December 2012 / January 2013

Compass

Why I am reasonably confident

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Wealth and Investment Management
Global Research & Investments

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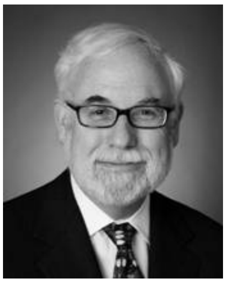

Aaron S. Gurwitz
Chief Investment Officer

Why I am reasonably confident

Dear clients and colleagues:

For the past four years, I have been a stakeholder in Barclays PLC in three different ways: as an employee; as a Wealth and Investment Management client; and as a shareholder of the parent company. The first of these points of contact will end on New Year's Eve, when I retire as chief investment officer of the Wealth and Investment Management division. But I expect to remain a client and a stockholder for many years to come. I am happy to continue my relationship with Barclays because I believe that the Barclays Investment Philosophy provides the best extant framework for financial advice and, for that reason, will continue to drive success in the business of wealth management.

Here's my most concise formulation of our Investment Philosophy:

> *"Each investor should design, implement, and maintain a diversified investment portfolio that is consistent with his or her financial situation and financial personality."*

This is the approach to investing that, along with a career marked by more good luck than bad, enables me to move on to the next phase of my life with a reasonable degree of confidence.

I am reasonably confident because my investment portfolio is adequately diversified. Diversification across broad asset classes makes sense because we never know with certainty whether, or to what degree, the future state of the world will be good or bad. If things in general turn out well, if technology advances, the economy expands, inflation stays under control, and we avoid war, then my equities will likely perform well. As I've got a reasonable proportion of such investments, I should be very happy under such circumstances. If things turn out badly, if we return to recession, war breaks out, and oil prices spike, then my "defensive" investments – my cash, bonds, commodities, global macro hedge funds, etc. – will prevent my net worth and investment income from deteriorating too badly.

In this regard, however, my ambitions as an investment strategist and my expectations as an investor are realistically modest. I can imagine circumstances in which all the components of my portfolio declined in value simultaneously, substantially and for the remainder of my lifetime: if the global financial system collapsed completely, for example. But these are remote possibilities and, in any case, there's nothing one can do by way of portfolio management to mitigate such catastrophes.

I am reasonably confident because our investment portfolio is consistent with my family's financial situation. The nature of the investments reflects our tax situation, our projected need for some reliable cash flows, and the fact that I hold a concentrated position in Barclays' stock.

I am reasonably confident because our investment portfolio is consistent with both my wife's financial personality as well as my own. I could not be confident if she were uncomfortable with our investment strategy. Fortunately, despite some differences, our attitudes and reactions towards risk, investments, markets and financial decision-making are fairly congruent. Because the Barclays Investment Philosophy incorporates a sophisticated understanding of investment psychology, my wife and I are aware of our differences and similarities, and of how both are reflected in our asset allocation strategy and the individual investments we hold.

I am reasonably confident because our asset allocation is implemented with carefully selected investment vehicles that have survived Barclays' intense, unbiased due diligence process.

I am reasonably confident because the bankers at Barclays who handle my accounts are as committed to our Investment Philosophy as I am. I also know that my bankers will continue to benefit from the insights of my colleagues on our global team of experienced and dedicated research professionals. I know I can expect an appropriate level of continuing engagement aimed at making sure my family's portfolio remains consistent with our financial personalities, our financial situation, and the evolving state of the world.

Finally, I can be reasonably confident because I do not aim to be completely confident. While, barring a catastrophe, outright hardship is not on the cards, I realize that, if things turn out badly, at some point in the future we may have to reduce our standard of living substantially. Fortunately, our financial personalities are such that we don't feel compelled to organize our affairs so as to minimize that possibility.

Over the course of my four years as an employee of Barclays I have thoroughly enjoyed my interactions with a diverse, fascinating group of clients and colleagues on four continents. Between now and year end, as my relationship with this fine company changes, I will try to find the opportunity to thank many of you personally. If we are unable to connect, let me take this opportunity to say thank you and to wish you all a joyous holiday season and many, many happy new years.

Sincerely,

Aaron S. Gurwitz
Chief Investment Officer

2013 outlook: clouds begin to lift

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Investors continue to face several very visible uncertainties as we enter 2013, including: the resolution of the US 'fiscal cliff'; the ongoing euro crisis; and a rebalancing of the Chinese economy. Nonetheless, our regional strategists believe that investors' portfolios should be positioned with a unifying theme in mind: the outlook for the global economy, and for risk assets, is slowly getting brighter.

European outlook to brighten – but slowly

For global portfolios, the two most important ongoing European themes are: (1) the euro's existential crisis and (2) UK fiscal austerity. The euro's angst is of course by far the bigger concern, but it is easy to forget that the UK stock and government bond (gilt) markets account for around 9% of global developed markets aggregates (they have the 2nd and 3rd largest country weights respectively in the major global benchmark indices).

We expect the outlook to brighten under both these headings during 2013, but the storm clouds are unlikely to be dispelled overnight: Sunnier spells will doubtless continue to be punctuated by market showers.

There are other European concerns. For example, risk aversion has left the Swiss franc severely overvalued, and many Swiss companies labouring under a competitive disadvantage; meanwhile, the euro area's recession has had a disproportionate impact on several emerging eastern European economies. But these affect a smaller portion of global portfolios, and – as in these examples – are in many cases simply a reflection of that bigger euro theme.

The euro: a little help from its friends

There is no quick fix for the euro —but provided politicians move in the right direction, the ECB will continue to act as backstop

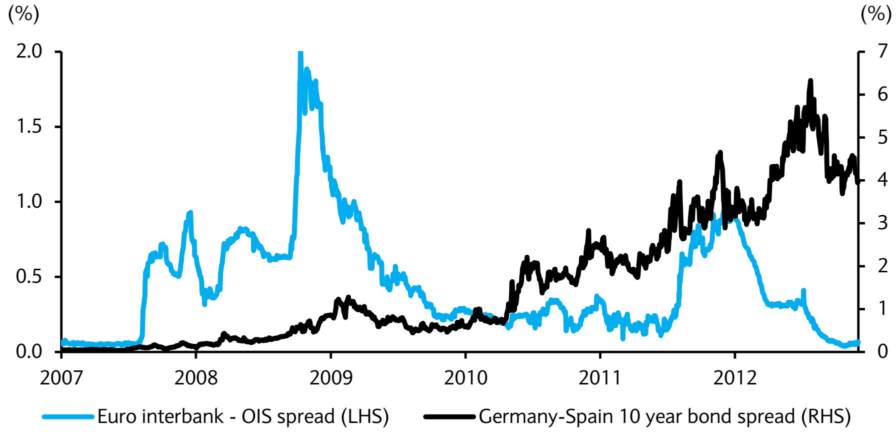
We've said it many times, but it bears repeating: The uncertainties surrounding the euro will not, and *can* not, be dispelled quickly. A convincing, definitive solution requires both greater integration (fiscal, banking and political), and structural economic reform in the larger under-performing economies (Spain, Italy, and – less pressingly but arguably most profoundly – France). This will take years, not months, to achieve.

The necessary architecture and supply-side reforms have been missing since the euro's inception, but since 2008, investors' collective patience has evaporated. Progress recently has been real, but frustratingly slow, essentially because there is no political leader with the authority or ability to deliver it, and because eurozone voters currently have little appetite for it. Indeed, in France the electorate voted decisively to reject reform in the summer's presidential and parliamentary elections.

This slow progress does not mean, however, that investors need remain on the edge of their seats for however long it takes to reach that eventual solution. Crucially, the ECB has promised that it will do whatever it takes to ensure the euro's survival – provided that the politicians at least show themselves willing to move in the right direction. Spain and Italy have begun to reform their labour markets, and more recently even the new French government is beginning also to acknowledge the laws of commercial gravity. (If UK readers are tempted feel a little complacent at this stage, they might want to remember that the UK once appeared similarly recalcitrant economically, being widely regarded as the 'sick man of Europe' through the 1970s and early 1980s.)

2011 started with the ECB making massive injections of cheap liquidity to the eurozone banking system. This succeeded in reducing interbank tensions, but it did not prevent market nerves from resurfacing around the time of the two Greek elections in May/June, just as Spain was underperforming its latest fiscal targets. The ECB intervened again with that famous promise in July, and as we write, Greece's short-term funding has been clarified until well into 2013 while Spanish banks have secured the financing required by their stress tests for restructuring.

Figure 1: Euro zone tension fading? Interbank and Spanish bond spreads



Source: Bloomberg, Barclays Research

Spain will be funded — investors are just waiting to find out by whom

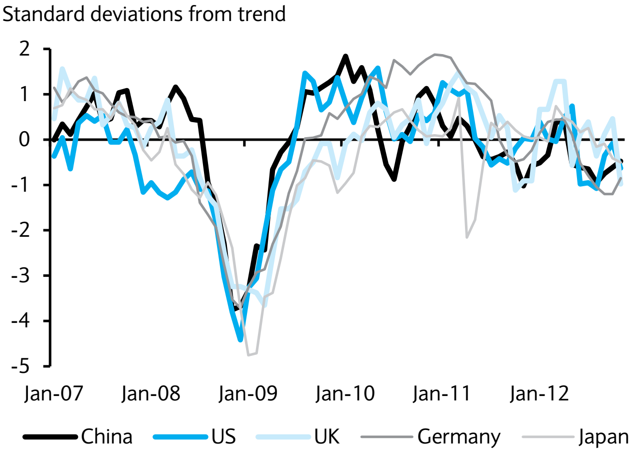
Investors are waiting to see whether the Spanish government will now apply for a wider bail-out, triggering the ECB's programme of 'Outright Monetary Transactions' (OMT) – the buying of short-dated government bonds in the secondary market. Received wisdom has it that an application would be a positive thing, but we are agnostic: What matters is that the ECB's promise to intervene if asked is a credible one. We think it is, in which case what is at stake is effectively the source, not the existence, of Spain's funding. If the Spanish government asks for help, the official sector will provide the funds. If Spain succeeds in facing down the bond markets – and after all, who will sell a bond if the ECB stands ready to step in to drive its price back up? – then private sector funding will remain in place.

Doubtless there will be further volatility in 2013 as the politicians occasionally drop the ball, or run backwards with it. But our central call is unaltered: We think the ECB (and to some extent the IMF, though its role is, of course, a more disinterested and marginal one) will continue to improvise effectively in order to backstop the single currency project. We expect the euro to remain intact.

