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Equity Market Fundamentals and Prospects—A Much, Much Better Year?

March 27, 2012

DE U.S. and Global Asset Allocations
Broad, Sector/Industry, Country and Global-Regional

Allen Sinai
Chief Global Economist and Strategist

Andrew Husby
Senior Economist

Anne Hooper
Economist

Decision Economics, Inc. (DE)

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Table A. 1
U.S. Strategic Broad Asset Allocations (March 15, 2012)*

Broad Asset Class	Current Weighting	Commentary
Equities	Solid Overweight 70%; Increased (55% Neutral)	Strong earnings and extraordinarily low interest rates expected for a long time, the main support for a Solid Overweight in Equities. Earnings growth downshifting significantly, but valuations higher on a long period of expected extraordinarily low interest rates and a Federal Reserve that prefers a late Exit rather than early. *Macro Risks and Shocks to "Forward" earnings still of concern*, with the most significant the *Eurozone Crises and European downturn;* possible *spikes up in crude oil, gasoline, and energy prices* on the geopolitics of Iran and the Mideast; and *"Washington" in an election-uncertain year*. Essentially zero returns on Cash & Equivalent support the Solid Equity Overweight. But, at times of difficulties and stress, financial and economic, this Asset Class becomes relatively attractive, the case for most of 2011. The new big plus is improved valuations on aggressively easy monetary policy in all major centers of the world and overdone declines in valuations last year.
Fixed Income	Underweight 25%; Decreased (35% Neutral)	Long-term interest rates typically turn up later in a business upturn. Expectations for inflation to-come often dominate. But in the current episode, short-term interest rates have been set at zero and are implied to remain extremely low for an extraordinarily long time. Until the unemployment rate is a lot lower, this suggests a downward anchor for long-term U.S. Treasury and related interest rates. Fed actions aim to hold down long-term interest rates until the unemployment rate is well down into the 7s. All this supports bond prices and lower yields. Huge U.S. federal budget deficits and sovereign U.S. debt remain a big risk, with the U.S. parameters essentially Eurozone- and Japan-like. But not until there is more life in the economy and/or inflation is expected to pick up might long-term interest rates move sharply higher. Tight corporate credit spreads should remain given strong balance sheets and a renewed U.S. economy upcycle. At times of economy concern, spreads can temporarily widen on perceived macro risks to business earnings. U.S. Treasuries and the U.S. dollar, in times of stress and disarray, get a "safe-haven" bid, along with possibly the yen.
Cash & Equivalent	Under Weight 5%; Unchanged (10% Neutral)	Safety of principal remains a big deal, especially during times of financial distress and uncertainty. But little or no returns make Cash & Equivalent quite unattractive. More reaching for return and higher risk can be expected this year.
Alternative Assets*	Equal Weight 5% Commodities (Positive, from Neutral) Distressed Assets (Neutral to Positive) Gold (Positive) Hedge Funds (Neutral to Positive) Private Equity(Neutral)	Bullish allocation to Gold continues, with uneven movements expected, supported status as a currency substitute, hedge against inflation, and history as store-of-value. With extraordinarily low interest rates around-the-world, holding, or purchases of, gold inexpensive. Intermediate-term target for Gold was $1800, still cheap on an inflation-adjusted basis. Longer-term, the expectation is $2200. Commodities as an Asset Class, within Alternatives, Positive.
Sectors (Equities) Sectors (Credit)	Allocations more aggressive on U.S.-related Sectors from renewed growth centered around the consumer. Still big macro risks and considerable uncertainties; but fewer than previously. Biggest risk concerns: 1) the Eurozone Crises and fallout; 2) geopolitical and crude oil price increases (conflict with Iran and trouble in the Middle East); 3) "Washington;" and 4) U.S. sovereign debt. Top-quality corporates favored on strong cash and balance sheets with U.S. Treasury prices propped by the Federal Reserve; munis, well-selected, as well; U.S. high-yield positive. Relatively tight credit spreads, generally.	Info Tech still the strongest Sector Overweight, a global view; followed now by Consumer Discretionary and Industrials. Energy still Somewhat Overweight on Developing Countries' demands and expectations of higher crude oil prices from geopolitical instability in the Mideast. Financials now Overweight, farther along into a better phase in the business and credit cycle. Health Care downgraded on a more aggressive portfolio setup. Consumer Staples now Underweight, more favored when allocations are defensive. Breaking-up of Eurozone still a possibility, but less-so. Exposure of a Sector or Industry to a recession-bound Europe negative and can affect Industry and Sector allocations, depending on where and how much. Of the three Scenarios for the Eurozone Crises—1) Breakup; 2) Muddle-through; 3) Political and Fiscal unity—a little of all three ongoing with Muddle-through dominant. The uncertainty here remains an overall equity market negative.
Country and Global Regions	Eurozone "Double-Dip" Recession on: 1) global economic weakness; 2) lender-imposed austerity; 3) a credit crunch; and 4) depressed confidence. Questions on the Eurozone and Europe involve how severe the downturn and what impacts on other Global Regions. *Global* economic upturn still seen in 2012, 2-1/2% rise in real GDP compared with 3% in 2011, a weaker pace with scattered recessions. Eurozone and Europe Recessions moderate. Global Economy significantly better in 2013. Asia ex-Japan and Developing Country growth much stronger, relatively. Economic growth weaker, however, in absolute levels, compared with last year. Depressed economic growth in sovereign-debt ridden regions for quite awhile. Japan allocation up on a downtrend expected for the yen.	Global stock markets viewed as *strategically* bullish, no change from previously, having gone through a number of severe Corrections and some country Bear Equity Markets. Investors can scale-in on dips, looking for value, with relative outperformance over time expected from high growth countries. Asian equity markets ex-Japan still the largest Global Overweight. China outlook remains positive *relative* to other countries despite numerous risks and impediments. China attempt to disinflate is over. Stimulative policies to keep coming. "Hard-Landing" question still remains, however. Policy moves in China probably will continue stimulative, supportive to China as an equity holding and as one of top DE strategic allocations. Japan has shifted course on the yen, a definite positive for the Japanese stock market and source of a significant Upgrade in allocations to Japan on the MSCI and EAFE bases.

