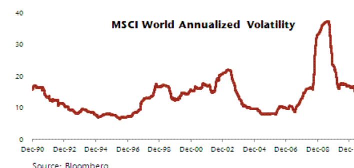
Global Equity Strategy
Global Outlook

Key Takeaway

Equities offer the most attractive risk return compared to bonds, commodities and high yield debt. Equities will show modest double digit returns but for the best part of the year will be range bound, in our view. The implicit faith equity investors have in policy makers will be tested again and may mean trendless markets until QE is adopted. The global economy is hitting a growth speed-bump at the same time as it is attempting to rebalance itself following the 2008 financial crisis. The developed world is still locked into a series of competitive devaluations as they try desperately to restore competitiveness to their economies. Emerging markets have temporarily overheated and may take longer to recuperate. Unless EU sovereign credit markets are allowed to clear, global equities will experience painful bouts of volatility.



Source: Bloomberg

For equities to have a powerful rally and break above their 200-day moving averages it would require financials to also perform. With global growth slowing, equities may find themselves range-bound otherwise. ROEs are rich but earnings revisions are heading downwards due to declining financial leverage and falling operational gearing. Equities are cheap versus bonds but the asset class can't break out until the velocity of money increases in the global economy.

Non-linear risks for equity markets are undoubtedly related to the break-up of the euro-zone as well as a deposit run on the EU banks. A poor US Treasury bond auction or a sovereign bond default might also lead to a similar freeze in equity markets but it would be the fear of a systemic market failure that would drive equity prices 2 standard deviations away from mean. How the Chinese authorities rebalance growth away from fixed asset investment whilst maintaining employment growth will be much more important in 2012 than the pricking of the property bubble. The trade-off between the Chinese unemployment and inflation will be the decisive factor to watch.

To some extent, long-term investment themes were overshadowed by the 2008 financial crisis and the 2011 EU sovereign debt crisis. In our view, the sourcing of potable water, the availability of cheap energy and the delivery of electricity are all related to emerging market urbanization. This is unlikely to be derailed by credit cycles. We would expect an M&A boom in 2012 as companies grow market share by acquiring competitors and cutting costs to maintain ROE. Ultimately, the major investment theme for 2012 will be the time to buy European equities. Watch out for a fall in the euro, ECB QE and panic within the EU banking system to go overweight.

Country	Asset Allocation	Country	Asset Allocation
Australia	Bearish	Japan	Bullish
Brazil	Bearish	Mexico	Bullish
Canada	Bullish	Norway	Bullish
China	Bullish	Russia	Bullish
France	Bearish	Sweden	Bullish
Germany	Bearish	Switzerland	Bullish
Hong Kong	Bearish	Turkey	Bearish
India	Bearish	United Kingdom	Bearish
Italy	Bearish	United States	Bullish

Source: Jefferies

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Global Asset Allocation Summary

We believe four themes will envelop country allocation. First, there should be still a desire to seek uncorrelated trades

We believe four themes will envelop country allocation. First, there should be still a desire to seek uncorrelated trades. We would add that these are likely to be related to central bank policy operations. Investors ought to be seeking to manage relative changes in FX and interest rate policy in 2012. Central banks will be acting to avert deflation and this will manifest itself through aggressive monetary easing and currency devaluation. We don't believe Switzerland will be on its own in 2012 in undertaking quantitative easing (QE). Hence, investors will want to be buying into changes in monetary conditions rather than growth expectations. The looser the monetary mix, the better the environment for equities. Growth will disappoint. A current account surplus alongside easing monetary conditions is ideal. Switzerland is a good example of a market to be Bullish. Nordic and Scandinavian countries also have the same profile. We like Norway and Sweden as well. Closed capital accounts should also reduce the infection from the euro-zone. China stands out in this regard, despite the overhang of a credit bubble.

Secondly, we expect investors to be more reluctant to fund equity markets where EM countries are running current account deficits.

Secondly, we expect investors to be more reluctant to fund equity markets where EM countries are running current account deficits. This seems counter-intuitive but the overheating concerns have led to some serious imbalances occurring within their financial systems. Moreover, they have lost competitiveness and they need their exchange rates to fall. A decline in oil prices would be a positive for EM as they remain highly energy intensive economies. Turkey and India are markets to avoid.

Thirdly, we believe investors will buy into markets with low exposure to financial assets as a percentage of market capitalization in 2012

Thirdly, we believe investors will buy into markets with low exposure to financial assets as a percentage of market capitalization in 2012. We believe the divergence in the prices of financial assets between the developed world and emerging markets is unlikely to persist. EM has seen a rapid rise in credit-to-GDP suggesting an unsustainable rate of leverage increase in the short-run. Both Hong Kong and Singapore have also suffered from this affliction in the past two quarters. We are Bearish on Hong Kong. Brazil and China have experienced the same problem. Multiples for banks in the developed world stand at one-third of those in EM. We wonder if investors have overpaid for EM growth.

Fourth, markets are likely to take their lead from the US coming into an election year and the fact that monetary initiatives will be led by the Federal Reserve than other central banks. We are Bullish US equities.

Fourth, markets are likely to take their lead from the US coming into an election year and the fact that monetary initiatives will be led by the Federal Reserve rather than other central banks. We are Bullish US equities. This means US dollar returns become important and that countries exposed to US growth and monetary conditions will do better. Canada and Mexico are set to outperform global benchmarks.

We have the most difficult reconciliation with three markets, China, Japan and Germany. We harbor deep reservations over the quality of growth that China has encouraged and believe that it is unlikely to return either to the bubble valuations of 2007-08 nor to the same trend-line growth. However, it affords monetary independence and a closed capital account in the short-run. The risk to our view is that monetary conditions are not loosened quickly enough because of inflation concerns and imbalances within the financial system. However, the equity market is inexpensive. Japan also affords monetary independence but not necessarily loose monetary conditions nor high ROE. The market is again inexpensive. Germany is forcing other EU members to slow their spending at a time when German exports are at their highest to European nations as percentage of GDP. Domestic momentum is still positive. However there is no monetary independence despite the obvious lead by Germany in managing the crisis. Both Germany and Japan have cyclical markets.

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Exhibit 1: 1Q12 Asset Allocation, Market Valuation, Index Targets

Country	Asset Allocation	12 month forward (investable universe) PE (x)	PB (x)	DY (%)	ROE (%)	Local Index	1Q 2012 Index Target [1] Upper	Lower	Likely range	Key Resistance [2]	Key Support [2]	Remarks
Australia	Bearish	10.7	1.6	5.5	14.5	S&P/ASX 200	4,609	3,670	Upper	4,500	3,750	Trading range intact for 6 mths
Brazil	Bearish	9.2	1.3	4.0	13.8	Brazil Bovespa	62,568	50,094	Neutral	60,000	47,793	Tough resistance at 60,000
Canada	Bullish	11.6	1.6	2.9	13.7	S&P/TSX Comp	13,051	9,958	Neutral	12,800	10,848	Testing for positive breakout recently
China [3]	Bullish	8.5	1.4	3.8	16.2	Shanghai A	2,659	2,053	Upper	2,435	2,072	Recovering from an oversold position
France	Bearish	9.1	1.0	5.0	10.9	CAC 40	3,416	2,581	Neutral	3,350	2,693	Trading range intact for 6 mths
Germany	Bearish	9.1	1.1	4.2	12.4	DAX	6,594	4,867	Upper	6,500	4,965	Solid resistance level at 6,500
Hong Kong [4]	Bearish	13.3	1.1	3.4	8.3	Hang Seng Index	20,893	15,160	Upper	21,800	16,100	Wide trading range, no clear trend
India	Bearish	12.9	2.1	1.7	16.2	BSE SENSEX 30	17,321	14,586	Lower	18,000	14,900	Downward channel intact
Italy	Bearish	8.1	0.7	5.7	8.4	FTSE MIB	16,042	13,443	Lower	17,500	13,110	Trading range intact for 6 mths
Japan	Bullish	11.9	0.9	2.7	7.3	Nikkei 225	9,248	7,507	Neutral	9,616	7,800	Downward channel intact, 8,200 tested
Mexico	Bullish	16.0	2.4	1.9	15.2	Mexico IPC	39,276	32,738	Neutral	37,600	34,573	Taking a breather after positive breakout
Norway	Bullish	9.3	1.3	5.3	14.1	OSE Benchmark	406	324	Neutral	400	320	Potential breakout if top end range pierced
Russia	Bullish	5.0	0.7	3.6	14.2	Russian RTS	1,512	1,278	Neutral	1,530	1,200	Support at 50% Fibonacci retracement
Sweden	Bullish	11.2	1.7	4.7	15.4	OMX Stockholm 30	1,126	768	Neutral	1,000	830	Trading range intact for 6 mths
Switzerland	Bullish	11.5	1.8	4.0	15.4	SMI	6,037	5,401	Upper	6,000	5,300	Breakout above 6,000 technically positive
Turkey	Bearish	8.6	1.3	3.6	15.4	ISE National 100	57,772	45,560	Neutral	56,750	48,600	Downward channel has formed
United Kingdom	Bearish	9.4	1.4	4.3	15.3	FTSE 100	5,939	4,862	Upper	5,740	5,120	Rising wedge pattern sees further upside
United States	Bullish	11.8	1.8	2.3	15.6	S&P 500	1,322	1,110	Upper	1,300	1,170	Rising wedge pattern, 1,300 key level

Source: FactSet, Bloomberg, Jefferies; Prices as at December 22, 2011

Note: [1] For full methodology of the derived Index Target, refer to chapter on Asset Allocation; ISE National 100 index target derived from MSCI Turkey target
[2] Key resistance/support levels derived from Technicals chapter
[3] China is HK-listed China-related stocks such as H-Shares and Red Chips, and Shanghai/Shenzhen listed B-shares
[4] Hong Kong does not include HK-listed China related stocks such as H-Shares and Red Chips

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Exhibit 2: One Year Index Targets

			Potential index target for 2012			Implied index target					
						Fwd PER Model		Fwd EY Gap Model		Fwd PB Model	
Country	Index	Asset Allocation	Current Index	Composite [1] Target	Composite [1] Return (%)	Implied Target	(%)	Implied Target	(%)	Implied Target	(%)
Australia	S&P ASX 200	Bearish	4,091	4,717	15.3	4,824	17.9	4,784	16.9	4,542	11.0
Brazil	Brazil Bovespa	Bearish	57,348	67,263	17.3	64,218	12.0	63,153	10.1	74,417	29.8
Canada	Canada S&P/TSX Composite	Bullish	11,876	13,414	12.9	13,954	17.5	13,875	16.8	12,414	4.5
China	Shanghai A Share	Bullish	2,290	3,224	40.8	3,287	43.5	3,195	39.5	3,191	39.3
France	France CAC 40	Bearish	3,072	3,575	16.4	3,576	16.4	3,529	14.9	3,620	17.9
Germany	Germany DAX (TR)	Bearish	5,852	6,865	17.3	6,954	18.8	6,845	17.0	6,797	16.1
Hong Kong	Hang Seng Index	Bearish	18,378	23,147	25.9	23,146	25.9	22,761	23.8	23,532	28.0
India	India SENSEX	Bearish	15,813	18,693	18.2	19,194	21.4	19,038	20.4	17,848	12.9
Italy	Italy FTSE MIB	Bearish	15,027	18,969	26.2	19,099	27.1	18,672	24.3	19,134	27.3
Japan	Japan Nikkei 225	Bullish	8,395	9,967	18.7	10,245	22.0	9,966	18.7	9,690	15.4
Mexico	Mexico IPC	Bullish	37,067	36,360	(1.9)	36,397	(1.8)	36,271	(2.1)	36,412	(1.8)
Norway	Norway OSE Benchmark	Bullish	379	416	9.9	419	10.5	415	9.4	416	9.7
Russia	Russia RTS	Bullish	1,407	1,755	24.7	1,811	28.7	1,746	24.1	1,707	21.3
Sweden	OMX Stockholm 30	Bullish	971	1,090	12.2	1,125	15.9	1,107	14.0	1,037	6.8
Switzerland	Switzerland SMI	Bullish	5,837	6,131	5.0	6,008	2.9	5,992	2.7	6,391	9.5
Turkey [2]	ISENational 100	Bearish	52,163	61,368	17.6	61,501	17.9	61,083	17.1	61,521	17.9
United Kingdom	FTSE 100	Bearish	5,457	6,031	10.5	6,073	11.3	6,030	10.5	5,990	9.8
United States	S&P 500	Bullish	1,254	1,325	5.7	1,351	7.7	1,343	7.1	1,282	2.2

Source: FactSet, Jefferies; Prices as at December 22, 2011

Note: PER = Price to Earnings, EY Gap = Earnings Yield Gap, PB = Price to Book

[1] Composite Target/Composite Return is the average of the Implied Target/Return of the Fwd PER, Fwd EY Gap and Fwd PB models used

[2] For Turkey, we derived the index target based on MSCI Turkey (local currency) model

Based on our Quantitative forward Price-to-Earnings, Earnings Yield Gap and Price-to-Book models we estimated potential one year index levels by assuming market PE, EYG and PB would revert to the average level between 2010 to end of 2011. 2010 is when the European sovereign crisis broke out.

Given this is a mean-reversion expectation hypothesis, markets that have declined more since 2010 would expect to see larger upside potential such as China, Italy and Hong Kong while markets that had been more resilient over the past two years i.e. Mexico, Switzerland and the US will see a smaller gain.

This analysis does not take into account currency effects, dividends and market volatility.

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Exhibit 3: Expected Trading Range for Markets

				Index Targets for 1Q 2012							
				Index Target			Cumulative Probability to Index Target			5Y hit rate	
Country	Index	Asset Allocation	Current Index	Upper	Lower	Likely Range [2]	Current s.d.	Current to Upper (%)	Current to Lower (%)	Model Applied [1]	Within Range
Australia	S&P ASX 200	Bearish	4,091	**4,609**	**3,670**	Upper	(1.51)	23.2	14.9	PE (MT)	82.5
Brazil	Brazil Bovespa	Bearish	57,348	**62,568**	**50,094**	Neutral	(1.49)	4.3	10.4	PB (MT)	82.1
Canada	Canada S&P/TSX Composite	Bullish	11,876	**13,051**	**9,958**	Neutral	(1.60)	12.1	7.1	PE (LT)	90.4
China	Shanghai A Share	Bullish	2,290	**2,659**	**2,053**	Upper	(1.60)	27.0	6.5	PE (MT)	73.4
France	France CAC 40	Bearish	3,072	**3,416**	**2,581**	Neutral	(1.43)	25.6	18.4	PE (MT)	77.5
Germany	Germany DAX (TR)	Bearish	5,852	**6,594**	**4,867**	Upper	(1.46)	29.7	15.5	PE (MT)	73.4
Hong Kong	Hang Seng Index	Bearish	18,378	**20,893**	**15,160**	Upper	(1.82)	21.7	10.0	PE (MT)	81.2
India	India SENSEX	Bearish	15,813	**17,321**	**14,586**	Lower	0.45	9.3	22.7	EYG (LT)	77.5
Italy	Italy FTSE MIB	Bearish	15,027	**16,042**	**13,443**	Lower	0.84	17.5	26.8	EYG (MT)	74.4
Japan	Japan Nikkei 225	Bullish	8,395	**9,248**	**7,507**	Neutral	(1.54)	20.8	25.1	PB (MT)	83.3
Mexico	Mexico IPC	Bullish	37,067	**39,276**	**32,738**	Neutral	(0.45)	26.7	21.2	PB (LT)	74.9
Norway	Norway OSE Benchmark	Bullish	379	**406**	**324**	Neutral	(1.36)	17.2	10.9	PE (MT)	77.3
Russia	Russia RTS	Bullish	1,407	**1,512**	**1,278**	Neutral	(1.83)	12.6	5.9	PE (MT)	63.6
Sweden	OMX Stockholm 30	Bullish	971	**1,126**	**768**	Neutral	(1.19)	26.1	18.1	PE (MT)	92.6
Switzerland	Switzerland SMI	Bullish	5,837	**6,037**	**5,401**	Upper	(0.95)	36.7	20.9	PE (MT)	77.3
Turkey	ISE National 100 [3]	Bearish	52,163	**57,772**	**45,560**	Neutral	(0.63)	16.6	10.1	PB (LT)	73.9
United Kingdom	FTSE 100	Bearish	5,457	**5,939**	**4,862**	Upper	(1.30)	31.8	14.9	PE (MT)	80.0
United States	S&P 500	Bullish	1,254	**1,322**	**1,110**	Upper	(1.32)	29.8	16.2	PE (MT)	71.3

Source: FactSet, Jefferies, Prices as at December 22, 2011

Note: [1] PE = Price to Earnings, EYG = Earnings Yield Gap, PB = Price to Book, MT = medium-term (2-year), LT = long-term (5 year)
[2] Likely Range measures the region (Current-Upper or Current-Lower) that the index will more likely trade in the coming quarter.
Based on 1-year historical trading we believe the market will more likely trade in that region for the coming quarter if:
1) the cumulative probability in a particular region is 20% or more 2) the difference between the regions is 10 ppts or higher
[3] ISE National 100 index targets are derived from MSCI Turkey local index

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Background to Asset Allocation

Equities offer the most attractive risk return compared to bonds, commodities and high yield debt. However, the year ahead will again be a challenging one for equity investors. At best, equities will show modest double digit returns but for the best part of the year will be range bound.

Equities offer the most attractive risk return compared to bonds, commodities and high yield debt. However, the year ahead will again be a challenging one for equity investors. At best, equities will show modest double digit returns but for the best part of the year will be range-bound. There will be quite a few tests of investor character in 2012, but equities are saved by virtue of their corporate balance sheets and not because of the solvency of their local banking systems. The implicit faith equity investors have in policy makers will be tested again and may mean trendless markets until QE is once again adopted. Debt deflation is too painful for banking systems to absorb. Unless sovereign credit markets are allowed to clear, equities will experience painful bouts of volatility. We would expect a 'Minksy moment' in Europe to occur before EU policy makers are forced to act to backstop the financial system and reduce systemic risk.

Global growth has peaked for the cycle and the developed world is deleveraging at the same time as credit cycles cool in emerging markets.

Global growth has peaked for the cycle and the developed world is deleveraging at the same time as credit cycles cool in emerging markets. The global economy is hitting a 'growth' speed bump coincidentally as the banking system in Europe is under stress and as the US financial system is recuperating. Emerging markets, which led the global economy out of the 2008 financial crisis, have themselves been dealing with overheated economies and credit growth that has been far too fast.

The global economy is still attempting to rebalance itself. The vendor financing agreements between emerging markets and the US have broken down while the same recycling of savings by the Northern European economies to the less competitive South is similarly ending. These transfer payments during the past decade allowed bond yields to fall in the respective money markets and induced debtors to borrow more. Mercantilism had its benefits for exporters as well as importers and on the surface offered a 'win-win' solution as global trade flourished. However, many countries over borrowed and do not have the ability to repay their debts.

However, the adjustment process is not being made easier by the counter-cyclical savings and austerity program being imposed on all the EU members

After the 2008 US financial crisis cleared the asset inflation economy away and restored the competitiveness of the real economy, Europe is attempting to come to terms with its own loss of competitiveness and overspending. However, the adjustment process is not being made easier by the counter-cyclical savings and austerity program being imposed on all the EU members. Debt deflation dynamics require a loosening of monetary policy otherwise the banking system experiences significant balance sheet distress. It also requires some form of debt forgiveness.

While the US has still a long way to go in dealing with its overhang of public debt, it has created the backdrop for nominal GDP to grow without the economy slipping back into deflation. By maintaining negative real interest rates and by then keeping nominal GDP growth around 2-2.5%, the US will gradually erode away its debt problem while keeping unemployment in check. Europe on the other hand is forcing a severe savings adjustment on its members at a time when a number of them do not have the competitiveness to boost exports. Equally, the EU banking system is under strain as a vicious spiral of short-term funding concerns, higher debt servicing costs and high loan-to-deposit ratios appears to have made the banks insolvent on paper. Europe also needs a much weaker euro.

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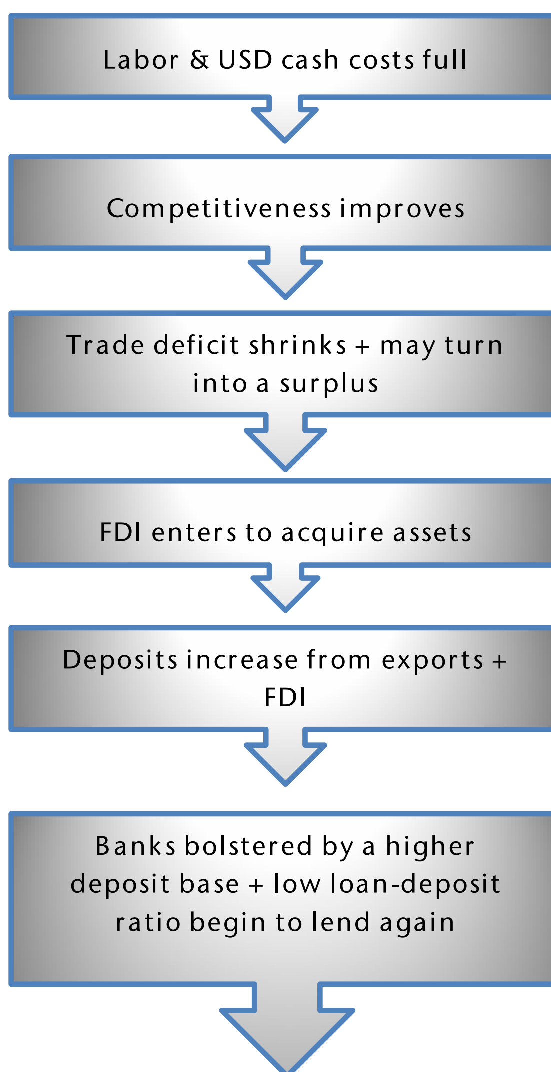
The US adopted the same policy as Asian and emerging market countries did in 1998

Exhibit 4: How a Devaluation Reflates an Economy



Source: Jefferies

The developed world is still locked into a series of competitive devaluations as they try desperately to restore competitiveness to their economies

The developed world is still locked into a series of competitive devaluations as it tries desperately to restore competitiveness to its economies. The majority of the rich 'developed world' has not only had to deal with unsustainable fiscal imbalances but they also have current account deficits. The economies have been trying to 'grow' out of their debt problem but they have found themselves lacking the savings base to do it. Moreover, they also have had to resort to devaluing their currencies because they lack the productivity gains to offset higher wages.

One of the hidden benefits of QE is that by printing more money than another nation, all things being equal, it ought to mean that the currency falls. QE has been used in the UK and US to maintain a healthy rate of inflation to erode outstanding debt, to return competiveness through exchange rate depreciation as well as capping bond yields to keep interest payments low.

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One of the reasons equities have found it difficult to perform alongside their fundamentals has been the absence of a clearing price in sovereign credit markets

One of the reasons equities have found it difficult to perform alongside their fundamentals has been the absence of a clearing mechanism in sovereign credit markets. All debt cycles end with some form of admission over bad lending by creditors and poor borrowing by debtors. Debt forgiveness, haircuts and write downs are all part of the cleansing process in debt markets that allow the financial system to re-adjust. Unless there is some degree of burden sharing or painful balance sheet adjustment, new capital cannot be reallocated into the economy. The freezing of credit markets at the end of 2011 was due to the perception that the stand-off between creditors and debtors in Europe was unsustainable. If banks are preoccupied with maintaining their solvency while bond markets fail to clear, credit markets cannot function and economic growth slumps. Debt forgiveness is a sign that a credit cycle has ended. The US appears to be choosing the route of deleveraging alongside a higher inflation rate, thereby eroding the value of its debt. Europe appears to be going through a balance sheet recession at a time when many EU economies have balance of payment problems.

At some point investors demand a 'clearing' price in order for asset markets to move to equilibrium

Exhibit 5: How to Achieve Debt Forgiveness and Burden Sharing

Source: Jefferies

Furthermore, it is difficult to see equities rallying strongly in the absence of a strong global credit cycle. If banks are not expanding corporate credit, then the growth rate is likely to run below trend. China's credit cycle expanded faster than everyone else's during the past three years. At the margin, credit growth needs to be reasserted in China in order to help the rest of the world through its deleveraging exercise. Ironically, many of the emerging market economies themselves are running current account deficits and have 'less' flow to recycle into overseas developed world bond markets. Hence we would expect equities to be 'trendless' until central banks once again expand their balance sheets.

The best time to own emerging markets is when they have undervalued currencies, running current account surpluses and low leverage

The best time to own emerging markets is when they have undervalued currencies, running current account surpluses and low leverage. Emerging markets are a sell when they have over-valued currencies, high inflation and run current account deficits. The most important turning point for Asia in 2012 may not be China's monetary cycle but a decline in the price of oil.

Inflation may be the recipe the western world seeks to climb out of its debt prison, but high rates of inflation in emerging markets bring out social problems due to the inequality of wealth in these countries. It is not surprising that a wave of protests swept through the MENA region in 2011 and that China, India, Indonesia and Russia have all experienced varying degrees of unrest.

The best equity market to invest in is one where valuations are inexpensive, terms-of-trade are positive, a current account surplus is evident (an undervalued exchange rate helps) and where credit-to-GDP is low. System leverage needs to be undemanding so that financial leverage can allow earnings to be geared. It also helps if demographics/immigration rates are good so that countries have a continuous supply of labor. Africa, MENA and Indonesia still have these attributes. Hence, if investors really want to experience more rapid rates of growth, productivity gains need to be sustained otherwise the economies fall into the 'middle income trap'.

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The velocity of money needs to be positive for equities to outperform bonds.

The correlation of equities to macro factors moved to an extreme in 2011. Equally the correlation between equities has also become severe. However, it became less pronounced by the end of the year, since the divergence between financials and non-financials grew. The risk on, risk off trade has been a feature of markets since 2009 but we have failed to have experienced the cathartic 'revulsion' phase that constitutes a market bottom. True, investors have become disillusioned and have reacted accordingly by acquiring bonds. But a wash-out phase has not been evident. Instead, the markets have experienced ongoing tests of confidence with rising volatility destroying risk taking. With nominal rates zero in many developed world monetary systems, equities have become liquidity proxies that perform at their best not so much when earnings are growing but when the velocity of money is expanding. Ironically, equity market valuations have fallen as global short rates have moved to zero. The velocity of money needs to be positive for equities to outperform bonds.

For equities to have a powerful rally and break above their 200-day moving averages it would require financials to also perform. With global growth slowing, equities may find themselves range-bound otherwise. ROEs are rich but are heading downwards due to declining financial leverage and falling operational gearing. Equities are cheap but turnover is shrinking as the velocity of money falls.

Non-linear risks for equity markets are undoubtedly related to the break-up of the euro-zone as well as a deposit run on the EU banks. A poor US Treasury bond auction or a sovereign bond default might also lead to a similar freeze in equity markets but it would be the fear of a systemic market failure that would drive equity prices 2 standard deviations away from the mean. A bubble bursting in China's housing market is by itself unlikely to collapse the Chinese economy. How the authorities rebalance growth away from fixed asset investment whilst maintaining employment growth will be much more important in 2012 than the pricking of the property bubble. The trade-off between the Chinese unemployment rate and inflation will be the decisive factor to watch.

To some extent long-term investment themes were overshadowed by the 2008 financial crisis and the 2011 EU sovereign debt crisis. In our view, the sourcing of potable water, the availability of cheap energy sources and the delivery of electricity are all related to urbanization in emerging markets. This is unlikely to be derailed by credit cycles. Equally, the growing penetration of robots, increased automation and desire for plant efficiency are still likely to be areas where corporates will invest. If growth does slump, corporates could engage in M&A to grow market share and to reduce fixed costs whilst cutting back on capex. We expect large capitalised companies to outperform.

Ultimately, the major investment theme for 2012 will be the point to buy European equities outright

Ultimately, the major investment theme for 2012 will be the right time to buy European equities outright. If the authorities allow the euro to slump, make unprecedented intervention in money markets to backstop the banks and also engage in QE whilst absorbing a round of sovereign haircuts, EU equities will become attractive. It will also be the time when fear is really running through the financial system.

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Macro Trade Recommendations

Trades are dominated by mean reversion and the tendency for investors to either over-pay for safety or to overvalue growth. We highlight 20 trades across FX, commodity, fixed income and equities. The trades are consistent with the forecasts highlighted in the outlook.

1. Long global equities. Sell G10 bonds. Unhedged index total returns. Equities offer value and dividend support, and many multinationals appear to be able to allocate capital better than governments.

2. Long Nikkei, sell G10 bonds. Hedged index total return. Japan offers value and has become quietly forgotten following the 2011 earthquake. Long tail policy changes are better found in Japan than elsewhere.

3. Long 10-year treasury bonds, sell MSCI Emerging markets. Hedged index. We would expect a short-term deflationary bias to pass through the global economy before monetary easing begins in earnest in emerging markets. The operational gearing of EM and the extent to which inventory corrections play out post an economic slowdown will mean that EM PPI will decline sending a deflationary pulse through US imports. This is an extension of the trend experienced during 2011.

4. Long global convertible bonds, sell German Bunds 1 and 2 year (euro). Hedged index. We see the market overpaying for safety at the short end of the German yield market. Convertibles offer the best risk return of any asset class in our view.

5. Long global equity dividend yield, sell high yield corporate bond. Unhedged index. It's payback for equities in 2012 versus other asset classes.

6. Sell global luxury goods, long Philadelphia Semiconductor index. Unhedged index. Even though global growth may be much weaker than in 2012 we would expect the real economy to do a lot better than financially inflated asset themes.

7. Long US S&P financials, sell European financials (Eurostoxx bank index). Unhedged index. More US QE to come. US is three years out of its financial crisis, Europe has yet to address its problems. The latter has a lot more capital raising to do. European banks won't escape major insolvency tests in 2012.

8. Long US S&P, sell Hang Seng. Unhedged index. Hang Seng index has a large weighting in financials with physical property prices looking overstretched.

9. Long S&P Case-Shiller property index. Short Asia (including Australian) property. Unhedged index. US property appears inexpensive on many measures. Asia is now very over-valued. China property prices have only just begun to decline.

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10. Long US S&P. Sell Brazil Bovespa. Unhedged index. Developed equity markets will trounce EM again with most EM markets seeing deteriorating growth.

11. Long VIX, sell global utilities. Hedged index. Annualized volatility of stocks has climbed and the VIX has been bottoming out during the past 12 months. This is a weighted average trade during 2012.

12. Long VIX, sell German Bunds 1 and 2 year (euro). Hedged index. A deflationary trade has already been printed in German Bunds, equities are expected to do better, but the swings in volatility will play out through the year. This is a weighted average trade during 2012.

13. Long Swiss property index. Short gold. Hedged index returns. The changes to the CHF monetary operation are likely to push a bubble into the property index. Hedge the currency, though.

14. Long Natural Gas. Sell commodity index. Unhedged index. For emerging markets to grow above trend without inflation returning, energy prices will need to be much lower. Natural gas is an uncorrelated trade.

15. Long China A, sell Brazil Bovespa. Unhedged index. We would expect China's loosening to eventually allow EM to reflate but it will not be a smooth trade.

16. Long Mexico, sell Brazil. Unhedged index. Expect Mexican equities to run on the back of the US's coattails while it may take some time for Brazilian equities to regain their poise.

17. Long Mexico equities, sell Turkish equities. Unhedged index. Mexico will run alongside the improvement in the US. Turkey looks vulnerable to further euro-zone contagion.

18. Long US dollar, sell euro. Again a battle of weak currencies but the balancing act that the US has successfully undertaken has been the ability to keep fiscal policy loose. We would indeed expect to see the extension in payroll tax cuts and unemployment benefits agreed going into 2012, whilst convincing the market that fiscal policy will be tightened following the US Presidential elections at the end of the year.

19. Long Sterling, sell euro. This year has been the battle of the weak currencies so it is always hard to actually find a currency to buy. However, the UK is set to benefit from distancing itself from the Eurozone debacle, despite QE and a weak economy. UK monetary independence has a premium.

20. Long Euro, sell Swiss Franc. The SNB has imposed a floor under the EURCHF at 1.20 but would like to see a weaker CHF. At the SNB's quarterly meeting in December the SNB said the "franc should continue to weaken over time" whilst SNB President Hildebrand said the "SNB was ready to take further measures 'any time'". Inflation has fallen sharply in Switzerland and consumer prices have fallen 0.5% in the year to November. The CHF currency remains overvalued.

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Risks, Outliers and Non-Consensus Calls

A glance through 2011's diary would have revealed an array of surprises from the unfolding of the Arab Spring (and summer), through the series of government leaders who lost their seat of power (particularly in Europe) as the global financial crisis worsened and America's AAA rating was downgraded for the first time. During 2011, market participants have been discussing a break-up of the euro area, a sovereign debt crisis in the US and the collapse of the Chinese banking system as property prices declined. Below are some outliers that have a much higher probability than equity investors believe.

***US unorthodox monetary policy (1)**: We would expect the next phase of QE to involve the Fed buying US mortgages. The US mortgage holder has not benefitted from the sharp fall in Fed Funds. The US Fed sees narrowing this differential as a more effective way of stimulating the US economy rather than by buying more US Treasury bonds. Hopefully, this will lead to direct benefits for a large proportion of the population by providing an income boost (whereas the benefits of QE2 were lost when higher equity prices were offset by higher petrol prices).

***US unorthodox monetary policy (2):** The Fed undertakes QE for Europe. With a new currency swap agreement in place, this allows the Fed to bilaterally access other sovereign credit markets directly.

***Capital controls are enacted in parts of Europe:** To control systematic risk in the EU banking sector. With capital flight evident from Greece's banking system during 2011, any form of a bank run in Europe might need to be met by the imposition of capital controls either through higher transaction taxes or through reduced remittances. It is difficult to deploy capital controls in the age of electronic transfers but certain countries might need to adopt such measures if outflows became too dramatic.

***German, French and UK governments lose their AAA ratings.** Equity markets would be indifferent to some extent to such news but it would probably reflect deterioration in credit conditions for their domestic banks and more likely the fact that a number of European banks had been either rescued or nationalized by their governments.

***China raises interest (deposit) rates.** In attempt to rein in outflows from the banks and to keep the loan-to-deposit ratio in check, the authorities raise deposit rates. Deposit migration from the banking system may counter the relaxation of the RRR. Higher returns on trust funds and other shadow financial institutions have undermined the authority's ability to control monetary aggregates. At the same time, the RMB might start to fall as outflows occur from the banking system.

***IMF Special drawing rights (SDR)** are brought into the mainstream by China and the other emerging markets and with the blessing of the IMF in order to stabilize foreign exchange markets and to calm developed world bond markets. SDR becomes essentially a global currency with the IMF acting as an anchor in determining FX rates.

*Developed world central banks target the dividend yield on stocks as a means of controlling the descent of equity prices. Alongside the buying of corporate bonds, one method to ensure that prices would not fall below a certain index level would be if the central banks targeted a certain dividend yield (without necessarily letting the markets know what the investment style they were using). Not too outlandish a view since HK did the same thing during the 2007-08 Asian financial crisis. It turned a handsome profit when the HKMA exited the operation.

*Japan pegs its currency. At a time when just about everyone has begun a process of devaluation, beggar-thy-neighbour currency debasement, Japan does a Switzerland and sets a price target for the yen. While Japan runs a current account surplus and the yen is not as overvalued as the Swiss Franc, the deflationary pressures emanating on the trade front may force the authorities to act.

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Overview of Equity Strategy 2012

12 months ago, equity investors were overweight emerging markets as they bought into the growth de-coupling hypothesis. Worries about overheating were cast aside alongside fears that developing world banks had over-extended credit. Concerns over European fiscal balance sheets were limited to Greece and there were few signs of panic about the impending problems in the European credit markets.

While growth has been the key to encourage equity investors to buy more shares, the most important factor is risk appetite. Last December, global equity risk appetite measured by corporate spreads and inter-bank spreads were quite rich. A large degree of the risk-on trade had come through the weakness in the Greenback. The US dollar had become a carry-trade currency and this encouraged a much more pronounced gearing effect to pass into currency, equity and fixed income markets.

A glance at emerging market prices at the end of 2011 suggests that the patience of investors and their level of conviction quickly reversed. Economic cycles may have become shorter but investor cycles by and large revolve around the calendar's 365 days.

For equities to offer the right investment conditions, corporate bond spreads must be well behaved, the velocity of money in the system should be rising and prices within the global economy should be firming. Inflation can be a good and bad thing for equities. Too much and companies find their margins contracting, too little and CEOs are unable to cut costs quickly enough to maintain earnings momentum.

One very important consideration is that equities must be under-owned. At the end of 2010, emerging markets were the most over-owned at any time since fund flows could measure. The equity culture has been hit by a succession of bubbles that has left investor confidence reeling. Aside from financials, the corporate sector today has few claims against it from other members of the financial community. The cash-flow they are generating means that they have become masters of their own destiny. There is still a strong equity culture running through the global economy at the same time as de-leveraging of the financial economy continues.

Bull markets start almost without mention. As profits accelerate and confidence is revitalized, risk appetite increases and the animal spirits are unleashed. We would expect one more cathartic event to wash through the equity markets to force the last weak hands.

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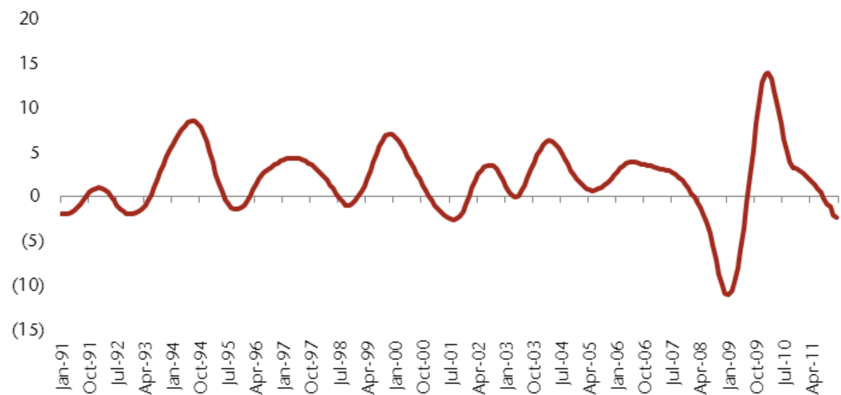
Forward indicators suggest a slowing economy

Exhibit 6: OECD Lead Indicator (%, y-y)



Source: Bloomberg, Jefferies

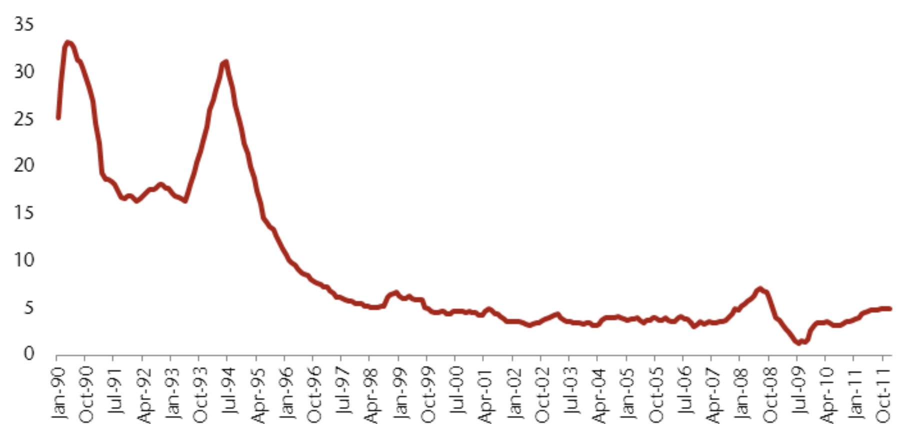
Inflation remains sticky

Exhibit 7: OECD Inflation (%, y-y)

Source: Bloomberg, Jefferies

On this measure, the inflation rate is running close to trend

Exhibit 8: IMF Inflation (%, y-y)



Source: Bloomberg, Jefferies

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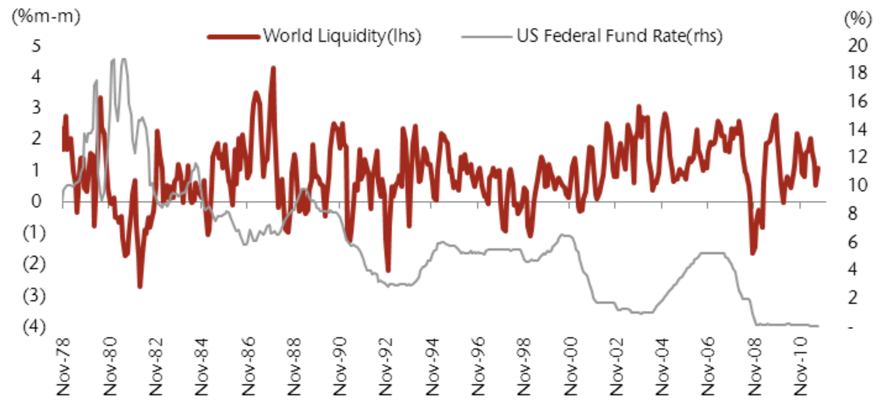
Investors should be aware that central banks will need to do additional QE

Exhibit 9: Global Liquidity (%, m-m) vs. US Fed Fund Rate (%)



Source: IMF, FRB, Datastream, Jefferies
Note: World Liquidity is 3-month moving average of sum of world foreign reserve excluding Gold, USM1, and US term deposits

European bond yields still have some way to normalise

Exhibit 10: OECD Euroland 10-year Bond Yield (%)

Source: Datastream, Jefferies
Note: Area comprises Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and Greece.

Economic expectations remain fragile within Europe

Exhibit 11: ZEW Business Expectation of Economic Growth

Source: Datastream, Jefferies

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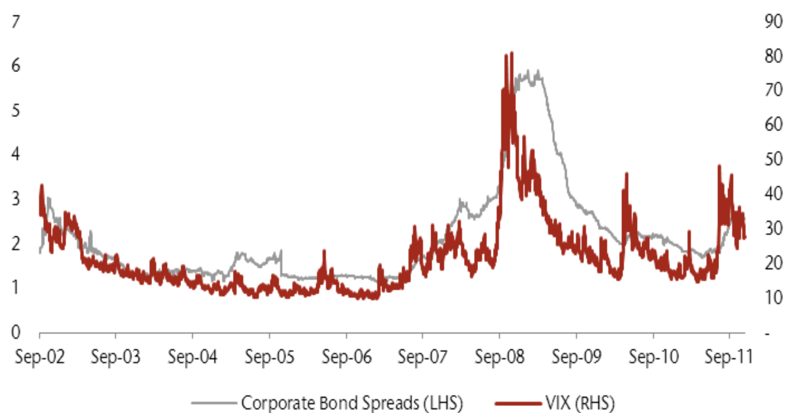
Corporate bonds spreads are leading the VIX

Exhibit 12: VIX & Corporate Bond Spreads



Source: Bloomberg, Jefferies

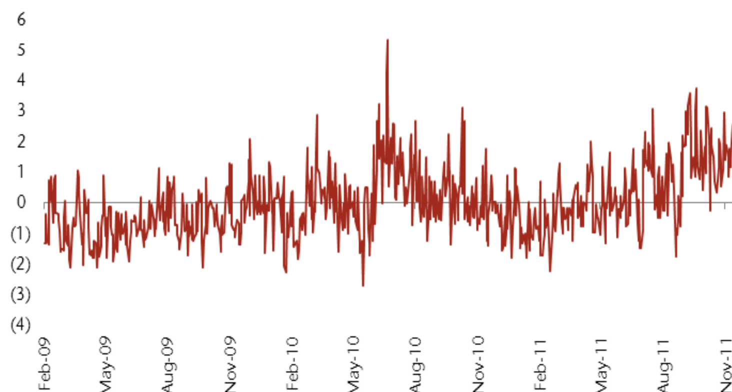
Earnings momentum is set to weaken

Exhibit 13: US implied inflation expectation & EPS momentum (3-mth MAV)

Source: Bloomberg, Jefferies

The market has stopped worrying about a double dip

Exhibit 14: US Put/Call ratio



Source: Bloomberg, Jefferies

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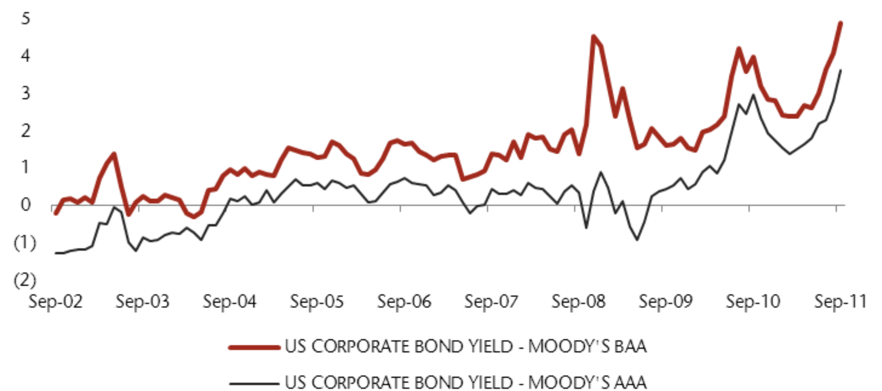
Equity market correlations remain high

Exhibit 15: CBOE SPX implied Correlation index (2012)

Source: Bloomberg, Jefferies

Equities remain inexpensive versus corporate bonds

Exhibit 16: US Trailing Earnings Bond Yield Spread



Source: Bloomberg, Jefferies

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Market Valuation, Earnings Revisions and Risk Measures

Ironically, at a time when more and more central banks are taking their interest rates close to the zero boundary, the dividend yield on global equities has moved one standard deviation away from its ten-year trend. Furthermore, the global PER multiple has halved from the post technology bubble highs of 2000 to the end of 2011.

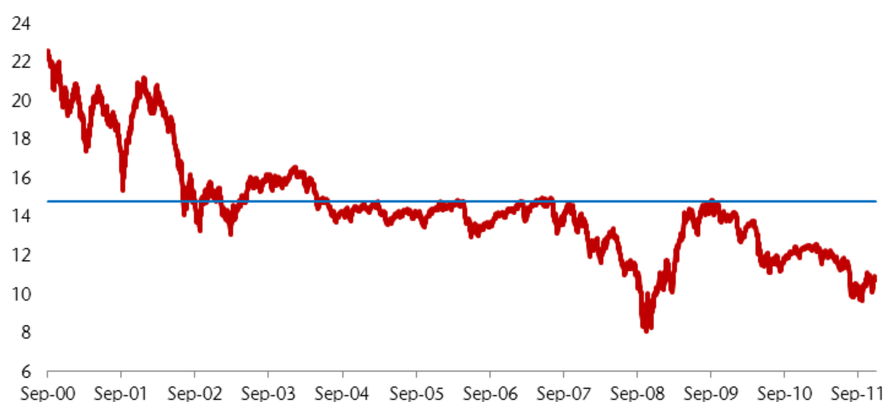
The de-rating of the equity market has coincided with a huge compression in US treasury bonds and until recently, low European sovereign bond yields. From afar, it appears that the equity markets have become exhausted post a series of bubbles that have passed through the global economy since US treasuries started their bull run in the 1980s.

However, as the financial sector absorbed the post-bubble shocks from the overheated credit formation, the subsequent decline in profitability has undermined the global ROE. In reality, exogenous and cyclical shocks have been absorbed by the financial sector rather than through the real economy. This is counter-intuitive but as global capital flows have deepened, disintermediation has broadened and domestic monetary policies have become less influential. This has meant that companies continue to move towards high cash generation to ensure their own solvency. The financial sector has become its own worst enemy.

While stocks have become cheap on a relative basis, they have less financial and operational gearing to improve profits. With banks shrinking their loan books and selling assets while companies seek to cut production, the best of the leverage effect has passed for earnings.

An enormous de-rating has occurred...

Exhibit 17: PER (12 month forward) - Global Investable Universe



Source: FactSet, Jefferies

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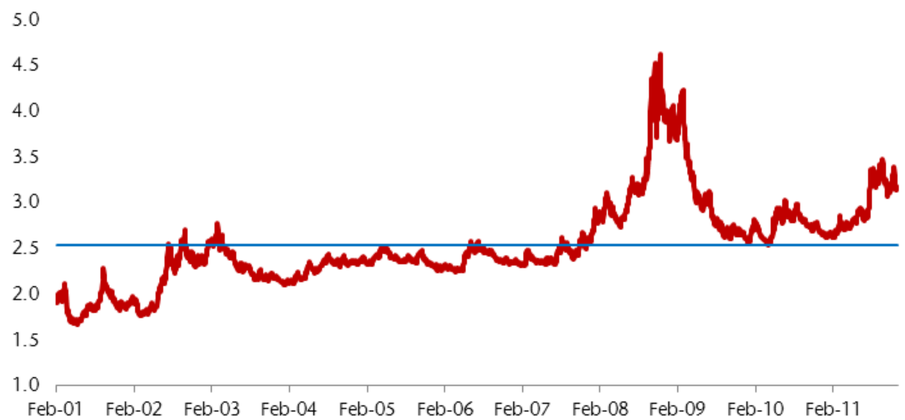
...despite dividend yields being well above their historical mean

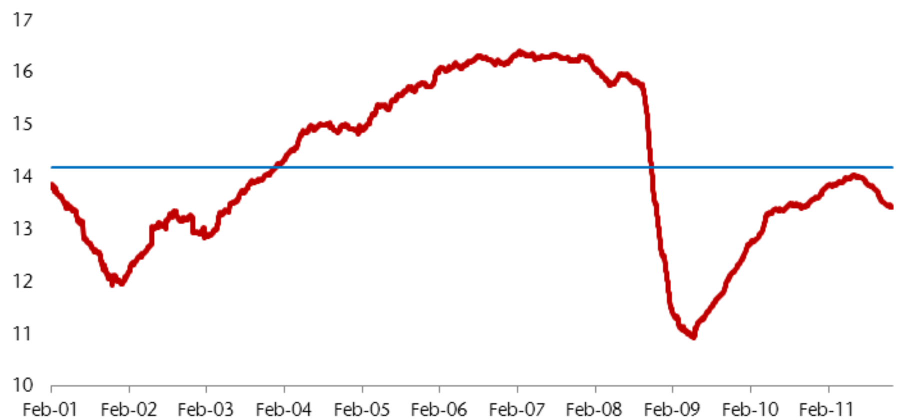
Exhibit 18: Dividend Yield (12 month forward) - Global Investable Universe



Source: FactSet, Jefferies

However, ROE has peaked for the cycle...

Exhibit 19: Return on Equity (12 month forward) - Global Investable Universe



Source: FactSet, Jefferies

...making a valuation tool much more important

Exhibit 20: Price/Book (12 month forward) - Global Investable Universe

Source: FactSet, Jefferies

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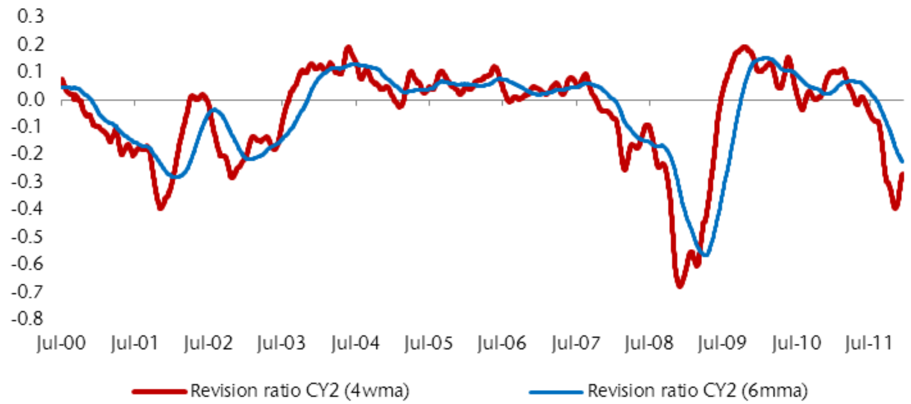
Earnings are still being downgraded well before economic forecasts have been cut

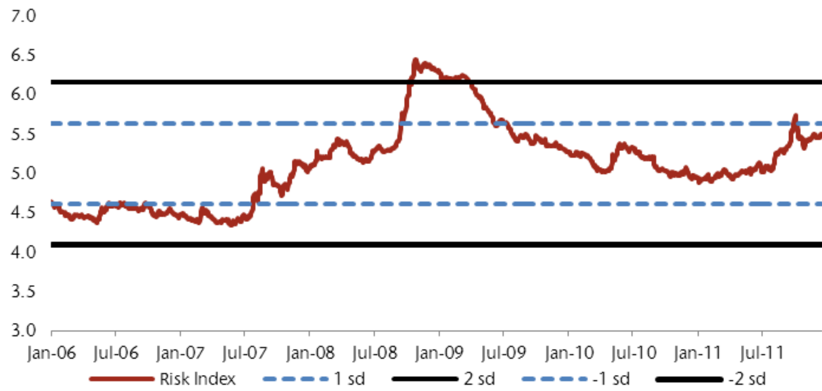
Exhibit 21: Earnings Revision Ratio (CY2) - 4wma & 6mma - Global Investable Universe



Source: FactSet, Jefferies

JEF risk index is trending 1 s.d. above its mean suggesting heightened risk aversion

Exhibit 22: JEF RISK INDEX



Source: Bloomberg, Jefferies
Note: Equally weighted with CBOE SPX VOLATILITY INDX, Ted Spread, Euribor Spread, JP Morgan EMBI Global Spread, US corporate bond spread and Europe corporate bond spread

Don’t sell the US...

Exhibit 23: Equity Risk Premium (12 month forward) - US

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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...or the UK

Exhibit 24: Equity Risk Premium (12 month forward) - UK

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

...or Japan

Exhibit 25: Equity Risk Premium (12 month forward) - Japan

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

Canada is inexpensive...

Exhibit 26: Equity Risk Premium (12 month forward) - Canada

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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...so is France

Exhibit 27: Equity Risk Premium (12 month forward) - France

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

The markets have priced in...

Exhibit 28: Equity Risk Premium (12 month forward) - Germany

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

...the worst possible...

Exhibit 29: Equity Risk Premium (12 month forward) - Australia

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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...scenarios for the global economy

Exhibit 30: Equity Risk Premium (12 month forward) - Switzerland

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

Sweden is still inexpensive against bonds

Exhibit 31: Equity Risk Premium (12 month forward) - Sweden

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

Italy is expensive

Exhibit 32: Equity Risk Premium (12 month forward) - Italy

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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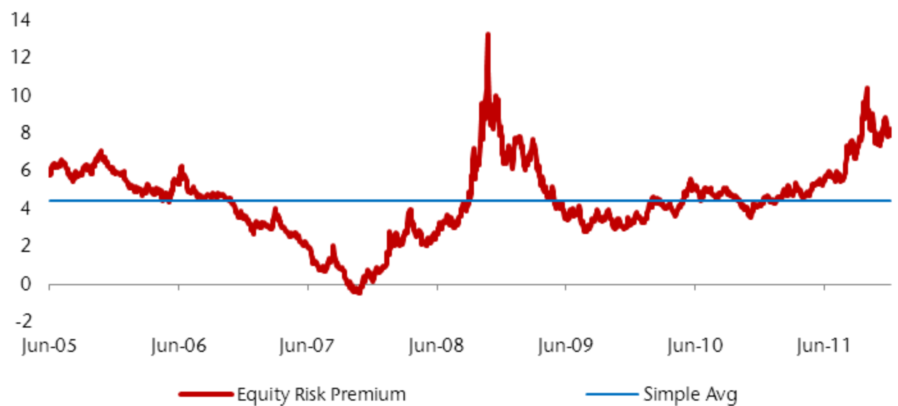
Norway is undervalued

Exhibit 33: Equity Risk Premium (12 month forward) - Norway

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

China…

Exhibit 34: Equity Risk Premium (12 month forward) – China (MSCI)



Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

…and Hong Kong are cheap

Exhibit 35: Equity Risk Premium (12 month forward) - Hong Kong (MSCI)

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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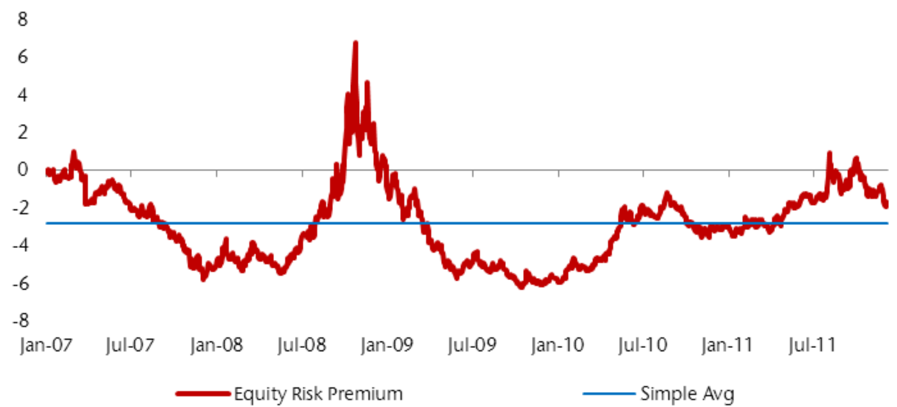
Brazil is looking expensive

Exhibit 36: Equity Risk Premium (12 month forward) - Brazil



Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

Mexico is also not that cheap

Exhibit 37: Equity Risk Premium (12 month forward) - Mexico

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

India is still expensive

Exhibit 38: Equity Risk Premium (12 month forward) - India

Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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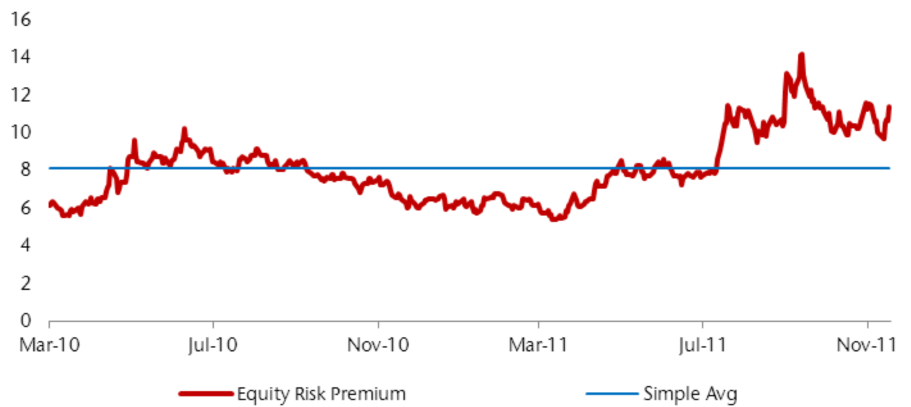
Russia is cheap

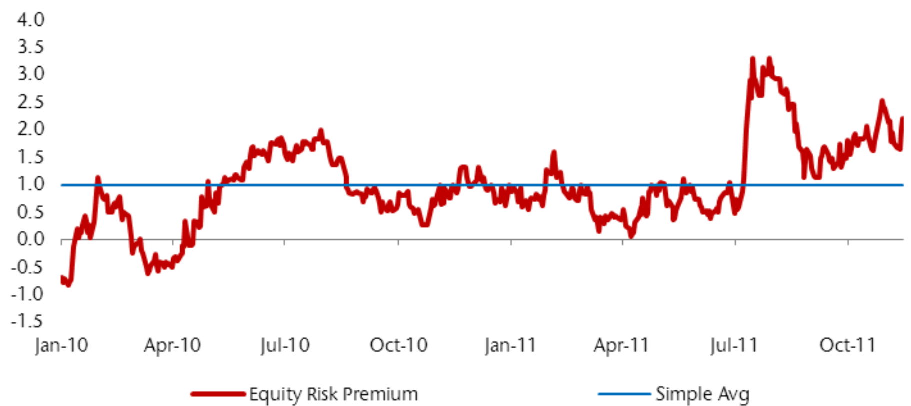
Exhibit 39: Equity Risk Premium (12 month forward) - Russia



Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

Turkey is inexpensive

Exhibit 40: Equity Risk Premium (12 month forward) - Turkey



Source: FactSet, Jefferies
Note: Equity Risk Premium = 1/PE (12 month forward) – Risk Free rate

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Global Market Technicals

Traders firstly prefer trend or momentum markets, and secondly are at home in range-bound markets. Traders dislike trendless markets. 2011 saw markets become more fragile as money flowed into fixed income. The lack of turnover exacerbated market volatility and undermined confidence. The disease became self-fulfilling and traders preferred to wait on the sidelines anticipating the next big trend.

We believe three technical tools will be useful in 2012. Firstly, the breadth of equity markets will be important to ensure that rallies don't run out of steam. As economic momentum stalls and good news evaporates, markets will have a tendency to rotate from winners more frequently.

Secondly, Fibonacci levels are likely to be more frequently used as markets become prone to 'bigger' moves rather than small changes. Investors will seek comfort in 'levels' rather than overbought or oversold yardsticks.

Lastly, investors may be more willing to look at MACD as equity markets remain under the shadow of their 200, 30 and 20 day moving averages. Before a bull or bear phase is created, convincing volume break-outs above the moving averages will be necessary.

The S&P 500 is rising steadily in a wedge formation — within the formation, there were breakouts but not substantially. Expect resistance at around 1,300 which is close to the top-end of the formation and once this is broken with volume, the next test of resistance at 1,370 should be highly achievable

Should the current pattern hold throughout 1Q12, we see a 1,225 to 1,300 trading range into 2Q12

Exhibit 41: Market Technicals - US

Source: Bloomberg, Jefferies

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A fairly similar pattern to the S&P500. A rising wedge is formed in the second half of last year with rising tops and bottoms. We see resistance at 6,100 as significant.

Should the current pattern hold throughout 1Q12, we see 5,400 to 5,800 as the trading range into 2Q12

Exhibit 42: Market Technicals - UK

Source: Bloomberg, Jefferies

On the chart, a wide and slightly flat downward channel formed for the past two years with primary support at around 8,100-8,200. Such a level is very close to the bottom band of the wide channel which we see as a solid support level given the channel pattern

Exhibit 43: Market Technicals - Japan

Source: Bloomberg, Jefferies

A downward channel remained intact while the top band acting as resistance, has been tested more frequently over the past few months.

A volume-backed breakout would be seen as positive technically speaking while the next solid resistance could be as high as at around 12,800. Primary support at 11,420

Exhibit 44: Market Technicals - Canada

Source: Bloomberg, Jefferies

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We see 3,350 as a potential solid resistance as the market has been range-trading over the past few months with 2,693 a vital support

Exhibit 45: Market Technicals - France

Source: Bloomberg, Jefferies

We see 6,500 as a potential solid resistance as the market has been trading in a volatile mode over the past few months

Exhibit 46: Market Technicals - Germany

Source: Bloomberg, Jefferies

We see recent six-month trading range at around 3,750 to 4,500 to continue until a significant breakout

Exhibit 47: Market Technicals - Australia

Source: Bloomberg, Jefferies

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A volume-backed negative breakout from late July but since then the market has been rebounding steadily with higher tops and bottoms in general. We see 6,000 as a level of significant resistance and hence a volume-backed breakout would be positive technically speaking

Exhibit 48: Market Technicals - Switzerland

Source: Bloomberg, Jefferies

A pretty much range-trading pattern for the past six months with 1,000 and 830 being the top and bottom end of the range. We see more solid resistance at 1,050

Exhibit 49: Market Technicals - Sweden

Source: Bloomberg, Jefferies

FTSEMIB has been range trading over the past few months and we see the top end and bottom end, 17,000-17,500 and 13,110 as resistance and support references

Exhibit 50: Market Technicals - Italy

Source: Bloomberg, Jefferies

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The index has been trading sideways with the top end at around 400 and bottom end at around 320 being resistance and support levels

The top-end has been tested more frequently recently and a volume-backed breakout may see the index head further north to the next resistance of around 460

Exhibit 51: Market Technicals - Norway

Source: Bloomberg, Jefferies

A wide downward channel remained intact for the past two years or so with the index easing towards the bottom band for support lately

Exhibit 52: Market Technicals - China

Source: Bloomberg, Jefferies

No clear trend during the second half of the year. While we see primary resistance and support at around 19,300 and 17,200-17,400 respectively, we expect far more solid resistance and support at 21,100-21,800 and 16,100

Exhibit 53: Market Technicals – Hong Kong

Source: Bloomberg, Jefferies

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An upward channel is being developed with potential trading range at the end of 1Q11 from 55,000 to 65,000 should the current channel hold. We see resistance at around 60,000 as solid

Exhibit 54: Market Technicals - Brazil

Source: Bloomberg, Jefferies

A fairly positive breakout earlier of a symmetric triangle pattern. Technically speaking, there is good chance for the index to re-test the highs in January despite primary resistance around 37,600.

Exhibit 55: Market Technicals - Mexico

Source: Bloomberg, Jefferies

We see a downward channel has been formed over the past year and current channel points to a potential range between 13,700 and 16,700 by the end of 1Q12

The index is looking for support in the region of 15,300-16,000 and a drop below this range with pick-up in volume could be further negative

Exhibit 56: Market Technicals - India

Source: Bloomberg, Jefferies

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A downward channel formed in 2011. We see recent highs and lows serving as resistance and support levels in the near term.

Exhibit 57: Market Technicals - Russia

Source: Bloomberg, Jefferies

If recent support at around 48,600 is broken with strong volume, a downward channel would more or less be confirmed.

Exhibit 58: Market Technicals - Turkey

Source: Bloomberg, Jefferies

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Expected Trading Range for Global Equity Markets

We have adopted a quantitative approach to obtain forward quarter index targets for equity markets

Using forward PE, Earnings yield gap and PB models (on a medium-term and long-term view), we examined current market valuations using z-score. We applied 1 SD (for developed markets) and 0.5 SD (for emerging markets) above and below the current level to obtain our upper and lower index target references for the coming quarter i.e., 1Q2012. The difference in SD that we applied to developed markets and emerging markets is a reflection of market volatility.

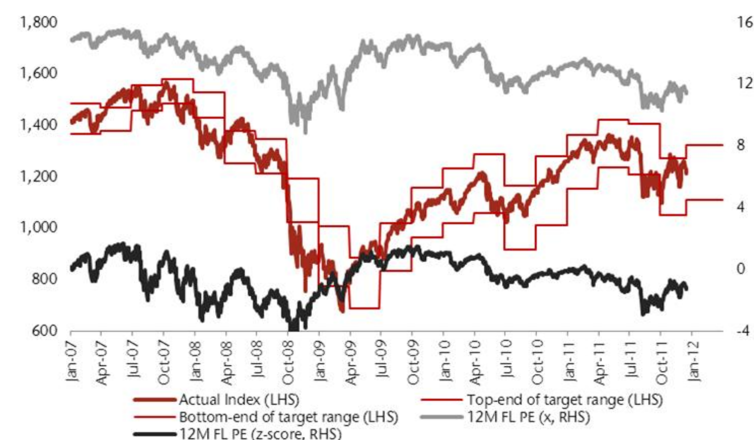
In order to estimate the likelihood that the market will trade closer to the upper or lower index target reference, we measured how the market has traded in terms of z-score over the past year and used that to determine the likely direction of the market in the coming quarter. Note that this measure is more a momentum/trend following approach unless the current level is trading at an extreme i.e., above or below 2 or -2 SD which may see a reversal in the near term.

Picking the appropriate model for index target references: We back-tested each model's index target references over the past five years at the end of each quarter, and measured the probability distribution that the market traded within each model's index target reference, and also measured the range/spread of the index target reference. We selected the most suitable model based on its accuracy (targeting 70% or higher) and its range (targeting around 25%) on the index target reference.

Our forward PE model suggested a trading range between 1,110 and 1,322 for the S&P 500 index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 59: Expected Trading Range - US



Source: Bloomberg, Jefferies

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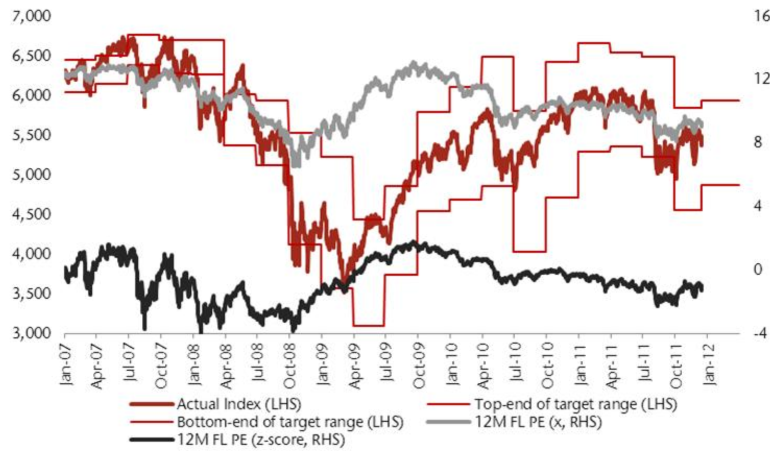
Our forward PE model suggested a trading range between 4,862 and 5,939 for the FTSE 100 index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

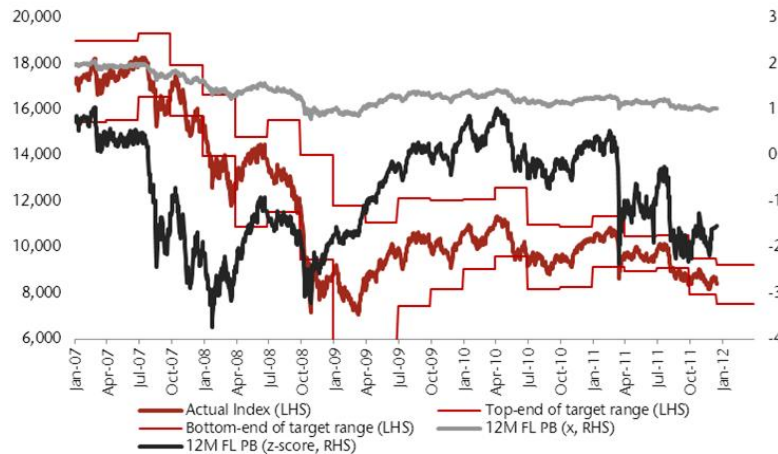
Exhibit 60: Expected Trading Range - UK



Source: Bloomberg, Jefferies

Our forward PB model suggested a trading range between 7,507 and 9,248 for the Nikkei 225 index in 1Q12

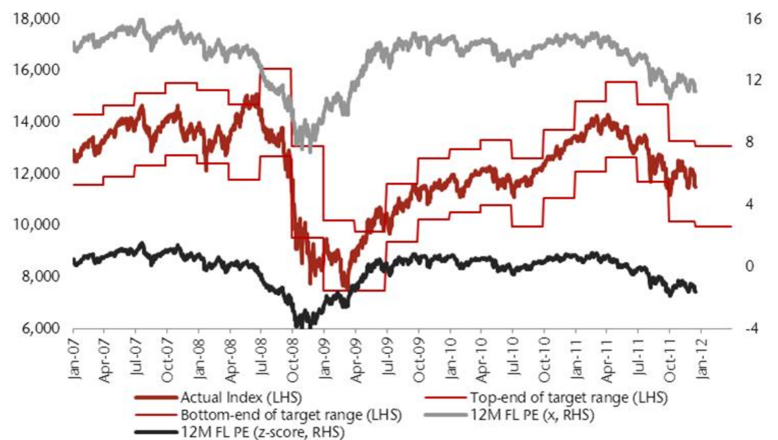
Exhibit 61: Expected Trading Range - Japan



Source: Bloomberg, Jefferies

Our forward PE model suggested a trading range between 9,958 and 13,051 for the S&P/TSX Composite index in 1Q12. Canada looks to be most reliable market on this target reference.