The tools the ECB uses may arouse concerns in some quarters. It has said that it will sterilise intervention through the OMT programme, but this may be easier said than done in practice, leaving the central bank vulnerable to accusations that it is resorting to printing money or 'Quantitative Easing' à la the Federal Reserve. Still, we think the ECB would not be acting completely ex juris: An implosion of the euro and its banking system would be hugely deflationary, and the central bank's mandate is to ensure price stability.

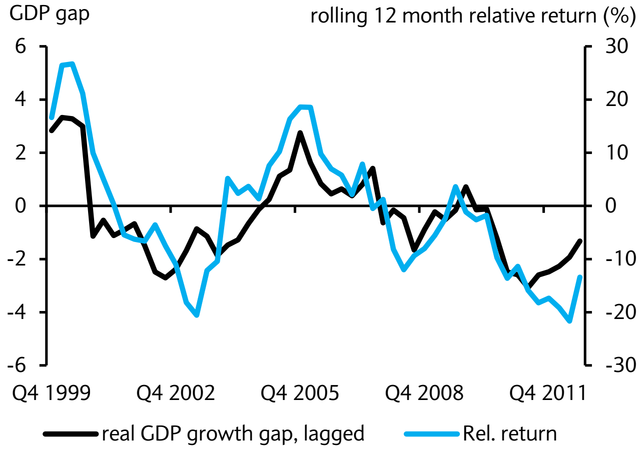
The eurozone economy is likely to remain a laggard in 2013. The sheer uncertainty surrounding the single currency is affecting business and consumer confidence, particularly of course in the countries undergoing the most stringent fiscal retrenchment (most importantly, Italy and Spain, which both seem set to shrink further in 2013). However, it would be wrong to attribute the lacklustre outlook entirely to the impact of the crisis. At the best of times, Continental Europe tends to grow relatively slowly: Its structural growth rate is typically estimated at 1.0%-1.5% only. And its exporters have

Figure 2: Manufacturing surveys: some signs of stability



Source: Datastream, Bloomberg, Barclays Research

Figure 3: Relative EMU/US growth and stock market performance



Source: Datastream, MSCI, Barclays Research

been affected in 2012 at least by the US and China's hiatus in import growth. (Ireland was a notable exception; its foreign direct investment-fuelled exports continue to distinguish it from the rest of the periphery).

That said, the fiscal retrenchment has probably peaked (the IMF suggest that the structural tightening in prospect in 2013 is slightly smaller than that seen in 2012), and growth in world trade has begun to pick up. Business surveys are showing signs of stabilising. Euro zone GDP for 2013 as a whole is likely to be little changed, but that flat outlook would be a slightly better outcome than the small recession in 2012.

The US-euro zone growth gap may narrow a little in 2013 —but rather than single one out, we expect both stock markets to outperform the rest of the developed world again in 2013

Intriguingly, the small improvement in the euro zone's GDP may coincide with a slight deceleration in the US, which faces a greater fiscal headwind even if the impact of the fiscal cliff is muted, as we expect. In the past, significant narrowings of the euro zone-US growth differential have been associated with stronger relative stock market performance (Figure 3) in Europe. Of course, economic growth is only one of many stock market drivers. While the prospective narrowing in euro zone-US growth differential in 2013 is small by historical comparison, the Europe ex-UK stock market did, after a bumpy ride, outperform the US in 2012. [1] We continue to prefer both those stock markets to the rest of the developed world: the US and Continental Europe are where investor expectations have been most depressed, and the chances of positive surprises, and sensitivities to a general revival in risk appetite, are correspondingly greater. Within the euro zone we'd favour selected markets in both the core and periphery: the former (most notably Germany) will benefit from stabilising world trade, while the latter (Spain and Italy) can benefit from improved risk appetite.

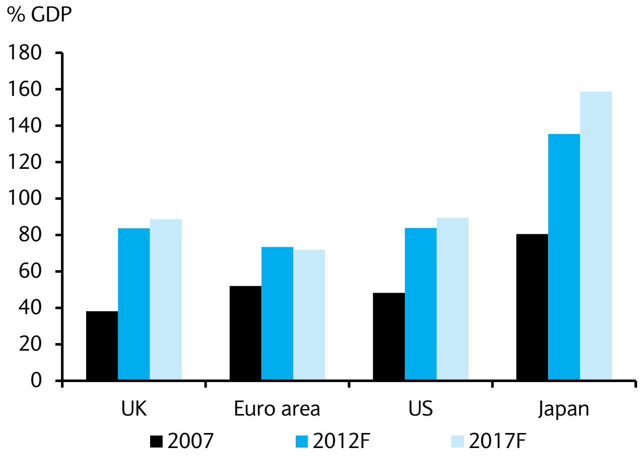
The euro itself, however, is not our favourite currency. While we expect it to remain intact, we also think that it will lose some of its recent resilience. The ECB is quite likely to cut interest rates again in early 2013, and a cheaper euro would represent an economic safety valve. But we doubt it will fall far, not least because none of its peer currencies is without problems at present.

The UK: groundhog day?

According to the IMF, the ongoing and prospective reduction in the UK's structural budget deficit is larger than that seen in the eurozone and, assuming we're right about that fiscal cliff compromise, in the US (Figure 5). Nonetheless, we're still optimistic

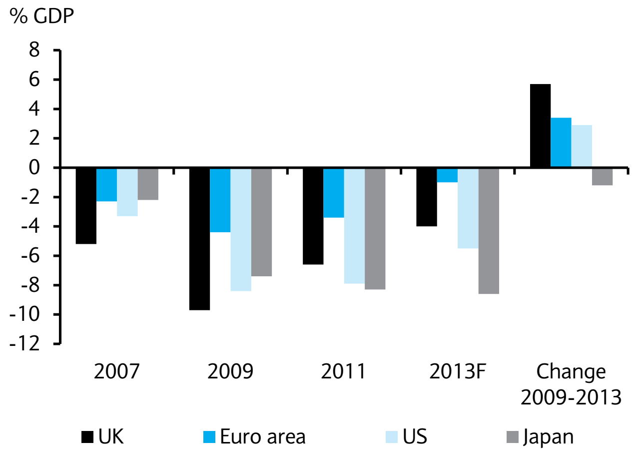
[1] As of December 12, 2012.

Figure 4: Net government debt, % GDP



Source: IMF WEO October 2012

Figure 5: Structural government balances, % GDP



Source: IMF WEO October 2012

Fiscal austerity needn't prevent the UK growing: private savings have risen, and the monetary climate is lenient

that the UK economy will not be pushed into reverse by it. The UK economy may see a bigger improvement in GDP growth in 2013 than any other large economy, though this is partly a reflection of an erratic base effect in 2012.

The UK has been in a similar position before. In 1981, another new-ish administration raised taxes and cut spending plans in the context of an even more enfeebled economy, and in the face of more vocal opposition (including, famously, an open letter from 364 economists, published in the Times). In the event, the economy was able to shrug off the tightening and recover – and two important factors that offered support then are in place now.

First, the UK private sector, like that in the US, is currently running a healthy financial surplus: Its savings exceed its investment. This is not unusual at this stage of the business cycle: When consumers and businesses are nervous, they save more of their income. As saving ratios rise, they make the downturn worse; but once they have risen, they represent a source of potential spending power that can be tapped when incomes take a hit from lower employment or, in this context, higher taxes. We think this is the case today: The fiscal squeeze can be partially offset by the private sector allowing its savings ratios to start to fall once more. And even in these days of larger government, the private sector still represents the lion's share of the economy.

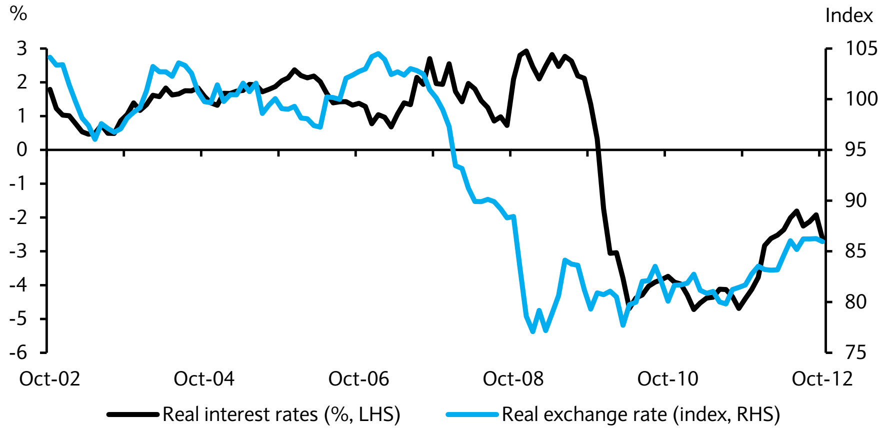
Second, while the fiscal climate is bracing, the monetary backdrop is friendlier. The dynamics are admittedly different to then, but both episodes have in common the potential for monetary conditions to alleviate some of the fiscal headwind. Then, the pound and real interest rates had recently surged on the back of the re-establishment of 'sound money', paving the way for a material loosening that took the sting from the fiscal retrenchment. In the current episode, monetary conditions loosened sharply as the pound and interest rates fell after 2007 in response to the crisis (prior to the crisis, sterling had been expensive, but had been so for almost a decade). More recently, the pound has actually rallied a little in real as well as nominal terms, but it remains competitive.

As in the US, worries about consumer balance sheets look overdone to us: The net worth of the UK household sector remains strongly positive, and the UK's net overseas borrowings are small by comparison. Meanwhile, almost unnoticed, the UK's population has been growing steadily, largely fuelled by inward migration, which should at the very least underpin the UK's structural growth rate.

Despite better relative growth, we see the UK stock market continuing to lag the US and Europe in 2013 —but outperforming gilts

In 2013, we see the UK returning to growth, and the acceleration is pronounced by comparison with other large economies. However, it is flattered a little by the absence of 2012's extra bank holiday, and we would not translate it into an outperform call on the UK stock market, which – like some UK Premier League football teams – is in any case dominated by international names. Those companies are also disproportionately concentrated in the resources (oil and mining) bloc. Instead, we suspect the UK stock market will continue to lag the US and Continental Europe. But as with wider global markets, we do think that the stock market will outperform government bonds (gilts), and by more than enough to compensate for risk. The UK remains relatively inflation-prone. Since 2005, CPI inflation has exceeded the Bank of England's 2% target on a twelve-month rolling basis – admittedly in extenuating circumstances for much of the post-2007 period – and we expect it to do so again in 2013 and 2014.