*Alternative Asset Allocations out of existing Broad Asset Allocations as between Equities, Fixed Income, and Cash & Equivalent—at discretion of investor.

Table A. 2
Broad Global Equity Asset Allocation*
(Percent of Total)

Country or Global Region	DE Current (3/15/12)	MSCI (2/29/12)	DE (12/1/11)	DE (8/15/11)
U.S.	45.7	45.1	44.8	41.4
Japan	8.0	7.9	6.8	6.9
U.K.	7.6	8.4	8.6	7.6
Eurozone	8.3	10.4	8.8	12.0
Germany	3.4	3.1	3.2	4.5
France	2.7	3.4	3.2	4.1
Italy	0.4	0.9	0.5	0.9
EU	17.7	20.7	19.5	21.5
China	3.0	2.1	3.2	3.5
Developing Asia	9.1	7.6	9.4	9.4
Asia Ex-Japan	11.6	9.6	11.3	11.2
Latin America	3.4	3.1	3.3	3.1
Brazil	2.4	2.1	2.2	2.2
Chile	0.3	0.2	0.3	0.3
BRICs	7.5	6.0	7.3	7.8

*Based on MSCI Global All-Country Index.

Eurozone Countries in Table 2: France, Germany, Spain, Italy, Netherlands, Finland, Belgium, Greece, Austria, Portugal, Ireland.

EU Countries: U.K., France, Germany, Spain, Italy, Netherlands, Sweden, Finland, Belgium, Denmark, Greece, Poland, Austria, Portugal, Ireland, Hungary, Czech Republic, Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovakia, Slovenia.

Developing Asia Countries: China, South Korea, India, Indonesia, Philippines, Taiwan, Malaysia, Thailand.

Asia ex-Japan Countries: China, South Korea, India, Hong Kong, Singapore, Indonesia, Philippines, Taiwan, Malaysia, Thailand.

Latin America Countries: Brazil, Chile, Columbia, Mexico, Peru, Argentina.

Table A. 3
U.S. Economic Forecast:
Selected Measures—"Baseline"
(Ann. Pct. Chg., Unless Otherwise Noted)
March 15, 2012

	2010	2011F	2012F	2013F
Economy				
Real GDP	3.0	1.7	2.6	2.3
Real Consumption	2.0	2.2	2.3	2.5
Real Capital Spending	4.4	8.7	7.1	5.9
Net Trade (2005 $ bils.)	-421.8	-412.0	-418.5	-408.6
Housing Starts (mils. units)	0.585	0.607	0.703	0.857
Vehicle Sales (mils. units)	11.6	12.8	14.7	15.3
Industrial Production	5.3	4.1	4.5	3.5
Inflation				
CPI-All Urban (%)	1.6	3.1	2.1	2.5
Core PCE Deflator (%)	1.4	1.5	1.9	2.1
Unemployment Rate (Q4 Avg.)	9.6	8.8	8.0	7.4
Interest Rates				
Fed Funds Rate (end-yr. yield)	0.18	0.11	0.13	0.42
10-Year Treas. (end-yr. yield)	3.30	1.89	2.62	2.95
Currency and Stock Market				
U.S. Dollar (Major Curr.)Deprec.	-3.0	-4.6	-1.2	+0.3
S&P500 Oper. EPS	$87	$102	$105	$113
Pct. Chg.	32.9	17.5	2.9	7.6
S&P500 Index (Ann. Avg.)	1,126	1,269	1,413	11.3
Pct. Chg. (Y-o-Y)	18.9	12.7	9.0	8.3
S&P500 Index (Year End)	1,204	1,305	1,449	1,575
Pct. Chg. (Y-o-Y)	18.9	8.4	11.0	8.7
Budget Deficit (Unified)				
(Bils. $s)	-1,294	-1,299	-1,231	-925
(% of GDP)	-8.8	-8.6	-7.8	-5.6
Debt (Gross Public)				
(Bils. $s)	13,561	14,790	16,139	17,461
(% of GDP)	93.4	98.0	102.4	105.8
Current Account				
(Bils. $s)	-470.9	-500.0	-545.0	-600.0
(% of GDP)	-3.2	-3.3	-3.5	-3.6

F-Forecast
Source: Decision Economics, Inc. (DE).

