From: US GIO <us.gio@jpmorgan.com>
To: Undisclosed recipients:;
Subject: JPM View 05.04.2012
Date: Fri, 04 May 2012 21:07:57 +0000
Attachments: JPM_View_05.04.2012-pdf.zip
Inline-Images: image003.png

J.P.Morgan

Global Asset Allocation
J.P. Morgan Chase Bank NA,
J.P. Morgan Securities Ltd.
May 4, 2012

The J.P. Morgan View

Signal versus noise

- **Asset Allocation** — Near-term momentum is negative for risk markets, but we find the signal from medium-term drivers more reliable and thus stay with our long risk assets for coming months.
- **Economics** — Fall in Global All-Industry PMI eliminates upside risks on growth, but is consistent with 2.2% global growth projection we have for Q2. Loss of US job momentum implies Q2 may come in closer to 2%.
- **Fixed Income** — End of BoE's QE next week a headwind for gilts.
- **Equities** — OW US vs. Euro area equities, DAX vs Eurostoxx50 and MSCI EM Asia vs. MSCI EM.
- **Credit** — Keep the focus on US credit.
- **Foreign exchange** — Remain risk neutral and focused on earning carry in cyclical currencies with low vol and non-threatening valuations (Scandinavia) while simultaneously selling upside on stretched commodity currencies.
- **Commodities** — Neutral outlook favours spread trades over next 3 months.

- **Equity markets this week gave back all their gains of the previous week** and have now fallen back to the low end of the range they have held over the past 10 weeks. Commodities and bonds yields continue to fall from the year highs seen in March. The dollar is up against most currencies
- **This week fall's in risk prices,** and the rally in bonds and the dollar, had for once little to do with Europe where periphery yields are down nicely. Instead, we are seeing a number of economic data releases, punctuated by today's US payrolls report, that show **fading momentum into the second quarter.** The magnitude of the negative surprises are not yet large enough to force downgrades of growth forecasts. Our global 2012 projection does slip back to the 2.2% forecast we held all through Q1, but this is largely a rounding issue caused by last week's US Q1 cut and this week downgrade of Taiwan.
- Market attention has focused on weaker **PMIs across the world and US jobs data.** Our April Global Manufacturing PMI edged back to the January level and is thus really unchanged this year. Our Global Services PMI, in contrast, fell 3 points, pushing our All-Industry PMI down 2 points and back to its November level. By themselves, these data are consistent with our 2.2% global growth forecast for Q2. They leave us with balanced risk on global growth, even as the drop eliminates the upside risk bias we had before this month.
- Similarly, the weaker US jobs data are signalling a loss of momentum into Q2 and make it more likely that US Q2 will come closer to 2% flat, compared with our 2.5% projection. At the start of the year, we expected average monthly jobs growth at 200,000. The first few months came in well above this, while the shortfall over the past 2 months brings the YTD mean exactly to 200,000. From

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

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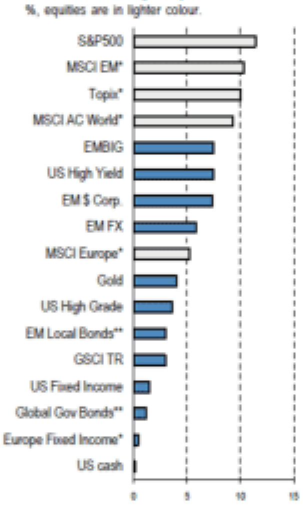
YTD returns through May 3
%, equities are in lighter colour.



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 $.

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