Exhibit 62: Expected Trading Range - Canada



Source: Bloomberg, Jefferies

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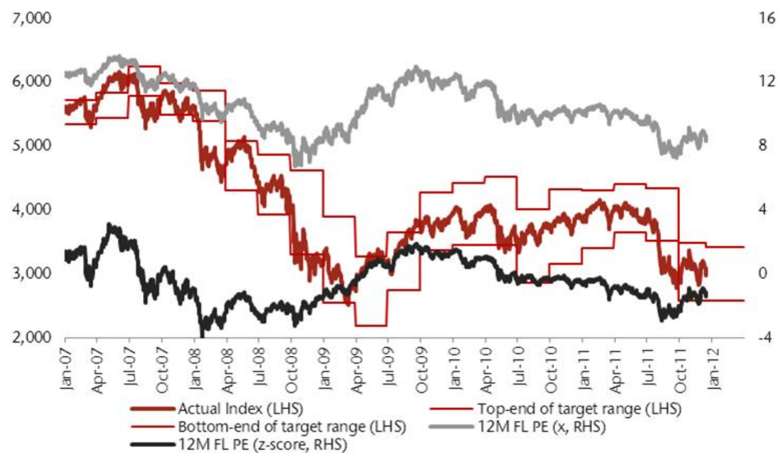
Our forward PE model suggested a trading range between 2,581 and 3,416 for the CAC index in 1Q12

Exhibit 63: Expected Trading Range - France

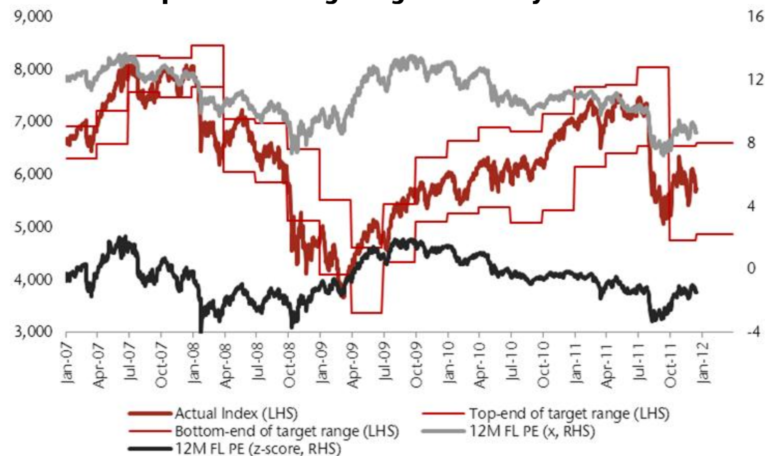


Source: Bloomberg, Jefferies

Our forward PE model suggested a trading range between 4,867 and 6,594 for the DAX index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 64: Expected Trading Range - Germany

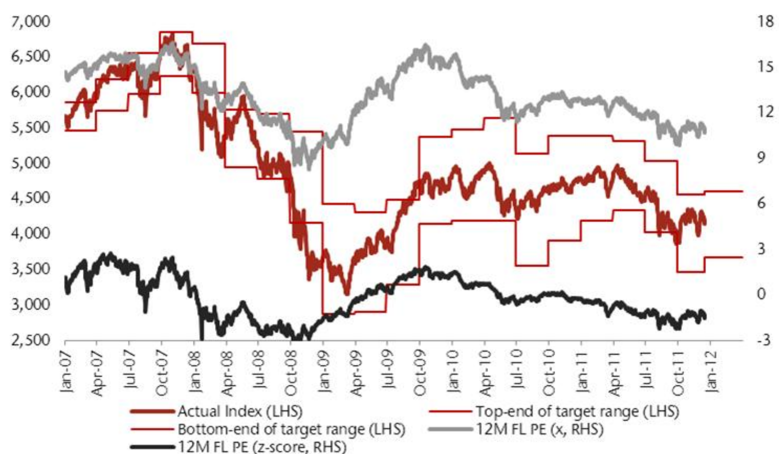


Source: Bloomberg, Jefferies

The index target reference for the S&P/ASX200 at 1Q12 starts from 3,670 to 4,609, based on our forward PE model

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 65: Expected Trading Range - Australia



Source: Bloomberg, Jefferies

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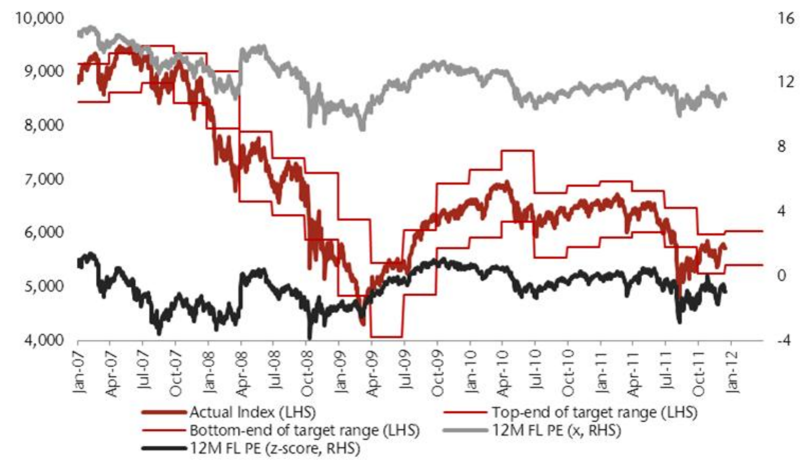
Our forward PE model suggests a trading range between 5,401 and 6,037 for the Swiss Market index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 66: Expected Trading Range - Switzerland

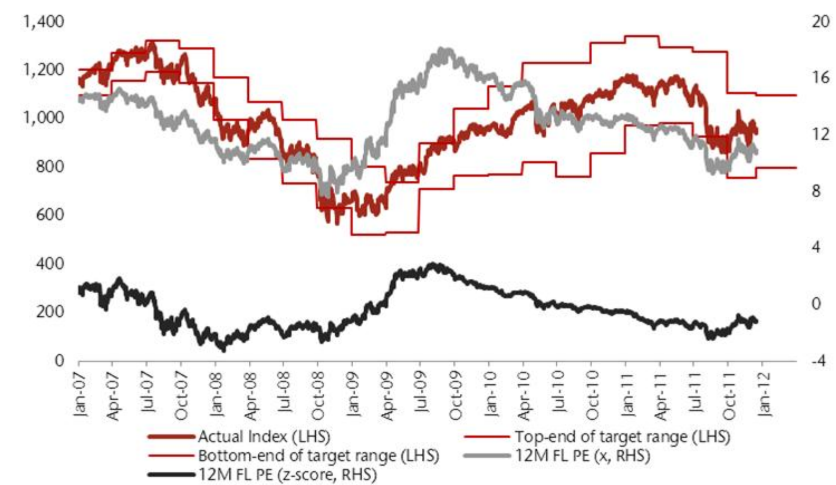


Source: Bloomberg, Jefferies

Our forward PE model suggested a trading range between 1,126 and 768 for the OMX Stockholm 30 index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 67: Expected Trading Range - Sweden

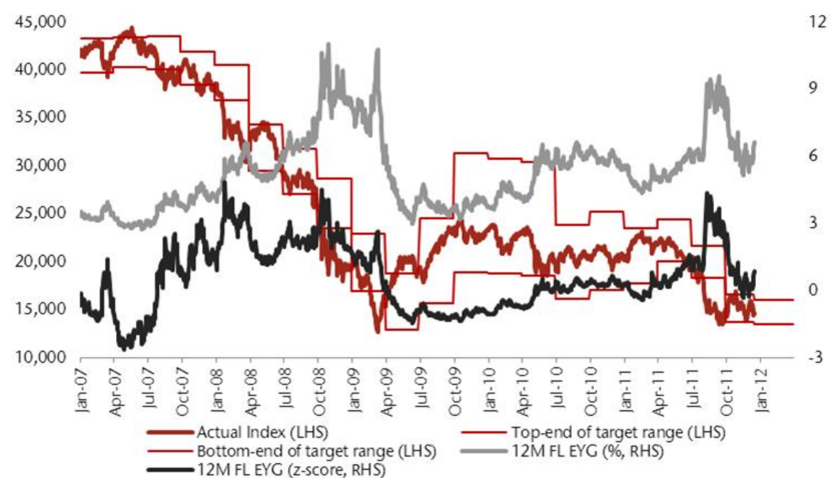


Source: Bloomberg, Jefferies

Our forward EYG model suggested a trading range between 13,443 and 16,042 for the FTSE MIB index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the lower end of the target range

Exhibit 68: Expected Trading Range - Italy



Source: Bloomberg, Jefferies

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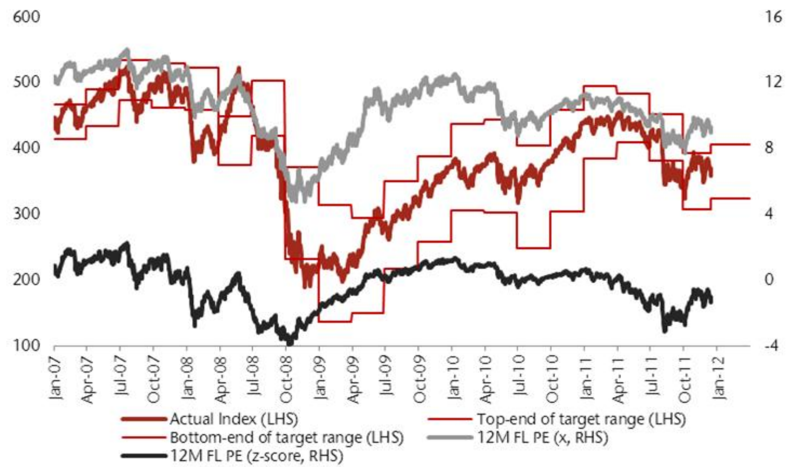
Our forward PE model suggested a trading range between 324 and 406 for the OSE Benchmark index in 1Q12

Exhibit 69: Expected Trading Range - Norway

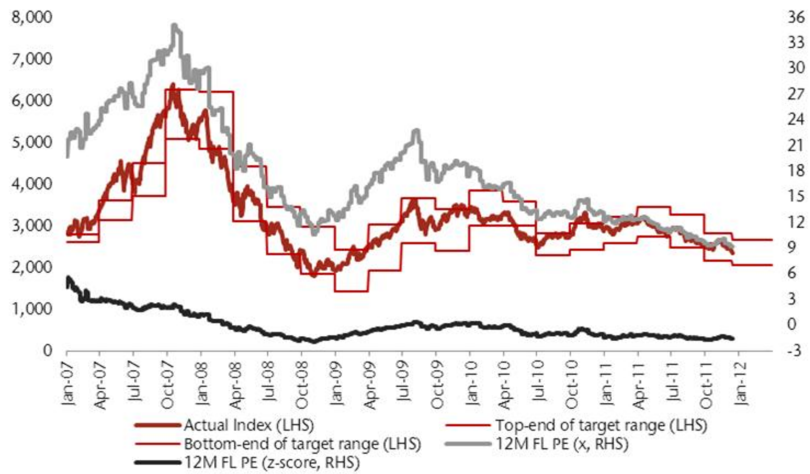


Source: Bloomberg, Jefferies

Our forward PE model suggested a trading range between 2,053 and 2,659 for the Shanghai A Share index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 70: Expected Trading Range - China

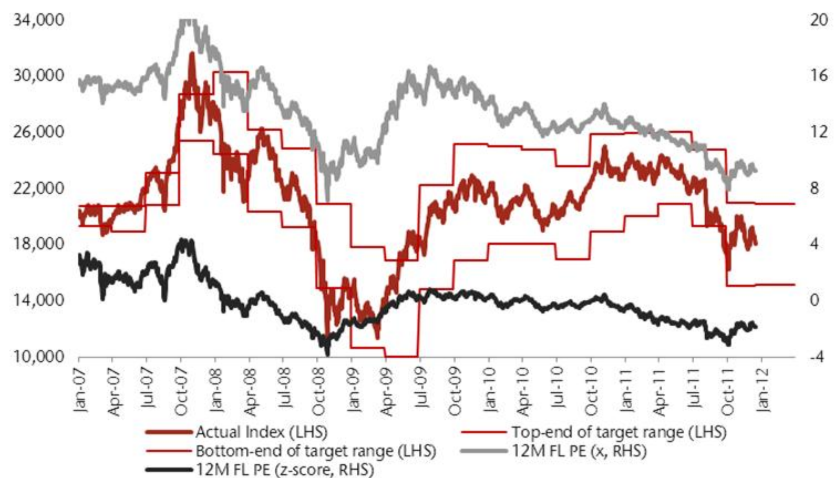


Source: Bloomberg, Jefferies

Our forward PE model suggested a trading range between 15,160 and 20,893 for the Hang Seng index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the top end of the target range

Exhibit 71: Expected Trading Range - Hong Kong



Source: Bloomberg, Jefferies

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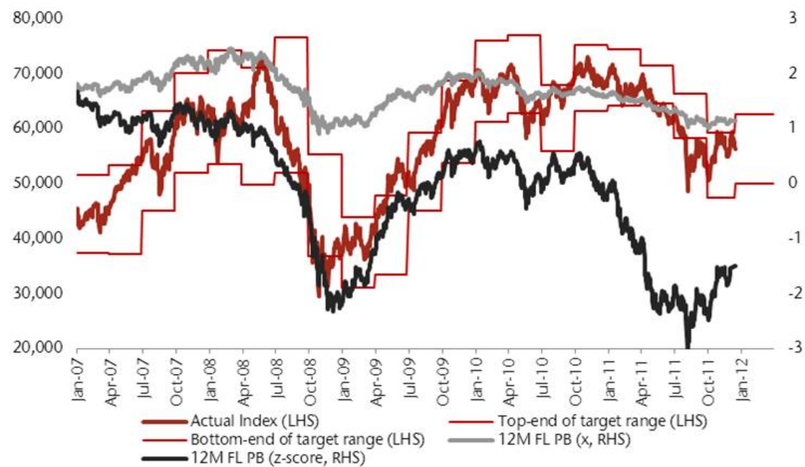
Our forward PB model targeted an index reference of 50,094-62,568 for the Brazil Bovespa in 1Q12

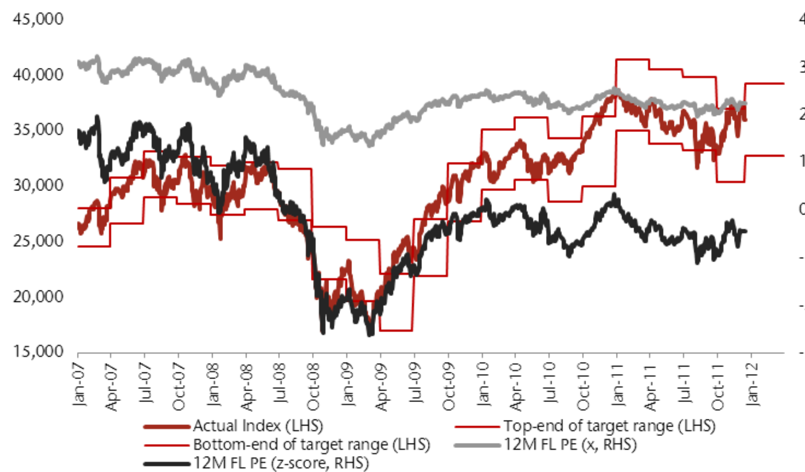
Exhibit 72: Expected Trading Range - Brazil



Source: Bloomberg, Jefferies

Our forward PB model suggested a trading range between 32,738 and 39,276 for the Mexico IPC index in 1Q12

Exhibit 73: Expected Trading Range - Mexico

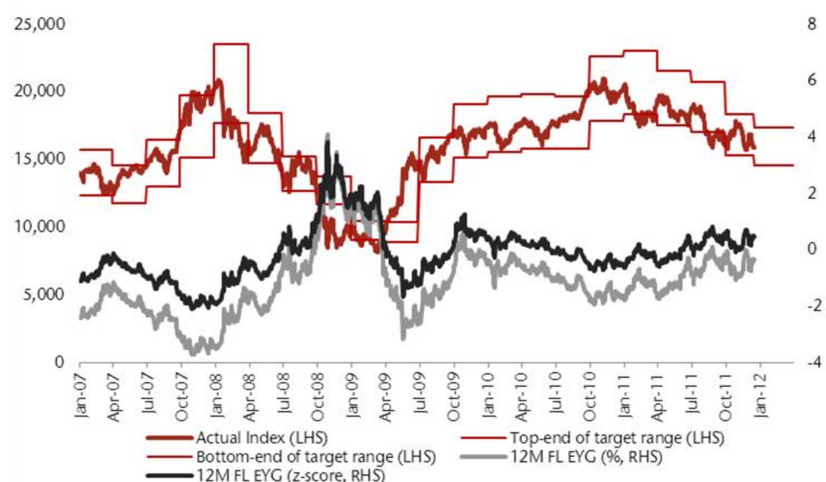


Source: Bloomberg, Jefferies

Our forward EYG model suggested a trading range between 14,586 and 17,321 for the Sensex index in 1Q12

On historical probability distribution measures, we believe there is a higher chance of the market trading closer to the lower end of the target range

Exhibit 74: Expected Trading Range - India



Source: Bloomberg, Jefferies

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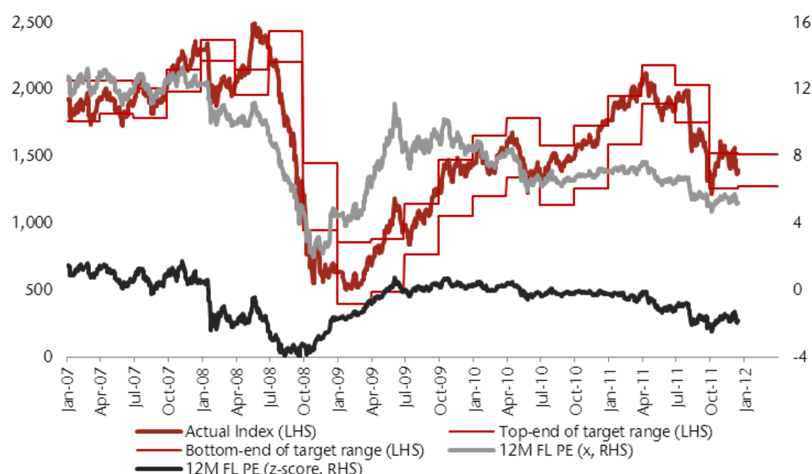
Our forward PE model suggested a trading range between 1,278 and 1,512 for the Russian RTS index in 1Q12

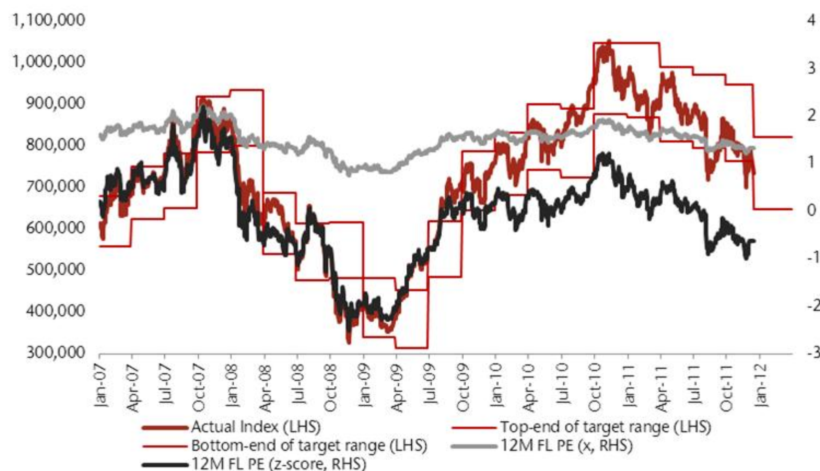
Exhibit 75: Expected Trading Range - Russia



Source: Bloomberg, Jefferies

Our forward PB model suggested a trading range between 647,683 and 821,294 for the Turkey ISE Istanbul index in 1Q12

Exhibit 76: Expected Trading Range - Turkey



Source: Bloomberg, Jefferies

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Market Positioning and Fund Flow Analysis

Low equity turnover in 2H11 betrayed investors as money flowed into US treasuries. Paradoxically, this sweeping sentiment change occurred as US economic data surprised on the upside but fears over the health of the euro-zone seems to have dominated investor behavior. Interestingly, the rally in German, UK and US government bonds came on the heels of much higher inflation data during 2011.

While markets might be anticipating more deflationary pressures in 2012, flows have been divided between money entering the commodity complex and cash moving into high yield debt. Intuitively, it seems that both can't be right. Higher commodity price expectations are either founded on inflation fears or better growth while inflows into high yield debt are founded on the belief that deflation is forthcoming.

Equities appear to be in no-man's land. On the one hand, the asset class is stuck between fears over lower global growth and deflationary forces but offering extreme value versus government bonds in many cases. On the other hand equities have become tightly correlated to the 'risk on, risk off' trade and investors have found it difficult to achieve diversification within the asset class. Moreover, there has been no sign of capitulation that would suggest that a market bottom has been made.

Investors remain underweight equities relatively speaking

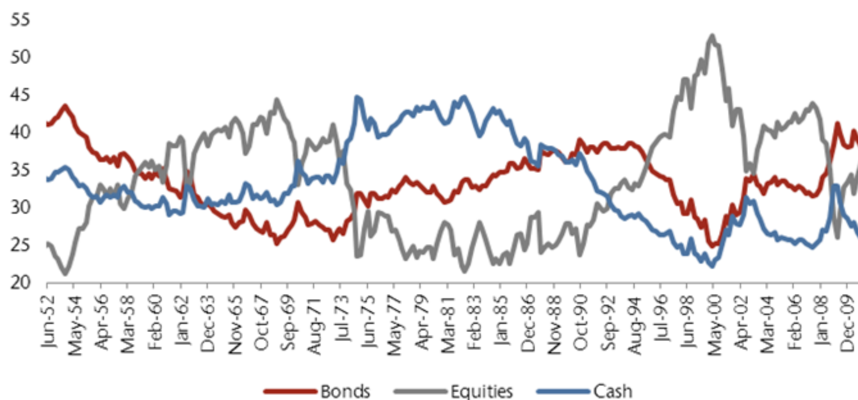
Exhibit 77: Asset Allocation in Global Balanced Portfolio (%)

	Equity	Bonds	Cash	Prop	Alt
Nov-10	53.2	34.2	4.6	1.9	6.2
Dec-10	54.1	33.9	3.9	1.9	6.2
Jan-11	54.2	33.7	4.1	1.9	6.0
Feb-11	53.6	34.2	4.6	1.8	5.8
Mar-11	52.6	34.0	4.7	2.0	6.7
Apr-11	51.3	34.6	5.1	2.0	6.9
May-11	50.7	35.5	5.2	1.9	6.7
Jun-11	51.5	35.1	4.9	2.0	6.5
Jul-11	52.1	35.3	4.5	1.7	6.5
Aug-11	49.2	36.1	5.8	1.8	7.0
Sep-11	50.5	34.6	6.3	1.9	6.8
Oct-11	49.5	35.9	5.9	1.6	7.0
Nov-11	50.6	35.3	6.4	1.5	6.2

Source: Reuters, Jefferies

Funds remain heavily invested

Exhibit 78: US Financial Asset Allocation (%)



Source: Datastream, Jefferies

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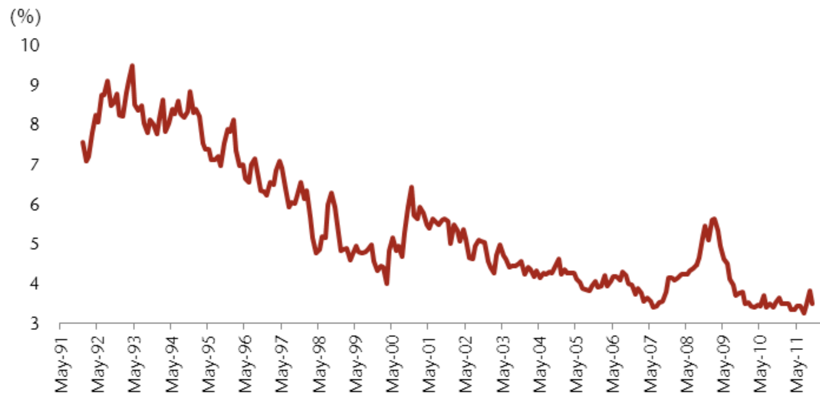
On all measures, fund managers appear...

Exhibit 79: US Equity Mutual Fund Cash Position (% of net asset)



Source: Datastream, Jefferies

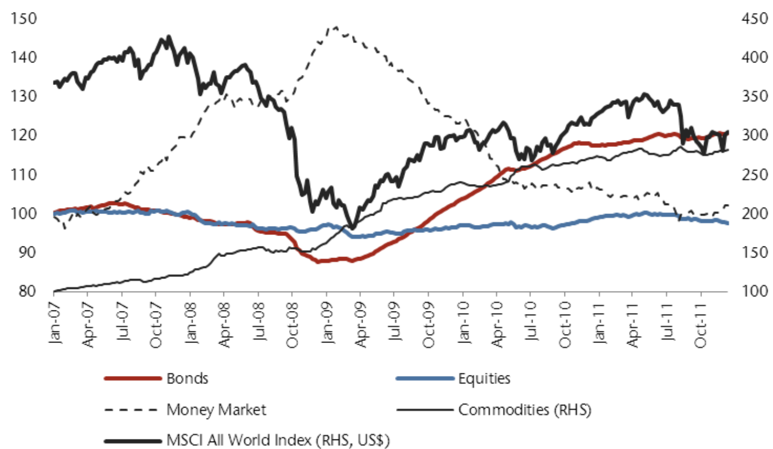
...fully invested

Exhibit 80: US Mutual Fund Cash Position

Source: Datastream, Jefferies

In 2011, money market funds were flat. But there were steady inflows into bonds and commodities

Exhibit 81: Cumulative Net Inflows Among Asset Classes



Source: Bloomberg, EPFR, Jefferies
Note: December 31, 2006 = 100

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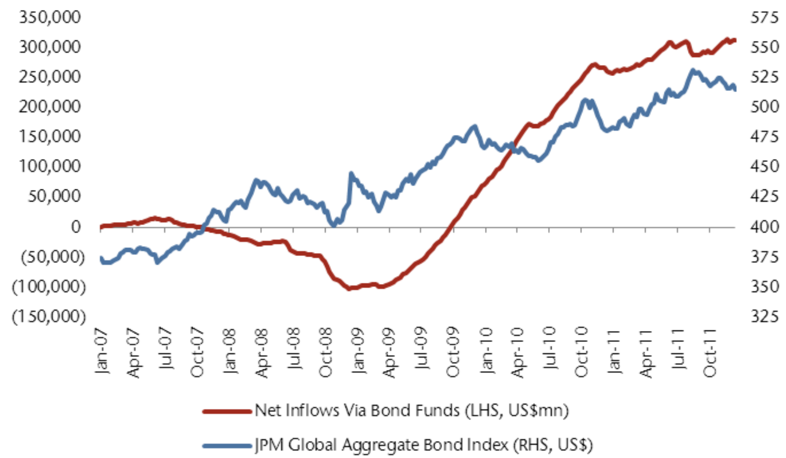
Steady inflows into the bond market for the past two-and-a-half years

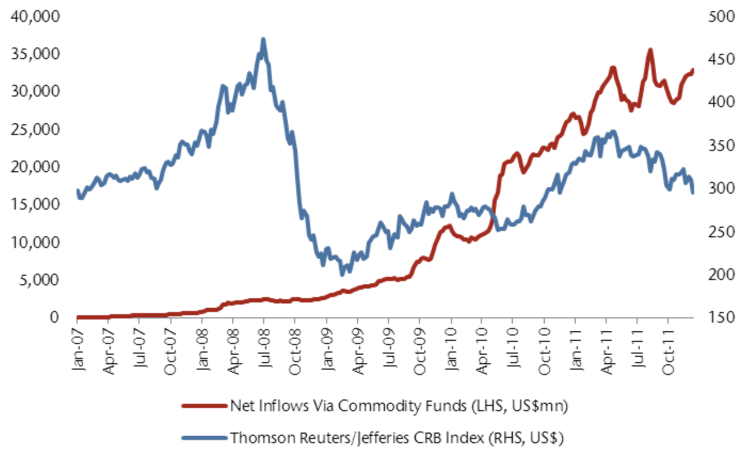
Exhibit 82: Cumulative Net Inflows vs. Performance Among Bonds



Source: Bloomberg, EPFR, Jefferies

Commodities have seen inflows for the past two years despite markets turning sluggish in 2011

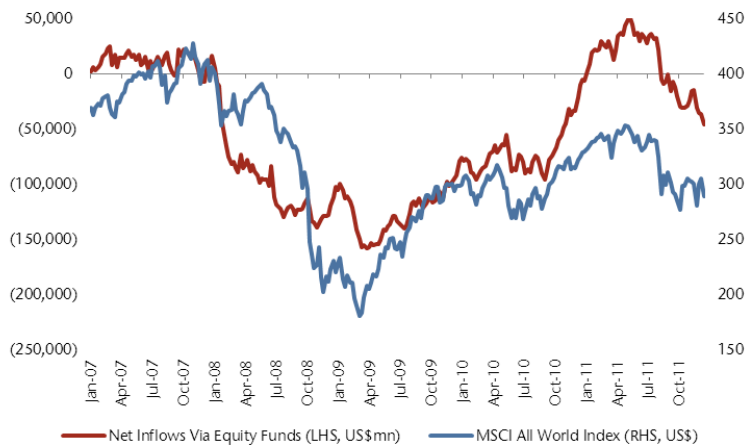
Exhibit 83: Cumulative Net Inflows vs. Performance Among Commodities



Source: Bloomberg, EPFR, Jefferies

Volatile equity markets were accompanied by even more volatile flow of funds throughout 2011

Exhibit 84: Cumulative Net Inflows vs. Performance Among Equities



Source: Bloomberg, EPFR, Jefferies

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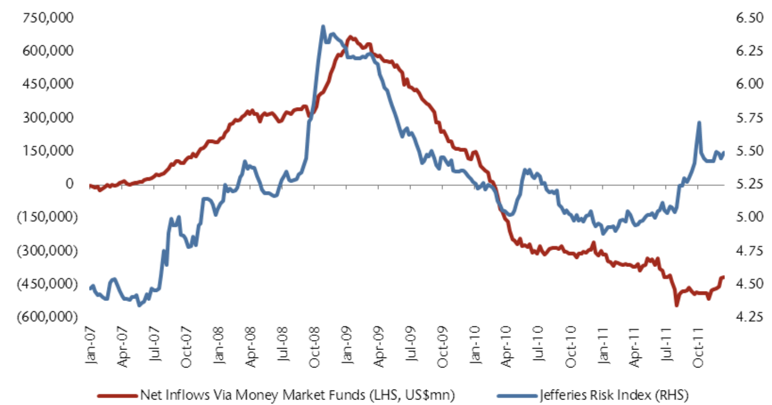
Money market unwinding took a breather recently while the risk index picked up

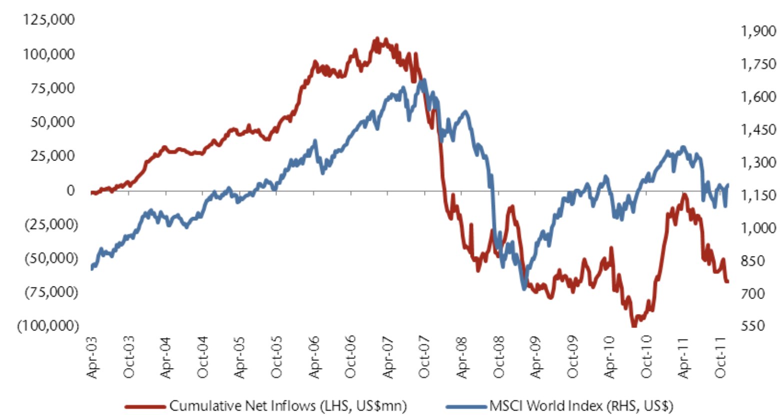
Exhibit 85: Cumulative Net Inflows vs. Performance Among Money Markets



Source: Bloomberg, EPFR, Jefferies

Sharp outflows seen during the second half this year along with sluggish markets

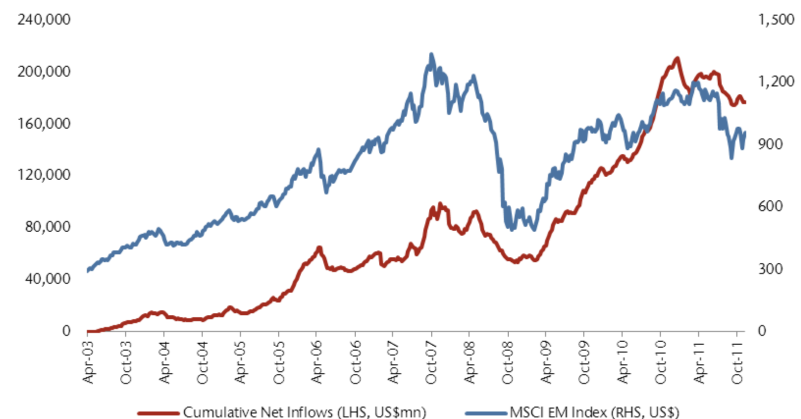
Exhibit 86: Cumulative Net Inflows Among DM Funds



Source: Bloomberg, EPFR, Jefferies

Compared to developed markets, emerging markets seemed to experience smaller outflows despite markets being equally weak

Exhibit 87: Cumulative Net Inflows Among EM Funds



Source: Bloomberg, EPFR, Jefferies

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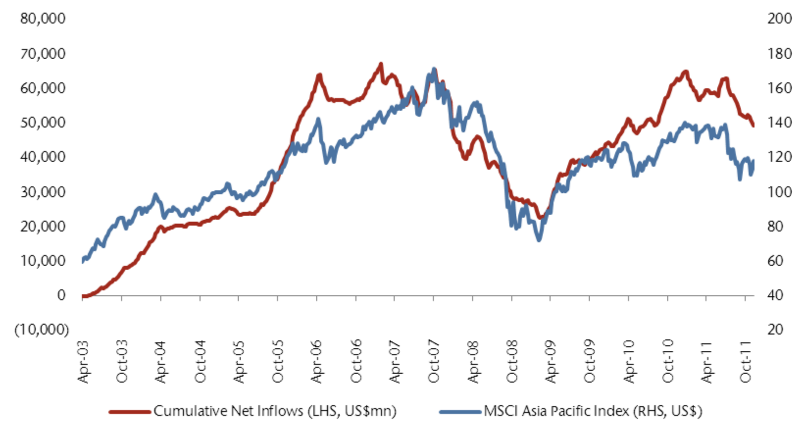
By region, Asia Pacific has very much followed the overall pattern globally with sizable outflows and falling markets

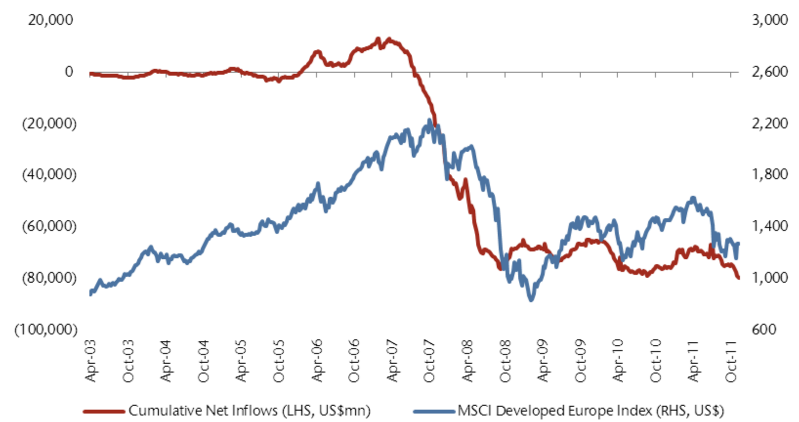
Exhibit 88: Cumulative Net Inflows Among Asia Pacific Funds



Source: Bloomberg, EPFR, Jefferies

Developed Europe is no exception...

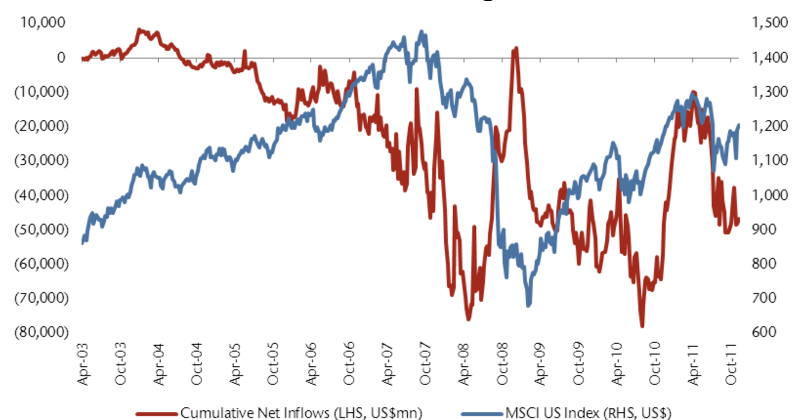
Exhibit 89: Cumulative Net Inflows Among Developed Europe Funds



Source: Bloomberg, EPFR, Jefferies

...and the same is true for US

Exhibit 90: Cumulative Net Inflows Among US Funds



Source: Bloomberg, EPFR, Jefferies

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FX Market Outlook 2012

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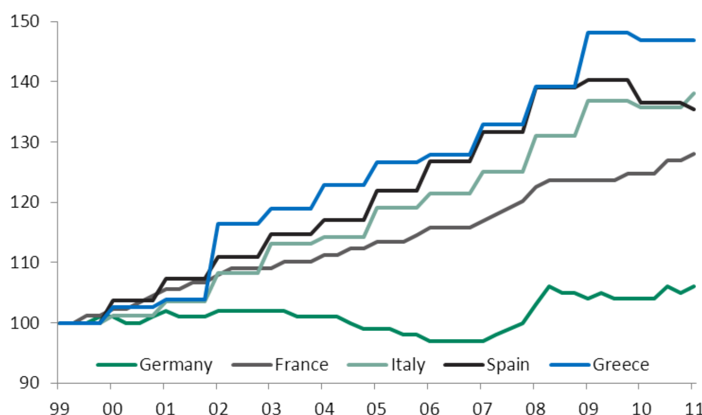
Key Themes:

1. Focus will remain on Eurozone (sell EURGBP).
2. Monetary policy to be eased across the globe (sell USDMXN, sell 1y USDCHF NDF, sell EURNOK).
3. US fiscal policy on hold into the US Presidential election (sell EURUSD).
4. SNB will get what it wants (buy EURCHF).

Focus will remain on the Eurozone

The Eurozone crisis has come in and out of the markets' attention over the past two years and was the cause of a serious risk sell-off in May 2010 when the Greek problems first hit the market. Various bailouts (Greece, Ireland Portugal, Greece II) and numerous 'grand plans' have come and gone with the Eurozone governments and the ECB being unable to get to the heart of the problem. The impact of the profligate governments over the past 10 years has led to the peripheral countries becoming hopelessly uncompetitive. The chart below shows that Unit Labor Costs have risen by 30-40% against Germany in Italy, Greece and Spain and by 20% even in 'core' countries like France.

Exhibit 91: OECD Unit Labor Costs



Source: OECD, Jefferies

These problems will not be solved by, for example, lower public sector employment levels. To restore competitiveness these countries have to become Uber-Germans with major structural reforms. This would be quite an achievement in good times but with the Eurozone in recession, structural reforms (even if they are introduced) will be met with stiff resistance. The first key theme is to sell the EUR. These countries can at least regain some competitiveness with the rest of the world. This year has been the battle of the weak currencies so it is always hard to actually find a currency to buy! However, the UK is set to benefit from distancing itself from the Eurozone debacle. Despite QE and a weak economy in the UK, the first trade theme is to sell EURGBP.

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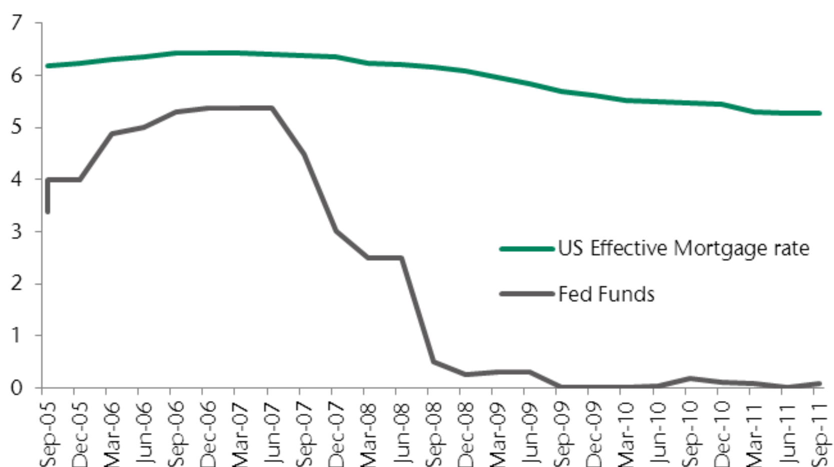
Monetary policy to be eased across the globe

A key driver next year is that the Eurozone will be in recession. The OECD, however, forecasts that growth will resume in the second quarter after Eurozone GDP has fallen by 1.4% in Q411 and Q112. However, this scenario seems unlikely, and our view is that the Eurozone will likely keep deteriorating. Fiscal tightening will hit the region at the same time that Eurozone banks continue to reduce their balance sheets. The ECB's hands will be tied by the Germans, preventing it from launching QE to offset these pressures. The risks are that the Eurozone economy will be impacted throughout 2012. Neighbouring countries, most notably Switzerland and the UK, will be hit by the region's negative growth, with the strength of the CHF in the former and the tightening fiscal policy in the latter also acting to depress growth.

The key question is whether the global economy can stand the impact of the Eurozone recession without also being dragged down. Of course, in the event of a complete collapse in the Eurozone economy and defaults spreading further than Greece, the rest of the world will get dragged into recession. However, there is a large countervailing force that can offset the Eurozone crisis. That is an across-the-globe easing of monetary policy. The UK, Japan and, even that previous bastion of financial rectitude, Switzerland, are indulging in QE. The US is waiting in the wings with a plan to cut the average mortgage rate. As the chart below shows, the US mortgage holder has not benefitted from the sharp fall in Fed Funds. The US Fed sees narrowing this differential as a more effective way of stimulating the US economy rather than by buying more US Treasury bonds. This will lead to direct benefits for a large proportion of the population (whereas the benefits of QE2 were lost when higher equity prices were offset by higher petrol prices). Therefore any signs of weakness in US growth will be met by QE3 and this time the Fed will be buying Mortgage-Backed Securities (MBS).

Exhibit 92: US Mortgage to O/N Rates



Source: Bloomberg

Rates are also coming down in Australia, Norway and across the EM world, with aggressive cuts in Brazil and the first easing move in China in December since 2009 (a cut in the bank reserve requirements). There are concerns about growth in non-Japan Asia but look for the pace of easing to pick up in China now that the housing market has finally come off the boil and stocks have already been impacted by the tight conditions. There will be a drop in the RRR back to 2008-2009 levels adding substantial stimulus into the Chinese economy.

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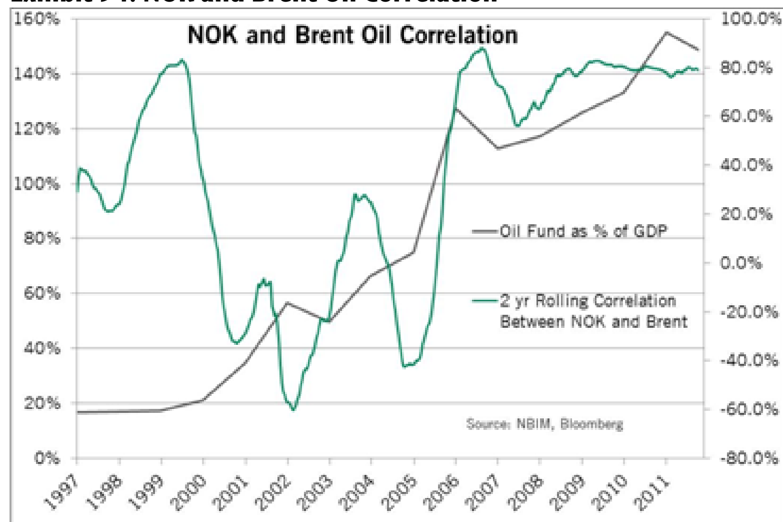
Exhibit 93: Chinese RRR and Equities

Source: Bloomberg

We look for real assets to perform next year and for EM to recover lost ground. The obvious beneficiary of the stronger US performance is the MXN so we look to sell USDMXN. The timing of the trade is difficult as the Eurozone remains in a state of crisis but on a longer-term view there is value to be had buying MXN near 14.00 to the USD. To take advantage of the move to stimulate the Chinese economy we would recommend selling USDCNY in the 1 year NDF. This is currently paying a positive carry of 1%, i.e. looking for CNY depreciation, which will not happen in the scenario described above.

Looser monetary policy will keep commodity prices high, including oil. The other attractive position is to be short EURNOK. The Norwegian Oil Fund was initially very successful in keeping the NOK uncorrelated from the oil price but as the fund has grown (now above 150% of mainland GDP) the correlation between oil and the NOK has risen back to around 80%. Norges Banks governor Olsen has threatened to take action if the NOK becomes too strong, stating that the NOK market is too small to be a safe haven, and indeed he cut rates by a larger-than-expected 50bp in December. However, if the oil price stays strong, and the Eurozone is weak, NOK appreciation pressures will lead to a lower EURNOK over the year. So the fourth trade theme is to sell EURNOK.

Exhibit 94: NOK and Brent Oil Correlation



Source: NBIM, Bloomberg

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US fiscal policy is on hold into the US Presidential election

Loose fiscal policy is typically positive for a currency and the US continues to run loose policy. Of course at some 'tipping point', a loss of confidence offsets the economic benefits, as Greece has discovered (though they were also hamstrung by not having a lender of last resort). Following the scare over raising the US debt limit and the ratings downgrade in the summer, the US has still proved to be an attractive 'safe haven' during the recent bout of risk aversion. The balancing act that they have successfully played has been the ability to keep fiscal policy loose. We expect to see the extension in payroll tax cuts and unemployment benefits agreed in the next month or so, whilst convincing the market that fiscal policy will be tightened following the US Presidential elections at the end of the year. There are automatic spending cuts that will be imposed in January 2013, though these will not be large enough to make a serious dent in the deficit unless growth seriously picks up. This throws up the fifth trade theme: sell EURUSD.

SNB will get what it wants

The final theme is that the SNB will be successful in getting what it wants in terms of a weaker CHF. The SNB has imposed a floor under the EURCHF at 1.20 but would like to see the CHF weaker. At the SNB's quarterly meeting in December the SNB said the "franc should continue to weaken over time" whilst SNB President Hildebrand said the "SNB was ready to take further measures any time". Inflation has fallen sharply in Switzerland and consumer prices have fallen 0.5% in the year to November. The SNB left their forecast for 2012 inflation at -0.3% despite much lower numbers during the past two months. The SNB is forecasting that this dip in prices will prove temporary, but we believe they have underestimated the severity of the deflation that is setting in. There was much talk about a hike in the EURCHF floor at the December meeting and their current CPI forecast gives them a reason to stay on hold, as well as fears of deterioration in the Eurozone crisis, which would drive inflows into the CHF. The final important point is that the CHF remains hugely overvalued on any metric. However, the driver for the raising of the floor will be deflation and with the SNB underwriting the trade at 1.20, the risk return is excellent for the sixth trade theme long EURCHF over the year.

Exhibit 95: Safe Haven Currency

Source: Bloomberg

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US Economic Outlook 2012

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Summary

The US economy will enter the eleventh consecutive quarter of growth at the outset of 2012.

Jefferies expects GDP growth in 2012 to accelerate from 2011, with GDP growth averaging 2.5% per quarter.

Economic growth in 2012 will continue to depend upon a combination of moderate consumer spending and investment spending --primarily equipment and software-- as the primary sources of growth.

Inventory accumulation and net exports will continue to be swing factors that temporarily cause diversions from trend.

The economy will continue to grow despite the ongoing slump in the housing sector and lingering mortgage imbalances. The lack of contribution to growth from housing makes this cycle highly unusual.

Headline inflation will continue to ease due to weakness in commodity markets, while core inflation measures will continue to edge higher due to rising rents and the OER.

Monetary policy will remain very accommodative, as the Fed will complete the maturity extension program (Twist) and probably implement a QE3 that features MBS purchases. The composition of the FOMC will be more favorably inclined toward an accommodative posture due to the rotation of voting regional bank presidents, but there could be discord over communication policy.

Inept political leadership in addressing US fiscal policy will continue to be one of the primary downside risks to the economy. The risk is all the greater in this election year.

Other primary risks, in addition to domestic fiscal policy mistakes, include European contagion, the possibility that the large foreign holders of US debt will become disenchanted with profligate US fiscal policy, the imbalance between the service providing and goods producing sectors of the economy and the inhospitable environment for small business caused by government regulation and taxation.

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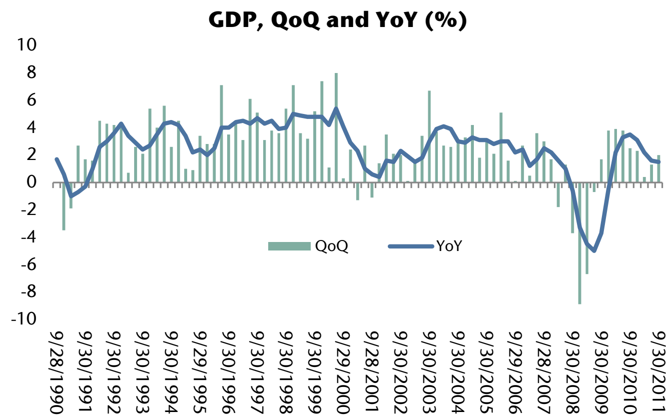
Expansion Edges Along, Chipping Away at Output Gap

The US economy will enter the 11th consecutive quarter of growth at the outset of 2012. Jefferies projects that the US economy will grow at a trend growth rate of 2.5% in 2012 in the absence of policy mistakes in Washington.

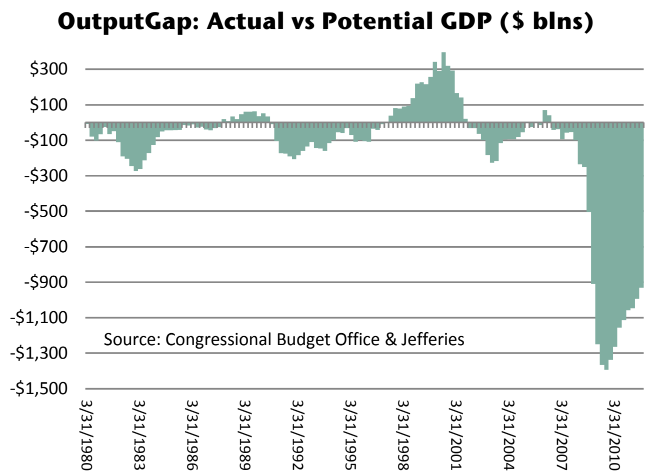
Exhibit 96: GDP Trend (%)



Source: Commerce Department

With growth that has averaged about 2.5% per quarter since the end of the recession in mid-2009, the economy has been chipping away at the massive output gap generated in the prior recession. At the current trend growth rate, it will take another two to three years for the economy to approach potential.

Exhibit 97: Output Gap vs. Potential GDP



Source: Congressional Budget Office, Jefferies

The consumer sector has contributed an average of 1.5 percentage points per quarter to growth since the end of the recession in mid-2009. Investment spending has contributed an average of 0.7 percentage points to growth, but has been stronger in recent quarters. Inventories and net exports will continue to be swing factors that that cause temporary diversions from trend growth.

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Exhibit 98: Recovery & Expansion Contributions to GDP Growth

Anatomy of the Recovery & Expansion
Contributions to GDP Growth by Sector

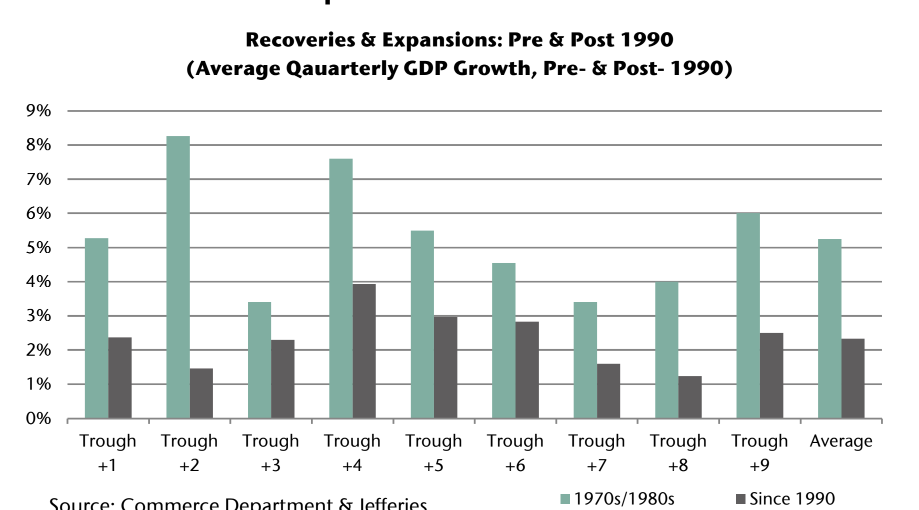
	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Average
Real GDP	1.70%	3.80%	3.90%	3.80%	2.50%	2.30%	0.40%	1.30%	2.00%	2.41%
PCE	1.66%	0.33%	1.92%	2.05%	1.85%	2.48%	1.47%	0.49%	1.63%	1.54%
Durable goods	1.39%	-0.36%	0.70%	0.56%	0.63%	1.20%	0.85%	-0.42%	0.41%	0.55%
Nondurable goods	0.31%	0.48%	0.75%	0.30%	0.47%	0.67%	0.25%	0.04%	-0.11%	0.35%
Services	-0.04%	0.21%	0.47%	1.18%	0.75%	0.61%	0.36%	0.87%	1.33%	0.64%
Fixed Investment	0.13%	-0.42%	0.15%	2.12%	0.28%	0.88%	0.15%	1.07%	1.45%	0.65%
Nonresidential	-0.29%	-0.33%	0.56%	1.62%	1.04%	0.82%	0.20%	0.98%	1.41%	0.67%
Structures	-0.71%	-1.07%	-0.76%	0.18%	0.10%	0.26%	-0.40%	0.54%	0.33%	-0.17%
Equip & Soft	0.42%	0.74%	1.32%	1.45%	0.94%	0.56%	0.60%	0.44%	1.08%	0.84%
Residential	0.42%	-0.10%	-0.41%	0.50%	-0.76%	0.06%	-0.06%	0.09%	0.04%	-0.02%
Chg Inventories	0.21%	3.93%	3.10%	0.79%	0.86%	-1.79%	0.32%	-0.28%	-1.55%	0.62%
Net Exports	-0.59%	0.15%	-0.97%	-1.94%	-0.68%	1.37%	-0.34%	0.24%	0.49%	-0.25%
+Exports	1.49%	2.51%	0.86%	1.19%	1.21%	0.98%	1.01%	0.48%	0.59%	1.15%
-Imports	-2.08%	-2.36%	-1.83%	-3.13%	-1.89%	0.39%	-1.35%	-0.24%	-0.09%	-1.40%
Government	0.28%	-0.18%	-0.26%	0.77%	0.20%	-0.58%	-1.23%	-0.18%	-0.02%	-0.13%
Federal	0.48%	0.18%	0.23%	0.71%	0.26%	-0.26%	-0.82%	0.16%	0.15%	0.12%
State and local	-0.19%	-0.37%	-0.49%	0.05%	-0.06%	-0.33%	-0.41%	-0.34%	-0.17%	-0.26%

Source: Commerce Dept

Source: Commerce Department

Faster growth will eventually emerge when the labor market strengthens and the housing market begins to recover. However, the moderate pace of the growth in the current cycle is typical of growth over the past twenty years and does not measure up to prior cycles.

Exhibit 99: Recoveries & Expansions: Pre & Post 1990



Source: Commerce Department, Jefferies

Labor Market Conditions Remain Tepid

The unemployment rate has been dribbling lower erratically, but remains high by historical standards. The sticky nature of the unemployment rate has been a source of frustration. FOMC policymakers characterize the unemployment rate as remaining "elevated" and expect it to "decline only gradually toward levels that the Committee judges to be consistent with its dual mandate."

A combination of demographics and extended jobless benefits may help to explain the unusual behavior of the unemployment rate and the apparent breakdown in the relationship between jobless claims and the unemployment rate. Jobless claims point to a continued decline in the unemployment rate going forward.

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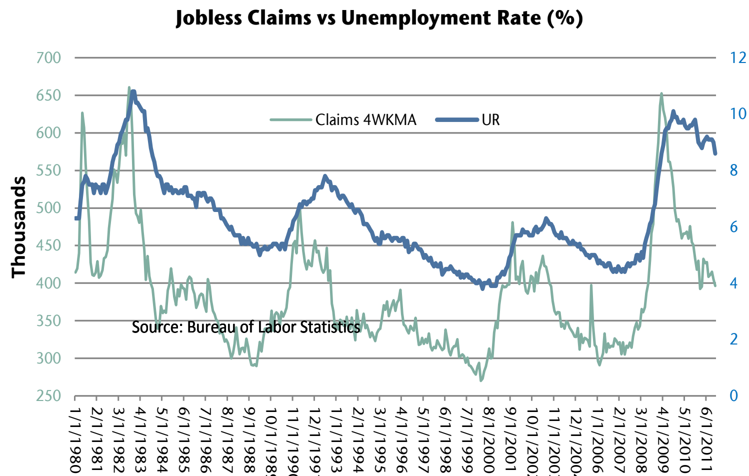
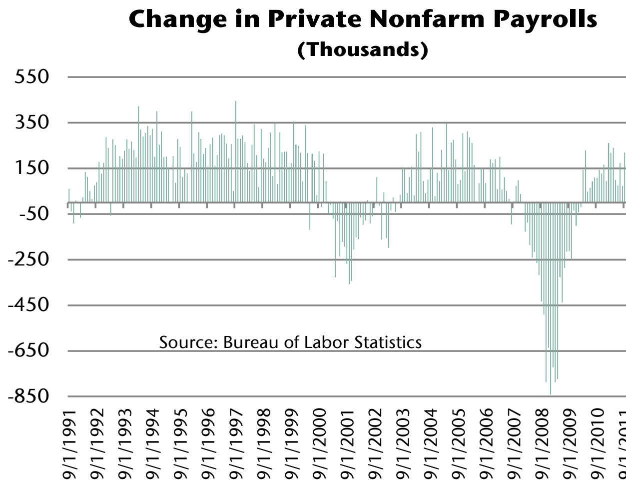
Exhibit 100: Jobless Claims vs. Unemployment Rate



Source: Bureau of Labor Statistics

Private nonfarm payrolls have risen every month since March 2010, with average increases of 140,000 per month. Payrolls rose at an average of 156k per month in 2011 through November, but have been very erratic. Based on the ADP data, small and medium-sized businesses continue to be the primary sources of job growth despite government regulation and taxation that business owners characterize as being hostile.

Exhibit 101: Private Nonfarm Payrolls ('000)



Source: Bureau of Labor Statistics

The two employment surveys conducted by the BLS have not provided consistent information about the condition of the labor markets, but have begun to converge. Increases in household employment have lagged nonfarm payroll gains, but have been catching up in recent months.

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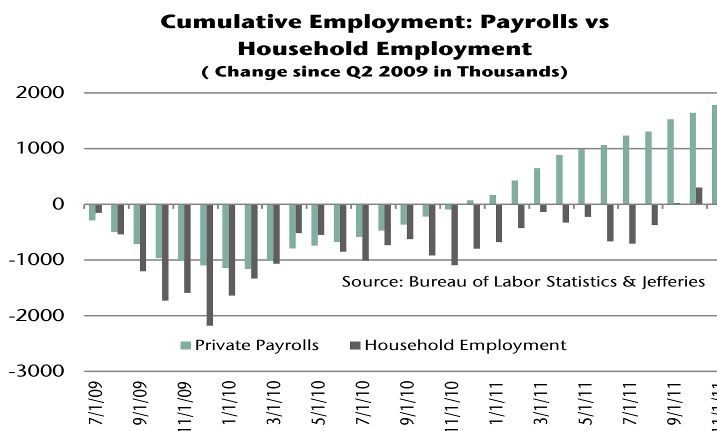
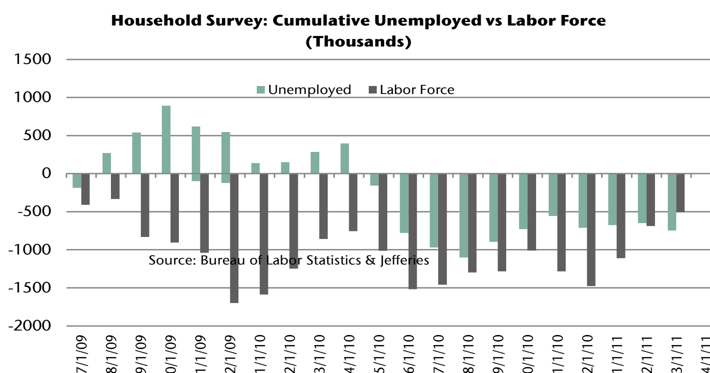
Exhibit 102: Cumulative Employment vs. Household Employment



Source: Bureau of Labor Statistics, Jefferies

The erratic behavior of the size of the labor force and household employment is difficult to explain, but may reflect the effects of unusual demographics and the unprecedented extended benefit programs on the behavior of labor market participants.

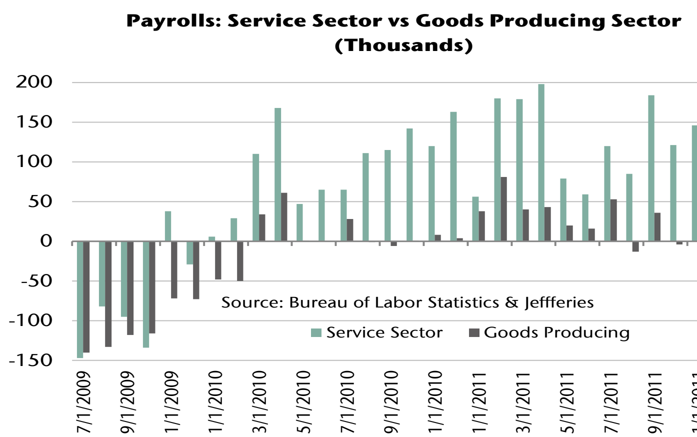
Exhibit 103: Household Survey



Source: Bureau of Labor Statistics, Jefferies

Since the US is a service-dominated economy, private nonfarm payroll increases continue to be dominated by the service sector of the economy. Increases in the goods producing sector have been dominated by the manufacturing sector in part because the construction industry remains mired in a recession.

Exhibit 104: Payrolls: Service Sector vs. Goods Producing Sector ('000)



Source: Bureau of Labor Statistics, Jefferies

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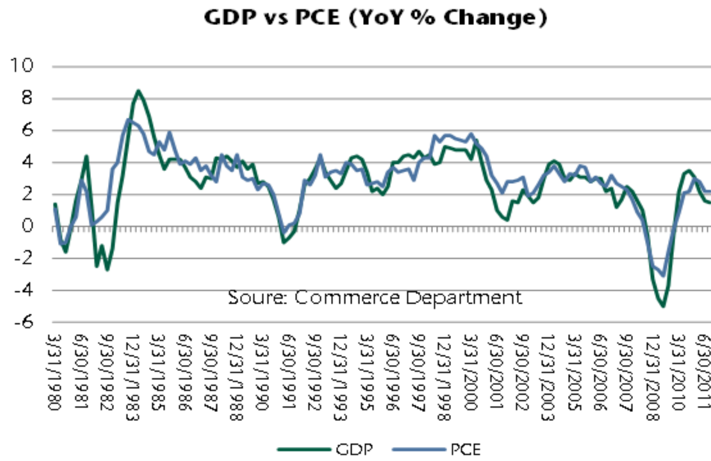
Cautious Consumer Sets Moderate Pace

The consumer sector continues to be the primary driving force behind GDP growth this cycle, but also the primary reason that GDP growth remains moderate. Moderate consumer spending has limited the upside growth potential for GDP, and is a major reason for the tepid growth rate this cycle.

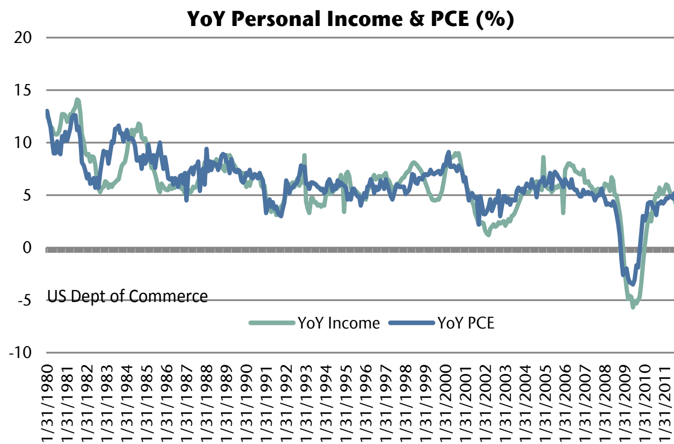
Exhibit 105: GDP vs. PCE (%, y-y)



Source: Commerce Department

Both moderate income growth and ongoing balance sheet adjustments have limited consumer spending potential during this cycle. Income growth remains constrained by a combination of tepid employment growth and subdued earnings growth. Because consumers have been deleveraging, spending is also constrained by income.

Exhibit 106: Personal Income (y-y) & PCE (%)



Source: Commerce Department

Consumers continue to attempt to restructure balance sheets and deleverage, but have also dipped into savings to support spending in recent months.

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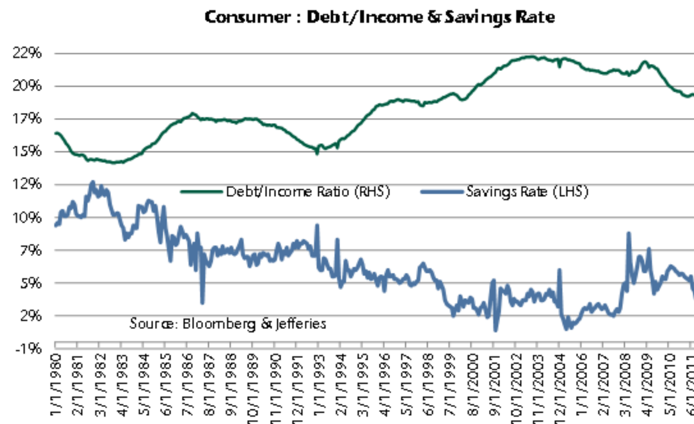
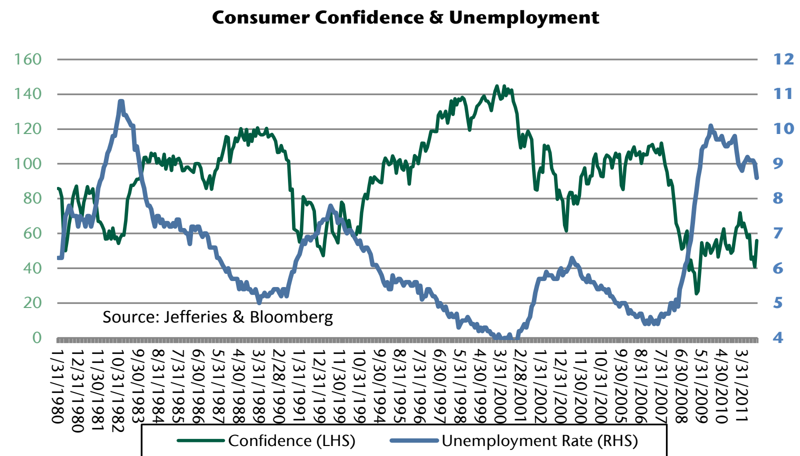
Exhibit 107: Consumer Debt/Income & Saving Rate (%)



Source: Bloomberg, Jefferies

Confidence is fleeting, but should improve as the labor market continues to improve.

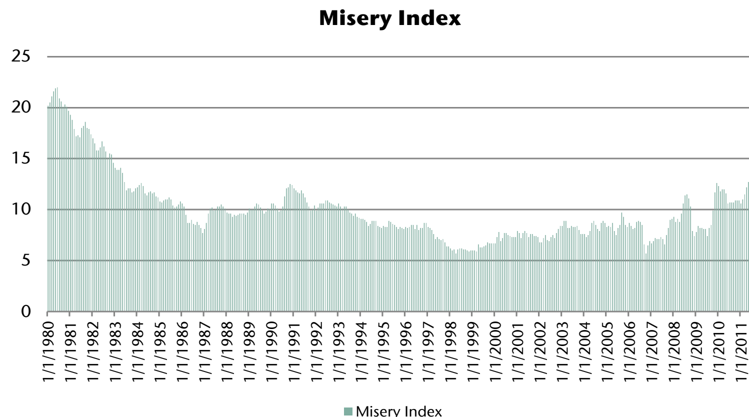
Exhibit 108: Consumer Confidence & Unemployment



Source: Bloomberg, Jefferies

The relatively high misery index may help to explain the sour consumer temperament and could have an effect on the November 2012 elections. Recent readings have been the highest since 1992 when the economy was the primary campaign issue.

Exhibit 109: Misery Index



Source: Bloomberg

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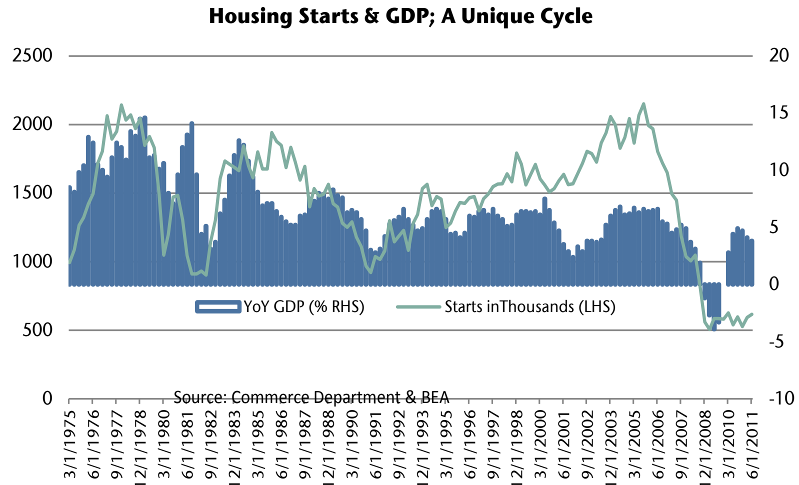
Housing… Best News Is Worst News Is Over… Unique Cycle

One very unusual feature of this business cycle has been the role of housing. This is the first recovery and expansion in at least several decades that has not been led by some type of housing boom.

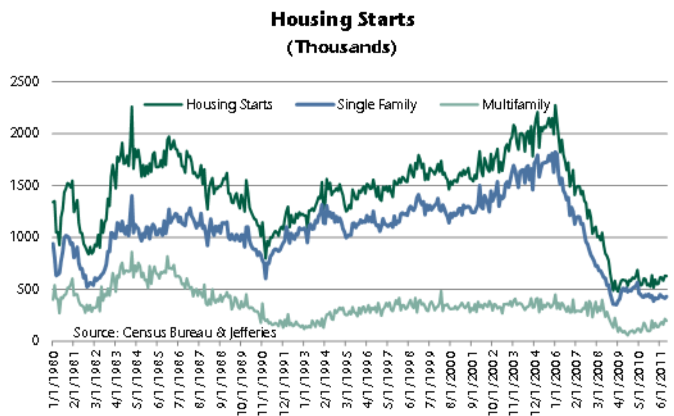
Exhibit 110: Housing Starts & GDP



Source: Commerce Department, BEA

There is little sign of a life in housing construction, although multi-family starts have begun to creep higher due to rising rents. A broad-based recovery in housing still appears to be years away.

Exhibit 111: Housing Starts ('000)



Source: Census Bureau, Jefferies

Like housing starts, new home sales have flat-lined. New home inventory has been edging lower, but remains above levels that will trigger a rise in housing starts and home construction.

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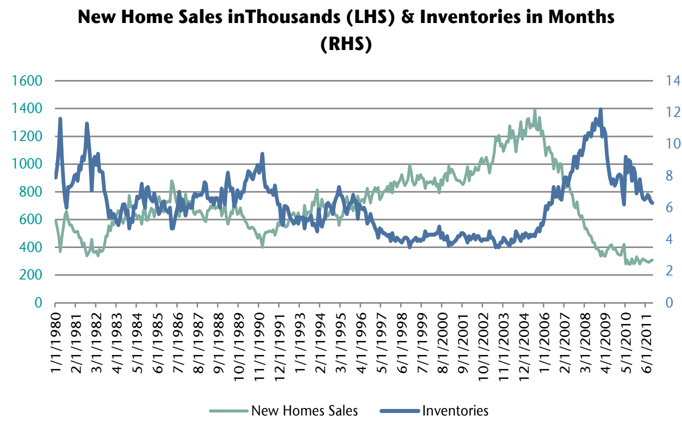
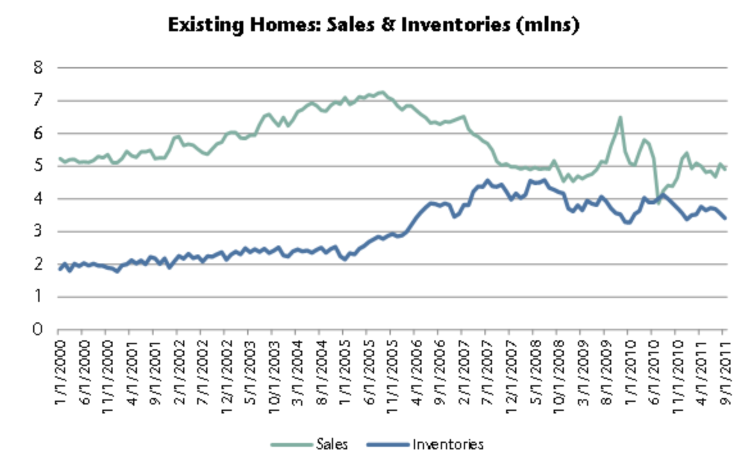
Exhibit 112: New Home Sales & Inventories



Source: Census Bureau, Jefferies

Existing home sales remain elevated in large part due to a stream of distressed properties coming onto the market. Distressed property sales account for roughly 30% of existing home sales on a monthly basis. Existing home inventories are also high, and the imbalance will take more time to work down.

Exhibit 113: Existing Home Sales & Inventories

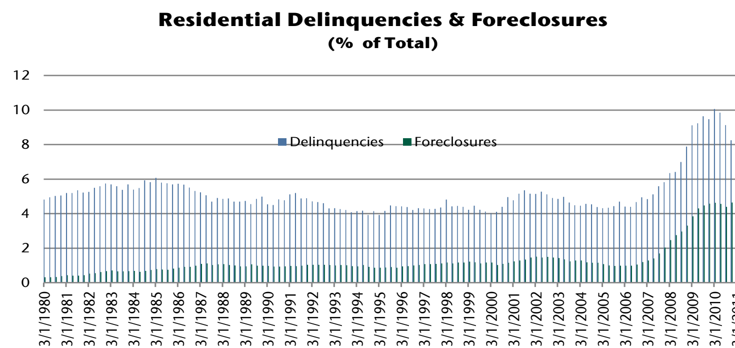


Source: Census Bureau, Jefferies

Mortgage Imbalances Beget Bifurcated Home Sales Market

Many consumers are still struggling to meet mortgage obligations. Both delinquencies and foreclosure rates have eased, but also remain high by historical standards.

Exhibit 114: Residential Delinquencies & Foreclosures



Source: Mortgage Banks Association

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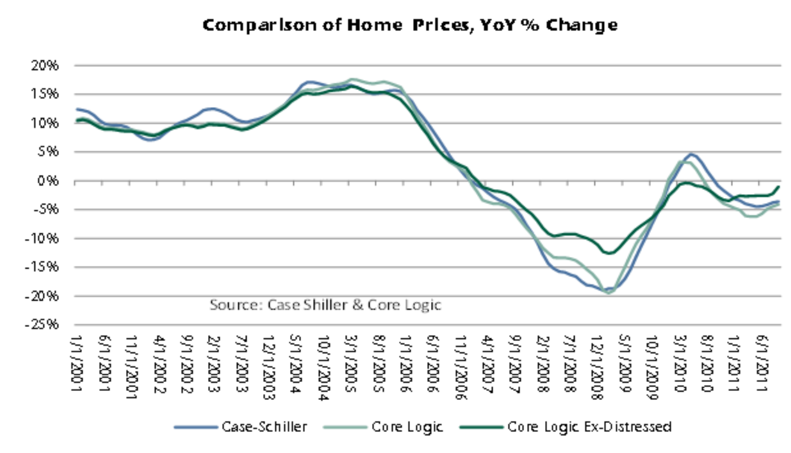
The high foreclosure rate also translates into a stream of distressed properties onto the housing market that has continued to keep home prices under downward pressure. The housing market has become bifurcated, with prices of distressed properties being under more pressure than non-distressed property sales. The flow of distressed properties that are associated with foreclosures continues to put downward pressure on prices of distressed properties, while non-distressed sale prices have performed better.

Exhibit 115: Comparison of Home Prices (%, y-y)

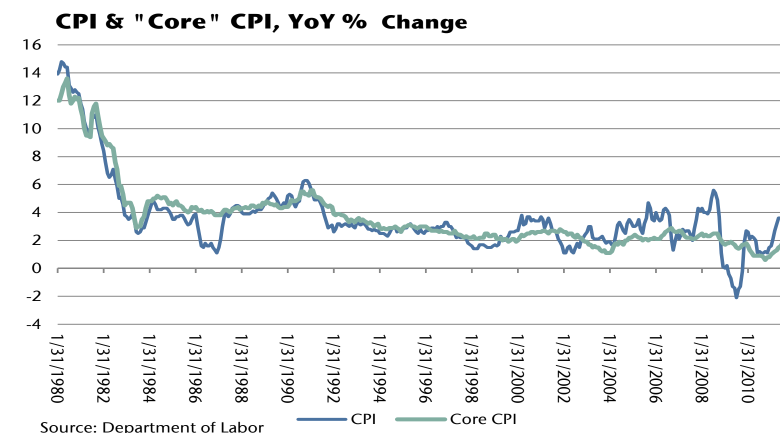


Source: Case Shiller, Core Logic

Headline & Core Inflation To Converge…Role Of Commodities & Housing

Headline inflation accelerated early in 2011 because of the surge in the commodity prices, while core inflation has also been on the rise primarily due to the housing components of the CPI. Headline and core inflation are in the early stages of converging, with headline CPI decelerating and core CPI continuing to rise.

Exhibit 116: CPI & Core CPI



Source: Department of Labor

Headline inflation is still being driven by commodity components of the CPI and, therefore, is decelerating. Commodity components account for 40% of the CPI. Core inflation is being driven by rising service components of the CPI, and drifting higher. These include housing components of the CPI, such as rents and the Owners' Equivalent Rent (OER).

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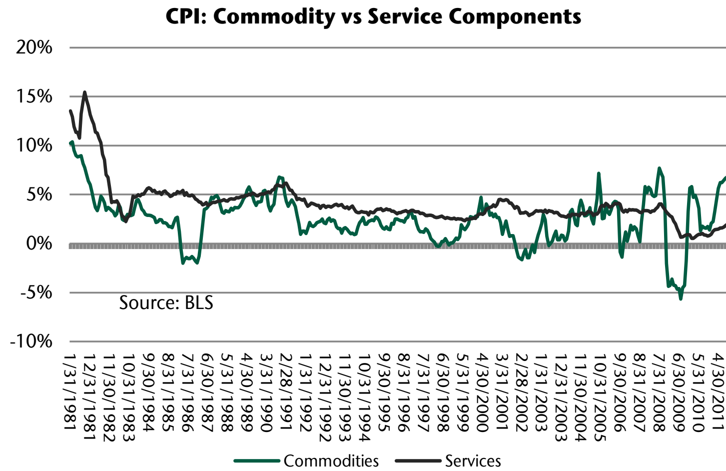
Exhibit 117: CPI: Commodity vs. Service Components

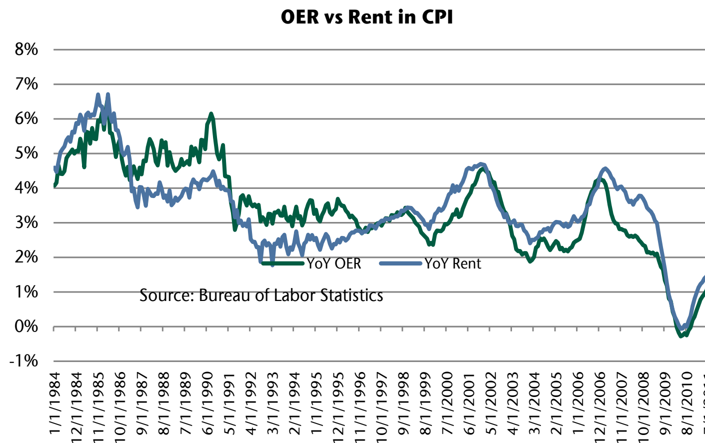


Source: BLS

Rents and the OER have been rising because more households are turning to the rental market for their primary residence. The combination of high unemployment, concerns about the stability of housing prices and tighter consumer lending standards have been weighing on the housing market and boosting rental activity. The OER has been rising because rents are rising. So, there is the anomalous situation of a weak housing market causing core inflation to rise.

We do not view rising core inflation due to a weak housing market as being symptomatic of a significant inflation threat. At some point, Fed officials may need to address this development as they addressed the acceleration of headline inflation earlier in 2011.

Exhibit 118: OER vs. Rent in CPI



Source: Bureau of Labor Statistics

The struggling labor market and weak earnings growth will keep inflation subdued. Soft labor market conditions and the sticky unemployment rate are causing wage and earnings growth to continue to decelerate and be very subdued. Based on historical relationships, the unemployment rate will need to decline below 6% before AHE will increase significantly.

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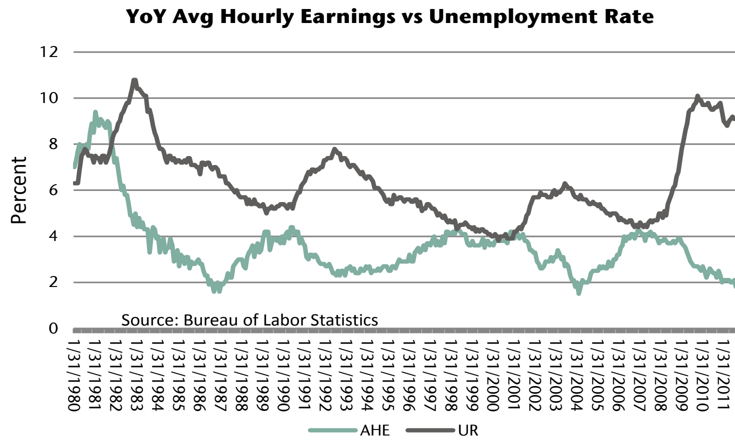
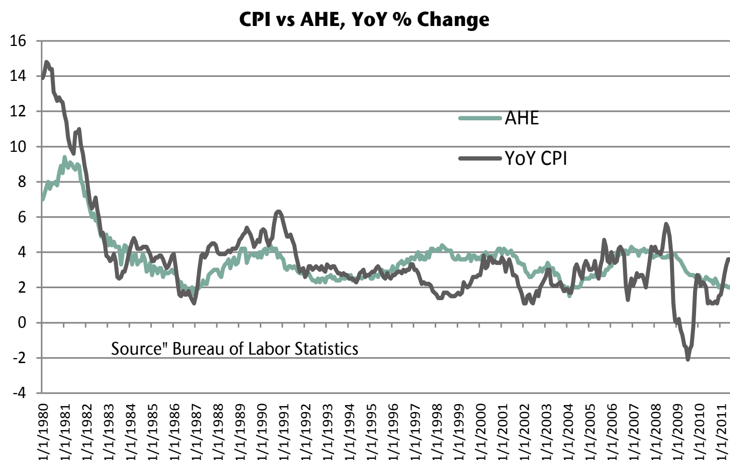
Exhibit 119: YoY Average Hourly Earnings vs. Unemployment Rate



Source: Bureau of Labor Statistics

Historically, inflation has tended to be constrained by the rate of increase in average hourly earnings. When wages and income are rising gradually and at a slower rate than inflation, consumers are forced to reduce discretionary spending to make ends meet. Inflation has been faster than wage and salary increases, so consumers are price sensitive.

