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After the U.S. Election: Asset Allocations and Implications

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

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Decision Economics, Inc. (DE)
U.S. and Global Asset Allocations

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Contents

Table 1
U.S. Strategic Broad Asset Allocations (November 27, 2012)*

Broad Asset Class	**Current Weighting**		**Commentary**
Equities	Overweight	65%; Up from 60% (55% Neutral)	*Relatively solid earnings and extraordinarily low interest rates, the latter expected for a long time, the* main support for Overweight Equities. Earnings growth has had a big downshift, an inflection point in Q1:2012, but valuations can be higher on a long period of expected extraordinarily low interest rates and more Quantitative Easing by the Federal Reserve and some other central banks. *Earnings growth pickup expectation for 2013* with a better global economy is key factor in Overweight. *Macro risks and potential negative shocks to "forward" earnings of concern*, with most significant the Eurozone Crises and European downturn, reactions by business to hit on profits, and "Washington." *Essentially zero returns on Cash & Equivalent* support the Equity Overweight. A *big plus is support to valuations from aggressively easy monetary policy* in some major centers of the world like the U.S. and Japan, and overdone declines in valuations.
Fixed Income	Equal Weight	35%; Increased from 25% (35% Neutral)	*Long-term interest rates typically turn up in a business upturn, but not this time*. Expectations for higher inflation to-come often dominate, but not in the current episode. Short-term interest rates set at, or near, zero and will 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 aims to "fix" long-term interest rates at very low levels until the unemployment rate is well into the low 7s. *Huge U.S. federal budget deficits and rising sovereign U.S. debt remain a big concern*, with the U.S. parameters 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 higher. *Tight corporate credit spreads should remain* given strong corporate balance sheets and a sustained U.S. economy upcycle. *U.S. Treasuries, in times of stress and disarray, get a "Safe-Haven" bid,* along with the U.S. dollar and yen.
Cash & Equivalent	Underweight	0%; Reduced from 5% (10% Neutral)	*Safety of principal remains a big deal*. But little or no returns make Cash & Equivalent quite unattractive. More reaching for return at higher risk can be expected.
Alternative Assets*	Equal Weight Commodities (Positive; Unch.) Distressed Assets (Positive; Unch.) Gold (Positive; Unch.) Hedge Funds (Positive; Unch.) Private Equity (Neutral to Positive)	5%	*Bullish allocation to Gold continues*, with uneven movements in price expected, supported by status as a currency substitute, hedge against inflation, and its history as a store-of-value. With extraordinarily low interest rates around-the-world, holding, or purchases of, gold inexpensive. Intermediate-term target is $1800, still cheap on an inflation-adjusted basis. Longer-term, the expectation is $2200. Commodities as an Asset Class, within Alternatives, now strategically Positive on continuing global expansion. This includes Crude Oil. But not so clearcut as before.
Sectors (Equities) Sectors (Credit)	*Allocations higher on Sectors and Industries centered around the consumer,* the "new" new technology, housing recovery and upturn. Still big macro risks as impediments. *Biggest risk concerns*: 1) near-term Fiscal Cliff and a possible downturn; beyond near-term tax reform and taxation of capital income; 2) ongoing Eurozone, now European, downturn, aftermath, and fallout; 3) flattening growth of revenues and earnings, in part from European and Eurozone recessions and other non-U.S. sourced revenues and earnings; and 4) reactions of U.S. companies in holding back on hiring and spending because of earnings growth deterioration and Fiscal Cliff. *Top-quality corporates favored* on strong cash positions and fortress balance sheets with U.S. Treasury prices propped by the Federal Reserve and "Safe Haven" bids; munis, well-selected, on a possible turnaround for many states; U.S. high-yield positive. Relatively tight credit spreads, generally.		*Info Tech still the strongest Sector Overweight*, a global view; followed now by Health Care and once over current uncertainties Consumer Discretionary and Consumer Staples. Energy still Somewhat Overweight on Developing Countries' demands and expectations of higher crude oil prices over time, but not so overweight as previously. Financials Overweight as essential "infrastructure" in an expanding global economy and slowly normalizing credit environment. *Eurozone Crises "Muddle-Through" the way of policymakers.* "Breakup" still on radar screen. Exposure of a U.S. Sector or Industry to recession-bound Europe is a negative tactically and strategically can affect Sector and Industry allocations, depending on where and how much exposure. *Of the DE three Scenarios for the Eurozone Crises*—1) Breakup; 2) Muddle-Through with "Pro-Growth" Austerity; 3) Political and Fiscal unity—a little of all going on with "Muddle-Through" dominant. Overall uncertainty here remains a big global concern.
Global Regions and Country	*Eurozone and European "Double-Dip" recessions in-train* on: 1) interactive global economic weaknesses and worsened trade flows; 2) lender-imposed fiscal austerity and restraint; 3) no macro-stimulative policy by the ECB or fiscal Europe; 4) credit crunch with consolidation and recapitalization of banks; 5) depressed sentiment; and 6) pro-cyclical political and policy instabilities. Questions are: 1) how severe the Eurozone and European economic downturns; 2) the extent of the negative effects on other Global Regions; 3) damage to the European financial system, banks in particular; and 4) European governance and how many countries can agree on banking union or on fiscal policy. *Global economic upturn still in 2012,* but flirtation with global recession on a 2.1% or 2.2% rise in real GDP compared with near 3% last year. This is not far from the 2% dividing line between Expansion and Contraction. *Eurozone and Europe downturns now a "Bad Case" result that could still get even worse.* Global Economy expected to be significantly better in 2013, up 2.6%%, but less confidence in this prospect now. *Asia ex-Japan and Developing Country growth much stronger*, relatively, than the Developed World. Depressed economic growth in sovereign debt-ridden countries and regions for quite awhile. *Japan equity allocation still Somewhat Overweight* on view of long-term downtrend for yen. Politics of Japan likely to force a significant downturn in the Japanese currency and strong reinflation efforts.		*Global stock markets viewed as strategically bullish*, having gone through a number of severe Corrections and some country Bear Equity Markets in 2011 and 2012. 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 long-run outlook positive *relative* to other countries especially given that "Soft Landing" has probably been achieved. China attempt to disinflate is over. Stimulative policies to keep coming. Policy moves in China will continue stimulative, supportive to China as an equity holding. *Japan has shifted, and will shift, course on the yen*, a positive for the Japanese stock market and source of an Overweight allocation to Japan on the MSCI and EAFE bases. Japanese economy recessing and a quick upturn cannot be seen. Deflation or disinflation to remain. Quick satisfaction on a yen downtrend not in cards for awhile, however, but is in the cards for the longer-term.