Figure 6: Sterling is competitive and real interest rates are low



Source: Datastream, Barclays Research

Markets

As the clouds begin to lift in 2013, we expect risk assets to continue to outperform other assets in Europe, in line with our global Tactical Asset Allocation (set out fully on page 20). We favour equities and high-yield credit, and recommend smaller than usual positions in cash and especially developed government bonds.

In Europe, as globally, we prefer corporate to government securities, and stocks to bonds

Stocks remain inexpensive, even after rallying, and allowing for further cuts in analysts' earnings forecasts. As noted, we prefer the Continental markets to the UK, and favour a mix of both core and Spanish/Italian euro area exposure: that is where expectations are most depressed, and likely easiest to beat in 2013. We currently favour a mix of cyclical, technology and energy sectors, and see 'Income' remaining a popular theme for a while, but at some stage we think some rotation towards longer-duration or 'growth' sectors is likely: our convictions are strongest at the asset class level.

We do not expect a major government to default on its obligations, but bonds look very expensive (with the notable exception of Spanish and Italian sovereign bonds, which effectively trade as risk assets, not safe havens, and which may be relatively stable in 2013). In Investment Grade credit, we think financials look most attractive, and see the asset class overall as fully valued: we prefer High Yield, though it is running out of headroom and should be seen now as largely a yield play (albeit an attractive one).

An American reckoning, or reconciliation

The US economy will likely be challenged in the first half 2013 as policymakers reckon with the fiscal cliff. The second half of the year holds much more promise.

It is hard to think about the US outlook for 2013 without recalling Bill Clinton's War Room mantra to keep his 1992 presidential campaign team on point: "It's the economy, stupid." With an economy whose growth has teetered between weak and mediocre almost four years into recovery, macroeconomic and political developments are the main attraction, and they will continue to drive US markets in the coming year. So any outlook for risk assets must begin with these.

Foremost among the issues for the US is the balancing of accounts involved with the 'fiscal cliff,' that $700 billion leviathan of federal tax increases and government spending cuts set to occur on January 1st. Simply put, an economy growing at about 2.0% a year cannot withstand a 3.5% hit. The math is, simply, recessionary.

Despite $6 billion spent on the US Presidential elections and unmistakably different proposals offered by the two parties, they collectively produced the *status quo ante*. The message to policymakers was clear: Their myriad constituencies want the fiscal issues addressed *constructively*. Corporate CEOs are publicly lobbying for resolution. So are investors, as evidenced by the post-election stock market decline and recovery; the rebound was driven by conciliatory messages from Washington. Even the monetary mandarins at the Federal Reserve weighed in, warning of the economic consequences a failure to act would have, and of their limited ability to mitigate them.

That such dodgy elements form the foundation of the 2013 American economic, and market, prosperity is not the stuff of New Year revels.

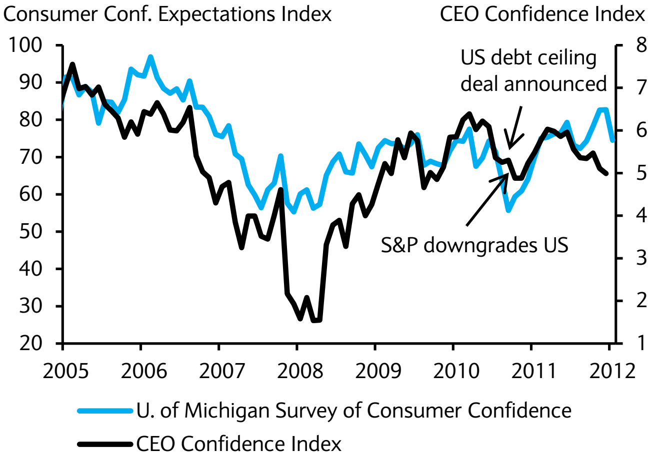
But the picture is not nearly as troubling as it might appear at first glance. While US GDP growth since 2009 has been frustratingly below its potential and its historic trend, components of the economy have been fairly encouraging. Consumer spending had been – and will likely continue to be, once the fiscal cliff is resolved – a source of growth, fuelled by rising employment, wages and confidence. Although employment growth has been glacial, for those who are working, nominal wages have been rising, albeit slowly. Supported by this, a buoyant stock market, and a nascent housing recovery, consumer confidence had been steadily increasing – until December when it plunged (Figure 7). If a resolution to the fiscal cliff occurs in the first quarter, US consumers will likely find their footing once again. Then, the 70% of the nation's economy – and, indirectly, the 20% of the global economy – that is driven by the American consumer will likely to continue its growth, despite higher taxes.

A wild card in the GDP calculus is business spending. Capital expenditures have been extremely weak in the post-recession period. The importance of business spending cannot be understated since spending on plant and equipment tends to have a higher multiplier effect on the economy, leading to more job creation. CEO sentiment fell steadily in second half of the 2012 because of uncertainty regarding the fiscal cliff. This uncertainty plagues small businesses to an even greater degree. According to the National Federation of Independent Businesses (NFIB) October survey of Small Business Trends, those who are uncertain about the next six months hit a survey record high, exceeding the prior high reached during Jimmy Carter's stagflation-bedevilled presidency by *eight* percentage points. [2] November then witnessed the NFIB's largest monthly decline in small business optimism since 1980. Such a pervasive sense of indeterminacy suppresses entrepreneurial risk-taking. It halts willingness to invest in the very things that propel growth: plants, equipment and people.

Government spending is another uncertain component of GDP. During the recession and the early part of the recovery, US government outlays expanded to replace those of

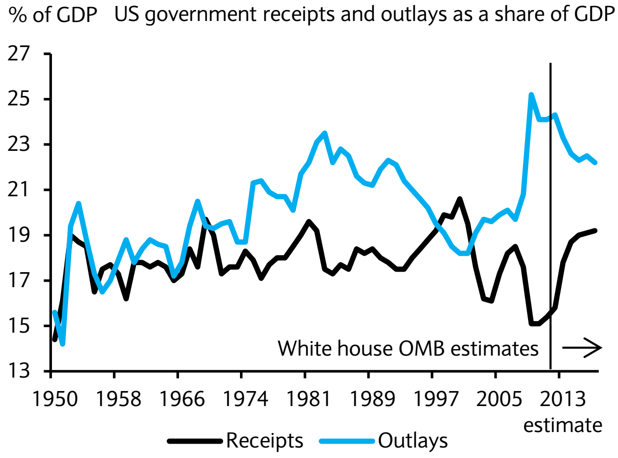
[2] NFIB Small Business Economic Trends: William Dunkelberg and Holly Wade, November 27, 2012

Figure 7: Consumer and CEO confidence had diverged



Source: Bloomberg as of Dec 2012

Figure 8: Goal – return to historic %-of-GDP averages



Source: Whitehouse as of Dec 2012

If a resolution to the fiscal cliff occurs in the first quarter, we would expect the US consumer to find their footing again.

the receding private sector. As federal and state spending is now brought into line with tax revenues, government contribution to GDP will inevitably shrink, creating the need for broad and deep private sector participation to sustain and increase growth.

The other side of the fiscal cliff

The first half of 2013 will likely be focused on the reckoning of tax and spending in the fiscal cliff. Getting to the 'end state' will be undoubtedly difficult: The horse-trading and brinksmanship part of such legislative endeavours are often needlessly disruptive to markets. For investors in US capital markets, concentrating on the end state is critical to distinguishing signal from noise. The end state is one where tax revenues and spending in relation to GDP return to their historic average of 18% and 20%, respectively. [3] Currently, tax revenue and spending are running at 15% and 24%, respectively (Figure 8). A combination of higher taxes and lower spending is the only path.

The US economy will likely be challenged in the first half 2013 as policymakers reckon with the fiscal cliff, consumers and businesses face the attendant uncertainty, and the impact of higher taxes and fiscal austerity ultimately exert their influence. The second half of the year holds much more promise. Clarity should emerge on the shape of a post-cliff landscape, and investors will focus on market fundamentals rather than political and fiscal calculus. Indeed, the hope of hopes is for a settled policy environment which drives more economic growth and, in turn, greater corporate profit growth and the expansion of price-to-earnings multiples.

The markets

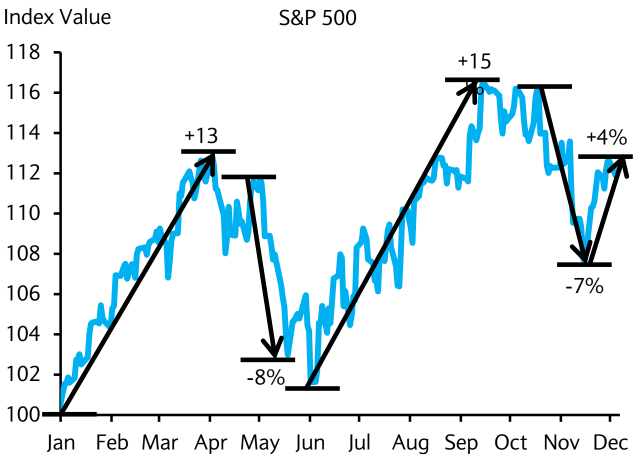
Despite a likely tumultuous start to the year, the opportunity set in 2013 for investors appears compelling.

