

## ASU – Financial Market Outlook (2013)

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Investment products: Not FDIC insured • No bank guarantee • May lose value

Please see important information at the end of this presentation.

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# US Corporations Remain Flush With Cash

Corporations have high cash balances in order to deal with uncertainty

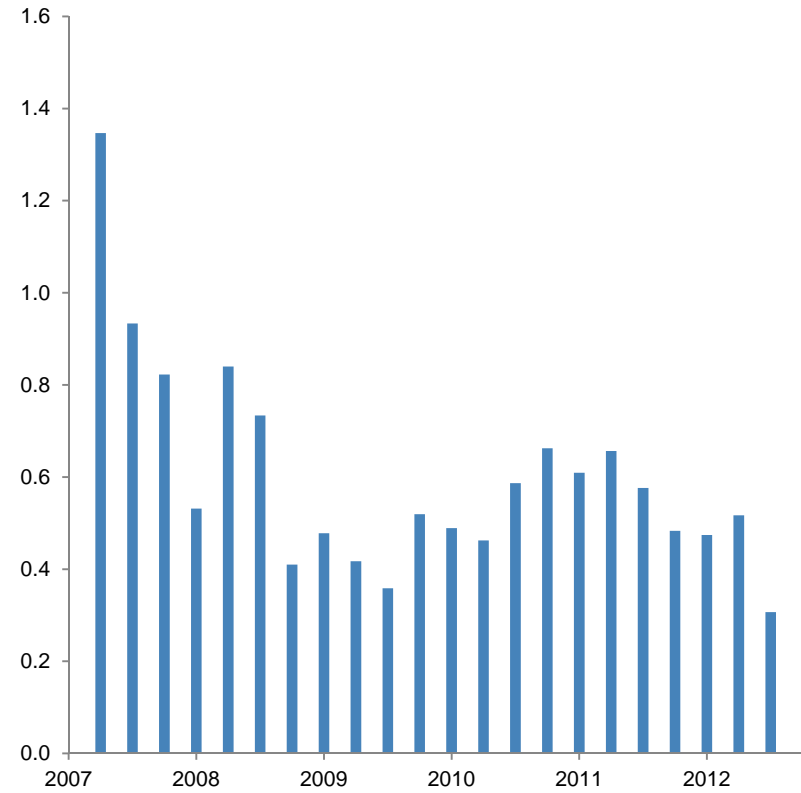
Cash and Equivalents/Tangible Assets



Source: Federal Reserve

Global merger and acquisition activity remains at low levels relative to the size of corporation's cash balances