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

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

Country or Global Region	DE Current (11/27/12)	MSCI (10/31/12)	DE (6/28/12)	DE (3/15/12)
U.S.	47.1	46.6	49.8	45.7
North America—U.S., Canada, Mexico	52.2	51.6	54.2	50.8
Japan	7.3	7.1	7.9	8.0
U.K.	8.4	8.4	7.3	7.6
Eurozone	8.8	10.3	7.1	8.3
Germany	3.4	3.1	3.0	3.4
France	2.7	3.4	2.4	2.7
Italy	0.6	0.8	0.4	0.4
EU	19.1	20.6	16.1	17.7
China	2.4	2.1	2.5	3.0
Developing Asia	7.8	7.4	8.3	9.1
Asia Ex-Japan	10.2	9.5	10.6	11.6
Latin America	2.8	2.7	3.0	3.4
Brazil	1.6	1.6	1.9	2.4
Chile	0.3	0.2	0.2	0.3
BRICs	5.7	5.2	5.9	7.5

*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 3
U.S. Economic Forecast:
Selected Measures—"Baseline"
(Ann. Pct. Chg., Unless Otherwise Noted)
November 27, 2012

	2010	2011	2012F	2013F
Economy				
Real GDP	3.0	1.8	2.0	2.3
Real Consumption	1.8	2.5	1.9	2.1
Real Business Capital Spending	0.7	8.7	7.2	4.8
Net Trade (2005 $ bils.)	-419.7	-408.0	-406.9	-416.3
Housing Starts (mils. units)	0.585	0.612	0.781	0.901
Vehicle Sales (mils. units)	11.6	12.7	14.9	15.5
Industrial Production	5.3	4.1	2.9	3.7
Inflation				
CPI-All Urban (%)	1.6	3.1	2.0	2.3
Core PCE Deflator (%)	1.5	1.4	1.8	2.2
Unemployment Rate (Q4 Avg.)	9.6	8.7	8.0	7.4
Interest Rates				
Fed Funds Rate (end-yr. yield)	0.18	0.11	0.17	0.27
10-Year Treas. (end-yr. yield)	3.20	2.77	1.70	1.88
Currency and Stock Market				
U.S. Dollar (Major Curr.)	-3.0	-4.6	2.5	-0.1
S&P500 Oper. EPS ($s)	87	99	101	107
Pct. Chg.	38.3	14.2	2.4	6.5
S&P500 Index (Ann. Avg.)	1139.8	1267.9	1397.8	1514.1
Pct. Chg. (Y-o-Y)	20.5	11.2	10.2	8.3
S&P500 Index (Year End)	1,204	1,305	1,431	1,528
Pct. Chg. (Y-o-Y)	18.9	8.4	17.5	6.8
Budget Deficit (Unified)				
(Bils. $s)	-1,294	-1,299	-1,355	-1,088
(% of GDP)	-8.9	-8.6	-8.6	-6.6
Debt (Gross Public)				
(Bils. $s)	13,561	14,790	16,139	17,461
(% of GDP)	90.3	97.1	102.3	104.3
Current Account				
(Bils. $s)	-442.0	-465.9	-534.0	-603.0
(% of GDP)	-3.0	-3.1	-3.4	-3.7