Table A. 4
DE Global Economic Outlook—"Baseline"
(Ann. Pct. Chg., March 15, 2012)

	2009	2010	2011F	2012F	2013F
World*	-1.9	4.4	2.9	2.5	2.9
U.S.	-3.5	3.0	1.7	2.6	2.3
U.K.	-4.9	2.1	0.8	0.2	1.3
Eurozone	-4.0	1.8	1.5	-0.5	0.9
Canada	-2.8	3.2	2.3	2.5	2.6
Mexico	-6.1	5.5	4.0	3.2	3.4
Japan	-6.3	4.5	-0.9	1.0	1.6
EMG	6.5	9.4	7.5	6.6	6.4
Brazil	-0.6	7.5	4.0	3.7	3.9
Russia	-7.8	4.0	4.3	4.5	4.2
India	9.1	8.8	7.6	7.5	7.3
China	9.2	10.4	9.3	8.0	7.4

*Weighted average of country economic growth. Division between Expansion/Recession is 2% growth in real GDP, below the corresponding IMF measure of 2-1/2% to 3% which uses purchasing power parity weights for the global GDP calculation.

F - Forecast

Source: Decision Economics, Inc. (DE).

Table A. 5
DE Baseline and Alternative Risk Scenarios and Probabilities
(March 15, 2012)

	Current	Previous
Baseline—"Muddle-Through" or Uptilted "L"	65%	60%
"Double-Dip"—Another Full-Fledged Recession Some Time in 2012	0%	5%
"Double-Dip" Growth Recession with Low Inflation—"Japan-Like"	5%	10%
U.S. Sovereign Debt Crisis	10%	10%
"Delayed Takeoff"—Lags in Spending Hold Economy Back But Then a "Takeoff" on Positive Effects from Previous Massive Monetary and Fiscal Stimulus	20%	15%

Table A. 6
Broad Asset and S&P500 Sector Strategic Allocations
(March 15, 2012)

			DE Weights (%)				Market Weights (%)			
	Relative to Market*		3/15/12	12/1/11	8/15/11	5/15/11	2/29/12	10/31/11	7/31/11	4/31/11
Broad Asset Allocation (1)										
	Curr	***Prev***								
Equities	*1.27*	*1.18*	70	65	65	75	55	55	55	55
Fixed Income	*0.71*	*0.86*	25	30	30	20	35	35	35	35
Cash & Equiv.	*0.50*	*0.50*	5	5	5	0	10	10	10	10
Alternative Assets**	*1.00*	*1.00*	5	5	5	5	--	--	--	--
S&P500 Sector Allocations (2)										
	Curr	***Prev***								
Info Technology	*1.12*	*1.15*	22.6	22.6	20.6	20.4	20.2	19.8	18.8	18.2
Consumer Discr.	*1.06*	*0.99*	11.5	10.7	10.4	10.8	10.9	10.7	10.7	10.7
Industrials	*1.04*	*1.01*	11.1	10.7	11.3	12.3	10.7	10.6	10.7	11.2
Financials	*1.02*	*0.85*	14.7	11.5	14.2	15.2	14.4	13.3	14.9	15.4
Energy	*1.01*	*1.01*	12.2	12.5	13.1	12.5	12.1	12.4	13.0	12.4
Health Care	*1.01*	*1.08*	11.4	12.2	11.8	11.7	11.3	11.6	11.3	11.5
Consumer Staples	*0.91*	*1.00*	9.7	11.7	10.8	10.3	10.8	11.4	10.6	10.5
Materials	*0.90*	*1.00*	3.2	3.5	3.7	3.9	3.6	3.5	3.6	3.6
Telecom Services	*0.63*	*0.71*	1.7	2.1	2.1	1.9	2.7	3.1	3.0	3.0
Utilities	*0.56*	*0.66*	1.9	2.5	2.0	1.0	3.4	3.8	3.4	3.3
S&P500		*1.00*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Market-Weight = 1.00; based on Institutional Equity balanced portfolio weights—55% equities, 35% fixed income, 10% cash and equivalent.

**Includes but not limited to: Hedge Funds; Commodities; Real Estate; Private Equity; Venture Capital, Distressed Assets, Gold

(1) Fundamental macroeconomic top-down, based on economic and financial market cycles and risks.

(2) Fundamental macroeconomic top-down driven S&P500 industry sales and earnings, disciplined by sector and industry business cycle analyses.

**Alternative Asset Allocations out of existing Broad Asset Allocations as between Equities, Fixed Income and Cash & Equivalent, at discretion of investor.