M&A Volume in trillions of USD

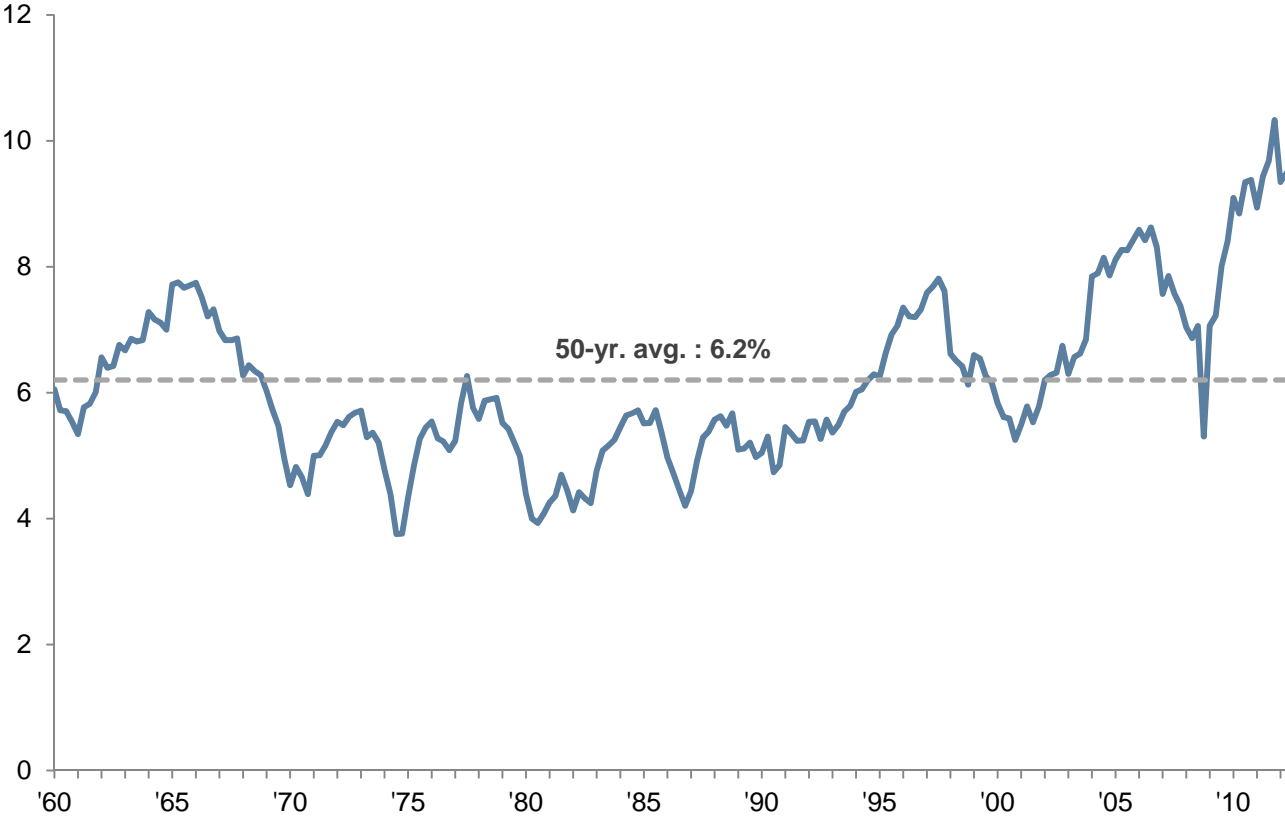


Source: S&P, Federal Reserve, Bloomberg, FactSet, J.P. Morgan Securities LLC

# Share of Corporate Profits Remain Near-Record Highs

## Adjusted After-Tax Corporate Profits (% of GDP)

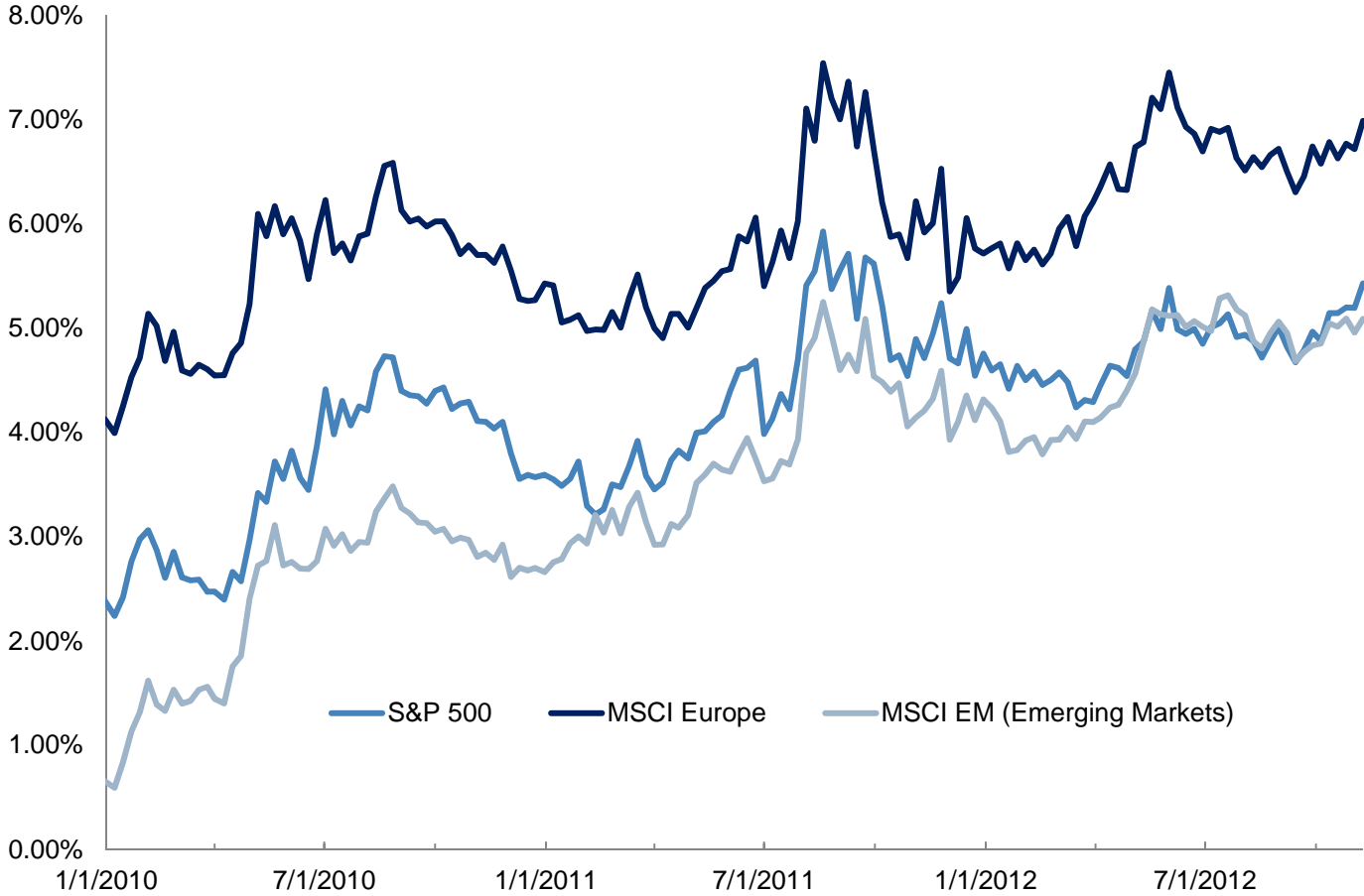
Includes inventory and capital consumption adjustments



Source: The Bureau of Economic Analysis, Haver Analytics

# Bullish Signal: The Equity Risk Premium Remains Attractive

Equity risk premium shows the dislocation in Europe  
Next 12 months earnings yield less regional Investment Grade Corporate Bond Yields