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

Table 4
DE Global Economic Outlook—"Baseline"
(Ann. Pct. Chg., November 27, 2012)

	2009	2010	2011	2012F	2013F
World*	-1.9	4.4	2.9	2.1	2.6
U.S.	-3.5	3.0	1.8	2.0	2.3
U.K.	-4.4	2.1	0.7	-0.3	0.6
Eurozone	-4.0	1.8	1.5	-0.7	0.4
Canada	-2.8	3.2	2.4	2.2	2.3
Mexico	-6.3	5.5	3.9	3.2	3.4
Japan	-5.5	4.5	-0.7	1.5	-0.2
EMG	6.0	9.6	7.5	6.2	6.4
Brazil	-0.3	7.6	2.7	3.7	3.9
Russia	-7.9	4.3	4.3	4.5	4.2
India	9.1	8.8	7.0	5.6	5.9
China	9.2	10.4	9.3	7.2	7.5

*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 5
DE Baseline and Alternative Risk Scenarios and Probabilities
(November 27, 2012)

	Current
Baseline—The "Basic Prospect"	55%
"Recession 2013-14"—Full Force of Fiscal Cliff and Eurozone/European Crises	20%
Growth Recession on Less Than Full Force Fiscal Cliff	10%
"Delayed Takeoff"—Current Spending Holds Economy Back But "Takeoff" Later Occurs on Lagged Effects from Massive Monetary Stimulus and Quantitative Easing	10%
U.S. Sovereign Debt Crisis	5%

Table 6
Broad Asset and S&P500 Sector Strategic Allocations
(November 27, 2012)

	Relative to Market*		**DE Weights (%)**				**Market Weights (%)**			
			11/27/12	**6/28/12**	**3/15/12**	**12/1/11**	**10/31/12**	**5/31/12**	**2/29/12**	**10/31/11**
Broad Asset Allocation (1)										
	Curr	***Prev***								
Equities	*1.18*	*1.09*	65	60	70	65	55	55	55	55
Fixed Income	*1.00*	*1.00*	35	35	25	30	35	35	35	35
Cash & Equiv.	*0.00*	*0.50*	0	5	5	5	10	10	10	10
Alternative Assets**	*1.00*	*1.00*	5	5	5	5	--	--	--	--
S&P500 Sector Allocations (2)										
	Curr	***Prev***								
Info Technology	*1.09*	*1.10*	21.0	21.7	22.6	22.6	19.3	19.8	20.2	19.8
Health Care	*1.05*	*1.05*	12.8	12.5	11.4	12.2	12.2	11.9	11.3	11.6
Consumer Discr.	*1.04*	*1.02*	11.5	11.3	11.5	10.7	11.1	11.1	10.9	10.7
Consumer Staples	*1.03*	*1.02*	11.1	11.6	9.7	11.7	10.8	11.4	10.8	11.4
Financials	*1.02*	*1.01*	15.5	14.3	14.7	11.5	15.2	14.2	14.4	13.3
Energy	*1.01*	*1.01*	11.3	10.8	12.2	12.5	11.2	10.7	12.1	12.4
Industrials	*0.90*	*0.97*	9.1	10.1	11.1	10.7	10.0	10.4	10.7	10.6
Materials	*0.86*	*0.82*	3.0	2.8	3.2	3.5	3.5	3.4	3.6	3.5
Telecom Services	*0.78*	*0.75*	2.5	2.4	1.7	2.1	3.2	3.2	2.7	3.1
Utilities	*0.61*	*0.66*	2.2	2.5	1.9	2.5	3.6	3.8	3.4	3.8
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 7
DE S&P500 Sector and Industry Allocations*
(November 27, 2012)

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

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 represented by various themes, plus other fundamentals, especially earnings, and risks.