US equities

As of mid-December, earnings per share for the S&P 500 index were estimated to end 2012 at roughly $104. [4] Assuming, for the sake of illustration, a yearend index level of 1,400, that's equivalent to a 13.4x price-to-earnings multiple – below the 14x average for the first 11 months of 2012 and well below the 15x long-term average. As the US economy grows in 2013, China settles into its 7% targeted growth rate, and Latin

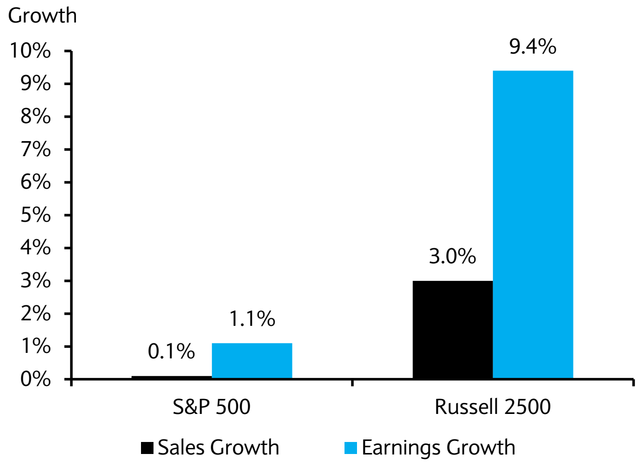
[3] This amounts to about a 3% of GDP annual deficit. The national debt burden is eased by interest rates at artificially low levels, which translate, after inflation, to negative real interest rates.
[4] Based on Bloomberg estimates on December 6, 2012

Figure 9: S&P 500 moves in 2012



Source: Bloomberg as of Dec 2012

Figure 10: S&P 500, Russell 2500 Q3 sales & earnings growth



Source: Bloomberg as of Dec 2012

Investors should focus particularly on US small and mid-cap stocks as earnings continue to grow faster

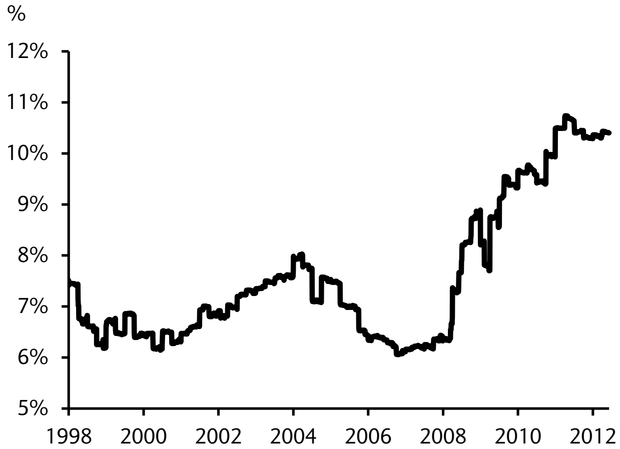
American economies lift, earnings of large US multi-national companies should benefit. The consensus expectation for S&P 500 index 2013 earnings per share is, consequently, $114.75. That equates to a 10.3% increase over 2012. Given the aforementioned fiscal cliff-related uncertainties and a slow first half of the year, it is prudent to apply a 'haircut' to the consensus estimate. Reducing the 2013 estimate by four percentage points to $110 per share implies a 6% growth rate. By applying a 14.5x PE multiple, we get a 2013 yearend S&P 500 Index level of 1,595. Our reasoning for the PE ratio expansion above the 2012 average of 14x Policy resolution plus a modicum of growth next year.

Volatility will likely be an ever-present feature of the US equity market in 2013 as it was in 2012. However, *actual* volatility of stock returns is not likely to foot with volatility as measured by the VIX, [5] known as the "fear index." Equity returns in 2012 rambled over the course of the year, swinging materially in the face of a host of macroeconomic issues (Figure 9), but the VIX fell almost 30%. This divergence will likely continue in 2013, with the path to the S&P 500 at 1,595 being a bumpy one.

With a supportive environment – including the ongoing measures by the central bank trifecta [6] – investors should be overweight Developed Markets Equities. In the US, investors should focus particularly on small and mid-cap (smid) stocks. 'Smid'-cap companies have been able to grow profits faster than large companies, even amid weak economic growth (Figure 10); and they're also likely to be the target of increased acquisition activity. US corporate balance sheets are laden with cash (Figure 11). Larger companies with halting profit growth but considerable cash may seek to generate higher returns for their shareholders by acquiring earnings. US mergers and acquisition volume rose considerably over the course of 2012 (Figure 12), and we would expect this trend to continue in 2013. With dividend and capital gain tax rates set to rise materially, using corporate cash to drive higher earnings per share is a logical way to maximize shareholder value.

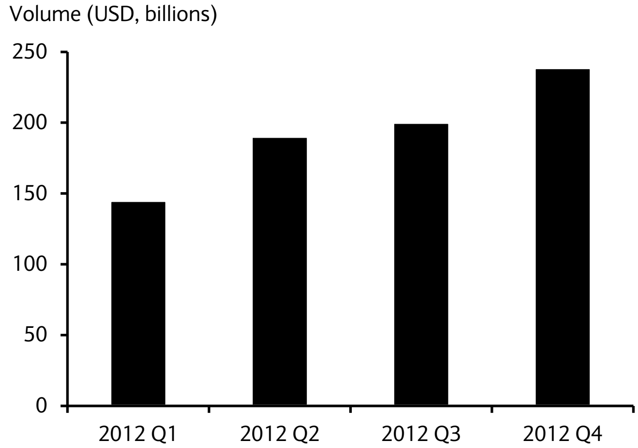
[5] The VIX is a measure of the option market's forecast for the volatility of the S&P 500 Index over the next 30 days. The implied volatility in S&P 500 Index options is analogous to forward rates of interest in fixed income markets.)
[6] The Federal Reserve, European Central Bank, and the Bank of Japan

Figure 11: S&P 500 companies' cash & short-term investments as % of total assets



Source: Bloomberg as of Dec 2012

Figure 12: US mergers & acquisitions deal volume



Source: Bloomberg as of Dec 2012

History is definitive on this point: Dividend equities do not suffer durable impairment in price as a result of higher dividend taxes.

Dividend equities will likely remain attractive investments in 2013. The threat of higher taxes on dividends has been greatly exaggerated as historically, US dividend equities have not suffered durable impairment in price as a result of higher taxes.

US real estate

The recovery in housing is the subject of increasing attention. REITs appear to have anticipated the recovery and have been the beneficiary of yield seeking investors' attentions. Price movement in the sector has been impressive (Figure 13); now, however, valuations are increasingly stretched. Private real estate may be the better focus for investors as the possibility for return created by value added and opportunistic investments would appear to be more attractively priced.

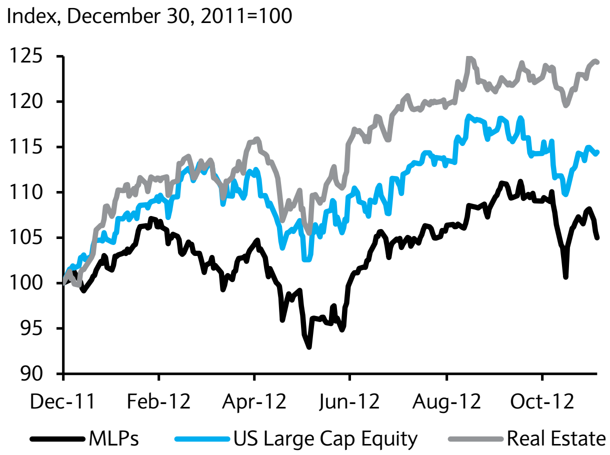
US fixed income: risk with a little return?

Courtesy of the Federal Reserve's ZIRP, [7] fixed income assets have produced another year of impressive gains. US High Yield and Investment Grade bonds generated equity-like returns in 2012, and Treasuries, a total return barely above inflation. [8] With the US economy still operating below its post-war growth rate of roughly 3% and unemployment remaining roughly 8% (above the Fed's 6.5% target), it is hard to envision the Fed backing away from its various iterations of quantitative easing – as evidenced by the announcement of a new asset purchase program in mid-December.

Sovereign debt: The potential for outsized returns in 2013 for US Treasuries looks *extremely* limited, given current yields and price. At best, they might turn in something below 2.4% (Barclays US Aggregate Treasury Index 2012 return [9]), as continued risk aversion from US, European and emerging market investors provides price support. Price volatility is likely, as Figure 14's trough-to-peak total return suggests, but in 2013, downside volatility is more probable.

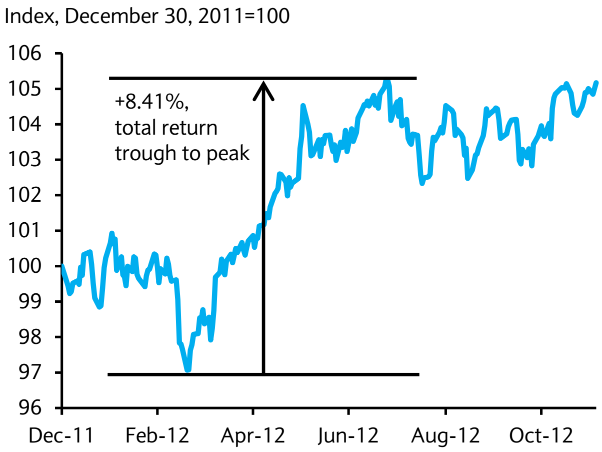
[7] Zero Interest Rate Policy, which is driven by slow economic growth.
[8] Barclays US Aggregate Treasuries Index: 2.4% return as of Dec. 12
[9] As of Dec 12

Figure 13: REITs & Yield Equities in 2012



Source: Bloomberg as of Dec 2012

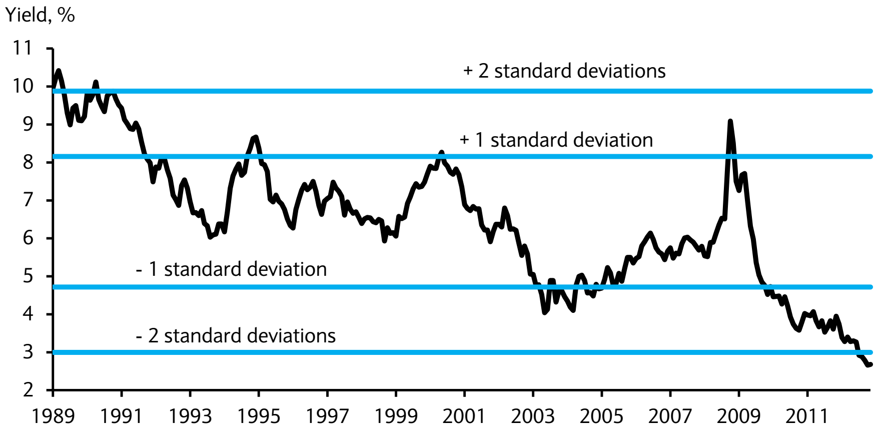
Figure 14: Barclays US Treasury 7 - 10 year Total Return Index for 2012



Source: Bloomberg as of Dec 2012

Corporate debt: The return potential for corporate debt is decidedly in the favour of high yield as the carry this sector enjoys will likely be a continued draw for yield-starved investors. Investment grade debt, on the other hand, is becoming disconcertingly expensive. From the perspective of the price paid for a dollar's worth of coupon cash flow, valuations appear painfully stretched. From a yield perspective, there is equally little to recommend: Yields are now two standard deviations below their average.