Exhibit 120: CPI vs. AHE (%, y-y)



Source: Bureau of Labor Statistics

FOMC Rotation…Fine Tuning Communication & Fewer Dissents

2011 was a contentious year for monetary policy, as all four voting regional reserve bank presidents dissented during the year. With the 2012 rotation of regional reserve bank presidents, three very hawkish members and one very dovish member will be replaced with one very hawkish member, one very dovish member and two with more moderate inclinations.

With the change in the composition of voting members in 2012, the FOMC is likely to generate less dissent against an accommodative policy. However, the Fed effort to improve communication on interest rate guidance and balance sheet guidance could be a significant source of disagreement and dissent in 2012.

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Exhibit 121: Change in the Composition of the FOMC Voting Members

Extreme Doves		Neutral	Extreme Hawks
Bernanke*+			
Evans*			
Yellen*+			Lacker+
Dudley*+			Fisher
Rosengren*	Lockhart+		Kocherlakota
Williams+	Pianalto+	Bullard*	Plosser

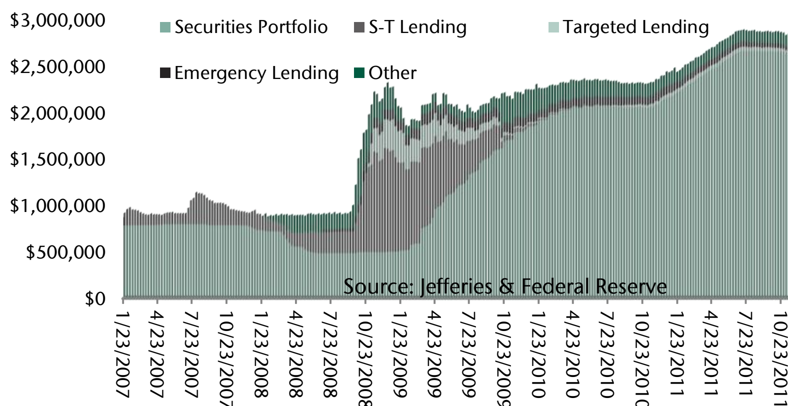
+Voting Member in 2012
*Voting Member in 2013

Source: Jefferies

Source: Jefferies

The size and composition of the Fed's balance sheet will continue to be powerful policy tools. Currently, the size of the Fed's balance sheet asset holdings is a multiple of the pre-crisis size. Initially, the balance sheet expanded due to a variety of lending facilities that were intended to prevent the US financial system from imploding. Since that time, increases in the size of the Fed's balance sheet have been due to securities purchases in QE1 and QE2.

Exhibit 122: Federal Reserve Balance Sheet



Source: Federal Reserve, Jefferies

We expect the FOMC to continue to utilize asset purchases and an expanded balance sheet in 2012. Unless the economic expansion generates significant momentum, we think it is probable that the FOMC executes a QE3 in 2012 that features MBS purchases.

The ongoing Twist operation does not change the size of asset holdings, but will significantly change the composition of the Fed's Treasury securities holdings. The Twist operation will absorb most of the Treasury issuance of longer-term debt through the end of June as part of the effort to absorb duration from the private sector and keep longer-term rates low. Twist will also increase the average maturity of the Fed securities holdings to roughly 100 months.

Along with the rate guidance that suggests that the fed funds rate will remain low "at least" until mid-2013, we interpret the Twist maturity extension as an indication that the FOMC expects to maintain an accommodative posture for years to come.

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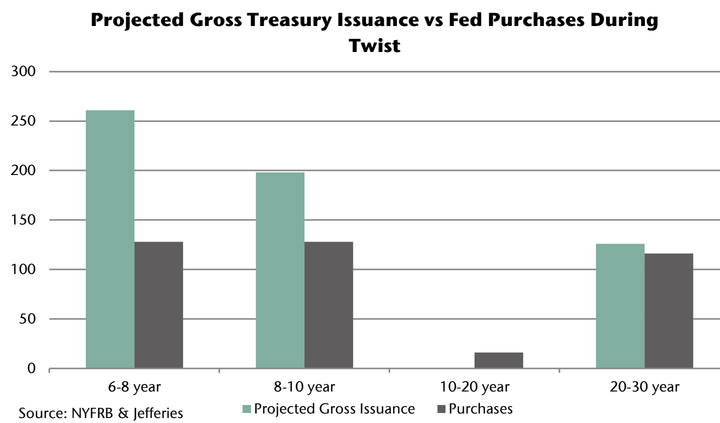
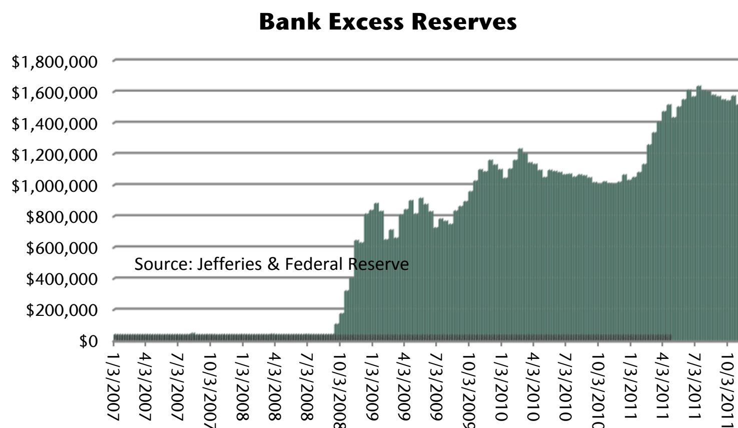
Exhibit 123: Projected Gross Treasury Issuance vs. Fed Purchases



Source: NYFRB, Jefferies

Despite the Fed's aggressive actions, the monetary policy transmission mechanism has not been effective or efficient in stimulating the real side of the economy. Excess reserves in the banking system increased by roughly the size of the Fed's balance sheet and prevented the banking system from imploding. However, the Fed's balance sheet expansion has had limited impact on the real sector of the economy.

Exhibit 124: Bank Excess Reserves



Source: Federal Reserve, Jefferies

Until recently, securities holdings were the only rising asset class on bank balance sheets, as banks continued to migrate toward the safety of Treasuries. C&I loans have risen by more than $100 bn since earlier in the year, so the commercial sector is finally beginning to receive some benefit from the Fed stimulus. Consumer lending continues to stagnate in part because banks have tightened consumer credit standards. Bank behavior has probably been adversely affected by the unfortunate reality that the TARP did not remove "Toxic Assets" from the banking system, so the toxins still fester on bank balance sheets.

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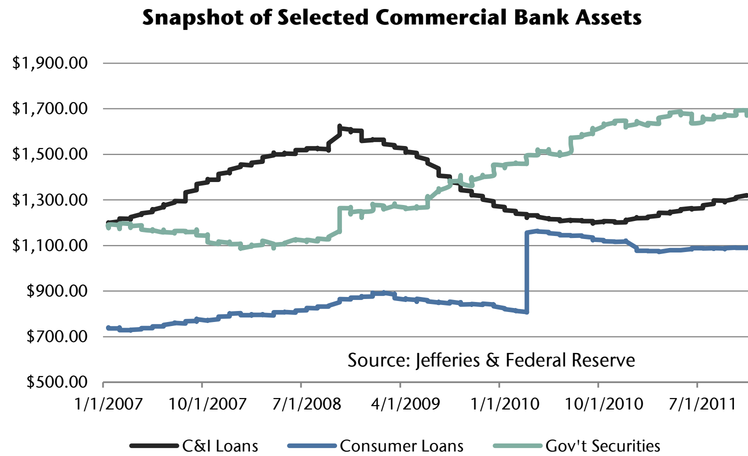
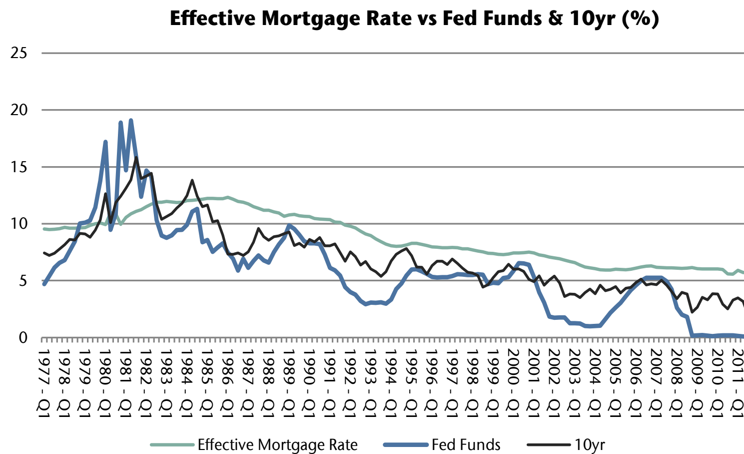
Exhibit 125: Selected Commercial Bank Assets



Source: Federal Reserve, Jefferies

Because of a bank reluctance to refinance, homeowners have not benefited significantly from the sharp decline in market rates. The Fed's Twist is helping to lower all borrowing costs, and a logical complement to the Twist would be another LSAP that features MBS purchases in an effort to bring mortgage rates lower.

Exhibit 126: Effective Mortgage Rate vs. Fed Funds & 10-year (%)



Source: Jefferies

FOMC economic projections point to an accommodative posture for years to come. FOMC central tendency forecasts have the unemployment rate as high as 8.7% at the end of 2012, and as high as 8.2% at the end of 2013.

The FOMC range of forecasts is very wide, however, and reflects a significant disparity in expectations for the economy over the next few years. Forecasts outside the central tendency are for the year-end 2012 unemployment rate to be as low as 8.1% and as high as 8.9%.

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Exhibit 127: FOMC Economic Projections as of November 2011

FOMC Economic Projections as of November 2011

Variable	Central Tendency Forecast 2011	2012	2013	2014	Longer run	Range of Forecasts 2011	2012	2013	2014	Longer Run
Change in real GDP	1.6 to 1.7	2.5 to 2.9	3.0 to 3.5	3.0 to 3.9	2.4 to 2.7	1.6 to 1.8	2.3 to 3.5	2.7 to 4.0	2.7 to 4.5	2.2 to 3.0
June Projection	2.7 to 2.9	3.3 to 3.7	3.5 to 4.2		2.5 to 2.8	2.5 to 3.0	2.2 to 4.0	3.0 to 4.5		2.4 to 3.1
April Projection	3.1 to 3.3	3.5 to 4.2	3.5 to 4.3		2.5 to 2.8	2.9 to 3.7	2.9 to 4.4	3.0 to 5.0		2.4 to 3.1
January Projection	3.4 to 3.9	3.5 to 4.4	3.7 to 4.6		2.5 to 2.8	3.2 to 4.2	3.4 to 4.5	3.0 to 5.0		2.4 to 3.1
Unemployment rate	9.0 to 9.1	8.5 to 8.7	7.8 to 8.2	6.8 to 7.7	5.2 to 6.0	8.9 to 9.1	8.1 to 8.9	7.5 to 8.4	6.5 to 8.0	5.0 to 6.0
June Projection	8.6 to 8.9	7.8 to 8.2	7.0 to 7.5		5.2 to 5.6	8.4 to 9.1	7.5 to 8.7	6.5 to 8.3		5.0 to 6.1
April Projection	8.4 to 8.7	7.6 to 7.9	6.8 to 7.2		5.2 to 5.6	8.1 to 8.9	7.1 to 8.4	6.0 to 8.4		5.0 to 6.1
January Projection	8.8 to 9.0	7.6 to 8.1	6.8 to 7.2		5.0 to 6.0	8.4 to 9.0	7.2 to 8.4	6.0 to 7.9		5.0 to 6.3
PCE inflation	2.7 to 2.9	1.4 to 2.0	1.5 to 2.0	1.5 to 2.0	1.7 to 2.0	2.5 to 3.3	1.4 to 2.8	1.4 to 2.5	1.5 to 2.4	1.5 to 2.0
June Projection	2.3 to 2.5	1.5 to 2.0	1.5 to 2.0		1.7 to 2.0	2.1 to 3.5	1.2 to 2.8	1.3 to 2.5		1.5 to 2.1
April Projection	2.1 to 2.8	1.2 to 2.0	1.4 to 2.0		1.7 to 2.0	2.0 to 3.6	1.0 to 2.8	1.2 to 2.5		1.5 to 2.1
January Projection	1.3 to 1.7	1.0 to 1.9	1.2 to 2.0		1.6 to 2.0	1.0 to 2.0	0.7 to 2.2	0.6 to 2.0		1.5 to 2.1
Core PCE inflation	1.8 to 1.9	1.5 to 2.0	1.4 to 1.9	1.5 to 2.0		1.7 to 2.0	1.3 to 2.1	1.4 to 2.1	1.4 to 2.2	
June Projection	1.5 to 1.8	1.4 to 2.0	1.4 to 2.0			1.5 to 2.3	1.2 to 2.5	1.3 to 2.5		
April Projection	1.3 to 1.6	1.3 to 2.8	1.4 to 2.0			1.1 to 2.0	1.1 to 2.0	1.2 to 2.0		
January Projection	1.0 to 1.3	1.0 to 1.5	1.2 to 2.0			0.7 to 1.8	0.6 to 2.0	0.6 to 2.0		

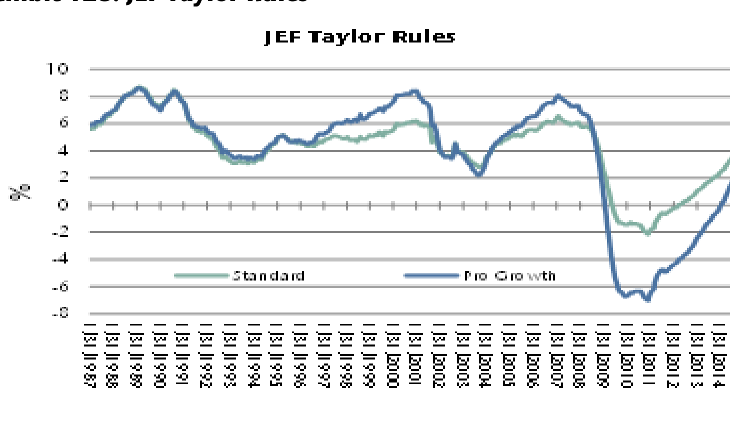
Source: Fed Board of Governors

Source: Federal Board of Governors

Taylor Rules Point to Extended Accommodation, QE3?

Jefferies expectations for the likely trajectory of monetary policy are based on a pro-growth Taylor Rule model that does not project a tighter monetary policy until Q2 2014.

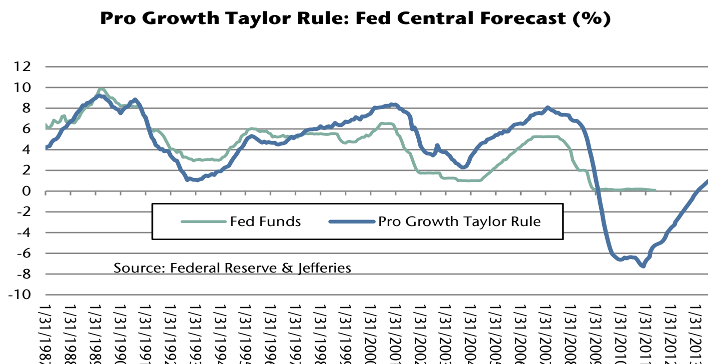
Exhibit 128: JEF Taylor Rules



Source: Jefferies

Based on the central tendency FOMC forecasts and pro-growth Taylor Rule formulation, the FOMC would begin to raise the Fed funds rate in Q4 2013. In either case, the FOMC would remain accommodative for another two years.

Exhibit 129: Pro Growth Taylor Rule: Fed Central Forecast (%)



Source: Federal Reserve, Jefferies

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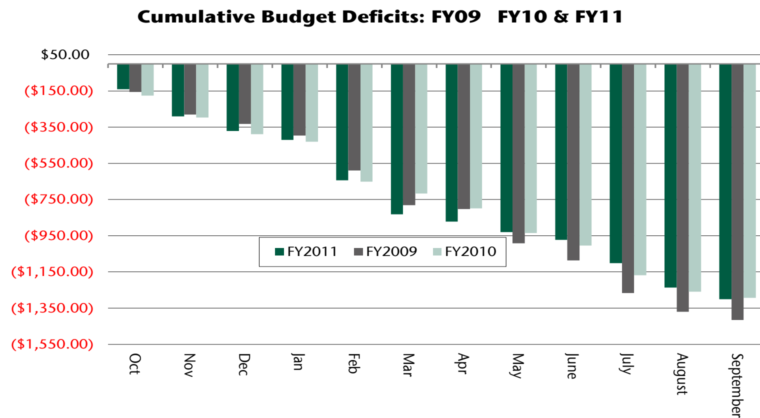
There Is No Fiscal Policy, Federal Deficit On Unsustainable Path

The US budget deficit is on an unsustainable trajectory with or without the sequester imposed after the failure of the so-called Super Committee. The federal government has been on the road to fiscal profligacy for several years. The US does not have a coherent fiscal policy and has not had a coherent fiscal policy for years.

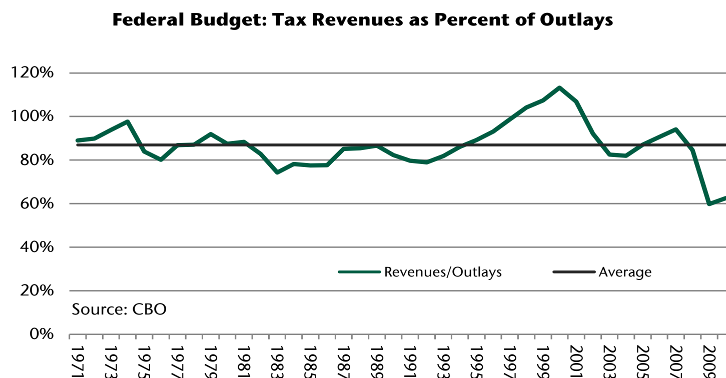
Exhibit 130: Cumulative Budget Deficits



Source: Jefferies

The US funds roughly 60% of expenditures with tax revenues, leaving the other 40% to be financed with debt issuance. This is not sustainable, but an inept government has not been able to take the necessary steps to address this imbalance.

Exhibit 131: Federal Budget: Tax Revenues as Percent of Outlays



Source: CBO

More troubling, mandatory spending --mostly social "entitlements"---comprise roughly 60% of federal outlays.

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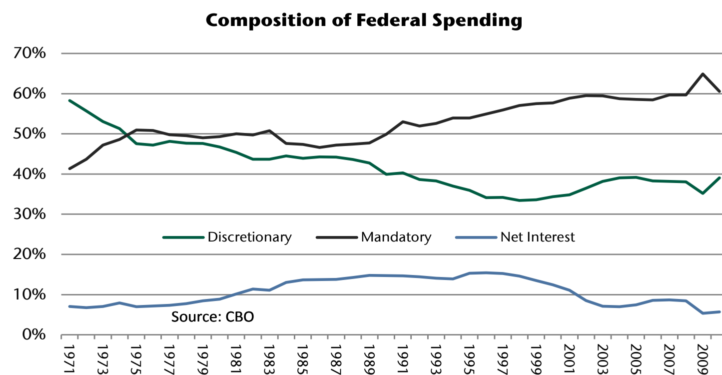
Exhibit 132: Composition of Federal Spending



Source: CBO

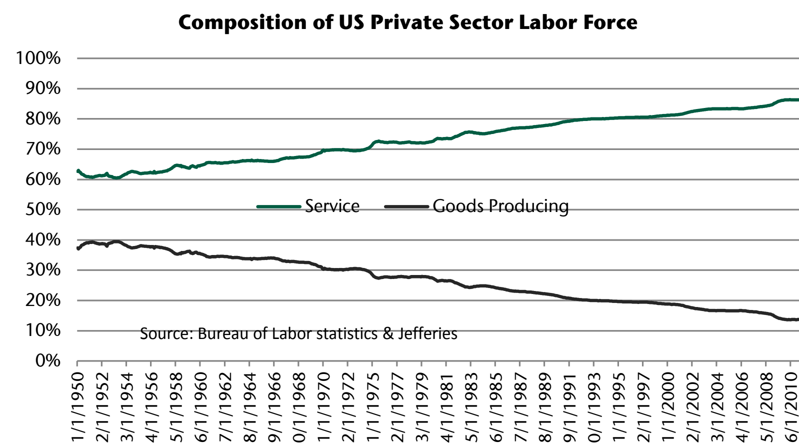
One way of looking at the tax and outlay dynamics is that tax revenues fund entitlements, while the US borrows to finance all other government functions, including national defense and security.

The sequester will barely scratch the surface on entitlements, but cut deeply into projected defense, security and discretionary spending. There is already a movement in Congress to undo the sequester in 2012.

Risks & Imbalances: A Services-Dominated Economy, Time To Rebuild An Industrial Base?

One of the most significant underlying imbalances in the US economy is reflected in the ascendency of the service sector of the economy. Over the past fifty years, the share of the US labor force employed in the service sector of the economy has increased as the industrial base has gradually eroded. Currently, roughly 85% of the US labor force is employed in service providing activities, with only 15% employed in goods producing activity such as manufacturing, mining and construction.

Exhibit 133: Composition of US Private Sector Labor Force



Source: Bureau of Labor Statistics, Jefferies

It takes 85% of the US labor force to generate a monthly service sector trade surplus of less than $20 bn. Because of the decline in domestic goods producing activities, US consumers fill their shopping baskets with products that are manufactured overseas. As a result, the US runs sizeable monthly trade deficits in goods. The chronic trade deficits are a drag on the economy and help explain why the US growth has been slower over the past 20 years than it was in prior decades.

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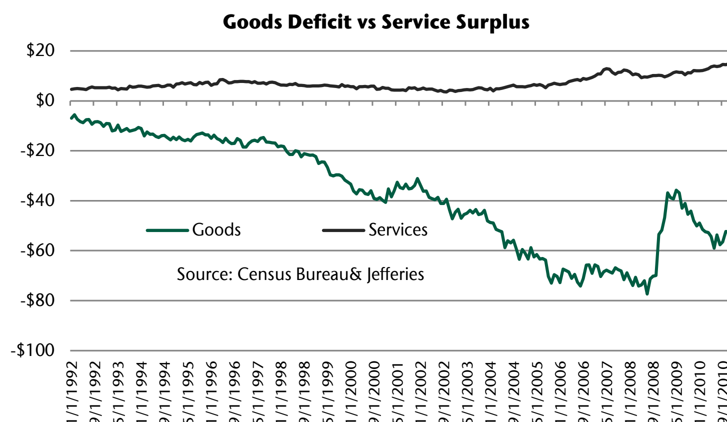
Exhibit 134: Goods Deficit vs. Service Surplus



Source: Census Bureau, Jefferies

Fortunately, manufacturing in the southern states has been on the rise due to the combination of a weak dollar and cheaper labor costs in some southern states.

Risks & Imbalances: Europe Crisis Poses Varied Economic & Financial Risks

While the political climate in Washington remains a threat to the US prosperity, inept politics in Europe has resulted in the chaotic conditions in Europe that threaten the US economy and financial markets.

Exports have contributed an average of 1% since the end of recession in mid-2009. In 2011, US exports to Europe account for 16.5% of total US exports. US exports to EMU accounted for 13.2% of total US exports. So the direct effect of a recession in Europe on the US economy through exports is fairly limited.

Exhibit 135: 2011 US Exports

2011 US Exports to Europe		
Germany	$40.8	3.3%
Netherlands	$35.7	2.9%
Belgium	$24.8	2.0%
France	$23.4	1.9%
Switzerland	$19.8	1.6%
Italy	$13.4	1.1%
Spain	$9.0	0.7%
Ireland	$6.3	0.5%
Sweden	$4.4	0.4%
Norway	$3.1	0.3%
Gibraltar	$2.8	0.2%
Finland	$2.7	0.2%
Poland	$2.6	0.2%
Austria	$2.2	0.2%
All Others	$11.6	0.9%
Total	$202.7	16.5%
EMU	$162.77	13.22%

Source: Jefferies

The US is more vulnerable to links through the financial markets and the possibility of contagion through the banking system. This contagion is difficult to quantify because the CDS market remains opaque, which is another US policy failure.

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Risks & Imbalances: Large Foreign Holdings Of Treasury Debt, Europe Contagion Effect?

Overseas investors own about 47% of total Treasury marketable debt outstanding. In the wake of European developments, this leaves the Treasury market vulnerable to selling by overseas investors who are disenchanted with US fiscal profligacy.

The risk is probably limited by the fact that central banks hold about 70% of foreign holdings for reserve management, so a significant proportion are relatively short-term. Private investors are the primary holders of the long end of the curve, making it the most vulnerable to an adverse overseas investor reaction.

Exhibit 136: Major Foreign Holdings of Treasury Securities

Major Foreign Holdings of Treasury Securities						
Country	Oct-11	Sep-11	Aug-11	Jul-11	Jun-11	May-11
China, Mainland	$1,134.1	$1,148.3	$1,137.0	$1,173.5	$1,165.5	$1,159.8
Japan	$979.0	$956.8	$936.6	$914.8	$911.0	$912.4
United Kingdom	$408.4	$421.6	$397.2	$353.4	$347.8	$345.1
Oil Exporters	$226.2	$229.9	$236.3	$234.4	$229.7	$230.0
Brazil	$209.1	$206.2	$210.0	$210.0	$207.1	$211.4
Carib Bnkng Ctrs	$175.2	$172.9	$161.2	$128.7	$145.5	$152.6
Taiwan	$150.1	$149.3	$150.3	$154.3	$153.4	$153.4
Switzerland	$131.7	$146.1	$147.5	$108.4	$108.0	$108.0
Hong Kong	$110.7	$109.0	$107.9	$111.9	$118.4	$122.0
Russia	$92.1	$94.6	$97.1	$100.7	$110.7	$115.2
Canada	$81.8	$84.8	$82.6	$83.5	$81.4	$87.8
Other	$1,134.8	$1,120.2	$1,088.5	$1,094.9	$1,114.4	$1,120.1
Grand Total	$4,659.3	$4,660.3	$4,572.5	$4,484.3	$4,500.8	$4,514.8
Private	$1,419.5	$1,398.5	$1,327.5	$1,246.7	$1,261.6	$1,273.9
For. Official	$3,239.8	$3,261.8	$3,245.0	$3,237.6	$3,239.2	$3,240.9
Treasury Bills	$374.6	$387.3	$409.2	$392.3	$407.7	$423.2
T-Bonds & Notes	$2,865.2	$2,874.5	$2,835.7	$2,845.3	$2,831.4	$2,817.7

Source: US Treasury

Source: US Treasury

Risks & Imbalances: Small Business To Washington, You Are The Problem!

Small business is the primary source of job creation in the US labor market. Small business accounted for 49% of new jobs in 2011 and more than 56% of new jobs to date in 2011.

Exhibit 137: Composition of ADP National Employment

Composition of ADP National Employment									
	--- Level ---			--- Changes ---				12-month	
Industry/Size	September	October	November	September	October	November	YTD	Cumulative	2010
Total private nonfarm	108,971	109,101	109,307	130	130	206	1,614	1,304,727	781
Small (1 - 49)	49,391	49,458	49,568	71	67	110	846	591,080	381
Medium (50-499)	42,111	42,171	42,255	51	60	84	703	504,250	441
Large (>499)	17,469	17,472	17,484	8	3	12	65	209,397	(41)
Goods-producing	17,827	17,827	17,855	(6)	0	28	167	213,399	(121)
Small (1 - 49)	6,652	6,653	6,668	1	1	15	74	79,495	(115)
Medium (50-499)	7,772	7,780	7,797	3	8	17	131	93,063	41
Large (>499)	3,403	3,394	3,390	(10)	(9)	(4)	(38)	40,861	(47)
Service-providing	91,144	91,274	91,452	136	130	178	1,447	1,091,328	902
Small (1 - 49)	42,739	42,805	42,900	70	66	95	772	511,585	496
Medium (50-499)	34,339	34,391	34,458	48	52	67	572	411,211	400
Large (>499)	14,066	14,078	14,094	18	12	16	103	168,532	6
Source: ADP									
Addendum:									
Manufacturing	11,660	11,655	11,662	(8)	(7)	(5)	101	139,796	78

Source: ADP

Source: ADP

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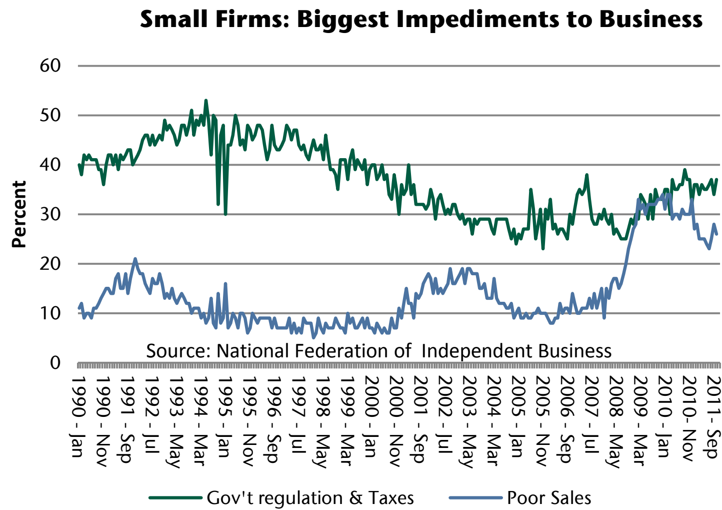
Based on survey data, the combination of government regulation and taxes is the biggest impediment to small business.

Exhibit 138: Small Firms: Biggest Impediments to Business



Source: National Federation of Independent Business

The Jefferies economic and Federal Reserve forecasts are provided below.

Exhibit 139: Economic & Federal Reserve Projects

Economic & Federal Reserve Projections											
	Actual					Projected					
			2011				2012				2013
	2009	2010	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Real GDP (% saar)	-0.5%	3.1%	0.4%	1.3%	2.0%	3.2%	2.8%	2.0%	2.5%	2.8%	2.8%
Average											
Unemployment Rate	9.3%	9.6%	8.9%	9.1%	9.1%	8.9%	8.8%	8.8%	8.7%	8.5%	7.8%
CPI (yoy %)	2.7%	1.50%	2.1%	3.4%	3.8%	3.2%	2.8%	2.6%	2.7%	2.5%	2.8%
Core PCE (yoy %)	1.7%	0.9%	1.0%	1.3%	1.6%	1.7%	1.7%	1.6%	1.7%	1.8%	2.0%
Federal Reserve											
IOER (Average)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Fed Funds (Average)	0.16%	0.18%	0.16%	0.09%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%

Source: Jefferies

Source: Jefferies

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European Economic Outlook 2012

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It will be interesting to see the shortlist of submissions for the £250,000 Wolfson Economic Price to consider the optimal way for an EMU breakup: *"If member states leave the Economic and Monetary Union, what is the best way for the economic process to be managed to provide the soundest foundation for the future growth and prosperity of the current membership?"* – Deadline for submissions, 31 January 2012.

But, even without the repeated policy mistakes of recent months, solving this crisis would probably still have been akin to finding a dark cat in a dark room that does not exist. If breaking the system apart continues to be too costly for European policymakers to contemplate, then muddling through remains the only alternative, implying as a best-case scenario, probably very weak growth for the system as a whole over the medium term, following a double dip in the first half of 2012. Moreover, as part of this muddle-through scenario, some countries may be destined to remain in or very close to recession for a long time, as they grind their way through years of fiscal austerity, tight monetary conditions, structural reform and fiscal devaluation (more on this later).

Moreover, avoiding a more prolonged downturn for the system as a whole in 2012 will likely necessitate further monetary easing (both conventional and unconventional) and a much weaker euro

Moreover, avoiding a more prolonged downturn for the system as a whole in 2012 will likely necessitate further monetary easing (both conventional and unconventional) and a much weaker euro. Following this month's decision to cut their policy rate by another 25 basis points (to 1%) the ECB now finds itself close to the zero bound. By February the ECB's refinancing rate could be 0.5%. At this point, faced with recession, a large output gap (estimated by the OECD at close to 3.5% of GDP) and an on-going decline in the money supply as the financial system deleverages, what will the ECB do next? QE, justified under Article 105 of the Maastricht Treaty as needed to ensure they maintain price stability (on say a 2-3 year view), defined by the ECB as an inflation rate of below, but close to 2%. This neatly gets around the ECB's problem of not wishing to be seen (on legal grounds) even indirectly helping finance a sovereign, but would only be justified because the macro outlook was so poor, deflation risk was rising and they had run out of alternative conventional measures. It should also be recognised that the ECB has a wide-ranging mandate of assets it could potentially buy, but if it went down the QE route, it would very likely buy all euro government bonds in the secondary market (weighted either by GDP or outstanding debt shares), not just Italy and Spain.

Would QE by the ECB solve all problems? Of course not; it would be a case of pushing on a piece of string, as the BoE might find with UK's QE2, but given the outlook, what should the ECB do next?

A major issue with the ECB's current Securities Market Programme (SMP), where they have purchased over €200bn of Greek, Irish, Portuguese, Italian and Spanish paper, is that it is far from transparent and it is quite clear that the ECB does not wish to really hold the paper – a bad signal for investors. All the evidence suggests Central Bank bond purchases need to be pre-announced and transparent to have the desired effect on asset prices and ultimately the wider real economy.

At the end of the day, a key issue is ensuring liquidity problems do not become more widespread solvency issues, with the risk of more countries eventually defaulting

But, if the ECB were to pre-announce a sizeable transparent programme of buying bonds (which in the markets' mind could, if circumstances warranted, be repeated in coming months), it would for a period bring more stability to the markets, especially if at that point the EFSF was buying bonds in the primary market. At the end of the day, a key issue is ensuring liquidity problems do not become more widespread solvency issues, with the risk of more countries eventually defaulting. However, this has been made harder by repeated policy mistakes of recent months that have driven away a lot of international investors, particularly running into the first few months of 2012 with so many banks and sovereigns needing to raise new finance and rollover existing debts. Furthermore, unlike the UK where QE helped directly create deposits in UK banks (due partly to the vagaries of the holdings of the Gilt market – domestic investors), QE in the euro area would not so directly lend support to banks facing funding difficulties and potentially deposit outflows. However, that is not to say the ECB should not, and will not, do QE.

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Of course, the ECB would have to look at a period of inflation being above target, partly the result of austerity and so-called fiscal devaluation – the idea that inside a currency union fiscal policy can be used to help improve a country's competitive position and balance of payments by reducing taxes imposed on labor, paid for by significant taxes on consumption (indirect taxes), that increase the Harmonised Index of Consumer Prices (HICP). Given Mario Draghi's background, it is not difficult envisaging him, like Mervyn King at the BoE, taking the long view.

Faced with recession and a banking system that is deleveraging through a period of significant fiscal tightening above target HICP, inflation today is much less likely to become embedded in inflation expectations and the labor market

Faced with recession and a banking system that is deleveraging through a period of significant fiscal tightening above target HICP, inflation today is much less likely to become embedded in inflation expectations and the labor market. Indeed, with wage inflation at only around 2% and E17 employment declining again (by 0.2% in Q3 2011), above-target inflation today might, on a 2-3-year view, lead to even lower inflation, as it further squeezes real incomes and weakens the economy.

What happens if the EMU implodes? We have yet to see the submissions to the Wolfson prize to see if there is any sensible way of significantly reducing the hit to the wider real economy, but a good starting point is to probably assume (as by all accounts the UK Treasury is doing) that GDP could decline by around 7%. It could be less, or, as we fear, considerably more, but the honest answer is that we simply don't know.

BIS data confirm that at the end of June 2011 German banks had €1.1 trillion of total exposure to the rest of the euro area, French banks €1.3 trillion.

Moreover, an EMU collapse is not just a major potential problem for the periphery. As we have been stressing all year, the core is now much more exposed to a break-up than would have been the case in 1999. Trade flows within EMU have not increased the way many commentators envisaged at the start of the project (remember the Rose and Frankel estimates that single currency zones treble flows?), but along with the growing current account imbalances of recent years were capital flows from the core to the periphery. And as we have continued to warn, this is not just about banks in the core buying the paper of the periphery. BIS data confirm that at the end of June 2011 German banks had €1.1 trillion of total exposure to the rest of the euro area, French banks €1.3 trillion.

Also, Bundesbank data confirm that excluding banks, German enterprises had €421.9bn of total assets in the rest of the euro area, as well as €545.8bn of total liabilities. These are substantial figures and compare with €104.1bn and €151.2bn, respectively at the start of the euro project and around €325bn of both assets and liabilities in the rest of the world.

Furthermore, the longer the crisis goes on, the more intertwined the Bundesbank has become with everything that is going on, and potentially the more exposed the German Central Bank would be in any break-up scenario

Furthermore, the longer the crisis goes on, the more intertwined the Bundesbank has become with everything that is going on, and potentially the more exposed the German Central Bank would be in any break-up scenario. As of October, the Bundesbank was providing almost €500bn of liquidity to the rest of the Eurosystem under the so-called Target 2, and thus is far and away the biggest Lender of Last Resort to the rest of the banking system. And, as the crisis has gone on, collateral rules have been softened, which in the event of a credit event could further compromise the Bundesbank's balance sheet.

With no resolution to the crisis in sight, deposits could continue to drain from bank balance sheets in parts of the euro area, worsening downturns as monetary conditions tighten even with the ECB cutting rates. To further put some of these risks into context, French bank balance sheets total around €8.5 trillion, of which some €1 trillion were deposits from outside the euro area. In September alone, the French banking system saw around €100bn of these deposits leave, requiring additional financing through Target 2. Conceivably even without QE, the Bundesbank's balance sheet could rise to well over €1 trillion in coming months. It is also worth noting that of all the Central Banks, including the ECB, the Bundesbank is the biggest buyer of bonds under the SMP.

In theory, one would be forgiven for thinking that nothing changes if some deposits leave the banking system of one country which is then replaced by liquidity from the Eurosystem. In practice, this is simply not the case

In theory, one would be forgiven for thinking that nothing changes if deposits leave the banking system of one country, and are replaced by liquidity from the Eurosystem. In practice, this is not the case. All it does is put even more pressure on the banks losing deposits to shrink the asset side of the balance sheet, at the same time as banks more generally are attempting to raise capital-asset ratios, worsening recessions and further undermining balance sheets through increasing bad loans.

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Moreover, if it did come to a break-up, not only would financial institutions and Central Banks need recapitalising (the Bundesbank has only €5bn paid in capital and reserves on the balance sheet) and German companies suddenly face a significant mismatch of assets and liabilities on their balance sheets (presumably their assets would shrink in value when converted back into "home" currency), but if trade credit dried up, as in 2008, then German GDP would collapse.

Let's not forget German GDP fell by 6.8% last time around, a far worse decline than seen in the periphery, on the back of the collapse seen then in world trade

Let's not forget German GDP fell by 6.8% last time around, a far worse decline than seen in the periphery, on the back of the collapse seen then in world trade.

The idea that somehow EMU could be relatively painlessly broken apart, at least as far as the core was concerned, was always fanciful and completely failed to appreciate how connected everything is now, the result of the imbalances (current account imbalances) that built up prior to 2008. One thing is clear: in a break-up scenario, the legal challenges would be immense and much of the euro area could be shut out of capital markets for a very long time.

If the system still cannot break apart, then it implies countries becoming more closely linked together; hence a fiscal compact and the eventual introduction of a Eurobond. But we continue to only stumble towards a solution, with often one step forward, followed by two steps back.

At the time of writing it is not clear whether there will be a large take-up by banks in the euro area for 3-year liquidity to borrow from the ECB at the average refinancing rate of the life of the loan (currently 1% likely to be cut to 0.5% by February) to then invest in much higher yielding sovereigns. More will be known after the take-up of the first facility on 21st December, but it does seem ridiculous if banks do not feel able to take advantage of what would in normal times be considered an opportunity to effectively make "free" money through the carry trade.

ECB would have moved to outright QE months ago, but this was never really possible. The fact that it would take a recession for them to pull the trigger is hardly ideal, but it is what it is

Again this is why it is so important the ECB is able to step up to the plate in the first few weeks of 2012, to effectively provide support to these sovereigns; but this move to QE would have to be justified on macro grounds, i.e., only after the euro area re-enters recession and the ECB runs out of conventional monetary tools. Ideally, the ECB would have moved to outright QE months ago, but this was never really possible. The fact that it would take a recession for them to pull the trigger is hardly ideal, but it is what it is.

Amongst all the doom and gloom, it is important to recognise that economic activity never contracts forever and in some respects we are in a better position than running into the Great Recession of 2008-2009 (when euro area GDP fell by 5.5% peak to trough, UK GDP by 7.1%).

In the first place, even with improved (just-in-time) inventory control, very weak growth and rolling recessions, turning points in the economic cycle can still be heavily influenced by changes in inventories, as Japan has discovered in recent years. The important point to highlight here is that while the level of expenditure in any economy is a function of the change in inventories, it is the second derivative of inventories that matters for changes in GDP. At a turning point in the economic cycle inventories may still be falling, just that inventories decline at a slower rate. That will not be enough to guarantee anything approaching a strong recovery, just for a period an upturn. But that is still important.

Moreover, at a macro level the corporate sector is in a better position than prior to the Great Recession, when for example non-financial corporations in the euro area overall were in large deficit. As credit dried up, this in itself guaranteed a severe downturn for the E17. For sure, the corporate sector of the periphery is not in a good space, but looking at the euro area overall, non-financial corporations are no longer in large deficit and measures of balance sheet strength, such as the liquidity ratio (the ratio of cash and deposits on the balance sheet to bank lending) have improved.

Looked at as a bloc, the euro area is much more open than the US, with exports of goods and services to outside the E17 around 20% of GDP

Given his background Mario Draghi is much more likely to favour a much weaker exchange rate. In contrast his predecessor J-C Trichet who made his name at the Banque

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de France with a strong Franc to lock France in with Germany in the run-up to EMU, always seemed to favour a strong euro. Looked at as a bloc, the euro area is much more open than the US, with exports of goods and services to outside the E17 around 20% of GDP. Given the long and variable lags involved, a weaker euro would not quickly turn the economy around, but would perhaps help the E17 see a recovery in the second half of 2012; assuming that a recession in H1 2012 is by now all but guaranteed.

The focus on export volumes can miss the bigger picture. To the extent that exporters price to market, many companies would take the benefit of a weaker exchange rate to boost margins. This in itself can be important, as the UK found in 1992 and 2008-09. Moreover, a much weaker euro would help choke off imports and promote more trade within EMU itself. But this is far from being a quick fix, just a necessary, but not sufficient, condition to ensure the euro area eventually moves into a better place.

In an ideal world, Germany and the Netherlands would undertake an easing in fiscal policy in 2012, particularly with the periphery being forced to undertake painful and, excluding indirect taxes, disinflationary policies. As in fixed exchange rate systems, the onus of adjustment should be as much on the surplus as deficit countries. But, as with fixed exchange rate systems in practice, all the onus of adjustment continues to fall on the deficit countries inside EMU, pushing the system as a whole into a worse place. But, this has not been recognised in the surplus countries, even if it substantially increases the risk for them of a break-up occurring.

2012 could well be a year of competitive QE in Europe

2012 could well be a year of competitive QE in Europe. Faced at best with very weak growth and the risk of a double dip, the BoE seems very likely to go down the road of announcing further QE early in 2012 (by then the BoE will have bought around £275bn of Gilts). There is a growing realisation that pound for pound QE2 in the UK will not have the same effect on GDP as QE1, which is not to say the BoE will not, and should not, do additional QE in 2012. If by Q1 2012 the UK appears to have slipped back into recession the BoE will almost certainly consider other policy measures, including cutting the Bank Rate from 0.5%, a UK version of Operation Twist, buying index-linked Gilts, but the most obvious thing to do would still be another £75bn of conventional Gilt purchases.

The important thing arguably is to be seen to be doing something to help the economy, even if the long-term benefits are unclear. Moreover, although never formally stated, we can be sure that one of the aims of further QE in the UK would be to maintain a competitive pound; particularly if the BoE is faced with an ECB that cuts rates to 0.5% and then moves to outright QE – a policy partly intended to weaken the euro.

At the end of the day, it is certainly not in the UK's interest for EMU to break apart (think what could happen to the UK's banks), but as ever Mervyn King will be keen to not see a tightening in monetary conditions because of an appreciation in the pound. And, it should not be forgotten that in 2012 the UK's coalition government is pushing through an aggressive fiscal tightening; on the OBR numbers cyclically adjusted net government borrowing in the UK falls by 0.9% of GDP in 2012-13 and 1.5% in 2013-2014, after 0.7% in 2011-12. Moreover, general government employment is expected to decline by 110,000 in both 2012-13 and 2013-14, after declining by 170,000 in 2010-11.

We always knew that coming through a banking crisis with a deleveraging of the financial system, tightening fiscal policy this early in the cycle was a risk. Finland, for example, delayed its fiscal tightening coming through its banking crisis of the 1990s until three years after its recovery commenced, and by then GDP in Finland was growing relatively quickly. The worry is that the example of Japan of the period may be much more relevant for the UK today. Fiscal tightening there in 1997 pushed the Japanese economy back into recession, compounding the problem for the banking system. But, all this argues for a more accommodative monetary stance.

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2012 is also likely to bring a growing realisation that trend growth in Europe now is not nearly as high as was thought to be the case prior to the crisis. This was recently explicitly recognised by the OBR when it argued that trend growth in the UK had been as low as 1% since 2009 (compared to around 2.5% prior to 2008). If the banking sector cannot/will not lend to smaller companies, in particular, then the economy will face more problems adjusting to a smaller public sector and a de-leveraging of the financial system. Moreover, a proportion of the capital stock was lost in the Great Recession and structural unemployment is higher.

Turning back to EMU, for sure, 2012 could turn out to be another year when the E17 more or less muddles through without a decisive resolution to the crisis. But there is also a growing sense that as the pressure in the system continues to build, a solution of some sort will emerge. In other words the distribution of the possible outturns for next year contains two extremely fat tails: a euro break-up scenario on the one hand and greater fiscal integration on the other. The impact of the former is almost impossible to quantify given the permutations involved – the answer to the question of who leaves and who stays in the single currency union (and for how long) then becomes absolutely crucial. At the other extreme, euro area politicians lay out a credible vision for a common fiscal policy that will ultimately mean a single treasury and joint issuance of debt via a common Eurobond. So the two extremes seem fairly well signposted, but the road to one of these is unpredictable and full of so-called 'known unknowns' - i.e. we have an idea of what the risks are but not how they will play out. So here is our take on some of the major themes that may dominate 2012.

Sources of risk in 2012

1) Refinancing Risk: Government and Bank Debt

According to the IMF's latest estimates, euro area governments have around €1,600bn worth of debt to issue next year, which will rise if growth turns out to be weaker than the IMF's current projections. In addition, European banks have to roll over around €500bn worth of debt in 2012. ECB's LTRO operations potentially offer an attractive carry trade for those interested in borrowing money at around 1% and investing into assets yielding considerably more. But what will continue to hang over the markets is a possibility of sovereign/corporate debt restructuring and Private Sector Involvement along the way, a Pandora's Box that should never have been opened with respect to Greek government debt. With so much supply coming onto the market, debt auctions will remain a constant source of potential market unease.

Exhibit 140: Projected supply of sovereign debt in 2012

	as % GDP				
	Maturing Debt	Budget Deficit	Total Financing Need		Financing Need in €bn
Italy	21.1	2.4	23.5		382
Portugal	17.9	4.5	22.4		39
Belgium	18.9	3.4	22.3		85
France	16.2	4.6	20.8		434
Spain	15.4	5.2	20.6		234
Greece	9.6	6.9	16.5		38
Netherlands	13.2	2.8	16		102
Ireland	5.3	8.6	13.9		22
Germany	9.4	1.1	10.5		284
Finland	8.7	-0.3	8.4		17
Italy + Spain + Greece + Portugal + Ireland					715
Total					1637

Source: IMF, Jefferies

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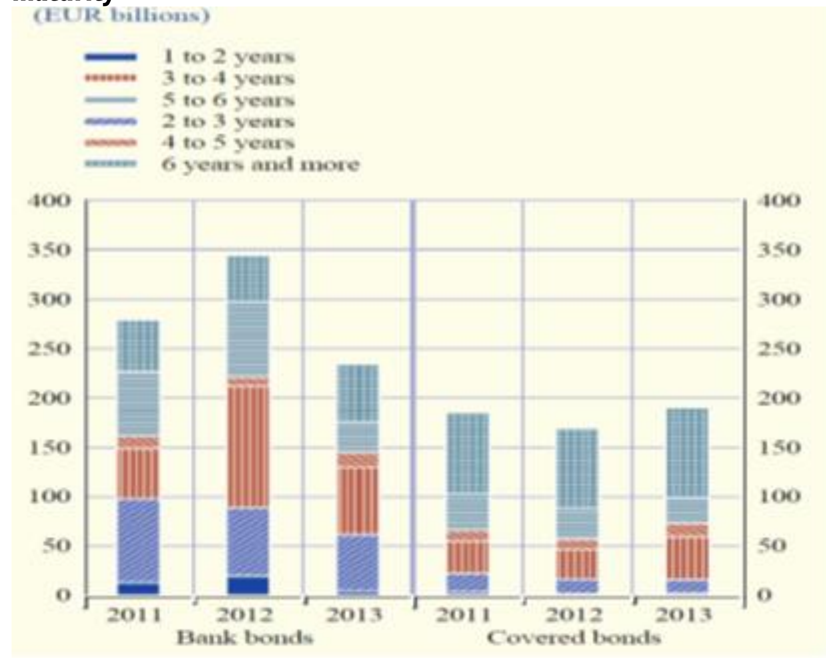
Exhibit 141: Amounts of maturing bank bonds broken down by initial time to maturity

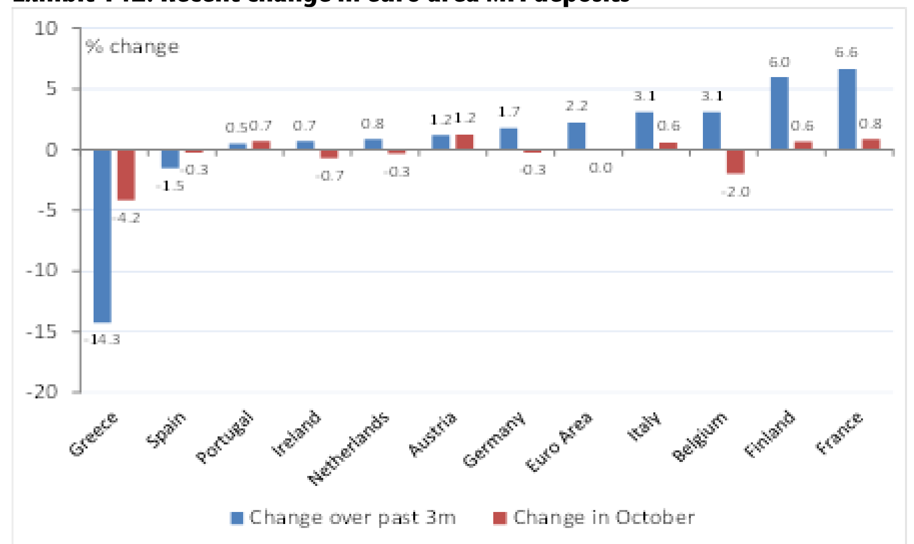


Source: ECB

2) Bank deposit flight gathers pace

2011 was a year of two halves, with Irish MFIs losing deposits rapidly in the first half of the year (and the trend improving in H2) and Greek MFIs seeing a collapse in deposits starting around August. So far, other periphery countries have not been so affected, but if a euro break-up becomes a more real prospect, deposit flights could become much more prevalent. Monthly data on MFI deposits will become a key barometer of the health of the European banking system.

Exhibit 142: Recent change in euro area MFI deposits



Source: ECB, Jefferies

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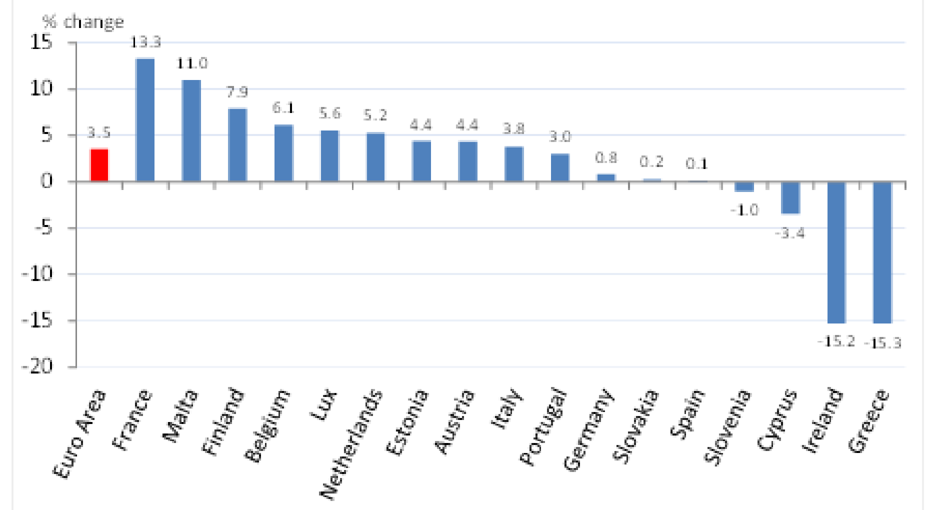
Exhibit 143: Change in MFI deposits since the start of 2011



Source: Datastream, Jefferies

3) MFI Deleveraging accelerates; and the trend spreads from the periphery to the core

There is a perception that European MFIs are already in full deleveraging mode, but according to ECB data, outside of Ireland, Portugal and Greece, balance sheets are still expanding. So while 2011 did not actually see a contraction in credit in most of the region, 2012 very well might (worryingly the money supply did fall in October). Furthermore, at the moment, the main concern around European banks' balance sheets is exposure to sovereign debt. But as recession bites and if non-performing loans rise next year, the pressure on banks to deleverage will only increase – leading to a downward spiral of falling asset prices and pressure to deleverage even further.

Exhibit 144: Change in assets by type since the start of 2011

Source: ECB, Jefferies

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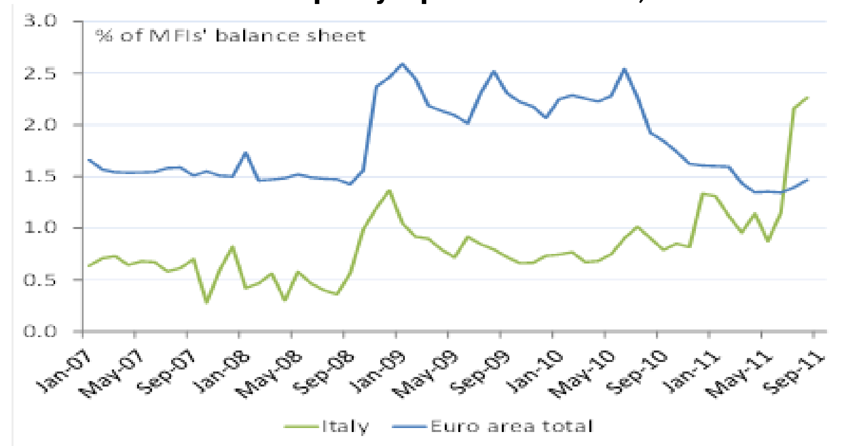
4) Another spike in risk aversion means the national central banks become the only source of liquidity provision

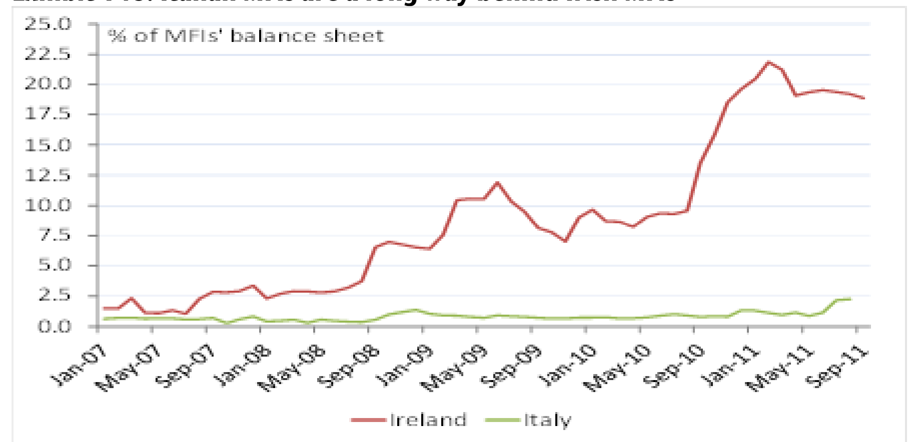
As market liquidity dried up over the course of the past year, European banks became ever more dependent on their National Central Banks to step in and fill the void. So for instance, Greek MFIs are now rolling over more than 25% of their balance sheet through their CB, Irish MFIs around 20%. The figure for Italy is now close to 4%, up from 1% only a few months ago and that for France and other countries is rising. At the end of the day, it is the German Bundesbank that pumps a lot of liquidity into the system effectively lending money through the Eurosystem to the National Central Banks in the periphery. But what happens if perceptions change about the likelihood of a break-up scenario? As with the ECB's Securities Markets Program (SMP) sovereign debt bond purchases, the ultimate risks end up with the Bundesbank and the German tax payer who may need to recapitalise the Central Bank if it incurs losses. So could the German politicians begin to raise objections to the current set-up, especially if there are growing risks to the German sovereign rating?

Exhibit 145: How much liquidity is provided to Italian, euro area MFIs?



Source: Datastream, Jefferies

Exhibit 146: Italian MFIs are a long way behind Irish MFIs



Source: ECB, Jefferies

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5) Political Risk: Election schedule across the euro area

Only France, Finland, Slovenia and Slovakia are scheduled to have elections in 2012. But what happens in Italy and Greece could overshadow any of these if the caretaker governments there were to fall. For now, there are few large parties in Europe openly talking about pulling out of the common currency, but that could very likely change if the crisis is allowed to fester on (The next UK election is in 2015).

Exhibit 147: Upcoming Elections

	Upcoming Elections	
Germany	Parliamentary	2013
	Presidential	2015
France	**Presidential First Round**	**22 April 2012**
	Presidential Second Round	**06 May 2012**
	Legislative First Round	**10 July 2012**
	Legislative Second Round	**17 June 2012**
Italy	Parliamentary	Tentative April 2013
	Presidential	Tentative May 2013
Spain	Parliamentary	2015
Netherlands	Parliamentary	2015
Belgium	Parliamentary	2014
Austria	Legislative	2013
	Presidential	2016
Greece	Parliamentary	Tentative 19 Feb 2012
Finland	**Presidential First Round**	**22 January 2012**
	Presidential Second Round	**05 February 2012**
Portugal	Parliamentary	2015
	Presidential	2016
Ireland	Parliamentary	2016
Slovakia	**Parliamentary**	**10 March 2012**
	Presidential	2014
Luxembourg	Parliamentary	2014
Slovenia	**Presidential**	**08 October 2012**
Malta	Parliamentary	2013
	Presidential	2014
Cyprus	Presidential	2013
	Legislative	2016
Estonia	Parliamentary	2015

Source: Bloomberg, Jefferies

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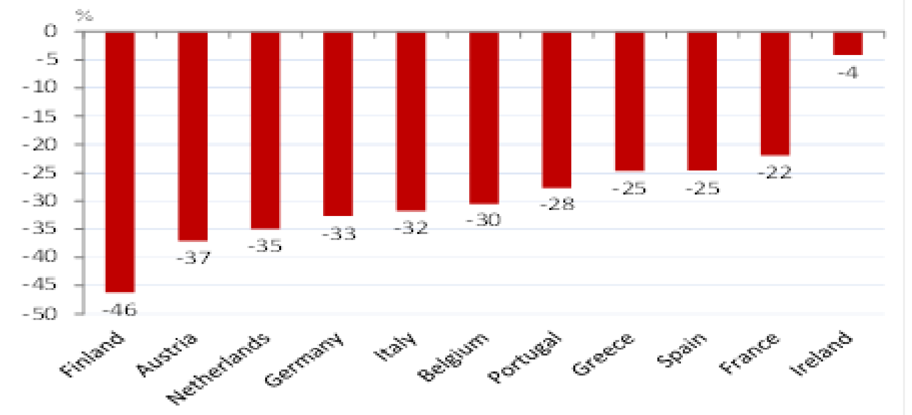
6) World trade contracts and as in 2009 a weak euro won't help

There is no question that a weak currency is precisely what the euro area needs at the moment. However, if Europe goes into a deep recession in 2012 and drags the rest of the world down with it, then as we learned in 2008-2009, the impact of a weaker euro could be completely overshadowed by a collapse in world trade.

Exhibit 148: Fall in goods exports in 2009

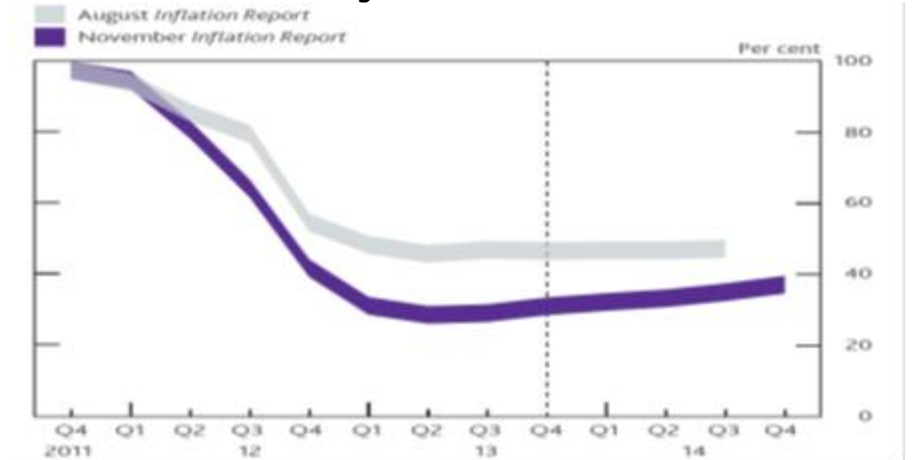


Source: Datastream, Jefferies

7) BoE's worry: Deflation not inflation now the major threat

Through bank exposure and trade linkages, the UK is heavily exposed to events in the euro area. Yes, the currency can devalue and the Bank of England will carry on printing money, but that will not make it immune and if the euro area goes into a deep recession, the UK will surely follow. In that case, deflation and not inflation will become the major source of risk for the Bank of England. One related issue to consider is the practical limit to the BoE's asset purchases: how big can gilt purchases get before they distort the market? And which assets would the Bank consider next?

Exhibit 149: BoE's Inflation Report: an indicator of the probability that inflation will be above the target



Source: Bank of England

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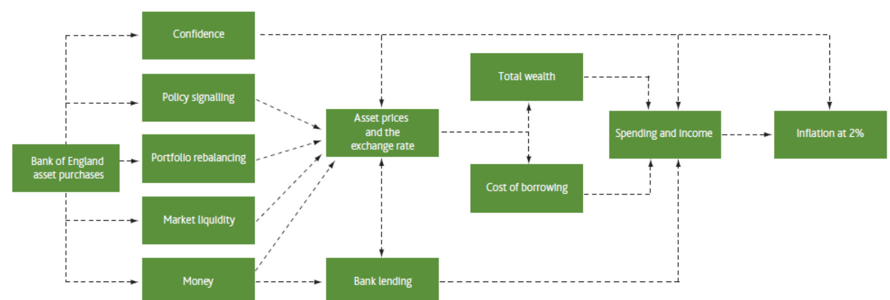
Possible solution to the crisis

1) The ECB's in 2012: Dr Strangelove or: How I Learned to Stop Worrying and Love ~~the Bomb~~ QE

The ECB cannot monetise government debt, but note that it also has an inflation target mandate which could be impossible to meet if the risks of recession intensify. In addition it has responsibility for financial stability and if the markets stop functioning, the ECB will be forced to act. Essentially, the ECB, like other central banks, has a number of policy tools at its disposal. At the moment it is using a mix of conventional (rate cuts) and non-conventional (SMP, liquidity provisions) measures. But that mix can always change. And when interest rates are on the floor, say 0.5% in February, and if further stimulus is required to ensure that euro area doesn't head for deflation, then the ECB could turn to quantitative easing to head off that risk.

What's currently going on is a form of game theory, and the ECB will continue to rule out more aggressive bond purchases until these become necessary and then will simply start to buy at a faster rate. Draghi has left all options on the table with respect to what the ECB may do, and refuses to pre-commit to anything that might end up limiting him when circumstances change. And in time, if conditions require it, the SMP will end up being replaced with outright QE, and no one should be surprised when that happens.

Exhibit 150: Stylized transmission mechanism for asset purchases (BoE's interpretation of how QE is meant to work and the ECB's take won't be much different)



Source: Bank of England

2) The Fiscal Compact: What the markets really want to see

A 'Fiscal Compact' could become the phrase we hear often in 2012 but it will mean different things to different people. A commitment to budget discipline for sure, but what the markets should really want to see is a road map to a Eurobond. We see this as a credible way out of this crisis, but the proposal will take time to nurture and will need to overcome significant political obstacles. Still, without a Eurobond on the horizon, does the euro area really have a future? The cost of joint debt issuance seems reasonable to us compared to the cost of a euro break-up, but who knows if the politicians/voters in Germany, the Netherlands and Finland will agree.

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Exhibit 151: Cost of a Eurobond to individual euro area countries

	2010 GDP (bn, euro)	Debt end 2010 (bn, euro)	Debt as % GDP	10y yield (%, latest)	Cost of a Eurobond relative to current borrowing rate (% pt)	Annual cost of a Eurobond subsidy (bn, euro)	Annual Cost of a Eurobond as % GDP
					(Assuming 4.7% Eurobond rate - current sovereign 10y yield)	(Level of Outstanding Debt * Higher/lower borrowing rate)	
Germany	2,478	2,062	83.2	2.3	2.4	49.0	2.0
France	1,933	1,591	82.3	3.5	1.2	18.7	1.0
Italy	1,556	1,843	118.4	7.2	-2.5	-46.5	-3.0
Spain	1,052	642	61.0	6.4	-1.7	-11.1	-1.1
Netherlands	588	370	62.9	2.7	2.0	7.3	1.2
Belgium	354	341	96.2	5.2	-0.5	-1.8	-0.5
Austria	286	206	71.8	3.5	1.2	2.4	0.8
Greece	227	329	144.9	28.2	-23.5	-77.5	-34.1
Finland	181	87	48.3	2.9	1.8	1.5	0.9
Portugal	173	161	93.3	12.6	-7.9	-12.8	-7.4
Ireland	156	148	94.9	9.1	-4.4	-6.6	-4.2
Slovakia	66	27	41.0	4.8	-0.1	0.0	-0.1
Luxembourg	40	7.7	19.1	2.5	2.2	0.2	0.4
Slovenia	35	13.7	38.8	7.3	-2.6	-0.4	-1.0
				(weighted average excluding Greece)		(excluding Greece)	
Euro area	**9,127**	**7,828**	**85.8**	**4.7**		**sum=0**	

Source: Jefferies

Before politicians move on to Eurobonds, there is the unresolved issue of how to utilise the EFSF/ESM. Will it be turned into a bank? The ECB seems reluctant, but that could still change. Could it be used to insure government debt issuance or to help recapitalise European banks? This seems more likely, but again there is little clarity from the politicians. And what happens if the fund loses its AAA rating if/when some of the euro area sovereigns lose theirs? Unsurprisingly, international investors are cautious with regard to EFSF debt. And whether this sentiment improves will depend entirely on how good a job politicians do in convincing the markets that the euro has a long-term future.

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Exhibit 152: How will the EFSF/ESM end up being used?

		EFSF	→ ESM (2012/2013)	
		bn, euro	bn, euro	
		Guarantee	Guarantee	(of which actual cash)
% of total		**440**	**700**	**80**
27.1	Germany	119	190	22
20.4	France	90	143	16
17.9	Italy	79	125	14
11.9	Spain	52	83	10
5.7	Netherlands	25	40	5
3.5	Belgium	15	25	3
2.8	Greece	12	20	2
2.8	Austria	12	20	2
2.5	Portugal	11	18	2
1.8	Finland	8	13	1
1.6	Ireland	7	11	1
1	Slovakia	4	7	1
0.5	Slovenia	2	4	0
0.2	Luxembourg	1	1	0
0.2	Cyprus	1	1	0
0.1	Malta	0	1	0
+ IMF Funds		250	250	
+ EFSM Funds		60	60	
Firepower		**€750bn**	**€1010bn**	

Source: EFSF, Jefferies International

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BULLISH

US: beating the odds

Despite the euro-zone sovereign credit market contagion, the inability of the Super committee to agree, high energy prices and sticky unemployment, the US equity market defied the pessimists and outperformed both emerging markets and developed world benchmarks with room to spare in 2011. Indeed, the performance of the market was even more impressive given that the financials failed to keep pace with the broader market. In this respect, we believe investors have seen one of the most significant sea-changes to US equities in nearly a decade – the absence of the asset or financial economy providing leadership to the rest of the equity market.

The adage that investors fight the last war is an acknowledgment that recent history tends to cloud the minds of individuals and hence reinforces the concept of mean reversion. However, the facts stand that the US real economy is extracting profits from meager economic growth and this is a salutation to US companies that they didn't veer from their business profiles during the last decade. By focusing on maintaining healthy balance sheets, controlling costs and avoiding becoming over-leveraged, US companies have been able to weather a pretty difficult economic period. The economy is unlikely to get much better in 2012, but the US has a number of factors acting as tailwinds, smoothing the economic hiccups.

Firstly, the Federal Reserve continues to endorse policies to defeat deflation. Real short rates are kept negative, measures to keep long rates low in nominal terms are encouraged through QE and the authorities have allowed the housing market to clear. Secondly, the US has benefited directly from a much more competitive currency and this has allowed the manufacturing industry to reflate. Thirdly, the deferring of tax changes and other government transfers has ensured that fiscal tightening has been delayed into 2013. Lastly, much like the US technology boom and bust in 2010 and the housing bubble collapse in 2008, the US has found other anchors of growth.

QE has played an important role in restoring US competitiveness by lowering the cash costs for operations in North America but also inadvertently raising the costs in countries that have adopted the US monetary policy. Most emerging market economies have experienced high inflation (wage and commodity costs) as a result of the US expanding its balance sheet, and consequently have become less competitive than the US for certain industries. In a sense, the US has been given a 'currency subsidy'. This has influenced a number of industries.

While we would acknowledge that the data points from wage growth, employment and house prices have hardly been encouraging during the past three years, the US has allowed house prices and wages to 'clear', thus moving the economy back into a sustainable equilibrium. Europe still has a number of policies that make employment conditions less flexible than the US.

Since 2005, five industries in the US have seen above-trend growth (smoothed 10-year) that, while not in aggregate offsetting the slowdown in consumer spending and construction, has helped to lift output. Aside from the technology sector, the first industry is agriculture. Exports have resurged and farmers have enjoyed windfall gains from biofuels to the growing demand for protein.

Secondly, coal and metal mining have seen their fortunes revive as prices have risen and US cash costs have moved in line with global peers. In particular, coal has seen a strong pickup in production following the Queensland floods.

Thirdly, there is an ongoing natural gas boom in North Dakota and other US states, which have increased output in response to oil prices at US100/barrel. This is a very bullish long-term trend for the US and the increased self-sufficiency may lead the US to being a balance energy user from 2020-25. This will also mean that the trade deficit (current account deficit) will ultimately shrink over time.

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Fourth, there has been an important revival of the aerospace industry. An industry known for its long lead times has experienced a boom from demand from China and emerging markets and also due to new product launches. It has helped that the industry itself is also an oligopoly.

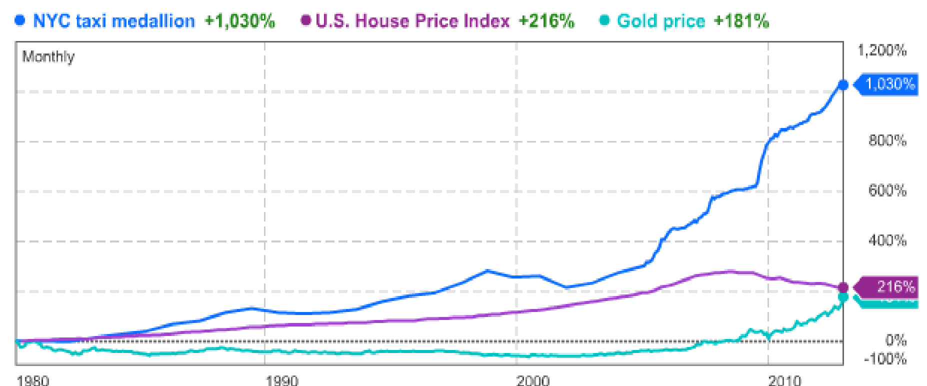
Lastly, the auto industry has experienced resuscitation as the cash costs of operating in the US following recent UAW negotiations have made it feasible to reopen mothballed plants.

Perhaps the best indication of an improvement in US competitiveness is through FDI figures, which highlight inflows running at their fastest pace in 3 years. Corporates are opening plants; presumably fund managers should be following the flow. One other point to mention is the fact that US exports to Europe (EMU) are around 13% and these are high value added. The US competes head on with Europe and hence the impact is likely to be less than other nations. More importantly the US's top two export nations are Canada and Mexico.

S&P 500 profits are dominated by multi-nationals and the market remains inexpensive on many valuation measures. However, the performance of financials will become critical if the market is ever to break through its long-term resistance. We remain bullish on the US equity market.

Taxicab medallion prices have outperformed all other US asset prices

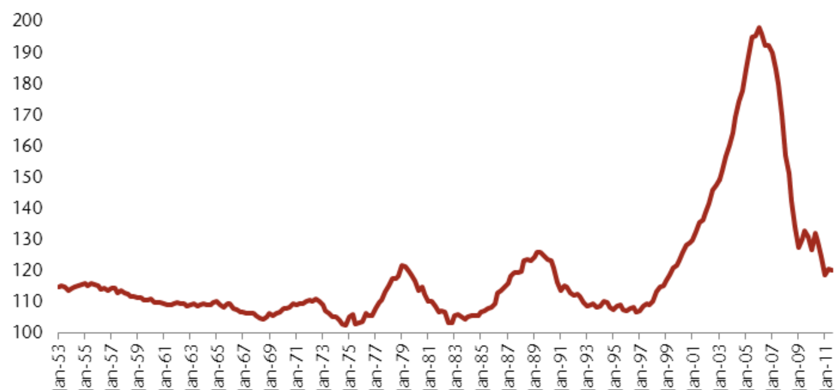
Exhibit 153: NY taxicab medallion, US Housing Price Index & Gold Performance



Source: Bloomberg, Jefferies

Home prices are still deflating

Exhibit 154: Case Shiller Real Home Price Index



Source: Robert Shiller

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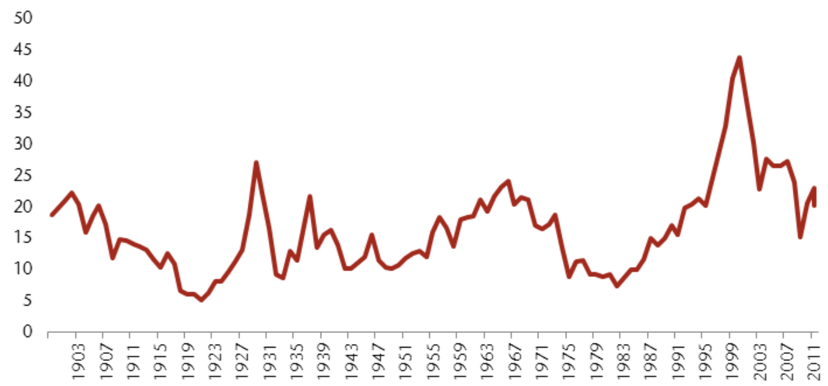
The market is back to trend

Exhibit 155: S&P 500 Cyclically Adjusted Price Earnings Ratio (CAPE)



Source: Robert Shiller

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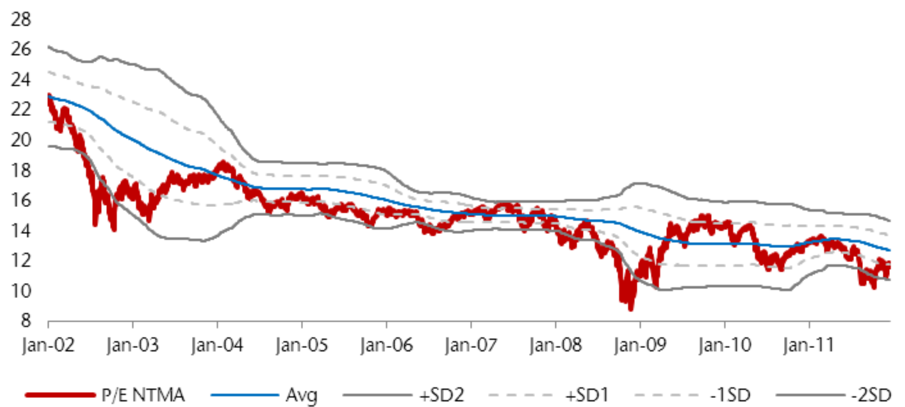
On both forward P/E...