Theme(s)	*Comments*	*Investment Implications*
M from O *U.S. economic Expansion hesitating in growth, but still in-process.* Many signs aggressively easy monetary policy finally working. Consumption and housing pickups entrenched. This part of the economy in "Sweet Spot" for this upcycle. *"L" pattern with an uptilt at bottom for real GDP growth remains the Baseline* alphabet letter for the U.S. Expansion.	—Ex-Fiscal Cliff, U.S. consumer is in entrenched expansion with growth sustainable, though far from past performance, and considerable weaker in growth, than historically. —Aggregate consumption has to be the pillar of strength in the economy on improved consumer fundamentals—household financial conditions, jobs and income, sentiment. Not like the "good old days," but 2% plus inflation-adjusted growth for 70% of the U.S. economy is enough for the expansion to continue. —Aggregate consumption, relatively the pillar of strength now in the U.S. economy. Consumption is inclusive of housing outlays, since late 2011 on the upswing. —Big-ticket items, houses and autos, now moving up, a very good sign and often leading indicator activities of better growth in the future.	—*This stage of economic upcycle typically bullish for stocks*—fewer Corrections and Consolidations than occur early or late in the business cycle upturn. When occur, milder. —*Rising P-E multiples typical.* —On average, higher interest rates and, at some point, tighter monetary policy. But on the unusual nature of the U.S. and Global episodes not the case this time. *Lower, and low, interest rates the norm in the current situation.* —*Broad Asset Allocations remain Overweight on Equities,* now Equal Weight for Fixed Income, still Underweight on Cash & Equivalent. —*U.S. relatively better off than most of G-7 and Europe.* Broad asset allocations on a Global basis shift toward the U.S., in North America, and away from the Eurozone and Europe.
M from O *Global Expansion still, but nearly so at varying paces depending upon where.* Eurozone and Europe in a significant recession. Global Economy expected to grow just over 2% in 2012—the dividing line between Expansion and Recession is 2%. Next year, almost 3% real economic growth expected. Europe should be out of Recession and Asia ex-Japan picking up.	—Global expansion regionally in three-tiers: BRICs and non-Japan Asian and Latin American countries at the forefront; U.S., Canada following up; and Europe lagging back. China has stabilized at lower, bottoming at 7%+, and moving to be a positive force in the Global Economy. —*"Decoupling" of economic growth between Developing World and Developed Economies* seems well-established. Questions are whether the emerging new "Haves" can sustain relative, but 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. and then back remains a big risk.	—*Strategic Relative Overweights on Developing Country equities* and Relative Underweights for Europe-centric countries, except Germany. Allocations reflect relative economic performance prospects around-the-world. —*Noticeable Upgrades for the U.S., Japan,* now Somewhat Overweight against the MSCI Index sustained—the first time in many years. Germany still solidly Overweight. —Last year's (2011) dismal performance for equity markets almost everywhere anticipated the cyclical downturn in global growth that occurred in 2012. Equity markets now looking ahead to next year, which likely will be better.
O (Since Fall 2011) *Housing recovery finally—2012 and beyond.* Pickup in residential construction—long "drought" for housing activity ended. Bottoming-out in housing prices in-train and higher home prices thereafter. Consumer wealth effect, with lags, should reinforce and support consumption spending *and* housing demand going forward, particularly 2013-14.	—On most metrics—sales, starts, homebuilder confidence, buyer bigger traffic, pending sales—permanent upturn now for housing and housing-related activities. —Gains in affordability and improvements in jobs and confidence should lay foundation for continuing recovery and expansion in 2013ff. —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 is entrenched, builders pick up the pace of new construction and start to hire.	—*Significant upgrades in allocations to housing- and homebuilder-related S&P Industries* since end-2011 and continuing 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.
N *U.S. interest rate prospect shifting*—instead of high and rising interest rates, low and lower rates on the extraordinary circumstances holding back the U.S. and Global economies, imparting disinflation thrust, ahistorically easy central bank policies around-the-world, and while the Eurozone and European Crises and Fiscal Cliff possibilities exist, safe haven bids and extreme liquidity preference for U.S. Treasuries. Credit spreads relatively tight on entrenched U.S. expansion, 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 Europe and for affected countries.	—Having downgraded the economic outlook, the Federal Reserve will hold to this and stay easy as far as can see until the U.S. gets a lot closer to "full employment." —"Open-Ended" Quantitative Easing represents a "permanent" easing by the Federal Reserve, to be sustained and likely to impact "financial conditions"—the level and structure of interest rates, equity market prices, and the dollar—so as, with lags, to lift the economy. Evidence suggests that Quantitative Easing is having significant effects. —Fed balance sheet, now the principal monetary policy instrument to increase from current levels and holding the composition of purchases more toward mortgages to keep supporting housing. —Next step likely to "hook" date of exit from QE2 economic variables representing full employment and inflation rather than the calendar.	—*Continuing Fed ease and low short-term interest rates remain supportive* of a strategic equity bull market. —*Near zero returns on Cash & Equivalent very supportive to a continuing equity bull market* and Overweight.
M (Late Summer 2011) from O (2006) *Consumer six-year old theme of negative consumer spending dynamic relative-to-history remains*—"far less growth in consumer spending than in decades" and "far more household saving for far longer," keeping U.S. real economic growth low relative to history, holding down jobs creation, and limiting the growth in real disposable income. *Now increasing signs of a lift up and new higher trend growth,* although low relative to past history, now over 2% per annum, inflation-adjusted, in aggregate consumption relative to last few years. Over 2% per annum, perhaps approaching 2-1/2%; at best 3%, on average.	—"Reliquefication," or narrowly called "deleveraging," a stage in household sector business and financial cycles—well in-process after longest lags ever and a Seismic Shift departure from decades of history to much less growth in aggregate consumption. —But a sharp positive improvement between 2009:3 and now; huge reductions in debt-to-income and debt-to-asset ratios, and thus has made household financial conditions a catalyst for an "autonomous" shift up in consumption. —On DE proprietary measures, the Index of Household Financial Conditions, or reliquefication of household financial positions, appears to be about 75% to 80% finished, i.e., back toward equilibrium. Moving in support of aggregate consumption.	—*Consumer Discretionary, especially big-ticket items Housing and Autos, now front-and-center* after years of extremely depressed activity. —*Commercial Real Estate and sub-industries 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.