Figure 15: Investment Grade bond yields – well below average



Source: Bloomberg as of Nov 2012

US dollar

We would ultimately expect the dollar to strengthen slightly against the euro and the pound in 2013, and weaken against key Emerging Asia currencies – barring a major market shock where the dollar benefits as a safe haven. This outlook is based on the differences in economic growth outlined in the sections on Asia and Europe in this *Compass*.

Asia: different journey, same destination

- Asia is well-positioned to capitalize on the improvements in the global economy.
- Valuations of the region's capital markets are at historically attractive levels.
- The case for Chinese equities outperforming in 2013 is an easy one to make.
- But India's stock market may struggle to maintain its 2012 outperformance.
- Indonesia may be the region's next economic powerhouse.

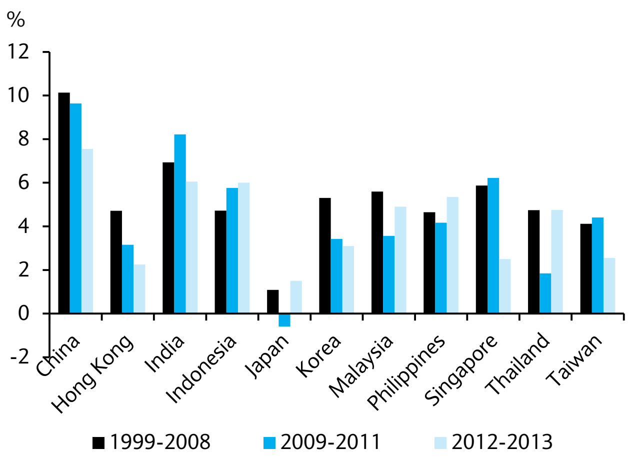
Although the immediate fortunes of Asia's economies continue to ebb and flow – buffeted by the global economic tide – the region's overall growth story remains intact. China, India and Indonesia have intensified efforts to restructure their economies, shifting from investment-led expansion to a more consumption-driven growth model, and we believe these efforts will begin to bear fruit in 2013 and beyond. Despite divergent strategies, Asian economies are well-positioned to capitalize on improvements on the horizon for the global economy.

The benefits of divergence

Prior to 2008, the economic heterogeneity in Asia was less evident as a "rising tide lifted all boats" during cyclical upswings. However, with a weak post-crisis global economy, Asia's diversity has become obvious in light of the relatively disparate economic performances, particularly in the past year (Figure 16 and Figure 17).

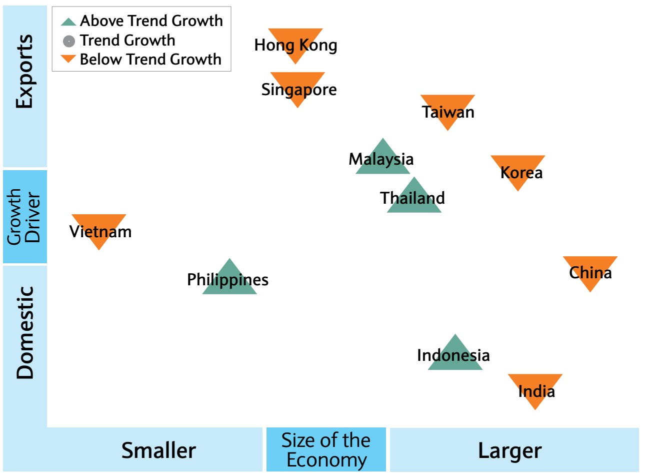
From 1999 to 2008, the average GDP growth rate of the Asian economies listed in Figure 16 was approximately 5.3%. This rate declined to 4.5% from 2009 to 2011 and is estimated to decline further to 4.2% in 2012-2013, given the impact of the export slowdown triggered by the financial crisis. Although Asia's headline growth rate has remained comparatively strong, individual countries are faring very differently. The export-reliant economies of China/Hong Kong and Korea have been severely affected by the West's slowdown, suffering growth rates well below their 1999-2008 averages (Figure 16 and Figure 17). Equally export-reliant, Singapore and Taiwan fared better immediately post-crisis, only to see their growth rates in 2012-13 decline well below their 1999-2008

Figure 16: Economic growth rates of Asian countries from 1998 to 2013



Source: Bloomberg, Barclays

Figure 17: Asian countries by economic size and strategy



Source: Barclays
Note: The determination of both the relative size and economic orientation of the countries in the chart is based on both objective and subjective inputs

and 2009-2011 averages. In striking contrast, Indonesia, Thailand, Malaysia and the Philippines (the ASEAN-4) – the four most-populous countries of the Association of Southeast Asian Nations – have delivered growth above, or close to, their 1999-2008 averages. Their economies have benefited from buoyant domestic demand, favourable demographics, improvements in investment rates and the overall business environment as well as, in the case of Malaysia and Thailand, from rising intra-Asian trade.

Economic trends: what lies beneath

Asia's economic heterogeneity could not completely mitigate declines in growth, which underscores the economically leveraged nature of the region's economies – the degree to which they are synchronized to the world. This may, however, moderate with development, especially as some Asian policymakers seek to restructure and diversify their economies for sustainable growth. However, in the short term, a combination of cyclical issues and the effect of desired structural changes have cast a cloud over the region.

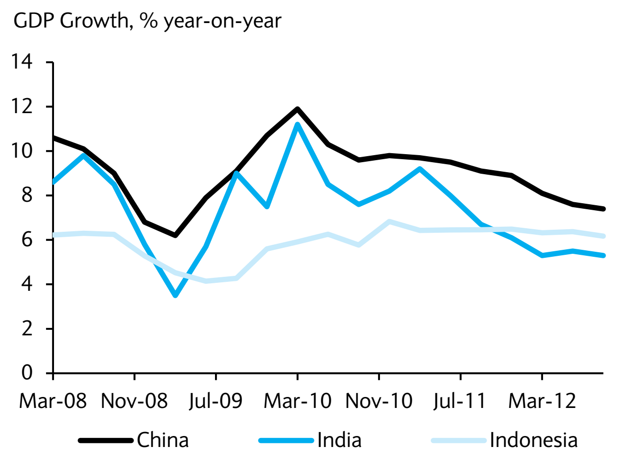
Structurally and cyclically induced declines

The countries that are working hardest to restructure their economies also happen to be the region's largest: China and India. As a result, both economies suffered cyclically- *and* structurally-induced declines in growth rates this past year.

In China, discussions about restructuring the economy for the long term began as early as 2010, when authorities first faced down the challenge of maintaining the country's economic momentum after two decades of highly accelerated growth. In addition, they had to address the excesses and imbalances created by the large-scale stimulus of 2008/09. It soon became apparent that steering one of the world's largest economies towards a new consumption-led growth model would be no easy feat (particularly given the fragility of the global economy and a tight domestic monetary policy). Despite the credibility of China's strategic economic blueprint, investors have continued to fret over the slowdown in the nation's growth rate (Figure 18).

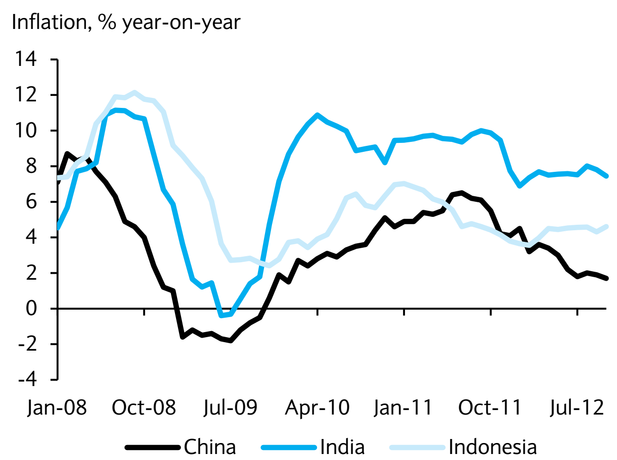
Elsewhere in the Indian Ocean, a perfect storm was brewing. A cocktail of political, social, corporate and economic concerns eventually drove the Indian economy into decline. Essentially, Indian growth was stifled by red tape, policy uncertainty, and corporate scandals. All this triggered acute infrastructural breakdowns and bottlenecks that put key projects on hold or halted them outright. With a challenging business environment and the investment rate at 36% (as of the end of 2011), India's economy slumped from an average

Figure 18: Economic growth trends of CI^2 countries



Source: Bloomberg , Barclays

Figure 19: Inflation trends of CI^2 countries



Source: Bloomberg , Barclays

growth rate of 8.2% in 2010/11 to the 5%-6% of recent quarters (Figure 18). Policymakers – grappling with severe fiscal challenges and the high inflation visible in Figure 19 – have also had to keep monetary policy tight since 2010. The only saving grace has been that growth in India, unlike in China, is not highly tied to exports (Figure 17), and the global economy's weakness has had a limited impact on Indian domestic growth. Nonetheless, the investment environment was far from conducive, and investors pulled out of India in large numbers: The Indian equity market declined 25% in 2011.

Export shift-induced growth

Since the Asian financial crisis of 1997/98, the ASEAN economies have significantly diversified their export destinations away from the West. The growth of China and India during the period was undoubtedly a positive tailwind. From 1998 to 2010, the share of ASEAN's trade to Asia grew from 28.7% to 44.3%. Conversely, its trade share to the US and the EU – which stood at 20.1% and 14.5% respectively in 1998 – declined to 9.1% and 10.2% by 2010 (Figure 20). This shift to intra-Asian trade was most pronounced among the ASEAN-4 (Indonesia, Thailand, Malaysia, the Philippines) and Singapore, where approximately 92% of 2010 exports were to countries within the region. This shift helps explain the ASEAN-4's recent above-average economic performance.

The next steps for Asia

China: more on reforms

China's successful leadership changeover took a great deal of uncertainty out of the market, and the economy appeared to trough in Q3 2012. Both industrial production and retail sales data have recently surprised on the upside, indicating a stabilisation in manufacturing (the traditional growth driver) and domestic consumption (an increasingly important driver of future growth). The HSBC/Markit Purchasing Manager's Index (PMI), a measure of expected manufacturing activity, came in at 50.5 in November, breaching the significant 50 mark for the first time in 13 months. Similarly, the National Bureau of Statistics' PMI rose to a 9-month high in November (Figure 21).

