

Bad fundamental conditions:

1. Current account deficit larger than 3% of GDP
2. Fiscal deficit larger than 3.5% of GDP
3. Unemployment higher than 6%
4. US Manufacturing PMI below 45
5. Inflation higher than 4%

1 year S&P 500 returns, 1948-2012

Investment	# of Bad					
<u>Scenario</u>	<u>Conditions</u>	<u>Average</u>	<u>Max</u>	<u>Min</u>	<u>Std</u>	<u>#obs</u>
Going to hell	> = 3	19%	59%	-19%	16%	110
Life is fine	None	15%	48%	-16%	14%	231
Not so bad	Only 1	7%	47%	-40%	18%	258

Source: Bloomberg, J.P. Morgan Asset Management