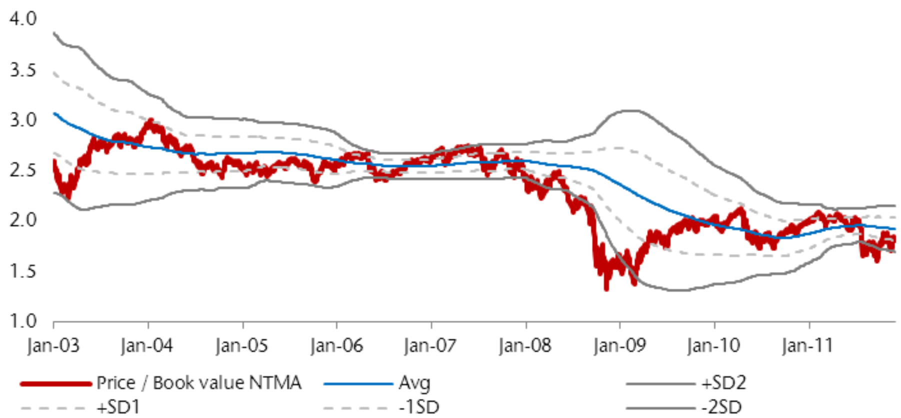
Exhibit 156: PER (12 month forward) - US



Source: FactSet, Jefferies

...and price-to-book, the market appears inexpensive

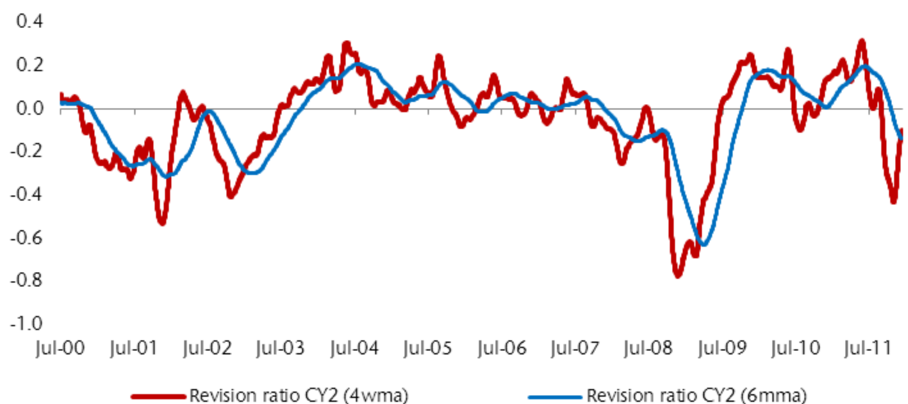
Exhibit 157: Price/Book (12 month forward) - US



Source: FactSet, Jefferies

Earnings revisions have already double-dipped

Exhibit 158: Earnings Revision Ratio (CY2) - 4wma & 6mma - US



Source: FactSet, Jefferies

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BEARISH

UK: An enigma wrapped up in a puzzle

History will look at the imbalances besetting the UK, twin fiscal and current account deficits alongside a fragile currency and wonder how the country was able to maintain its AAA rating. Indeed, the UK economy and equity markets are also similarly imbalanced. UK equity indices have a smorgasbord of foreign listings as constituents despite the fact that few derive any of their revenues from within the UK economy. The two-tiered nature of the economic imbalances and the bifurcated equity market mean that conclusions are hard to find.

By the standards of previous recovery phases, UK real GDP has been below trend (less than 2% annualized). One of the ironies about the current macro data is that there is little evidence of deleveraging occurring within the economy. Indeed the current account deficit to GDP remains wide; hence import demand remains firm. But this in itself is not the whole story.

A paradox is also apparent in the UK employment data, with both the CBI and Bank of England reporting skill shortages within the economy. Perversely this is occurring when youth unemployment (18-24 years old) is at its worst since 1990. Indeed, a separate BoE study reports evidence of manufacturing sector capacity constraints. This is in contrast to lackluster retail or consumer data.

Two things appear to be happening; firstly, there has been a renaissance in UK manufacturing and exports helped by a weak sterling that has propped up utilization rates. Secondly, there has also been an increase in Foreign Direct Investment (FDI) into the UK, presumably also due to a weaker exchange rate compared to the euro-zone.

Interestingly, the above data is corroborated by a buoyant UK export orders index. However, it doesn’t appear that companies are investing heavily in plant or equipment to expand capacity, despite the noted constraints. Indeed, business investment as % of domestic demand is close to a 1960 low.

Paradoxically, a closer look at the UK corporate sector financial balance shows the highest record cash-flow since 1997. So despite the gloom in retail and employment, companies are cash rich but appear to be content to do little hiring or little fresh investment. As an aside, UK self-employed workers were also at a record high at the beginning of 2011. Despite perceived structural problems, the UK economy does have a degree of flexibility.

It seems that either due to regulation, perceived tax threats or just lack of confidence, the ‘rich’ corporate sector does not appear willing to follow through and invest in capex. Yet foreign companies wish to send FDI into the country and capacity constraints abound within the manufacturing sector.

A further dichotomy comes from a glance at the BoE data with the central bank’s ownership of gilts at a record high while M4 % y-y is negative, the lowest since records began in 1960. The slump in the velocity of money must be particularly perturbing for the central bank. While QE does not appear to have improved the unemployment rate, it has left the REER of sterling versus the rest of the world at lows. While the devaluation of sterling has led to a restoration in competitiveness, it has also meant that imported prices are rising at a double-digit clip and inflation continues to rise.

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One of the key factors undermining the retail sector is that inflation expectations continue to rise with the result that consumer confidence hit a seven-year low in October 2011 on an annualized basis. QE appears to be having unintended consequences. It has uplifted UK exports and encouraged inward FDI. But it has also raised the cost of imports and hence inflation. This in turn has hit consumer confidence and retail sales. The lack of follow-on growth from the corporate sector has failed to lift employment and wages compounding the household sector.

The equity market appears inexpensive on a number of measures, particularly against gilts. Non-financials appear to be in rude health and enjoying a renaissance. Further QE is expected, but it is likely to reinforce the unintended consequences further. The UK equity market has a narrow stream of companies that can benefit from the fall in sterling but the devaluation strategy is raising the inflation game.

Economic growth has stalled

Exhibit 159: UK Real GDP (%, y-y)

Source: Datastream, Jefferies

It has actually been difficult to find skilled workers in UK

Exhibit 160: UK Recruitment Difficulties Survey

Source: CEIC, Jefferies
Note: Agents are asked to place a value on their assessment of the degree of difficulty on a scale from -5 to +5 consistent with their reports.

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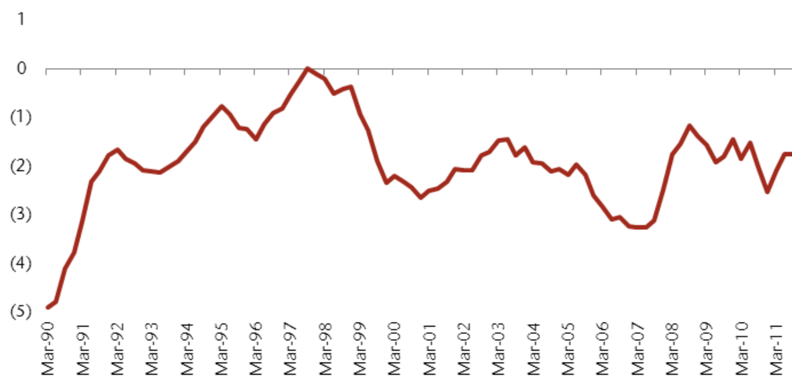
UK continues to run a current account deficit

Exhibit 161: UK Current Account % of GDP



Source: Bloomberg, Jefferies

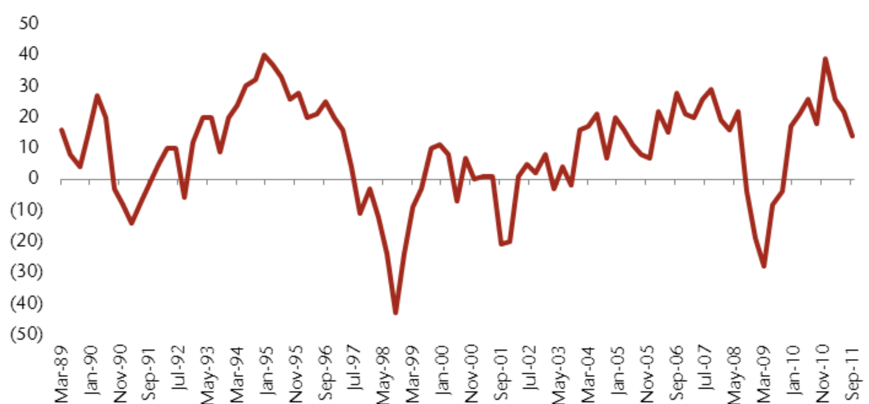
Capacity constraints have been evident in the UK manufacturing sector

Exhibit 162: Bank of England Manufacturing Capacity Constraints Survey

Source: CEIC, Jefferies
Note: This score measures how capacity constraints are affecting companies: in particular, the degree of difficulty that contacts face in increasing their output. Primarily capacity constraints will reflect a lack (or surplus) of capital (machines) and labor (workers), although other factors can also play a role.

Export orders continue to grow

Exhibit 163: UK Manufacturing Sector Survey - Export Orders (%, y-y)



Source: CEIC, Jefferies

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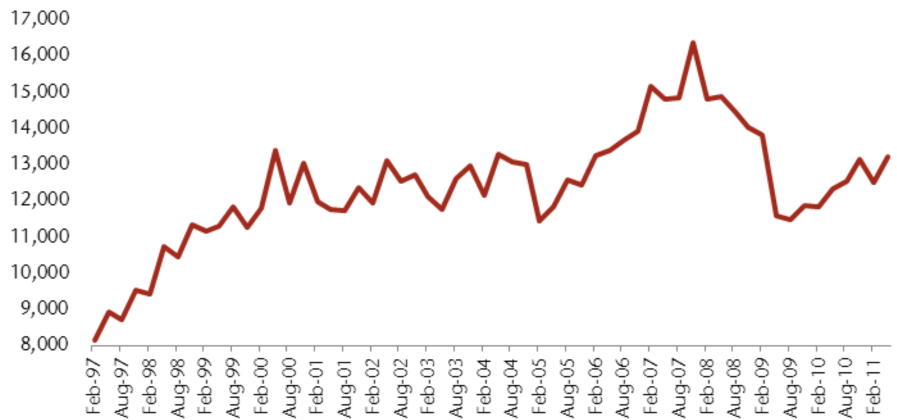
Corporates are spending but still too low relative to cash-flow

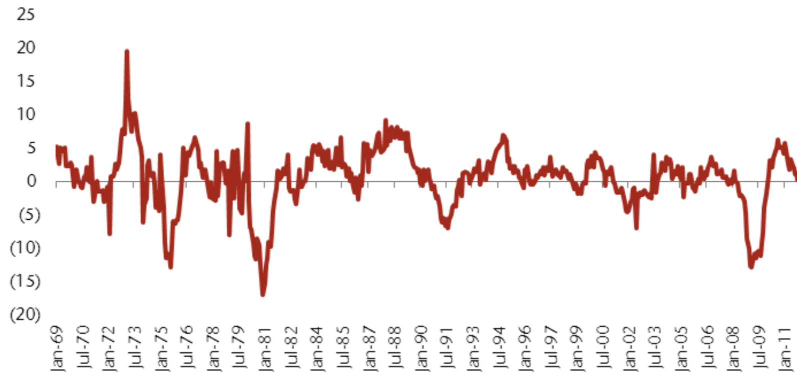
Exhibit 164: UK Capex on Machinery (GBP mn)



Source: Datastream, Jefferies

UK industrial production is set to turn negative

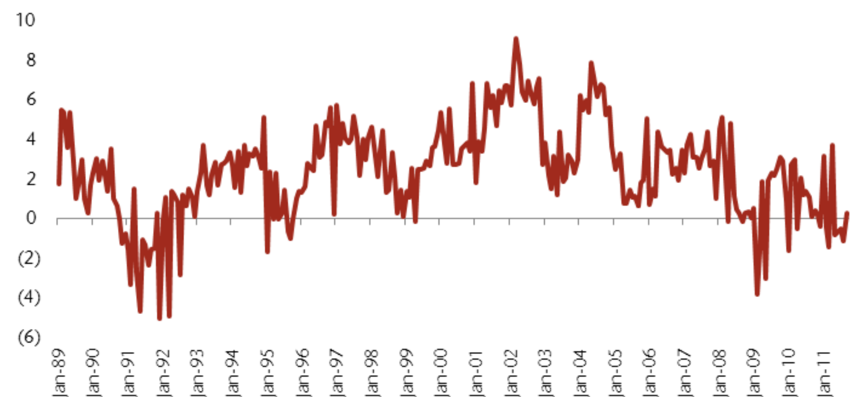
Exhibit 165: UK Industrial Production (%, y-y)



Source: Datastream, Jefferies

UK consumption trends are poor

Exhibit 166: UK Retailing Sales Volume excluding Fuel (%, y-y)



Source: CEIC, Jefferies

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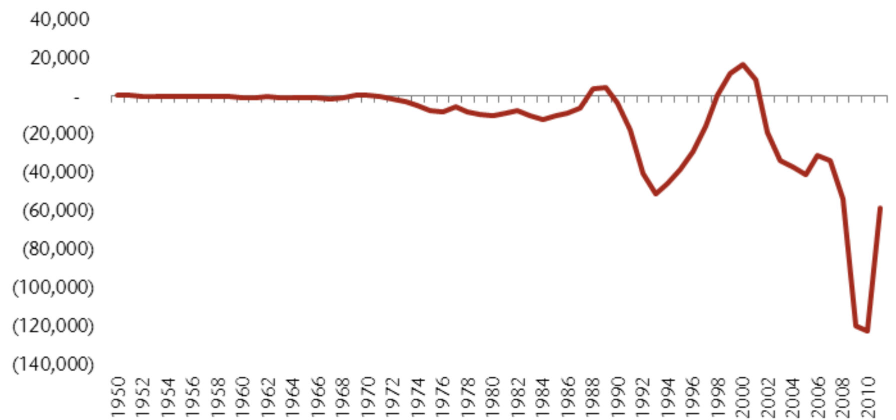
The UK has a long way to go to restore its public debt position

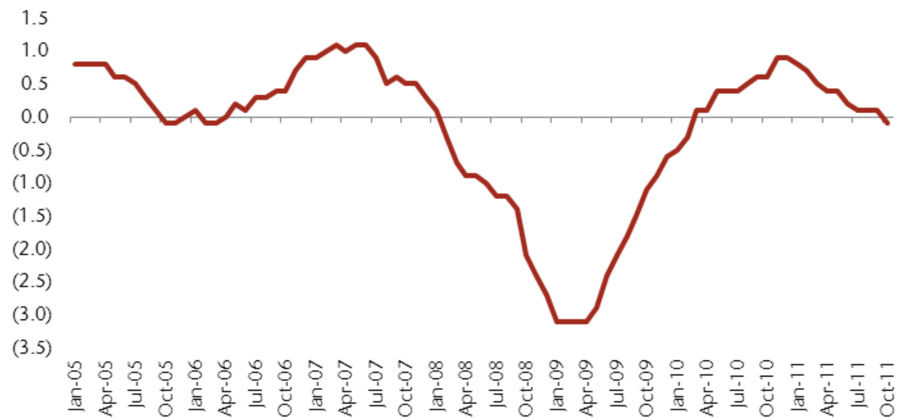
Exhibit 167: UK Public Sector: Total Net Borrowing - annually (GBP mn)



Source: Datastream, Jefferies

Business conditions have softened

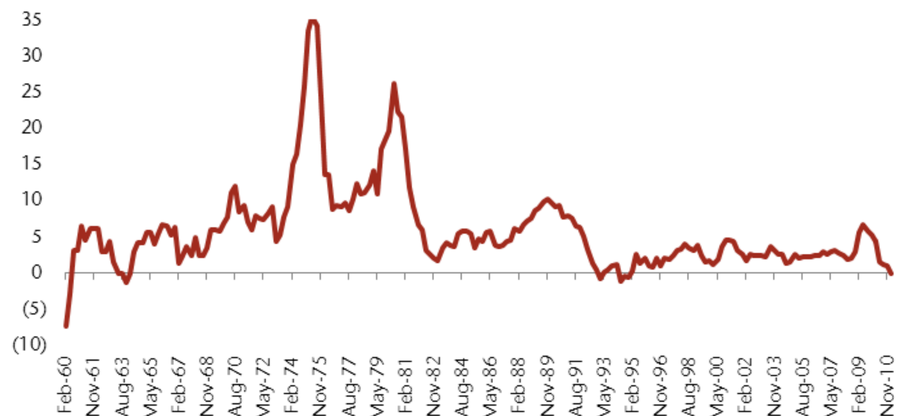
Exhibit 168: Bank of England Business Conditions Survey



Source: CEIC, Jefferies

Wage growth is zero

Exhibit 169: UK Unit Labor Cost (%, y-y)



Source: Datastream, Jefferies

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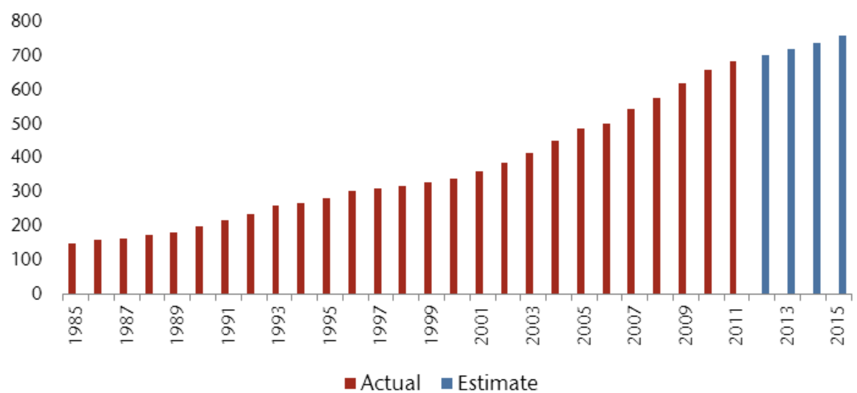
UK borrowing commitments remain high

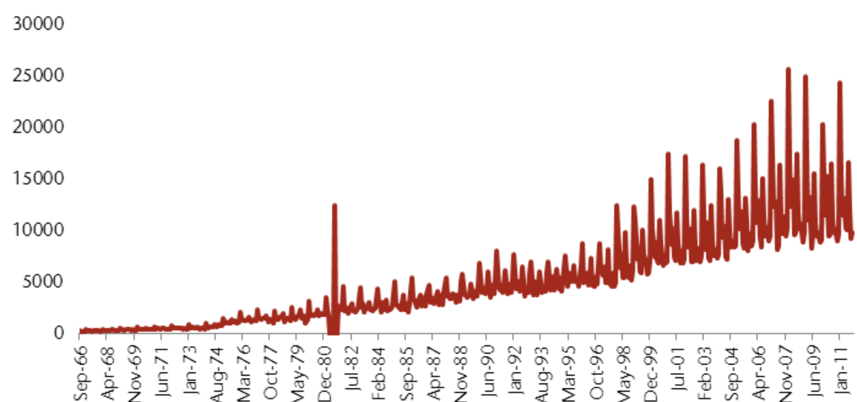
Exhibit 170: UK Total Spending from 1985 to 2015 (GBP bn)



Source: ukpublicspending.co.uk

It remains to be seen whether there are enough tax receipts...

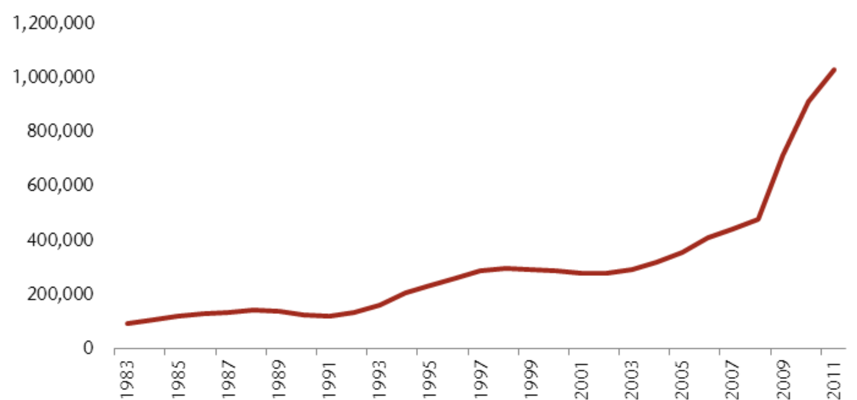
Exhibit 171: UK Income Tax Net Receipts (GBP mn)



Source: Datastream, Jefferies

...and whether governments can keep borrowing

Exhibit 172: UK Gilt Outstanding (GBP mn)



Source: CEIC, Jefferies

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The money supply has collapsed

Exhibit 173: UK M4 (%, y-y)

Source: Datastream, Jefferies

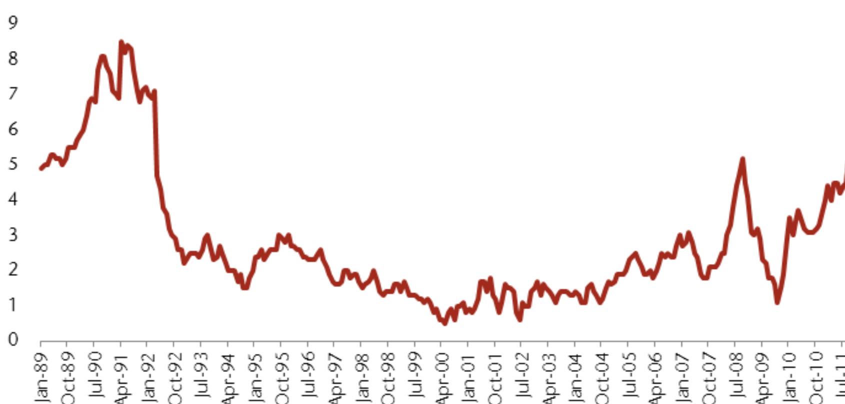
Import prices continued to rise...

Exhibit 174: UK Import Price Index (%, y-y)

Source: CEIC, Jefferies

...and this will fail to temper inflation

Exhibit 175: UK CPI (%, y-y)



Source: Datastream, Jefferies

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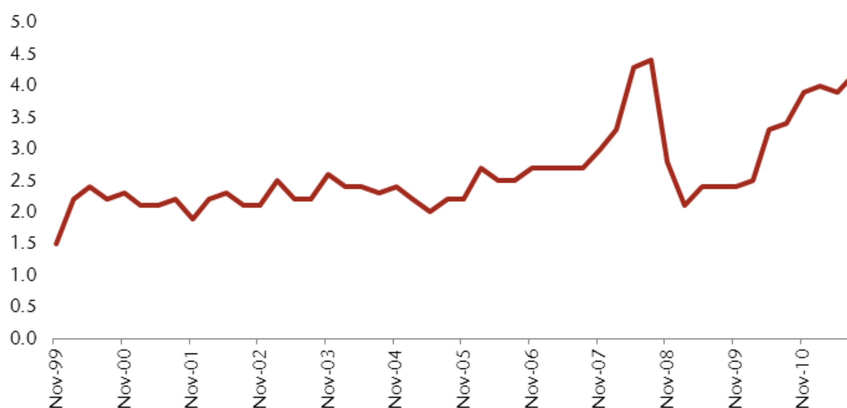
Indeed, expectations continue to rise

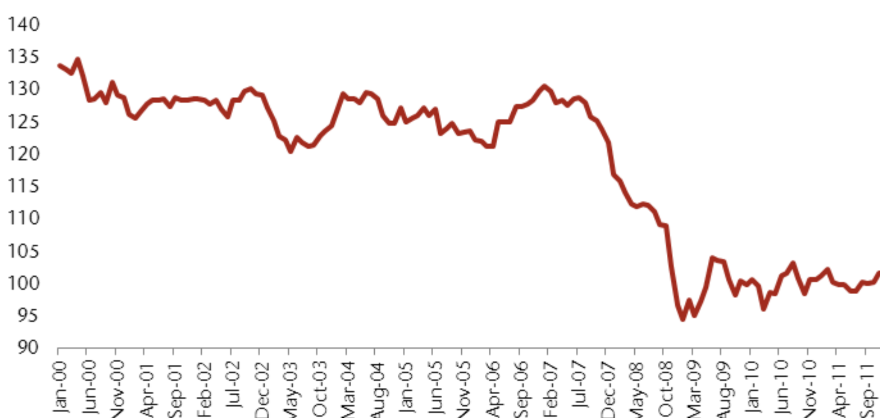
Exhibit 176: UK Inflationary expectations (next 12 months, %)



Source: CEIC, Jefferies

QE did work...by forming the exchange rate lower

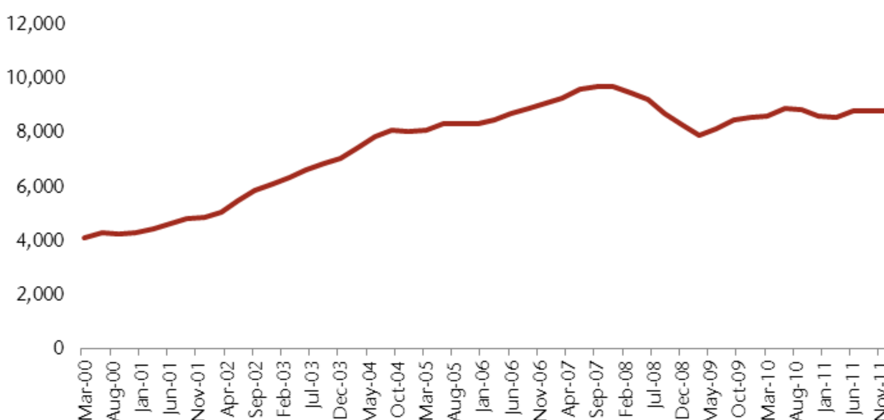
Exhibit 177: Sterling REER



Source: Bloomberg, Jefferies

House prices remain firm

Exhibit 178: UK Nationwide House Price Index



Source: Bloomberg, Jefferies

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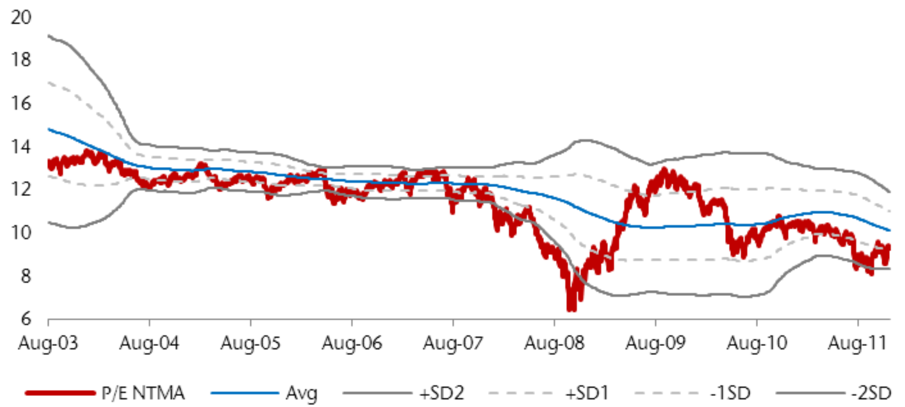
The UK equity market is inexpensive...

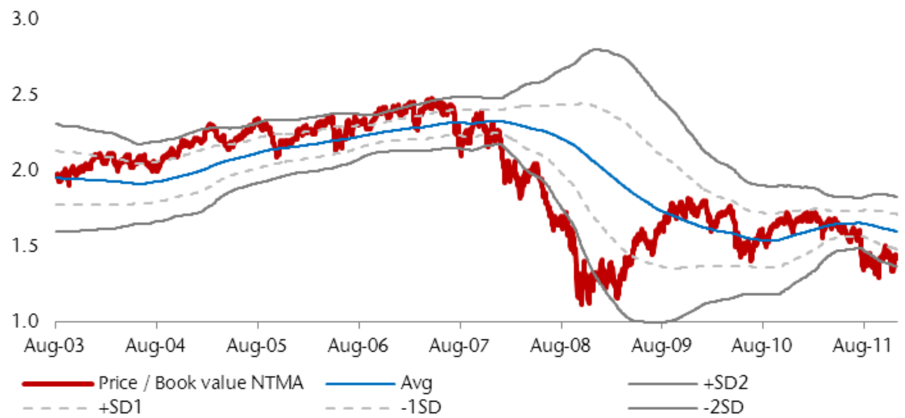
Exhibit 179: PER (12 month forward) - UK



Source: FactSet, Jefferies

...on most measures

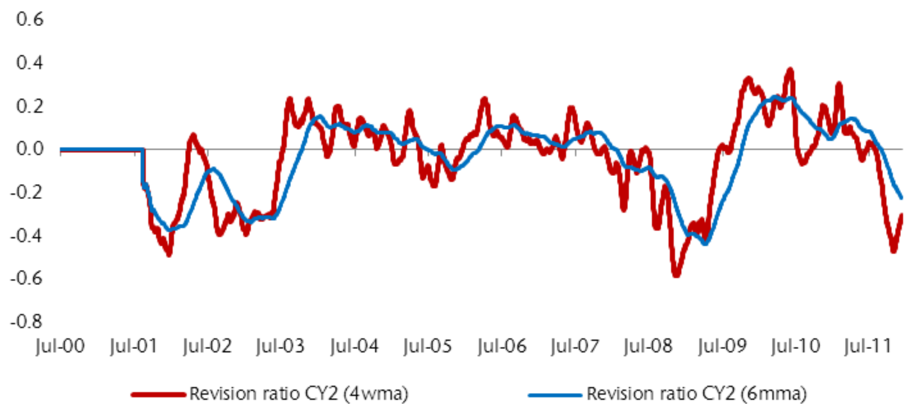
Exhibit 180: Price/Book (12 month forward) - UK



Source: FactSet, Jefferies

Earnings expectations have already double-dipped

Exhibit 181: Earnings Revision Ratio (CY2) - 4wma & 6mma - UK



Source: FactSet, Jefferies

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BULLISH

Japan: Rocky cyclical recovery

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Regional recovery has started in latter part of 2011
After being side-swiped by the Tohoku disasters, Japan staged a rapid recovery over the summer. Following economic contraction of over 6% in the Apr-Jun quarter, Japanese GDP rebounded in the July-September quarter by almost 6%, driven largely by domestic consumption. Though investment was still soft over that quarter, the replacement of at least part of an estimated Y30trn in damaged capital stock is expected to keep the economy supported.

Still, as we note below, uncertainty over future growth as well as apprehensiveness over future global financial market developments, mostly linked with the Eurozone sovereign debt crisis, have kept Japanese stocks under pressure.

Current situation: Japan stocks are trying to trough as the inventory cycle attempts a peak, but fear of soft demand might prolong adjustment until Q1 2012.

Where to from here? Hope for positive growth, relative out-performance
Alongside the anticipated 2012 dispatch of at least a significant portion of stimulus enacted in FY2011 (Y18trn so far, with another potential Y2.5trn in the pipeline), it would probably be a mistake to under-rate Japan relative to countries with smaller amounts of stimulus to dispatch, notably the Eurozone and the US. Even if dispensed evenly over the course of 4 years, annual stimulus would equate to somewhere near 1% of GDP per annum.

Early 2012: fat-tailed distribution clouds a positive outlook
Currently, both the compendium of bottom-up market and top-down earnings' estimates are for modest upside in FY12 for both the Nikkei and S&P (with which Japanese stocks still maintain some positive correlation). However, options premiums still imply greater demand for downside rather than upside protection. Bottom-up forecasts are mildly more positive than top-down consensus forecasts, which implies that either company earnings forecasts must be further revised down from here, or central market expectations upward.

Given the overall downward surprises in Jul-Sep 2011 earnings, it is possible that expectations for future developments in firm fundamentals have already been managed sufficiently downward.

Mid-term: potential for growth out-performance, a bumpy ride to Y10,000
We envisage a gradual trajectory (beset by interim volatility) helping the Nikkei above Y10,000 by the end of FY2012, but forecast a rocky recovery in overseas markets posing interim setbacks for Japan. Still, recovery-related stimulus spending in Japan might offer a relatively positive argument, offering Japan some relative lustre amid dull performance elsewhere. We have noted before the depressed performance of the Nikkei versus many developed-country bourses in the wake of the Tohoku disaster, even despite a faster recovery in growth and production than originally anticipated. In 2012, the Nikkei might gain some respite from some relatively positive economic fundamentals. The OECD for instance foresees three quarters (starting from Q4 2012) wherein Japanese growth will not only surpass potential (which according to the OECD sits around 0.9%) but will surpass average real growth within the OECD, even though it expects Japan to remain mired in deflation.

Even private-sector forecasters in Japan (typically not the most positive crowd) see potential for growth to surpass OECD forecasts over the initial quarters of 2012.

After this, there was a significant shift in growth expectations from 2011 to 2012, then additional erosion of 2011 forecasts as risks in Euroland and elsewhere depressed external growth expectations. Now, looking at the anticipated breakdown of quarterly growth in 2012, anticipated growth is mostly domestic-driven; even typically bearish forecasters are loath to underestimate the power of a massive stimulus.

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Long-term: Cyclical recovery over 2012, structural questions thereafter

While it is tough to become extremely positive on Japan in the absence of structural reform, there is significant potential, given current valuations (even taking into account the long-term downtrend) for cyclical recovery. The 20-year moving average that in the previous cycle capped Nikkei upside at 14,000 now sits around 13,000, a level that markets price very little risk of reaching in 2012.

There is probably relative value in Japan compared to equities elsewhere, one from a risk perspective (Europe, emerging markets) and also a leverage perspective. Cyclical leverage in Japan's financial sector remains at the opposite extreme to leverage in the US financial sector.

FX assumptions: gap with consensus grows over the course of 2012

The maintenance of accommodation by major central banks is expected to reflate risk assets, and alongside this long-end US rates. This contributes to a relatively positive outlook for dollar-yen by the end of 2012, where our 12m forecast is 80 yen, whereupon we expect a gradual adjustment toward purchasing power parity, which in our assessment sits somewhere near 90.

Long-term rates may have bottomed alongside long-term rate expectations, with a return to 1.2% in 10y rates, but also remain exposed to downside risk, especially if the US *and* Japan engage in further quantitative easing.

Rates outlook: mild upside from global supply & demand with risk of QE

Our outlook on Japanese rates is one of contained downside rather than reflationary upside. We observe that consensus expectations for 10y JGB yields as of FY11 end hit a trough in October 2011 at around 1.1%. Yields declined below the 1% level subsequently but stalled, returning to follow global rates modestly higher. While there remains considerable risk that the BOJ might add to existing accommodation, there also remains the risk that G10 policymakers as a whole (not only the BOJ) might be garnering diminishing returns on continued stimulus (particularly in the US, the long-end of whose curve leads movements in global bond markets) and thus additional accommodation might slow from here, and we would see gradual recovery in JGB yields toward the 1.2% level over the course of 2012.

Additionally, the fate of JGB markets is increasingly intertwined with that of Japan's banks. So long as depositors flood the banking system with cash (with demand deposits increasing in proportion to time deposits), banks might seek to recycle this deflationary savings into JGB's, pushing yields lower. However, if indeed consensus expectations for above-potential growth in 2012 (driven largely by reconstruction and ancillary domestic demand) are correct, there remains the chance that risk asset markets will slowly reflate, while bonds fall gradually out of favour, though yields could remain capped so long as mild deflation persists, as expected.

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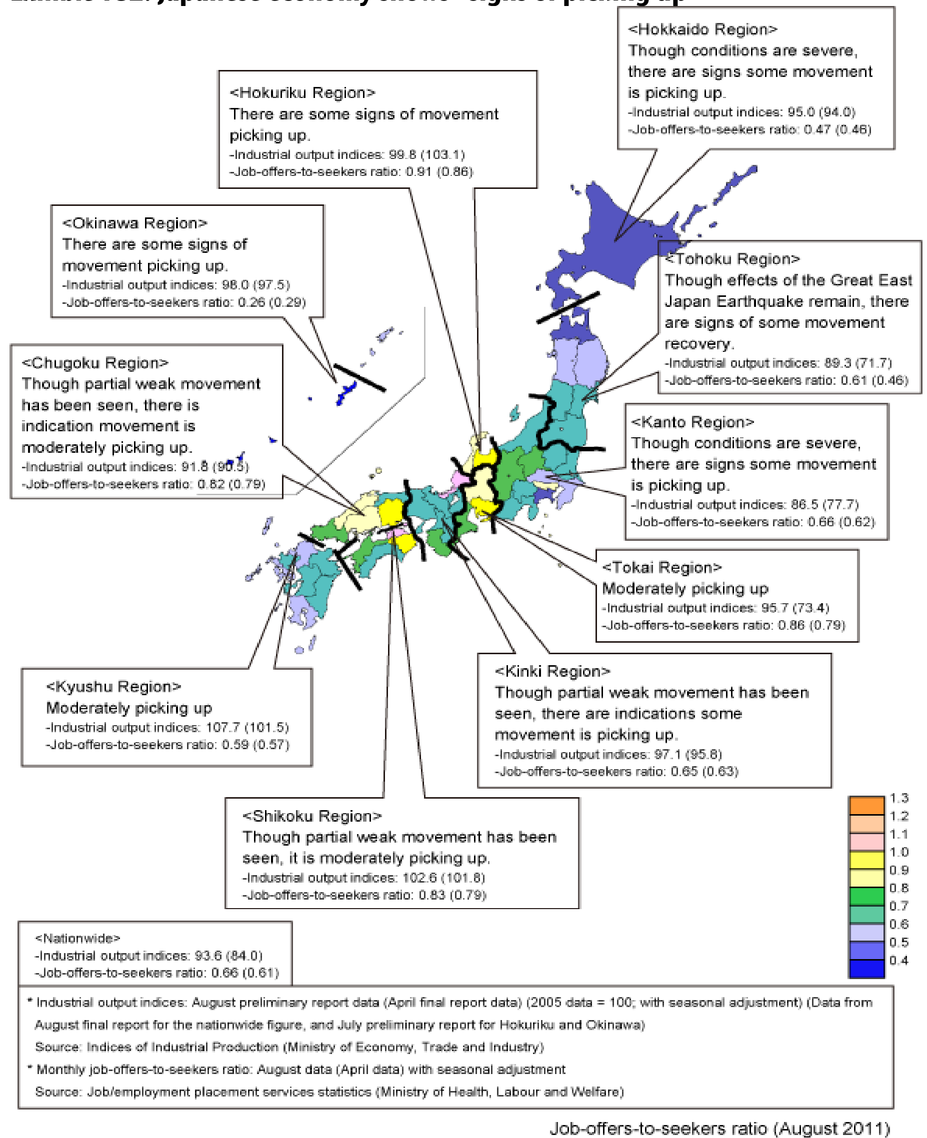
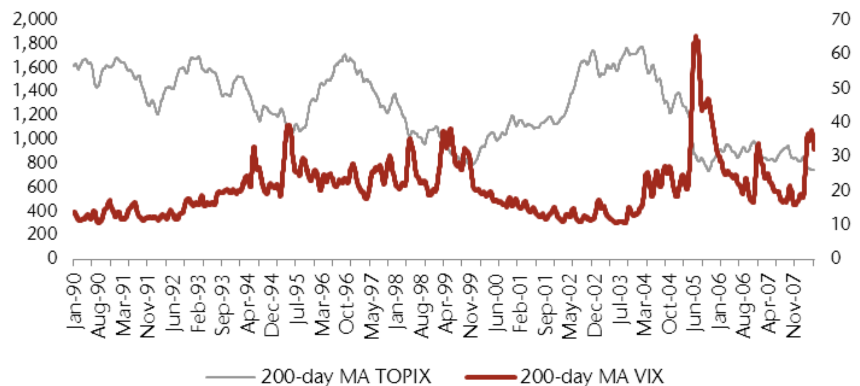
Exhibit 182: Japanese economy shows “signs of picking up”



Source: METI

Exhibit 183: High volatility limits TOPIX gains



Source: Bloomberg, Jefferies

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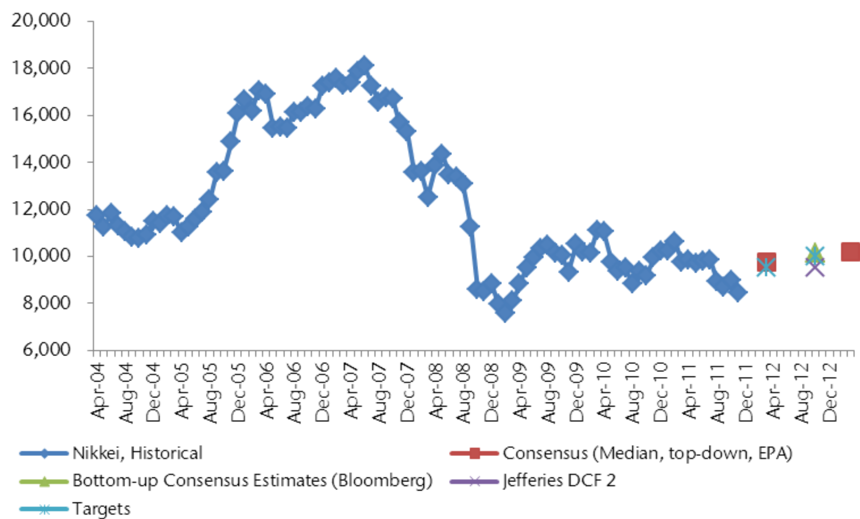
Exhibit 184: Nikkei Consensus, Forecast Estimates



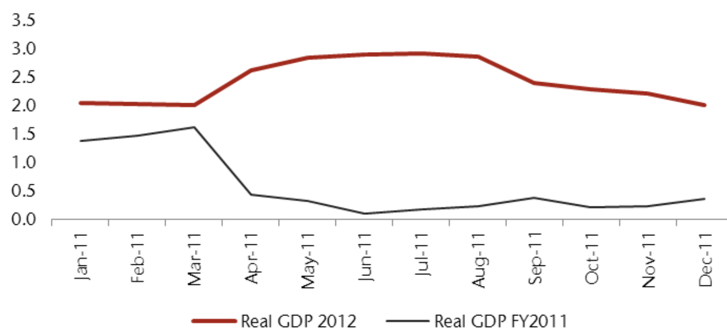
Source: Bloomberg, Jefferies, EPA

Exhibit 185: OECD forecasts three quarters of Japan out-performance

		2011	2012	2013	2011		2012			
					Q3	Q4	Q1	Q2	Q3	Q4
	Per cent									
Real GDP growth										
	United States	1.7	2.0	2.5	2.0	2.5	1.7	1.9	2.2	2.3
	Euro area	1.6	0.2	1.4	0.7	-1.0	-0.4	0.5	1.1	1.3
	Japan	-0.3	2.0	1.6	6.0	1.5	1.8	1.8	1.6	1.5
	Total OECD	1.9	1.6	2.3	2.4	1.1	1.2	1.7	2.2	2.1
Inflation[1]	year-on-year									
	United States	2.5	1.9	1.4	2.9	2.9	2.4	2.0	1.8	1.6
	Euro area	2.6	1.6	1.2	2.7	2.5	2.0	1.6	1.6	1.4
	Japan	-0.3	-0.6	-0.3	0.2	-0.3	-0.6	-0.5	-0.6	-0.6
	Total OECD	2.5	1.9	1.5	2.8	2.6	2.2	1.9	1.8	1.7

Source: OECD

Exhibit 186: GDP - growth shifted to 2012



Source: EPA

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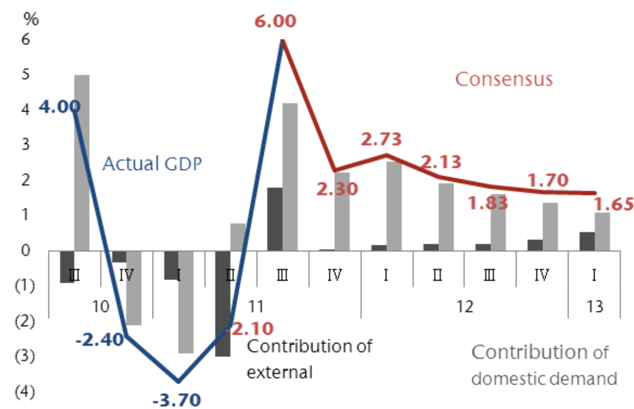
Exhibit 187: GDP improvement trajectory



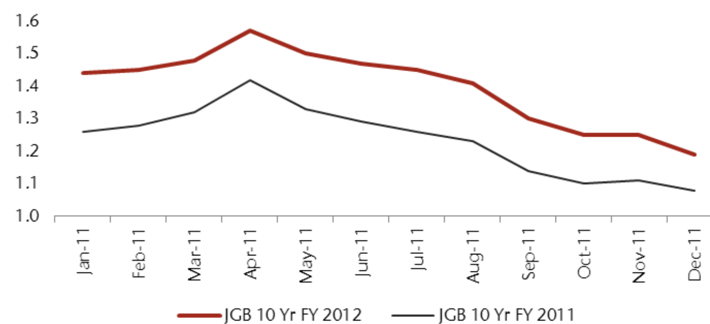
Source: EPA

Exhibit 188: : Jefferies FX assumptions – gradual divergence above consensus

2011/12/02		Spot	Q1 12	Q2 12	Q3 12	Q4 2012	2013
USDJPY	Consensus	77.81	77	78	78.5	80	85
	Forward		77.7	77.5	77.4	77.1	76.0
	Jefferies		82	81	80	85	90

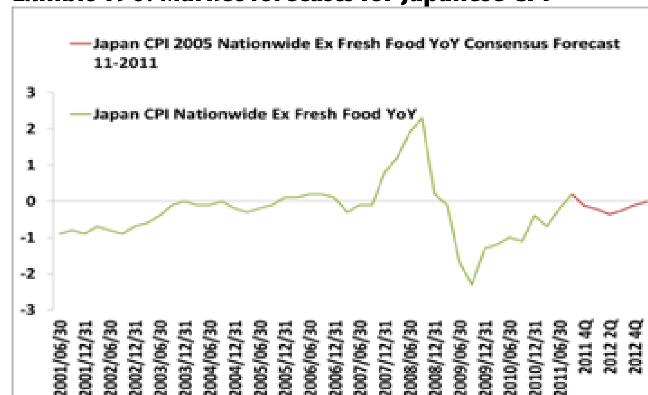
Source: Bloomberg, Jefferies

Exhibit 189: 10-year Yield Expectations - Downside contained



Source: EPA

Exhibit 190: Market forecasts for Japanese CPI



Source: Bloomberg, EPA

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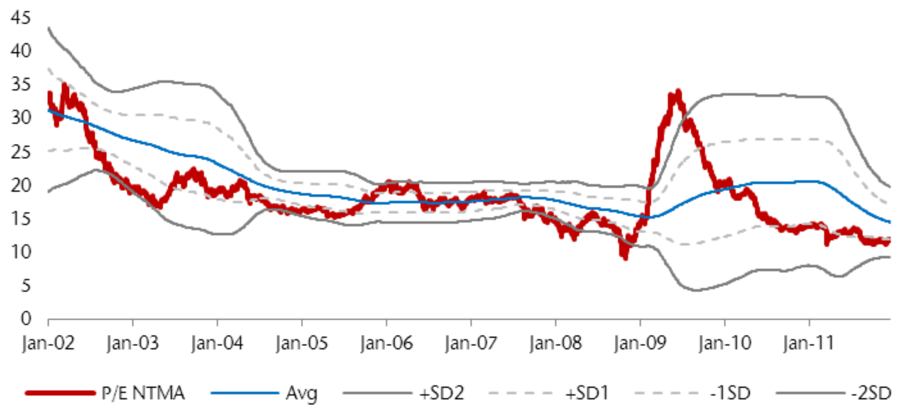
Quite literally, Japan...

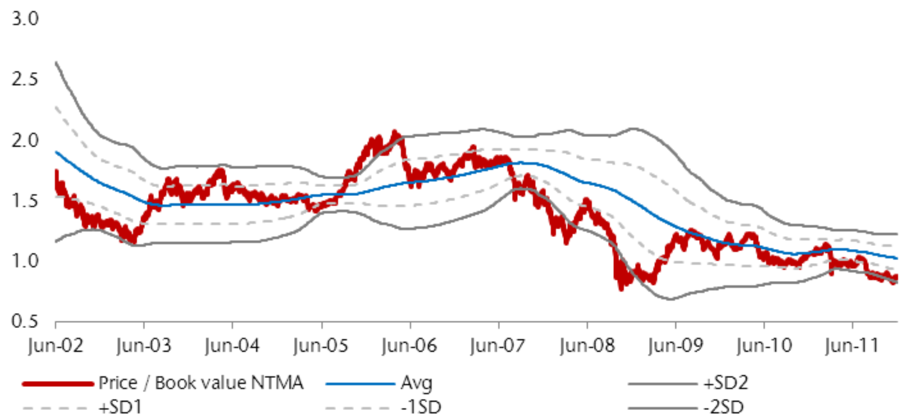
Exhibit 191: PER (12 month forward) - Japan



Source: FactSet, Jefferies

...is cheap

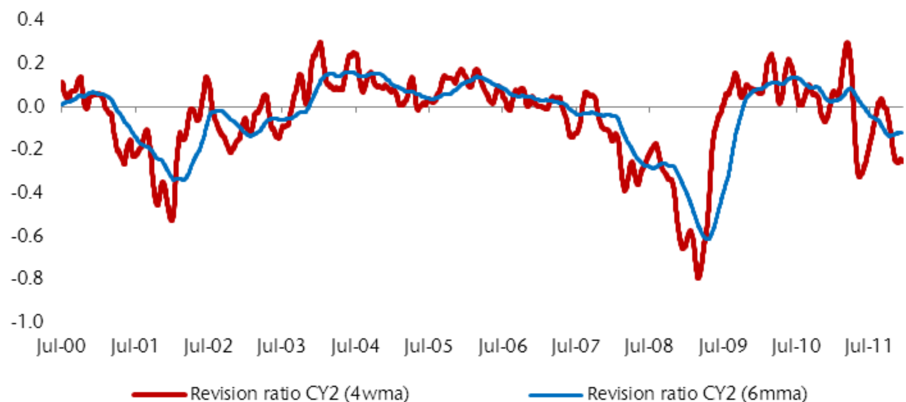
Exhibit 192: Price/Book (12 month forward) - Japan



Source: FactSet, Jefferies

Earnings continue to reflect the aftermath of the Tohoku earthquake

Exhibit 193: Earnings Revision Ratio (CY2) - 4wma & 6mma - Japan



Source: FactSet, Jefferies

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BULLISH

Canada: Not the Dutch disease but the Australian flu

During 2006-07, Canada's economy made a subtle change. The demand for commodities from China overtook exports to the US. This shift alongside the investment in commodities and energy caused the exchange rate and currency to also fundamentally shift. Moreover the credit-fuelled boom of its two largest trading partners was not seen to the same extent in Canada. The banking sector was shown to be resilient against any spill-over from the US 2008 financial crisis.

Interestingly, while the private sector didn't go through the same leveraged growth, OECD data highlights that Canadian private bank debt burden has shifted north of 200% surpassing the US and Australia. The relative change in indebtedness of the private sector has also occurred as the country has experienced a very large terms-of-trade shift. However, despite the commodity boom, the current account has turned into a deficit much like Australia as overseas fund flows moved into fixed income and other debt instruments. Interestingly, high yield bond issuance reached record levels in 2010 in the Canadian dollar markets. Of course, the Canadian dollar has appreciated during this time but the accumulation of foreign funds into the banking system has swelled allowing money to be recycled into the domestic economy at a faster rate than GDP.

The evidence that Canada is participating on its own credit cycle is exhibited by two areas. Firstly the pace of household debt accumulation has increased in 2011. Total financial asset inflation as well as non-financial assets such as real estate appear to have emboldened the population. Total household credit grew at an annualized rate of 7.5% during the first four months of 2011 helped by a 9.1% increase in residential mortgage credit. Indeed according to the Bank of Canada, the aggregate debt-to-income ratio of Canadian households is at a record level and indeed may have surpassed the US and UK households in 2011. Interestingly, the Canadian government tightened the rules surrounding government-backed insured mortgages at the beginning of the year in order to prevent over-heating. House prices are still elevated relative to income and according to the Teranet-National Bank, stand close to a record high at just below 4.5 (2Q2011). Modest compared to other economies.

Indeed, the BoC Financial System Review pointed out that the total and household credit-to-GDP gap remains well above the 2% threshold although it has fallen from the 30-year peak experienced in 2008-09. Household credit-to-GDP gap was around 5% meaning that the economy and financial system was vulnerable to deterioration in employment trends or more pertinently a decline in commodity prices. Hence the credit boost to the economy has not necessarily been flowing into the productive parts of the economy but has flowed into an asset boom that resembles the picture in Australia and US pre-2008. The marginal increase in debt has also not been met by additional productivity gains.

While the corporate sector appears to have been 'investing' it has not yet been able to achieve productivity gains quickly enough to offset the appreciation of the Canadian dollar. The currency is over-valued on a PPP and REER basis.

Bank credit is modest and the loan-to-deposit ratio is near one. It seems therefore that the credit build-up is not so much a current problem but has been inherited from previous booms. Retail sales are also growing modestly contrary to signs of a consumer credit led economy. It appears that corporate borrowing has risen at a double digit level and that a large part of the recycling of fund inflows has been either through bond issuance or debt securities as earlier noted. This seems to have encouraged a rise in business investment spending but also M&A.

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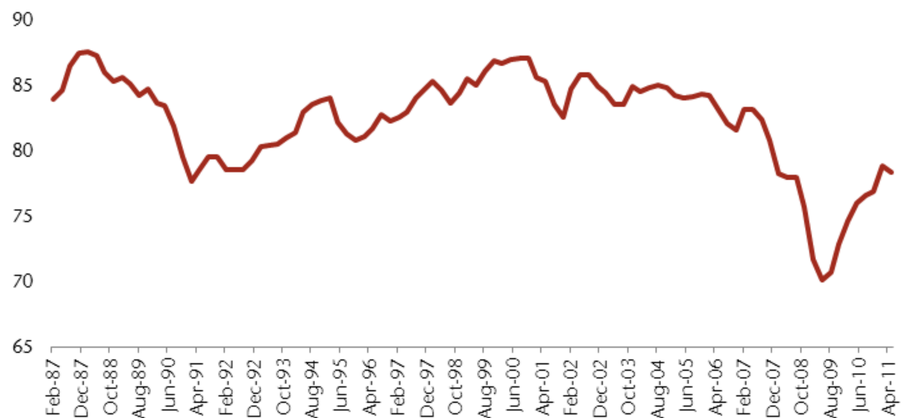
The latest (3Q11) senior loan officer survey on business lending practices pointed to an overall easing in business-lending conditions. Indeed for corporate borrowers, lending conditions eased for the ninth consecutive quarter. Interestingly, it was the competition among lenders that was cited as the reason for the easing in business lending conditions.

The Bank of Canada highlighted in its recent policy report that the economy is projected to expand by 2.1% in 2011, 1.9% in 2012 and 2.9% in 2013. The resumption in growth in 2013 is predicated on the euro-crisis being contained and a rebound in oil. Inflation is expected to trough around 1% by the middle of 2012 before climbing to 2% by end of 2013. Interest rates remain unchanged at 1%.

Canada has seen its recent economic rebound underperform the past decade

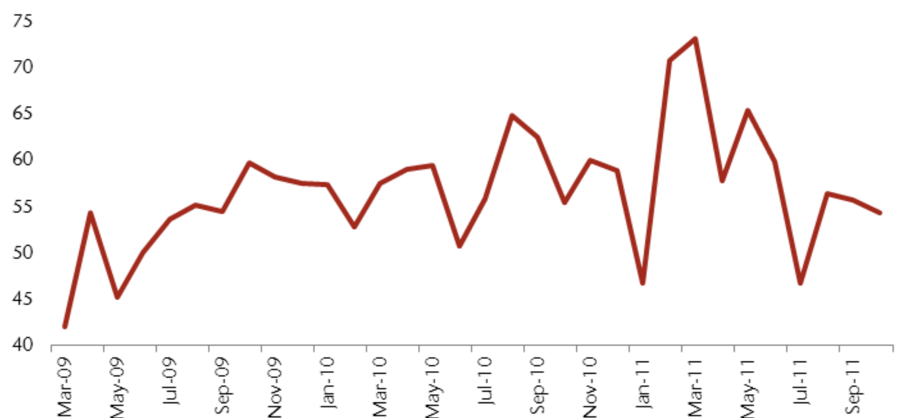
Exhibit 194: Canada Capacity Utilisation Rate



Source: Datastream, Jefferies

PMI is just holding up

Exhibit 195: Canada PMI



Source: Datastream, Jefferies

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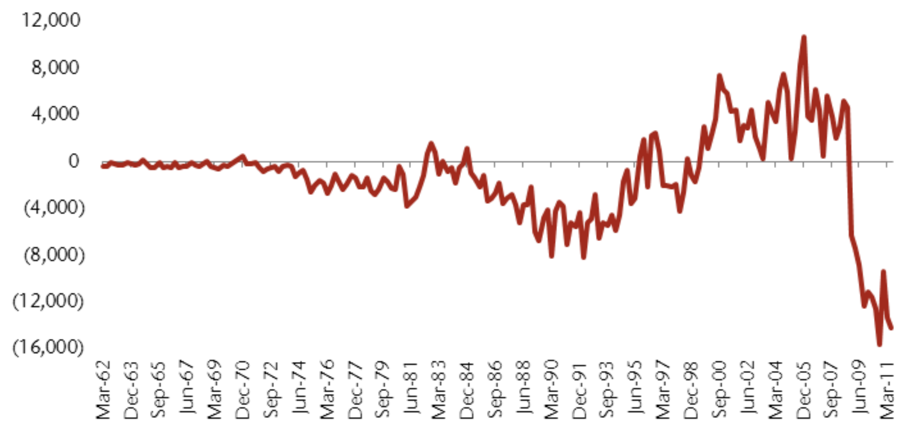
The economy has also seen its trade and current account positions reverse

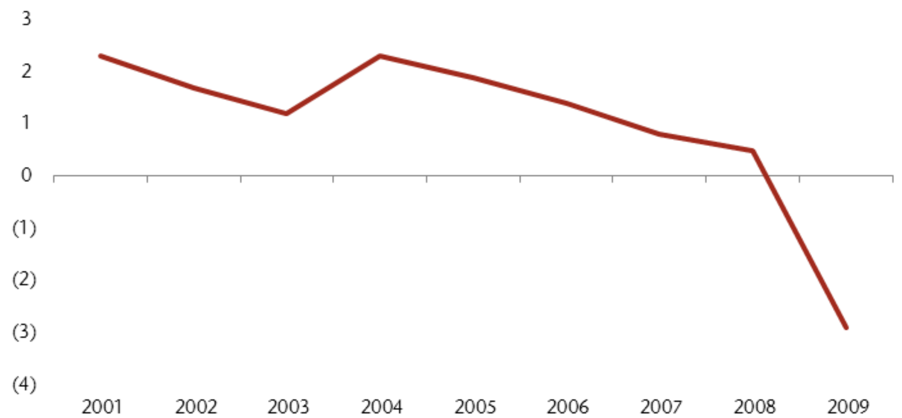
Exhibit 196: Canada Current Account Actual (US$ mn)



Source: CEIC, Jefferies

Indeed the current account deficit has begun to widen

Exhibit 197: Canada Current Account % of GDP



Source: CEIC, Jefferies

Monetary remains supportive

Exhibit 198: Canada M3 (%, y-y)

Source: CEIC, Jefferies

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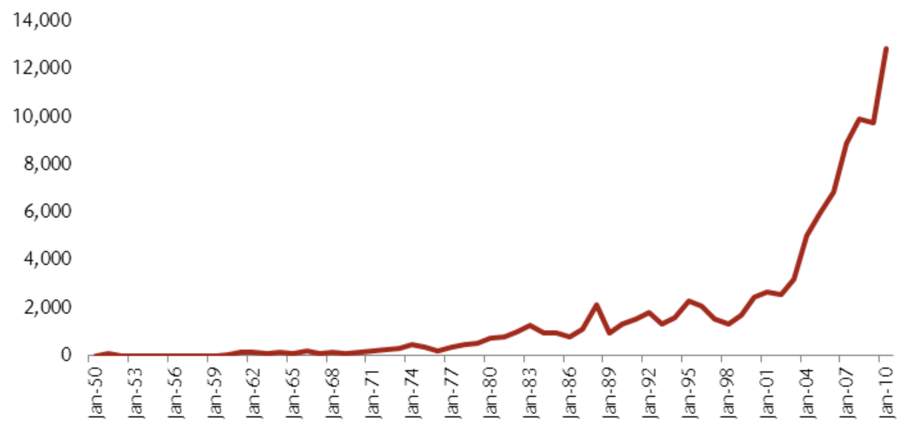
Canada's export machine is roaring

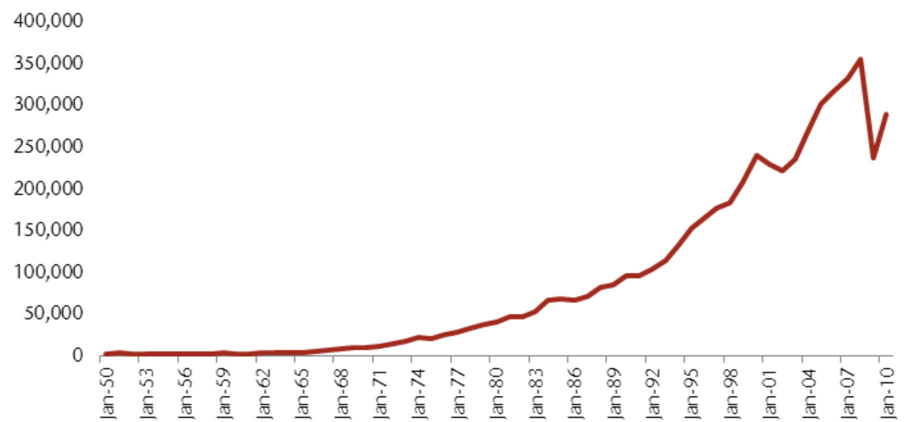
Exhibit 199: Canada Export to China (US$ mn)



Source: Datastream, Jefferies

Indeed it has also picked up to the US

Exhibit 200: Canada Export to US (US$ mn)



Source: Datastream, Jefferies

Terms-of-trade remain positive

Exhibit 201: Canada Terms-of-trade (%, y-y)

Source: Datastream, Jefferies

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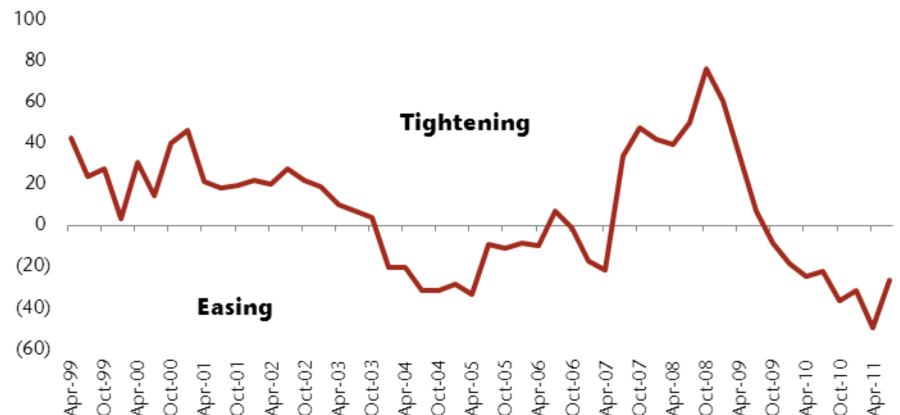
Monetary policy is loose

Exhibit 202: Bank of Canada Senior Loan Officer Survey, Overall Lending Conditions



Source: Datastream, Jefferies

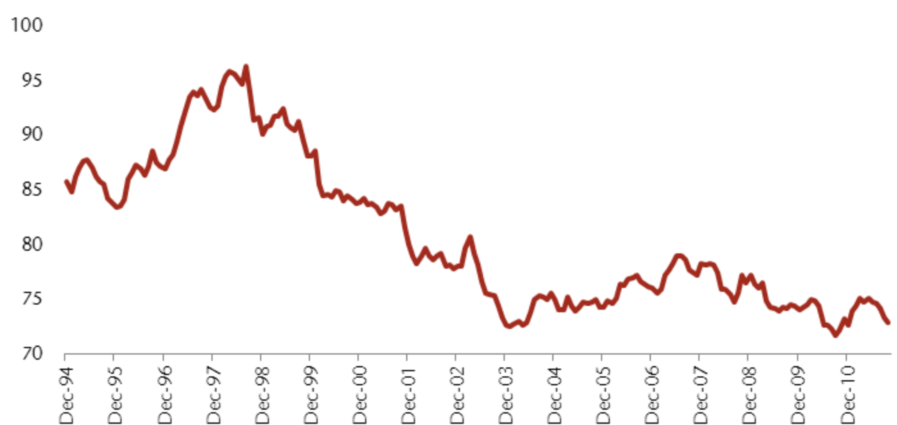
Loan growth is positive

Exhibit 203: Canada Business Loan Growth (%, y-y)

Source: Bloomberg, Jefferies

Bank leverage is actually low

Exhibit 204: Canada Loan to Deposit Ratio (%)



Source: Datastream, Jefferies

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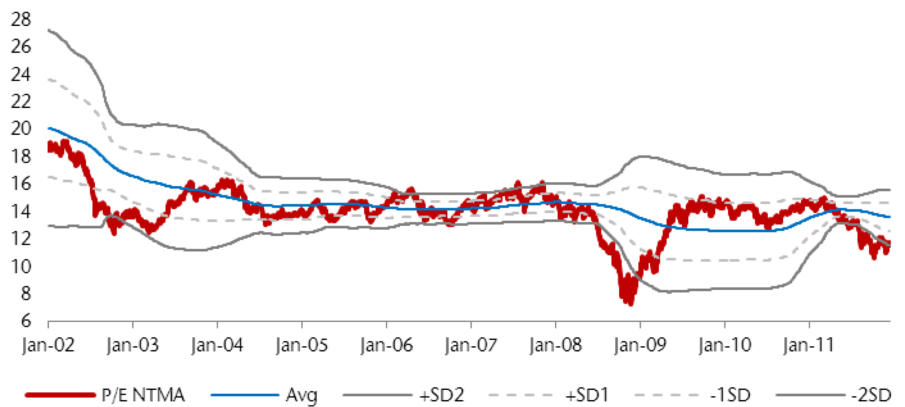
The market is trading to near lows

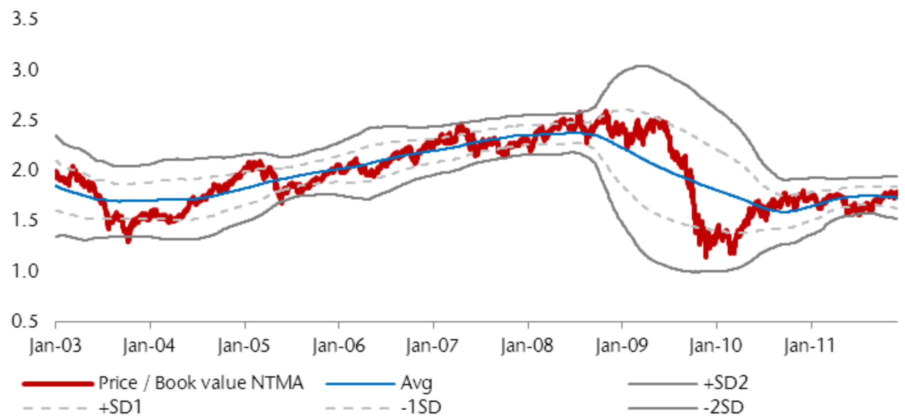
Exhibit 205: PER (12 month forward) - Canada



Source: FactSet, Jefferies

However, it appears to have de-rated

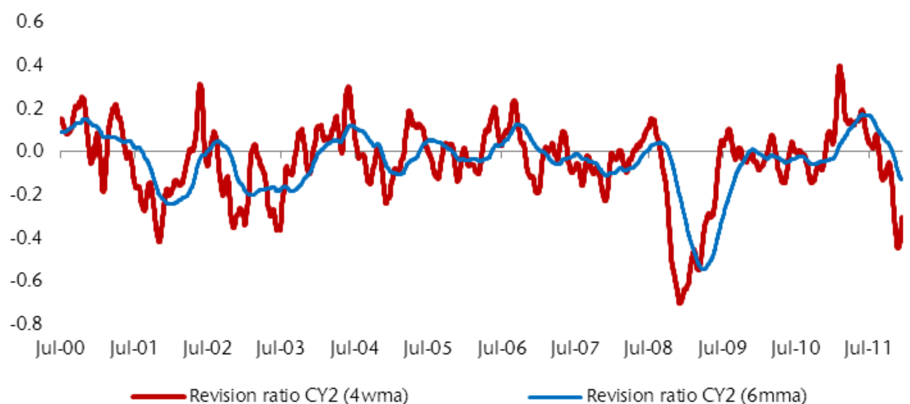
Exhibit 206: Price/Book (12 month forward) - Canada



Source: FactSet, Jefferies

Earnings expectations have been slashed

Exhibit 207: Earnings Revision Ratio (CY2) - 4wma & 6mma - Canada



Source: FactSet, Jefferies

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BEARISH

France: Mild currents but submerged rocks

Much like Italy, it seems unthinkable that France has been drawn into the euro-zone crisis. On the surface it was not afflicted by the obvious fiscal and current account deficit problems of its Southern neighbours. Whilst the major focus in Europe has been on the solvency of the government and the problems afflicting the banking system, we believe the market has missed the fact that France has seen its competitive position weaken leaving it with a growing current account deficit and a large public deficit. A lot of the structural problems for France appear to have been masked by the better consumption data through 2009-11.

France appears to have been scarred by the post 2008 crisis adjustment and not by pre-crisis problems. This appears to have lulled investors into a false sense of security. Large fiscal imbalances accelerated after the 2008 US financial crisis while higher wages occurred at the same time as productivity has grown slower than its neighbours. Local government and higher social welfare costs appear to have undermined public finances.

True, the current account deficit is not large but it has reflected the unbalanced nature of France's growth: higher imports on the back of a domestic consumer boom and a loss of competitiveness on exports. Since 2005, export growth in France has fallen significantly below the euro average. France has been unable to close the competitiveness gap because total factor productivity has not been enough to offset wage growth.

On the surface, business activity and lending has held up well, but industrial data has been much softer than Germany and in particular there are signs that business confidence is waning. The key for equity investors is that growth, and in particular margins, are unlikely to mean revert to their former trend. Equally, operational gearing is also set to come in below par, with utilization rates much lower than previous cycles. A devaluation of the euro would help French companies at the margin but we wonder if other European countries would take greater market share. From the latter half of 2005, France lost 1.5% of market share in the euro-zone according to recent IMF data.

French banks have come under pressure with a growing proportion receiving funding through ECB window mechanisms towards the end of last year. French banks entered 2011 with high loan-to-deposit ratios with many banks dependent on wholesale funding sponsored through overseas money market funds. Any further deterioration in the credit-worthiness of the French banks would place enormous stress on the credit rating of France.

France is also facing an election with the opposition Socialist Party led by Francois Hollande standing against the incumbent Nicholas Sarkozy. It will be an interesting competition, more so because the resurgent right wing National Front under Marine Le Pen will also play a significant role in deciding the winner.

We believe French equities face a difficult 1Q as the authorities are forced to tighten fiscal strings at a time when the banks have funding difficulties.