Table 8 (Cont'd.)

Theme(s)	***Comments***	***Investment Implications***
N (Since 2012:1) *Japan, especially the Japanese government and Ministry of Finance (MOF), now consciously and overtly on a Yen-negative course, long overdue.* Yen fundamentals, policy shift in February 2012 by the Bank of Japan (BOJ) and new BOJ appointments and the coming election support downtrend in the Japanese currency against most currencies. Against the dollar, a yen move from 75 to a high of 83 in Q1 on a new 1% inflation target hardly dented where fundamentally the yen ultimately needs to go—well over 100. But, the BOJ, MOF and the government not yet with full weight behind a yen decline, but moving cautiously.	—For the longer-run, a new negative yen currency backdrop appears set as a "long-run" tendency. —Japanese government policy actions has started to bring down the yen and will continue, eventually convincing market participants to latch-on to a falling yen. —Safe-haven stresses from the Eurozone Crises keep Japanese funds "home," and as a repository in Asia, impeding any sustained moves to lower yen levels. —For the BOJ, economic performance has gotten scary and deflation remains, moving the BOJ to additional increases in the balance sheet. This will continue, if not intensified. —Japanese consumers still a key to the Japan prospect and very cautious.	—Japan now 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. —Expect major political effort to lower the yen and reflate on a likely win for the LDP. —BOJ independence is being lost, yet another reason why the yen should be weaker.
O (Since 2009) *U.S. "Twin Deficits"—"Jobs" and Federal "Budget."* Failure so far to deal with the Macro Policy Dilemma of creating jobs *and* reducing federal budget deficits and the growth of debt relative to GDP holds back U.S. economic growth going forward.	—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, later in 2012. —After the 2012 Election, still continuing showdowns between the Obama Administration and Congressional Republicans. Current law now has built-in schedule of big budget deficit reductions, starting in 2013, the so-called "Fiscal Cliff," but 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 gross public debt-to-GDP ratio. —Actions likely to forestall the most Draconian fiscal contraction for any lengthy period of time still likely post-Election or early in 2013.	—Negative dollar against a number of non-Big 3 currencies, except when distress and safe-haven bids. —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 it restrains economic growth. —Bearish U.S. sovereign debt except when "safe haven." —Significant budget cuts and big tax increases set for 2013 would severely damage U.S. economic growth, 3-to-4 percentage points, be a significant negative for corporate profits, and could produce a "Bear Market" in equity prices.
O (Since 1990s) *Businesses substitute capital for labor to reduce labor costs and maximize shareholder value, supporting Info Tech, holding down jobs growth, increasing productivity.* Fewer jobs relative to more normal pace creation, most prolonged ever with the "new" information technology, equipment, substituting for labor, producing higher labor productivity-enhancing and cost-saving—keeping business profits much higher, e.g., the "Cloud" and "Robotics."	—Main impediment to jobs growth is subpar growth and U.S. and Global uncertainties, but still more the all-in costs of labor for companies that focus on bottom-line profits to maximize shareholder value. —Declines in nonfarm payroll jobs are over, with gains set to rise at an average of 155,000 per month. —Labor cost-saving by business means fewer jobs, less real income, less consumer spending, less economic growth, less hiring by business, etc., a positive feedback loop with negative consequences. —To stay competitive and profitable, businesses continue to invest more in labor-substituting IT capital, which has been tax-advantaged on full expensing.	