Table A. 7
DE S&P500 Sector and Industry Allocations*
(March 15, 2012)

	Strong Overweight (10%+)	Overweight (1% to 10%)	Market Weight (0% +/- 1%)	Underweight (-1% to -10%)	Strong Underweight (-10%-or-More)
Sectors	**Info Tech**	**Consumer Discretionary** **Energy** **Financials** **Health Care** **Industrials**		**Consumer Staples** **Materials**	**Telecom Services** **Utilities**
Industries in Sectors					
Consumer Discretionary	Internet Retail Restaurants	Apparel Retail Computer & Electr Retail Education Srvs. General Merch. Stores Home Furnishings Retail Home Improv. Retail Hotels Movies & Entertainment Specialty Stores	Apparel & Accessories Automobile Mftrs. Automotive Retail Casinos & Gaming Consumer Electronics Distributors Footwear Homebuilding Home Furnishings Household Appliances Housewares & Specialties Leisure Products	Advertising Auto Parts & Equip. Broadcasting Cable & Satellite Department Stores Publishing Specialized Consumer Srvs. Tires & Rubber	Motorcycle Mftrs. Photographic Products
Consumer Staples		Drug Retail Household Products Hypermarkets & Supercenters Soft Drinks	Food Distributors Food Retail Packaged Foods Personal Products	Agricultural Products Brewers Distillers & Vintners Tobacco	
Energy		Integrated Oil & Gas Oil & Gas Equip. & Srvs.	Coal & Consumable Fuels Oil & Gas Expl./Prod. Oil & Gas Refining & Mkting. Oil & Gas Storage & Transportation	Oil & Gas Drilling	
Financials	Asset Mgmt. & Custody Banks Divers. Banks Invest Banking & Brkg.	Consumer Finance Other Divers Fin'l Srvs. Regional Banks Residential REITs	Divers. REITs Insurance Brokers Life & Health Insurance Multi-Line Insurance Office REITs Property & Casualty Insur. Specialized Finance Specialized REITs	Industrial REITs Multi-Sector Hldgs. Real Estate Srvs. Retail REITs Thrifts & Mortgage Fin	
Health Care	Biotechnology Health Care Equipment Health Care Srvs. Health Care Technology Life Science Tools & Srvs.	Health Care Supplies Pharmaceuticals	Health Care Distributors Health Care Facilities	Managed Health Care	
Industrials		Air Freight & Logistics Constr & Engineering Constr. & Farm Machinery Electrical Cpts. & Equip. Environmental & Facilities Srvs. HR & Employ. Srvs Industrial Machinery Railroads	Airlines Building Products Research & Consulting Srvs. Trade Cos. & Distribs. Trucking	Divers. Support Srvs. Industrial Conglomerates Office Srvs. & Supplies	Aerospace & Defense Comm'l Printing
Information Technology	Application Software Computer Hardware Internet Sftwr. & Srvs. IT Consulting & Srvs.	Computer Storage & Perip Data Proc. & Outsourced Srvs. Semiconductors	Electronic Components Electronic Mfg. Srvs. Semiconductor Equip. Systems Software	Communications Equip. Electronic Equip Mftrs.	Home Entertainment Software Office Electronics
Materials		Diversified Chemicals Gold Industrial Gases	Divers. Metals & Mining Fertilizers & Ag. Chems. Metal & Glass Containers Specialty Chemicals	Aluminum Construction Materials Paper Packaging Paper Products	Steel
Telecom Services			Integrated Telecom Srvs.	Wireless Telecom Srvs.	
Utilities		Independent Power Prods.& Energy Trade	Electric Utilities Gas Utilities	Multi Utilities	

*Fundamental economic top-down equity allocations based on DE U.S. and Global economic prospects—integrating expected return and economic risk. Weights relative to S&P 500 Sector and Industry market caps.

Table A. 8
Ten (10) Top-Down Macro Investment Themes with
Asset Class, Sector/Industry, Country and Global-Regional Allocation Implications
1-to-3 Year Horizon N-New Theme; M-Modified Theme; O-Old Theme

Note: Multiple themes shape the outlook for a given Sector or Industry. Table 7 provides S&P500 Industry Allocation weightings. These weightings are derived from the net effect of various themes, plus other fundamentals, and risks.