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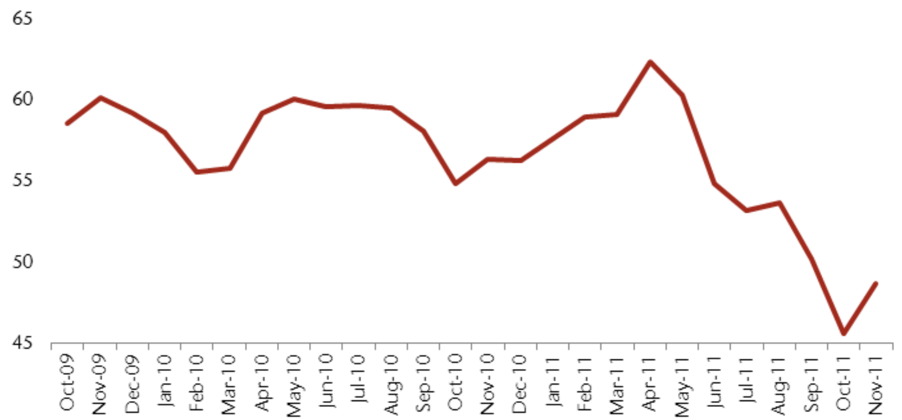
France's economy has weakened

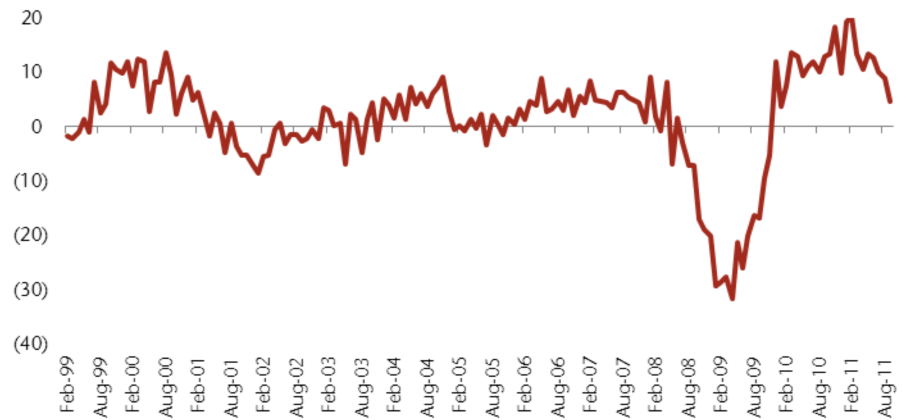
Exhibit 208: French PMI



Source: Winds, Jefferies

Equally industrial orders are declining

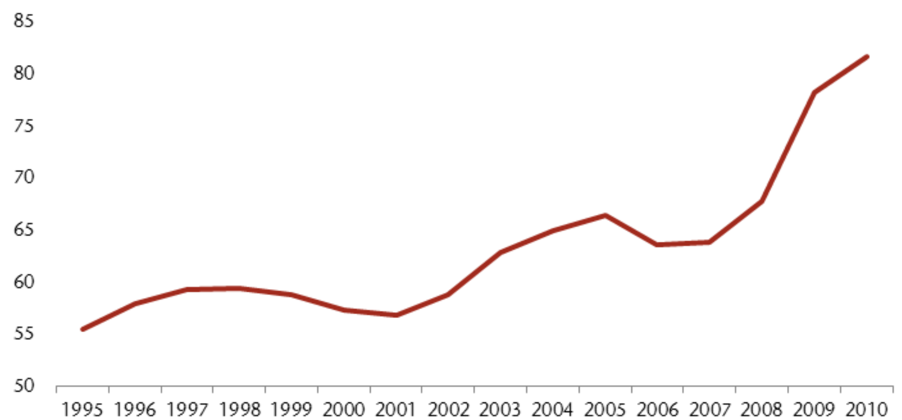
Exhibit 209: French New Industrial Orders (%, y-y)



Source: Datastream, Jefferies

France also has a government debt problem…

Exhibit 210: France Gross Public debt (% of GDP)



Source: Bloomberg, Jefferies

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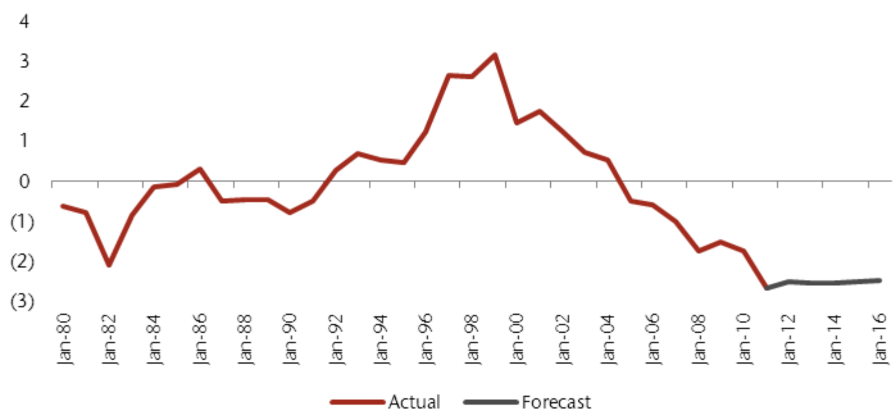
...and is running a current account deficit

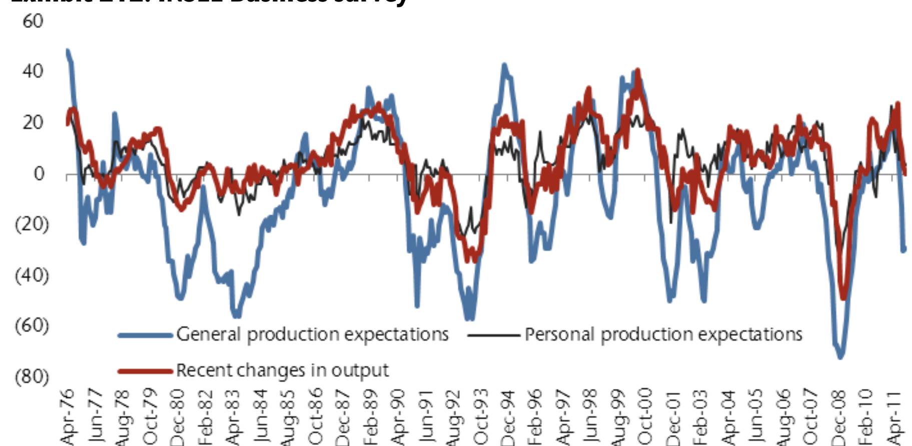
Exhibit 211: France Current Account Balance (% of GDP)



Source: The World Bank, Jefferies

Business surveys revealed a great deal of pessimism

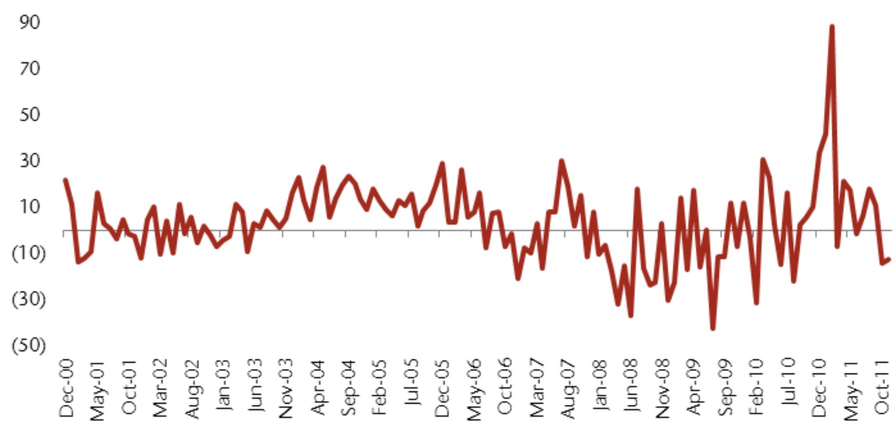
Exhibit 212: INSEE Business survey



Source: CEIC, Jefferies

Housing starts had previously offered support to the economy

Exhibit 213: France Housing Starts (%, y-y)



Source: Bloomberg, Jefferies

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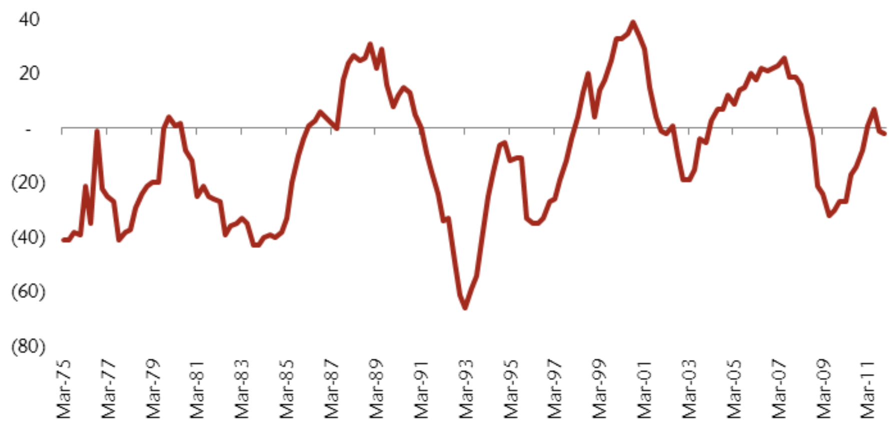
Construction has rolled over

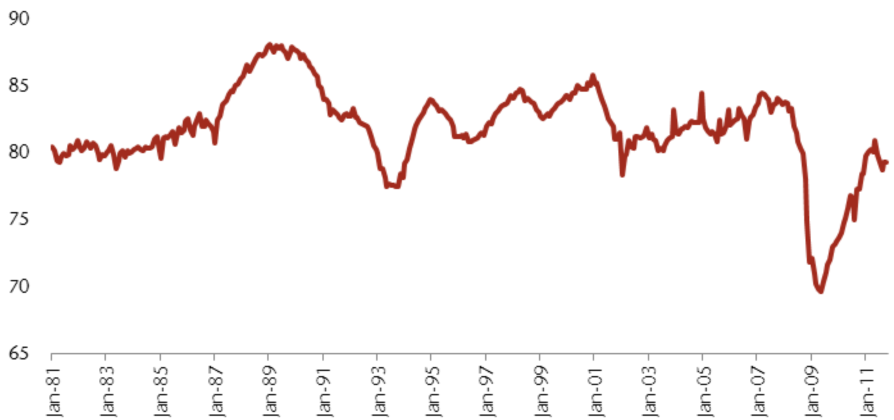
Exhibit 214: France Construction Survey Recent Activity Trend



Source: Bloomberg, Jefferies

Utilisation rates failed to rise to previous historical level

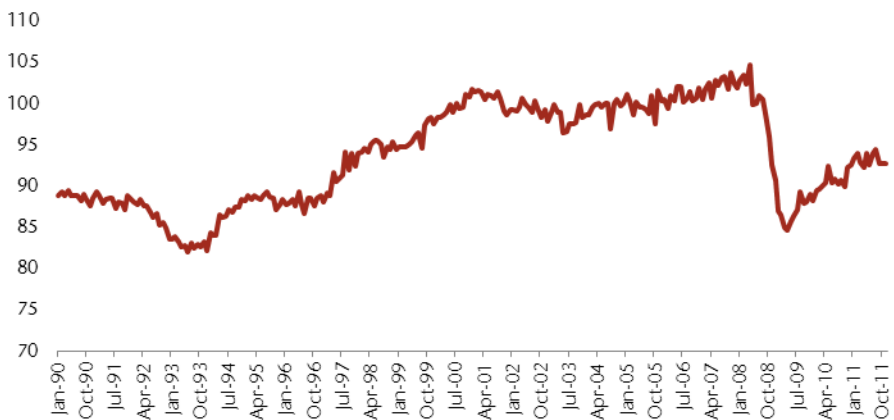
Exhibit 215: France Capacity Utilisation Rate (%)



Source: CEIC, Jefferies

Output is running below historical trend

Exhibit 216: French Industrial Output Index



Source: Bloomberg, Jefferies

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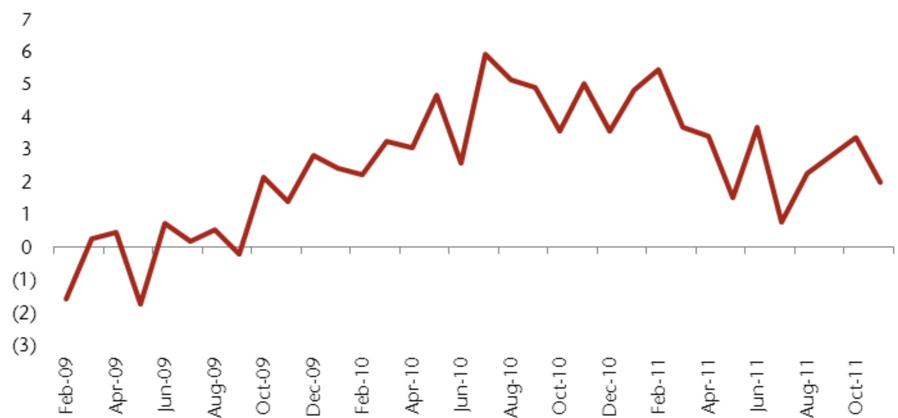
Retail sales have been upbeat

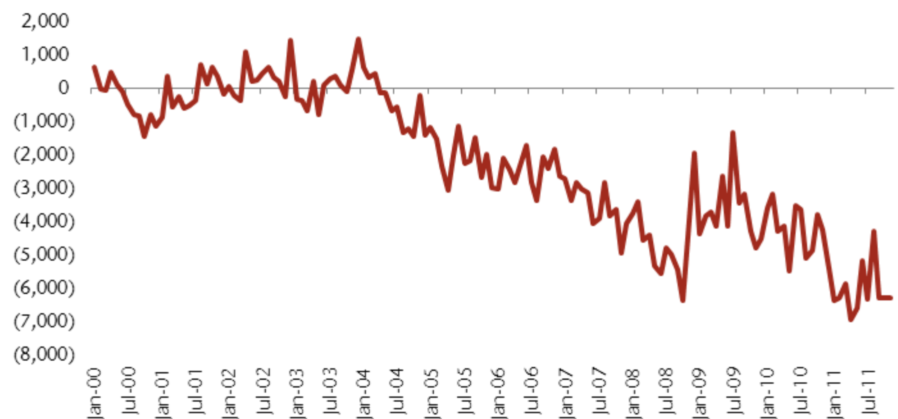
Exhibit 217: France Retails Sales (%, y-y)



Source: Bloomberg, Jefferies

France appears to have lost competitiveness

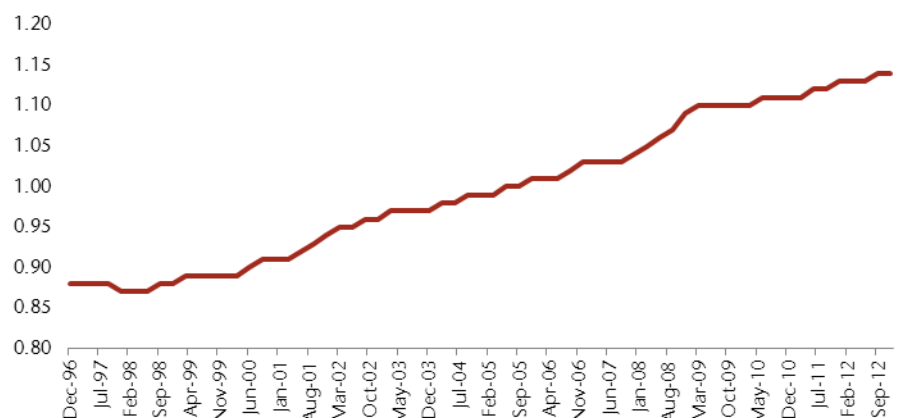
Exhibit 218: France Trade Balance (Eur mn)



Source: Bloomberg, Jefferies

Unit labor costs have risen

Exhibit 219: OECD France Unit Labor Cost index



Source: Bloomberg, Jefferies

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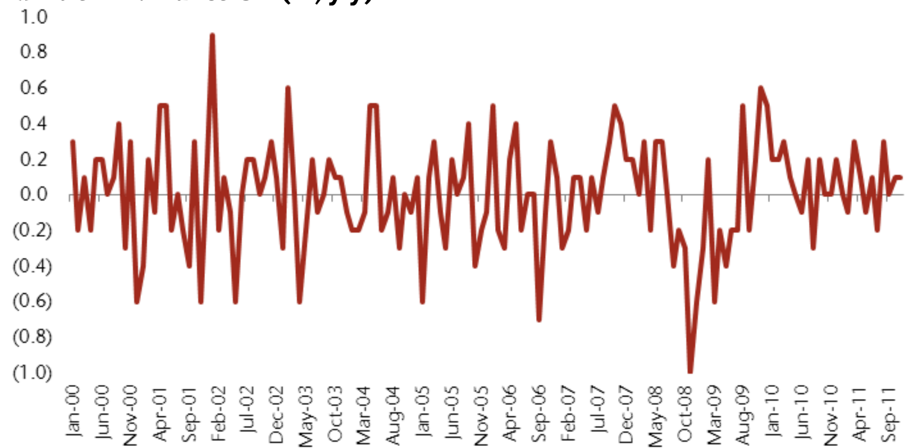
Wages are still growing

Exhibit 220: France Wages (%, y-y)

Source: Winds, Jefferies

Inflation remains subdued

Exhibit 221: France CPI (%, y-y)



Source: Bloomberg, Jefferies

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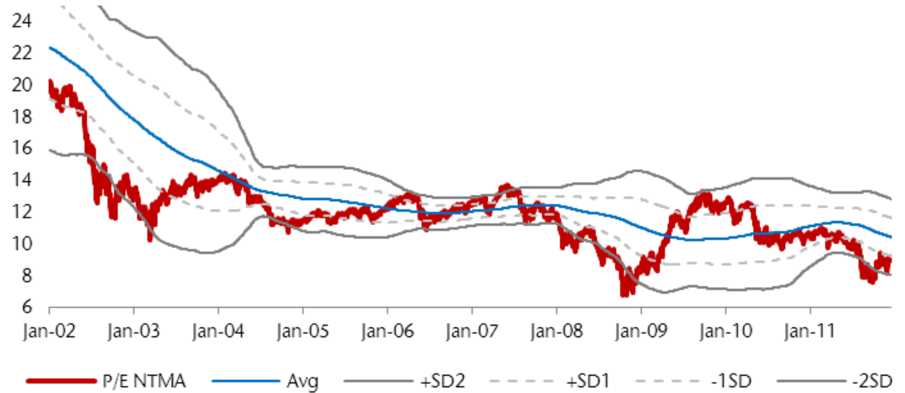
The market has de-rated...

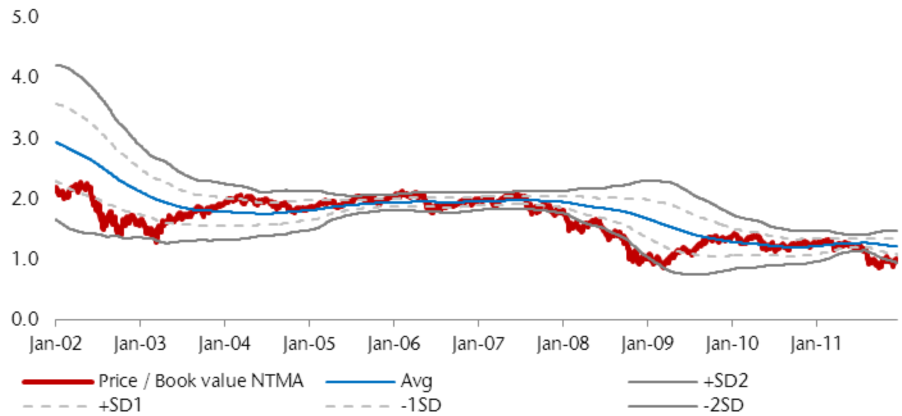
Exhibit 222: PER (12 month forward) - France



Source: FactSet, Jefferies

...on many measures

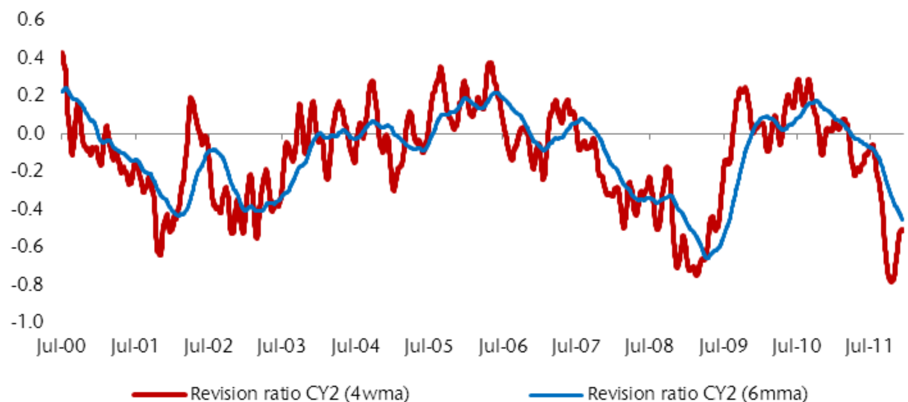
Exhibit 223: Price/Book (12 month forward) - France



Source: FactSet, Jefferies

Earnings expectations have steeply declined

Exhibit 224: Earnings Revision Ratio (CY2) - 4wma & 6mma - France



Source: FactSet, Jefferies

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BEARISH

Germany: Peaking growth and the end of the vendor finance agreement

Aside from the PMI data and volatile industrial production and order data, Germany has yet to face the same headwinds that have blown through the rest of Europe. To a large extent this is due to a very strong export basis and the growing contribution exports have had on overall GDP. This will be challenged in 2012.

Were it not for Germany's economic momentum, the rout in Europe would have been far worse. However, looking ahead, while it is possible to envision positive GDP in 2012 it is unlikely to be enough to save the rest of Europe. The best solution for Europe would be for Germany to experience a much higher rate of inflation than its neighbours and for the euro to decline sharply, forcing the German economy to overheat. While the economy has topped out with net exports peaking, with real GDP running at close to 2% annualized over the recent quarters, there has yet to be any sense of alarm over problems in the rest of Europe.

Ironically, one of the reasons why Germany runs such large trade and current account surpluses is due to the competitiveness of the export sector. Since a large proportion of the exports are sent through to the rest of Europe, it is Germany that provides the bulk of the surpluses that are recycled back into the Eurozone, allowing other economies to borrow at low interest rates. The vendor financing arrangement appeared to be a 'win-win' for both sides. Germany saw exports grow and other EU countries were able to buy the goods financed by the low interest rates of surpluses recycled by Germany. In effect, Germany has been making transfer payments to the rest of Europe to buy its goods.

For the rest of Europe to move back to equilibrium, domestic demand in Germany would need to rise to suck in imports or Germany would need run a higher inflation rate and lose some of its competitiveness. One of the bright spots has been that German domestic demand has held up relatively well since 2008 both in nominal and real terms. This is one of the reasons that economic growth did not necessarily splutter or shudder to a halt once the Greek sovereign debt crisis began. Germany being the largest economy has had enough economic momentum of its own to offer a growth insurance policy to the rest of Europe.

However, real disposable incomes are becoming tighter as higher living costs and taxes are eroding spending power. Hence the push from retail or consumer consumption is not likely to play the same role in supporting growth as it did in 2011 during the sovereign crisis. Fortunately, any slowdown is likely to follow a soft landing given the tightness in the labor market and reasonably strong employment growth. Domestic demand has held up reasonably well and this has perhaps given a false sense of security that Germany may be able to avoid any further contagion from any spill-over from Europe. But consumer trends will slacken through 2012 due to a weak rate of real household disposable incomes. Higher tax burdens and living costs are eating away at disposable incomes and retail sales. This is unlikely to change over the next 12 months.

Two other factors have played into supporting growth far better than expected. Firstly, much like France, Germany has seen bank lending holding up better than expected. Although bank lending to the household sector is slightly positive, the corporate sector has been both a bank borrower and an issuer of corporate bonds. Consequently, M3 numbers have climbed. Secondly, real government spending was still strong going into the last quarter and the economy had not suffered from any fiscal contraction.

Certainly, German monetary growth has been helped by Buba's rapid balance sheet growth and this has insulated the economy. Bank lending to the corporate sector is rising at a strong clip. With corporate profit growth still positive on an annualized basis, there have been no visible signs of distress. Ultimately, a large current account surplus has helped buffer domestic liquidity.

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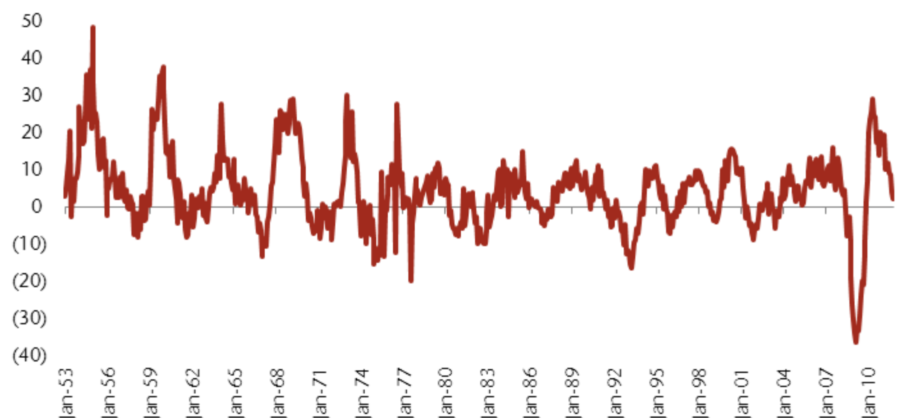
Hence, in contrast to expectations, economic growth is holding up well alongside supportive monetary policy. IFO orders on hand have trended to their decade mean. However, there are a number of lead indicators that suggest growth expectations will need to be revised lower. Earnings expectations appear too high. IFO expectations and ZEW business expectations over the Euro-area have declined sharply and as such the trend in German capex looks set to stall. Capacity utilization has peaked and therefore operational leverage has also passed its best. A significant amount of the base effect in orders and exports has also turned over. Provided exports to China and to the rest of the Euro area hold up, we do not yet see the signs of panic the markets have seen in the rest of Europe. However, Germany's export machine is hugely dependent on the Euro area. We would not be surprised to see industrial production trends turning negative early into 2012.

While the population wants the euro, they do not want to underwrite the fiscal balance sheets of their Southern peripheral neighbours. For the future of the euro, the voters will need to be appeased. Angela Merkel and her coalition government will be hard pressed to balance both interests ahead of elections in 2013. Unless the euro problem arrives on Germany's doorstep, there is unlikely to be any major shift in their fiscal austerity approach to dealing with the crisis.

The best of German output is behind us...

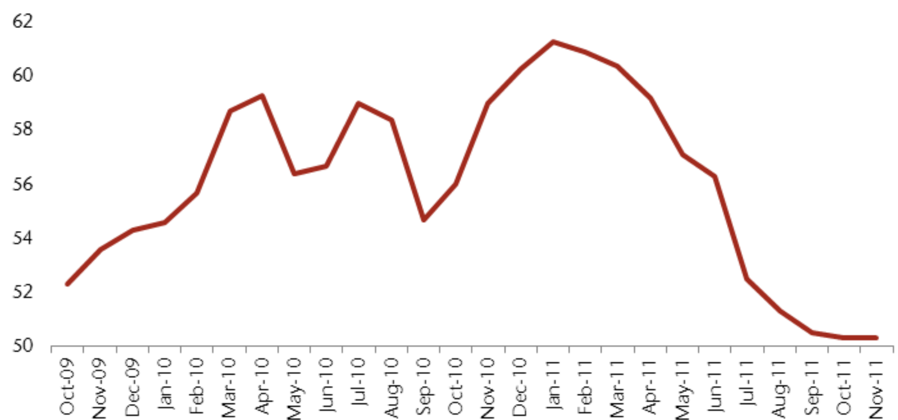
Exhibit 1: German Manufacturing Orders (%, y-y)



Source: Datastream, Jefferies

...as PMI slows

Exhibit 2: German PMI



Source: Winds, Jefferies

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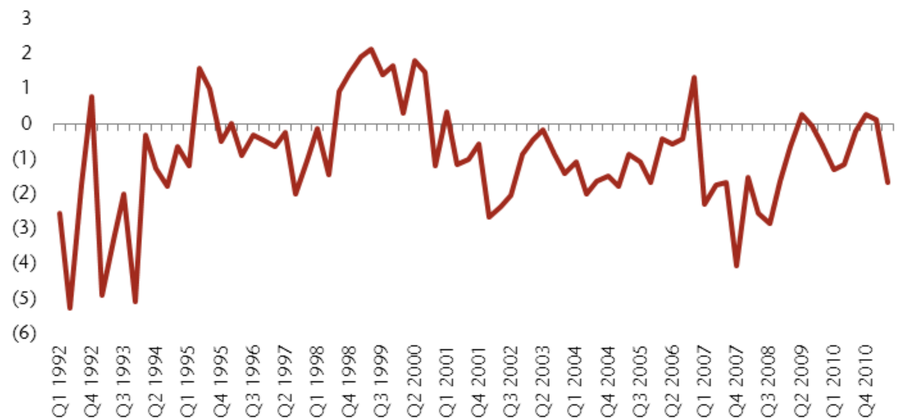
Consumption indicators have been deflationary

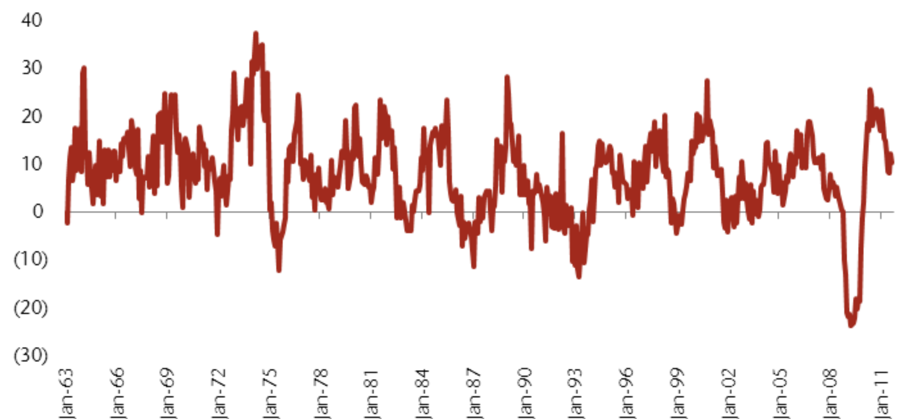
Exhibit 3: German Real Private Consumption Expenditure (%, y-y)



Source: Datastream, Jefferies

Exports remain strong...

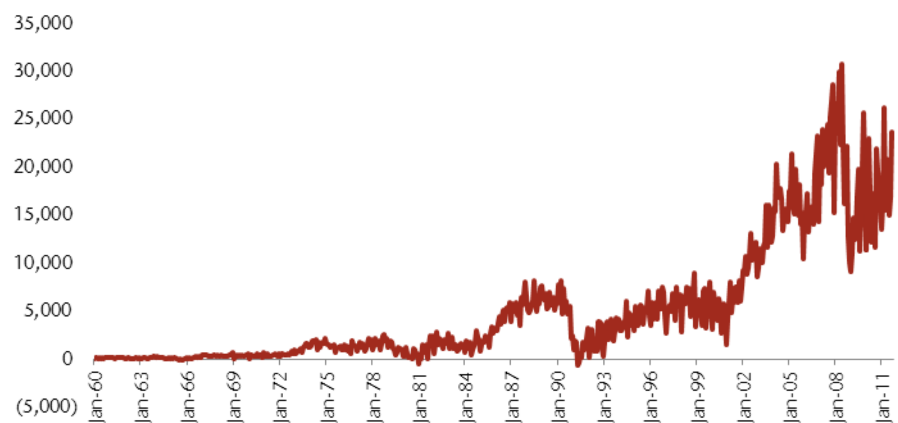
Exhibit 4: German Exports (%, y-y)



Source: Datastream, Jefferies

...helping the German trade surplus to boom

Exhibit 5: German Trade Surplus (US$ mn)



Source: Datastream, Jefferies

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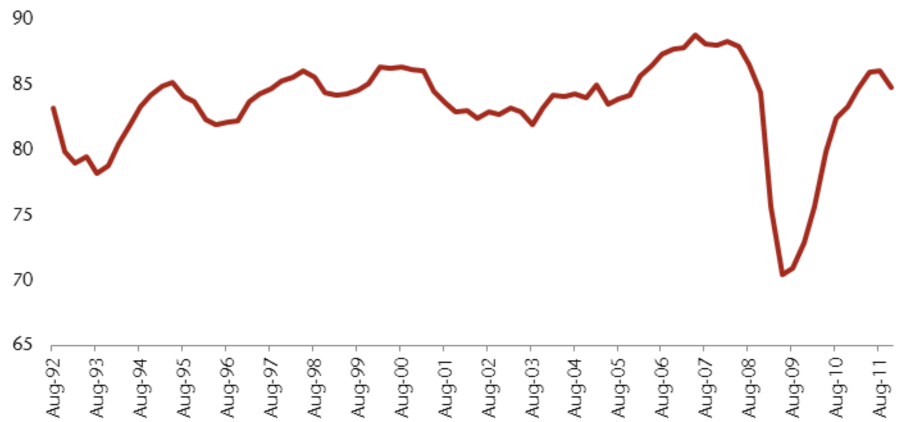
Operational leverage has passed its best

Exhibit 6: Germany Capacity Utilisation - Manufacturing



Source: Datastream, Jefferies

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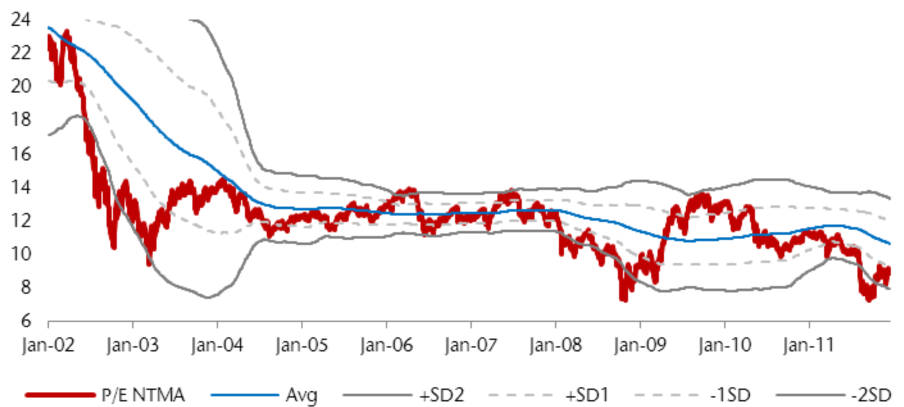
The DAX looks inexpensive

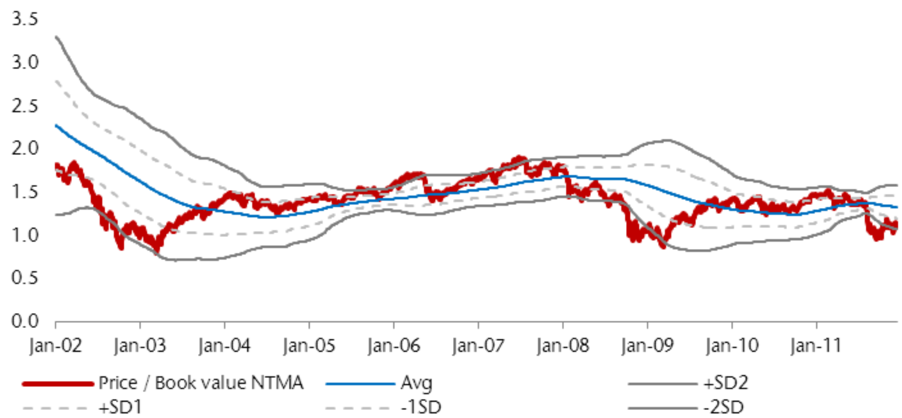
Exhibit 7: PER (12 month forward) - Germany



Source: FactSet, Jefferies

Price to book multiple has reflected...

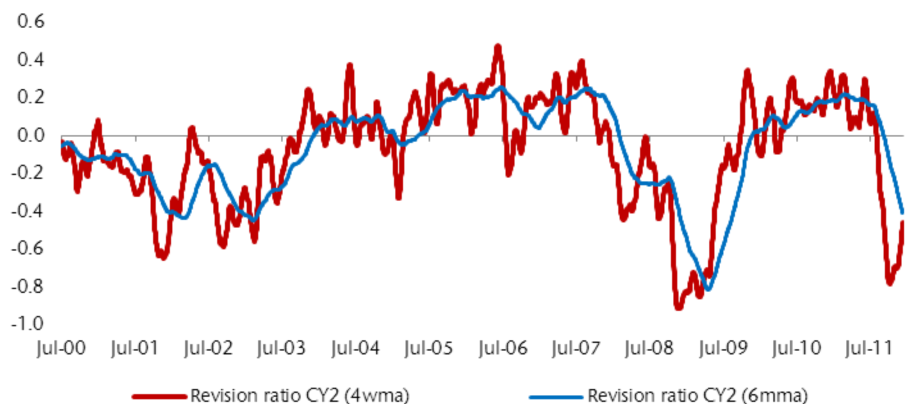
Exhibit 8: Price/Book (12 month forward) - Germany



Source: FactSet, Jefferies

...a sharp deceleration in earnings growth

Exhibit 9: Earnings Revision Ratio (CY2) - 4wma & 6mma - Germany



Source: FactSet, Jefferies

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BEARISH

Australia: An early easing

During the past two years, Australia has defied the odds of a hard landing for both exports and the housing market. Indeed, the doomsayers have been proved wrong as the economy has been able to use a commodity export boom to re-balance the domestic balance sheet. The savings rate has adjusted upwards while a large capex boom has been able to offset both a slowdown in household consumption and government fiscal tightening. The worst fears over the banking sector have not been realized and it has been perceived problems in China and Europe's financial system that have grabbed the headlines. Perhaps the combination of monetary flexibility alongside prudent fiscal management continues to allow Australia to buy time to rebalance itself. Indeed, the disruption from the Queensland floods, while reducing mine output, failed to undermine the economy as a whole. The unemployment rate has declined again to around 5% but job growth has slowed despite skill shortages appearing in the economy.

The fact that the terms-of-trade for Australia stand at a record high despite consecutive rises since 2002 has allowed the current account deficit to remain in check and prevented major imbalances occurring. However, while the economy was relatively insulated from events in Europe and to date the slowdown in China, the disparity between real income per capita and real GDP per capita widened again last year. Part of this was due to the significant leverage of the commodity business to income, but it also reflects the lack of productivity within the economy.

The household sector continues to save. One of the perceived threats for the Australian economy was the multiple deficits (fiscal, current account, household) that afflicted the economy. Savings rose by a whopping 10% of household disposable income in early 2011 (the highest in 25 years). True, household debt to GDP and disposable income remains high. The housing market, Australia's Achilles heel, has seen prices softening since their peak in mid-2010 and this has yet to have a detrimental effect on the economy. Consumption has indeed declined but the banking system and household has so far been able to absorb the fall in home values. However, house prices do remain overvalued relative to income and rent by around 15%. 2012 is likely to see further softening in house prices.

Australia was one of the first economies to begin a tightening cycle in 2009 and indeed it was early in spotting the overheating in China. Australia was almost through its monetary cycle before China began to really tighten its credit cycle and lift the RRR. The underlying inflation saw a jump in 2010 pushed up by the Queensland floods while wage growth running at 4% is still well ahead of productivity gains. The exchange rate appreciation during the past two years as well as the exit from fiscal stimulus has tightened monetary conditions. It is interesting to note that China has begun cutting the RRR and with Australia having eased twice during 2011, the stage is set for further easing through 2012. The output gap has closed.

Although the fiscal deficit was worse than expectations during 2011 because of natural disasters, the underlying tightening process will continue through 2012. Massive investment in mining and LNG ought to keep private investment growth intact and ought to mean that real GDP is trending along at 2.5% to 3%. If Chinese growth remains intact, it is possible that interest rates might again be rising.

Australian banks had previously suffered from low deposit growth and stretched loan-to-deposit ratios, a fragile balance sheet due to the household sector being stretched and the banks dependent to some extent for offshore funding. However, loan-to-deposit ratios have been falling steadily and funding from short-term debt has fallen to around 20%. Capital adequacy has improved and the banks have a large weighting of common equity. The structure of funding for Australian banks has also seen a steady improvement with a higher share of retail deposits, increased long-term wholesale funding and a decline in offshore funding during the last year.

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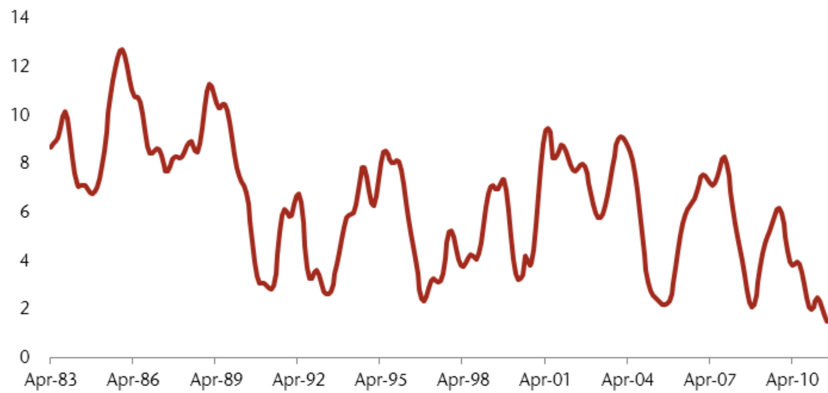
Consumption is rock bottom and is unlikely to change in the near-term

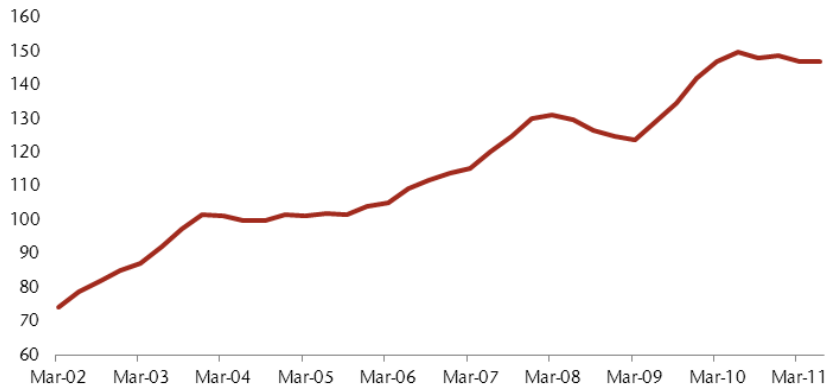
Exhibit 10: Retail sales (%, y-y)



Source: Datastream, Jefferies

Asset prices have held up well

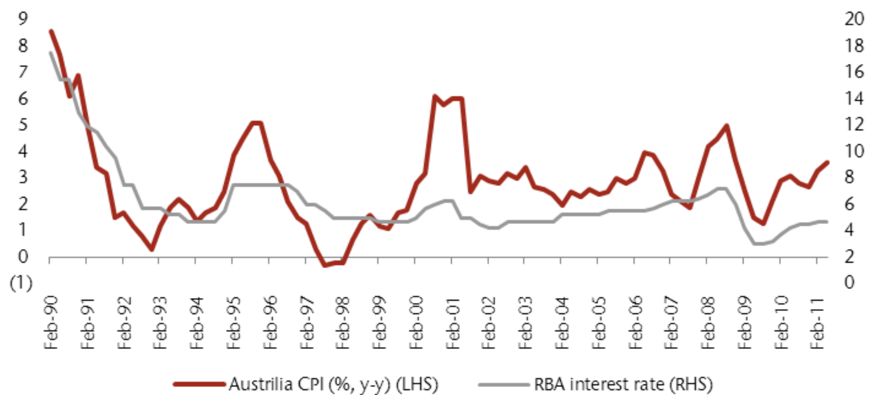
Exhibit 11: Australia house price index



Source: CEIC, Jefferies

Interest rates have peaked for the cycle

Exhibit 12: RBA interest Rate vs. CPI (%, y-y)



Source: Datastream, Jefferies

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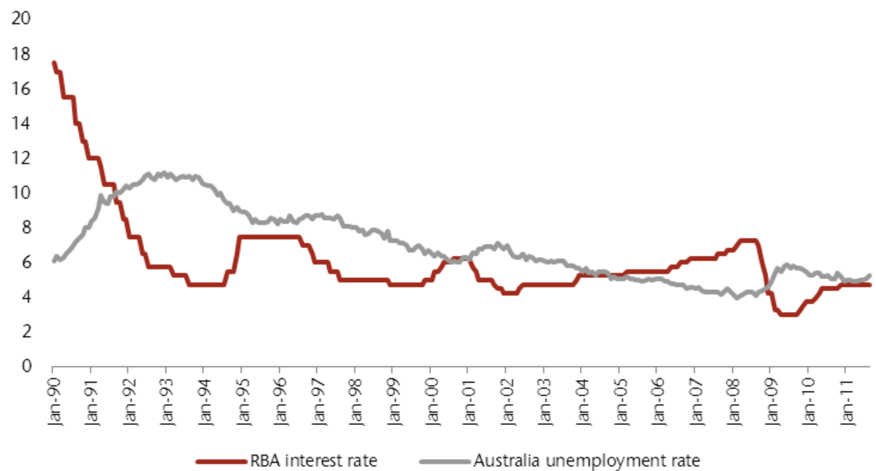
The best of the employment data also appears to be behind us

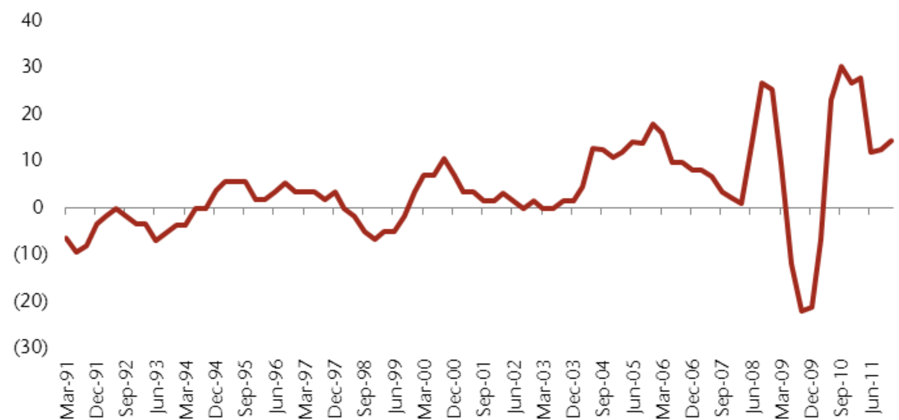
Exhibit 13: RBA interest rate vs. unemployment rate



Source: Datastream, Jefferies

The terms-of-trade remains positive

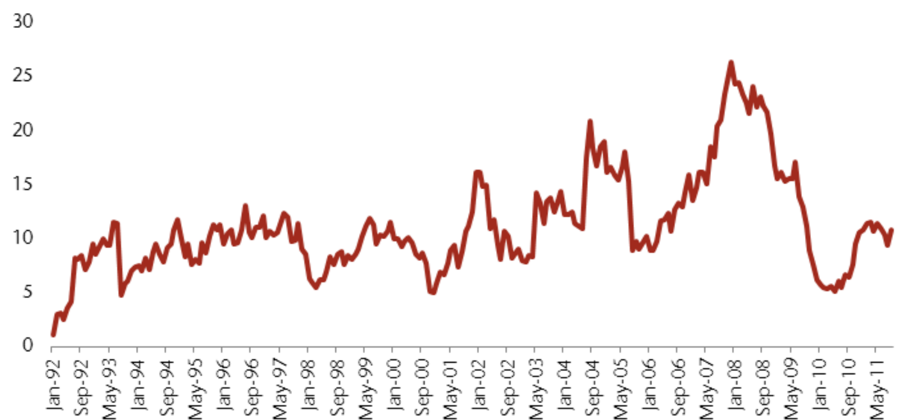
Exhibit 14: Australia Terms-of-Trade (%, y-y)



Source: Bloomberg, Jefferies

Deposit growth has returned to trend

Exhibit 15: Australia Deposit Growth (%, y-y)



Source: ASD

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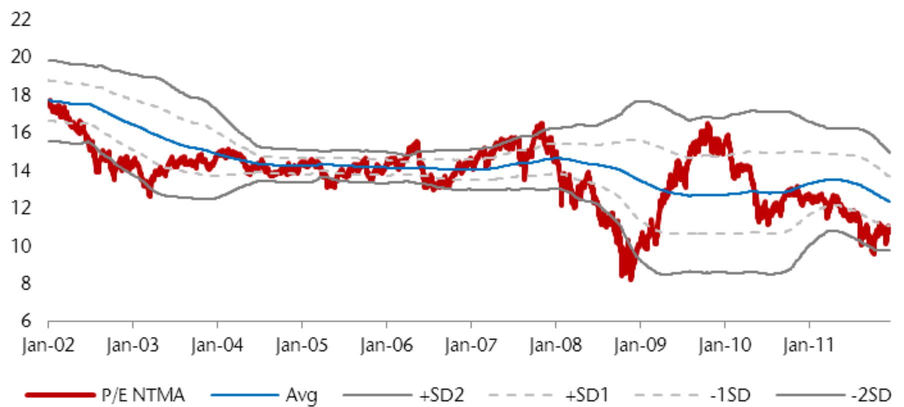
The market is trading close to its forward PE lows

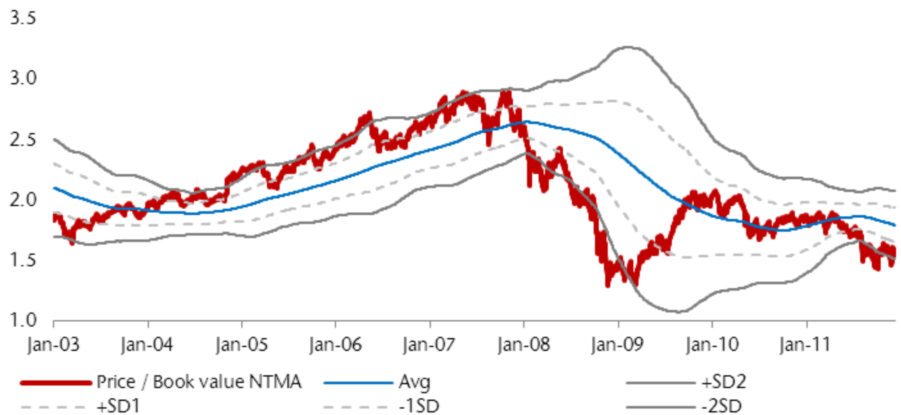
Exhibit 16: PER (12 month forward) - Australia



Source: FactSet, Jefferies

Similarly on a forward price to book

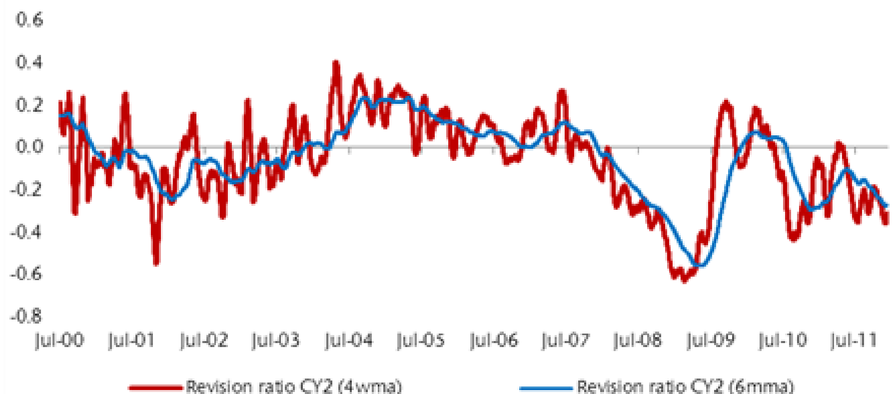
Exhibit 17: Price/Book (12 month forward) - Australia



Source: FactSet, Jefferies

Earnings momentum has sagged

Exhibit 18: Earnings Revision Ratio (CY2) - 4wma & 6mma - Australia



Source: FactSet, Jefferies

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BULLISH

Switzerland: The pursuit of inflationary ideals

At the beginning of 2011, Switzerland was an unlikely candidate for QE and unorthodox monetary policy. A raft of measures intended to control the ascent of the Swiss Franc and the onset of deflation were all in vain up until 3Q2011. However, on September 6th, the SNB took decisive action announcing the enforcement of a minimum CHF1.20 exchange rate to the euro. The serious overvaluation of the CHF meant that even with LIBOR rates at zero and sight deposits at the SNB above CHF200bn, the authorities were unable to stop the inflation rate turning negative. Although growth was expected to be around 1.5% for 2011, the inflation rate was forecast at 0.4%. The release of November CPI showed a fall of 0.5% y-y following a drop of 0.1% y-y in October. Clearly, the authorities will be hard depressed to maintain their forecast of just -0.3% y-y in 2012. Equally, they are likely to find it necessary to deploy ever wider monetary tools to prevent deflation.

Economic forecasts continue to be adjusted downwards and the PMI number shrunk again for a third consecutive month in November and at a steeper rate to 44.8. The problem for the authorities is that Europe's woes come alongside deflation pressures passing through the economy as a result of the appreciation of the currency. Ironically, the safe haven status of the Swiss Franc has itself acted as a brake on the economy as export competitiveness recedes. What must be more worrying for the authorities is that value added in the manufacturing industry stagnated during the past quarter alongside equipment investment shrinking in the second quarter 2011.

In August, long-term interest rates declined to a new record low as the yield curve flattened. But with inflation expectations falling, real rates went positive. With the CHF convertibility rate set and the acknowledgement that they would be prepared to buy unlimited quantities of foreign currency, the SNB has also increased liquidity (sight deposits) from CHF30bn to CHF200bn. Just as the authorities are hard-pressed to contain the deflationary pressures, local banks are reporting risks to the real estate market from faster mortgage loan growth. As a result of the decline in short and long-term rates, the yield curve has shifted downwards. Following the introduction of the unorthodox measures, the SNB Monetary Conditions Index (MCI) fell steeply and moved into negative territory, indicating an expansion of monetary conditions.

The SNB conducted a quarterly survey during 3Q2011 to gauge the impact of the exchange rate appreciating. From the survey, 58% compared to 48% during the previous quarter acknowledged negative effects from the CHF. The industries hit hardest by the deterioration in the exchange rate were chemicals, pharmaceuticals, metals manufacturers and electronic products as well as precision instruments. The most common method to alleviate the impact was to reduce production costs, with labor costs bearing the brunt through either redundancies or increasing working hours but keeping wages unchanged.

We are bullish on the Swiss equity market as the central bank provides liquidity, and earning revisions are positively correlated to a weaker CHF.

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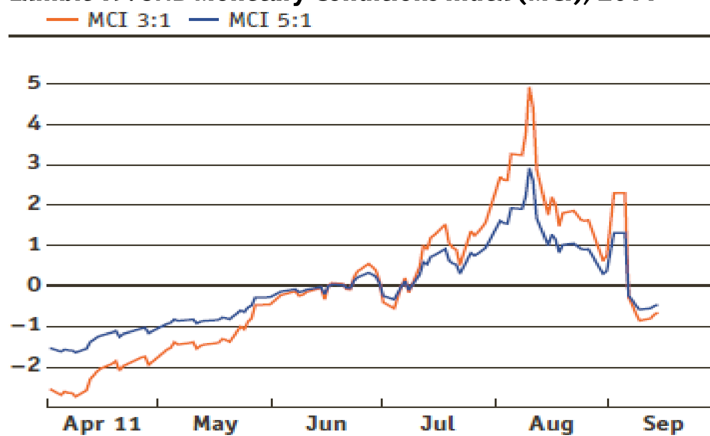
Swiss monetary conditions have turned loose

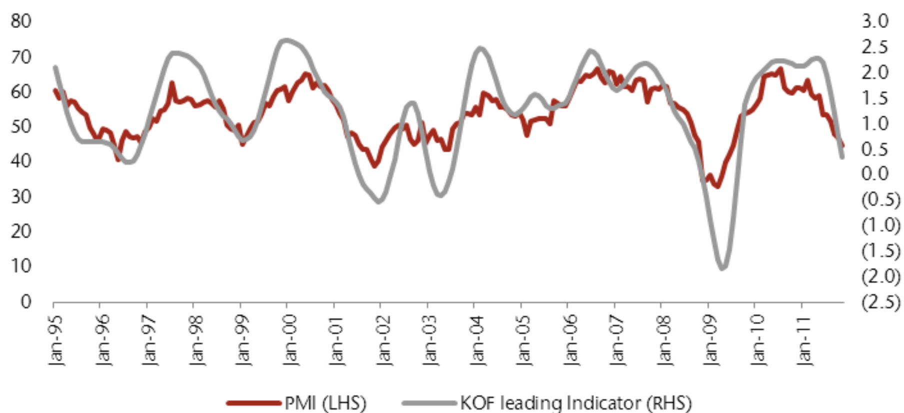
Exhibit 19: SNB Monetary Conditions Index (MCI), 2011



Source: SNB, Jefferies
Note: To take account of uncertainty regarding the relative impact of changes in interest rates and exchange rates, two different weightings are used for the MCI (3:1 and 5:1).

Unfortunately lead indicators have turned downwards

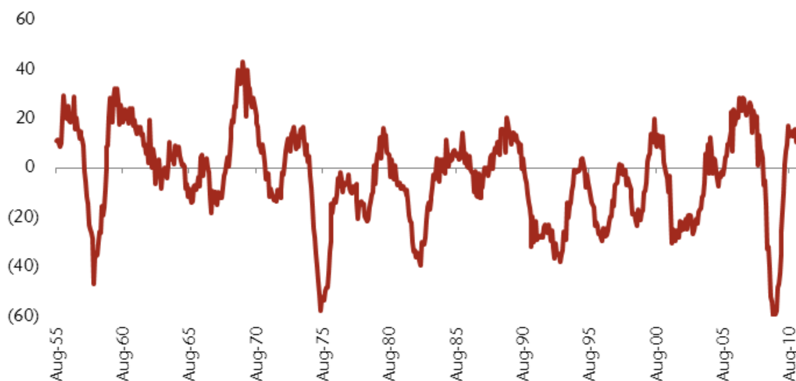
Exhibit 20: Switzerland PMI & KOF Leading Indicator



Source: Datastream, Jefferies

Current business climate surveys are negative

Exhibit 21: KOF Industry Survey - Business Climate



Source: Datasteam, Jefferies

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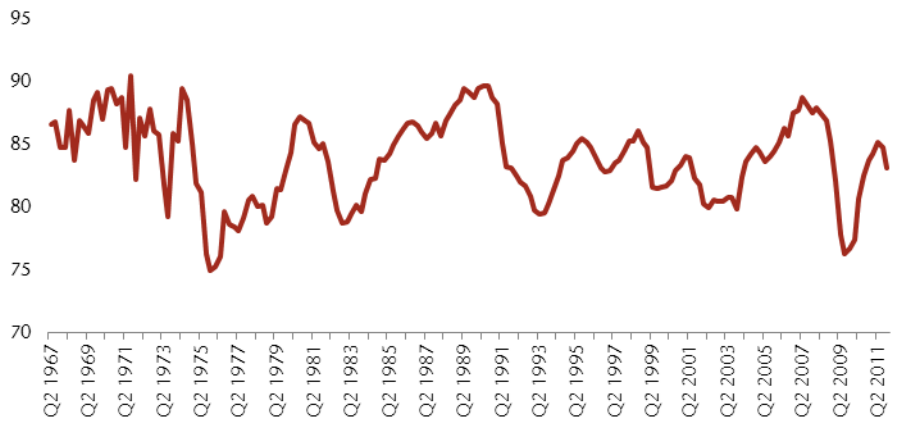
The best of the operational gearing is past and the market will need to see support from a weaker exchange rate

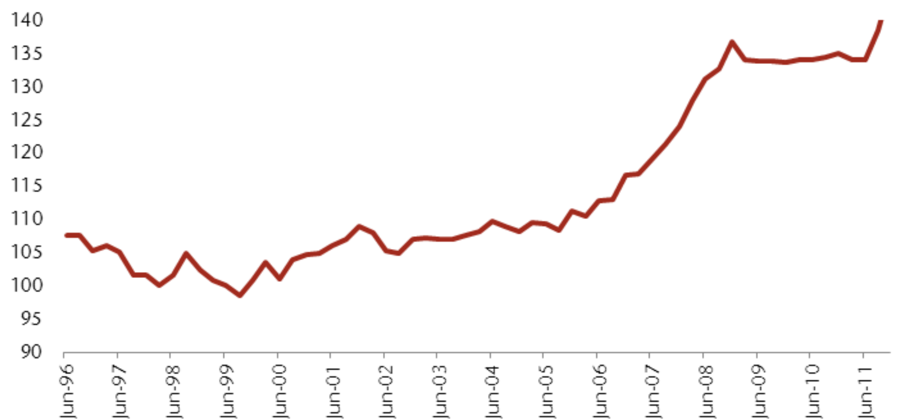
Exhibit 22: Switzerland - Capacity Utilisation (%)



Source: Datastream, Jefferies

Real estate prices are accelerating

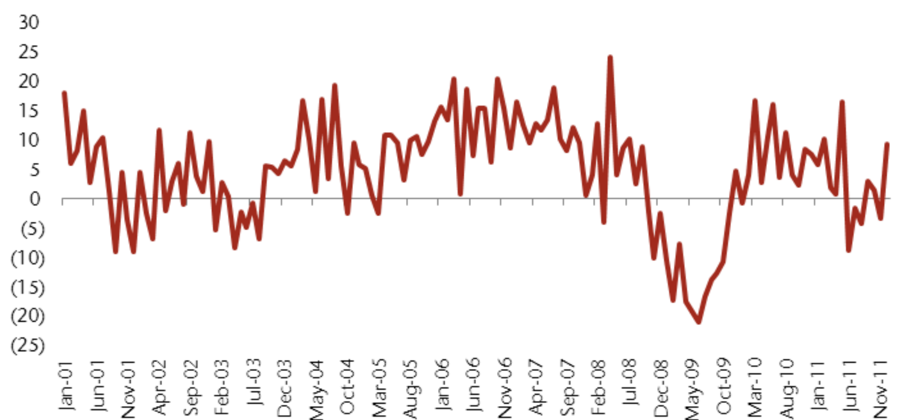
Exhibit 23: Swiss IAZI Private Real Estate Index



Source: Datastream, Jefferies

Exports remain vulnerable

Exhibit 24: Switzerland Exports (%, y-y)



Source: Bloomberg, Jefferies

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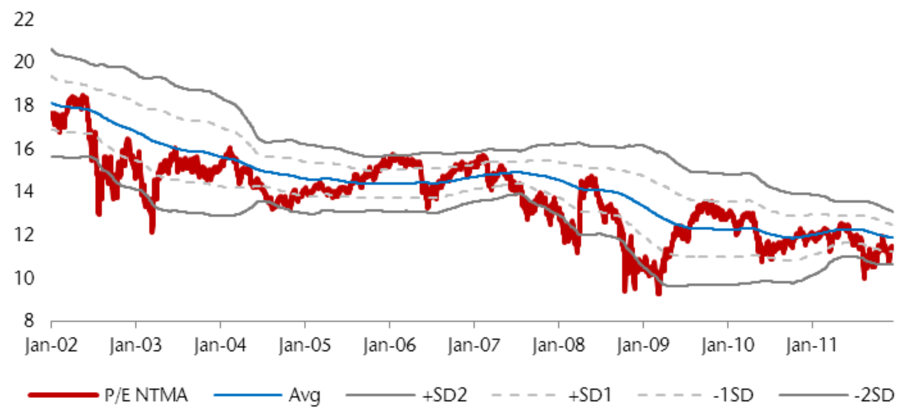
Equities have priced muted growth

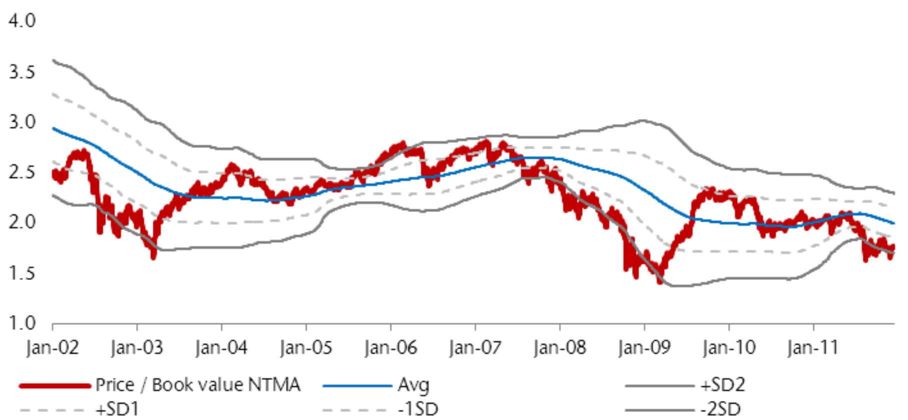
Exhibit 25: PER (12 month forward) - Switzerland



Source: FactSet, Jefferies

Multiples have reflected a lot of bad news

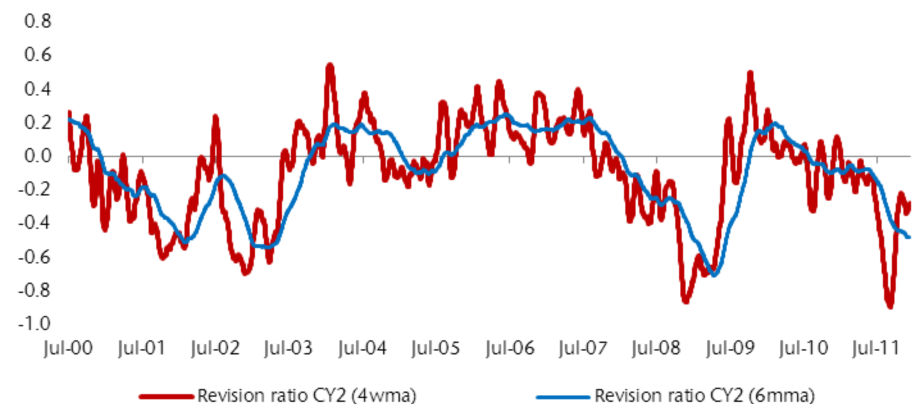
Exhibit 26: Price/Book (12 month forward) - Switzerland



Source: FactSet, Jefferies

Earnings have been revised down since the beginning of the year

Exhibit 27: Earnings Revision Ratio (CY2) - 4wma & 6mma - Switzerland



Source: FactSet, Jefferies

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BULLISH

Sweden: A stealth performer

Unlike the majority of the world economy, Sweden is growing and it also has the luxury of a budget heading towards a surplus and a current account surplus to GDP of approximately 8%. Although the country's exports head primarily to Europe, its major partners are Germany, Norway, US and Denmark, which together account for approximately one-third of exports. The EU27 group accounts for around 60%. By virtue of its biggest trading partners having much better macro balance sheets than peripheral European nations, Sweden should be relatively insulated in the first instance to any macro slowdown. Furthermore, its major exports, much like Korea, tend not to be heavily skewed towards commodities but towards industrial equipment and higher-valued plant. Timber and iron ore are the major exports alongside hydro-electric power.

Being part of the EU but outside of the euro currency system has given the economy the monetary flexibility to manage the cycle with a much more flexible mandate. Paradoxically, Sweden has inherited some of the structural problems of its European neighbours. Income tax is high, a significant proportion of the population works for the government and transfer payments are high. Trade union membership is strong. One of the major reasons the economy is strong is the ongoing productivity gains within the manufacturing sector and its low energy-intensity ratio. Moreover, the service sector has benefited from a highly educated workforce. However, Sweden's real economy, while growing modestly, will outperform others in 2012. Sweden's political morass is perhaps no better than others around Europe. The four-party Centre coalitions cannot agree to pass any major reforms and improve employment conditions.

The Swedish Riksbank recently published its financial stability for 2H2011. They found that Swedish banks were better capitalized than their foreign peers. The banks' exposure to countries with public finances in the Euro area amount to just over SEK2bn. It also appears that bank lending to the Baltic nations has also declined. The 2008-09 global financial crisis revealed that Swedish banks were heavily exposed to their Baltic neighbours. Fortunately, Sweden does not have the macro financial problems of other EU nations and hence is perhaps better insulated from contagion. Under the central bank's main scenario, loan losses are expected to increase to SEK28bn during the next 3 years.

Swedish CPI has been relatively strong

Exhibit 28: Sweden CPI (% y-y)

Source: CEIC, Jefferies

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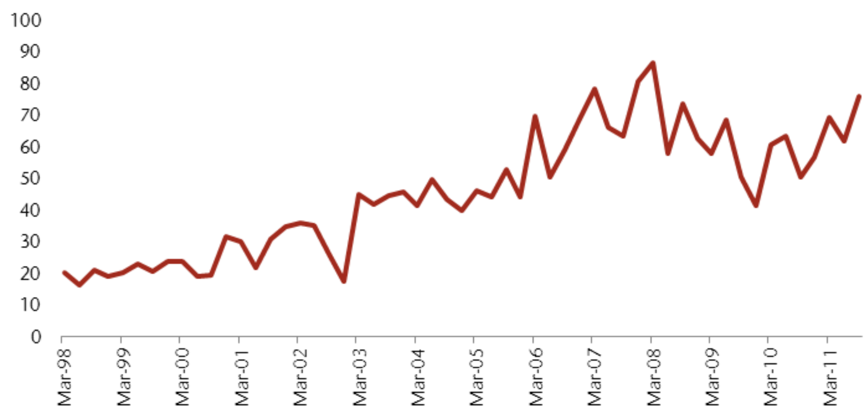
BoP trends remain supportive

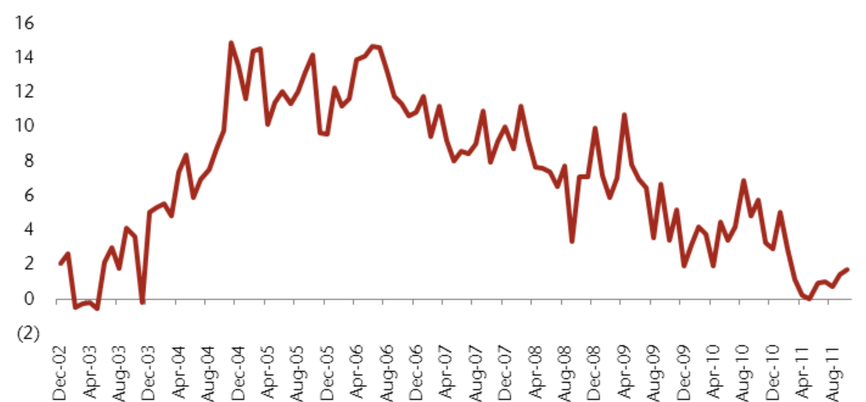
Exhibit 29: Sweden Balance of Payments (Sek bn)



Source: CEIC, Jefferies

Loan growth has cooled...

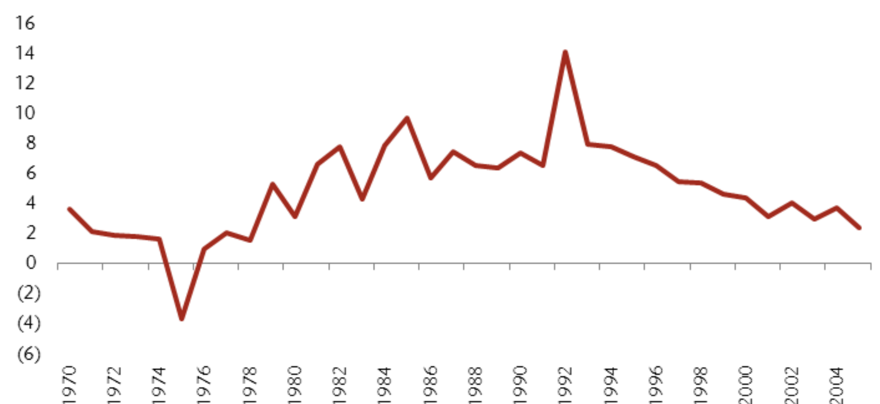
Exhibit 30: Sweden Loan Growth (%, y-y)



Source: CEIC, Jefferies

...as real interest rates are positive

Exhibit 31: Real Interest Rate (%)



Source: CEIC, Jefferies

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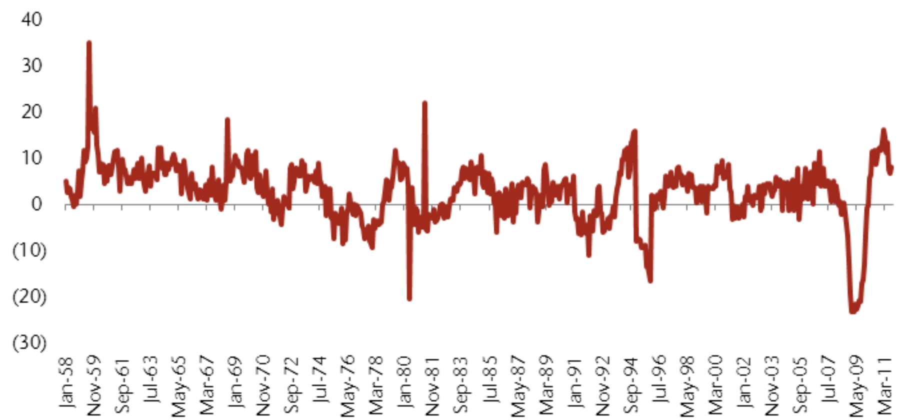
Industrial production has peaked

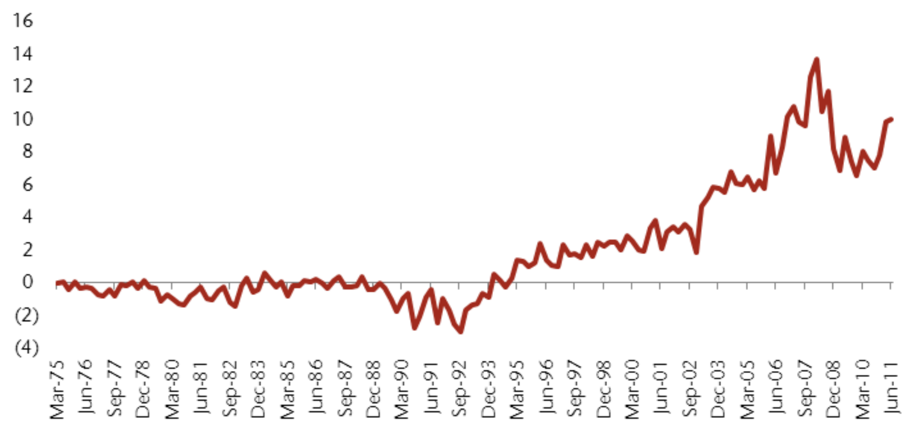
Exhibit 32: Industrial Production (%, y-y)



Source: CEIC, Jefferies

Sweden enjoys a rich current account surplus...

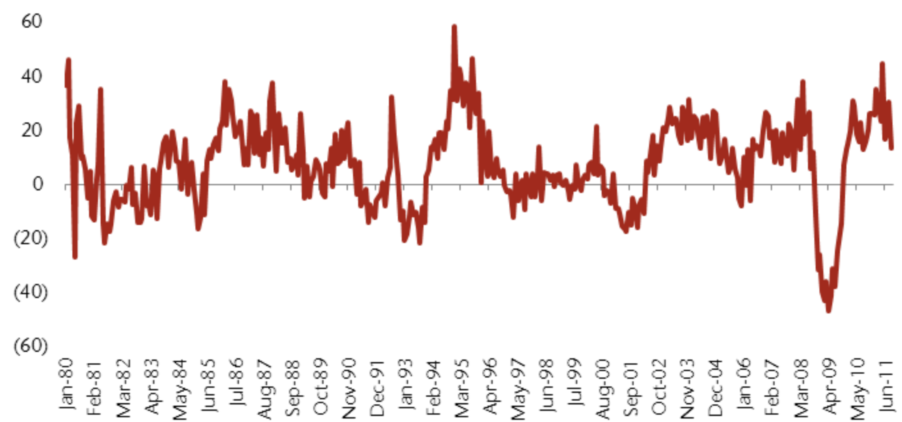
Exhibit 33: Sweden Current Account of Balance (USD bn)



Source: CEIC, Jefferies

...as exports are robust

Exhibit 34: Sweden Export (%, y-y)



Source: CEIC, Jefferies

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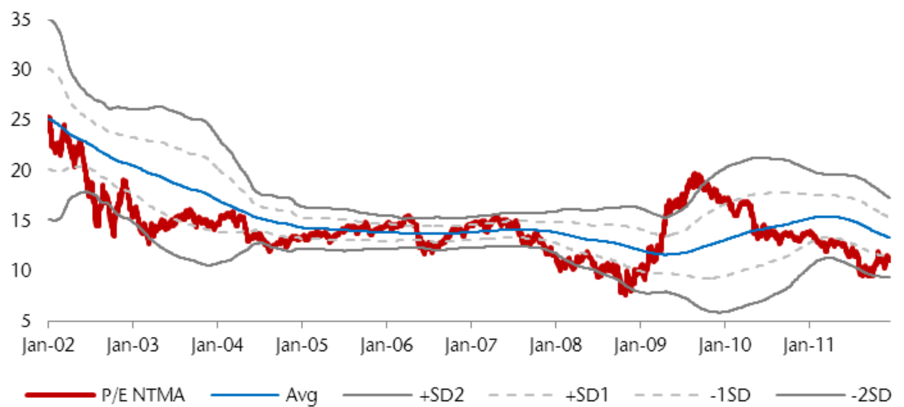
The equity markets are close to their lows

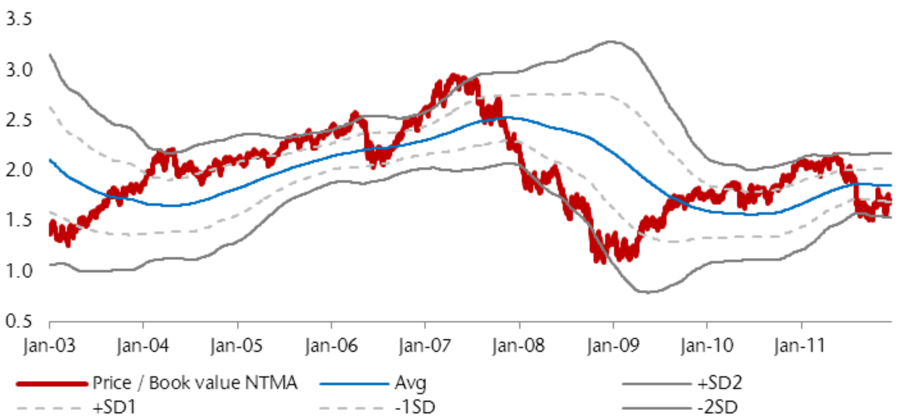
Exhibit 35: PER (12 month forward) - Sweden



Source: FactSet, Jefferies

...and trading as if there is little hope in future growth

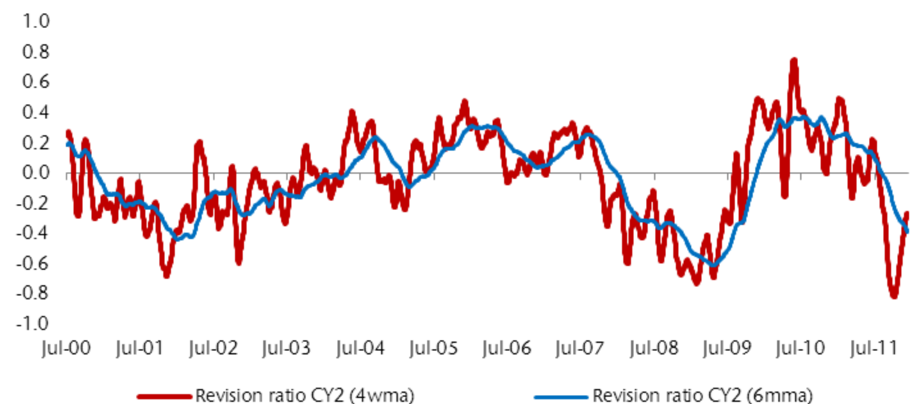
Exhibit 36: Price/Book (12 month forward) - Sweden



Source: FactSet, Jefferies

Earnings have already been undermined

Exhibit 37: Earnings Revision Ratio (CY2) - 4wma & 6mma - Sweden



Source: FactSet, Jefferies

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BEARISH

Italy: Running to a standstill

To describe Italy's economy as dysfunctional would be unfair given that the unlisted private sector is a highly competitive exporter. However, it would be fair to say that Italy has experienced a perfect storm of financial developments that might be described as coincidental. Italy's public sector finances have been compromised for so long that perhaps investors took it for granted that they could muddle through.

To some extent, Italy has been saved from its long awaited fate by virtue of the robustness of the private sector and the low debt levels within. However, whilst fiscal consolidation is easy to announce, it is much more difficult to undertake, as many countries are finding. The words austerity and commitment have two very different meanings. It has been revealing that fiscal data during the last 12 months has had a tendency to disappoint investors. Tax revenue growth has been the main culprit in failing to live up to expectations. Hence, the budget deficit has disappointed and the indebtedness of the country has grown. The financial markets have also sensed the mis-match in tax receipts and government cut-backs by raising Italy's borrowing costs ahead of the large issuance expected in 2012 (over 400bn).

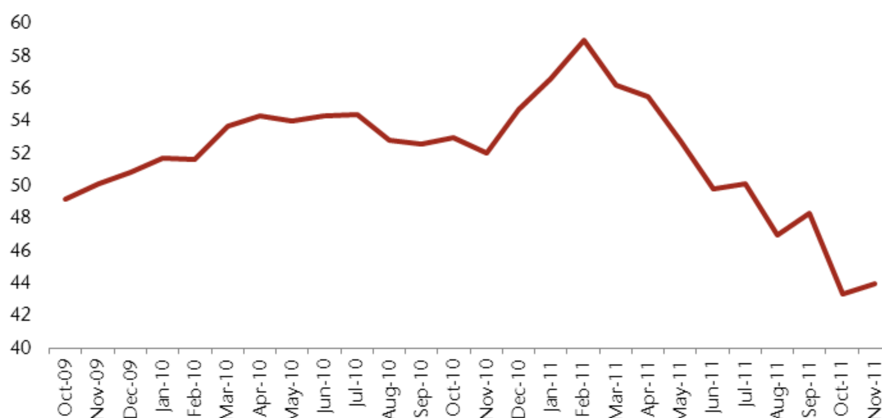
The reality is that Italy appears to be falling into a 'fiscal trap' where nominal growth is slowing so much that tax revenues are well behind forecast. At the same time, real household incomes have fallen into negative territory. Furthermore, retail sales data is pointing to the fact that the households are saving just as the government is imposing austerity packages. Hence, growth is shrinking, compounding the problems of raising tax revenues to pay off the budget deficits. Fortunately the economy hasn't slipped into deeper trouble by virtue of the fact that a capital investment cycle has been in place. However, the trend entering 2012 does not look auspicious.

Perhaps the most positive aspect of the crisis is that Italy continues to enjoy positive export growth but the trade balance and current account continues to deteriorate. Part of the reason is that Italy imports over 80% of its energy needs but its competitive position is being undermined by higher unit labor costs. Thus its share of world trade has been falling during the past decade.

One further point for the equity market is that M3 growth excluding repos is negative. Liquidity trends within the market appear to have been affected by both the deterioration in trade accounts but also funding difficulties within the banking sector.