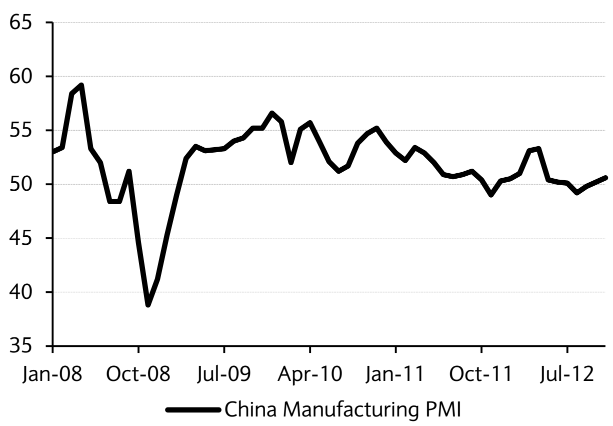
In terms of economic growth, most observers have recalibrated their GDP growth estimates to approximately 7% per year for the medium term. This comes amid some expectation that the government will move to boost the economy with another major stimulus package. At best, we think China's policymakers may launch additional infrastructure projects to bolster near-term growth. We currently have a 2013 GDP growth

Figure 20: ASEAN Trade Share (1998 – 2010)

Country (% Share of total ASEAN trade)	1998	2003	2008	2009	2010	Trade Share % Chg (1998-2010)
Asia	28.7	37.9	41.9	43.5	44.3	15.6
- Intra-ASEAN	*21.0*	*25.1*	*24.8*	*24.5*	*25.4*	4.4
- China	*3.5*	*7.2*	*10.4*	*11.6*	*11.3*	7.8
- India	*1.2*	*1.5*	*2.6*	*2.5*	*2.7*	1.5
- Korea	*3.0*	*4.1*	*4.1*	*4.9*	*4.8*	1.8
Japan	14.1	13.8	11.3	10.5	10.1	-4.0
USA	20.1	14.3	9.8	9.7	9.1	-11.0
EU-27	14.5	12.3	11.0	11.2	10.2	-4.3
Australia	2.2	2.3	2.8	2.9	2.7	0.5
Rest of the World	20.4	19.4	23.3	22.2	23.6	3.2
Total	100.0	100.0	100.0	100.0	100.0	

Source: ASEAN trade statistics database, Barclays

Figure 21: China Manufacturing PMI (NBS)



Source: Bloomberg, Barclays

forecast of 7.9% for the country and will be closely watching the National People's Congress in March 2013 for any further guidance. Meanwhile, in addition to rebalancing the economy, China's new leadership is likely to continue pursuing structural reforms, such as the household registration system and state-owned enterprise (SOE) reforms, which may cause intermittent market volatility. Also, granting formal urban residency for 160 million migrant workers is likely to boost demand for infrastructure, property and consumption goods. Regarding SOE reforms, the withdrawal of state participation in the banking, and oil & gas sectors would have serious ramifications for long-term profitability and returns. Looking ahead, the investment case for Chinese equities' outperformance is a tenable one: Easy-to-beat growth expectations, historically attractive valuations, improving earnings momentum, and a strong potential for continued structural growth are likely to work in China's favour over the coming year. Chinese corporate credits could also benefit from stronger economic and earnings growth. In addition, we expect Chinese authorities to allow the gradual appreciation of the renminbi in 2013.

India: more on execution

India saw a pick up in investment activity in the first half of 2012 but performance remains choppy at best. In the second half of the year, both equity and currency markets staged a slightly more credible comeback as the present administration announced a slew of overdue reforms. The changes included the partial liberalisation of foreign direct investment in the retail and aviation sectors, diesel price hikes, as well as some liberalisation of the country's insurance and pension-fund sectors. While the burst of reforms has excited investors, there is some uncertainty over whether the government can maintain this programme of change in the face of continued opposition from its political opponents.

Unless the country's fundamental outlook improves significantly, Indian markets will struggle to maintain their recent outperformance. Economic growth fell to 5.3% in the third quarter of 2012. Monetary policy is likely to remain relatively tight as the high inflation rate has yet to decline significantly (Figure 19) – October's Wholesale Price Index was 7.45%, albeit below expectations of 7.9%. And the current-account deficit remains a risk to the currency and capital markets in US dollar terms. Investors may also grow skittish at the end of 2013, as they anticipate the country's parliamentary and presidential elections in the second quarter of 2014. For now, we maintain a neutral stance on Indian equities as well as corporate credits and will continue to monitor incoming economic releases for signs of improvement in the overall growth outlook.

Indonesia: more on infrastructure

In recent years, growth in Indonesia, the world's fourth most populous nation, has held steady and seems to be fairly insulated from the worst of the global headwinds. In fact, third-quarter GDP data showed that growth remains comfortably above 6% – a feat given the global economy. The upgrade of Indonesian sovereign debt to investment-grade by global rating agencies in the past year has also encouraged investment and consumption. As a result, many market observers have touted Indonesia as the region's next economic powerhouse.

Going forward, favourable demographics (a young population and overall cost competitiveness) will be supportive of a continued rise in domestic demand. In addition, the strength of private consumption is evident in vehicle purchases, which have remained robust despite domestic measures, such as vehicle financing limits, to curb them. While the contribution of exports to Indonesia's GDP growth has dipped due to a slowdown in global demand and commodity prices, we believe the impact has been mitigated by the rising proportion of Indonesia's exports to Asia: 62% as of 2010, compared to 20% to North America and the EU, and 18% to the rest of the world, (Figure 22).

Figure 22: ASEAN: Percent Share of Exports to Selected Trade Partners

(% Export Share 2010)	Intra-ASEAN	China	India	Korea	Japan	North America	EU-27	Rest of World
Brunei	12.3	6.6	5.7	16.7	43.4	0.2	0.2	15.0
Cambodia	12.6	1.2	0.1	0.4	1.6	39.0	16.7	28.4
Indonesia	21.1	10.0	6.3	8.0	16.3	9.5	10.9	18.0
Lao PDR	47.3	9.2	0.0	0.0	1.1	23.3	6.3	12.8
Malaysia	25.4	12.6	3.3	3.8	10.4	10.0	10.7	23.8
Myanmar	49.2	6.7	12.6	1.7	2.9	0.0	1.2	25.7
Philippines	22.5	11.1	0.8	4.3	15.2	15.3	14.4	16.4
Singapore	30.0	9.8	3.6	3.9	4.4	6.5	9.4	32.4
Thailand	22.7	11.0	2.3	1.9	10.5	11.1	11.2	29.5
Vietnam	14.3	10.1	0.0	4.3	10.7	19.7	15.8	25.2

Note: Column refer to Exporting Countries; Row refer to Importing Countries
Source: ASEAN trade statistics database, Barclays.

As inflation is well within Bank Indonesia's targeted range, the central bank has the flexibility to keep its policy rate at the historically low level of 5.75%, supporting growth. Over the coming years, as the government begins rolling out the required infrastructure-building initiatives, the economy's growth trajectory may steepen even more (In 2005, Indonesia had a step-change in GDP growth, increasing its historic average rate [10] by 30%). This would make Indonesia a still more structurally attractive investment story in both equities and bonds. While currency weakness may persist in the near-term, we expect the central bank to defend the psychologically important 10,000 level (in terms of IDR/USD).

Asia tigers: more on diversification

In the summer of 2012, the export-oriented economies of Asia's 'tigers' – South Korea, Singapore and Taiwan – only narrowly skirted recession as the global downturn took its toll. In the third quarter of 2012, Singapore's GDP growth shrank 5.9% on a seasonally adjusted, annualized-rate quarter-over-quarter basis; the country only managed to avoid recession when Q2 growth was revised upwards to 0.5%.

In our view, the improving outlook for global growth in 2013 may mean that some of the clouds lingering over Asia's tigers, and their export sectors, will clear. Policymakers in these economies appear to concur, as they seem reluctant to either ease monetary policy (Korea and Taiwan) or weaken their currencies (Singapore) amid concern of rising inflation.

Measures are already in place in some of these exporting countries to promote domestic consumption as an alternative growth driver. Take Taiwan as an example: While its economy is still driven by exports, of technology goods in particular, domestic demand is increasingly crucial to growth. Our Barclays Research colleagues expect private consumption to contribute as much as 1.3 percentage points to Taiwan's growth in 2013 (compared to the weak 0.5 percentage points expected for 2012). This optimism is based upon the government's plan to increase tax deductions and rein in inflation. More significantly, the boom in tourism from mainland China is a positive driver for service sector jobs and growth. The government is already planning a large-scale infrastructure-building programme that includes the expansion of the island's main gateway, Taoyuan Airport. Increased tourism is also likely to boost foreign-exchange earnings, which are projected to hit USD8 billon by 2014.

[10] It had historically been 4.5%

Alas, some homogeneity!

We remain constructive on both the short- and long-term outlook for Asia. In the near term, we think the recent growth momentum for the ASEAN-4 countries is likely to persist and strengthen over the coming year. The exporting tigers of Asia (South Korea, Taiwan and Singapore) will, sooner rather than later, benefit from the stabilisation and eventual recovery of the global economy, which will have a positive impact on their respective equity markets and currencies. The bigger nations in Asia – China, India and Indonesia – will continue to make progress in restructuring their economies. This progress, however, will be slow, and the road ahead may not be smooth, though it will gradually become less bumpy. With the vast consumer markets of China, India and Indonesia, Asia, as a whole, stands to benefit from domestic consumption growth, via intra-Asian trade. Finally, with valuations of the region's capital markets, especially equities, trading at historically attractive levels, Asia remains well positioned to capitalize on any economic improvements, global or regional, on the horizon.

Barclays' key macroeconomic projections

Figure 23: Real GDP and Consumer Prices (% y-o-y)

	Real GDP				Consumer prices			
	2011	2012E	2013F	2014F	2011	2012E	2013F	2014F
Global	3.8	3.0	3.2	4.0	3.9	2.9	3.0	3.3
Advanced	1.4	1.2	1.2	1.9	2.5	1.9	1.7	2.1
Emerging	6.5	5.0	5.4	6.0	6.4	4.8	5.1	5.1
United States	1.8	2.3	2.1	2.5	3.2	2.1	2.0	2.5
Euro area	1.5	-0.4	0.1	1.4	2.7	2.5	1.8	1.7
Japan	-0.7	1.6	0.1	0.9	-0.3	-0.1	0.1	1.6
United Kingdom	0.9	-0.1	1.3	2.2	4.5	2.8	2.8	2.4
China	9.3	7.6	7.6	8.1	5.4	2.7	3.5	3.9
Brazil	2.7	0.9	3.0	3.6	6.6	5.4	5.5	5.8
India	7.4	5.3	6.5	7.2	9.5	7.7	7.1	5.8
Russia	4.3	3.7	3.3	3.5	8.9	5.4	7.3	5.3

Source: Barclays Research, *Global Economics Weekly*, 7 Dec 2012
Note: Weights used for real GDP are based on IMF PPP-based GDP (5yr centred moving averages). Weights used for consumer prices are based on IMF nominal GDP (5yr centred moving averages).