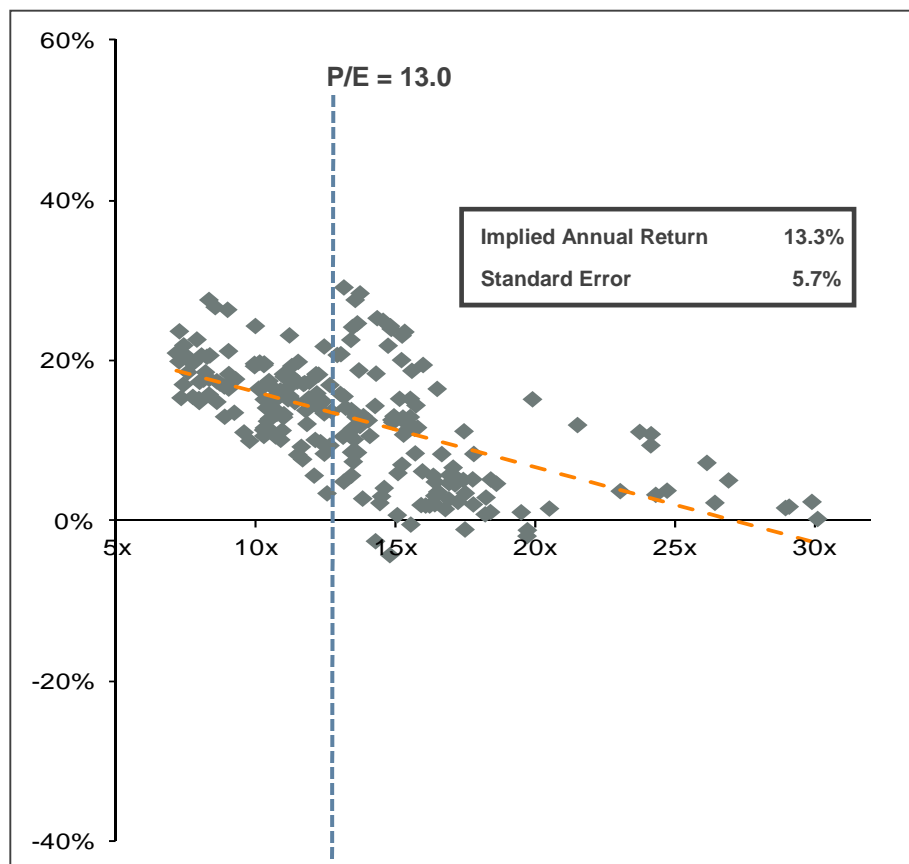


Source: S&P, FactSet, Bloomberg

## History Suggests Attractive U.S. Equity Returns At Current Valuations

### P/E and Total Return Over 5-yr. Annualized Periods

Quarterly, 1Q 1952 to 2Q 2007



Source: BEA, FRB, J.P. Morgan Asset Management. Prices are based on the market value of all U.S. corporations and include quarterly dividends. Valuation based on long-term PE ratio.

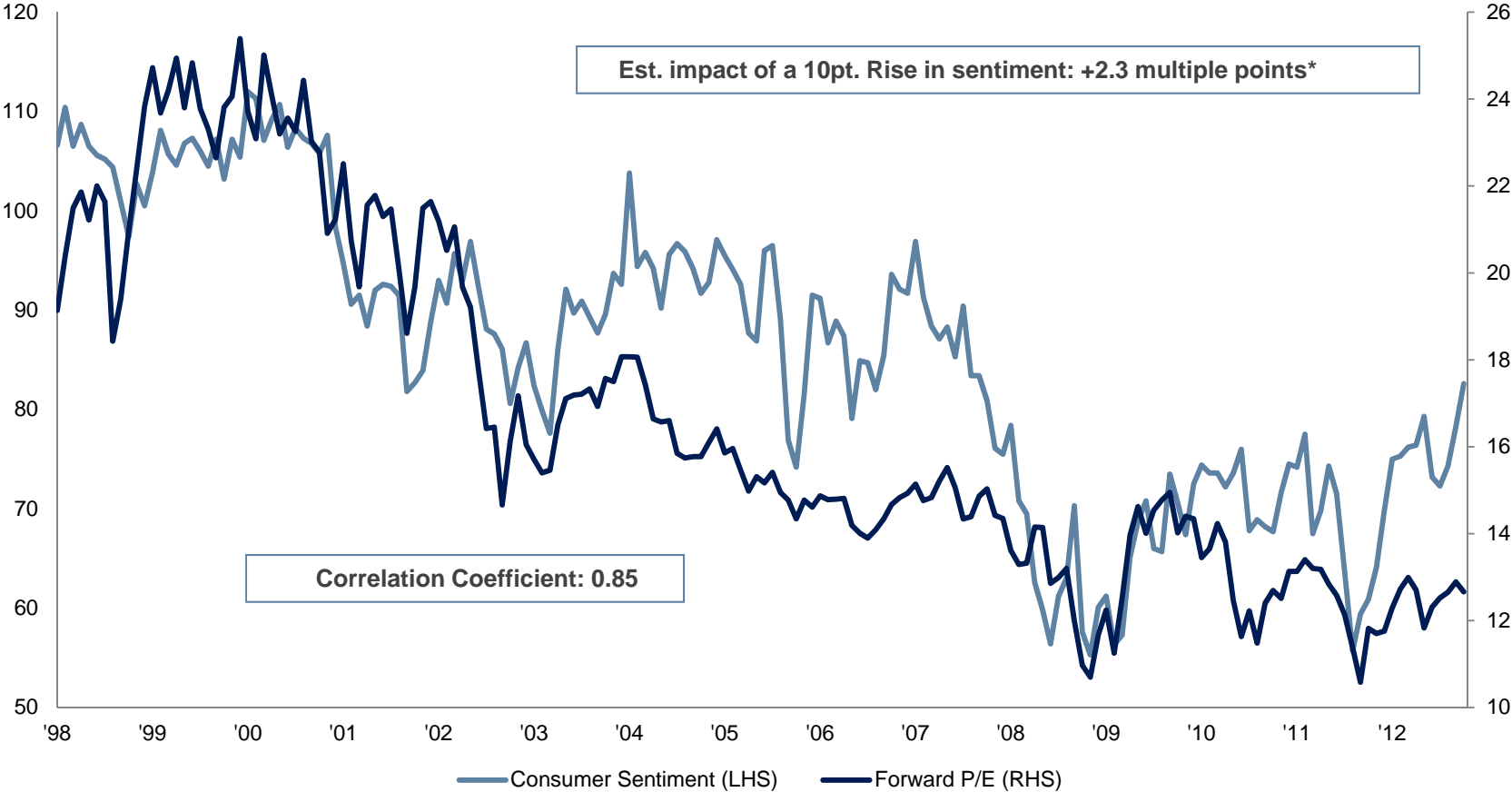
Note: Orange line denote results of linear regression with R-squared of 0.35 for 5-yr. Returns.

Data are as of 11/2/12.