Much like the rest of Europe, the economy is slowing down

Exhibit 38: Italian PMI



Source: Wind, Jefferies

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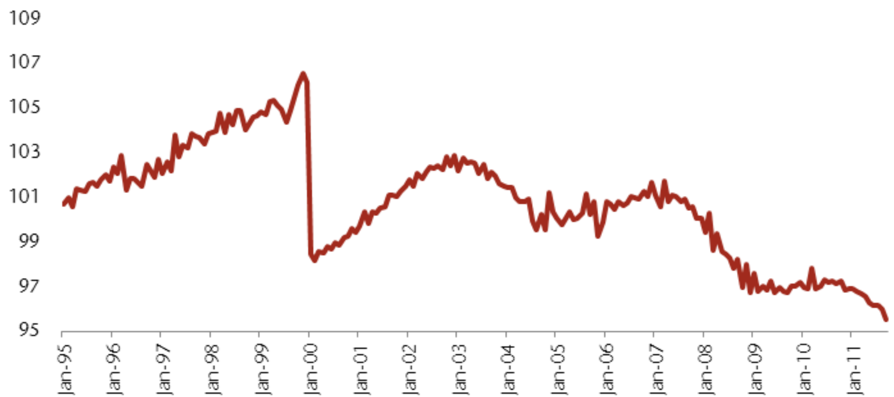
Retail sales have quite literally slumped

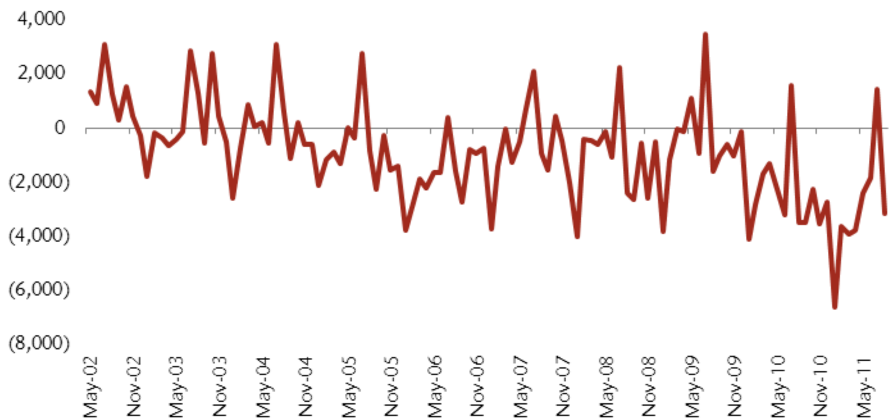
Exhibit 39: Italian Retail Sales Index (2005=100)



Source: Wind, Jefferies

The trade position has slipped into a deficit...

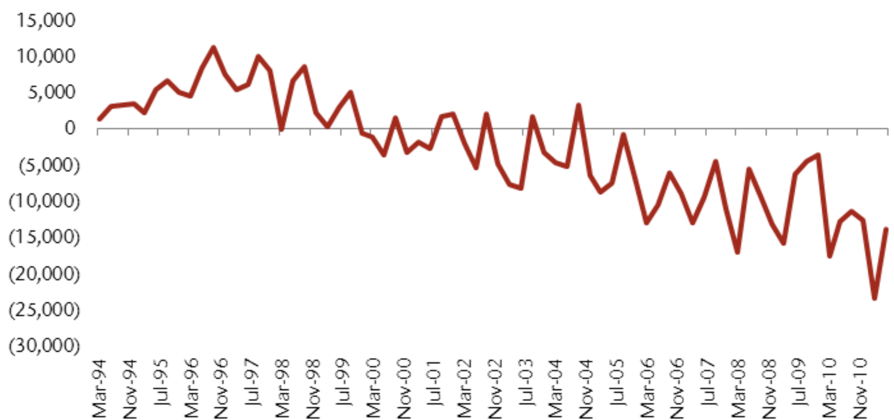
Exhibit 40: Trade Balance (Eur mn)



Source: Wind, Jefferies

...as well as the current account

Exhibit 41: Current account balance (Eur mn)



Source: Wind, Jefferies

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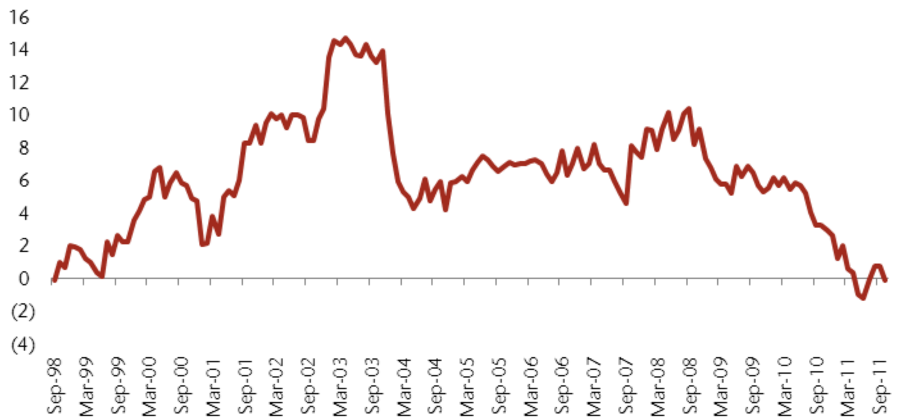
Money supply has slumped

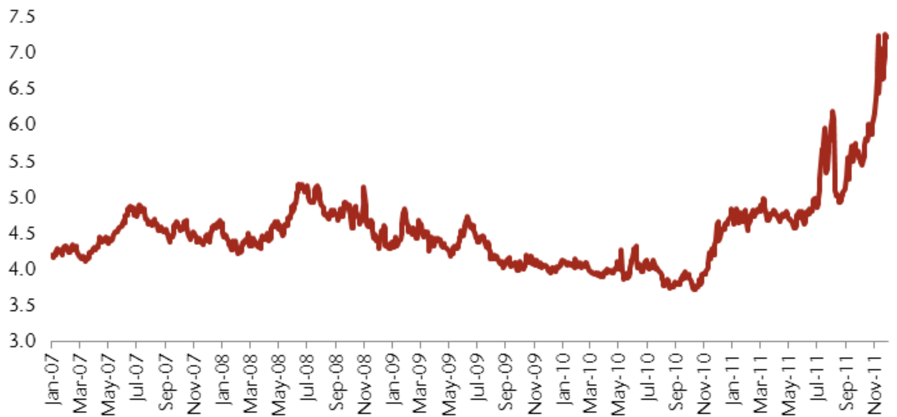
Exhibit 42: Italy M3 (%, y-y)



Source: CEIC, Jefferies

Funding costs have soared

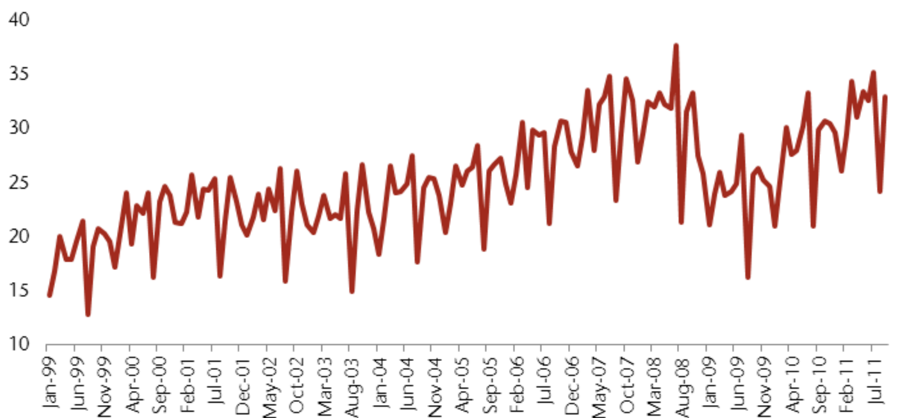
Exhibit 43: Italy 10-year Government Bond Yield (%)



Source: Bloomberg, Jefferies

Italian exports are flat

Exhibit 44: Italy Exports (Eur bn)



Source: CEIC, Jefferies

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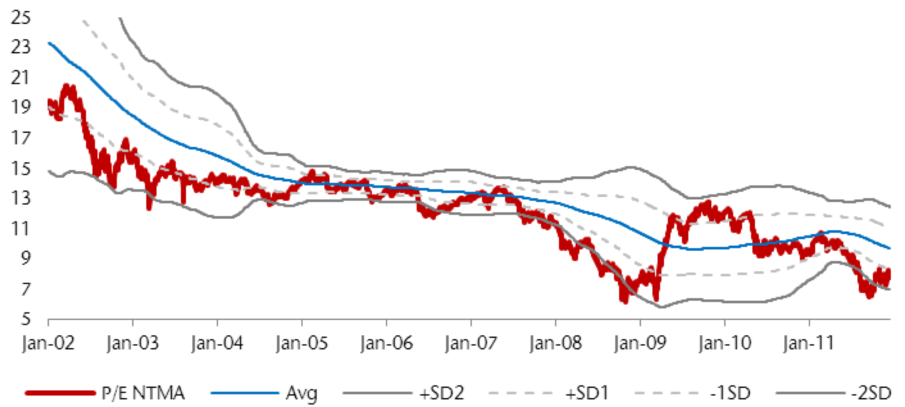
The market multiple is in single digits...

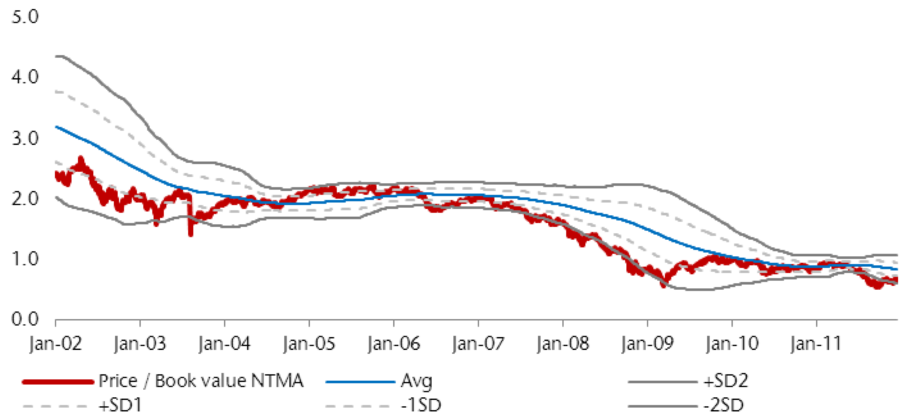
Exhibit 45: PER (12 month forward) - Italy



Source: FactSet, Jefferies

...and the P/B has dropped well below book

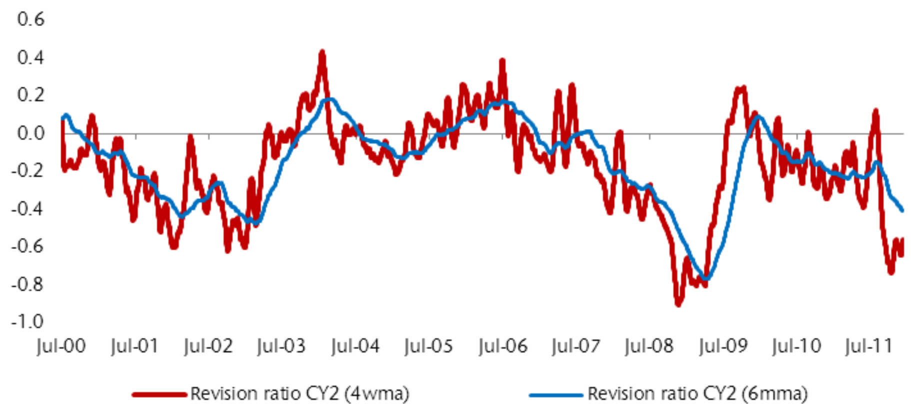
Exhibit 46: Price/Book (12 month forward) - Italy



Source: FactSet, Jefferies

Earnings momentum has collapsed

Exhibit 47: Earnings Revision Ratio (CY2) - 4wma & 6mma - Italy



Source: FactSet, Jefferies

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BULLISH

Norway: Petrodollars and credit growth

Norway would not necessarily be on most investor radar screens but the growing desperation to find safe havens is likely to mean that it will feature during 2012. Of course, the economy is dominated by the oil industry and the recycling of petrodollars but the country appears to have also recently enjoyed a modest credit boom by international standards but a large one by its own standards. This may prove a headwind in 2012, but not as much as other commodity markets where the credit boom and carry trade induced flows have been more pronounced. It is one of the few economies where output is above its 2008 level and where a program of fiscal and monetary responsibility is being followed.

In many ways, Norway had a good crisis and has acted perfectly afterwards. Fiscal policy has been tightened and government expenditure has been declining. The country is still running a current account and trade surplus albeit a modest one as import penetration has risen.

The rebound in economic growth has been in parallel with a trade surplus reflecting oil and gas receipts. However, the positive environment for growth has also been accompanied by hot money inflows. Unlike the other commodity based economies, inflation has been less of a problem for Norway, with CPI trading at a mean of 2% and wage inflation mostly attached to the petro-economy. This has probably been the reason that retail sales volumes have been weak as income levels have not been able to support a boom.

However, more recently asset price inflation (housing) has appeared and in response housing starts have begun to pick up. On the surface, Norway appears to be an investor's paradise against the backdrop of debt deflation in the major economies but it too is under pressure to tighten credit regulations and there remain concerns over the growing welfare and healthcare costs that the country is building up. As the Norwegian MoF points out in its 2009 white paper, from about 2010 onwards the proportion of elderly in the population will rise steadily. Moreover, the economy is a small, open one and trade and commodity flows present difficulties in long-term management.

The November, 2011 Norges Bank financial stability report highlighted that while Norwegian banks were well capitalized, they relied on foreign sources of funding due to the wholesale deposit base. Equally, the share of high loan-to-value residential mortgages is now substantial and interest-free periods are used extensively. According to Norges Bank, the exposure of the local banks to the Euro zone is less than 1.3% of total assets, although this does not take into account claims on counterparties who in turn have claims on indebted economies. Customer deposits are an important source of funding for smaller banks in Norway while their larger brethren are more dependent on foreign funding.

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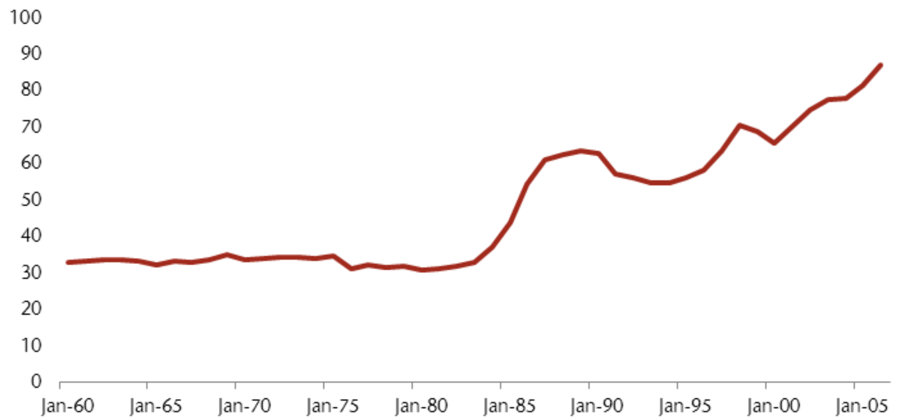
Norway has also experienced a credit boom

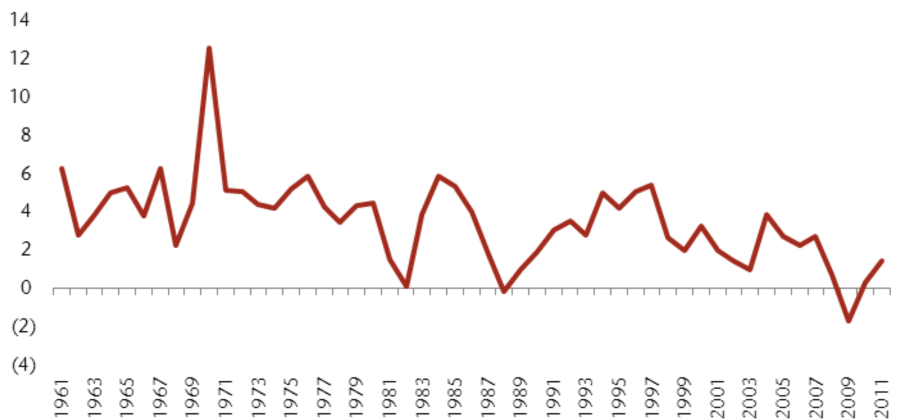
Exhibit 48: Norway Domestic Credit to Private Sector (% to GDP)



Source: Datastream, Jefferies

Norway has been able to maintain positive growth

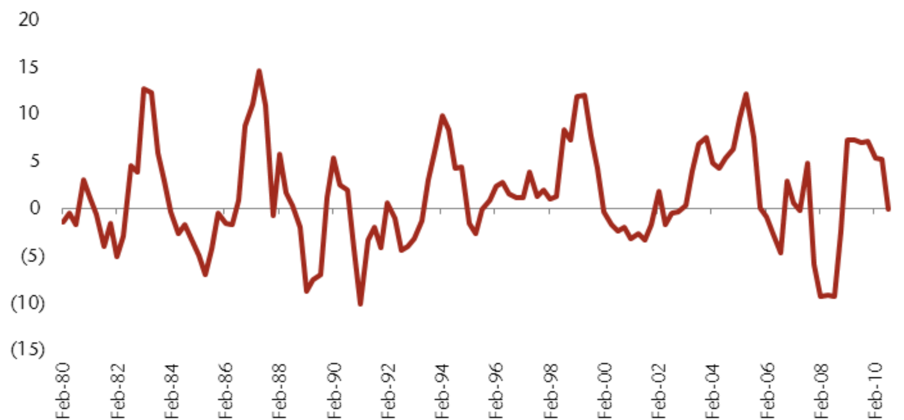
Exhibit 49: Norway Real GDP (%, y-y)



Source: Datastream, Jefferies

Norway's terms-of-trade have peaked for the moment

Exhibit 50: Norway Terms-of-trade (%, y-y)



Source: Datastream, Jefferies

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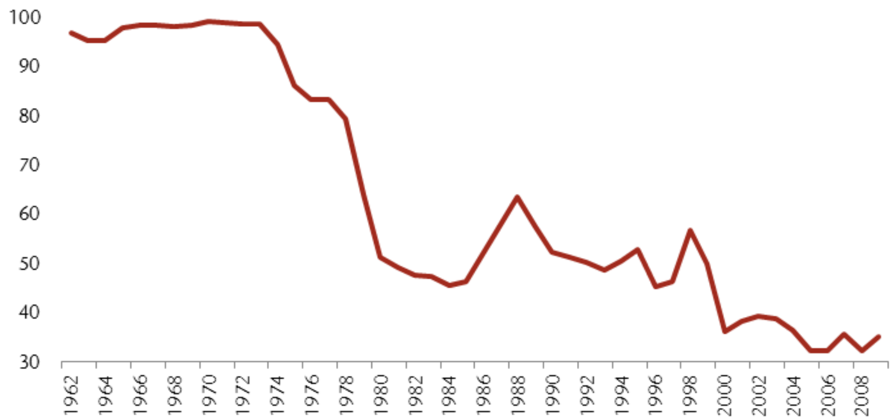
However, the economy has become reliant on oil revenues

Exhibit 51: Norway – Non-Fuel Exports to Total Exports (%)



Source: Datastream, Jefferies

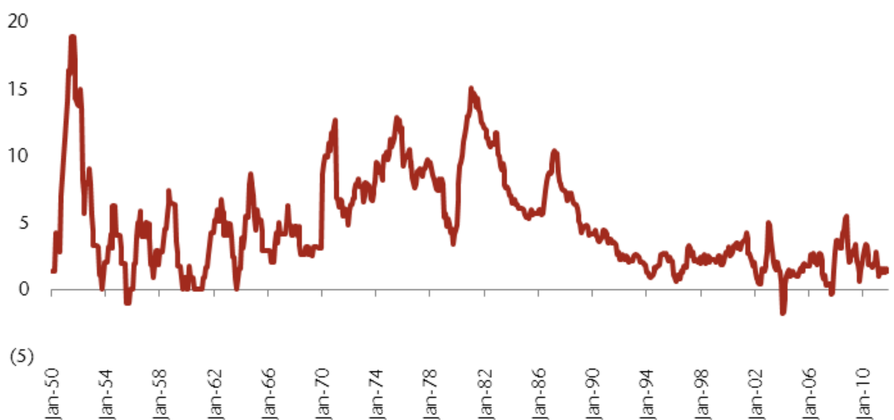
The current account is robust

Exhibit 52: Norway Current Account % of GDP

Source: Datastream, Jefferies

CPI is under control

Exhibit 53: Norway CPI (%, y-y)



Source: Datastream, Jefferies

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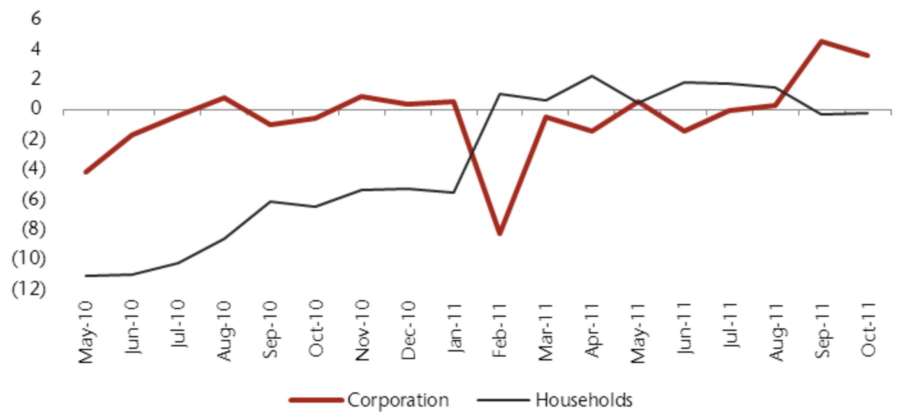
Loan growth continues to climb

Exhibit 54: Norway Loan Growth (%, y-y)



Source: CEIC, Jefferies

Norway has experienced a modest asset boom

Exhibit 55: Norway House Price (%, y-y)

Source: Datastream, Jefferies

Manufacturing has slowed

Exhibit 56: Norway PMI Manufacturing

Source: Datastream, Jefferies

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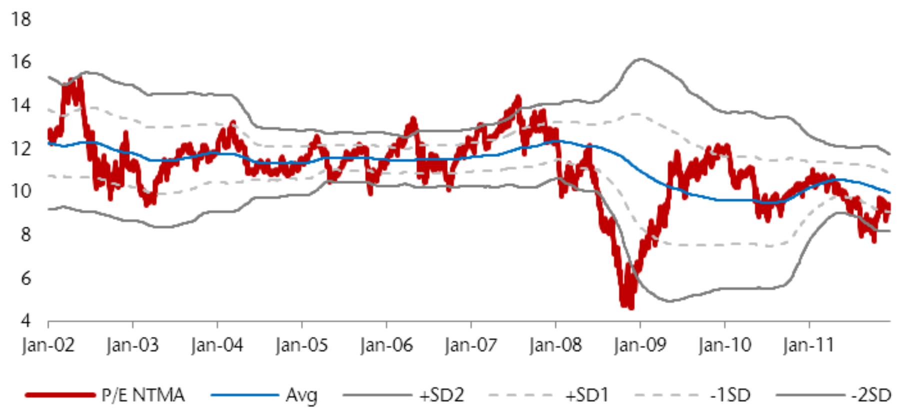
Forward multiples are reflecting much slower growth

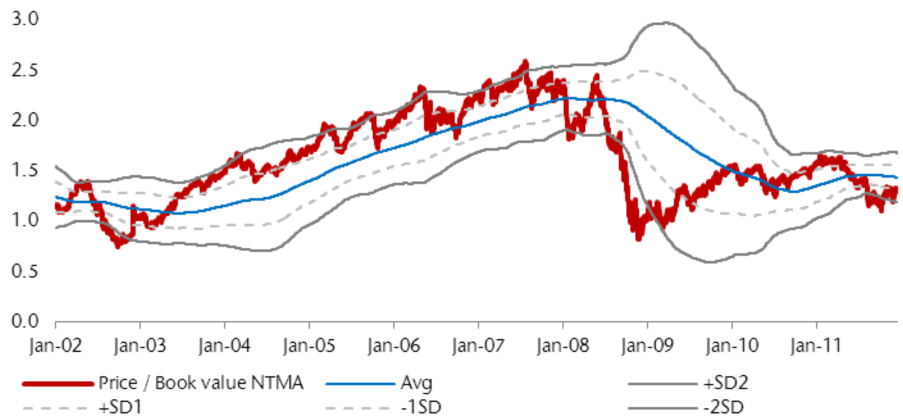
Exhibit 57: PER (12 month forward) - Norway



Source: FactSet, Jefferies

The market is back to a multiple of 1

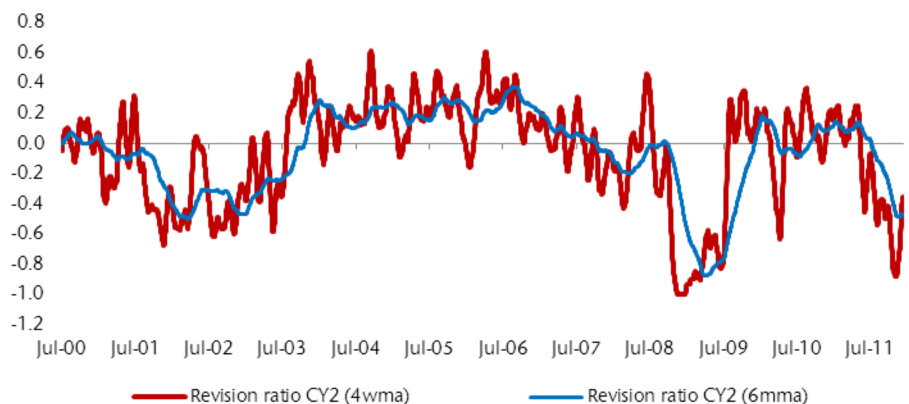
Exhibit 58: Price/Book (12 month forward) - Norway



Source: FactSet, Jefferies

Earnings revisions are still turning negative

Exhibit 59: Earnings Revision Ratio (CY2) - 4wma & 6mma - Norway



Source: FactSet, Jefferies

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BULLISH

China: Where did all the money go?

Perhaps the memories of the 2009 credit boom have had investors believing that all monetary easing cycles will be pretty much the same in China. Investors appear to divide themselves into either the soft landing or the hard landing camp.

Indeed, investors imagine that the authorities will replicate the 2008-09 cycle should Europe or the global economy suffer a repeat of the 2008 financial crisis. China confounded the consensus through 2009-2010 by growing above 9%. Money supply, credit growth and FX reserves all reversed direction during the last year as the PBOC began to rein in the shadow banking system and curtail credit to the property sector. Moreover, loan-to-deposit ratios were constrained by the authorities placing a cap on the ability of the banks to expand credit whatever the demand. Furthermore, the authorities applied the brakes to the real economy through price controls where overheating had caused acute price increases or where there had been hoarding in anticipation of future gains. On the ground, measures of inflation have been higher than the figures published by the authorities, and this has been true of consumer as well as producer prices. In one sense, China has been suffering from stagflation.

The astonishing growth in credit-to-GDP during the 2009-10 was also accompanied by a 4 trillion yuan fixed asset investment program that was front-loaded. In 2009, the total amount of outstanding RMB loans expanded 33%. Alongside this, China also loosened property investment restrictions and incentivized both local governments and banks to relax credit standards. China provided a double counter-cyclical punch; a housing boom and a fixed asset investment explosion. The problem is that the counter-cyclical growth has left the public sector debt-to-GDP ratio possibly at 70-80%. The government does not have any more ammunition.

Chinese banks are extremely profitable. The NPL ratio has been on a downward trajectory and was 1.1% at end 2010. 95% of bank loans re-price in less than one year. Hence, the tightening transmission mechanism is far greater than in many other countries. The IMF conducted a stress test that showed the financial system would be able to withstand relatively sizeable aggregate increases in credit risk. If NPLs rose 400% in 2 years, based on 2010 data, no banks would have CAR below the regulatory minimum.

China is a working capital intensive economy. With a cost of capital that is almost zero and in real terms negative, Chinese households continue to subsidise companies through a negative real deposit rate. The unintended consequences are that monetary policy is finding it difficult to be effective because of the degree of deposit migration that shifted to the shadow financial system. In a sense while the authorities are able to introduce more deposits as the Reserve Ratio Requirement is lowered, the fear must be that these just migrate to the informal banking sector. The authorities will battle two issues in 2012. Firstly, hot money outflows from the economy either due to changes in RMB exchange rate movements or due to declining property prices. Secondly, the leadership succession may also play a role in restricting policy options.

Hence, after an initial easing period, the central bank might find itself restricted in policy moves either because of deposit flight or because property price falls may cause people to save more and inadvertently force banks to hold larger reserves. Hence in 2012, China faces a more delicate balance in easing policies further than the initial 200bp that might occur during the first half of 2012. If indeed, China begins to run trade deficits and current account surpluses shrink, the policy makers are unlikely to alleviate monetary tightness through lower deposit rates. While current account deficits may be inevitable in the short run as China moves towards a more domestically focused economy, we doubt that the authorities would wish to see large deficits since it may put pressure on the balance of payments. Hence, it is not clear, even if exports were declining, whether monetary policy may ease in the manner expected. China may be 'pushing on a string' as property prices decline but equally it may not be able to lower deposit rates that quickly either – real rates

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are already too low and capital flight/deposit migration may become an issue. The unintended consequences of the previous boom have left monetary policy far more complicated than investors perceive.

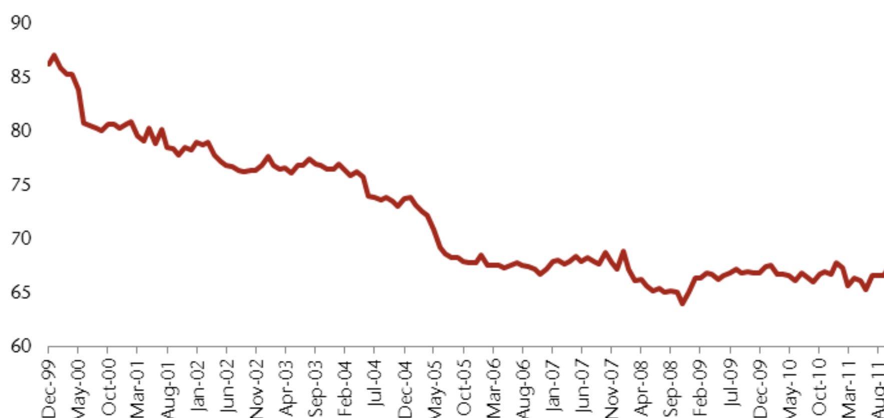
The best performance for Chinese equities tends to be during periods of narrow money growth and arises when exports are being recycled through large current account surpluses. With China set to run trade deficits and much lower rates of credit growth, local equities will be hard pressed to make much headway. However, there are two advantages that the equity market provides foreign investors. Firstly, it is almost immune to contagion from Europe. Secondly, the vast majority of companies are domestically focused. The irony is that most of them are state-backed, with the financials comprising a large segment of the market. Hence the dichotomy – while the equity market has possibly the lowest exposure to Europe directly on earnings and indirectly through credit channels, investors are sceptical of the Chinese banking system. Thus the equity market is a function of domestic credit conditions.

One topic that will play on investor minds during 2012 is the competiveness of the economy. China appears to have experienced a 'Lewis turning point' some time in 2005 when it saw labor costs beginning to rise. Since then China has faced a series of cost increases – from land, energy, and commodities, to an appreciation in the exchange rate. In fact, on many measures, China's currency has risen far more than some of its regional peers, particularly on a REER basis. China's running a much higher inflation rate during the past 12 months than many of its trading partners has left its economy far more uncompetitive than investors realize. 2012 will be the year for the authorities to develop initiatives to raise the productivity of the economy. While investors continue to be focused on domestic themes and the development of a social stability programme, it is the long-term ability to raise wages through higher productivity that matters in the future.

While the headlines in 2012 will highlight the succession issues within the Politburo with Xi Jinping and Li Keqiang front-runners for the posts of President and Prime Minister respectively, the markets may need to consider how the authorities manage the increasing social discontent, stickier inflation and loss of competitiveness. The latter, we feel, will be far more important for China's future than another round of fixed asset investment.

China has capped the loan-to-deposit ratio

Exhibit 60: China Loan to Deposit Ratio (%)



Source: Bloomberg, Jefferies

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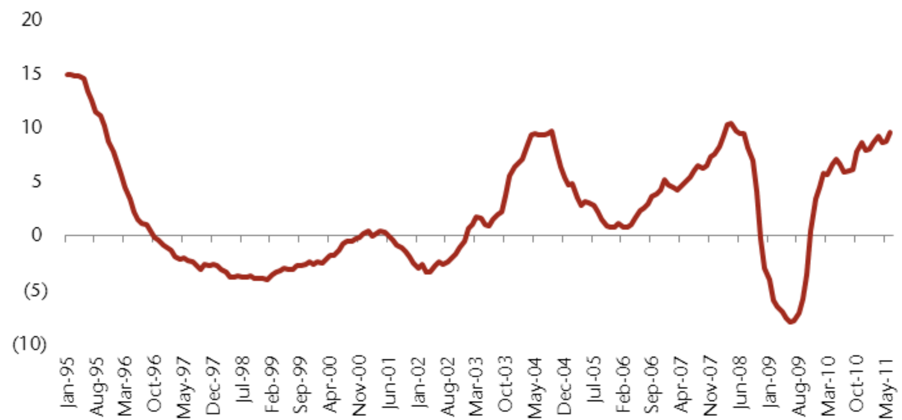
Corporate prices paid index is still going up

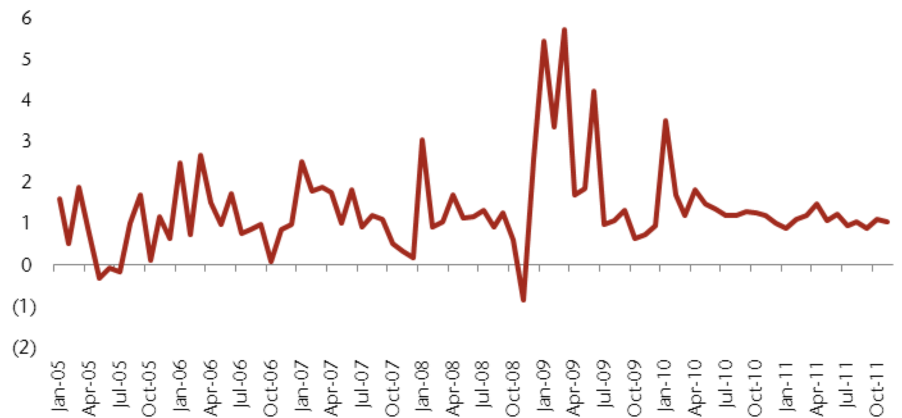
Exhibit 61: Corporate Goods Price Index (%, y-y)



Source: CEIC, Jefferies

Loan growth has returned to trend

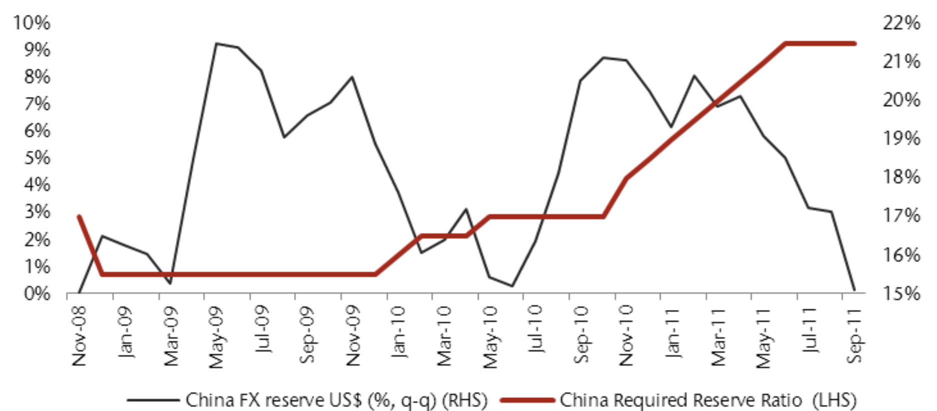
Exhibit 62: China loan growth (%, m-m)



Source: CEIC, Jefferies

China has the ability to lower RRR

Exhibit 63: China Required Reserve Ratio Actual vs. China FX Reserves (q-q % change)



Source: CEIC, Datastream, Jefferies

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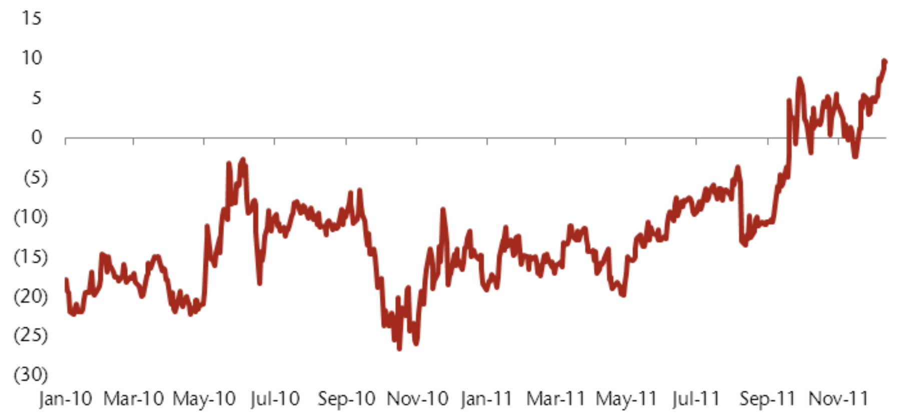
Currency expectations are for a 10% depreciation next year

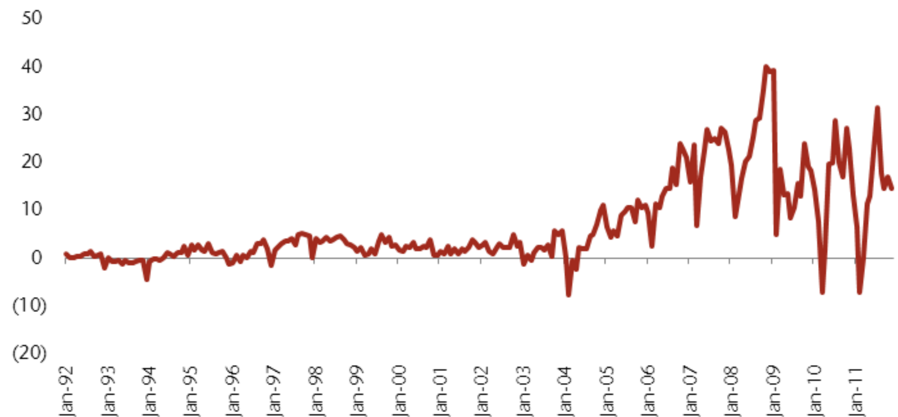
Exhibit 64: CNY 12m forward - NDF (%)



Source: Bloomberg, Jefferies

The trade balance remains positive…

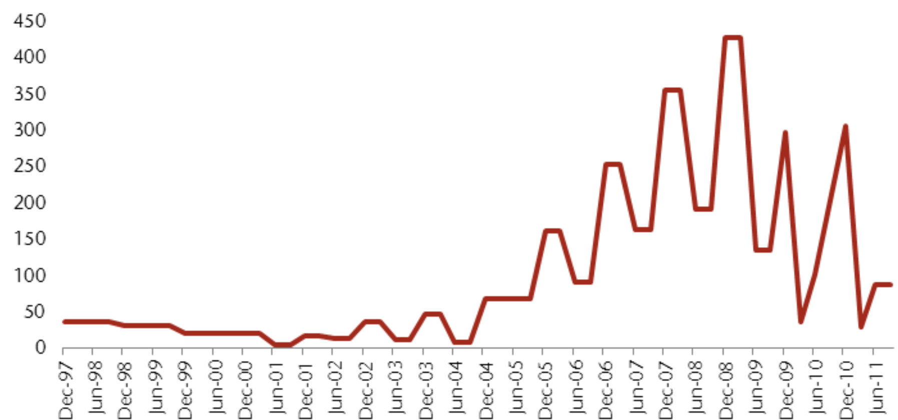
Exhibit 65: China Trade Balance (US$ bn)



Source: Bloomberg, Jefferies

…but the overall current account surplus is falling

Exhibit 66: China current account surplus (US$ bn)



Source: Bloomberg, Jefferies

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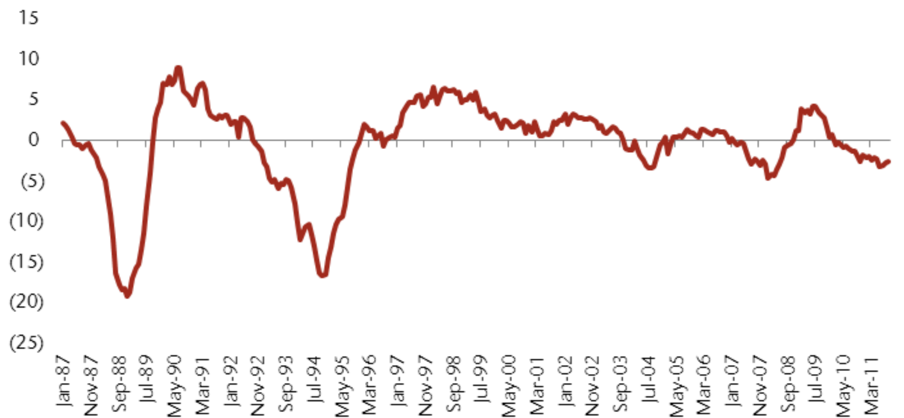
An RRR cut would at least allow the banks to start easing by releasing deposits.

Exhibit 67: China: % of loans charged above benchmark lending rates

Source: CEIC, Jefferies

Real deposit rates remain negative and remain stimulative. They are unlikely to cut deposit rates...

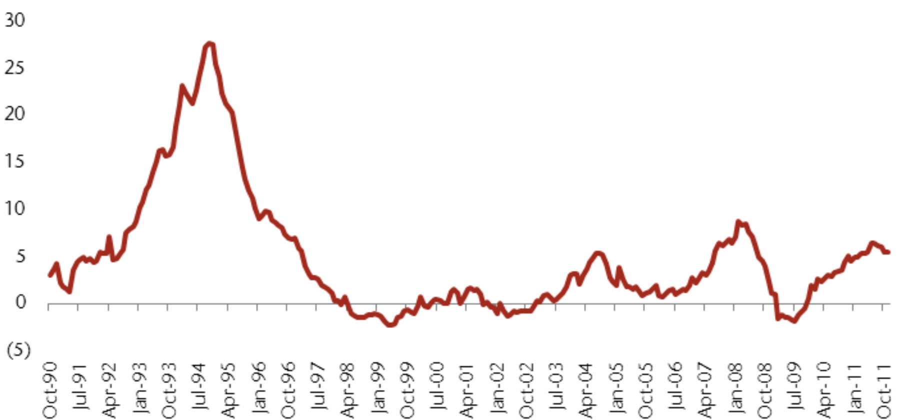
Exhibit 68: China Real Deposit Rates



Source: CEIC, Jefferies

...as CPI remains elevated but declining

Exhibit 69: China CPI (%, y-y)



Source: Bloomberg, Jefferies

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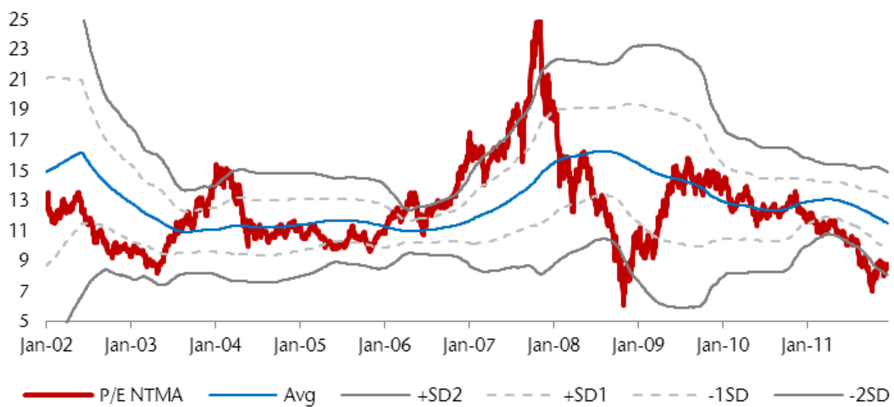
P/E multiple has rapidly contracted even though growth was strong

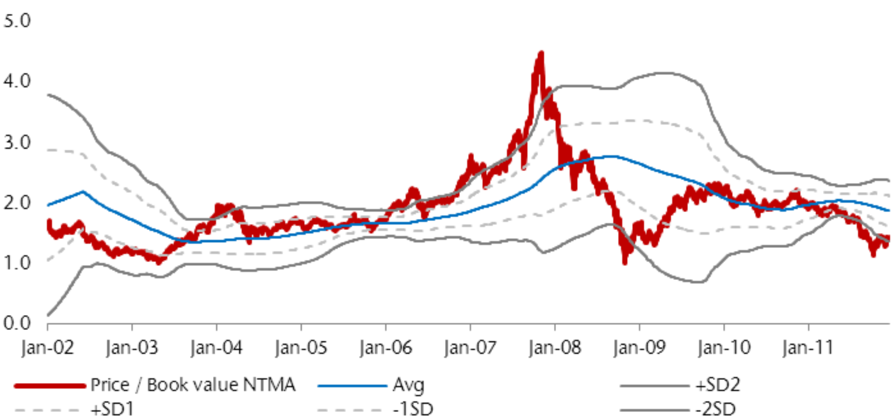
Exhibit 70: PER (12 month forward) - China



Source: FactSet, Jefferies

Rock-bottom valuations

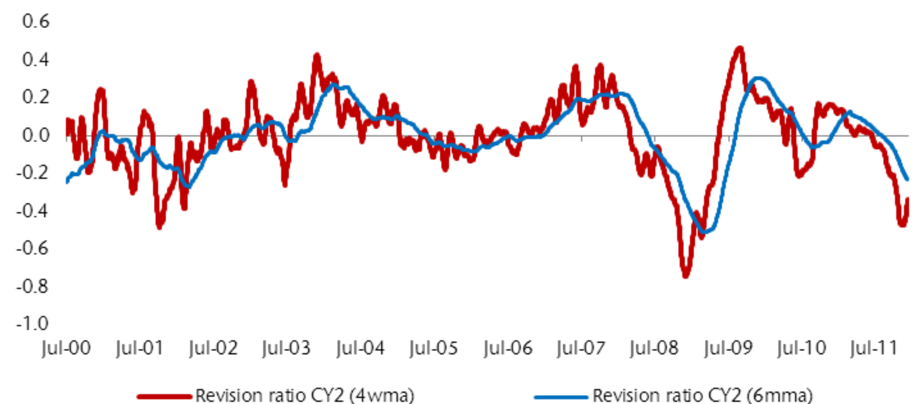
Exhibit 71: Price/Book (12 month forward) - China



Source: FactSet, Jefferies

Earnings momentum poor

Exhibit 72: Earnings Revision Ratio (CY2) - 4wma & 6mma - China



Source: FactSet, Jefferies

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BEARISH

Hong Kong: Deceptively slowing

Hong Kong has been at the junction of a confluence of monetary factors since 2008 - a weak greenback, an expansive Federal Reserve, a credit-fuelled China and a roaring re-export trade surplus. To add to the cocktail, domestic banks have been expanding their loan books to offshore Chinese entities as well as to finance a local property boom. Equally, the introduction of offshore RMB trading has also allowed the money in circulation in the economy to increase. Real negative interest rates sitting at between minus 4 to 5% have also encouraged risk appetite to rise.

While economic activity appears vibrant on the surface, behind the scenes we believe the monetary cycling is cooling and a number of monetary variables have peaked. Importantly, just as many of these expanded in harmony, we believe they will also fall in unison.

One of the major implications of a pegged exchange rate is that the amount of HKD circulating depends on how fast the balance of payments is growing or contracting. Hence the money creation in HK relies on two factors: (1) First, confidence in the banks and the integrity of the financial system should be high enough that investors feel comfortable putting money in deposits; (2) Secondly, China should be running a trade surplus and also be experiencing capital inflows either chasing an undervalued exchange rate or as part of the hot money entering the property market. Of course, both of these can easily reverse.

As China's manufacturing contracts and exports deteriorate, its trade surplus shrinks and HK's re-exports diminish. In fact, potentially China's trade surplus could shrink in 2012 forcing HK's balance of payments to contract in reaction. On the capital account side of the balance sheet, there are a host of reasons why the flood of money entering HK might turn into a trickle. Expectations over the RMB appreciating are receding and are in fact beginning to suggest depreciation. The slowdown in HK property transactions is also an indication that animal spirits have become much more subdued. Property prices appear to have peaked.

Underlying the above is a slowdown in HK-denominated credit growth. As inflows decelerate, the rate of HKD deposits will slow commensurately. Perversely, after a lending binge during 2011, HK banks have stretched loan-to-deposit ratios, forcing them to raise deposit rates to attract money. Although real rates may be negative, the banks are constrained by capital rules from lending more. The prudent credit controls seem to have dampened domestic mortgage lending growth during the early part of 2011. Indeed, up until 3Q, HK banks were also strong lenders to China (and in foreign currency).

In essence, a shrinking balance of payments means a shrinking money base. If this occurs when bank balance sheets are stretched, interest rates need to move up. Although real interest rates are sharply negative, such a change will force net interest margins to shrink and force asset prices to adjust (downwards). Although the loan-to-deposit ratio for HK banks at approximately 90% is relatively low, a number of banks do not have the same deposit base and hence find it necessary to borrow through the inter-bank market.

With the HK equity index dominated by 'financials', the operation of the HK peg acts as an inflator or deflator of assets. Hence, a strengthening in the US dollar, rising HIBOR rates and a declining trade surplus will be negative for HK asset prices. Indeed, although the swing may be relatively small compared to previous cycles because the base is so low, the impact will be just as big.

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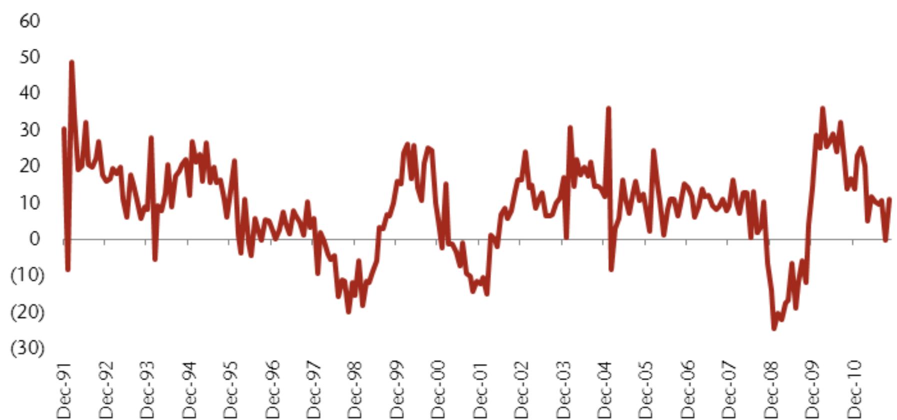
HK's loan-to-deposit ratio has reached its limit

Exhibit 73: HK Loan to Deposit Ratio - HK Dollar

Source: HKMA

Trade has cooled

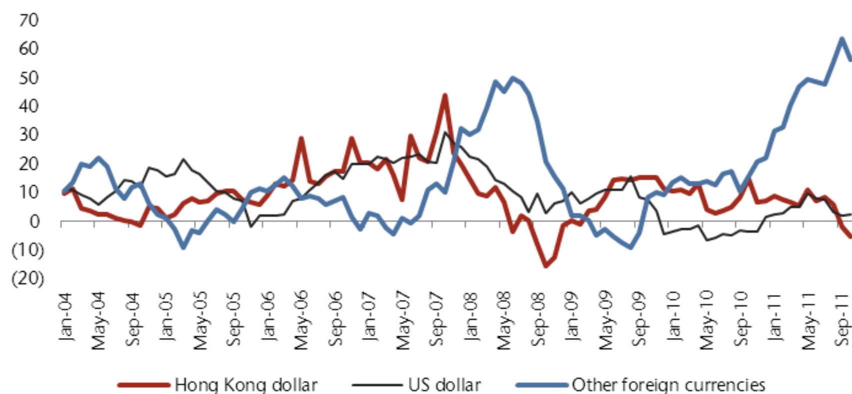
Exhibit 74: HK Total Trade (%, y-y)



Source: Wind, Jefferies

Hong Kong deposit growth has turned negative

Exhibit 75: HK Deposit Growth (%, y-y)



Source: HKMA

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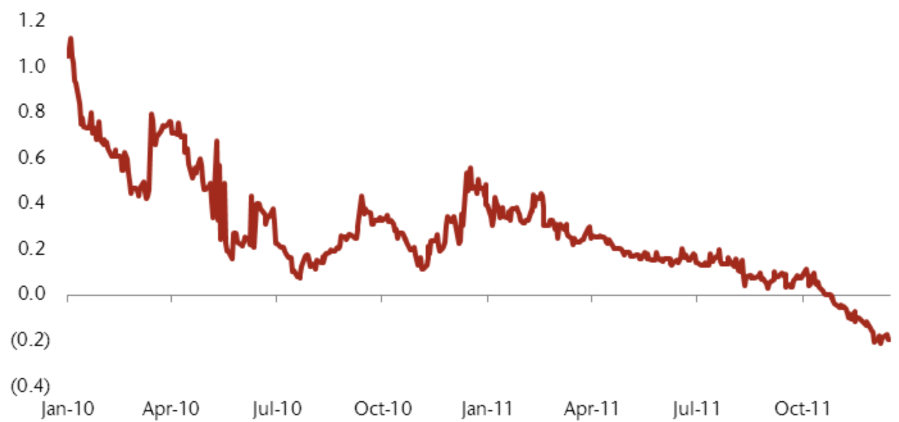
Monetary conditions are easing

Exhibit 76: 3-month HIBOR-LIBOR spread (%)



Source: Bloomberg, Jefferies

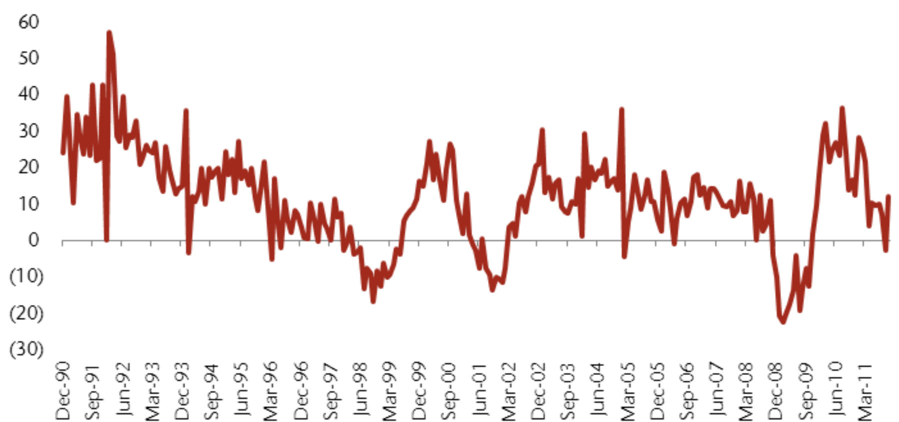
Real rates remain very negative

Exhibit 77: Real Rates based on Import Price Index (China), (%, y-y)

Source: CEIC, Jefferies

However, we would carefully watch re-export trends

Exhibit 78: HK Re-exports (%, y-y)



Source: Wind, Jefferies

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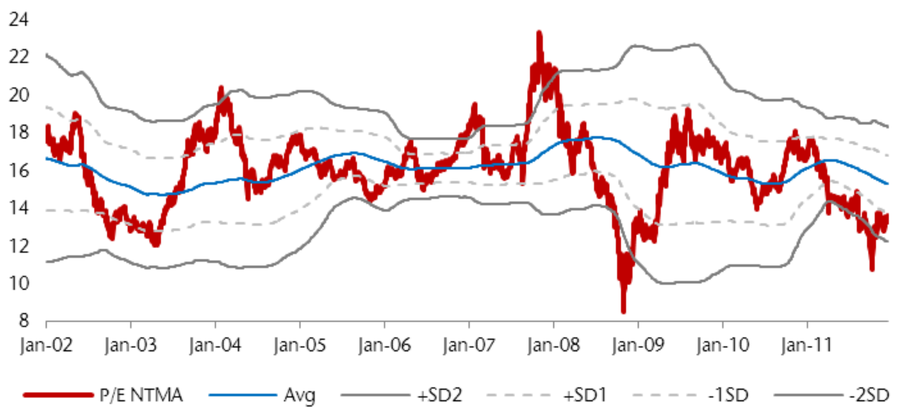
The market is relatively more expensive than the developed world

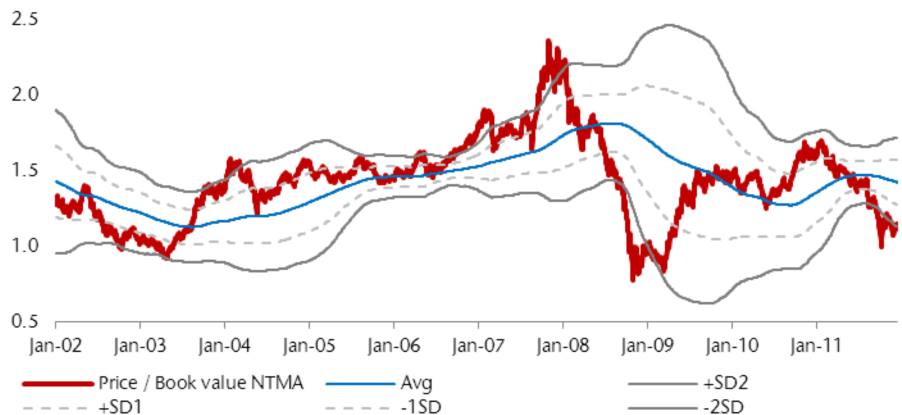
Exhibit 79: PER (12 month forward) - Hong Kong



Source: FactSet, Jefferies

Although multiples have fallen

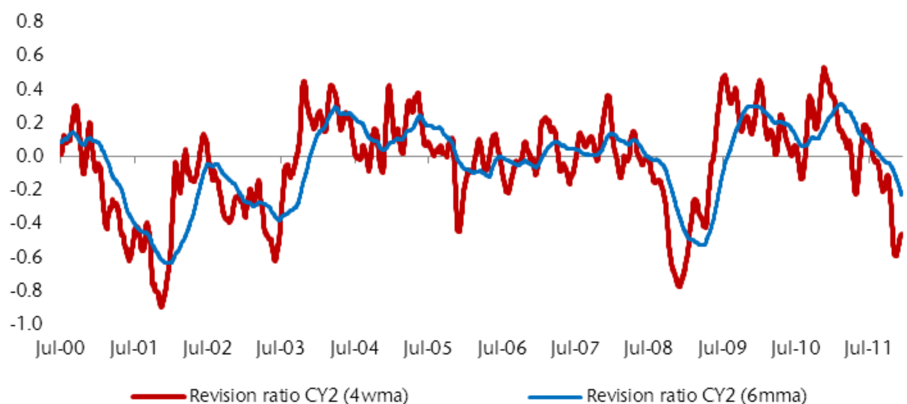
Exhibit 80: Price/Book (12 month forward) - Hong Kong



Source: FactSet, Jefferies

Analysts have been slashing forecasts

Exhibit 81: Earnings Revision Ratio (CY2) - 4wma & 6mma - Hong Kong



Source: FactSet, Jefferies

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Brazil: Contradictory returns

Brazil's equity market sharply underperformed its peers in 2011. Brazil is one of the few countries where nominal GDP in US terms has doubled since 2008 but its equity market is still below the 2007 level. Industrial production has also been lacklustre over the same period – essentially flat. Indeed, it is surprising to find that mining output has been similarly moribund while commodity exports (oil, metals and agriculture) in volume terms have risen substantially since 2009.

It would seem two factors have been in play. One is the movement of commodity prices and the other the exchange rate. Their interplay is making US dollar returns appear inflated. Commodity prices have reflected part of the dollar debasement trade and part of the China demand story while the Brazilian Real also became the unintended victim of the carry-trade, ironically financed in US dollars.

Brazil's equity market appears to have been the victim of two US dollar QE-related themes – the desire to hold assets reflecting a consistent purchasing power and the borrowing of US dollars into high-yielding currencies as per the carry trade. As money flowed into the economy, the currency naturally appreciated and the banks encouraged a credit cycle to evolve. Domestic credit growth has been running at 20% per annum since 2005, uninterrupted by the 2008 financial crisis. Although low by developed world standards, private sector debt to GDP has risen unabated over the same period.

A more familiar theme that engulfed Brazil has been the overheating of the economy and a loss of competitiveness. As households have leveraged, cheaper imports have surged and the current account has turned into a deficit. The hot money inflows have masked a growing current account deficit relative to GDP. Underneath the surface has been the fact that Brazilian companies have been borrowing abroad due to the lower offshore interest rates. Initially, as the dollars are repatriated the currency appreciates and the money is recycled into the economy causing money supply to increase. Subsequently, inflation pervades as the current account slips into a deficit.

Brazil began cutting rates earlier than other central banks more in response to declining domestic activity particularly retail, auto sales and domestic non-commodity manufacturing. A reflection of the weaker domestic story is the fall in imports.

However, as the domestic story cools, the probability of further rate cuts rises and this undermines the total return case for Brazilian equities. Unfortunately, Brazil is no different from many other commodity-based economies that have become embroiled as part of the US QE and dollar carry trade. However, with cooling commodity markets and a domestic economy that is slowing, albeit with strong credit there is a strong probability that the unwinding of the hot money/credit expansion theme will end in a disorderly fashion.

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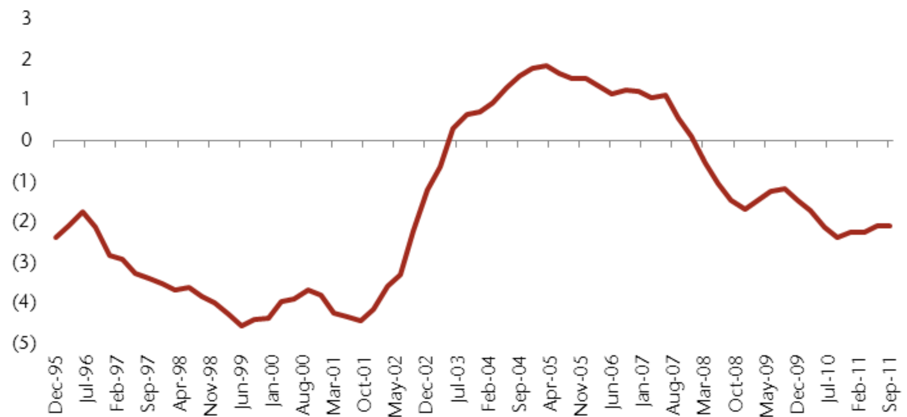
Brazil's current account has returned to a deficit

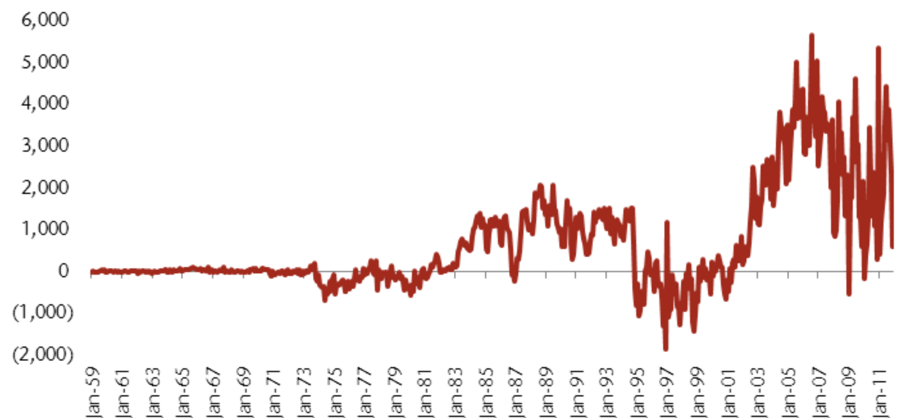
Exhibit 82: Brazil Current Account % of GDP



Source: Bloomberg, Jefferies

The trade position has become volatile

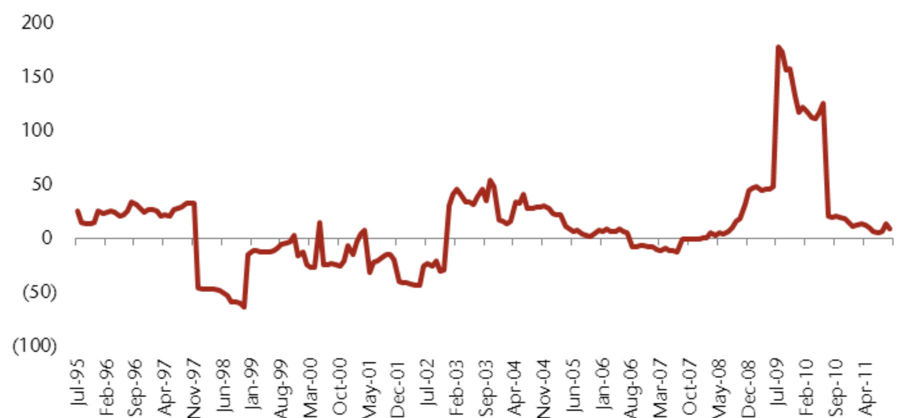
Exhibit 83: Brazil Trade Balance (US$ mn)



Source: CEIC, Jefferies

Brazil loan growth has cooled in a similar manner to China

Exhibit 84: Brazil Loan Growth (%, y-y)



Source: CEIC, Jefferies

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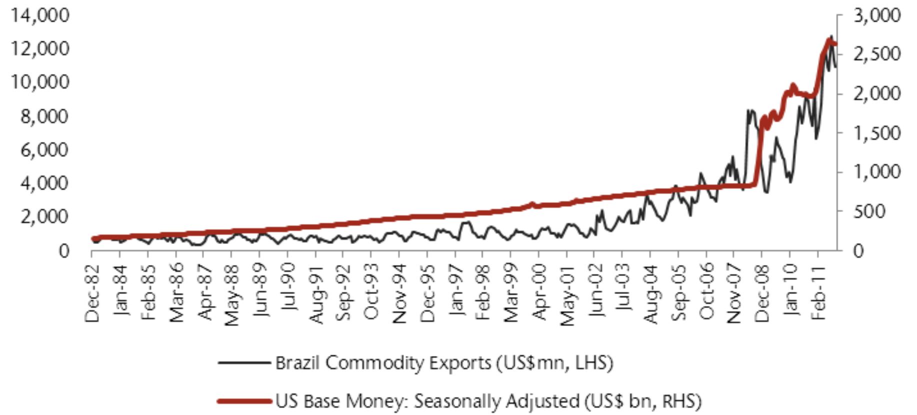
The expansion of money supply in the US pushed up demand for commodities

Exhibit 85: Brazil Commodity Export vs. US Money Base



Source: CEIC, Jefferies

Brazil has seen labor costs increase

Exhibit 86: Brazil Labor Unit Cost in US$ (June 1994=100)

Source: CEIC, Jefferies

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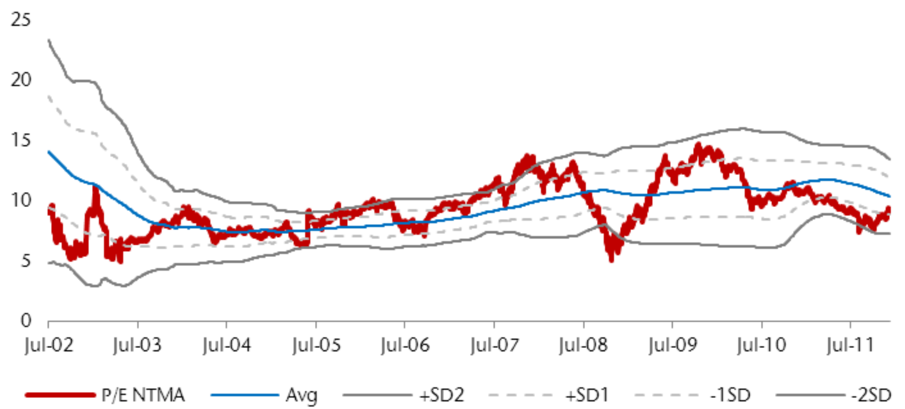
Brazil like other emerging markets has sunk to the bottom of its historical multiples

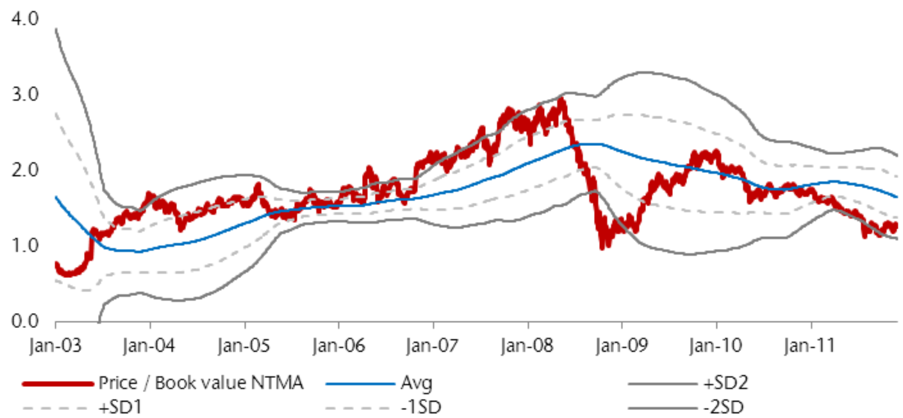
Exhibit 87: PER (12 month forward) - Brazil



Source: FactSet, Jefferies

The market has actually de-rated the growth experienced during the past 12 months

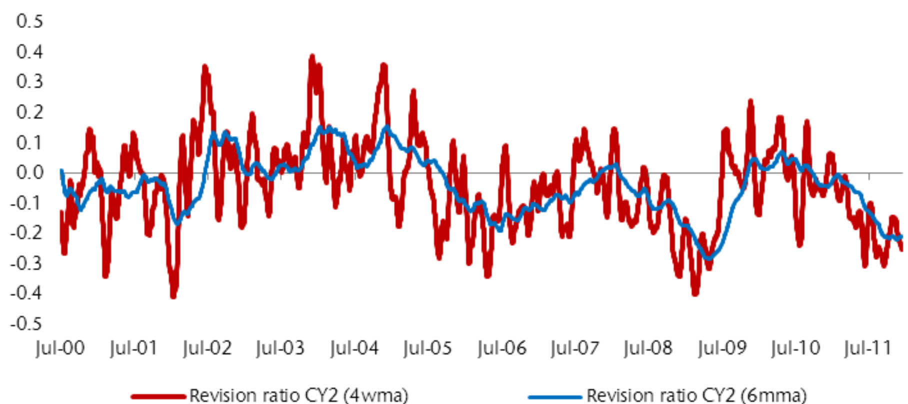
Exhibit 88: Price/Book (12 month forward) - Brazil



Source: FactSet, Jefferies

Earnings momentum is the weakest since 2008

Exhibit 89: Earnings Revision Ratio (CY2) - 4wma & 6mma - Brazil



Source: FactSet, Jefferies

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BULLISH

Mexico: Even better than the real thing

In some ways, Mexico's recent success has been overshadowed by its two neighbours, US and Brazil. The country was not immune from the 2008 financial crisis receiving liquidity assistance from the IMF and also experiencing a sharp drop in growth during 2008-09 as trade plummeted. The economy is still an open one and it is highly dependent on exports to the US (around 80%). Ironically, the tables have now turned with the IMF seeking financial assistance from Mexico to help bail out Europe as Mexico takes over leadership of the G20.

In many respects the three successive credit line facilities that Mexico received in 2009 did provide a huge liquidity buffer for the economy as the US financial crisis evolved. With exports low to Europe, Mexico is riding the coattails of the hidden US manufacturing boom, insulated from the demand shock from its trans-Atlantic competitors.

However, much like the US, Mexico will need to delicately balance the withdrawal of fiscal stimulus with a domestic buffer. Much like other emerging market economies, Mexico has been afflicted by a higher inflation rate. Fortunately, the 2008-09 financial crisis did not leave too a deep a scar in the banking sector. Remittances from the US are over US$25bn, which provides a nice buffer to its balance of payments. Mexico remains the largest North American auto maker.

Hence, Mexico remains a play on the US economy, and with inflation expectations at bay, policy makers have a lot more room to maneuver than their peers across the Atlantic. Furthermore, the banking sector has moved further forward in its capacity to meet future financial crises. However, the economy is seen to have two major drags to future growth aside from economic cycles. First, ownership of industries is highly concentrated, which may mean that oligopolistic profits are being derived against the best interests of other members of the economy. Secondly, the increased drug-related violence and the permeation of crime through the economy are likely to mean a far more difficult environment for investment.

Politics continues to be the wild card for Mexico. In July, voters will have the chance to demonstrate their dissatisfaction over the incumbent government's handling of the underground economy and unchecked drug violence. Much like Brazil but without the fanfare, Mexico has been able to reduce the number of people in poverty.

Longer-term, Mexico has some problems similar to Norway in that it must deal with an aging workforce that entails a much higher social welfare cost at a time when its natural resource base may be shrinking and the competitiveness of its economy is declining.

