.
- **Economics** — Stronger PMIs create upside risk on global growth. We raise Q1 to flat in the Euro Area, and 2012 from -0.8% to -0.4%, with upside risk.
- **Fixed Income** — We stay tactically positive on the periphery.
- **Equities** — We recommend a basket of high and sustainable dividend yield stocks, the *J.P. Morgan European Sustainable Yield Basket* with an average yield of 4.7%.
- **Credit** — US HY remains our preferred trade, stay long.
- **Foreign exchange** — We reduce defensive trades again and add another USD short.
- **Commodities** — Close long brent vs. base metals trade. Remain long gold.

- Week four and the rally in risk assets continues, even as US equities are headed for their first net weekly down of the year. Last week, we saw that the rally, which had started in equities, was pulling along credit, commodities and EM currencies. This remains the case this week, and now has widened further to the euro periphery. But we are also getting **fundamental support**, with improved economic data and central banks signalling even further easing. We are from being challenged by overvaluation and bullish positions and thus feel comfortable retaining a significant long in risk assets.

- PMIs remain our best forward looking indicators of economic activity, despite their sub-par performance as a global signal last year. And it is the flash PMIs for China and Europe that are now indicating upside risk on global forecasts for Q1. In the Euro are, this has forced us already to bring Q1 from -1.5% to flat, which raises the 2012 projection from -0.8% to -.4%. We await next week's surveys on credit conditions to assess whether the region remains in a shallow recession, or is just hovering around stagnation.

- Equally important are signs that central banks are putting themselves even more into a stimulus stance. The FOMC stated this week that it does not expect to raise rates for another three years, almost a year later than the market had expected. And Chairman Bernanke made it clear that it would not take much for the FOMC to start another round of QE. In Europe, there is growing confidence that the December 3-year loan from the ECB is leading banks to use at least some of that to buy sovereign debt. We expect banks to take up €350-400bn at the next LTRO on Feb 29, of which €250-300bn would be new money. In EM, the Reserve Bank of India gave us a surprise 0.5% drop in reserve requirements. This may not signal a big change, but we do expect rate cuts from Q2 on as inflation is falling. Overall, both DM and EM **central banks have become more growth supportive over the past month.**

- The strong and widening rally in risk assets may give the impression that the investment community is turning bullish about the world. However, weak trading volumes, surveys, implied betas and client conversations reveal

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

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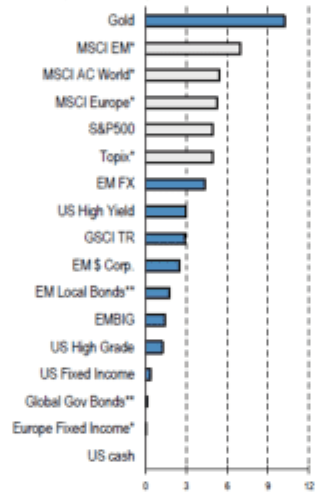
YTD returns through Jan 26
%, equities are in lighter colour.



Source: [redacted] 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 $.

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