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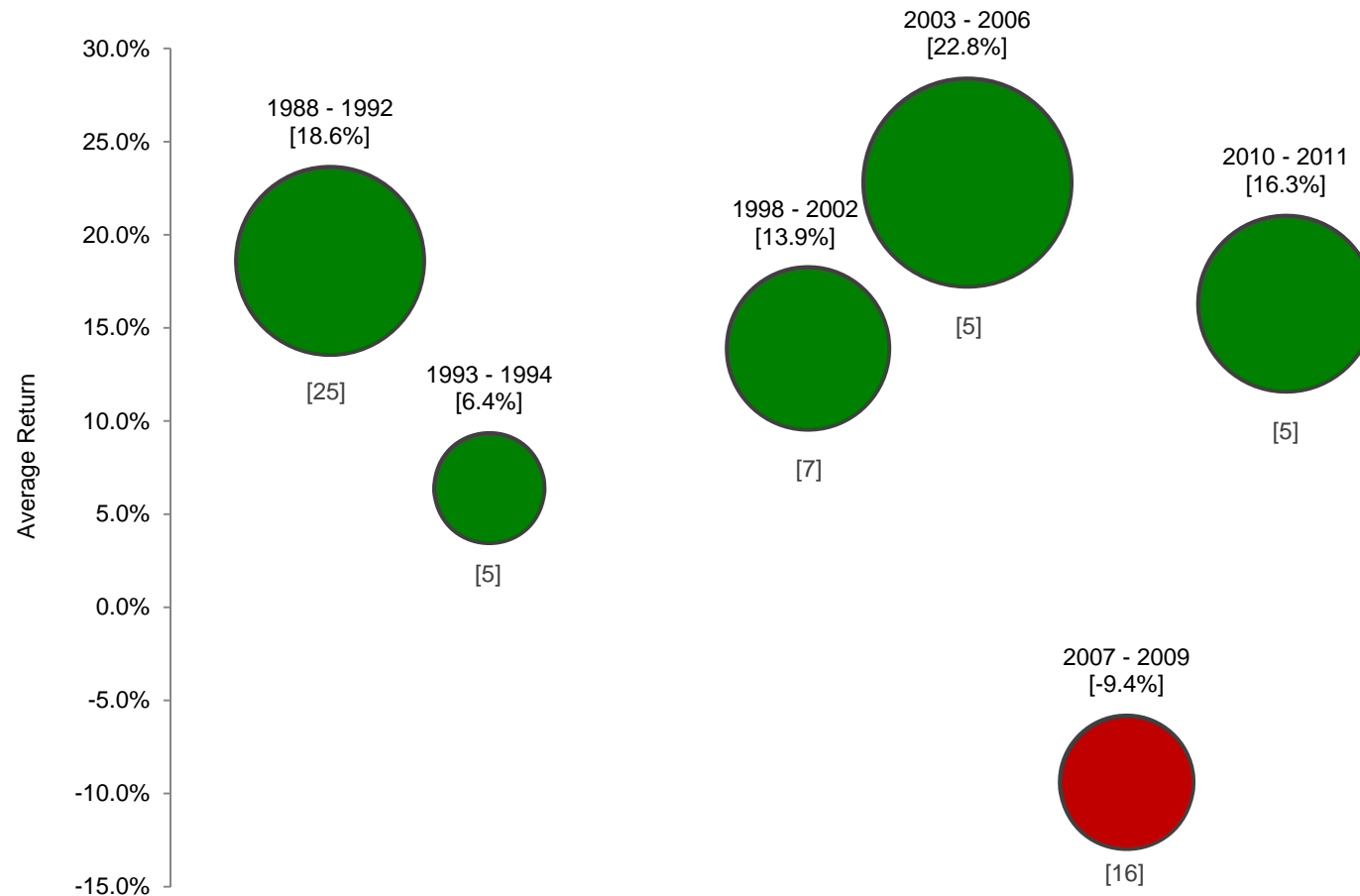
# Higher Consumer Sentiment Signals Multiple Expansion in Equities

**Multiple Expansion and Contraction**  
 S&P 500 forward P/E based on consensus EPS estimates



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management. Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next twelve months. \*Estimated impact based on coefficients from regression analysis. Data are as of 11/2/12.

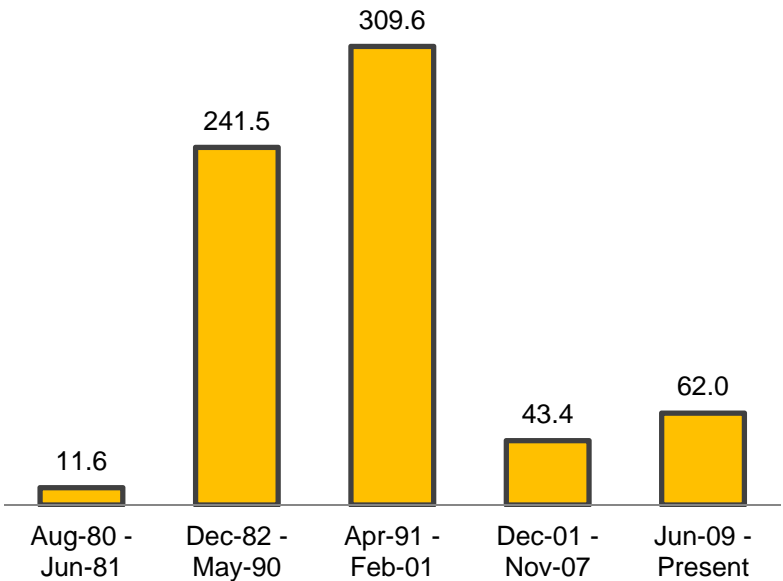
## Average (U.S.) 12-Month Returns When Investor Sentiment (Bullish Percentage Minus Bearish) Spread is 1.5 and 2 standard deviations Below its Average



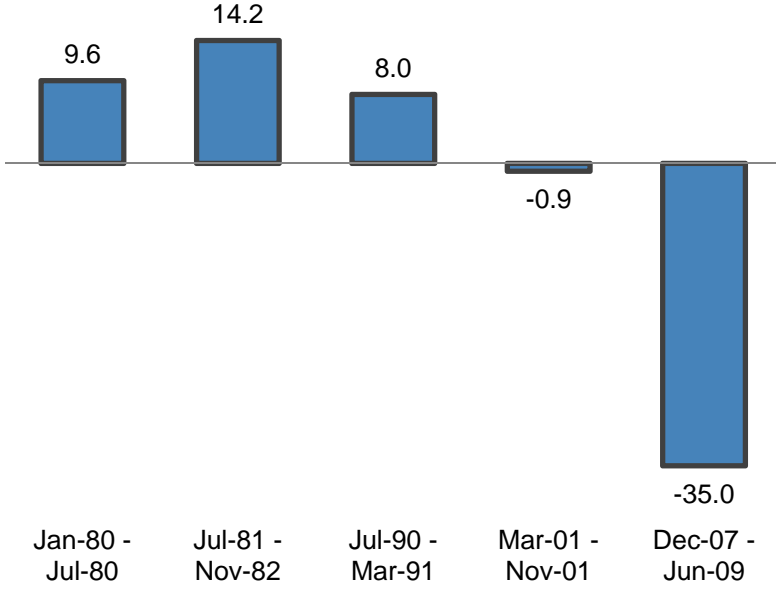
Source: AAI Sentiment Survey, Bloomberg

**Cumulative Equity Market Returns During the Current Expansion Remain Moderate Considering all the Monetary and Fiscal Stimulus that has been Supplied.**