Theme(s)	*Comments*	*Investment Implications*
M U.S. economic Expansion in renewed growth phase. Many signs that aggressively easy monetary policy is finally working. Economy could be entering "Sweet Spot" of this upcycle. "L" pattern for real GDP growth with an uptilt at bottom remains the Baseline alphabet letter picture for the U.S. Expansion.	—Expansion entrenched with growth sustainable though far from healthy on many fronts and far weaker, and anemic, than historically typical. —Uplift in aggregate consumption occurring on improved consumer fundamentals—household financial conditions, jobs and income, sentiment. Not like the "good old days," but 2% to 3% inflation-adjusted growth for 70% of the U.S. economy could be a big deal.	—This stage of upcycle bullish for stocks—fewer Corrections and Consolidation than occur early or late in the upcycle. —Rising P-E multiples are typical. —On average, higher interest rates occur and, at some point, tighter monetary policy. Here, levels of long-term interest rates probably will tilt up, but not spike up. —Broad Asset Allocations shift away from Fixed Income to Equities and to more active and dynamic businesses, depending on Sector and Industry.
M Global Expansion still in-place, but at varying paces depending upon where. Eurozone and Europe in a significant recession. Global Economy expected to grow at only a 2-1/2% pace this year—dividing line between Expansion and Recession is 2%. Next year, near 3% real economic growth expected. Europe and Japan should be out of Recession and Asia ex-Japan picking up.	—Expansion at a three-tiered pace: BRICs and other non-Japan Asian and Latin American countries at the forefront; U.S., Canada following up; and Europe back. China to stabilize at a lower pace of growth later this year. —"Decoupling" of economic growth between Developing World and Developed Economies seems well-established. Questions are whether the emerging new "Haves" can sustain real economic growth and whether previous "Haves" will ever get out of a weak growth pattern. —Uncertainty of Eurozone Crises effects on economies of Europe, China, Asia, and interactively the U.S. economy and then back remains a big "Wild Card" in the conflict.	—Strategic Relative Overweights on Developing Country equities and Relative Underweights for Europe-centric countries, except Germany and perhaps France. Allocations reflect relative economic performance prospects around-the-world. —Noticeable Upgrades for the U.S., Japan, now Somewhat Overweight against the MSCI Index—the first time in many years. Germany still a Significant Overweight. Europe and EU downgraded on a Global Regional basis. —Last year's dismal performance for equity markets almost everywhere anticipated the cyclical downturn in global growth that is now occurring. Equity markets looking ahead to late this year and next.
N U.S. interest rate prospect shifting—still low levels for quite some time but, gradual and volatile, tilt up at the long end. Credit spreads should continue relatively tight on renewed U.S. growth and entrenched expansion, the extraordinary strength of company balance sheets, tight expense management and continuing gains in productivity. Sovereign debt spreads vs. U.S. Treasuries and German Bunds subject to widening on risks of further crises in the Eurozone and for those geographic areas that might be affected.	—Having downgraded the economic outlook, the Fed will stick to this and stay easy as far as can see, until the U.S. gets a lot closer to "full employment." —"Exit" from quantitative easing way off, but motion of the U.S. economy and inflation suggest motion of the Fed away from QE3. —Fed balance sheet to remain elevated at current levels, with possible change in composition of purchases from maturing proceeds toward mortgages. Majority of Fed Members will hold off on success for full employment objective until after clearcut. —Fixed income market participants pricing-in a higher federal funds rate ahead of Fed and likely will continue to do so.	—Continuing Fed ease and low short-term interest rates remain supportive of a cyclical equity bull market. —Increased prospect of higher long-term interest rates suggests Underweight for Fixed Income. Interest rate spreads likely to remain relatively tight except during times of heightened macro risks. —Near zero returns on Cash & Equivalent very supportive to equity bull market and asset allocation to Equities. Potential for rising long-term rates also support asset allocation shift from Fixed Income to Equities. But, Bear Market in Fixed Income cannot be called quite yet.
N Housing recovery—2012 and beyond? Early signs of pickup in residential construction—long "drought" for housing activity likely ending. On bottoming-out in housing price declines to-come and higher prices thereafter, consumer wealth effect, with lags, should reinforce and support housing demand going forward, particularly in 2013.	—On most metrics—sales, starts, home builder confidence, buyer bigger traffic, pending sales—some life now for housing. —Gains in affordability and improvements in jobs and confidence should lay foundation for recovery in 2012 and beyond. —Each one (1) percentage point decline in the unemployment rate historically has been associated with an extra 100K new home sales. Once uptrend in demand entrenched, builders pick up the pace of new construction and hire.	—Significant upgrade in allocations to housing- and homebuilder-related S&P Industries across-the-board over Q1 and now. —Still opportunities in apartment rental market as rising demand coincides with weak construction. Residential REITS and companies tied to apartment construction and management are beneficiaries. —As housing picks up, further increases of allocations and in the weightings of "housing" can be expected.
M Five-year old theme of negative consumer dynamic remains—"far less growth in spending than in decades" and "far more saving for far longer," keeping U.S. real economic growth low relative to history, holding down jobs creation, and growth in real disposable income. But, now increasing signs of a lift up and new higher trend growth in aggregate consumption. Over 2% per annum, perhaps approaching 2-1/2%; at best 3%, on average.	—Reliquefication, a stage in household sector business and financial cycles, or "deleveraging," has been very, very extended this time over time—a Seismic Shift departure from decades of history. The longest lags ever! —But with a sharp positive improvement since 2009:3, with a huge reduction in debt-to-income and debt-to-asset ratios, household financial conditions appear to be a catalyst for an "autonomous" shift up in consumption. —On DE proprietary measures, the Index of Household Financial Conditions, reliquefication of household financial positions appears to be about 65% to 75% finished, i.e., back toward equilibrium. But, equilibrium probably will be more elusive this time.	—Consumer Discretionary, especially big-ticket items Housing and Autos, now more front-and-center after years of extremely depressed activity. —Commercial Real Estate and the sub-industries here still negatively impacted because of excess supply and the huge increase in space for much less end-market consumer spending. But, excess space slowly being reduced and some early signs of improved commercial activity starting.

Table A. 8 (Cont'd.)