Mexico is running a deficit

Exhibit 90: Mexico Trade Balance (US$ mn)

Source: Wind, Jefferies

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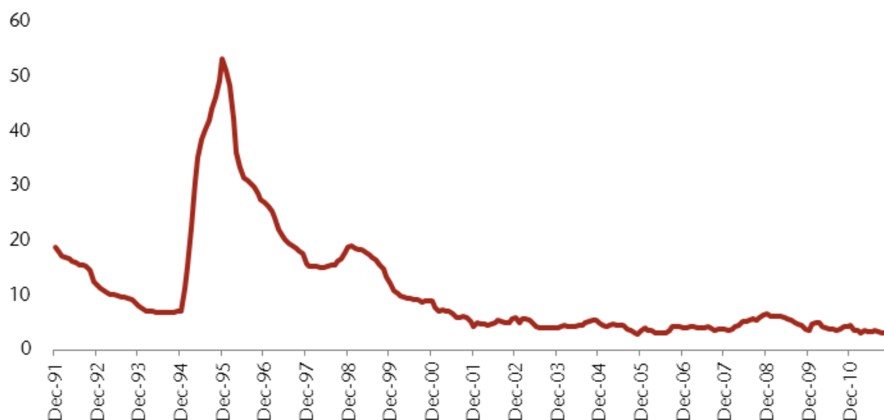
Inflation seems well controlled

Exhibit 91: Mexico CPI (%, y-y)



Source: Wind, Jefferies

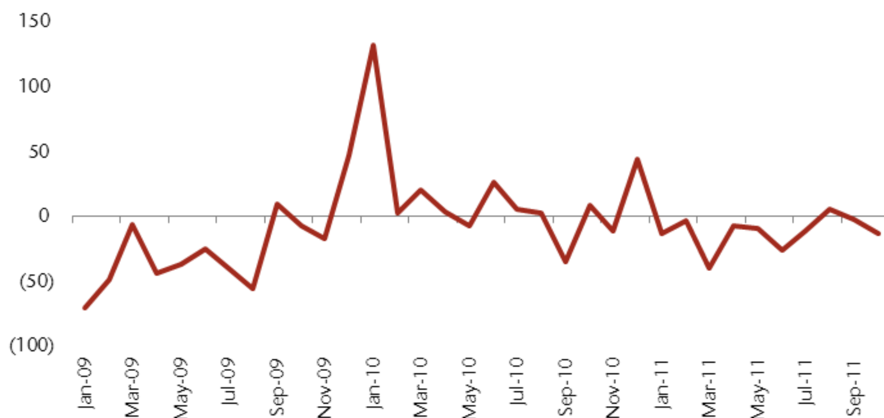
Loan growth has shot up

Exhibit 92: Mexico Loan Growth (%, y-y)

Source: CEIC, Jefferies

Housing remains cool

Exhibit 93: Mexico - No. of New Private Housing Under Construction (% y-y)



Source: CEIC, Jefferies

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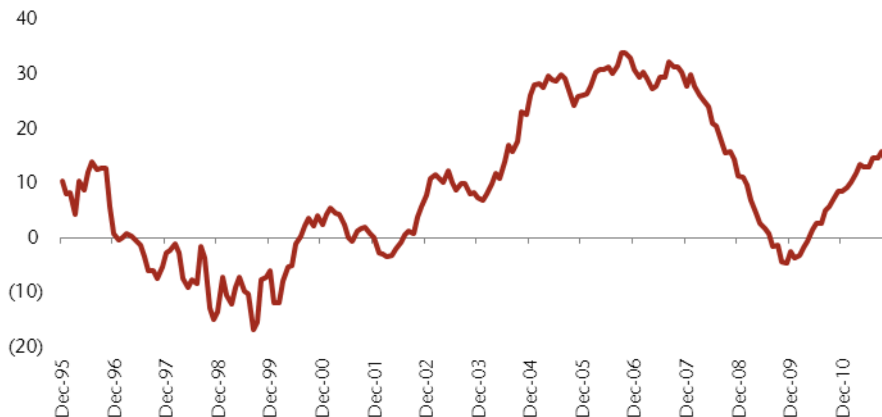
Private sector risk appetite is positive

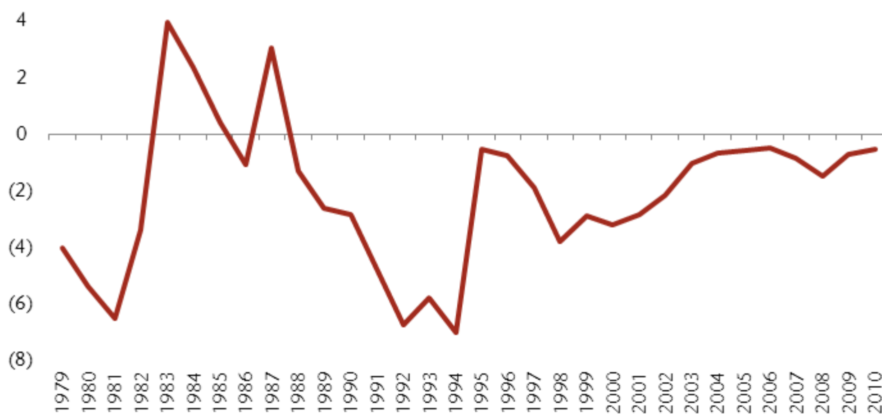
Exhibit 94: Mexico Commercial Banks Outstanding Loans to Private Sector (MP mn)



Source: Datastream, Jefferies

Mexico remains a play on the US

Exhibit 95: Mexico Current Account % of GDP



Source: CEIC, Jefferies

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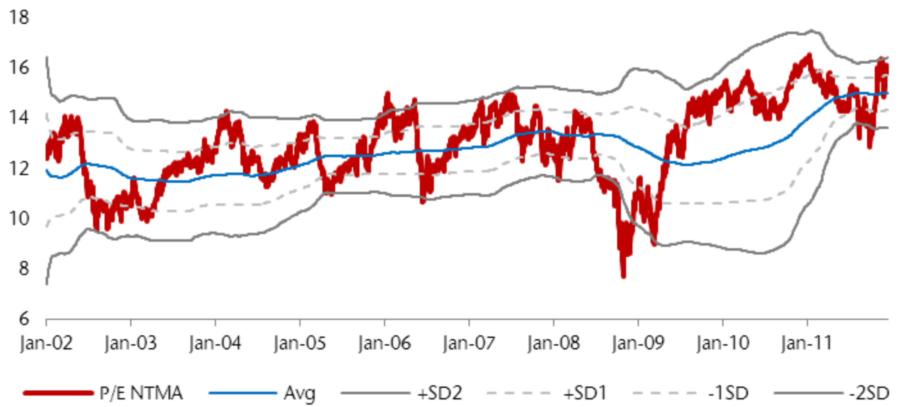
Mexico is actually quite expensive on most measures

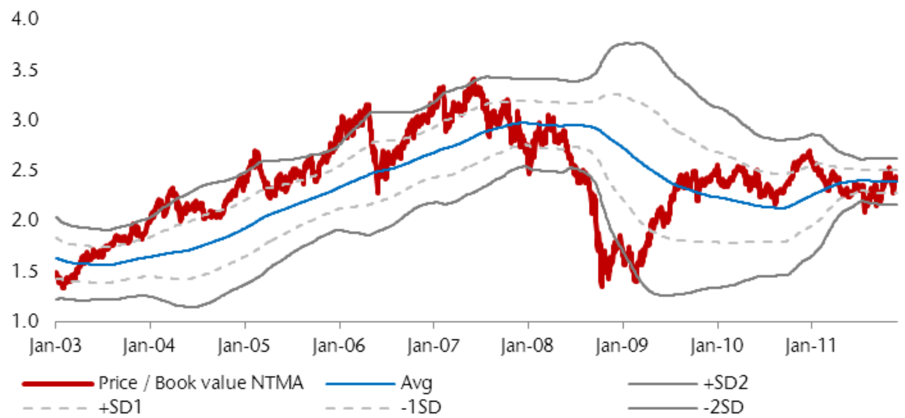
Exhibit 96: PER (12 month forward) - Mexico



Source: FactSet, Jefferies

The market trades at elevated expectations

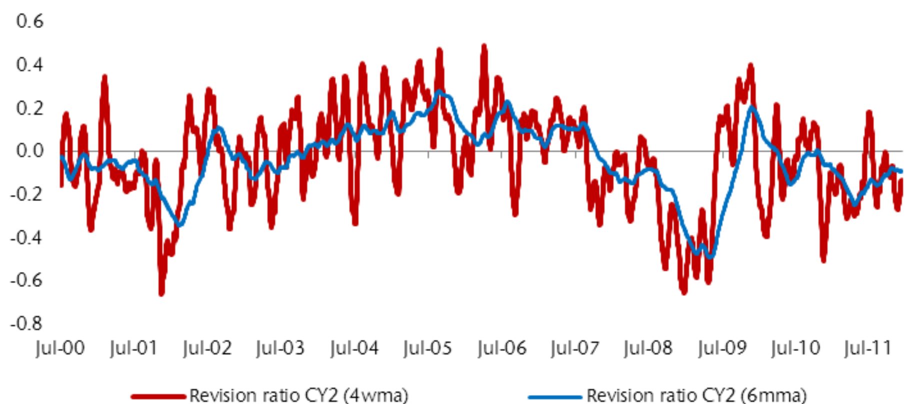
Exhibit 97: Price/Book (12 month forward) - Mexico



Source: FactSet, Jefferies

Earnings revisions have actually seen negative for some time

Exhibit 98: Earnings Revision Ratio (CY2) - 4wma & 6mma - Mexico



Source: FactSet, Jefferies

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BEARISH

India: There is hope in 2012

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Much more economic and market erosion possible if policy intervention does not succeed or materialize

Too early to assume that nothing will work in the light of many changes at work. We stay negative, but are on the lookout for signs of a sharp reversal

All about policymaking and all about the creation of hope

The slowdown has finally and rightly emerged as the key market concern. We maintain that the nature and severity of this investment collapse-led slowdown is such that if not overturned somehow, it could lead to sharp downgrades for FY13 EPS growth. Without a successful policy-induced turnaround, Sensex in 2012 is likely to move substantially below our target of 14,000.

However, it is too early to assume no successful intervention and another miserable market year. In the past few weeks, many new positives have emerged, which have been ignored in the midst of a slowing economy. While staying cautious and discussing the major themes, we also would recommend investors to remain on the lookout for any signs of what could prove a spectacular turnaround.

The New-s of 2012

2012 does not have to be an extension of 2011. As the government focuses on reviving growth, the new year should mark a completely different cycle in almost all aspects of policy making – monetary, fiscal, regulatory, currency. If we are wrong on this or without progress on these fronts, headline numbers on growth, earnings, investments will undoubtedly weaken further. We may even see a growth phase similar to late 90s to early 2000 of low 5-6% growth and possible -10% earnings growth for FY13 on top of the flat FY12. Conversely, progress in these could lead to much better headline numbers due to the base effect and will mark a significant positive for the markets.

We discuss 9 new themes for 2012. The themes are eclectic and not sure-shot, but they are also overlooked.

Theme 1: A new policy cycle – monetary

In 2011, the monetary policy goal was containing inflation. In 2012, this could shift to the revival of economic growth. In our view, monetary policy in 2012 could see a complete reversal almost independent of inflation.

Falling inflation in the early months could lead to a change in policy priorities towards growth which may extend the easing cycle even if there is an inflation revival in the middle of the year

Of course, a falling and low inflation would help. And inflation is indeed falling as we start the new year, which means monetary easing should start early and rapidly. We expect this easing cycle to go on for far longer than anyone's expectations. Amid the first few months of falling inflation, the policymakers may revise the priorities in favour of growth. And once the priorities are shifted, they should prove sticky: even if inflation rears its head again towards the middle of the year, the new priority order could remain.

Not recommending rate sensitives right away although investors should consider asset owners with good balance sheets

Portfolio implication: While falling interest rates may not cure the macro or banking sector woes quickly, the positives are being bottled up. Yet, this may not matter by itself if the economic growth fails to revive – similar to many other countries in the world. Overall, we are not recommending an increase in weightings in banks or other rate sensitives right away but are in wait-and-watch mode. We would recommend increase in weightings in rate sensitives or asset owners with solid balance sheets.

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Theme 2: A new policy cycle – currency

The INR's steep plunge in 4Q11 has led to excessive focus on India's long-existing current account deficit and balance of payment issues. While we continue to consider these issues as India's largest medium-term growth threat, their pertinence in 2012 in light of the recent currency movement is different.

Persistently high deficit and ECB/FCCB redemptions imply high Rupee risks for 2012

The rapid fall in exports (a part of which is due to the possible reversal of capital flows coming in through exports in our view) and India's high dependence on commodity imports especially crude and gold will continue to mean that Indian external sector deficits are going to persist. Given the starting point of India being a likely top 3 highest current account deficit countries globally in 2012, the deficit concerns appear valid. Further ECB/FCCB redemptions in the coming year of the tune of USD15bn are also rightly making many people worry about more Rupee falls in 2012.

Consider more currency hedge in any core portfolio in India. Import substitution plays could work better than exporters near-term

Portfolio implication: All investors in Indian market should raise the implicit or explicit currency hedge in their core portfolio for the next few years even with lackluster outlook on global demand. We would prefer healthcare over IT. Similarly, import substitution could emerge as one of the biggest themes in the market. Investors should continuously look for domestic manufacturing companies that are currently facing stiff competition from vendors reliant on heavy import content.

Theme 3: A new policy cycle – fiscal

In reality, the FY09 deficit shock was never solved except in published numbers

The "recurring fiscal deficit" has been high since the 2008 slowdown. Yet in FY10 and FY11 the published deficit was reasonable due to disinvestments and revenues from the sale of telecom licenses, respectively. Unlike in previous years, a significant part of the FY12 (the current fiscal year) deficit is due to the shortfall in revenues in addition to overshooting of expenditure. This is an unsustainable situation in light of the bond market's scepticism of any disinvestment-related revenue plans for the year ahead.

Likely change in tax rates in the upcoming budget regardless of the economic conditions

As a result for the first time in many years, the government is hard-pressed to boost revenues and hence could consider raising taxes in the upcoming budget regardless of the economic situation. We expect the tax increase to be more in indirect/import taxes and possibly also in the form of corporate income tax.

Portfolio Implication – The biggest reason behind our continuing near-term market pessimism is the budget, which we expect to be highly market unfriendly at least in the run up, if not in reality. We recommend investors to remain relatively low beta in the market in 1Q12 despite the likely year-beginning optimism around falling inflation and monetary easing. We also recommend strong Underweight in government-owned companies as a group.

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Theme 4: A new cycle – Political

Reform pace could remain slow despite economic needs in 1Q2012 due to UP elections

The last two years were of high political certainty with few elections, a stable government and hopes of reforms. This has changed and 2012 will be one of political uncertainty. Many state elections are around the corner. Ahead of the elections, policy support for the more economy-friendly but normally considered non-populist reform bills could be low.

If UP election results are negative for Congress, uncertainties will rise further with more headwinds for the market

One can only speculate what happens after. The central government coalition appears weaker than before as of now. If the UP election turns out to be bad for the ruling (centrally) Congress party, there is not only a risk of large-scale cabinet changes in the middle of the year but also increased anticipation of early general elections with the opposition parties raising their pitch further.

Politics is another reason beside budget why the strong market and economic recovery is more likely a 2H2012 event in the best case

Recommendation: The political environment will play a larger economic and market driving role in 2012 given the apparent policy paralysis and a need for reform to revive the growth engine – investments. We would recommend investors stay cautious early in 2012 and assess the political environment for the full implications depending on the outcome of the UP elections.

Theme 5: A new policy cycle – regulatory

If no improvement in project announcements, capital formation or investment rate can fall much more

The current growth slowdown has been led by a fall in corporate and government investments. Latest capital goods IIP numbers show de-growth of 25%. Many erstwhile investment leaders are likely to remain in hibernation due to overstretched balance sheets or broken business models post the corruption investigations of 2011. The investment rate, which is now at a 5-year low, could in our view see a sharper fall if there is no revival in the announcement of new projects.

Even with rising political uncertainties, there could be more investment-attracting reform policies in 2012 than have happened in the last two years

GDP recovery will have to necessarily be on the back of a return of investment cycle from both corporate and government. The government has few options to revive the economy except through efforts to attract new investors. The path of the economy, and indeed the market, is going to be shaped by whether global and/or Indian private sector investors believe in government efforts or not. As a result, we deem reforms or investment-attracting policies inevitable in 2012.

Reform announcements will matter less by themselves. However, if they are followed by actual investment decisions, investors should begin to increase weights in capital goods sector first and possibly banks later

Portfolio implication: For a sustained market or economic recovery, what will matter is not actual reform announcements but whether they convince anyone to resume their capital expenditure activities. We recommend investors keep an active eye on new capital expenditure announcements. If they recover from the current lows, equity investors should begin to overweight industrial and capital goods linked companies to start with and possibly banks later. Currently, we recommend Neutral on the former and Underweight on financials.

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Annual growth numbers, or rather the trends therein, are generally most important for investors in India

Theme 6: Y-Y base effect: providing support in 2H

We have always called India's market community a "Y-Y" community. What is generally most important for stock market investors both in corporate earnings and in economic data are the annual Y-Y growth and not any other sequential numbers. Growth numbers, though, are a result of both the numerator and the denominator. This is where positives are forming for 2012 especially 2H. Many of the economic and corporate earnings data are forming a low base as highlighted in Exhibit below.

Exhibit 99: Favorable denominator building in many for 2H 2012

Indicator	Growth in 1Q average	Growth in 2Q average	Latest growth number	Past 5 year Median
IIP	7.0	3.0	-5.1	9.5
Inflation	9.6	9.6	9.7	7.0
Corporate Earnings	3.0	-26.4	-26.4	18.7
GDP	7.7	6.9	6.9	8.4
Loan growth	20.9	20.9	17.9	22.7
Repo Rate*	6.5	7.3	7.5	
Exports	*46.2*	*53.8*	*10.8*	*24.6*
Imports	*44.7*	*33.2*	*21.7*	*25.2*
Project announcements**	3.1	2.2	2.2	4.7

Note: * Repo rates data is rate at end of quarter and current; ** Project announcement data is value of project announced in each quarter in Rs tn; Source: CMIE, Jefferies

Portfolio implication: 2H2012 could benefit from an exceptionally favourable base in a host of important parameters. As we have stated previously in the note, a market revival does not need all problems to be sorted; a minor recovery could be enough to bring back confidence and capital, which in turn may solve many other problems and induce a "positive circularity".

Theme 7: Corporate earnings at the crossroads

Against the published expectation of FY13 earnings being 25% higher than FY11, many in market expect 15% or less

Corporate earnings have now again entered de-growth mode for the first time since 2009. More than half of the companies saw de-growth in earnings in the latest released quarterly data for the Indian corporate sector. Index earnings for FY12 (current fiscal) could well end up flat if not deeply negative by the time more downward revisions are fully effected in coming months. The published FY13 earning expectations are high, but the top-down expectations are already muted.

Exhibit 100: Earnings growth now in single digit

EPS Growth (%)	FY11	FY12E	FY13E
Sensex	28.1	7.5	15.1
Nifty	28.1	6.5	15.4
MSCI India	25.0	10.6	15.9
BSE100		8.0	17.4
Nifty Junior		7.7	22.8

Source: Bloomberg, Jefferies

History shows significant recovery in reported EPS growth whenever there is stabilization after a low base

There are two diametrically opposite scenarios for corporate earnings based on whether we see an economic stabilization or not. Let's start with the positive. If we are right on flat EPS growth for FY12, there is a helpful low base being formed for FY13 earnings. There could be a sharper revival in FY13 expected growth than in the previous recorded times as soon as stabilization appears around the corner even if the final reported numbers come somewhat lower.

On current trends and without successful policy response, earnings could easily fall more in FY13

Conversely, 2012 could prove to be like 2001 or worse with another year of top-down malaise if investments do not recover as we discuss above. The pressure could come from financials (discussed below) and capital goods companies along with downgrades from consumer-linked companies (also discussed below).

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Binary earnings outcomes imply diametrically opposite market outcome possibilities

Portfolio implications: As pessimistic as top-down macro expectations are, they are not reflected in bottom-up earnings projections for either the current year or more importantly for the next year. We expect earnings for FY13 to see downward revisions in the early months of 2012. We remain cautious of sectors like banks and those linked to rural consumption, which are most susceptible to revisions. We are also cautious on capital goods, and have a Neutral recommendation to start with.

However, the FY13 earnings trend may deteriorate further or could rebound sharply in the second half of the year depending on the top-down economic factors. The binary potential outcome of earnings is the reason behind the diametrically opposite twin market outcome possibilities currently.

Theme 8: Risks rising in restructured loans

Classifying restructured loans as sub-standard was the practice, post the financial sector reforms in early 2000s and until end-2008. As a response to the slowdown, this rule was reversed in India in early 2009 and has stayed the same so far.

Nearly five-fold increase in restructured assets amid flat NPAs in last three years

From the accounting viewpoint, the time has come when there are rising risks to reported or official NPAs from restructured assets that have been increasing for over two years. Since FY08, restructured assets have increased five-fold without any material change in the reported level of NPAs.

If one were to include a sub-standard loan like provisioning for restructured assets, profits of the top-10 banks could have been lower by 10% in the just-released accounts. This is not a large number but the average masks the divergence within banks, it causes the underreported losses to accumulate and also hides the worsening overall trends.

While in all likelihood, the restructured loan regulations will stay as they are in 2012, we expect the market to focus more on their levels as well as norms if economic growth remains stagnant and corporate sector losses continue to spill over to banks.

UW banks. The time to change stance will be when one sees a solid economic revival and not just rate cuts

Portfolio implication: Financials remain our largest recommended Underweight sector in the market given the rising restructured loans and their accumulation. While monetary easing may provide some temporary relief for banks initially, a total turnaround requires a comprehensive economic turnaround. We would recommend investors consider a large scale position in the sector only when they are convinced of a solid economic rebound and not just on the back of monetary easing.

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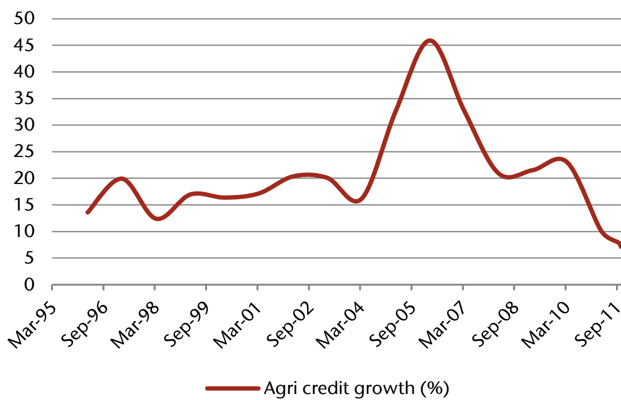
Theme 9: Down cycle in rural economy

Risks to rural growth linked investments more from the near uniform views

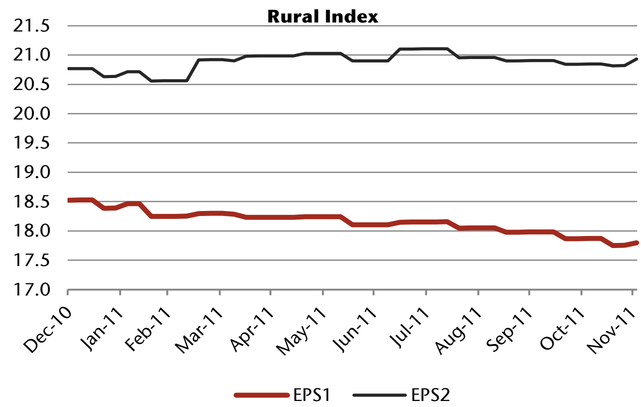
India's stellar rural growth is about the most consensus theme, verging on nearly unanimous, for investors in financial markets. Risks emanate precisely from the fact that rural growth is perceived as almost completely unaffected by the sharp slowdown in the rest of the economy. Many rural indicators too are pointing to a change for the worse. Agriculture credit is now at decade lows while more worryingly agricultural NPAs have risen sharply. The latest tractor sales number is also somewhat worrying. Available data on FMCG companies' rural sales shows clear deceleration, with the latest rural growth numbers below those of urban growth.

Exhibit 101: Agriculture credit growth is at 15-year low



Source: RBI, CMIE, Jefferies; Note: Monthly numbers and Annual numbers are from different series but are almost identical

Exhibit 102: EPS revisions have been relatively mild especially for FY13



Source: Datastream, I/B/E/S estimates, Bloomberg, Jefferies

Clearer view possible on rural stock investment due to relative performance and valuations

The two main drivers of rural growth, National Rural Employment Guarantee Act (NREGA) and Minimum Support Price (MSP) increases, have been muted this year compared to the last few years. Anecdotally, drivers of rapid land price increase have also weakened. Most interestingly, while the current year has seen some revision in earnings due to disappointments, there is almost no revision for next year's earnings in the rural basket.

Upgrade cash-rich industrials to Neutral from Underweight and downgrade rural-demand linked consumer companies from Overweight to Neutral

Portfolio implication: A recovery in the economy will most likely be led by recovery in corporate investments. If that does not happen, any continued macro weakness could cause more disappointments among rural beneficiaries against lofty expectations.

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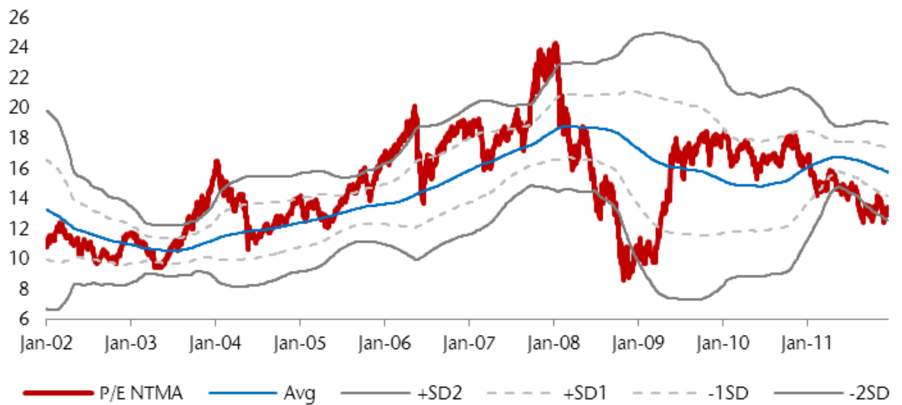
Indian equity multiples have de-rated

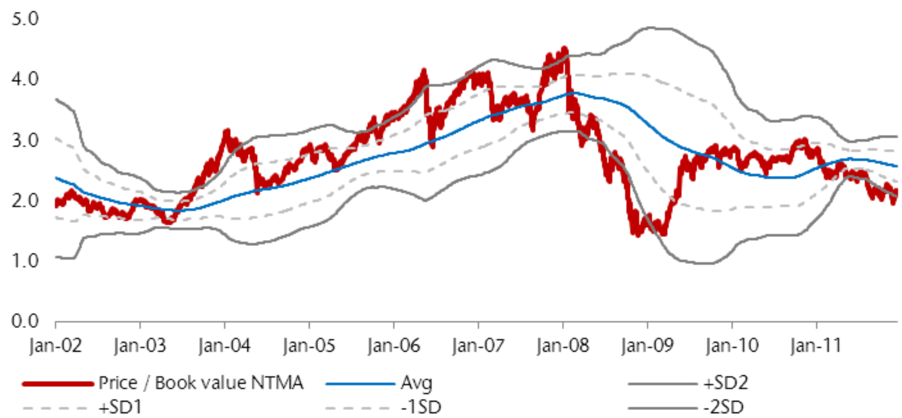
Exhibit 103: PER (12 month forward) - India



Source: FactSet, Jefferies

The market is closing in on 2008 lows

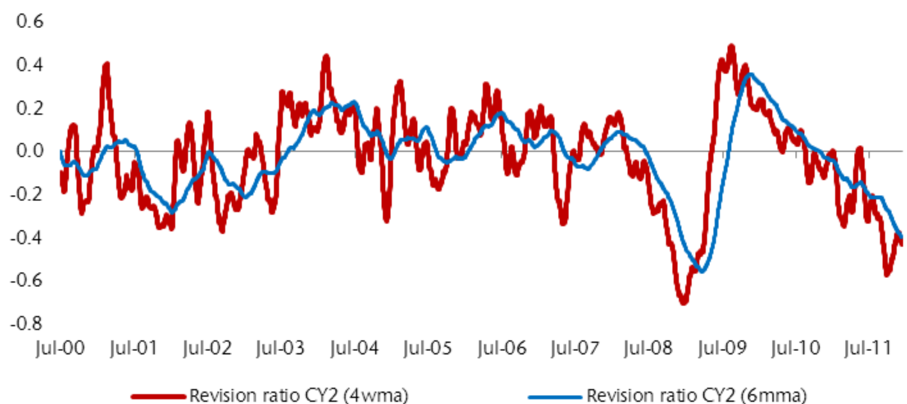
Exhibit 104: Price/Book (12 month forward) - India



Source: FactSet, Jefferies

For some time earnings expectations have been chopped

Exhibit 105: Earnings Revision Ratio (CY2) - 4wma & 6mma - India



Source: FactSet, Jefferies

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Russia: The curse of natural resources

It was Russia's default in 1998 along with the 2008 Asian financial crisis that brought about the last series of defaults/IMF bailouts and marked the beginning of a period of low global inflation, falling G7 bond yields and a boom in the developed world's housing markets. Whilst Russia has built up its foreign exchange reserves since 2000 (admittedly after a dip in 2008-09) on the back of the global commodity boom, it has not experienced the same level of domestic credit growth or inflation that had been a familiar adjutant to its economic growth up until 2008.

However, its dependency on hydro-carbons has grown and in particular the current account is actually in a deficit when oil is subtracted. Portfolio flows tend to be mixed with inflows dependent on the fickleness of domestic politics, and outflows are also created by bank borrowing from abroad. However, the overall current surplus to GDP has shrunk from its double digit level four years ago. Imports are the main culprit, growing at a double digit rate.

Two recurring themes continue to overshadow the equity market. Firstly, credit growth is once again picking up. Hot money inflows and the recycling of petrodollars are providing Russia with the familiar of problem of trying to contain the money supply. Secondly, the economy is suffering from a lack of competitiveness. An aging population, a lack of investment in productive equipment and a strong currency are ensuring the economy suffers from the 'curse of natural resources'. In a sense, equity market returns and economic growth are dependent on petrodollars and hot money inflows.

According to the Bank of Russia, fixed capital investment grew by 106% in 2010; however, the split was different with large enterprises (greater than 1 billion roubles) appearing to invest in property-related ventures and financial ventures but less in fixed assets, while the medium capitalized companies expanded fixed asset investment. It was noteworthy that smaller companies spent less on investment assets and more on fixed.

There was some improvement in the banking sector over the past two years. While the country is dominated by state-owned banks, the number of banks has declined to 1,012 from January 2010 to 2011 as a result of increased minimum capital requirements. Non-performing loans continued to decline following the 2008 financial crisis and amounted to 8.2% at end of 2010. Bank profitability has also climbed to 12.5% from 5% since 2009. Following the financial crisis, credit institutions have become more cautious towards securities portfolios with the majority flowing into government linked obligations or the central bank. However, the banks' ROA and ROE remain highly leveraged to the flow of funds and recycling of petrodollars.

Hence, the equity market remains a high beta play on the oil price and a leveraged bet on portfolio flows.

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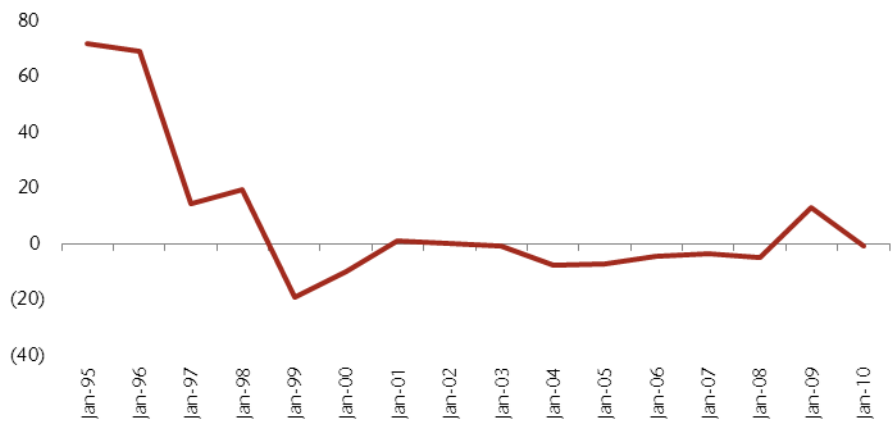
Russia has surprised markets with a resilient current account

Exhibit 106: Russia Current Account % of GDP

Source: Datastream, Jefferies

Real interest rates are neutral

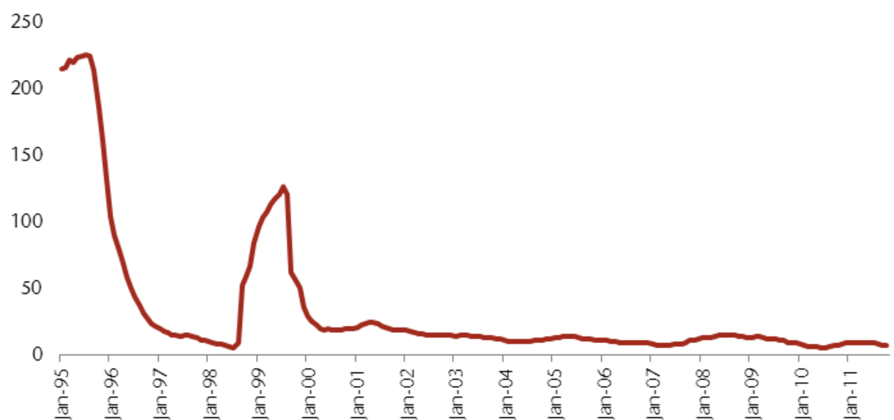
Exhibit 107: Russia real interest rates (%)



Source: Datastream, Jefferies

Inflation has pulled back

Exhibit 108: Russia CPI (%, y-y)



Source: Datastream, Jefferies

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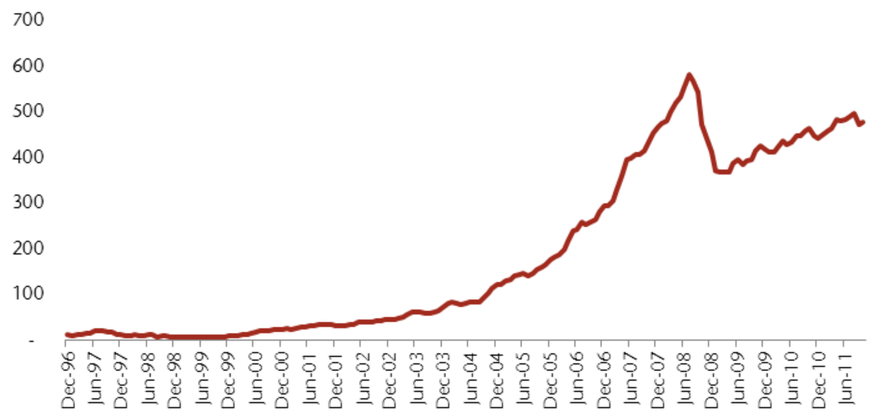
Russian foreign exchange reserves remain strong

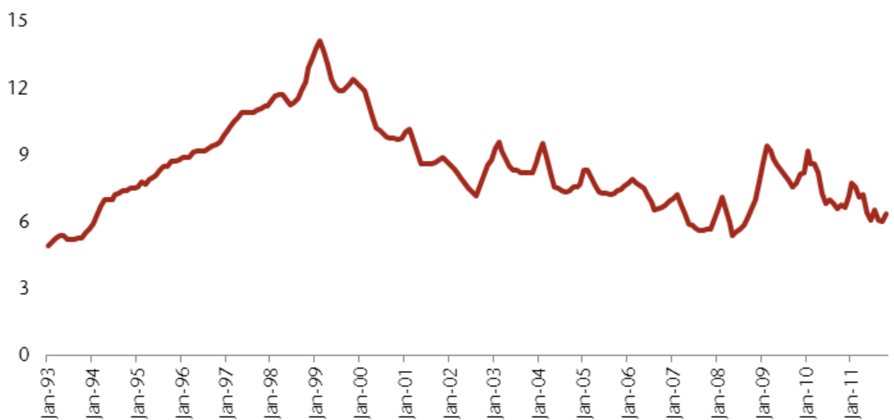
Exhibit 109: Russia Foreign Exchange Reserves (US$ bn)



Source: CEIC, Jefferies

The unemployment rate has returned to 1993 levels

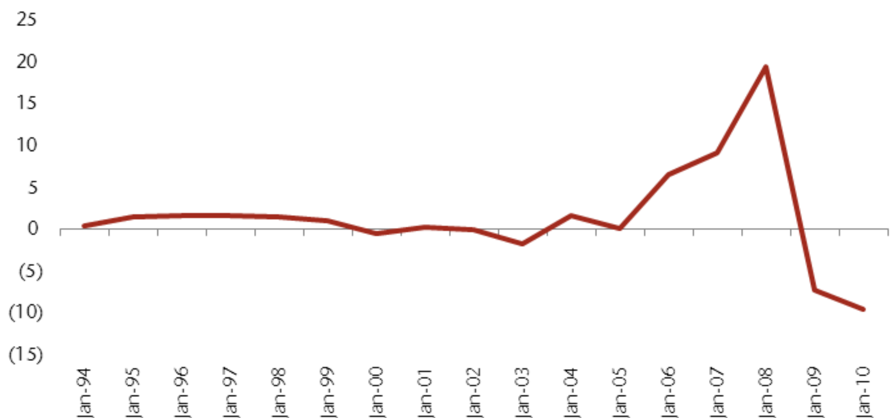
Exhibit 110: Russian Unemployment Rate (%)



Source: Datastream, Jefferies

The Achilles heel for Russia is that investment remains poor

Exhibit 111: Russia Foreign Direct Investment (US$ bn)



Source: Datastream, Jefferies

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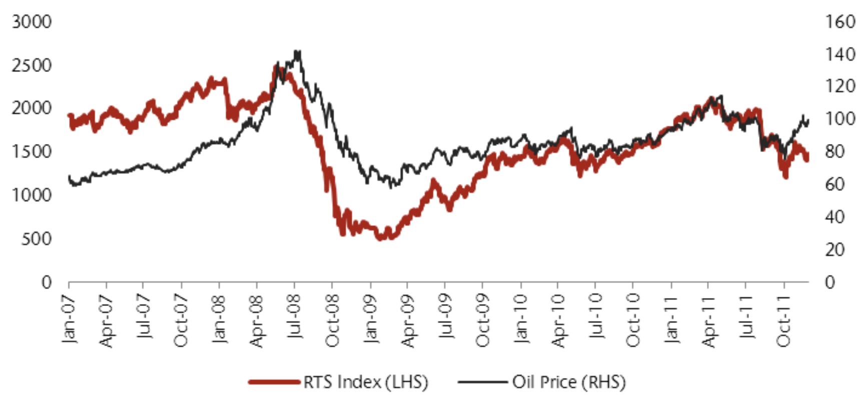
The stock market and the oil price are the same

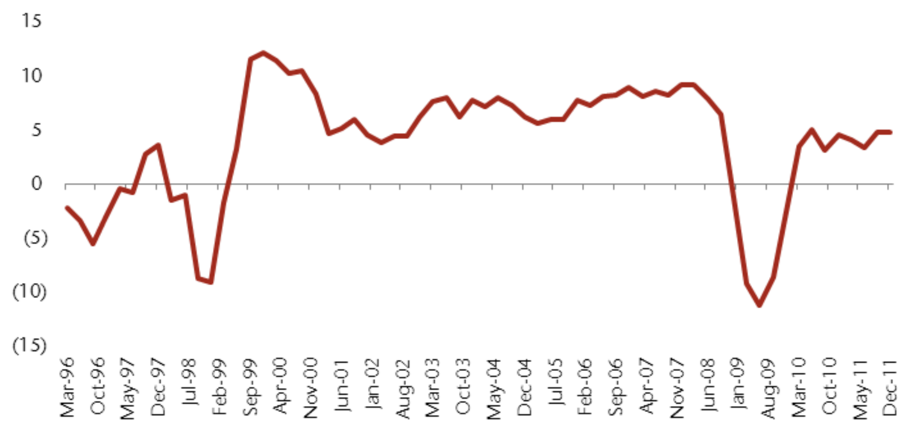
Exhibit 112: Russia Stock Market vs. Oil Price



Source: Bloomberg, Jefferies

Russian GDP exceeds most developed economies

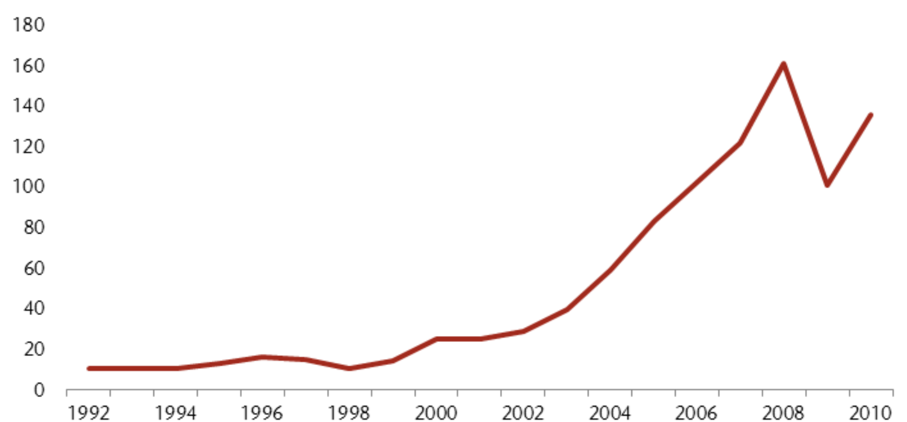
Exhibit 113: Russia Real GDP (%, y-y)



Source: Bloomberg, Jefferies

Oil exports continue to drive the economy

Exhibit 114: Russian Oil Exports (US$ bn)



Source: Datastream, Jefferies

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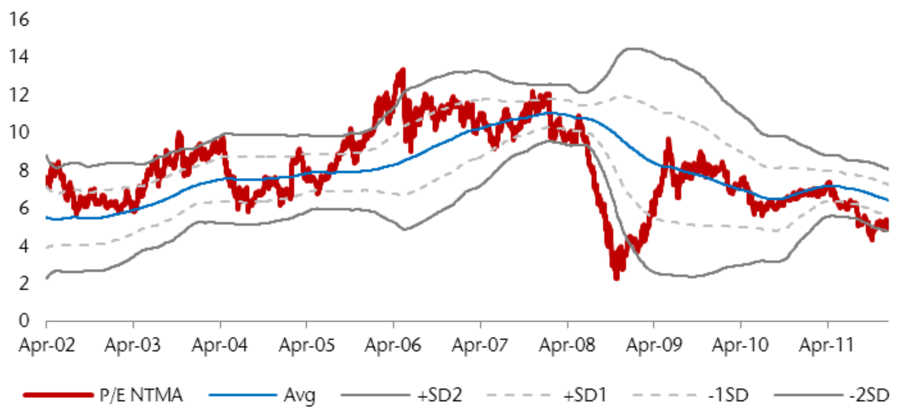
The equity market looks inexpensive versus the oil price

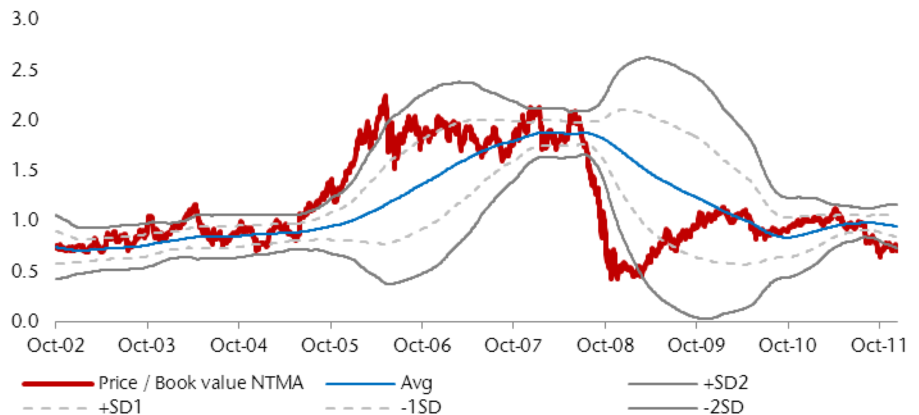
Exhibit 115: PER (12 month forward) - Russia



Source: FactSet, Jefferies

Multiples are also at rock bottom levels

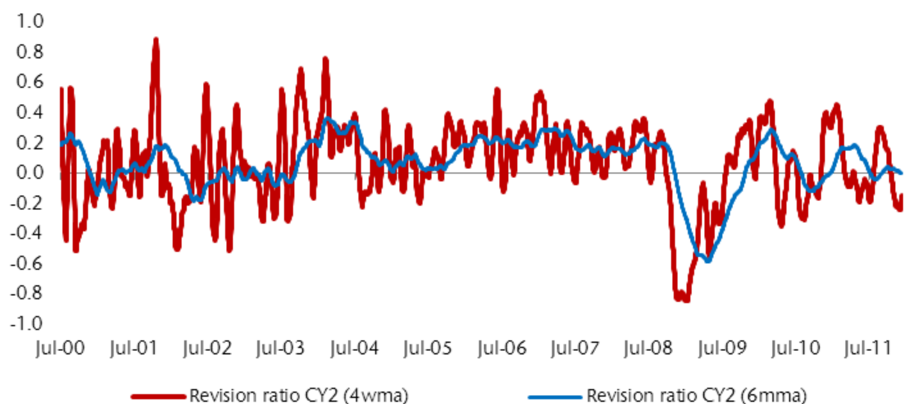
Exhibit 116: Price/Book (12 month forward) - Russia



Source: FactSet, Jefferies

Since 2005, the market has experienced very volatile earnings expectation

Exhibit 117: Earnings Revision Ratio (CY2) - 4wma & 6mma - Russia



Source: FactSet, Jefferies

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Turkey: Below the horizon

On the surface, Turkey provides a neat riposte to the debt-overloaded European economies. However as we noted in our "*Rebirth of the Silk Road: Turkey*", 2 November, 2011 the country has also absorbed some of the imbalances seen in peripheral Europe. The major advantage is that Turkish banks tend to be more funded by domestic deposits and the household has relatively low leverage. But it should be noted that the loan-to-deposit ratio has approached 100%.

Although Turkey was able to dodge the 2008 financial crisis, the seeds of its success have sown its own problems. A fiscally induced and low interest rate policy stimulated domestic demand but also brought about strong credit growth and short-term inflows. Imported demand rose and so did inflation. As highlighted in our report, by mid-2011 the current account deficit rose to 9.5% to GDP. Interestingly, much like China, Turkey has begun to use much more unconventional measures to cool the economy – although not all have been successful. Policy rates were actually lowered but the Reserve Ratio Requirement was raised. Guidance was administered on loan growth and the exchange rate was allowed to depreciate. Furthermore, the Banking Regulation and Supervision Agency (BRSA) imposed restrictions on real estate loans. The measures appear to be working although the higher inflation rate has meant a loss of competitiveness, which is being restored through a weaker exchange rate. It remains to be seen whether Turkey will need to raise the policy rate in light of much stickier inflation.

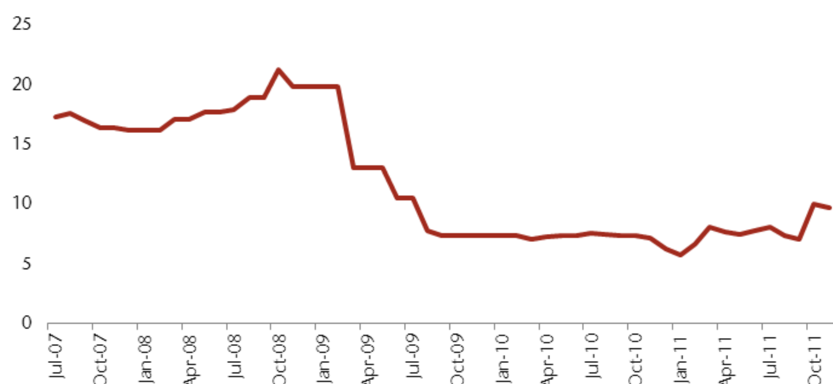
As the IMF highlights in its September, 2011 report, the banking sector has been remarkably resilient given the travails in Europe. However, it has become more dependent on short-term external financing and hence is not immune to a severe credit crunch. In particular, there must be worries that the hot money inflows and the acceleration of deposits has encouraged less than prudent lending. Turkey itself is not immune to a slowdown.

Perversely, at a time when the world is seeking equity markets where growth is self-sustaining, Turkey's economic profile has been one that has been too hot rather than too cold. Unlike China, the economy is relatively open to trade and capital flows, hence policy 'fine-tuning' is much more difficult. The key for timing events in 2012 is to watch the foreign exchange reserve growth and the real policy rate. The latter's stabilization and peaking of real rates ought to signal a more pro-growth policy.

We turned more cautious on Turkey on 2nd November believing total returns would be undermined by the unwinding of the carry trade and subsequent weakness in the exchange rate.

Turkey has adopted an unusual bipolar monetary policy

Exhibit 118: Turkey 3-month T-Bill Yield (%)



Source: Bloomberg, Jefferies

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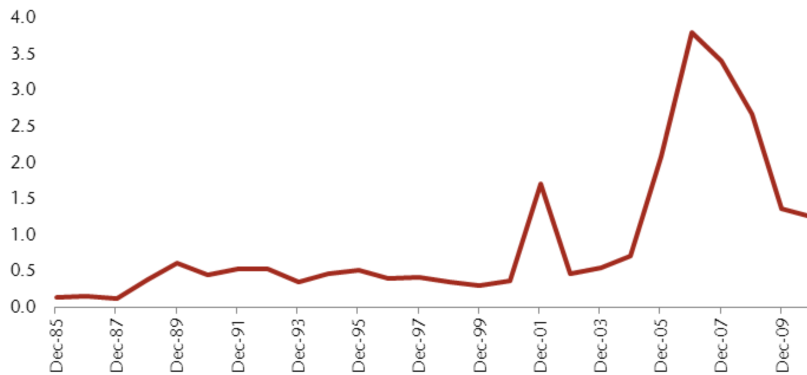
Loosening on the one hand while tightening using the Reserve Ratio

Exhibit 119: Turkey 3-month TIBOR (%)

Source: Bloomberg, Jefferies

FDI has been volatile

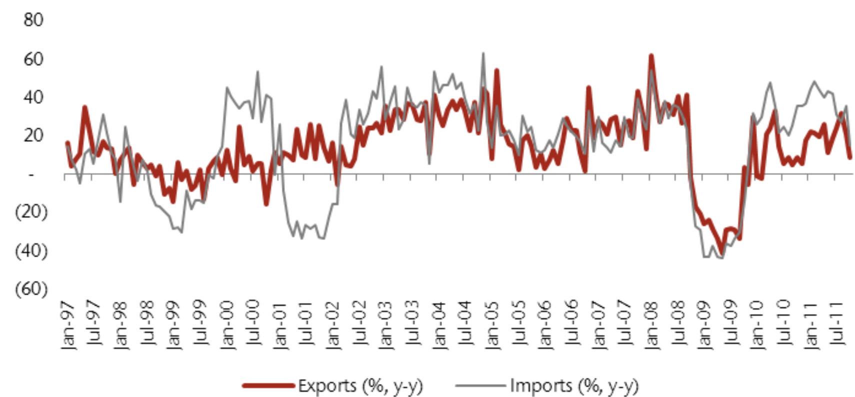
Exhibit 120: Turkey FDI % of GDP



Source: Bloomberg, Jefferies

Imports have been running faster than exports

Exhibit 121: Turkey - Value of Imports & Exports (% y-y)



Source: Winds, Jefferies

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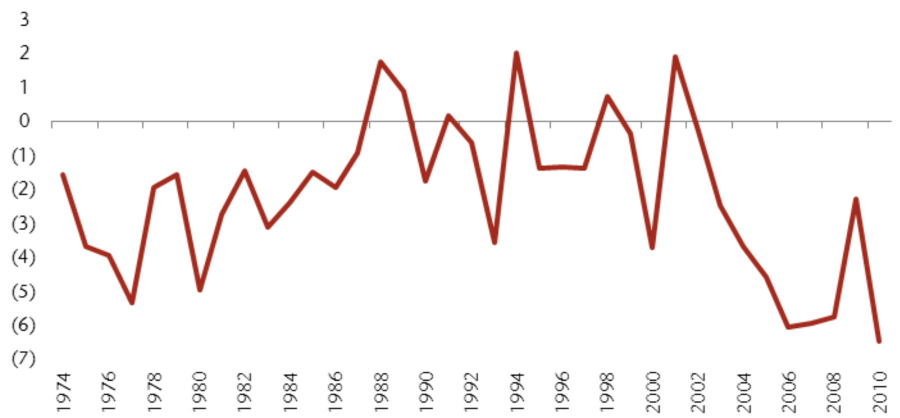
The current account deficit remains wide

Exhibit 122: Turkey Current Account % of GDP



Source: CEIC, Jefferies

Inflation has yet to be tamed

Exhibit 123: Turkey CPI (%, y-y)

Source: CEIC, Jefferies

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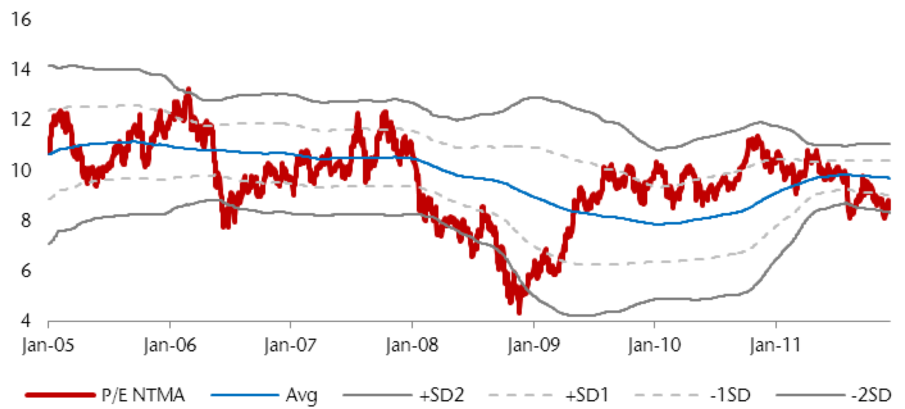
Low multiple market

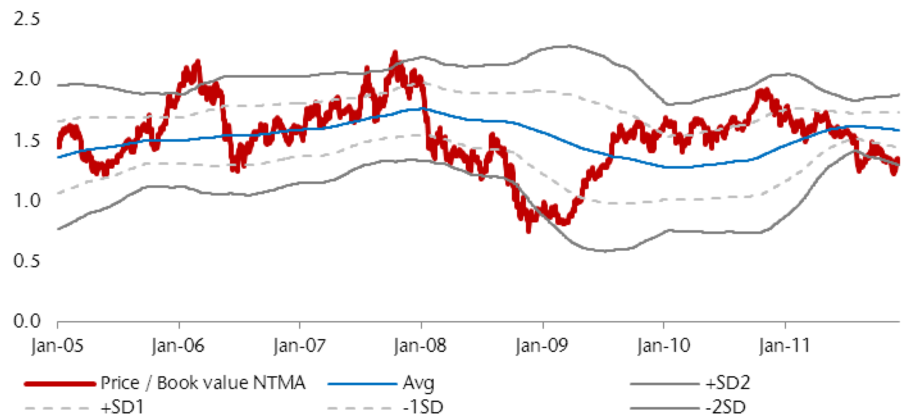
Exhibit 124: PER (12 month forward) - Turkey



Source: FactSet, Jefferies

Low valuations

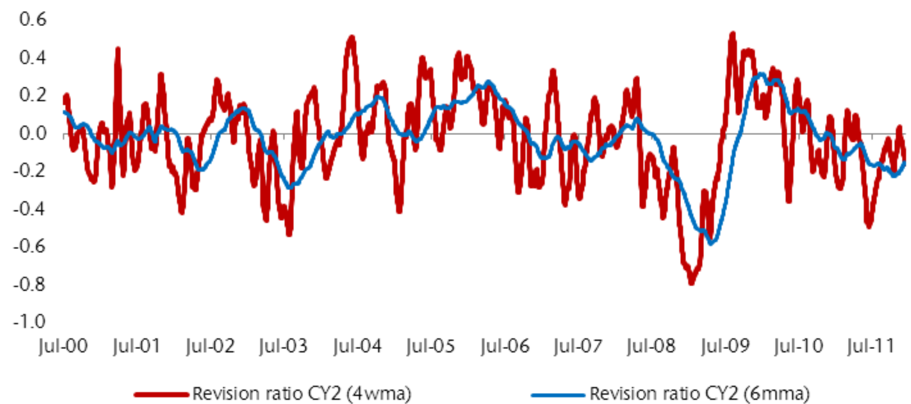
Exhibit 125: Price/Book (12 month forward) - Turkey



Source: FactSet, Jefferies

Earnings estimates have become sluggish

Exhibit 126: Earnings Revision Ratio (CY2) - 4wma & 6mma - Turkey



Source: FactSet, Jefferies

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APPENDIX

1. **Developed Markets Market/Sector Summary**
2. **Developed Markets Revisions Summary**
3. **Emerging Markets Market/Sector Summary**
4. **Emerging Markets Revisions Summary**
5. **Asia Pacific Market/Sector Summary**
6. **Asia Pacific Markets Revisions Summary**

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Exhibit 127: Developed Markets Market/Sector Summary

		Size & Liquidity		I/B/E/S Consensus Valuations (PE, PB, PEG, EPSG, ROE, DY, FCFY, NCMC & NDE)																											
				12M Forward Looking PE						12M Forward Looking PB																					
Country/Sector Name	Number of Companies	MC, US$mn	20D ADV, US$mn	Current, x	5Y Max, x	5Y Min, x	5Y Avg, x	5Y Z-Scr, sd	Further 12M, x	Current x	5Y Max, x	5Y Min, x	5Y Avg, x	5Y Z-Scr, sd	Further 12M, x	12M FL PEG, x	Further 12M PEG, x	Past 12M EPSG, %	12M FL EPSG, %	Further 12M FL EPSG, %	5Y EPS CAGR, %	12M FL ROE, %	Further 12M FL ROE, %	12M FL DY, %	Further 12M FL DY, %	12M FL FCFY, %	Further 12M FL FCFY, %	12M FL NCMC, %	Further 12M FL NCMC, %	12M FL NDE, %	Further 12M FL NDE, %
Australia	68	13,205	56.6	13.1	44.2	7.6	14.7	(0.61)	11.5	2.00	14.48	1.12	2.75	(0.51)	1.79	1.58	1.19	13.7	22.6	16.3	2.4	16.5	16.8	5.43	6.09	4.33	7.33	(32.6)	(31.4)	45.2	39.3
Austria	8	5,318	11.6	8.1	24.7	4.2	11.5	(0.71)	7.1	1.12	3.08	0.57	1.59	(0.61)	1.10	2.44	0.59	(4.3)	14.7	16.3	(6.7)	12.2	13.9	5.22	5.91	7.66	9.43	(93.9)	(89.0)	120.3	115.9
Belgium	12	13,106	23.2	9.9	22.7	6.9	13.1	(1.06)	9.1	1.59	3.31	1.07	2.11	(1.09)	1.54	0.95	0.84	(9.5)	32.6	9.9	(2.2)	16.9	16.0	5.53	6.01	7.71	8.71	(23.4)	(20.8)	36.0	31.3
Canada	102	12,576	56.1	57.3	32.4	7.1	15.0	(0.44)	14.5	1.83	3.88	1.08	2.19	(0.42)	1.74	2.05	1.55	37.5	14.6	10.7	9.9	15.6	15.3	2.98	3.16	3.75	4.11	(18.5)	(17.0)	38.5	39.6
Denmark	12	11,018	22.4	13.4	28.3	8.3	16.3	(0.61)	11.7	3.17	8.14	2.06	4.42	(0.51)	2.74	0.95	1.09	8.5	34.5	15.3	5.3	21.7	21.6	2.67	3.03	6.51	7.36	(23.3)	(20.7)	27.4	18.6
Finland	15	6,483	32.6	10.5	32.5	6.0	13.9	(0.73)	9.4	1.75	3.66	1.15	2.28	(0.91)	1.63	5.29	1.26	(2.8)	18.2	12.1	(3.6)	16.3	16.4	6.31	6.67	9.17	10.93	(30.5)	(26.3)	25.2	19.6
France	72	16,473	57.5	12.8	24.9	6.8	13.4	(0.85)	10.3	1.27	2.91	0.86	1.71	(0.93)	1.16	2.39	0.96	24.5	25.7	15.3	1.1	11.9	12.3	5.11	5.60	8.54	####	(64.0)	(59.4)	51.0	43.8
Germany	51	18,076	95.8	10.2	23.6	6.0	13.3	(0.78)	8.9	1.38	3.09	0.82	1.81	(0.83)	1.23	1.66	0.87	30.6	25.9	14.6	3.1	14.2	14.2	3.91	4.40	6.81	8.58	(28.4)	(23.6)	24.8	16.6
Greece	4	3,104	5.3	8.6	16.6	3.8	10.2	(0.44)	5.4	1.15	7.76	0.96	4.08	(1.65)	1.01	0.79	0.32	(54.7)	30.0	79.8	(16.6)	28.8	23.1	6.06	8.67	26.01	27.17	(90.9)	(79.7)	70.2	56.2
Hong Kong	41	12,006	18.0	13.8	33.0	7.5	17.0	(0.86)	12.2	1.96	5.09	0.96	2.33	(1.03)	1.75	1.67	2.77	19.4	7.3	14.5	2.1	14.9	14.9	3.45	3.76	4.37	5.62	(20.1)	(17.9)	(34.2)	(59.1)
Ireland	4	8,306	17.6	12.7	35.8	8.0	13.5	0.17	10.5	1.22	2.86	1.31	1.85	(0.76)	1.12	1.01	0.46	7.2	13.7	23.0	(7.7)	10.2	11.6	1.94	2.80	7.50	10.48	(13.9)	(7.3)	12.3	3.7
Israel	13	6,398	9.6	8.7	31.0	5.2	13.6	(1.02)	7.8	3.29	10.65	1.32	3.62	(0.78)	3.19	1.34	1.28	18.6	3.2	11.5	8.9	42.8	42.6	6.35	7.24	9.82	12.34	(67.7)	(68.2)	298.2	275.7
Italy	29	11,904	70.9	9.3	23.5	6.3	12.1	(1.02)	7.9	1.05	2.84	0.71	1.60	(1.14)	0.97	0.79	2.49	8.7	24.2	20.6	(7.3)	11.2	11.8	5.32	6.23	3.64	8.40	(90.6)	(85.4)	90.8	82.2
Japan	316	8,346	34.4	16.5	79.9	9.6	19.7	(0.58)	12.5	1.04	2.87	0.73	1.71	(0.95)	0.95	2.35	1.58	31.0	36.1	26.3	(0.4)	8.9	9.0	2.43	2.61	4.14	6.95	(64.4)	(60.2)	45.1	38.9
Netherlands	21	12,267	49.0	10.2	32.9	6.2	11.8	(0.76)	8.9	1.78	4.03	1.36	2.46	(0.92)	1.55	1.59	1.02	6.9	4.1	13.4	2.3	17.2	17.8	4.93	5.45	8.60	10.09	(31.8)	(28.1)	68.3	52.4
New Zealand	5	2,586	8.3	15.3	22.0	11.4	15.4	0.67	13.9	1.61	3.68	1.17	1.88	(0.50)	1.55	1.55	1.91	4.4	7.3	11.1	(3.1)	11.7	12.6	5.60	6.01	5.78	7.17	(32.1)	(30.9)	46.7	42.8
Norway	10	17,526	56.2	9.7	51.5	3.3	12.5	(0.56)	8.3	1.28	3.40	0.64	1.79	(0.78)	1.20	1.56	0.79	30.6	14.4	16.6	0.8	14.6	15.0	5.43	5.94	8.59	9.32	(13.0)	(10.6)	24.3	23.7
Portugal	7	7,259	12.2	13.2	20.2	7.3	14.1	(0.88)	11.2	1.83	6.89	1.17	3.24	(0.73)	1.63	6.83	0.75	12.4	19.7	17.7	4.0	13.7	14.2	5.02	5.86	4.62	6.53	(90.3)	(89.5)	105.4	97.3
Singapore	32	8,645	17.2	12.9	30.2	6.7	14.8	(0.60)	11.8	1.57	12.43	1.03	2.37	(0.90)	1.47	2.42	4.43	(1.0)	6.9	18.0	5.8	36.1	13.3	4.00	4.31	5.07	6.84	(24.5)	(24.0)	(93.6)	(101.0)
Spain	27	16,394	119.2	13.3	26.4	6.9	13.5	(0.43)	10.9	2.29	6.00	1.63	3.13	(0.99)	1.96	4.27	0.94	3.8	6.3	22.2	(5.3)	18.2	18.6	5.59	6.11	5.94	7.39	(100.7)	(98.9)	148.4	131.3
Sweden	34	10,131	45.0	12.0	35.0	6.3	16.5	(0.42)	10.7	2.03	4.65	1.10	2.34	(0.54)	1.83	1.67	1.67	18.0	13.9	12.5	1.6	18.3	18.4	4.81	5.17	8.01	9.43	(17.9)	(14.2)	9.0	2.9
Switzerland	39	22,627	63.5	12.9	25.9	7.3	14.3	(0.31)	11.4	2.31	4.65	1.38	2.78	(0.58)	2.04	1.26	1.77	0.0	17.9	13.2	(0.2)	17.6	17.6	3.65	4.04	6.95	7.87	(6.9)	(3.4)	1.8	(5.5)
United Kingdom	105	22,175	49.6	11.1	27.5	6.8	14.9	(0.67)	10.0	2.27	10.30	1.44	2.99	(0.69)	1.98	2.08	1.63	14.9	11.8	13.3	7.5	21.8	20.7	4.17	4.57	5.59	7.27	(27.7)	(24.1)	44.9	33.9
United States	587	20,490	180.8	15.2	40.3	7.9	17.8	(0.41)	13.6	4.53	7.95	1.28	3.17	(0.27)	2.59	5.59	2.21	21.8	24.5	17.4	7.2	22.5	21.3	1.95	2.09	6.39	7.64	(24.6)	(20.6)	27.0	40.8
Automobiles & Components	45	14,626	80.2	10.2	81.4	4.9	15.1	(0.49)	7.1	1.05	3.94	0.44	1.32	(0.74)	0.91	1.35	0.50	46.1	17.1	39.4	0.2	14.4	14.3	2.67	3.17	9.33	12.98	(18.5)	(11.3)	14.7	8.2
Banks	94	19,339	90.1	9.3	39.8	6.1	14.5	(0.85)	8.2	0.76	2.26	0.50	2.15	(1.07)	0.71	2.68	1.65	18.4	18.4	17.0	(5.4)	8.8	9.2	4.21	4.98	N/A	N/A	N/A	N/A	N/A	N/A
Capital Goods	166	11,956	74.9	11.8	43.6	6.6	15.6	(0.71)	10.2	1.84	5.29	1.06	2.37	(0.66)	1.62	1.33	1.21	31.6	19.5	14.4	3.1	17.1	17.0	3.16	3.43	8.64	10.29	(40.7)	(37.1)	36.8	28.4
Commercial & Professional Serv	35	6,107	31.7	14.4	29.5	9.2	17.1	(0.71)	12.7	3.51	9.33	1.83	3.31	(0.62)	2.68	1.41	1.10	15.2	13.4	12.9	6.3	18.4	26.9	3.11	3.33	7.74	7.96	(18.8)	(15.3)	68.9	40.7
Consumer Durables & Apparel	41	9,828	66.0	15.5	60.2	7.0	16.8	(0.47)	12.4	2.11	3.60	0.94	2.10	(0.34)	1.89	0.90	0.79	37.5	23.4	23.2	2.8	16.2	15.7	2.40	2.48	6.98	8.22	0.6	5.3	(3.0)	(10.4)
Consumer Services	40	11,445	82.7	14.4	40.4	8.6	18.9	(0.53)	12.7	3.48	18.89	1.35	3.32	(0.18)	2.90	0.99	0.95	44.4	12.9	15.0	8.8	25.4	26.1	3.01	3.27	6.63	8.53	(20.2)	(15.2)	32.0	16.6
Diversified Financials	68	13,945	145.3	15.9	39.5	6.4	15.9	(0.72)	9.6	1.51	6.99	0.94	4.31	(0.91)	1.37	1.53	1.15	6.9	28.0	20.0	(1.6)	14.4	14.0	3.37	3.92	N/A	N/A	N/A	N/A	N/A	N/A
Energy	120	23,344	134.7	46.1	39.7	5.6	15.6	(0.37)	12.3	1.74	4.36	0.99	2.21	(0.57)	1.60	1.62	0.84	42.5	29.0	15.9	6.1	14.0	14.3	2.49	2.63	0.81	2.76	(34.4)	(33.0)	48.0	44.1
Food & Staples Retailing	34	19,410	84.2	12.8	22.9	9.6	15.4	(0.88)	11.5	2.15	3.54	1.33	2.20	(0.62)	1.93	1.96	1.09	8.5	11.2	11.6	8.3	16.8	17.6	3.35	3.69	4.19	5.24	(25.6)	(24.6)	43.2	34.6
Food Beverage & Tobacco	72	23,837	91.3	14.7	24.0	9.8	16.1	(0.25)	13.4	16.74	9.25	1.74	3.31	(0.20)	4.63	1.73	1.57	13.5	11.2	9.9	9.8	26.4	29.2	2.68	3.05	6.66	7.42	(18.4)	(15.6)	31.0	66.7
Health Care Equipment & Servic	55	10,905	80.8	13.9	26.2	9.4	16.5	(0.65)	12.3	2.49	5.41	1.68	3.15	(0.62)	2.15	36.59	1.10	13.8	14.2	12.4	8.1	18.5	18.8	1.42	1.52	8.17	9.17	(13.4)	(8.8)	10.9	0.9
Household & Personal Products	17	27,007	106.2	16.4	23.5	11.2	17.4	(0.36)	14.8	9.87	8.94	2.65	4.99	(0.15)	5.23	2.24	1.53	8.6	9.7	10.1	8.2	70.7	27.3	2.63	2.90	6.54	7.11	(5.7)	(3.0)	(45.6)	46.5
Insurance	76	12,750	71.6	9.7	18.0	4.8	10.3	(0.52)	8.4	0.99	2.38	0.66	1.41	(0.95)	0.91	0.65	1.03	(8.3)	88.4	12.6	(3.2)	11.7	11.9	4.63	5.04	N/A	N/A	N/A	N/A	N/A	N/A
Materials	154	11,733	75.3	11.7	70.9	5.9	16.2	(0.59)	9.7	1.57	8.41	0.81	2.24	(0.81)	1.35	3.97	1.07	44.8	26.4	21.4	5.8	15.3	15.5	2.82	3.19	7.45	9.93	(39.7)	(34.3)	38.6	28.3
Media	51	10,953	75.1	13.5	40.5	8.0	15.8	(0.81)	12.0	2.74	7.52	1.34	2.97	(0.40)	2.03	2.01	1.89	35.6	24.5	14.0	7.1	20.8	21.7	3.54	3.90	8.62	9.56	(35.5)	(33.5)	78.2	49.3
Pharmaceuticals, Biotechnology	60	30,437	154.4	13.5	29.3	9.5	15.9	(0.69)	12.2	3.21	5.19	1.59	3.60	(0.64)	2.53	1.45	1.44	8.4	6.1	10.3	9.4	27.9	20.1	2.35	2.49	8.74	9.18	1.3	6.3	(0.5)	(12.0)
Real Estate	85	8,175	36.2	22.5	42.9	10.0	23.9	(0.54)	26.2	1.21	2.94	0.56	1.43	(0.58)	1.28	4.82	8.87	29.7	14.4	10.8	(0.2)	7.6	7.9	4.51	4.71	1.77	4.90	(86.0)	(78.5)	85.1	82.5
Retailing	56	13,035	136.5	18.6	39.3	8.4	16.7	(0.28)	12.8	3.45	8.24	1.44	3.16	0.17	2.83	1.12	0.97	11.7	40.6	31.2	11.9	24.4	24.4	1.88	2.06	6.52	7.42	(10.8)	(8.1)	(16.5)	2.7
Semiconductors & Semiconductor	30	11,549	150.5	16.4	125.8	9.6	27.4	(0.27)	11.9	2.35	5.45	1.22	2.84	(0.69)	2.03	8.37	0.63	7.6	22.6	39.4	7.3	18.0	18.5	1.78	2.01	6.67	9.16	8.4	15.7	(31.7)	(37.3)
Software & Services	60	23,235	173.3	16.0	34.6	9.5	19.0	(0.62)	13.7	3.74	7.98	1.95	4.04	(0.49)	3.03	1.68	1.10	15.7	23.8	14.5	12.9	26.9	25.0	1.39	1.55	7.94	8.53	9.4	13.7	(21.1)	(39.1)
Technology Hardware & Equipment	56	19,929	207.3	12.4	82.2	7.1	19.9	(0.73)	10.6	1.43	4.36	0.89	2.13	(0.90)	1.27	1.22	1.62	35.4	25.8	16.0	2.4	13.2	13.1	1.79	1.97	9.27	10.62	5.0	11.1	(12.7)	(18.8)
Telecommunication Services	52	24,354	103.6	12.6	25.4	7.8	17.0	(0.36)	11.4	2.92	23.99	1.47	3.51	(0.21)	3.06	2.55	4.27	5.4	7.4	10.2	2.6	42.5	27.9	6.74	6.89	9.02	10.73	(67.2)	(64.3)	(32.9)	78.4
Transportation	62	9,697	49.4	23.4	52.2	10.6	18.0	(0.32)	17.4	1.73	3.76	1.12	2.01	(0.55)	1.55	1.12	1.68	0.8	20.9	32.2	(0.7)	14.0	13.8	2.47	2.84	0.15	3.23	(78.7)	(77.8)	94.2	85.1
Utilities	85	12,828	61.6	15.8	35.0	8.7	15.9	(0.10)	14.1	1.33	2.71	1.00	1.71	(0.58)	1.27	2.88	4.65	(15.5)	15.7	27.6	(0.6)	10.7	10.7	4.63	4.82	(2.73)	0.52	(144.8)	(146.3)	141.0	139.0

Source: Bloomberg, I/B/E/S, Jefferies

Note: 5Y EPS CAGR is by default using 2 actual & 4 forecast numbers, otherwise 3 & 3, EPSR = EPS Revision, NoA = Number of Analyst, EPSUP/DN = Upward/Downward Revision in EPS, FCFY = Free Cash Flow Yield, NCMC = Net Cash/Market Cap, NDE = Net Debt/Equity. Countries bolded are the ones we covered in the Global Outlook report.

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Please see important disclosure information on pages 184 - 186 of this report.