Figure 24: Central Bank Policy Rates (%)

		Forecasts			
	Current	Q4 12	Q1 13	Q2 13	Q3 13
Fed funds rate	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25
ECB main refinancing rate	0.75	0.75	0.5	0.5	0.5
BoJ overnight rate	0.1	0-0.10	0-0.10	0-0.10	0-0.10
BOE bank rate	0.5	0.5	0.5	0.5	0.5
China: Working capital rate	6	6	6	6	6
Brazil: SELIC rate	7.25	7.25	6.25	6.25	6.25
India: Repo rate	8	8	7.5	7	7
Russia: Overnight repo rate	5.5	5.5	5.5	5.5	5.5

Source: Barclays Research, *Global Economics Weekly*, 7 Dec 2012
Note: Rates as of COB 6 Dec 2012 in % per annum (unless stated).

TAA: position positively for 2013

The economic backdrop and investor risk appetite are likely to improve in 2013. Despite a potentially tumultuous beginning to the year, we recommend staying invested – we would allocate less to cash than usual – and favour stocks over most bonds, and corporate over government securities.

2012 is finishing with the economic data showing signs of stability, euro market tensions seemingly subdued, and monetary policy firmly in accommodative mode. As we go to press there has been no agreement on the US fiscal cliff, but as noted above we are a little more confident than we were before the election that a compromise will be forthcoming, even if we have to wait until the New Year for it. 2013 is likely to be a year in which the economic backdrop slowly brightens and investor risk appetite grows.

Although stock markets have rallied strongly, valuations remain undemanding, with plausible PE and price/book ratios well below average (Figures 7 and 12 overleaf). Meanwhile, Developed Government Bonds continue to look very expensive, with nominal and inflation-linked yields at historic lows (Figure 2).

Consequently, Barclays Tactical Allocation Committee on 30 November decided to raise its recommended portfolio weightings in Developed Markets Equities to 'overweight'. The move was funded by deepening our 'underweight' in Developed Government Bonds, and by shifting a small 'overweight' in cash to slight 'underweight' (the tactical cash overweight had provided a degree of portfolio insurance we felt was no longer needed).

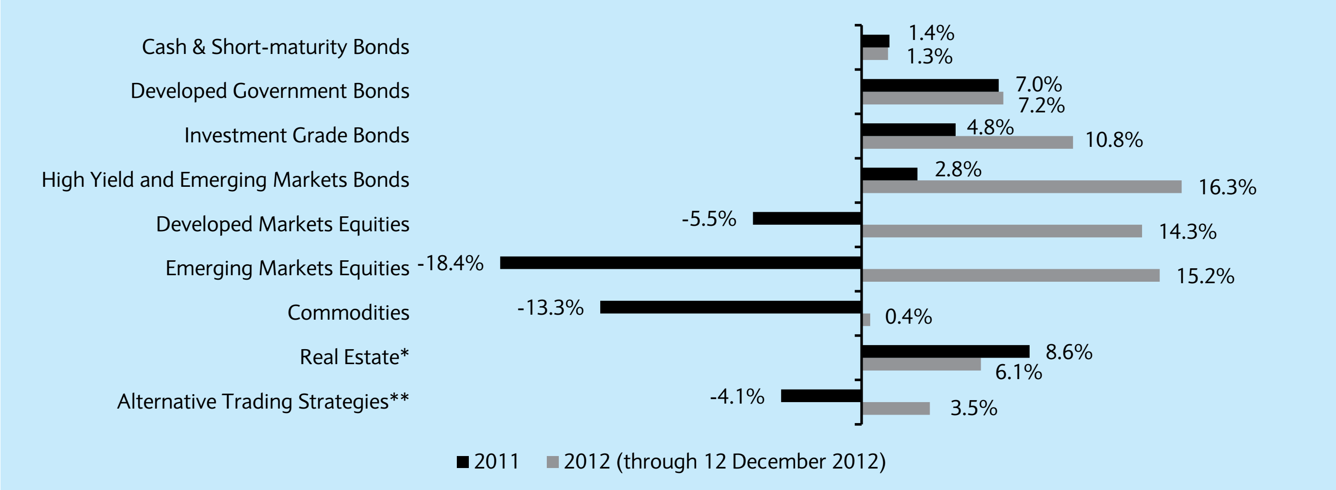
We continue to recommend an overweight in corporate high-yield debt. While see little room for further capital gain, we think the yields remain attractive: Spreads still look wide enough to us to provide insulation against rising government bond yields. We remain neutral on emerging equities (where expectations are less depressed and a little more difficult to beat) and on commodities (they are expensive, but offer some useful insurance against geopolitical risk; for a more complete view on this asset class, see "Commodities: Back to Fundamentals" in November 2012 *Compass*).

Figure 1: Current strategic (SAA) and tactical (TAA) asset allocation by risk profile

	Low		Medium Low		Moderate		Medium High		High	
Asset class	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA	SAA	TAA
Cash & Short Maturity Bonds	43.0%	42.0%	15.0%	14.0%	8.0%	6.0%	5.0%	2.0%	4.0%	1.0%
Developed Government Bonds	10.0%	7.0%	13.0%	8.0%	9.0%	4.0%	6.0%	2.0%	4.0%	0.0%
Investment Grade Bonds	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%
High-Yield & Emerging Markets Bonds	4.0%	5.0%	7.0%	8.0%	8.0%	10.0%	8.0%	9.0%	6.0%	7.0%
Developed Markets Equities	16.0%	19.0%	29.0%	34.0%	38.0%	43.0%	45.0%	51.0%	51.0%	57.0%
Emerging Markets Equities	4.0%	4.0%	7.0%	7.0%	10.0%	10.0%	13.0%	13.0%	17.0%	17.0%
Commodities	2.0%	2.0%	4.0%	4.0%	5.0%	5.0%	6.0%	6.0%	6.0%	6.0%
Real Estate	7.0%	7.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%
Alternative Trading Strategies	11.0%	11.0%	16.0%	16.0%	14.0%	14.0%	11.0%	11.0%	8.0%	8.0%

As first published on 30 November 2012. The recommendations made for your actual portfolio will differ from any asset allocation or strategies outlined in this document. The model portfolios are not available to investors since they represent investment ideas, which are general in nature and do not include fees. Your asset allocation will be customized to your preferences and risk tolerance and you will be charged fees. You should ensure that your portfolio is updated or redefined when your investment objectives or personal circumstances change. Source: Barclays

Figure 2: Total returns across key global asset classes



* As of September 2012

** As of October 2012

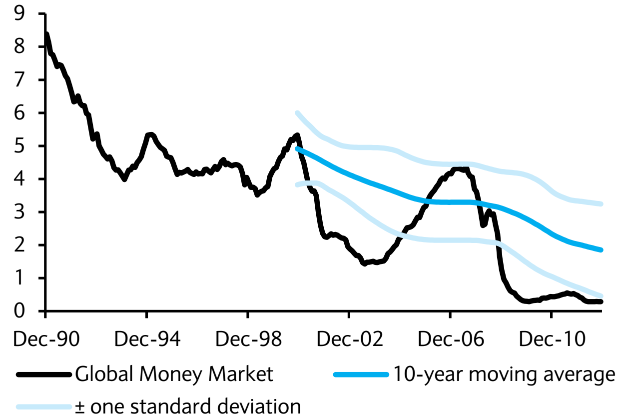
† Diversification does not guarantee against losses.

Note: Past performance is not an indication of future performance. Index Total Returns are represented by the following: Cash and Short maturity bonds by Barclays Global Governments 1-3 years; Developed Government Bonds by Barclays Global Governments 7-10 years; Investment Grade Bonds by Barclays Global Aggregate - Corporates; High-Yield/Emerging Markets Bonds by Barclays Global High Yield, Barclays Global EM & Barclays EM Local Currency Governments; Developed Markets Equity by MSCI World Index; Emerging Markets Equity by MSCI EM; Commodities by DJ UBS Commodity TR Index; Real Estate by MIT TBI Index and IPD UK for January-March 2011 and NCREIF TBI Index and IPD UK Index from April 2011 onwards; Alternative Trading Strategies by Barclays ATS Equally Weighted Composite Index (25% Barclay Hedge Global Macro; 25% HFRI Relative Value TR; 25% Credit Suisse-Dow Jones Event Driven & 25% Credit Suisse-Dow Jones Managed Futures Index). The benchmark indices are used for comparison purposes only and this comparison should not be understood to mean that there will necessarily be a correlation between actual returns and these benchmarks. It is not possible to invest in these indices and the indices are not subject to any fees or expenses. It should not be assumed that investment will be made in any specific securities that comprise the indices. The volatility of the indices may be materially different than that of the hypothetical portfolio.