Theme(s)	*Comments*	*Investment Implications*
N Japan now consciously and overtly on a Yen-negative course, long overdue. Yen fundamentals and policy shift by Bank of Japan (BOJ) support significant downtrend in the Japanese currency against almost all other currencies. Against the dollar, the yen moved from 75 to near 83 hardly dents where fundamentally the yen ultimately needs to go—longer-run well over 100.	—A new yen currency backdrop appears set and to be a "long-run" phenomenon.	—"Carry trade" on yen to other currency-denominated trading and investments back in vogue. —Japan now Slightly Overweight on the MSCI Global Index after years of Solid Underweight. —Japanese exporters and industrial companies favored on an expected downward trend in the yen.
O U.S. "Twin Deficits"—"Jobs" and Federal "Budget."	—With the debt ceiling raised, Super Committee failure on a "deal," and S&P downgrade of U.S. sovereign debt to AA+, this macro risk now has become quiet until at least the next period of craziness surrounding U.S. federal budget deficits and debt, perhaps 2012. —More showdowns between the Obama Administration and Congressional Republicans can be expected. Current law, by the final results so far of deficit deliberations, now has built-in schedule of big budget deficit reductions, especially 2013, but "Washington" will not sit still on this. Little progress expected on Medicare, Social Security, and Tax Reform until after the 2012 Election. —Projected nominal GDP growth of 4-1/2% to 5% over the next decade means growing federal government debt-to-GDP ratios.	—Negative dollar against a number of non-"Big 3" currencies. —Over time, the huge federal budget deficits and debt, relative to GDP, a big negative for the U.S. weight in global country asset allocations because economic growth is restrained as a result. —Bearish U.S. sovereign debt except as "safe haven". —Significant budget cuts, if agreed to, would hurt U.S. economic growth and be a negative for corporate profits and equity prices—U.S. and World. —Lower U.S. allocation in global asset allocations a consequence.
O Businesses continue to substitute capital for labor to reduce labor costs and maximize shareholder value.	—Main impediment to jobs growth is the weak economy. —Job losses may be over, but gains will be modest going forward on labor-saving and cost-cutting by U.S. business. —To maintain a competitive edge, businesses invest more in labor-substituting IT capital, now tax-advantaged on full expensing. —Labor cost-saving by business means fewer jobs, less real income, less consumer spending, less economic growth, less hiring by business, etc..	—Significant upping of allocations to Consumer Discretionary Sector warranted in the renewed expansion phase of the upcycle. Retailers, Autos, Consumer Electronics, Hotels, and Cable & Satellite in particular. Recreation, Leisure & Hospitality, Entertainment favored. —Info Tech still #1 Sector Overweight, in part on this theme as businesses substitute capital for labor, particularly those companies that can benefit most from the "New Technology," both on costs (exporting to the "Cloud") or productivity. —Commercial Real Estate and related industries negatively impacted because of derived effects on commercial-related real estate from weak consumption. But, this is gradually resolving.
O "Big Three" currencies—Dollar, Euro, Yen—losing-out relatively. Other previously "Have-Not" country currencies in ascendency over the longer-term.	—Reallocation of foreign exchange away from U.S. dollar, Euro and Yen toward a diversified basket of other currencies and commodities. Protection against erosion of these currencies given the uncertain economic, financial, and political prospects of the countries and regions associated with them. —With so much uncertainty around those countries and regions that previously received the lion's share of equity and currency allocations, no single alternative for diversification appeals but instead more a diversified basket of holdings representing the Countries and Global Regions whose prospects appear relatively better going forward.	—Underweight Dollar, Euro, and Yen-denominated assets. —Positive for Commodities, including Gold, Silver, and Oil as hedges against major currencies. —Overweight Allocations denominated in currencies such as Singapore dollar, Aussie dollar, Korean Won, Brazilian Real (among others).
O U.S. manufacturing "Rebirth" or "Renaissance?"	—Emerging markets' labor cost advantage coming to an end, driving some manufacturing back to the U.S. —U.S. policy focus post-election to be in exports and a favoring of U.S. manufacturing. —Weak dollar making U.S more competitive in global trade while strong EMG growth drives demand for U.S. production.	—U.S. Info Tech will be a U.S. focal point in any "Renaissance." —Industrials—strongly favored for growth from a secular bottom—Solid Overweight. —S&P500 Industries tied to exports benefit.

Table A. 9
Global Regional and Index Allocation Weight Summary
(Relative to MSCI All-Country World Index, Based on DE Country-Specific Weights)
(March 15, 2012)

	DE Relative Weights (Mkt=1.00)	DE Market Weights (Pct)	MSCI Market Weights (Pct)	Previous DE Relative Weights 12/1/11	Change in DE Relative Weight*
Regions:					
Latin America (Incl. Mex)	1.10	3.4	3.1	1.10	0
North America	1.01	50.3	49.6	1.02	0
Europe Ex-UK	0.83	12.9	15.5	0.86	-
Pacific Ex-Japan	1.13	6.0	5.3	1.10	+
Eurozone	0.80	8.3	10.4	0.81	0
Europe	0.86	20.5	23.9	0.91	--
Far East	1.06	10.4	9.9	0.90	++
Pacific	1.07	14.0	13.1	0.95	++
MSCI Indexes:					
EMG	1.15	15.0	13.1	1.15	0
EAFE	0.93	34.7	37.3	0.92	0

*Change in Relative Weight: "++" and "- -" represent 5 point or more difference from prior weighting; "+" and "-"= 2 to 4 point difference; "0" = 0 to 2 point difference.

Weights from DE and Morgan Stanley Capital International (MSCI) All-Country World Index.

