

From: US GIO <[REDACTED]>

To: Undisclosed recipients;

Subject: JPM View 10.19.2012

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Attachments: JPM\_View\_10.19.2012-pdf.zip

Inline-Images: image003.png



## The J.P. Morgan View

### The mean and the mode

- **Asset allocation** — Our modal forecasts on the economy and earnings are still edging down, but so are downside risks, such that the probability-weighted means are instead rising. We stay long risk assets, and add longs in euro periphery bonds and shorts in overall bond duration. With event risks moving from China and Europe to the US, we move underweight US equities and overweight USTs vs. Europe, while staying short the dollar.
  - **Economics** — US 2013 growth is lowered by 0.2% to 1.7% as we raise 2013 fiscal drag to -2%.
  - **Fixed Income** — Look for the rally in Euro area peripherals to continue.
  - **Equities** — UW US equities within a global portfolio into 2013.
  - **Credit** — We lower our YE US HG spread target to 135bp, down from 150bp.
  - **Currencies** — A Romney win should be dollar bearish, as it boosts risk assets.
  - **Commodities** — We stay long base metals.
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- **Risk markets continue to yo-yo, with this week being up, while last week was down.** Bond markets are mirroring the move, in reverse. Most markets remain within their 2-month range, but credit is outperforming with spreads reaching new lows for the year.
  - **We continue to see risk markets supported by a better mean, despite a poorer mode.** That is statistics language for saying that our best-guess modal forecasts for global economic growth and earnings next year are still edging gently down, but the probability weighted mean of different outcomes for next year is, in contrast, still slowly improving. This is because we and the market are gradually seeing less downside risk emanating from China and Europe, even as concerns are rising about the so-called US fiscal cliff.
  - **The economic data flow continues to show signs of a bottoming and a coming rebound in growth.** A few weeks ago, we got upward moves in PMIs, and especially in orders relative to inventories. This week, we received strong demand-side data on consumption for September in the US, UK and China. Business capital spending remains weak, though. Watch out next week for US durables and flash PMIs for further confirmation of the coming rebound. On the policy side, our US economists reassessed the likely fiscal tightening next year and upgraded the total fiscal drag to -2%, thus forcing 2013 US growth down from 1.9% to 1.7% (see Michael Feroli, *The US Fiscal cliff: an update and a downgrade, in today's GDW*)
  - **In event risk terms, concern that gridlock in Washington will push the US into recession is rising, if only because decision time is nearing and both sides will try to show how committed they are to their positions.** At the global level, we believe these greater concerns are offset by reduced worries about a Chinese hard landing and a Euro implosion.

See page 7 for analyst certification and important disclosures.

Global Asset Allocation  
19 October 2012

#### Global Asset Allocation

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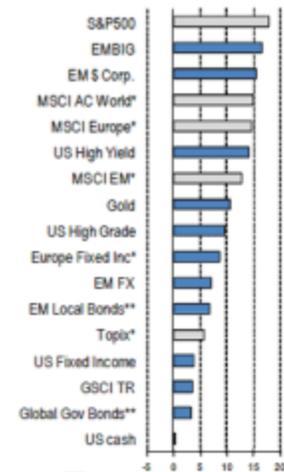
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#### YTD returns through Oct 18

%; equities are in lighter color.



Source: [REDACTED] Morgan, Bloomberg. See blue box on page 2 for description.