**S&P 500 returns during economic expansions**



**S&P 500 returns during economic contractions**



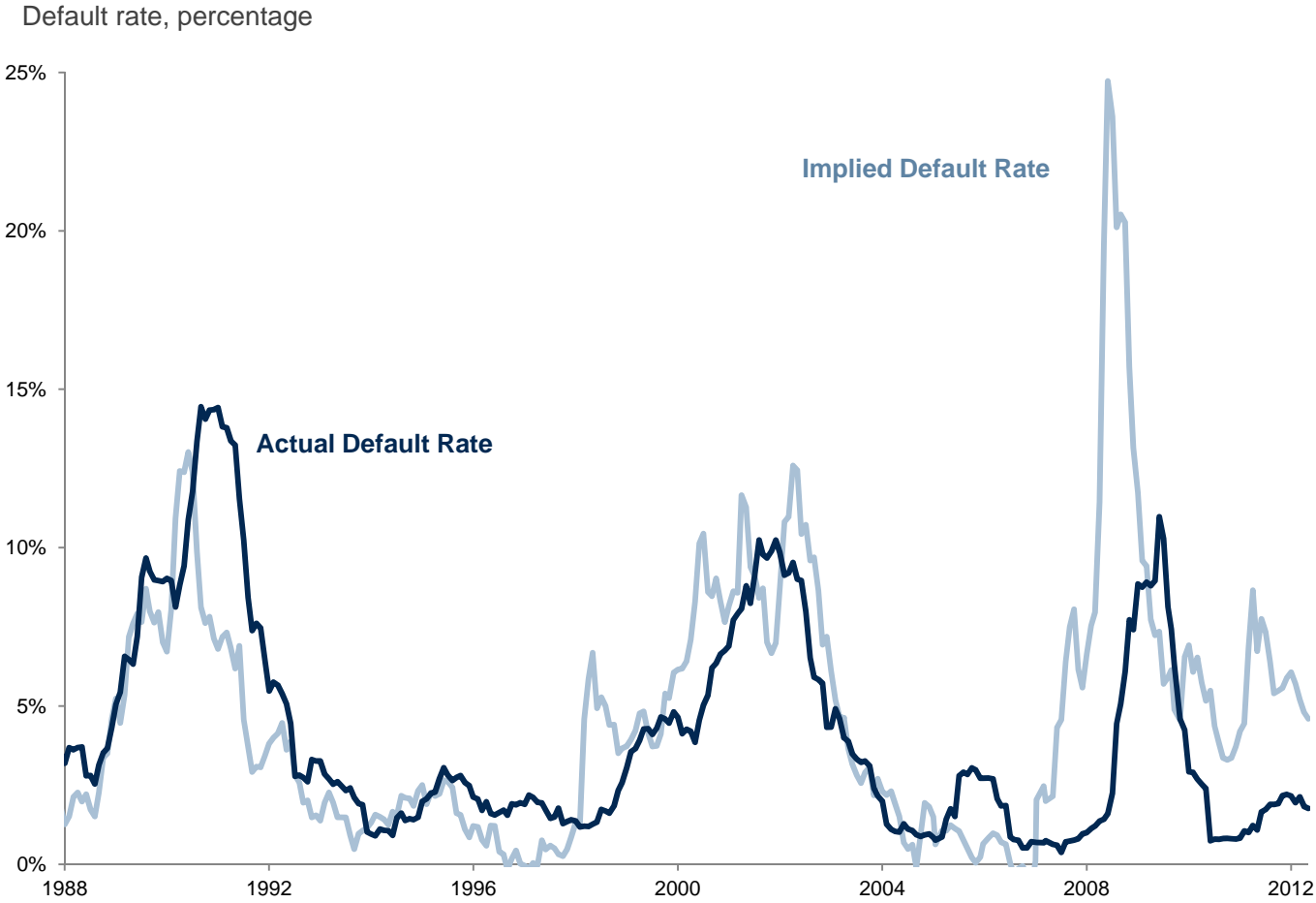
Source: Bloomberg, National Bureau of Economic Research

Note: Returns are total returns during the specified time periods.