Table A. 10
Decision Economics, Inc.
Global Equity Asset Allocation by Country, March 15, 2012*
(Percent)

Country	Relative to Market *		DE Allocations			Market Weight		
	Curr.	Prev.	3/15/12	12/1/11	8/15/11	2/29/12	10/31/11	6/30/11
Overweight								
China	1.42	1.42	3.03	3.20	3.50	2.14	2.25	2.36
Singapore	1.25	1.25	0.85	0.81	0.77	0.68	0.65	0.66
India	1.20	1.05	1.07	1.00	1.05	0.89	0.95	1.00
Hong Kong	1.20	1.00	1.62	1.08	1.00	1.35	1.08	1.09
South Korea	1.15	1.28	2.25	2.50	2.75	1.96	1.96	2.00
Brazil	1.15	1.10	2.36	2.20	2.20	2.05	2.00	2.10
Russia	1.15	1.00	1.04	0.87	1.00	0.90	0.87	0.94
Indonesia	1.10	1.20	0.39	0.44	0.42	0.35	0.37	0.35
Chile	1.10	1.14	0.26	0.25	0.26	0.24	0.22	0.23
Australia	1.10	1.09	3.50	3.70	3.60	3.18	3.41	3.36
Philippines	1.10	1.13	0.11	0.09	0.08	0.10	0.08	0.08
Germany	1.10	1.03	3.43	3.20	4.50	3.12	3.10	3.52
Thailand	1.05	1.13	0.28	0.27	0.23	0.27	0.24	0.23
Malaysia	1.05	1.07	0.46	0.47	0.45	0.44	0.44	0.43
Taiwan	1.05	1.00	1.53	1.42	0.90	1.46	1.42	1.51
Canada	1.03	1.10	4.60	5.00	6.20	4.47	4.56	4.60
Japan	1.02	0.85	8.03	6.80	6.90	7.89	7.98	7.83
United States	1.01	1.01	45.65	44.80	41.40	45.14	44.34	42.64
Market Weight (Neutral)								
Czech Republic	1.00	1.00	0.04	0.50	0.05	0.04	0.05	0.05
Denmark	1.00	1.00	0.42	0.37	0.45	0.42	0.37	0.41
Israel	1.00	1.04	0.23	0.26	0.29	0.23	0.25	0.28
Mexico	1.00	1.05	0.59	0.64	0.57	0.59	0.61	0.60
New Zealand	1.00	1.20	0.04	0.06	0.06	0.04	0.05	0.05
Norway	1.00	1.06	0.37	0.38	0.37	0.37	0.36	0.36
Peru	1.00	1.13	0.08	0.09	0.00	0.08	0.08	0.06
Poland	1.00	0.60	0.18	0.12	0.18	0.18	0.20	0.23
South Africa	1.00	0.71	1.03	0.69	0.79	1.03	0.97	0.99
Sweden	1.00	0.98	1.20	1.11	1.20	1.20	1.13	1.22
Turkey	1.00	1.00	0.18	0.17	0.18	0.18	0.17	0.19
Underweight								
Netherlands	0.95	0.95	0.85	0.96	1.00	0.89	1.01	1.04
Colombia	0.92	1.06	0.12	0.13	0.11	0.13	0.12	0.11
United Kingdom	0.90	1.00	7.55	8.60	7.60	8.39	8.57	8.33
Finland	0.90	0.94	0.29	0.33	0.38	0.32	0.35	0.38
Switzerland	0.85	1.00	2.65	3.20	3.40	3.12	3.21	3.26
France	0.80	0.93	2.73	3.20	4.06	3.41	3.45	3.96
Italy	0.51	0.51	0.44	0.45	0.90	0.87	0.89	1.05
Belgium	0.50	0.49	0.18	0.17	0.37	0.36	0.35	0.37
Ireland	0.50	1.00	0.05	0.10	0.05	0.10	0.10	0.10
Austria	0.30	0.20	0.03	0.02	0.13	0.10	0.10	0.13
Hungary	0.25	0.30	0.01	0.01	0.05	0.04	0.04	0.06
Spain	0.25	0.15	0.28	0.20	0.40	1.12	1.31	1.41
Egypt	0.00	0.00	0.00	0.00	0.00	0.05	0.04	0.05
Greece	0.00	0.00	0.00	0.00	0.00	0.03	0.05	0.09
Morocco	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.02
Portugal	0.00	0.00	0.00	0.00	0.00	0.07	0.09	0.10
TOTAL		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Market Weight = 1.00.

Weights from DE and Morgan Stanley Capital International (MSCI) All-Country World Index.

Fundamental macroeconomic top-down Global Regional and Country equity allocations based on integrated DE Global Economic and Financial Markets Baseline Forecasts and Analyses.

"Baseline" Economic Forecasts—47 countries covered, about 93% of world output, 46 for asset allocation.