—*Allocations to Consumer Discretionary and Consumer Staples Overweight* based on expectations of a higher pace of consumer spending than before. Retailers, Autos, Consumer Electronics, Hotels, and Cable & Satellite in particular. Recreation, Leisure & Hospitality, Entertainment favored. —*Info Tech still #1 DE Sector Overweight*, in part on theme of businesses substituting capital for expensive labor, particularly those companies that can benefit most from the "New" New Technology, both on costs and productivity. —*Commercial Real Estate and related industries negatively impacted* because of derived effects on commercial-related real estate from weak consumption. This is gradually resolving.
M from O (Years Ago) *"Big Three" currencies—Dollar, Euro, Yen—losing-out relatively to other previously "Have-Not" country currencies in ascendency over the longer-term.* Euro in significant downward trend on Eurozone and European Crises and aftermath. 120 Euro/Dollar the interim target. Beyond that, 110 a target with stronger cross rates relative to countries and Global Regions with much better growth prospects.	—Reallocation of foreign exchange away from U.S. Dollar, Euro, and Yen toward a diversified basket of other currencies and commodities still the tendency. This affords protection against erosion of these currencies given the uncertain economic, financial, and political prospects of the countries and regions associated with the U.S. Dollar, Euro, and Yen. —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.	—*Safe-haven currency allocations prevail with ongoing Eurozone and European Crises, especially for U.S. Dollar, Swiss Franc, Japanese Yen, Aussie Dollar, and Swedish Krone*. Also, to some extent, Canadian Dollar. Longer-run, the relative Underweight ex-safe-haven situations would be Dollar and Yen. —Euro-denominated assets, whether stocks and bonds, low or zero-weight during the Crises, not possible for most money managers, but very risky holdings. Exception is Euro-denominated German fixed income, although not equities. —*Overweight Allocations denominated in other currencies* such as Singapore Dollar, Aussie Dollar, and Korean Won.
O *U.S. manufacturing "Rebirth" and "Renaissance?"* From a secular bottom, a definite increase of relative importance. U.S. companies increasing showing low production costs and the ability to compete globally.	—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 on exports and favoring U.S. manufacturing. —Weaker dollar over time has made U.S more competitive in global trade while strong EMG growth drives demand for U.S. production.	—*U.S. Info Tech a focal point* in any "Renaissance." —Industrials—cyclically and Global Economy sensitive, but a solid prospect for 2013-15 on increased global economic expansion. —S&P500 Industries tied to exports at risk near- to intermediate-term, but longer-run prospect positive on renewed global economic growth in 2013-15.

Table 9
Global Regional and Index Allocation Weight Summary
(Relative to MSCI All-Country World Index, Based on DE Country-Specific Weights)
(November 27, 2012)

	DE Relative Weights (Mkt=1.00)	DE Weights (Pct.) 11/27/12	MSCI Weights (Pct.) 10/31/12	Previous DE Relative Weights 6/28/12	Change in DE Relative Weight*
Regions:					
Latin America (Incl. Mex.)	1.07	2.8	2.7	1.07	0
North America	1.04	51.5	51.0	1.04	0
Europe Ex-U.K.	0.81	14.0	15.4	0.81	0
Pacific Ex-Japan	1.07	5.9	5.4	1.08	0
Eurozone	0.77	8.8	10.3	0.77	0
Europe	0.84	22.4	23.9	0.84	0
Far East	1.03	9.7	9.2	1.03	0
Pacific	1.03	13.2	12.5	1.03	0
MSCI Indexes:					
EMG	1.09	12.7	12.4	1.09	0
EAFE	0.91	35.9	36.6	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 10
Decision Economics, Inc.
Global Equity Asset Allocation by Country: MSCI, November 27, 2012*
(Percent)