# Corporate High Yield Investments Remain Attractive

## As Returns Continue To Price-In Higher than Expected Defaults



Source: J.P. Morgan Securities LLC

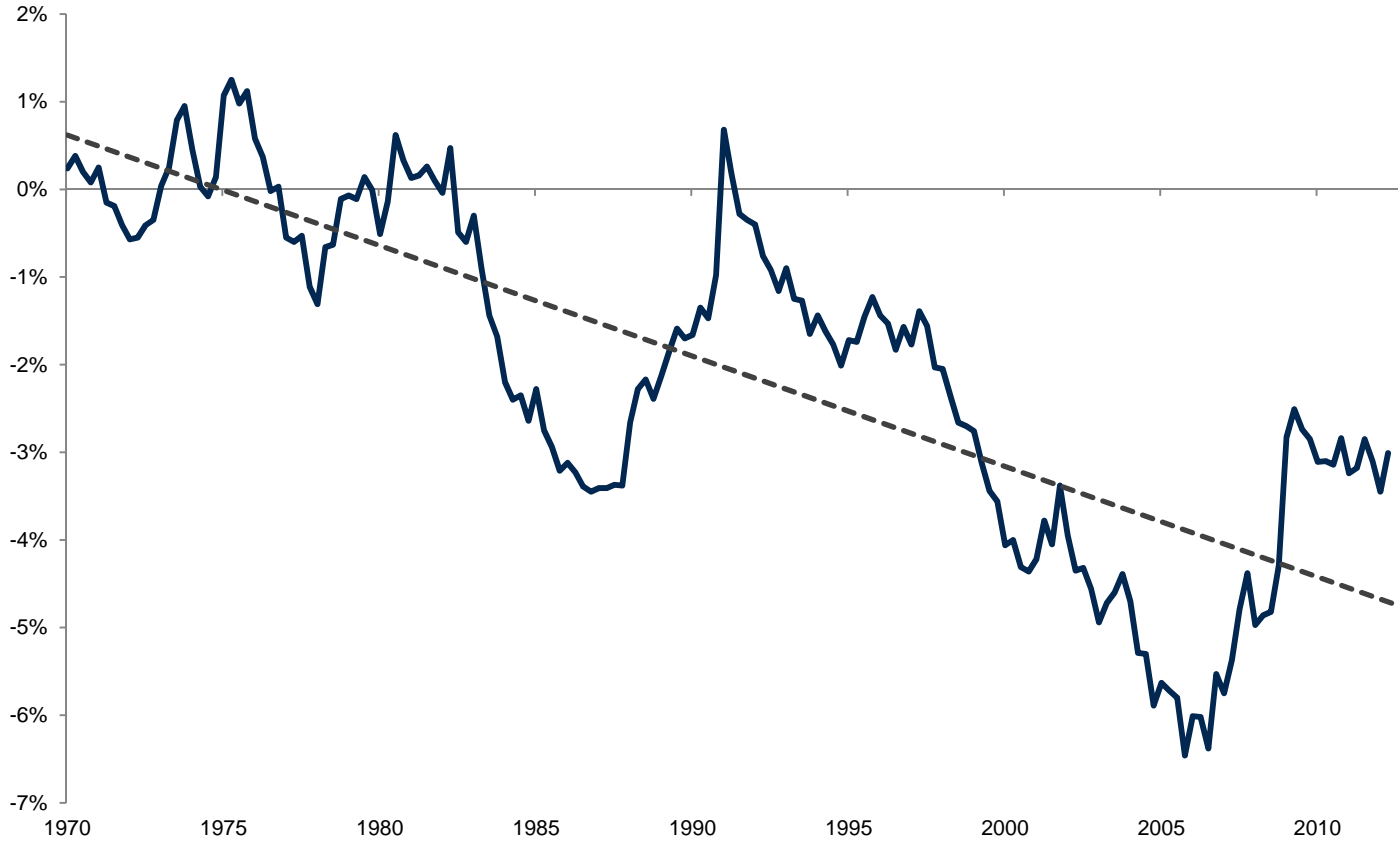


**Past performance is not indicative of future returns.** It is not possible to invest directly in an index. Please see appendix for index definitions. High yield bonds are speculative non-investment grade bonds that have higher risk of default or other adverse credit events which are appropriate for high-risk investors only.

# U.S. Currency Outlook:

The cumulative current account balance of the United States has been in a secular decline