Table A. 11
Decision Economics, Inc.
Equity Asset Allocation by Country, March 15, 2012: EAFE*
(Percent)

Country and Region	DE Weightings					MSCI EAFE Weights		
	Relative to Market							
	Curr. (3/15/12)	Prev. (12/1/11)	3/15/12	12/1/11	8/15/11	2/29/12	10/31/11	6/30/11
Overweight								
Singapore	1.25	1.36	2.24	2.25	2.06	1.79	1.65	1.62
Hong Kong	1.20	1.10	3.58	3.12	2.79	2.98	2.84	2.79
Germany	1.15	1.05	9.72	8.60	13.50	8.45	8.18	9.00
Sweden	1.05	1.00	3.42	2.94	3.1	3.26	2.94	3.06
Japan	1.05	0.98	22.39	20.66	17.50	21.36	21.04	20.03
Australia	1.03	1.30	8.86	11.70	9.50	8.60	8.98	8.59
France	1.01	0.90	9.32	8.20	11.10	9.23	9.10	10.12
United Kingdom	1.01	1.05	22.88	23.70	20.20	22.65	22.53	21.23
Market Weight								
Belgium	1.00	0.80	0.97	0.74	0.96	0.97	0.92	0.96
Denmark	1.00	0.80	1.13	0.78	1.06	1.13	0.98	1.06
Italy	1.00	0.51	2.36	1.20	2.40	2.36	2.34	2.67
New Zealand	1.00	1.08	0.12	0.14	0.13	0.12	0.13	0.12
Norway	1.00	1.05	1.00	1.00	0.91	1.00	0.95	0.91
Underweight								
Switzerland	0.96	1.20	8.01	10.20	9.60	8.35	8.47	8.35
Netherlands	0.95	0.98	2.29	2.51	2.60	2.41	2.56	2.58
Israel	0.95	1.00	0.59	0.66	0.75	0.62	0.66	0.71
Finland	0.85	0.85	0.75	0.79	0.82	0.88	0.93	0.97
Ireland	0.75	1.00	0.20	0.26	0.10	0.27	0.26	0.25
Austria	0.70	0.72	0.18	0.18	0.34	0.26	0.25	0.34
Spain	0.00	0.00	0.00	0.00	0.00	3.02	3.45	3.60
Portugal	0.00	0.00	0.00	0.00	0.00	0.20	0.24	0.26
Greece	0.00	0.00	0.00	0.00	0.00	0.09	0.13	0.22
Total			**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Weights from DE and Morgan Stanley Capital International (MSCI) EAFE Index.

DE Fundamental macroeconomic top-down Global Regional and Country equity allocations based on integrated DE Global Economic and Financial Markets "Baseline" Economic Forecasts—47 countries covered, about 93% of world output, 47 countries in asset allocation.

Table A. 12
Decision Economics, Inc.
Equity Asset Allocation by Country, March 15, 2012: EMG *
(Percent)

Country	Relative to Market Curr. (3/15/12)	Relative to Market Prev. (12/1/11)	DE Weightings 3/15/12	DE Weightings 8/15/11	DE Weightings 5/15/11	MSCI EMG Weights 2/29/12	MSCI EMG Weights 10/31/11	MSCI EMG Weights 6/30/11
Overweight								
China	1.10	1.10	19.65	18.80	18.50	17.86	17.10	17.34
India	1.07	1.00	7.11	7.26	7.50	6.64	7.26	7.36
Brazil	1.05	1.05	16.11	16.05	15.70	15.34	15.32	15.53
Chile	1.05	1.10	1.86	1.87	1.80	1.77	1.70	1.70
Russia	1.05	1.00	7.10	6.60	7.00	6.76	6.60	6.82
South Korea	1.03	1.05	15.09	15.70	15.50	14.65	14.95	14.75
Market Weight								
Colombia	1.00	1.05	0.98	0.95	0.84	0.98	0.90	0.84
Philippines	1.00	1.05	0.72	0.67	0.50	0.72	0.64	0.55
South Africa	1.00	0.95	7.68	7.06	6.60	7.68	7.43	7.30
Thailand	1.00	1.03	2.00	1.90	1.70	2.00	1.84	1.68
Turkey	1.00	1.00	1.34	1.30	1.40	1.34	1.30	1.38
Underweight								
Malaysia	0.94	1.16	3.06	3.90	3.60	3.27	3.36	3.15
Indonesia	0.93	1.23	2.40	3.50	3.00	2.59	2.84	2.60
Taiwan	0.90	1.00	9.79	10.90	8.90	10.88	10.85	11.13
Mexico	0.87	1.05	3.82	0.90	4.40	4.39	4.65	4.40
Czech Republic	0.80	1.00	0.26	0.35	0.38	0.33	0.35	0.38
Poland	0.75	0.85	1.03	1.30	1.60	1.37	1.53	1.70
Egypt	0.00	0.52	0.00	0.17	0.34	0.36	0.33	0.34
Hungary	0.00	0.70	0.00	0.21	0.38	0.31	0.30	0.42
Peru	0.00	1.05	0.00	0.61	0.36	0.62	0.58	0.47
Morocco	0.00	0.00	0.00	0.00	0.00	0.14	0.16	0.15
Total			**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Weights from DE and Morgan Stanley Capital International (MSCI) EMG Index.

**End-April and ex-Israel.

DE Fundamental macroeconomic top-down Global Regional and Country equity allocations based on integrated DE Global Economic and Financial Markets "Baseline" Economic Forecasts—47 countries covered, about 93% of world output, 47 countries in asset allocation.