Country	Relative to Market *		DE Allocations			Market Weight		
	Curr.	Prev.	11/27/12	6/28/12	3/15/12	10/31/12	5/31/12	2/29/12
Overweight								
Singapore	1.15	1.25	0.79	0.84	0.85	0.69	0.67	0.68
China	1.15	1.22	2.38	2.47	3.03	2.07	2.03	2.14
Hong Kong	1.15	1.09	1.61	1.43	1.62	1.40	1.31	1.35
Indonesia	1.10	1.09	0.39	0.37	0.39	0.35	0.34	0.35
India	1.10	1.10	0.95	0.87	1.07	0.86	0.79	0.89
Chile	1.10	1.13	0.26	0.26	0.26	0.24	0.23	0.24
Philippines	1.08	1.09	0.13	0.12	0.11	0.12	0.11	0.10
Mexico	1.08	1.04	0.70	0.62	0.59	0.65	0.60	0.59
Germany	1.07	1.04	3.36	2.99	3.43	3.14	2.88	3.12
Australia	1.05	1.04	3.47	3.18	3.50	3.30	3.05	3.18
South Korea	1.05	1.15	2.02	2.22	2.25	1.92	1.93	1.96
Thailand	1.04	1.04	0.29	0.28	0.28	0.28	0.27	0.27
Turkey	1.04	0.88	0.25	0.15	0.18	0.24	0.17	0.18
Japan	1.03	1.02	7.30	7.94	8.03	7.10	7.80	7.89
Sweden	1.03	1.00	1.17	1.07	1.20	1.14	1.07	1.20
Brazil	1.02	1.09	1.60	1.85	2.36	1.57	1.70	2.05
United States	1.01	1.04	47.09	49.76	45.65	46.61	47.86	45.14
Market Weight (Neutral)								
Canada	1.00	1.02	4.39	4.44	4.60	4.39	4.35	4.47
Colombia	1.00	1.00	0.16	0.15	0.12	0.16	0.15	0.13
Denmark	1.00	1.00	0.43	0.42	0.42	0.43	0.42	0.42
Ireland	1.00	0.50	0.10	0.05	0.05	0.10	0.10	0.10
Malaysia	1.00	1.04	0.47	0.49	0.46	0.47	0.47	0.44
Netherlands	1.00	0.94	0.92	0.80	0.85	0.92	0.85	0.89
New Zealand	1.00	1.00	0.05	0.05	0.04	0.05	0.05	0.04
Norway	1.00	0.94	0.35	0.30	0.37	0.35	0.32	0.37
Poland	1.00	0.88	0.18	0.14	0.18	0.18	0.16	0.18
Russia	1.00	1.00	0.74	0.73	1.04	0.74	0.73	0.90
Switzerland	1.00	0.84	3.22	2.60	2.65	3.22	3.08	3.12
United Kingdom	1.00	0.89	8.44	7.32	7.55	8.44	8.19	8.39
Underweight								
Czech Republic	0.90	0.99	0.04	0.04	0.04	0.04	0.04	0.04
Israel	0.90	1.00	0.20	0.23	0.23	0.22	0.23	0.23
South Africa	0.90	1.00	0.86	0.98	1.03	0.96	0.98	1.03
Taiwan	0.90	1.04	1.19	1.51	1.53	1.32	1.45	1.46
France	0.80	0.77	2.72	2.39	2.73	3.40	3.10	3.41
Belgium	0.75	0.50	0.31	0.18	0.18	0.41	0.37	0.36
Finland	0.75	0.81	0.21	0.22	0.29	0.28	0.27	0.32
Italy	0.75	0.58	0.62	0.42	0.44	0.82	0.72	0.87
Austria	0.50	0.25	0.05	0.02	0.03	0.10	0.08	0.10
Hungary	0.50	0.33	0.02	0.01	0.01	0.04	0.03	0.04
Peru	0.50	1.00	0.04	0.09	0.08	0.08	0.09	0.08
Spain	0.50	0.00	0.53	0.00	0.28	1.06	0.83	1.12
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	0.02	0.02	0.03
Morocco	0.00	0.00	0.00	0.00	0.00	0.01	0.02	0.02
Portugal	0.00	0.00	0.00	0.00	0.00	0.06	0.06	0.07
TOTAL			**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 11
Decision Economics, Inc.
Equity Asset Allocation by Country, November 27, 2012: MSCI EAFE*
(Percent)