Current Account Balance, percent of GDP



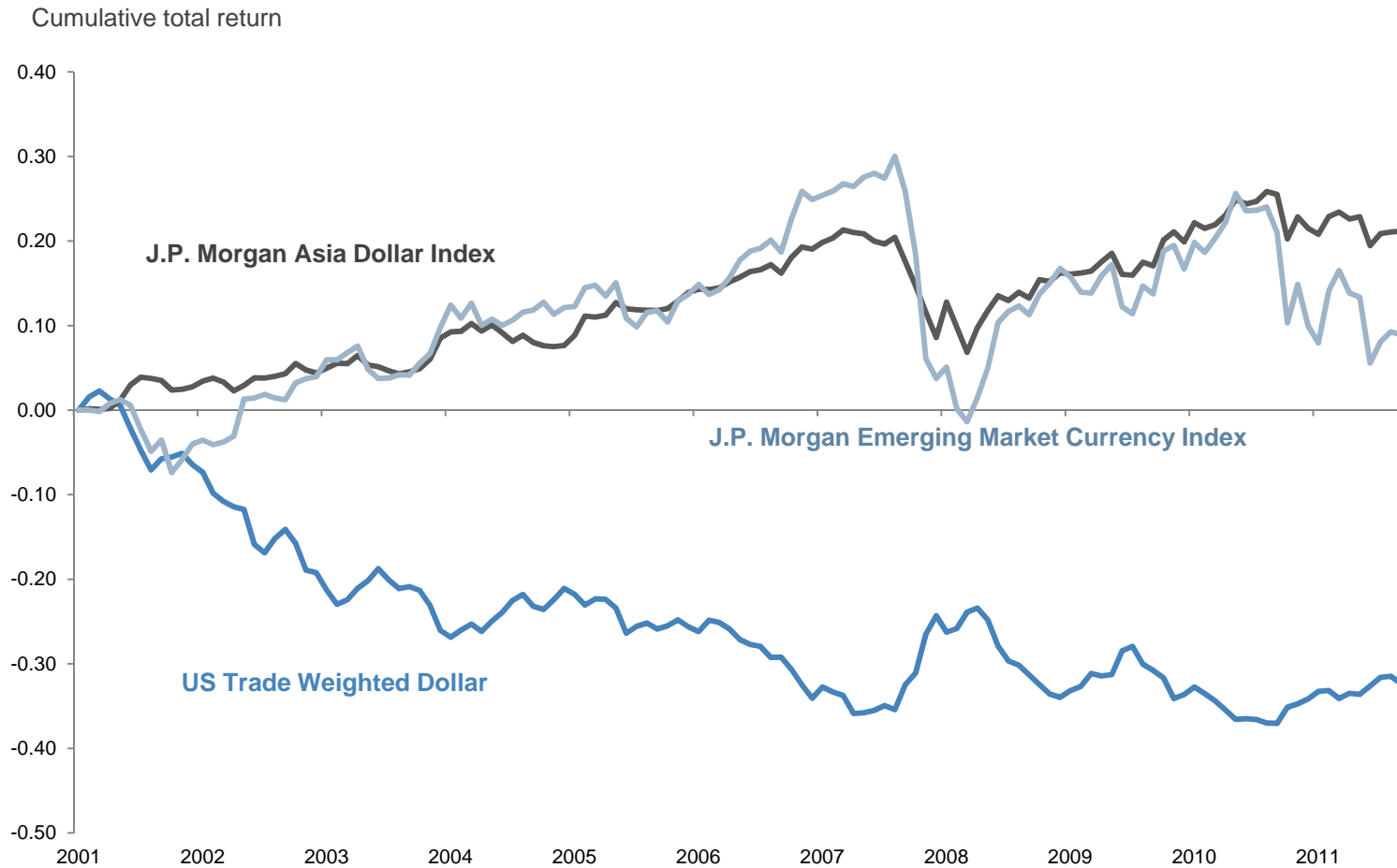
Source: Bureau of Economic Analysis



Past performance is not indicative of future returns. It is not possible to invest directly in an index. Please see appendix for index definitions.

## As the US Dollar \$ has Weakened, Emerging Market Currencies Have Strengthened

The decline in the USD has been matched by appreciation in Emerging Market currencies



Source: J.P. Morgan Securities LLC, Bloomberg

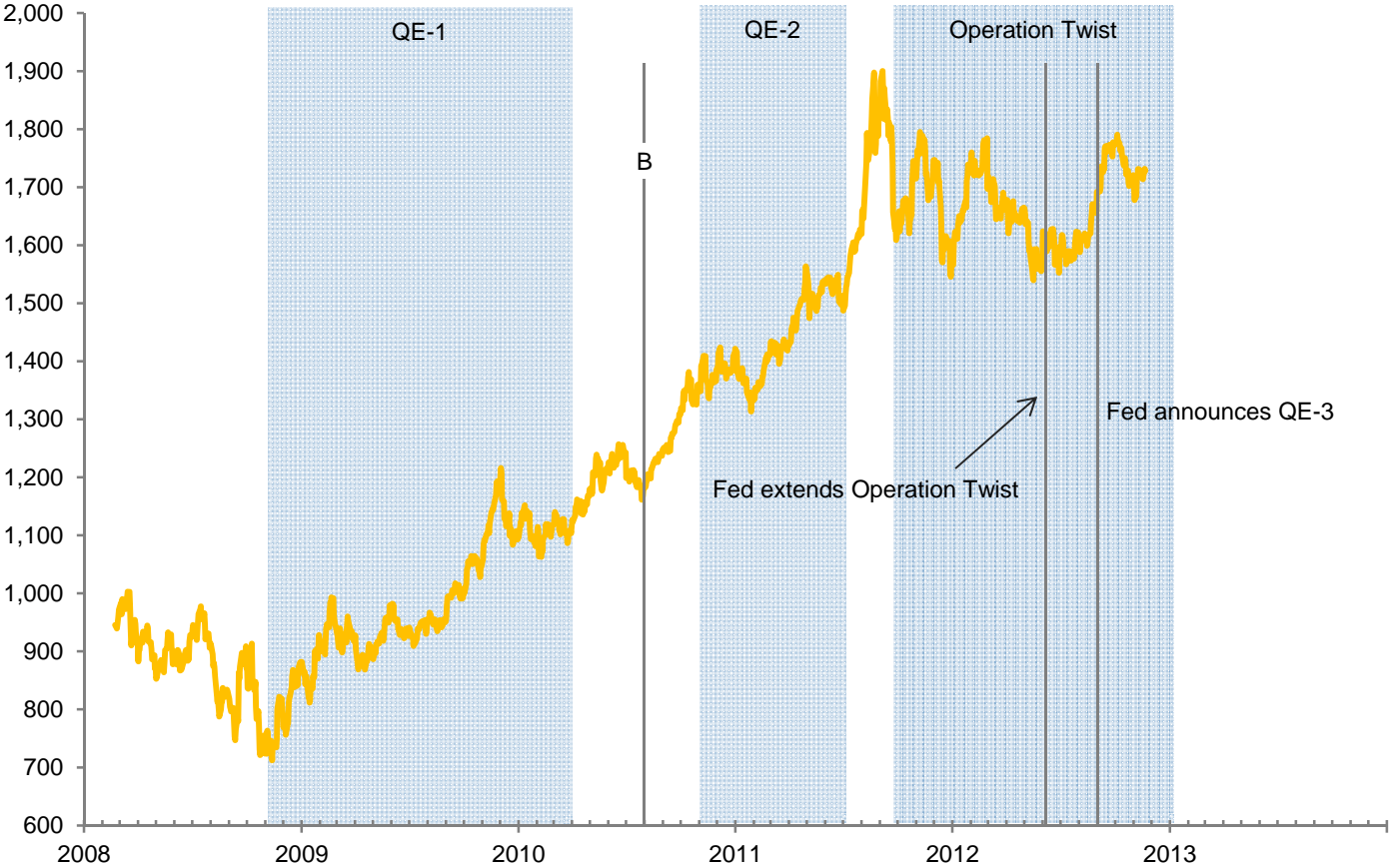
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# Outlook for Precious Metals:

## Gold prices have generally reacted positively to Expansionary Monetary Policy

The Gold Spot price (XAU) is quoted as US Dollars per Troy Ounce

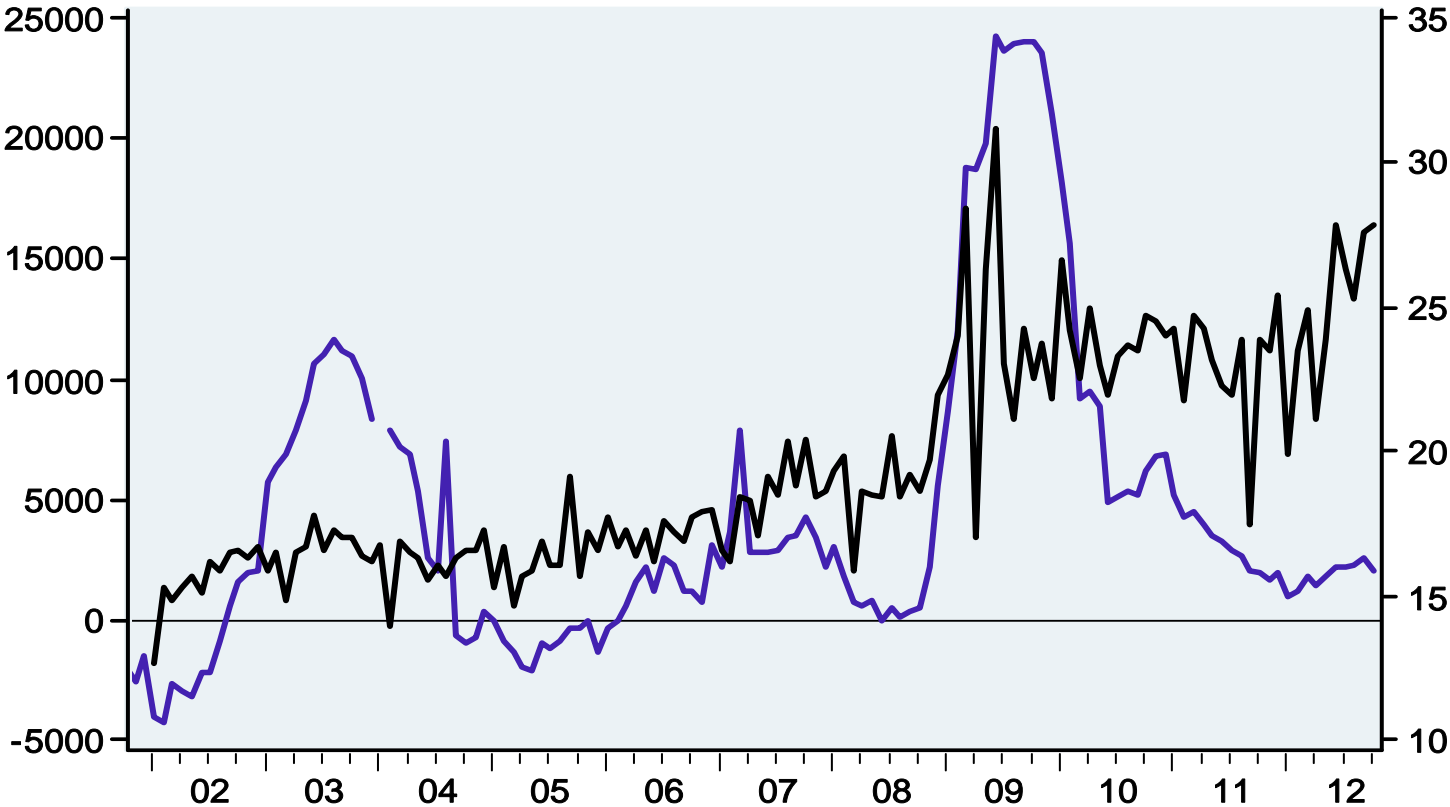


B = Ben Bernanke's August 27, 2010 speech at Jackson Hole.  
Source: Bloomberg

**Emerging Market Outlook:  
Liquidity in China is Much Greater than Signaled by Conventional Metrics**

**China: Total Amount of Social Financing  
SA, 100 Mil. Yuan**

**China: Total RMB Loan: 12-Month Percent Change  
%**



Source: People's Bank of China

## Index Definitions

All index performance information has been obtained from third parties and should not be relied upon as being complete or accurate. Indices are shown for comparison purpose only. While an investor may invest in vehicles designed to track certain indices, an investor cannot invest directly in an index.

**Barclays US Aggregate Total Return Index** - The Lehman Aggregate Index covers the U.S. investment grade bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**S&P 500 Index** – The S&P 500 is a capitalization-weighted index of 500 stocks from a broad range of industries. The component stocks are weighted according to the total market value of their outstanding shares. The impact of a component's price change is proportional to the issue's total market value, which is the share price times the number of shares outstanding. "S&P 500" is a trademark of Standard and Poor's Corporation.

**MSCI EAFE Index** – The MSCI EAFE Total Return Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada.

**MSCI Emerging Markets Index** – The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets

**MSCI Europe Index** – The MSCI Europe Index is a capitalization weighted index that monitors the performance of stocks listed in the continent of Europe.

**MSCI World Index** – The MSCI World Index is a capitalization weighted index that monitors the performance of stocks from around the world.

**Dow Jones/UBS Commodity Index (DJUBS)** – The Dow Jones/UBS Commodity index is composed of futures contracts on 19 physical commodities.

**J.P. Morgan Domestic High Yield Index** – The J.P.Morgan Domestic High Yield Index is an index designed to track the performance of the investible universe of the U.S. dollar domestic high yield corporate debt market.

**Dollar Index** – indicates the general international value of the U.S. Dollar. The index does this by averaging the exchange rates between the USD and major world currencies, using the rates provided by approximately 500 banks.

**J.P. Morgan Developed Market High Yield Index (JPM Global High Yield)** - An index of developed market high yield bonds

**Chicago Board Options Exchange Volatility Index (VIX)** - The VIX index is a measure of the implied volatility of the U.S. equity market which is calculated using a weighted blend of prices for a range of options on the S&P 500 index.

**US Trade Weighted Dollar Index** – indicates the general international value of the U.S. Dollar by weighting each exchange rate by the US trade with the relevant country or region

**Moody's/REAL CPPI Index** – A monthly index that is a composite commercial real estate price index

**S&P Case-Shiller Home Price Index** – The Case-Shiller Index measures the value of residential real estate prices in the United States

**National Association of Home Builders US Housing Market Survey** – derived from a survey of builder expectations, rating the outlook for the next 6 months of sales

**Citigroup Economic Surprise Index** – these indices are quantitative measures of economic news, measuring the historical standard deviations of data surprises

**AAII Bulls/Bears** – these indices show the sentiment of individual investors towards the stock market over the next 6 months

**J.P. Morgan Emerging Markets Currency Index** – this index shows the performance of emerging market exchange rates

**J.P. Morgan Asia Dollar Index** – This index shows the performance of Asian exchange rates against the U.S. Dollar using composite spot rates

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