Interest rates, bond yields, and commodity and equity prices in context

Figure 1: Short-term interest rates (global)

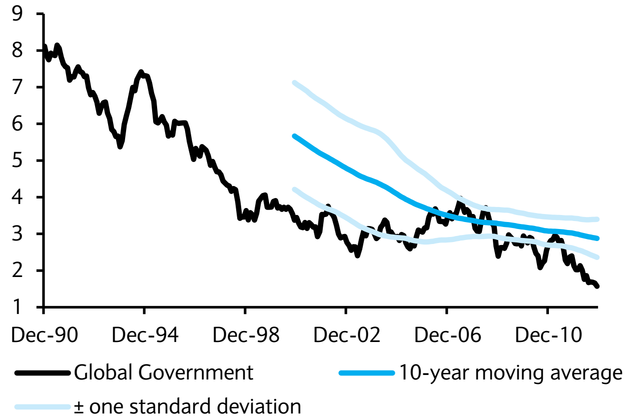
Nominal Yield Level 3 Months (%)



Source: FactSet, Barclays

Figure 2: Government bond yields (global)

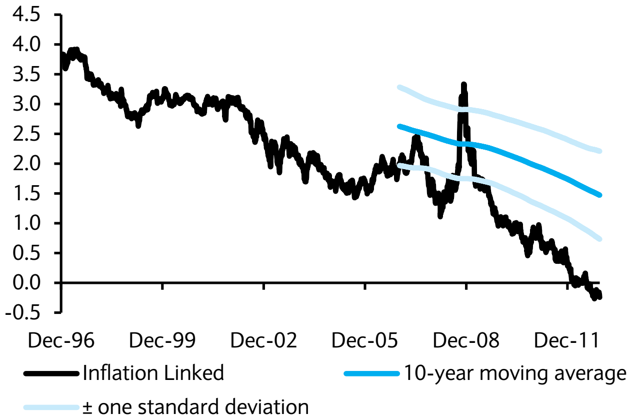
Nominal Yield Level 10 Years (%)



Source: FactSet, Barclays

Figure 3: Inflation-linked real bond yields (global)

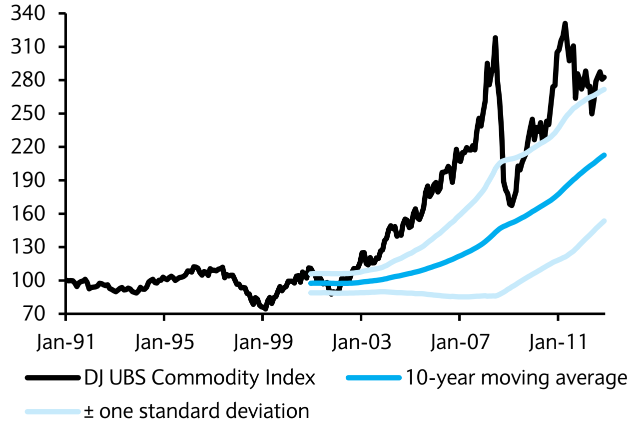
Real Yield Level (%)



Source: FactSet, Barclays

Figure 4: Inflation-adjusted spot commodity prices

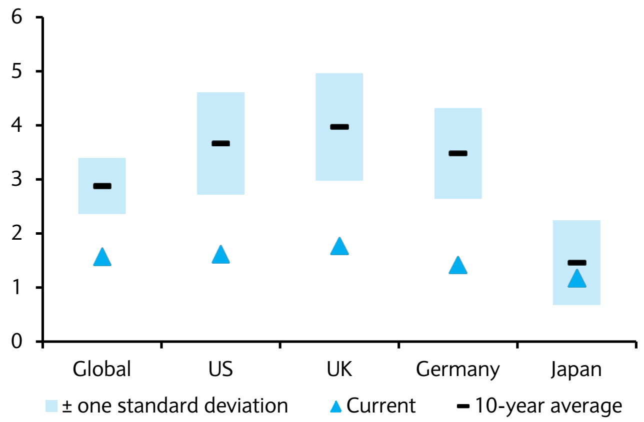
Real Prices (1991=100)



Source: FactSet, Barclays

Figure 5: Government bond yields: selected markets

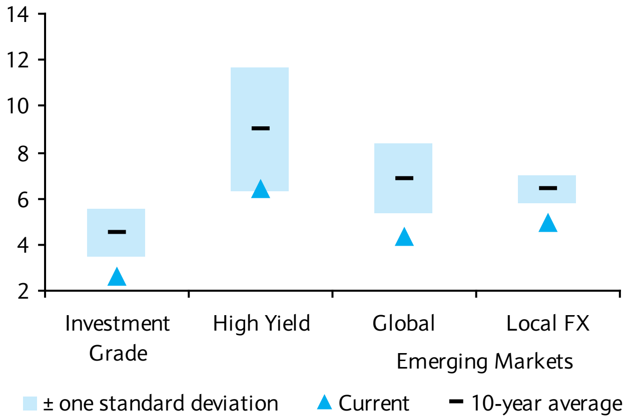
Nominal Yield Level 10 Years (%)



Source: FactSet, Barclays

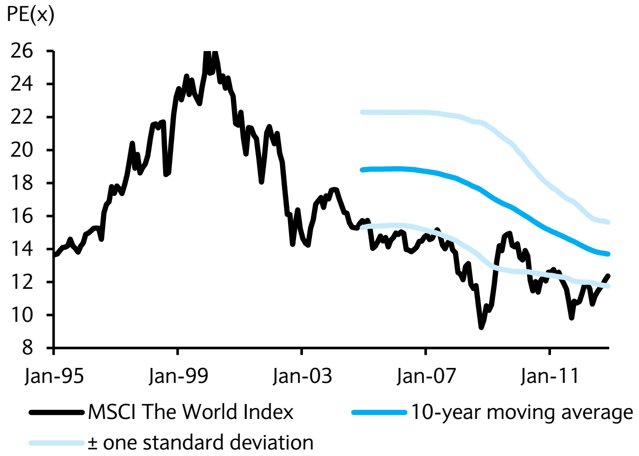
Figure 6: Global credit and emerging market yields

Nominal Level (%)



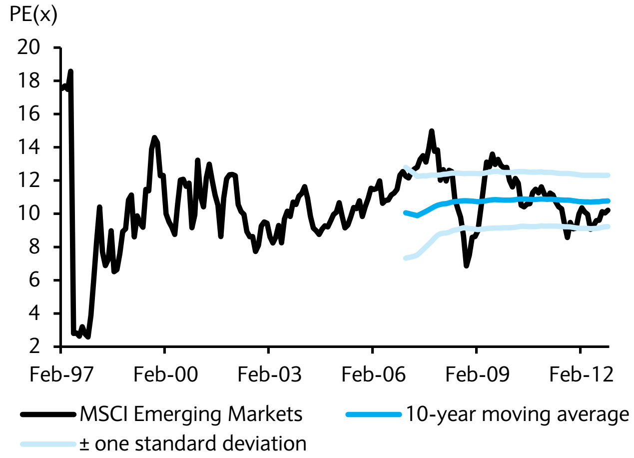
Source: FactSet, Barclays

Figure 7: Developed stock markets, forward PE



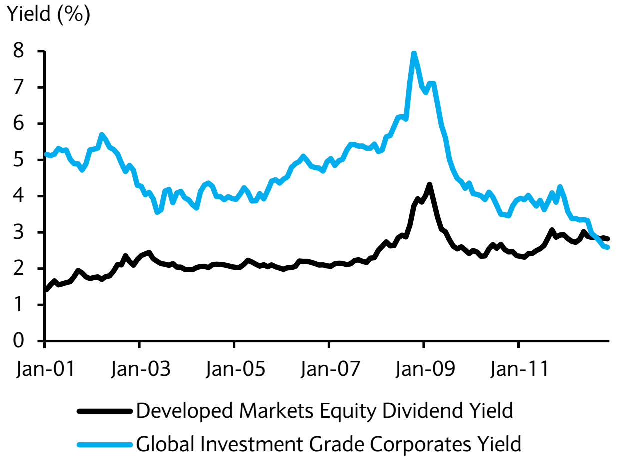
Source: MSCI, FactSet, Barclays

Figure 8: Emerging market stocks, forward PE



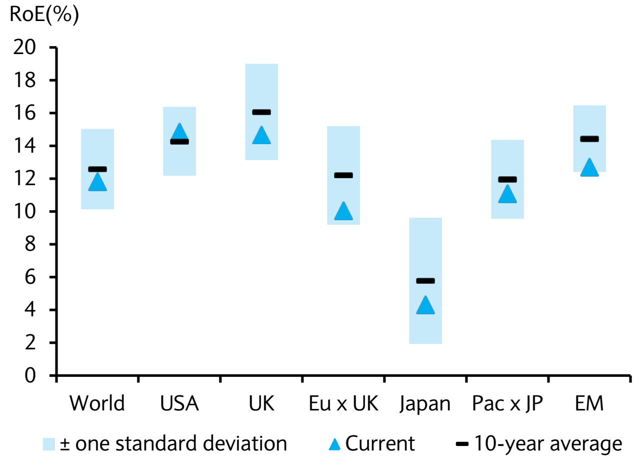
Source: MSCI, FactSet, Barclays

Figure 9: Developed world dividend and credit yields



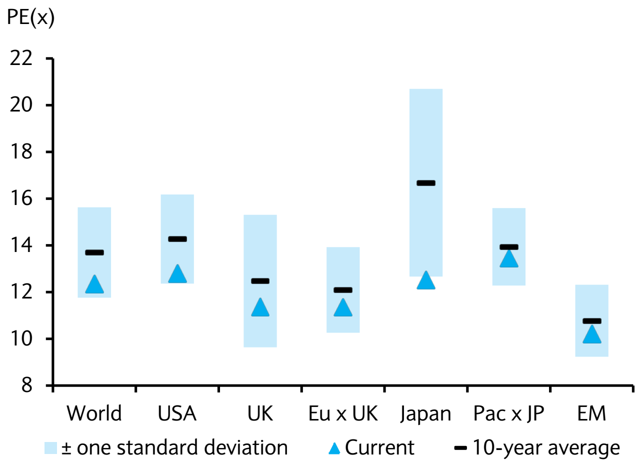
Source: MSCI, FactSet, Barclays

Figure 10: Regional quoted-sector profitability



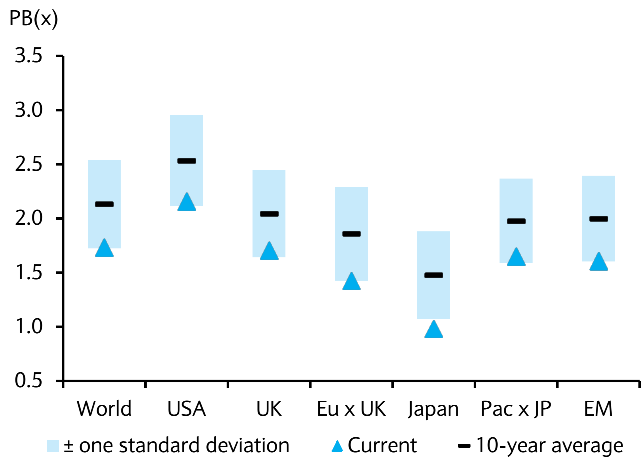
Source: MSCI, FactSet, Barclays

Figure 11: Global stock markets: forward PE



Source: MSCI, FactSet, Barclays

Figure 12: Global stock market: price/book value ratios



Source: MSCI, FactSet, Barclays

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