Country and Region	DE Weightings					MSCI EAFE Weights		
	Relative to Market							
	Curr. (11/27/12)	Prev. (6/28/12)	11/27/12	6/28/12	3/15/12	10/31/12	5/31/12	2/29/12
Overweight								
Singapore	1.20	1.30	2.24	2.43	2.24	1.87	1.87	1.79
Hong Kong	1.14	1.15	3.59	3.44	3.58	3.16	2.99	2.98
Germany	1.10	1.08	9.50	8.85	9.72	8.64	8.19	8.45
Sweden	1.03	1.00	3.22	3.06	3.42	3.13	3.06	3.26
Australia	1.02	1.05	9.26	9.10	8.86	9.08	8.69	8.60
Japan	1.02	1.05	19.95	23.29	22.39	19.56	22.19	21.36
Netherlands	1.02	1.00	2.58	2.41	2.29	2.53	2.41	2.41
Norway	1.02	1.00	0.98	0.91	1.00	0.96	0.91	1.00
Switzerland	1.02	1.00	8.95	8.66	8.01	8.77	8.66	8.35
Market Weight (Neutral)								
Belgium	1.00	1.00	1.13	1.05	0.97	1.13	1.05	0.97
New Zealand	1.00	1.08	0.13	0.14	0.12	0.13	0.13	0.12
United Kingdom	1.00	1.05	23.16	24.40	22.88	23.16	23.24	22.65
Underweight								
Italy	0.95	0.93	2.15	1.89	2.36	2.26	2.04	2.36
France	0.93	0.85	8.75	7.51	9.32	9.37	8.83	9.23
Austria	0.90	0.65	0.25	0.15	0.18	0.28	0.23	0.26
Denmark	0.90	1.00	1.05	1.18	1.13	1.17	1.18	1.13
Israel	0.90	1.00	0.54	0.65	0.59	0.60	0.65	0.62
Finland	0.80	0.89	0.61	0.68	0.75	0.76	0.76	0.88
Ireland	0.75	0.69	0.20	0.20	0.20	0.27	0.29	0.27
Spain	0.60	0.00	1.76	0.00	0.00	2.93	2.37	3.02
Greece	0.00	0.00	0.00	0.00	0.00	0.06	0.07	0.09
Portugal	0.00	0.00	0.00	0.00	0.00	0.17	0.18	0.20
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 12
Decision Economics, Inc.
Equity Asset Allocation by Country, November 27, 2012: MSCI EMG *
(Percent)

Country	Relative to Market Curr. (11/27/12)	Relative to Market Prev. (6/28/12)	DE Weightings 11/27/12	DE Weightings 6/28/12	DE Weightings 3/15/12	MSCI EMG Weights 10/31/12	MSCI EMG Weights 5/31/12	MSCI EMG Weights 2/29/12
Overweight								
China	1.09	1.07	20.12	19.53	19.65	18.47	18.18	17.86
Mexico	1.09	1.02	5.56	4.85	3.82	5.12	4.74	4.39
India	1.06	1.03	7.20	6.45	7.11	6.79	6.26	6.64
Turkey	1.05	0.80	1.96	1.07	1.34	1.87	1.34	1.34
Chile	1.03	1.03	1.93	1.83	1.86	1.87	1.79	1.77
South Korea	1.03	1.05	15.68	16.16	15.09	15.19	15.36	14.65
Indonesia	1.02	1.03	2.87	2.80	2.40	2.81	2.73	2.59
Malaysia	1.02	1.03	3.84	3.80	3.06	3.76	3.70	3.27
Thailand	1.02	1.03	2.25	2.20	2.00	2.21	2.14	2.00
Market Weight								
Colombia	1.00	1.00	1.29	1.22	0.98	1.29	1.22	0.98
Philippines	1.00	1.00	0.92	0.87	0.72	0.92	0.87	0.72
Russia	1.00	0.90	5.88	5.20	7.10	5.88	5.78	6.76
Underweight								
Brazil	0.99	1.00	12.37	13.52	16.11	12.49	13.52	15.34
Taiwan	0.91	1.01	9.54	11.60	9.79	10.48	11.50	10.88
Poland	0.90	0.69	1.31	0.89	1.03	1.46	1.29	1.37
South Africa	0.90	1.00	6.89	7.78	7.68	7.65	7.78	7.68
Czech Republic	0.80	0.74	0.25	0.23	0.26	0.31	0.31	0.33
Hungary	0.50	0.00	0.16	0.00	0.00	0.32	0.27	0.31
Egypt	0.00	0.00	0.00	0.00	0.00	0.36	0.36	0.36
Peru	0.00	0.00	0.00	0.00	0.00	0.67	0.71	0.62
Morocco	0.00	0.00	0.00	0.00	0.00	0.09	0.14	0.14
Total			**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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