Jefferies

Exhibit 128: Developed Markets Revisions Summary

I/B/E/S Consensus Revisions (EPS / Price Target) & Research Rating — FY1/FY2 (coming/next fiscal years) EPS Revisions by Magnitude & Breadth

Country/Sector Name	Number of Companies	1W Chg in FY1, %	1W Chg in FY2, %	1M Chg in FY1, %	1M Chg in FY2, %	3M Chg in FY1, %	3M Chg in FY2, %	Coverage on FY1, NoA	Coverage on FY2. NoA	1W Up Rev in FY1 EPS, No	1W Dn Rev in FY1 EPS, No	FY1 EPS Up Down Ratio, Best=1 / Worst=(1)	1W Up Rev in FY2 EPS, No	1W Dn Rev in FY2 EPS, No	FY2 EPS Up Down Ratio, Best=1 / Worst=(1)	1M Up Rev in FY1 EPS, No	1M Dn Rev in FY1 EPS, No	FY1 EPS Up Down Ratio, Best=1 / Worst=(1)	1M Up Rev in FY2 EPS, No	1M Dn Rev in FY2 EPS, No	FY2 EPS Up Down Ratio, Best=1 / Worst=(1)	Research Rating
Australia	**68**	**(0.9)**	**(1.4)**	**(2.3)**	**(3.2)**	**(5.9)**	**(5.7)**	**951**	**943**	**30**	**81**	**(0.05)**	**41**	**76**	**(0.04)**	**102**	**212**	**(0.12)**	**121**	**204**	**(0.09)**	**Buy**
Austria	8	(0.1)	(1.5)	(7.6)	(9.9)	(14.5)	(15.5)	157	173	1	7	(0.04)	3	9	(0.03)	19	38	(0.12)	18	47	(0.17)	Buy
Belgium	12	(1.5)	(0.3)	(40.4)	(5.7)	(56.6)	(8.7)	253	258	7	6	0.00	7	6	0.00	28	44	(0.06)	22	52	(0.12)	Hold
Canada	**102**	**(0.1)**	**(3.5)**	**(0.4)**	**(3.2)**	**1.4**	**(7.5)**	**971**	**1086**	**97**	**98**	**(0.00)**	**78**	**121**	**(0.04)**	**215**	**260**	**(0.05)**	**175**	**282**	**(0.10)**	**Buy**
Denmark	12	0.1	(0.3)	(8.3)	(3.6)	(9.9)	(5.7)	271	273	9	10	(0.00)	9	13	(0.01)	34	27	0.03	30	42	(0.04)	Hold
Finland	15	(0.3)	(0.7)	(1.3)	(3.4)	(2.7)	(6.8)	325	333	8	9	(0.00)	7	17	(0.03)	18	29	(0.03)	19	48	(0.09)	Hold
France	**72**	**(0.1)**	**(0.4)**	**(3.6)**	**(5.7)**	**(5.5)**	**(9.1)**	**1658**	**1655**	**40**	**56**	**(0.01)**	**37**	**87**	**(0.03)**	**116**	**199**	**(0.05)**	**87**	**278**	**(0.12)**	**Buy**
Germany	**51**	**(0.7)**	**(0.8)**	**(7.8)**	**(5.2)**	**(9.8)**	**(8.9)**	**1275**	**1316**	**30**	**50**	**(0.02)**	**25**	**57**	**(0.02)**	**134**	**218**	**(0.07)**	**118**	**246**	**(0.10)**	**Buy**
Greece	4	(0.6)	(8.9)	(107.4)	(25.2)	(70.0)	(28.4)	70	67	2	2	0.00	0	4	(0.06)	8	22	(0.20)	11	20	(0.13)	Hold
Hong Kong	**41**	**(0.4)**	**(1.6)**	**(1.9)**	**(1.1)**	**(2.9)**	**(3.5)**	**638**	**660**	**7**	**21**	**(0.02)**	**8**	**22**	**(0.02)**	**46**	**90**	**(0.07)**	**36**	**105**	**(0.10)**	**Buy**
Ireland	4	0.4	0.0	(0.9)	1.1	(2.0)	(2.1)	23	23	0	0	0.00	0	0	0.00	2	0	0.09	2	0	0.09	Buy
Israel	13	(5.0)	(9.1)	(6.1)	(9.9)	(7.3)	(12.1)	76	66	3	1	0.03	2	2	0.00	8	21	(0.17)	5	24	(0.29)	Buy
Italy	**29**	**(0.9)**	**(0.1)**	**(21.5)**	**(9.2)**	**(23.8)**	**(13.3)**	**588**	**629**	**8**	**22**	**(0.02)**	**13**	**24**	**(0.02)**	**47**	**104**	**(0.10)**	**47**	**122**	**(0.12)**	**Hold**
Japan	**316**	**(8.6)**	**(4.4)**	**(25.6)**	**(8.3)**	**(53.0)**	**(16.1)**	**3900**	**3934**	**90**	**164**	**(0.02)**	**87**	**159**	**(0.02)**	**452**	**837**	**(0.10)**	**457**	**813**	**(0.09)**	**Hold**
Netherlands	21	(0.3)	(0.3)	(2.1)	(2.2)	(4.3)	(6.1)	497	528	9	24	(0.03)	13	22	(0.02)	48	63	(0.03)	56	67	(0.02)	Buy
New Zealand	5	(5.8)	(6.4)	(7.3)	(7.0)	(8.8)	(10.2)	48	47	1	4	(0.06)	1	4	(0.06)	4	15	(0.23)	7	16	(0.19)	Hold
Norway	**10**	**0.1**	**(0.5)**	**(5.5)**	**(5.8)**	**(7.3)**	**(8.3)**	**257**	**278**	**13**	**19**	**(0.02)**	**13**	**23**	**(0.04)**	**39**	**58**	**(0.07)**	**45**	**61**	**(0.06)**	**Buy**
Portugal	7	(0.6)	(2.2)	(4.4)	(5.3)	(6.0)	(7.9)	140	137	3	8	(0.04)	2	10	(0.06)	9	14	(0.04)	9	20	(0.08)	Buy
Singapore	32	(1.5)	(1.4)	(4.8)	(12.8)	(17.1)	(11.6)	600	606	8	19	(0.02)	10	29	(0.03)	62	86	(0.04)	54	98	(0.07)	Buy
Spain	27	(0.1)	(1.0)	(2.1)	(6.7)	(4.3)	(10.4)	631	669	15	30	(0.02)	19	38	(0.03)	67	120	(0.08)	48	142	(0.14)	Hold
Sweden	**34**	**(0.1)**	**(0.0)**	**(5.6)**	**(2.1)**	**(9.0)**	**(6.0)**	**702**	**707**	**29**	**34**	**(0.01)**	**33**	**44**	**(0.02)**	**80**	**96**	**(0.02)**	**73**	**120**	**(0.07)**	**Hold**
Switzerland	**39**	**(0.2)**	**0.0**	**(1.7)**	**(3.0)**	**(3.7)**	**(4.9)**	**783**	**788**	**28**	**35**	**(0.01)**	**30**	**34**	**(0.01)**	**75**	**109**	**(0.04)**	**77**	**112**	**(0.04)**	**Hold**
United Kingdom	**105**	**0.2**	**(0.6)**	**(2.7)**	**(3.8)**	**(6.0)**	**(5.3)**	**2218**	**2219**	**86**	**105**	**(0.01)**	**87**	**134**	**(0.02)**	**318**	**428**	**(0.05)**	**278**	**481**	**(0.09)**	**Buy**
United States	**587**	**(0.3)**	**(0.2)**	**(0.6)**	**(0.2)**	**(3.9)**	**1.7**	**10764**	**11375**	**341**	**628**	**(0.03)**	**387**	**613**	**(0.02)**	**1243**	**1610**	**(0.03)**	**1152**	**1655**	**(0.04)**	**Buy**
Automobiles & Components	45	(0.7)	(0.4)	(4.9)	(2.5)	(8.7)	(9.2)	739	773	14	39	(0.03)	8	49	(0.05)	68	125	(0.08)	67	142	(0.10)	Buy
Banks	94	0.5	(1.3)	(6.7)	(6.8)	(6.7)	(10.5)	1702	1794	71	111	(0.02)	46	127	(0.05)	194	336	(0.08)	130	391	(0.15)	Hold
Capital Goods	166	(2.9)	(0.8)	(6.9)	(3.5)	(7.6)	(6.3)	2846	2911	98	124	(0.01)	96	141	(0.02)	278	422	(0.05)	268	468	(0.07)	Buy
Commercial & Professional Serv	35	(0.4)	(0.3)	(0.7)	(2.1)	(1.3)	(3.1)	481	488	7	14	(0.01)	12	15	(0.01)	47	75	(0.06)	39	99	(0.12)	Buy
Consumer Durables & Apparel	41	(1.4)	(0.0)	(81.1)	(1.4)	(41.0)	(3.1)	646	648	25	35	(0.02)	30	22	0.01	83	78	0.01	72	63	0.01	Buy
Consumer Services	40	(0.0)	(0.2)	(0.7)	(2.1)	(0.2)	(2.7)	761	787	28	34	(0.01)	27	39	(0.02)	94	145	(0.07)	94	144	(0.06)	Buy
Diversified Financials	68	(2.6)	(0.3)	(6.4)	(3.6)	(147.4)	(8.8)	954	1001	22	76	(0.06)	19	60	(0.04)	82	206	(0.13)	62	185	(0.12)	Buy
Energy	120	(0.0)	(3.3)	(5.5)	(3.7)	(5.9)	(10.7)	2228	2452	176	146	0.01	166	202	(0.01)	460	469	(0.00)	441	588	(0.06)	Buy
Food & Staples Retailing	34	(0.3)	(0.3)	(0.0)	(0.6)	0.7	(1.3)	683	705	12	48	(0.05)	21	48	(0.04)	98	136	(0.06)	84	145	(0.09)	Buy
Food Beverage & Tobacco	72	(0.6)	(0.4)	(1.2)	(1.1)	(2.0)	(2.1)	1092	1089	36	42	(0.01)	38	53	(0.01)	139	166	(0.02)	117	160	(0.04)	Buy
Health Care Equipment & Servic	55	(0.1)	(0.1)	(0.3)	(0.5)	(1.2)	(1.8)	1040	1061	20	36	(0.02)	31	49	(0.02)	82	106	(0.02)	95	131	(0.03)	Buy
Household & Personal Products	17	(0.1)	(0.2)	(0.6)	(1.3)	(0.5)	(1.8)	326	326	2	2	0.00	3	2	0.00	13	22	(0.03)	12	24	(0.04)	Buy
Insurance	76	(4.6)	(0.5)	(16.2)	(3.0)	(23.0)	(4.8)	1317	1366	25	90	(0.05)	26	64	(0.03)	115	262	(0.11)	118	238	(0.09)	Buy
Materials	154	(3.5)	(2.3)	(10.6)	(7.8)	(14.5)	(11.4)	2354	2467	58	148	(0.04)	72	141	(0.03)	224	569	(0.15)	223	577	(0.14)	Buy
Media	51	(0.4)	(0.1)	(5.0)	19.4	(4.3)	67.8	900	936	21	26	(0.01)	24	38	(0.01)	80	85	(0.01)	85	106	(0.02)	Buy
Pharmaceuticals, Biotechnology	60	(0.4)	(0.4)	1.0	(1.7)	(0.0)	(2.8)	1154	1157	29	37	(0.01)	36	33	0.00	98	142	(0.04)	101	165	(0.06)	Buy
Real Estate	85	(0.4)	(0.6)	11.6	(2.1)	(2.4)	(4.2)	874	967	20	38	(0.02)	24	50	(0.03)	100	138	(0.04)	93	163	(0.07)	Buy
Retailing	56	0.3	(0.7)	(0.9)	(3.9)	(0.7)	(3.8)	1115	1144	42	45	(0.00)	53	43	0.01	221	164	0.05	226	164	0.05	Buy
Semiconductors & Semiconductor	30	(28.9)	(4.5)	(28.0)	(14.5)	(62.4)	(26.0)	711	714	20	142	(0.17)	22	137	(0.16)	50	246	(0.28)	46	220	(0.24)	Hold
Software & Services	60	(0.4)	0.2	(2.8)	0.1	(1.5)	0.8	1293	1280	18	20	(0.00)	18	36	(0.01)	160	112	0.04	103	145	(0.03)	Buy
Technology Hardware & Equipment	56	(2.5)	(0.6)	(2.4)	0.2	(7.4)	(5.6)	1136	1107	21	43	(0.02)	25	39	(0.01)	132	236	(0.09)	125	187	(0.06)	Buy
Telecommunication Services	52	(0.8)	(1.1)	(1.2)	(2.4)	(0.9)	(3.5)	1083	1134	26	54	(0.03)	38	58	(0.02)	107	140	(0.03)	100	159	(0.05)	Buy
Transportation	62	(5.0)	(5.2)	(30.0)	(21.8)	(33.5)	(11.5)	1034	1057	33	29	0.00	28	31	(0.00)	128	148	(0.02)	111	174	(0.06)	Buy
Utilities	85	(1.2)	(7.3)	(2.2)	(9.1)	(7.2)	(33.2)	1327	1406	41	54	(0.01)	49	71	(0.02)	121	172	(0.04)	135	217	(0.06)	Hold

Country/Sector Name	Rating, Price Target Potential & Revisions					Performance Analysis: Absolute					Performance Analysis: Relative					Potential to H & L	
	Score, Best=1 / Worst=5	Potential to PT, %	1W Chg in PT, %	1M Chg in PT, %	3M Chg in PT, %	1M Chg in US$, %	3MChg in US$, %	6M Chg in US$, %	YTD Chg in US$, %	2010 Chg in US$, %	1M Chg in US$, %	3MChg in US$, %	6M Chg in US$, %	YTD Chg in US$, %	2010 Chg in US$, %	Potential to 5YH P, %	Potential to 5YL P, %
Australia	**2.30**	**19.3**	**(0.3)**	**1.2**	**(0.1)**	**(4.1)**	**(3.5)**	**(12.4)**	**(12.8)**	**20.3**	**(0.2)**	**0.4**	**0.0**	**2.2**	**8.4**	**149.7**	**(36.3)**
Austria	2.38	39.9	(0.4)	(10.5)	(16.6)	(5.1)	(16.3)	(37.8)	(37.8)	5.7	2.5	2.3	1.9	2.7	(1.9)	279.2	(39.7)
Belgium	2.64	34.2	(0.4)	(6.7)	(11.4)	(9.1)	(15.5)	(30.4)	(25.3)	6.9	(2.8)	(3.5)	(3.7)	(1.3)	11.7	347.0	(33.2)
Canada	**2.36**	**29.8**	**(0.3)**	**(0.9)**	**(3.7)**	**(6.7)**	**(10.1)**	**(13.0)**	**(12.3)**	**30.3**	**(0.5)**	**0.5**	**1.5**	**6.0**	**7.2**	**69.0**	**(46.7)**
Denmark	2.60	17.6	0.1	(10.5)	(13.2)	(6.1)	(4.2)	(19.8)	(17.0)	15.7	(1.5)	(5.5)	(1.3)	3.6	(7.8)	145.0	(46.7)
Finland	2.58	27.3	(0.4)	(1.5)	(5.8)	(9.6)	(11.0)	(27.1)	(29.7)	22.9	1.2	0.7	0.7	3.4	2.8	149.2	(39.5)
France	**2.39**	**36.2**	**(0.4)**	**(4.4)**	**(9.4)**	**(8.6)**	**(13.2)**	**(31.0)**	**(25.8)**	**5.2**	**(2.1)**	**(6.2)**	**(4.3)**	**(2.5)**	**16.6**	**179.8**	**(34.2)**
Germany	**2.26**	**28.5**	**(0.6)**	**(4.2)**	**(8.4)**	**(8.1)**	**(6.8)**	**(26.0)**	**(20.6)**	**18.9**	**(0.9)**	**(3.4)**	**0.4**	**(1.9)**	**10.8**	**152.2**	**(43.9)**
Greece	2.55	96.5	(0.6)	(11.4)	(21.8)	(11.2)	(27.1)	(50.6)	(54.5)	(29.0)	1.0	2.0	(0.9)	0.7	18.2	886.0	(15.1)
Hong Kong	**2.43**	**23.3**	**(0.2)**	**(4.6)**	**(9.3)**	**(3.4)**	**(6.5)**	**(12.7)**	**(15.3)**	**36.6**	**0.2**	**(0.6)**	**4.6**	**6.9**	**30.0**	**79.3**	**(52.7)**
Ireland	1.93	10.9	0.4	3.8	(1.7)	2.1	13.4	(2.0)	26.6	(3.0)	4.2	10.2	12.1	37.6	7.3	60.3	(39.9)
Israel	2.42	34.1	(6.0)	(8.0)	(8.9)	(7.2)	(3.5)	(25.5)	(34.9)	14.2	(3.6)	(3.2)	(9.6)	(15.2)	(7.8)	82.3	(39.7)
Italy	**2.61**	**32.0**	**(0.4)**	**(6.3)**	**(11.3)**	**(9.7)**	**(9.6)**	**(33.0)**	**(31.0)**	**(9.2)**	**(0.8)**	**(4.3)**	**(0.7)**	**(2.7)**	**13.1**	**301.6**	**(26.3)**
Japan	**2.51**	**22.9**	**(0.3)**	**(4.2)**	**(7.1)**	**(0.6)**	**(6.5)**	**(5.3)**	**(11.1)**	**16.5**	**1.1**	**(0.2)**	**2.2**	**3.0**	**6.3**	**191.6**	**(26.1)**
Netherlands	2.35	25.1	0.4	(2.2)	(6.4)	(4.3)	(3.1)	(20.9)	(19.9)	4.3	(0.4)	(1.5)	(2.6)	(0.8)	5.7	99.4	(39.0)
New Zealand	2.56	8.5	(1.2)	(6.6)	(8.1)	(0.5)	(10.0)	(9.6)	(0.7)	6.3	1.7	(0.3)	2.3	3.7	(3.3)	72.1	(24.2)
Norway	**2.25**	**29.9**	**(0.7)**	**(3.5)**	**(6.5)**	**(9.9)**	**(10.4)**	**(19.0)**	**(18.5)**	**18.8**	**(1.6)**	**(4.1)**	**(2.6)**	**(1.1)**	**2.0**	**90.6**	**(50.7)**
Portugal	2.39	45.0	(0.7)	(4.9)	(6.4)	(7.5)	(17.0)	(24.3)	(19.4)	(11.0)	(0.8)	1.7	10.7	18.2	6.4	203.3	(29.7)
Singapore	2.32	22.8	(0.2)	(5.0)	(10.8)	(6.4)	(10.6)	(18.7)	(23.3)	30.3	(0.2)	(1.3)	(2.9)	(6.5)	8.2	109.0	(46.4)
Spain	2.65	19.4	(0.3)	(4.1)	(7.4)	(2.4)	(5.3)	(19.9)	(7.1)	(21.6)	2.6	2.7	5.4	13.8	2.6	123.0	(24.3)
Sweden	**2.50**	**18.0**	**(0.0)**	**0.4**	**(3.2)**	**(4.8)**	**(1.7)**	**(16.3)**	**(20.0)**	**39.0**	**0.1**	**1.6**	**3.0**	**1.2**	**8.0**	**77.0**	**(50.5)**
Switzerland	**2.50**	**17.7**	**(0.2)**	**(1.7)**	**(4.5)**	**(4.0)**	**(5.5)**	**(19.7)**	**(17.2)**	**25.4**	**(2.5)**	**(3.6)**	**(4.9)**	**(6.9)**	**15.3**	**97.8**	**(37.0)**
United Kingdom	**2.32**	**24.8**	**(0.5)**	**(3.1)**	**(5.2)**	**(5.7)**	**(6.1)**	**(14.1)**	**(12.3)**	**16.2**	**(1.9)**	**(4.7)**	**(5.5)**	**(3.4)**	**10.4**	**114.3**	**(46.8)**
United States	**2.22**	**22.8**	**(0.1)**	**(0.2)**	**(3.1)**	**(2.5)**	**(1.1)**	**(6.5)**	**(2.5)**	**23.3**	**(2.2)**	**(4.1)**	**(5.8)**	**(4.9)**	**11.0**	**90.0**	**(53.4)**
Automobiles & Components	2.32	37.7	(0.3)	(3.6)	(9.9)	(6.3)	(10.2)	(20.4)	(21.0)	35.1	(3.1)	(6.1)	(9.0)	(7.9)	26.4	149.4	(48.5)
Banks	2.59	30.2	(0.7)	(6.9)	(11.4)	(3.1)	(6.8)	(19.0)	(24.2)	5.5	0.8	(1.9)	(5.9)	(10.1)	(1.2)	337.0	(34.2)
Capital Goods	2.33	25.7	(0.1)	(3.9)	(8.1)	(3.9)	(4.9)	(16.7)	(16.5)	27.8	(0.9)	(1.6)	(6.2)	(5.5)	17.1	121.9	(44.4)
Commercial & Professional Serv	2.35	17.4	(0.0)	(1.3)	(3.5)	(1.7)	(1.4)	(10.5)	(8.0)	15.2	0.7	(0.4)	(1.8)	0.2	6.6	61.5	(38.8)
Consumer Durables & Apparel	2.33	22.7	(1.1)	(1.3)	(3.9)	(5.0)	(5.8)	(9.1)	(7.6)	29.8	(3.0)	(3.7)	(0.2)	1.6	19.6	108.2	(48.9)
Consumer Services	2.11	27.6	(0.3)	(1.9)	(3.4)	(2.9)	(4.4)	(7.3)	(5.2)	44.7	(0.0)	(1.7)	3.3	5.8	35.9	96.1	(50.6)
Diversified Financials	2.40	29.3	(0.4)	(2.8)	(8.8)	(3.8)	(8.3)	(19.8)	(21.9)	14.0	(1.2)	(6.6)	(11.0)	(13.9)	3.9	223.0	(43.0)
Energy	2.19	34.1	(0.2)	(0.9)	(4.7)	(7.0)	(4.5)	(12.9)	(10.3)	24.2	(3.8)	(1.4)	(3.4)	(0.8)	12.3	90.5	(45.5)
Food & Staples Retailing	2.39	14.1	(0.2)	(0.1)	(1.7)	(3.6)	(1.6)	(6.8)	(6.1)	17.1	0.3	3.7	6.7	8.1	7.7	49.5	(33.5)
Food Beverage & Tobacco	2.45	10.8	(0.1)	(0.8)	(1.7)	(0.8)	(0.3)	(2.0)	6.1	15.4	1.5	1.6	7.8	15.9	6.8	32.5	(45.2)
Health Care Equipment & Servic	2.35	18.0	(0.0)	(0.8)	(3.2)	(1.6)	(3.6)	(10.4)	(0.9)	11.0	0.0	(4.0)	(3.8)	4.3	0.2	60.2	(43.1)
Household & Personal Products	2.41	12.8	0.1	(0.1)	(0.1)	(1.3)	(3.0)	(3.2)	3.6	13.9	1.1	(2.2)	6.6	11.0	4.9	36.3	(40.8)
Insurance	2.39	29.8	(0.2)	(2.1)	(4.7)	(3.7)	(2.6)	(15.6)	(14.6)	9.1	(0.7)	(0.3)	(5.7)	(5.2)	(0.1)	218.2	(40.5)
Materials	2.28	31.8	(0.5)	(5.2)	(9.9)	(5.1)	(10.7)	(17.5)	(20.4)	27.7	(1.9)	(7.2)	(7.2)	(9.4)	15.3	132.9	(47.9)
Media	2.28	24.0	(0.1)	(1.6)	(4.9)	(3.4)	(3.7)	(12.4)	(8.8)	28.8	(0.5)	(2.3)	(2.2)	(0.6)	19.7	83.5	(48.5)
Pharmaceuticals, Biotechnology	2.34	17.0	(0.4)	(1.5)	(2.9)	1.6	(1.2)	(4.4)	11.5	10.6	3.8	0.4	4.4	20.6	0.9	57.7	(35.3)
Real Estate	2.31	24.2	(0.1)	(2.2)	(5.2)	(4.1)	(7.1)	(15.3)	(14.4)	18.8	(1.1)	(3.5)	(5.4)	(3.2)	8.8	158.3	(46.1)
Retailing	2.35	16.7	(0.0)	1.1	1.1	(3.0)	(1.5)	2.3	3.4	32.7	(1.5)	(0.7)	8.1	9.3	21.1	65.6	(57.1)
Semiconductors & Semiconductor	2.53	25.6	(0.5)	(3.9)	(8.0)	(9.9)	(12.3)	(18.3)	(20.1)	14.5	(8.6)	(12.5)	(13.7)	(16.8)	5.2	228.6	(47.8)
Software & Services	2.22	20.2	0.0	0.8	(0.1)	(4.6)	(0.5)	(2.2)	0.6	18.3	(2.9)	0.2	4.6	6.9	8.3	67.4	(45.2)
Technology Hardware & Equipment	2.37	25.3	(0.2)	(1.4)	(7.4)	(4.4)	(2.9)	(11.9)	(19.0)	16.8	(2.8)	(0.6)	(6.0)	(11.9)	5.7	174.7	(40.0)
Telecommunication Services	2.42	24.5	(0.6)	(2.8)	(4.5)	(5.1)	(8.1)	(13.8)	(11.9)	10.2	(0.8)	(3.0)	3.0	5.2	1.8	117.3	(30.8)
Transportation	2.37	18.9	(0.5)	0.5	(2.7)	(1.0)	(2.9)	(8.1)	(12.1)	19.9	2.0	0.9	3.6	0.3	10.0	128.6	(36.7)
Utilities	2.57	15.0	(0.0)	(0.6)	(1.2)	(2.3)	(4.7)	(5.3)	(4.7)	1.0	0.6	(2.0)	6.0	5.7	(3.9)	111.0	(28.8)

Source: Bloomberg, I/B/E/S, Jefferies

Note: 5Y EPS CAGR is by default using 2 actual & 4 forecast numbers, otherwise 3 & 3, EPSR = EPS Revision, NoA = Number of Analyst, EPSUP/DN = Upward/Downward Revision in EPS, FCFY = Free Cash Flow Yield, NCMC = Net Cash/Market Cap, NDE = Net Debt/Equity. Countries bolded are the ones we covered in the Global Outlook report.

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Please see important disclosure information on pages 184 - 186 of this report.

Jefferies

Exhibit 129: Emerging Markets Market/Sector Summary

Country/Sector Name	Number of Companies	MC, US$mm	20D ADV, US$mm	12M Forward Looking PE: Current, x	5Y Max, x	5Y Min, x	5Y Avg, x	5Y Z-Scr, sd	Further 12M, x	12M Forward Looking PB: Current x	5Y Max, x	5Y Min, x	5Y Avg, x	5Y Z-Scr, sd	Further 12M, x	12M FL PEG, x	Further 12M PEG, x	Past 12M EPSG, %	12M FL EPSG, %	Further 12M FL EPSG, %	5Y EPS CAGR, %	12M FL ROE, %	Further 12M FL ROE, %	12M FL DY, %	Further 12M FL DY, %	12M FL FCFY, %	Further 12M FL FCFY, %	12M FL NCMC, %	Further 12M FL NCMC, %	12M FL NDE, %	Further 12M FL NDE, %
		Size & Liquidity		I/B/E/S Consensus Valuations (PE, PB, PEG, EPSG, ROE, DY, FCFY, NCMC & NDE)																											
Brazil	**81**	**10,556**	**32.4**	**15.3**	**24.6**	**6.1**	**13.1**	**0.26**	**11.2**	**2.77**	**5.97**	**1.36**	**7.80**	**(0.49)**	**2.54**	**1.05**	**0.63**	**14.9**	**28.7**	**33.3**	**15.1**	**22.2**	**22.7**	**4.01**	**4.80**	**3.20**	**5.72**	**(40.8)**	**(42.2)**	**54.5**	**50.3**
Chile	19	8,182	9.5	13.9	35.1	9.1	17.6	(0.51)	12.1	167.39	3.14	1.49	22.03	(0.18)	146.91	1.25	0.88	6.1	23.8	16.1	27.0	18.3	18.6	9.61	52.94	3.97	5.80	(27.2)	(24.9)	45.1	40.5
China	**148**	**7,960**	**19.8**	**10.2**	**43.3**	**5.5**	**15.8**	**(1.00)**	**8.7**	**1.63**	**5.85**	**0.90**	**2.63**	**(0.96)**	**1.40**	**1.03**	**1.11**	**19.5**	**19.6**	**21.2**	**14.2**	**17.4**	**17.6**	**3.37**	**5.96**	**5.05**	**8.52**	**(28.5)**	**(25.1)**	**15.6**	**9.3**
Colombia	10	13,511	4.1	26.3	56.3	18.5	36.5	(0.25)	20.0	1.64	2.22	6.69	1.82	(1.13)	1.52	6.14	1.66	40.6	14.4	13.0	19.9	14.8	12.6	2.76	3.38	2.82	6.17	(3.9)	(1.1)	3.1	0.3
Czech Republic	3	10,989	13.6	10.5	18.2	6.7	12.3	(0.75)	10.2	1.61	3.05	1.28	2.13	(1.25)	1.59	3.14	1.90	(17.1)	7.5	3.5	1.0	16.0	16.0	7.99	8.18	7.10	8.21	(19.7)	(18.0)	30.1	24.5
Egypt	9	2,428	2.1	8.5	17.8	4.7	10.6	(0.40)	6.8	1.22	4.58	1.00	2.57	(1.48)	1.14	1.73	0.70	3.4	56.2	28.5	1.3	13.4	15.6	4.80	5.29	10.82	13.63	(32.3)	(13.1)	52.9	33.8
Hungary	4	4,211	14.5	9.4	14.4	5.2	10.4	(0.45)	7.9	0.96	2.62	0.76	1.49	(1.21)	0.91	1.53	0.44	(9.1)	8.6	19.9	(0.6)	11.2	12.2	5.71	6.82	8.73	9.92	(28.9)	(25.2)	27.4	23.2
India	**72**	**8,909**	**21.9**	**13.8**	**33.1**	**7.6**	**17.8**	**(0.59)**	**10.8**	**2.68**	**7.40**	**1.58**	**3.63**	**(0.80)**	**2.30**	**1.10**	**1.45**	**8.1**	**30.8**	**30.2**	**14.9**	**20.6**	**20.4**	**1.78**	**2.00**	**(0.41)**	**3.60**	**(45.7)**	**(44.3)**	**36.2**	**28.3**
Indonesia	25	9,094	7.8	13.1	24.4	4.8	13.7	(0.01)	11.4	3.84	6.60	1.56	3.82	(0.08)	3.33	4.92	0.81	28.5	16.0	14.6	22.9	29.0	28.5	3.50	3.99	6.25	7.70	(2.6)	1.7	(0.3)	(10.7)
Korea	105	7,275	32.4	10.6	29.5	5.8	12.2	(0.62)	9.0	1.45	3.42	0.86	1.80	(0.71)	1.24	0.85	1.04	18.9	24.9	19.8	13.5	15.1	14.6	1.89	2.03	6.91	5.43	(33.2)	(4418.5)	22.9	2173.9
Malaysia	43	6,385	5.2	15.5	23.1	8.5	14.8	(0.10)	13.9	3.42	4.96	1.78	3.01	(0.06)	3.21	2.33	2.17	12.9	13.9	11.3	5.1	20.8	22.0	3.40	3.58	4.53	5.93	(18.9)	(20.4)	26.2	24.8
Mexico	**23**	**12,038**	**15.4**	**18.7**	**32.4**	**7.6**	**16.3**	**0.67**	**16.1**	**3.75**	**4.68**	**1.41**	**2.72**	**0.55**	**2.87**	**1.31**	**1.29**	**23.2**	**32.7**	**14.2**	**8.0**	**22.6**	**23.9**	**2.13**	**2.59**	**5.73**	**6.61**	**(23.0)**	**(18.8)**	**35.4**	**17.4**
Morocco	3	8,280	2.3	12.4	37.2	10.6	19.5	(0.73)	14.6	3.94	7.08	3.16	4.82	(0.60)	6.86	0.89	23.37	4.4	14.5	0.6	7.8	30.8	51.3	4.96	7.31	8.99	7.02	(17.2)	(6.5)	48.6	44.6
Peru	4	11,523	39.8	9.8	19.1	4.4	11.0	(0.34)	9.3	3.26	5.97	1.44	4.04	(0.79)	2.80	3.91	0.89	27.0	10.2	5.4	11.3	32.3	30.0	4.56	4.77	4.37	6.62	(7.4)	(7.6)	31.9	28.5
Philippines	18	4,495	4.3	14.6	23.4	7.5	14.6	0.16	13.1	2.46	3.39	1.05	2.11	0.51	2.23	1.64	1.53	16.3	14.9	11.9	16.4	18.0	17.8	2.68	2.88	4.47	5.12	(17.1)	(16.7)	38.2	32.8
Poland	22	4,001	9.9	10.7	26.0	5.3	13.0	(0.26)	8.8	1.16	3.68	0.66	1.77	(0.82)	1.08	1.64	1.11	45.0	12.8	27.6	(1.4)	13.6	12.6	4.32	4.76	4.53	4.30	(38.2)	(38.6)	26.6	21.8
Russia	**26**	**21,594**	**96.9**	**6.4**	**22.6**	**3.2**	**10.4**	**(1.00)**	**5.8**	**1.12**	**2.16**	**0.44**	**1.22**	**(1.17)**	**0.65**	**3.28**	**1.14**	**37.1**	**(2.7)**	**3.1**	**9.1**	**14.7**	**15.4**	**4.03**	**2.54**	**(0.94)**	**11.53**	**(47.2)**	**(37.2)**	**15.9**	**11.3**
South Africa	49	7,220	20.3	11.2	23.5	5.8	10.9	0.31	9.7	2.80	8.06	1.44	2.98	(0.01)	4.76	0.86	0.87	23.4	40.8	15.4	10.1	25.4	24.8	4.46	5.15	6.34	7.97	(13.9)	(11.4)	25.6	17.8
Taiwan	112	4,324	17.2	12.2	40.2	6.9	15.7	(0.51)	10.3	1.67	3.46	1.03	2.02	(0.81)	1.54	2.14	0.78	2.3	24.1	25.6	1.8	16.0	16.2	4.60	5.17	5.67	10.24	(17.1)	(16.0)	8.0	6.8
Thailand	20	9,017	20.1	11.6	17.9	5.7	11.6	0.04	10.2	3.22	4.16	1.15	2.41	0.52	2.96	0.81	0.99	22.9	13.9	13.5	17.4	25.2	25.7	4.21	4.78	7.92	9.53	(16.7)	(12.4)	19.0	7.6
Turkey	**24**	**5,446**	**27.1**	**9.1**	**16.1**	**3.9**	**10.1**	**(0.35)**	**7.9**	**1.88**	**3.33**	**0.78**	**2.04**	**(0.47)**	**1.66**	**1.12**	**0.66**	**(5.4)**	**26.7**	**15.2**	**11.5**	**20.2**	**19.8**	**3.73**	**4.35**	**4.88**	**8.46**	**(17.4)**	**(14.0)**	**13.9**	**9.6**
Automobiles & Components	27	7,591	25.5	11.5	36.8	5.4	18.0	(0.51)	9.6	2.29	3.96	0.86	2.13	0.06	1.94	0.85	0.79	24.9	16.3	15.5	26.0	22.6	22.3	2.22	2.50	6.74	8.84	5.5	8.7	(9.9)	(13.3)
Banks	98	11,666	40.7	9.1	23.8	5.6	12.1	(0.71)	8.0	25.77	3.03	0.84	4.22	(0.74)	22.86	1.87	1.01	16.9	10.0	13.2	11.2	15.9	16.2	3.65	4.17	N/A	N/A	N/A	N/A	N/A	N/A
Capital Goods	75	4,243	13.8	10.4	28.3	5.4	14.2	(0.71)	9.0	1.55	4.48	0.77	2.08	(0.68)	1.34	1.17	2.06	27.9	28.9	14.8	11.3	15.7	15.5	2.51	2.74	6.97	9.41	(26.9)	(24.9)	23.6	17.7
Commercial & Professional Serv	1	1,836	4.8	14.0	20.8	10.5	15.3	(0.83)	12.8	2.43	4.49	2.17	2.88	(0.91)	2.21	1.19	1.37	10.6	11.8	9.4	5.7	19.3	18.9	2.30	2.38	5.56	6.16	19.0	27.7	(46.3)	(61.1)
Consumer Durables & Apparel	23	2,493	16.1	9.3	20.9	5.1	11.8	(0.62)	7.9	1.86	4.33	0.94	2.32	(0.63)	1.64	0.96	1.40	18.0	35.3	16.5	19.7	19.7	19.8	3.90	4.67	12.96	15.30	(15.0)	(8.5)	5.9	(2.2)
Consumer Services	7	4,456	6.7	15.9	23.4	11.2	17.0	(0.36)	14.1	4.19	7.02	3.19	5.08	(0.19)	3.71	1.25	1.63	2.2	16.6	13.1	10.3	26.9	26.0	2.53	2.82	3.88	5.01	6.4	9.5	(15.7)	(22.5)
Diversified Financials	35	3,802	12.4	11.1	26.9	6.9	14.0	(0.68)	9.0	1.39	3.69	0.78	1.77	(0.86)	1.27	1.26	0.66	11.7	13.7	16.2	5.2	13.4	14.3	3.55	3.87	N/A	N/A	N/A	N/A	N/A	N/A
Energy	49	22,038	51.4	10.7	19.0	4.0	10.2	(0.68)	8.3	1.62	3.59	0.81	1.86	(0.73)	1.42	1.11	1.16	29.7	18.4	32.8	11.9	19.4	18.1	4.17	4.05	5.23	10.34	(23.9)	(19.9)	16.4	11.7
Food & Staples Retailing	16	8,966	16.4	21.2	27.0	11.2	18.7	0.87	17.6	5.24	6.85	2.60	4.68	0.58	4.61	1.02	0.94	10.8	22.7	20.2	16.0	26.8	28.1	2.32	2.83	2.16	3.45	(2.1)	(0.7)	(12.1)	(17.0)
Food Beverage & Tobacco	42	7,894	12.1	16.1	25.3	8.9	16.8	0.39	14.2	3.91	5.89	1.83	6.83	0.37	3.61	3.69	1.33	23.6	14.6	13.5	20.9	23.9	24.1	3.70	4.43	4.81	5.98	(10.2)	(7.7)	9.0	2.3
Health Care Equipment & Servic	8	2,231	8.0	16.5	36.5	8.1	20.6	(0.49)	13.6	3.10	9.31	1.82	4.63	(0.70)	2.81	0.70	0.69	18.8	27.9	20.5	29.1	20.4	21.3	2.70	3.30	5.00	6.86	(13.2)	(11.4)	39.0	27.6
Household & Personal Products	9	7,958	13.5	22.4	29.4	14.5	21.4	0.53	18.9	10.69	15.78	6.49	10.51	0.30	9.29	1.24	1.16	8.2	42.7	19.3	15.5	50.7	52.0	2.36	2.73	3.57	4.73	(5.3)	(3.9)	7.2	0.7
Insurance	21	6,441	21.8	10.7	50.3	7.6	16.3	(0.75)	9.1	1.48	14.14	1.12	3.04	(1.20)	6.55	0.71	0.68	33.2	17.8	17.3	9.3	15.5	15.3	3.56	3.93	N/A	N/A	N/A	N/A	N/A	N/A
Materials	122	6,715	24.4	11.3	34.4	4.8	13.3	(0.48)	8.9	1.83	4.87	0.88	2.33	(0.77)	1.48	1.62	0.75	37.8	29.4	15.8	12.2	20.4	19.7	3.54	4.12	5.49	8.27	(28.7)	(25.9)	24.6	17.6
Media	6	5,926	21.4	16.9	27.6	8.8	17.5	0.38	13.9	3.79	6.84	2.05	3.95	0.09	3.47	1.17	0.81	(16.1)	19.0	23.1	6.9	25.4	24.6	2.83	3.80	5.98	7.40	(21.2)	(16.7)	39.5	24.2
Pharmaceuticals, Biotechnology	12	3,879	10.5	17.1	28.9	10.0	17.7	0.30	14.3	2.78	5.66	1.66	3.36	(0.62)	2.39	0.86	0.85	10.6	18.6	20.2	16.1	17.4	17.5	1.28	1.47	5.43	6.86	13.8	20.9	(14.3)	(24.0)
Real Estate	34	3,322	9.6	10.7	27.9	5.2	14.2	(0.57)	8.3	1.12	5.27	0.77	2.18	(0.96)	0.97	0.60	0.52	7.4	29.5	34.3	9.2	14.7	14.8	4.34	5.01	6.26	9.52	(59.8)	(58.8)	39.3	32.8
Retailing	25	5,021	14.5	15.8	30.3	7.0	17.0	(0.13)	13.2	3.28	7.62	1.87	4.09	0.12	2.57	0.71	0.73	15.1	20.8	21.0	17.2	23.6	24.8	2.55	3.10	4.49	6.52	(5.7)	(4.6)	12.0	6.6
Semiconductors & Semiconductor	24	10,996	37.4	12.2	52.4	6.0	13.9	(0.18)	10.1	1.54	4.40	0.94	2.22	(0.89)	1.42	0.86	0.64	(31.9)	12.5	53.0	0.8	15.3	16.3	3.84	17.92	0.30	7.13	(16.1)	(19.3)	5.6	10.9
Software & Services	14	13,406	32.1	15.2	32.5	8.5	18.4	(0.44)	13.1	5.56	9.64	2.06	4.87	(0.41)	4.73	1.33	1.04	28.0	18.4	14.9	19.4	40.9	39.2	1.96	2.19	6.35	7.22	9.5	13.6	(30.6)	(40.2)
Technology Hardware & Equipment	37	3,835	28.4	12.1	54.7	5.6	14.6	(0.81)	9.0	1.52	4.03	0.87	2.13	(0.99)	1.36	0.95	0.57	(0.2)	39.6	25.1	2.3	18.6	17.5	4.65	5.24	10.51	12.23	(12.1)	(8.8)	(7.5)	(11.9)
Telecommunication Services	46	14,983	22.4	13.2	21.3	7.1	12.9	0.47	11.4	3.08	5.03	1.49	2.73	(0.21)	2.96	1.95	1.97	26.8	18.2	17.3	0.9	21.3	23.3	5.62	6.32	8.42	10.04	(27.6)	(23.4)	34.4	27.5
Transportation	36	2,971	7.9	14.3	46.0	6.6	17.8	(0.24)	12.5	1.70	4.01	0.93	2.04	(0.67)	1.52	1.10	1.15	(46.1)	51.0	44.9	9.6	14.7	15.1	2.31	2.91	(4.10)	(3.46)	(78.1)	(9585.5)	97.0	4831.7
Utilities	53	6,243	8.8	13.4	34.4	8.1	15.2	(0.20)	10.4	1.59	4.03	1.64	8.67	(0.44)	1.47	2.29	1.39	(2.4)	26.1	30.2	14.6	14.2	14.1	4.75	18.07	(4.25)	(0.75)	(74.8)	(76.2)	76.2	73.0

Source: Bloomberg, I/B/E/S, Jefferies

Note: 5Y EPS CAGR is by default using 2 actual & 4 forecast numbers, otherwise 3 & 3, EPSR = EPS Revision, NoA = Number of Analyst, EPSUP/DN = Upward/Downward Revision in EPS, FCFY = Free Cash Flow Yield, NCMC = Net Cash/Market Cap, NDE = Net Debt/Equity. Countries bolded are the ones we covered in the Global Outlook report.

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Please see important disclosure information on pages 184 - 186 of this report.

Jefferies

Exhibit 130: Emerging Markets Revisions Summary

I/B/E/S Consensus Revisions (EPS / Price Target) & Research Rating — FY1/FY2 (coming/next fiscal years) EPS Revisions by Magnitude & Breadth; Rating, Price Target Potential & Revisions | Performance Analysis (Absolute; Relative) | Potential to H & L

Country/Sector Name	Number of Companies	1W Chg in FY1, %	1W Chg in FY2, %	1M Chg in FY1, %	1M Chg in FY2, %	3M Chg in FY1, %	3M Chg in FY2, %	Coverage on FY1, NoA	Coverage on FY2, NoA	1W Up Rev in FY1 EPS, NoA	1W Dn Rev in FY1 EPS, NoA	FY1 EPS Up Down Ratio, Best=1 / Worst=(1)	1W Up Rev in FY2 EPS, NoA	1W Dn Rev in FY2 EPS, NoA	FY2 EPS Up Down Ratio, Best=1 / Worst=(1)	1M Up Rev in FY1 EPS, NoA	1M Dn Rev in FY1 EPS, NoA	FY1 EPS Up Down Ratio, Best=1 / Worst=(1)	1M Up Rev in FY2 EPS, NoA	1M Dn Rev in FY2 EPS, NoA	FY2 EPS Up Down Ratio, Best=1 / Worst=(1)	Research Rating	Score, Best=1 / Worst=5	Potential to PT, %	1W Chg in PT, %	1M Chg in PT, %	3M Chg in PT, %	Absolute 1M Chg in US$, %	Absolute 3MChg in US$, %	Absolute 6M Chg in US$, %	Absolute YTD Chg in US$, %	Absolute 2010 Chg in US$, %	Relative 1M Chg in US$, %	Relative 3MChg in US$, %	Relative 6M Chg in US$, %	Relative YTD Chg in US$, %	Relative 2010 Chg in US$, %	Potential to 5YH P, %	Potential to 5YL P, %
Brazil	**81**	**(32.5)**	**(5.6)**	**(16.2)**	**(5.7)**	**(26.9)**	**(8.2)**	**775**	**780**	**34**	**38**	**(0.01)**	**32**	**42**	**(0.01)**	**92**	**99**	**(0.01)**	**73**	**116**	**(0.06)**	**Buy**	**2.36**	**35.1**	**(2.6)**	**(3.8)**	**(4.8)**	**(5.4)**	**(8.9)**	**(19.0)**	**(21.0)**	**16.4**	**3.1**	**0.8**	**1.4**	**9.1**	**9.9**	**83.0**	**(51.6)**
Chile	19	(2.1)	(0.5)	(1.4)	(0.4)	(1.6)	(0.5)	111	112	4	5	(0.01)	5	6	(0.01)	5	16	(0.10)	9	13	(0.04)	Buy	2.25	20.6	(3.0)	(3.6)	(5.2)	(5.3)	(4.3)	(13.0)	(18.3)	55.0	1.3	1.2	4.7	7.7	3.8	23.7	(54.2)
China	**148**	**(0.6)**	**(1.7)**	**(3.6)**	**(4.8)**	**(23.7)**	**(8.4)**	**2844**	**2847**	**34**	**77**	**(0.02)**	**44**	**94**	**(0.02)**	**146**	**318**	**(0.06)**	**151**	**377**	**(0.08)**	**Buy**	**2.20**	**38.3**	**(0.6)**	**(7.1)**	**(11.6)**	**(4.7)**	**(4.5)**	**(19.4)**	**(24.0)**	**18.0**	**(0.9)**	**1.6**	**(3.4)**	**(4.1)**	**13.0**	**150.7**	**(55.4)**
Colombia	10	2.9	1.4	(0.5)	2.9	7.2	9.6	23	22	3	0	0.13	1	2	(0.05)	4	1	0.13	3	2	0.05	Buy	1.82	20.5	(1.6)	(1.1)	3.1	(1.9)	(9.3)	(12.4)	(7.4)	39.3	1.0	6.7	5.6	16.1	(2.7)	22.7	(60.8)
Czech Republic	3	(0.7)	(0.1)	(2.8)	(1.1)	(4.0)	(1.8)	66	66	2	0	0.03	1	1	0.00	4	6	(0.03)	6	6	0.00	Buy	2.40	23.5	(0.5)	(1.9)	(4.6)	(4.5)	(10.7)	(27.4)	(14.7)	(4.5)	1.4	9.0	17.4	25.3	(10.4)	68.6	(27.4)
Egypt	9	(5.8)	(4.8)	(13.5)	(9.3)	(22.8)	(14.1)	82	79	3	8	(0.06)	3	8	(0.06)	8	14	(0.07)	6	15	(0.11)	Buy	2.15	49.3	(3.7)	(7.7)	(12.3)	(5.5)	(8.8)	(28.9)	(45.2)	14.5	1.3	2.7	2.0	3.7	5.3	227.1	(26.5)
Hungary	4	(0.8)	(0.0)	(2.8)	(2.9)	(6.2)	(6.3)	69	69	2	2	0.00	3	2	0.01	6	10	(0.06)	9	8	0.01	Buy	2.48	24.4	(3.1)	(5.8)	(8.8)	1.8	(8.7)	(34.2)	(26.7)	(13.1)	0.6	1.6	7.6	3.0	(4.5)	114.6	(38.8)
India	**72**	**(3.3)**	**(1.6)**	**(6.6)**	**(3.9)**	**(10.4)**	**(6.6)**	**1572**	**1580**	**16**	**25**	**(0.01)**	**19**	**27**	**(0.01)**	**136**	**208**	**(0.05)**	**119**	**214**	**(0.06)**	**Buy**	**2.29**	**34.3**	**(0.3)**	**(3.5)**	**(5.1)**	**(11.6)**	**(20.0)**	**(28.2)**	**(35.5)**	**25.0**	**(0.9)**	**(2.8)**	**(2.6)**	**0.2**	**2.3**	**203.8**	**(54.3)**
Indonesia	25	0.0	(0.6)	(0.5)	(1.4)	(1.0)	(3.6)	452	456	6	7	(0.00)	7	11	(0.01)	41	42	(0.00)	35	48	(0.03)	Buy	2.25	19.1	0.2	(1.0)	(4.1)	(4.7)	(6.8)	(9.0)	(4.8)	65.2	(2.4)	(1.5)	(4.2)	(4.9)	7.7	59.6	(75.5)
Korea	105	(7.0)	(4.5)	(10.6)	(7.3)	(14.1)	(9.5)	1209	1201	18	36	(0.01)	17	36	(0.02)	88	186	(0.08)	77	198	(0.10)	Buy	1.94	37.8	(0.5)	(3.9)	(7.1)	(3.9)	(6.8)	(18.0)	(14.0)	43.7	(0.8)	(2.8)	(3.0)	(1.7)	14.4	95.4	(52.6)
Malaysia	43	(1.8)	(1.4)	(2.3)	(1.9)	(4.8)	(4.4)	695	699	25	20	0.01	24	20	0.01	112	176	(0.09)	112	170	(0.08)	Buy	2.46	10.1	0.2	(3.6)	(7.1)	(2.1)	(0.5)	(9.8)	(3.2)	39.6	(0.6)	0.0	(0.5)	3.5	4.8	32.7	(49.5)
Mexico	**23**	**0.9**	**0.7**	**(0.5)**	**(0.2)**	**(27.0)**	**(14.8)**	**160**	**160**	**8**	**11**	**(0.02)**	**8**	**10**	**(0.01)**	**18**	**16**	**0.01**	**17**	**17**	**0.00**	**Hold**	**2.78**	**11.1**	**(0.2)**	**(1.2)**	**(2.7)**	**(3.3)**	**(4.8)**	**(9.0)**	**(6.5)**	**37.6**	**0.5**	**(0.5)**	**3.1**	**12.2**	**8.3**	**50.2**	**(60.0)**
Morocco	3	(0.3)	(0.8)	(1.0)	(1.9)	(4.2)	(2.5)	10	10	0	0	0.00	0	0	0.00	1	1	0.00	1	1	0.00	Buy	1.97	42.2	(0.0)	(1.6)	(2.5)	(6.1)	(11.7)	(19.4)	(20.0)	14.8	(1.5)	(3.5)	(7.1)	(5.5)	(0.7)	107.0	(18.0)
Peru	4	(0.4)	(1.5)	(0.4)	(3.8)	5.1	(8.5)	28	30	3	1	0.07	2	3	(0.03)	7	1	0.21	3	6	(0.10)	Buy	2.27	24.1	0.1	1.6	(1.8)	(2.7)	(3.2)	9.1	(18.5)	45.9	(0.2)	6.5	12.0	11.6	(20.6)	68.4	(74.1)
Philippines	18	0.1	0.1	(0.1)	(0.0)	(0.3)	(0.8)	157	159	3	0	0.02	2	3	(0.01)	20	14	0.04	12	15	(0.02)	Buy	2.33	11.4	(0.2)	1.2	0.8	(2.1)	(0.6)	2.5	1.8	94.0	(0.4)	0.4	(0.0)	(0.5)	33.7	23.8	(67.6)
Poland	22	(16.2)	(5.2)	(33.2)	(7.5)	(14.3)	(11.1)	276	289	5	16	(0.04)	6	16	(0.03)	18	30	(0.04)	13	39	(0.09)	Buy	2.46	30.2	(3.0)	(4.8)	(9.4)	(11.3)	(14.9)	(40.5)	(32.3)	23.1	2.0	0.6	(2.4)	1.8	7.1	108.1	(39.9)
Russia	**26**	**(8.7)**	**(6.3)**	**(7.5)**	**(8.0)**	**(3.4)**	**(9.3)**	**126**	**120**	**3**	**7**	**(0.03)**	**3**	**7**	**(0.03)**	**9**	**20**	**(0.09)**	**10**	**16**	**(0.05)**	**Buy**	**2.29**	**48.0**	**(7.6)**	**(4.6)**	**(5.7)**	**(11.0)**	**(13.3)**	**(30.3)**	**(27.0)**	**31.5**	**(1.6)**	**0.4**	**(2.0)**	**(3.4)**	**7.3**	**86.8**	**(72.2)**
South Africa	49	(1.0)	(0.8)	(2.5)	(1.4)	(2.5)	(0.6)	479	481	6	18	(0.03)	6	16	(0.02)	64	75	(0.02)	58	81	(0.05)	Hold	2.61	10.0	0.1	0.1	0.5	(4.2)	(9.6)	(14.9)	(20.9)	35.8	0.8	(0.9)	1.3	1.3	4.4	41.2	(49.6)
Taiwan	112	(2.3)	(2.7)	(10.9)	(27.0)	(27.8)	(31.9)	1098	1080	17	24	(0.01)	10	34	(0.02)	56	151	(0.09)	34	183	(0.14)	Hold	2.53	28.9	0.0	(4.6)	(7.8)	(9.0)	(14.9)	(25.5)	(26.3)	35.0	(0.5)	(2.4)	(0.6)	1.5	12.3	122.5	(49.0)
Thailand	20	(1.5)	(1.4)	(2.2)	(2.0)	(1.3)	(3.2)	330	344	2	14	(0.04)	8	7	0.00	21	79	(0.18)	37	67	(0.09)	Buy	1.99	20.2	(0.1)	(2.8)	(5.1)	1.6	(3.2)	(1.2)	(1.9)	58.3	(0.5)	(0.1)	(0.4)	1.8	1.7	29.9	(68.0)
Turkey	**24**	**(3.9)**	**(1.9)**	**(8.2)**	**(1.5)**	**(11.6)**	**(2.6)**	**402**	**392**	**5**	**8**	**(0.01)**	**9**	**2**	**0.02**	**26**	**40**	**(0.03)**	**22**	**44**	**(0.06)**	**Hold**	**2.51**	**30.7**	**(2.5)**	**(2.7)**	**(5.1)**	**(11.2)**	**(12.9)**	**(26.2)**	**(29.2)**	**23.4**	**(5.6)**	**(5.3)**	**(12.6)**	**(15.8)**	**11.2**	**58.2**	**(60.1)**
Automobiles & Components	27	0.8	(0.1)	(1.7)	0.9	(1.6)	(1.2)	385	381	4	2	0.01	7	3	0.01	34	47	(0.03)	32	46	(0.04)	Buy	2.25	22.3	(0.2)	(2.7)	(3.3)	(8.4)	(7.5)	(12.9)	(5.8)	50.7	(3.0)	1.0	7.3	18.5	26.6	55.9	(73.2)
Banks	98	(2.2)	(2.0)	(2.7)	(3.8)	(2.9)	(6.0)	1531	1538	30	46	(0.01)	27	58	(0.02)	140	194	(0.04)	102	260	(0.10)	Buy	2.34	27.4	(1.5)	(4.5)	(7.7)	(4.8)	(9.5)	(20.7)	(23.2)	34.6	0.6	(1.0)	(4.1)	(4.3)	7.2	61.9	(56.0)
Capital Goods	75	(2.2)	(2.0)	(2.2)	(2.6)	(4.6)	(5.5)	837	831	12	20	(0.01)	12	24	(0.01)	52	98	(0.05)	47	106	(0.07)	Buy	2.14	40.8	(0.3)	(5.1)	(9.4)	(6.1)	(7.9)	(23.1)	(27.2)	48.2	(1.7)	(1.6)	(8.4)	(11.0)	22.0	143.6	(55.2)
Commercial & Professional Serv	1	(1.7)	(2.2)	(2.1)	(2.3)	(2.1)	(1.8)	7	7	0	0	0.00	0	0	0.00	0	0	0.00	0	0	0.00	Buy	1.70	18.6	(0.7)	1.1	1.1	(4.0)	(0.2)	3.3	(2.5)	19.0	(0.9)	4.1	22.1	11.5	(5.3)	21.6	(36.4)
Consumer Durables & Apparel	23	(2.0)	(1.5)	(4.6)	(3.7)	(7.0)	(6.9)	235	231	4	2	0.01	4	2	0.01	14	18	(0.02)	12	16	(0.02)	Buy	2.22	39.0	(0.8)	(5.4)	(7.2)	(6.2)	(11.2)	(22.4)	(29.5)	25.8	(0.1)	(2.7)	(3.8)	(8.1)	10.7	103.9	(64.8)
Consumer Services	7	(0.0)	(0.5)	(2.1)	(2.4)	(2.2)	(3.0)	103	101	6	1	0.05	4	1	0.03	22	12	0.10	19	12	0.07	Buy	2.11	22.6	(1.4)	(2.1)	(3.1)	(5.2)	(4.6)	(11.7)	(12.2)	55.1	(1.5)	(0.7)	0.1	(1.0)	22.5	30.3	(49.6)
Diversified Financials	35	(1.5)	(1.4)	(4.0)	(3.2)	(4.8)	(6.0)	322	319	9	15	(0.02)	14	11	0.01	29	64	(0.11)	32	54	(0.07)	Buy	2.20	37.9	(0.7)	(4.4)	(7.8)	(5.5)	(10.9)	(23.6)	(33.7)	26.3	0.3	(1.7)	(5.7)	(13.4)	2.1	148.0	(43.4)
Energy	49	(54.4)	(4.8)	(27.1)	(4.8)	(33.9)	(7.2)	773	779	11	29	(0.02)	21	28	(0.01)	56	116	(0.08)	58	122	(0.08)	Buy	2.18	34.0	(0.6)	(3.2)	(7.6)	(7.9)	(8.8)	(21.6)	(18.9)	31.1	(2.2)	0.4	(2.4)	2.1	7.3	75.0	(59.3)
Food & Staples Retailing	16	(0.5)	0.1	(2.2)	(1.5)	(2.9)	(2.0)	215	214	10	3	0.03	10	5	0.02	24	16	0.04	26	17	0.04	Hold	2.57	8.6	0.4	1.2	1.1	(1.2)	(4.1)	(5.4)	(9.4)	57.7	3.9	4.3	13.2	13.9	25.3	14.2	(61.8)
Food Beverage & Tobacco	42	5.6	(0.8)	5.7	(1.2)	2.7	(2.9)	529	526	16	10	0.01	15	11	0.01	61	58	0.01	57	52	0.01	Buy	2.32	15.0	0.2	0.4	0.2	(2.5)	(1.7)	(2.5)	1.7	44.0	2.2	4.9	14.2	22.5	13.6	33.8	(64.9)
Health Care Equipment & Servic	8	(0.3)	(1.1)	(1.4)	(3.8)	(5.2)	(7.4)	90	91	0	7	(0.08)	2	7	(0.05)	20	19	0.01	15	23	(0.09)	Buy	2.39	29.4	(0.0)	(3.9)	(5.7)	(3.7)	(15.6)	(27.5)	(23.6)	43.2	2.2	(8.1)	(11.8)	0.9	31.9	49.2	(48.5)
Household & Personal Products	9	(4.3)	(0.2)	(7.3)	(1.2)	(8.1)	(1.1)	136	133	3	4	(0.01)	5	2	0.02	8	10	(0.01)	12	8	0.03	Hold	2.61	11.4	(0.3)	(0.2)	0.2	(2.4)	(6.6)	(11.4)	(10.7)	31.5	4.0	2.6	7.3	13.7	8.9	39.5	(61.7)
Insurance	21	0.2	(0.5)	(1.7)	(2.6)	(3.3)	(4.4)	365	368	6	6	0.00	4	7	(0.01)	33	53	(0.05)	30	56	(0.07)	Buy	2.29	26.8	(0.1)	(3.2)	(6.4)	(6.2)	(9.5)	(19.2)	(21.6)	26.5	(0.8)	(1.8)	(0.7)	(1.0)	8.2	67.4	(41.1)
Materials	122	(2.9)	(3.4)	(5.5)	(6.0)	(11.9)	(10.4)	1292	1297	22	38	(0.01)	23	41	(0.01)	89	202	(0.09)	74	223	(0.11)	Buy	2.29	39.4	(1.3)	(6.1)	(9.9)	(9.3)	(14.5)	(26.0)	(25.7)	38.4	(3.6)	(6.1)	(9.5)	(4.3)	15.6	121.0	(58.4)
Media	6	(21.4)	(4.5)	(22.9)	(6.6)	(23.7)	(7.7)	85	85	0	7	(0.08)	2	5	(0.04)	1	27	(0.31)	3	23	(0.24)	Buy	2.31	20.9	(3.3)	(5.0)	(6.3)	(5.0)	(13.9)	(22.0)	(24.6)	27.8	2.6	(3.6)	(1.2)	(2.0)	0.6	58.0	(40.7)
Pharmaceuticals, Biotechnology	12	(0.5)	0.5	(4.8)	(3.3)	(3.3)	(2.9)	254	258	3	2	0.00	1	3	(0.01)	40	29	0.04	33	34	(0.00)	Buy	2.38	19.9	0.5	0.0	(0.9)	(4.1)	(8.3)	(15.8)	(22.5)	53.0	3.0	4.7	8.9	5.8	22.2	36.6	(58.7)
Real Estate	34	(8.2)	(3.1)	(20.2)	(6.3)	(9.5)	(8.1)	516	518	9	29	(0.04)	10	31	(0.04)	22	85	(0.12)	23	102	(0.15)	Buy	2.25	44.2	(2.0)	(7.1)	(10.6)	(4.3)	(7.8)	(24.2)	(29.6)	11.4	1.1	(0.1)	(8.3)	(11.2)	(2.8)	251.3	(46.7)
Retailing	25	(0.7)	(1.6)	(0.9)	(1.8)	(1.0)	(2.2)	345	345	5	19	(0.04)	2	24	(0.06)	15	55	(0.12)	14	66	(0.15)	Buy	2.26	31.1	(0.2)	(2.6)	(4.0)	(8.9)	(13.2)	(9.9)	(6.5)	49.8	(4.3)	(6.8)	8.2	18.0	27.9	50.5	(64.1)
Semiconductors & Semiconductor	24	(4.2)	(5.3)	(22.2)	(24.5)	(25.9)	(36.9)	249	246	5	2	0.01	1	9	(0.03)	10	34	(0.10)	6	37	(0.13)	Hold	2.55	22.8	0.4	(8.9)	(9.3)	(7.6)	(11.2)	(26.3)	(27.2)	3.8	(0.2)	(0.1)	(4.2)	(3.3)	(13.0)	191.6	(47.8)
Software & Services	14	0.9	0.1	1.5	0.8	2.9	0.3	358	353	8	8	0.00	8	6	0.01	57	30	0.08	51	35	0.05	Buy	2.13	21.1	0.1	1.8	1.2	(6.5)	(3.2)	(13.3)	(5.8)	19.0	1.6	9.6	11.6	27.9	1.5	105.2	(64.6)
Technology Hardware & Equipment	37	(6.8)	(3.3)	(12.4)	(11.7)	(46.1)	(53.3)	531	520	8	17	(0.02)	7	17	(0.02)	28	71	(0.08)	22	81	(0.11)	Hold	2.58	29.1	(0.0)	(4.9)	(8.3)	(7.0)	(12.1)	(27.5)	(32.3)	21.5	0.5	(1.1)	(5.5)	(9.2)	1.8	145.1	(48.7)
Telecommunication Services	46	(0.5)	(1.8)	(2.6)	(2.9)	(7.0)	(4.6)	720	742	6	21	(0.02)	10	18	(0.01)	50	117	(0.09)	57	110	(0.07)	Buy	2.43	16.5	(0.8)	(2.8)	(3.3)	(4.1)	(6.6)	(10.9)	(7.6)	11.0	1.3	1.7	9.5	18.2	(9.1)	95.8	(31.5)
Transportation	36	(11.2)	(7.6)	(31.8)	(60.1)	(132.7)	(28.6)	467	469	7	10	(0.01)	9	12	(0.01)	35	76	(0.09)	38	82	(0.09)	Buy	2.49	29.1	(2.8)	(6.0)	(9.8)	(5.1)	(8.3)	(19.7)	(27.9)	46.3	0.3	(1.2)	(3.2)	(10.2)	24.2	176.8	(48.3)
Utilities	53	(6.3)	(2.2)	(9.2)	(3.6)	(11.8)	(5.5)	619	624	15	19	(0.01)	12	22	(0.02)	42	72	(0.05)	44	71	(0.04)	Buy	2.25	21.4	(2.1)	(1.3)	(2.8)	(3.3)	(3.3)	(15.5)	(15.4)	13.7	3.5	6.2	4.5	9.4	(6.5)	74.4	(45.8)

Source: Bloomberg, I/B/E/S, Jefferies
Note: 5Y EPS CAGR is by default using 2 actual & 4 forecast numbers, otherwise 3 & 3, EPSR = EPS Revision, NoA = Number of Analyst, EPSUP/DN = Upward/Downward Revision in EPS, FCFY = Free Cash Flow Yield, NCMC = Net Cash/Market Cap, NDE = Net Debt/Equity. Countries bolded are the ones we covered in the Global Outlook report.

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Please see important disclosure information on pages 184 - 186 of this report.

Jefferies

Exhibit 131: Asia Pacific Market/Sector Summary

Country/Sector Name	Number of Companies	Size & Liquidity: MC, US$mn	Size & Liquidity: 20D ADV, US$mn	12M Forward Looking PE: Current, x	12M Forward Looking PE: 5Y Max, x	12M Forward Looking PE: 5Y Min, x	12M Forward Looking PE: 5Y Avg, x	12M Forward Looking PE: 5Y Z-Scr, sd	Further 12M, x	12M Forward Looking PB: Current x	12M Forward Looking PB: 5Y Max, x	12M Forward Looking PB: 5Y Min, x	12M Forward Looking PB: 5Y Avg, x	12M Forward Looking PB: 5Y Z-Scr, sd	Further 12M, x	12M FL PEG, x	Further 12M PEG, x	Past 12M EPSG, %	12M FL EPSG, %	Further 12M FL EPSG, %	5Y EPS CAGR, %	12M FL ROE, %	Further 12M FL ROE, %	12M FL DY, %	Further 12M FL DY, %	12M FL FCFY, %	Further 12M FL FCFY, %	12M FL NCMC, %	Further 12M FL NCMC, %	12M FL NDE, %	Further 12M FL NDE, %
Australia	**68**	**13,205**	**56.6**	**13.1**	**44.2**	**7.6**	**14.7**	**(0.61)**	**11.5**	**2.00**	**####**	**1.12**	**2.75**	**(0.51)**	**1.79**	**1.58**	**1.19**	**13.8**	**22.5**	**16.3**	**2.4**	**16.5**	**16.8**	**5.43**	**6.08**	**4.32**	**7.32**	**(32.6)**	**(31.4)**	**45.2**	**39.3**
China	**148**	**7,960**	**19.5**	**10.2**	**43.3**	**5.5**	**15.8**	**(1.00)**	**8.7**	**1.63**	**5.85**	**0.90**	**2.63**	**(0.96)**	**1.40**	**1.03**	**1.11**	**19.5**	**19.6**	**21.2**	**14.2**	**17.4**	**17.6**	**3.37**	**5.96**	**5.05**	**8.52**	**(28.5)**	**(25.1)**	**15.6**	**9.3**
Hong Kong	**41**	**12,006**	**18.1**	**13.8**	**33.0**	**7.5**	**17.0**	**(0.86)**	**12.2**	**1.96**	**5.09**	**0.96**	**2.33**	**(1.03)**	**1.75**	**1.65**	**2.77**	**19.4**	**7.3**	**14.5**	**2.1**	**14.9**	**14.9**	**3.45**	**3.76**	**4.37**	**5.62**	**(20.1)**	**(17.9)**	**####**	**(59.1)**
India	**72**	**8,909**	**21.6**	**13.8**	**33.1**	**7.6**	**17.8**	**(0.59)**	**10.8**	**2.68**	**7.40**	**1.58**	**3.63**	**(0.80)**	**2.30**	**1.10**	**1.45**	**8.1**	**30.8**	**30.2**	**14.9**	**20.6**	**20.4**	**1.78**	**2.00**	**####**	**3.60**	**(45.7)**	**(44.3)**	**36.2**	**28.3**
Indonesia	25	9,094	7.6	13.1	24.4	4.8	13.7	(0.01)	11.4	3.84	6.60	1.56	3.82	(0.08)	3.33	4.92	0.81	28.5	16.0	14.6	22.9	29.0	28.5	3.50	3.99	6.25	7.70	(2.6)	1.7	(0.3)	(10.7)
Japan	**316**	**8,346**	**34.4**	**16.7**	**79.9**	**9.6**	**19.7**	**(0.58)**	**12.6**	**1.04**	**2.87**	**0.73**	**1.71**	**(0.95)**	**0.95**	**1.31**	**1.59**	**28.4**	**35.7**	**26.5**	**(0.4)**	**8.9**	**9.0**	**2.43**	**2.61**	**4.12**	**6.95**	**(64.4)**	**(60.2)**	**45.1**	**38.9**
Korea	105	7,275	32.7	10.6	29.5	5.8	12.2	(0.62)	9.0	1.45	3.42	0.86	1.80	(0.71)	1.24	0.85	1.04	18.9	24.9	19.8	13.5	15.1	14.6	1.89	2.03	6.91	5.43	(33.2)	(4418.5)	22.9	2173.9
Malaysia	43	6,385	5.2	15.5	23.1	8.5	14.8	(0.10)	13.9	3.42	4.96	1.78	3.01	(0.06)	3.21	2.33	2.17	12.9	13.9	11.3	5.1	20.8	22.0	3.40	3.58	4.53	5.93	(18.9)	(20.4)	26.2	24.8
New Zealand	5	2,586	8.4	15.3	22.0	11.4	15.4	0.67	13.9	1.61	3.68	1.17	1.88	(0.50)	1.55	1.55	1.91	4.4	7.3	11.1	(3.1)	11.7	12.6	5.60	6.01	5.77	7.17	(32.1)	(30.9)	46.7	42.8
Philippines	18	4,495	4.3	14.6	23.4	7.5	14.6	0.16	13.1	2.46	3.39	1.05	2.11	0.51	2.23	1.64	1.53	16.3	14.9	11.9	16.4	18.0	17.8	2.68	2.88	4.47	5.12	(17.1)	(16.7)	38.2	32.8
Singapore	32	8,645	17.7	12.9	30.2	6.7	14.8	(0.60)	11.8	1.57	12.43	1.03	2.37	(0.90)	1.47	2.39	4.23	(1.0)	6.8	17.9	5.8	36.1	13.3	4.00	4.31	5.06	6.84	(24.5)	(24.0)	(92.9)	(101.0)
Taiwan	112	4,324	17.6	12.2	40.2	6.9	15.7	(0.51)	10.3	1.67	3.46	1.03	2.02	(0.81)	1.54	2.14	0.78	2.3	24.1	25.6	1.8	16.0	16.2	4.60	5.17	5.67	10.24	(17.1)	(16.0)	8.0	6.8
Thailand	20	9,017	20.3	11.6	17.9	5.7	11.6	0.04	10.2	3.22	4.16	1.15	2.41	0.52	2.96	0.81	0.99	22.9	13.9	13.5	17.4	25.2	25.7	4.21	4.78	7.92	9.53	(16.7)	(12.4)	19.0	7.6
Automobiles & Components	48	10,936	35.1	12.6	78.5	5.9	16.5	(0.41)	9.0	1.60	3.03	0.67	1.64	(0.45)	1.38	0.73	0.66	33.4	20.5	38.3	10.3	16.4	16.2	2.05	2.38	7.56	9.79	(7.0)	(2.8)	2.0	(2.6)
Banks	93	13,769	37.6	9.6	23.5	6.7	12.8	(0.90)	8.7	1.14	2.50	0.73	2.55	(0.82)	1.03	3.13	2.22	25.0	5.0	9.3	8.8	12.8	12.8	3.53	3.89	N/A	N/A	N/A	N/A	N/A	N/A
Capital Goods	122	5,762	25.0	11.0	53.7	6.3	16.3	(0.75)	9.6	1.33	3.88	0.74	1.88	(0.87)	1.19	1.09	1.86	41.5	25.4	14.3	6.2	13.6	13.5	2.67	2.87	7.44	9.69	(42.4)	(40.2)	31.1	25.5
Commercial & Professional Serv	6	6,342	25.3	15.4	38.3	9.7	18.6	(0.72)	13.5	1.94	4.81	1.25	2.53	(1.04)	1.77	1.21	1.26	13.5	22.5	13.0	2.5	14.0	14.2	3.53	3.75	5.47	6.03	2.1	6.5	7.9	0.1
Consumer Durables & Apparel	29	4,636	23.3	13.4	81.6	7.6	16.7	(0.62)	10.9	1.67	3.44	0.94	1.96	(0.77)	1.50	0.91	1.45	58.7	39.6	23.5	4.4	15.9	14.6	3.03	3.17	7.84	9.81	13.1	18.8	(19.8)	(25.0)
Consumer Services	20	6,699	13.6	14.8	30.1	10.9	17.8	(0.42)	13.5	3.17	4.85	1.91	3.17	(0.12)	2.70	0.98	1.31	29.0	14.3	10.3	10.7	24.1	22.3	3.11	3.19	6.00	7.41	(5.4)	(1.2)	(0.7)	(9.3)
Diversified Financials	34	4,297	18.5	22.1	41.8	7.0	15.6	(0.64)	10.7	1.63	8.97	1.02	2.57	(0.98)	1.52	1.35	1.04	6.2	31.6	16.1	0.1	13.7	13.7	3.41	3.75	N/A	N/A	N/A	N/A	N/A	N/A
Energy	40	13,542	33.4	10.5	30.8	5.2	13.6	(0.64)	9.5	1.67	4.22	0.94	2.11	(0.75)	1.47	1.03	1.20	37.7	6.8	10.9	11.9	17.6	17.1	3.59	3.90	5.21	7.08	(36.2)	(33.3)	28.6	21.7
Food & Staples Retailing	14	11,203	32.4	17.0	29.7	10.8	18.8	(0.62)	14.7	3.12	5.40	1.70	2.98	(0.18)	2.88	1.14	1.18	12.4	17.4	14.6	11.9	17.8	18.9	3.22	3.56	1.99	3.66	(15.2)	(14.2)	7.7	3.6
Food Beverage & Tobacco	43	7,661	21.4	15.8	28.9	9.9	18.0	(0.33)	14.0	3.37	5.45	1.61	2.96	(0.17)	2.99	3.81	1.72	14.2	15.1	12.7	16.2	20.7	20.5	2.50	2.75	5.59	6.54	(10.2)	(7.1)	17.0	8.2
Health Care Equipment & Servic	13	3,187	28.8	16.3	33.2	10.2	18.7	(0.47)	13.9	2.06	4.95	1.45	2.98	(0.95)	1.86	0.97	1.01	25.9	24.3	17.6	1.7	12.8	14.2	2.47	2.70	5.90	7.67	1.5	4.8	14.2	8.5
Household & Personal Products	9	9,728	19.5	23.3	31.7	15.6	23.1	0.03	20.1	8.72	11.73	5.13	7.99	(0.04)	7.43	1.25	1.40	19.3	18.8	15.9	14.1	36.6	36.8	2.04	2.24	4.14	4.85	1.6	4.2	(14.2)	(23.2)
Insurance	24	10,147	33.6	14.1	52.4	8.9	18.7	(1.14)	10.7	1.30	4.13	0.99	2.18	(1.29)	1.15	0.74	0.69	30.5	33.1	24.6	7.9	11.6	12.3	3.35	3.71	N/A	N/A	N/A	N/A	N/A	N/A
Materials	123	6,023	27.5	11.0	73.0	5.3	16.0	(0.56)	8.3	1.31	9.40	0.70	2.09	(0.81)	1.15	1.50	0.72	33.6	31.1	21.8	7.1	15.4	15.4	3.31	3.97	6.76	9.89	(43.6)	(38.8)	32.7	25.2
Media	8	3,932	7.9	16.1	32.4	10.3	20.0	(0.61)	14.7	2.47	3.73	1.30	2.37	(0.45)	2.35	1.87	5.43	8.6	13.4	9.8	3.5	14.9	15.8	3.48	3.83	7.46	8.01	2.0	5.5	(13.7)	(17.1)
Pharmaceuticals, Biotechnology	26	7,782	25.0	16.4	31.7	11.1	18.4	(0.31)	14.3	2.01	4.17	1.38	2.54	(0.84)	1.78	1.17	1.31	3.3	11.7	15.3	6.4	12.9	13.2	2.50	2.66	6.61	7.04	18.2	24.0	(19.7)	(26.4)
Real Estate	70	6,001	15.1	11.7	27.5	7.5	16.2	(0.91)	10.5	0.95	3.50	0.58	1.54	(0.94)	0.87	1.13	2.70	15.0	12.4	12.5	3.0	10.4	10.6	4.17	4.55	3.01	7.45	(70.8)	(68.8)	53.1	48.3
Retailing	31	5,112	18.8	13.0	31.0	8.7	17.8	(0.87)	11.4	2.21	5.11	1.23	2.67	(0.65)	1.83	0.90	0.79	16.9	67.6	15.6	13.5	15.7	16.4	2.27	2.67	5.25	6.94	(10.8)	(8.8)	3.7	0.4
Semiconductors & Semiconductor	30	9,588	37.9	15.2	76.1	6.0	14.5	(0.12)	11.0	1.53	4.38	0.94	2.25	(0.97)	1.41	0.77	0.55	(20.7)	37.8	61.7	(2.9)	15.2	15.6	3.40	14.48	0.86	7.09	(21.3)	(21.6)	7.0	9.6
Software & Services	23	10,748	44.6	16.0	33.3	9.0	18.5	(0.46)	13.2	2.95	7.82	1.91	4.06	(0.78)	2.42	0.98	1.15	28.4	44.5	17.7	17.1	23.2	20.7	1.67	1.85	6.31	7.31	17.5	22.5	(45.9)	(50.4)
Technology Hardware & Equipment	63	5,967	34.4	13.1	91.3	6.1	19.3	(0.60)	10.4	1.28	3.43	0.77	1.82	(0.99)	1.16	1.19	1.39	25.5	40.3	22.5	(1.3)	13.3	13.3	3.59	3.98	8.59	10.49	(6.8)	(3.1)	(5.7)	(9.7)
Telecommunication Services	32	22,785	40.2	13.8	22.5	7.6	13.4	0.44	11.8	3.16	13.50	1.43	2.70	0.01	3.06	1.94	1.52	5.8	14.2	16.3	3.3	43.2	23.6	4.60	4.98	8.39	9.75	(26.6)	(22.0)	(111.9)	(145.8)
Transportation	58	4,720	13.9	21.7	62.3	9.9	18.4	(0.19)	17.0	1.25	2.90	0.80	1.57	(0.80)	1.17	1.16	1.95	(39.2)	25.1	44.0	(1.4)	9.5	9.8	2.54	2.96	(5.10)	(3.15)	(97.3)	(6209.7)	104.1	3063.2
Utilities	46	6,953	13.5	17.4	58.8	9.6	19.8	(0.47)	13.8	1.40	3.35	0.91	1.80	(0.86)	1.29	1.96	1.52	(31.0)	40.9	63.9	7.7	12.5	12.1	3.07	3.27	(9.31)	(2.72)	(184.1)	(185.4)	133.2	129.4

Source: Bloomberg, I/B/E/S, Jefferies

Note: 5Y EPS CAGR is by default using 2 actual & 4 forecast numbers, otherwise 3 & 3, EPSR = EPS Revision, NoA = Number of Analyst, EPSUP/DN = Upward/Downward Revision in EPS, FCFY = Free Cash Flow Yield, NCMC = Net Cash/Market Cap, NDE = Net Debt/Equity. Countries bolded are the ones we covered in the Global Outlook report.

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Please see important disclosure information on pages 184 - 186 of this report.

Jefferies

Exhibit 132: Asia Pacific Markets Revisions Summary

		I/B/E/S Consensus Revisions (EPS / Price Target) & Research Rating																			
		FY1/FY2 (coming/next fiscal years) EPS Revisions by Magnitude & Breadth																			
Country/Sector Name	Number of Companies	1W Chg in FY1, %	1W Chg in FY2, %	1M Chg in FY1, %	1M Chg in FY2, %	3M Chg in FY1, %	3M Chg in FY2, %	Coverage on FY1, NoA	Coverage on FY2, NoA	1W Up Rev in FY1 EPS, NoA	1W Dn Rev in FY1 EPS, NoA	FY1 EPS Up Down Ratio, Best=1 / Worst=(1)	1W Up Rev in FY2 EPS, NoA	1W Dn Rev in FY2 EPS, NoA	FY2 EPS Up Down Ratio, Best=1 / Worst=(1)	1M Up Rev in FY1 EPS, NoA	1M Dn Rev in FY1 EPS, NoA	FY1 EPS Up Down Ratio, Best=1 / Worst=(1)	1M Up Rev in FY2 EPS, NoA	1M Dn Rev in FY2 EPS, NoA	FY2 EPS Up Down Ratio, Best=1 / Worst=(1)
Australia	**68**	**(0.9)**	**(1.4)**	**(2.3)**	**(3.2)**	**(5.9)**	**(5.7)**	**951**	**943**	**30**	**81**	**(0.05)**	**41**	**76**	**(0.04)**	**102**	**212**	**(0.12)**	**121**	**204**	**(0.09)**
China	**148**	**(0.6)**	**(1.7)**	**(3.6)**	**(4.8)**	**(23.7)**	**(8.4)**	**2844**	**2847**	**34**	**77**	**(0.02)**	**44**	**94**	**(0.02)**	**146**	**318**	**(0.06)**	**151**	**377**	**(0.08)**
Hong Kong	**41**	**(0.4)**	**(1.6)**	**(1.9)**	**(1.1)**	**(2.9)**	**(3.5)**	**638**	**660**	**7**	**21**	**(0.02)**	**8**	**22**	**(0.02)**	**46**	**90**	**(0.07)**	**36**	**105**	**(0.10)**
India	**72**	**(3.3)**	**(1.6)**	**(6.6)**	**(3.9)**	**(10.4)**	**(6.6)**	**1572**	**1580**	**16**	**25**	**(0.01)**	**19**	**27**	**(0.01)**	**136**	**208**	**(0.05)**	**119**	**214**	**(0.06)**
Indonesia	25	0.0	(0.6)	(0.5)	(1.4)	(1.0)	(3.6)	452	456	6	7	(0.00)	7	11	(0.01)	41	42	(0.00)	35	48	(0.03)
Japan	**316**	**(8.6)**	**(4.4)**	**(25.6)**	**(8.3)**	**(53.0)**	**(16.1)**	**3900**	**3934**	**90**	**164**	**(0.02)**	**87**	**159**	**(0.02)**	**452**	**837**	**(0.10)**	**457**	**813**	**(0.09)**
Korea	105	(7.0)	(4.5)	(10.6)	(7.3)	(14.1)	(9.5)	1209	1201	18	36	(0.01)	17	36	(0.02)	88	186	(0.08)	77	198	(0.10)
Malaysia	43	(1.8)	(1.4)	(2.3)	(1.9)	(4.8)	(4.4)	695	699	25	20	0.01	24	20	0.01	112	176	(0.09)	112	170	(0.08)
New Zealand	5	(5.8)	(6.4)	(7.3)	(7.0)	(8.8)	(10.2)	48	47	1	4	(0.06)	1	4	(0.06)	4	15	(0.23)	7	16	(0.19)
Philippines	18	0.1	0.1	(0.1)	(0.0)	(0.3)	(0.8)	157	159	3	0	0.02	2	3	(0.01)	20	14	0.04	12	15	(0.02)
Singapore	32	(1.5)	(1.4)	(4.8)	(12.8)	(17.1)	(11.6)	600	606	8	19	(0.02)	10	29	(0.03)	62	86	(0.04)	54	98	(0.07)
Taiwan	112	(2.3)	(2.7)	(10.9)	(27.0)	(27.8)	(31.9)	1098	1080	17	24	(0.01)	10	34	(0.02)	56	151	(0.09)	34	183	(0.14)
Thailand	20	(1.5)	(1.4)	(2.2)	(2.0)	(1.3)	(3.2)	330	344	2	14	(0.04)	8	7	0.00	21	79	(0.18)	37	67	(0.09)
Automobiles & Components	48	(0.3)	(0.2)	(5.0)	(0.3)	(8.7)	(5.8)	700	701	8	24	(0.02)	11	26	(0.02)	66	117	(0.07)	62	118	(0.08)
Banks	93	0.3	(0.8)	0.9	(2.3)	1.8	(4.6)	1433	1433	29	55	(0.02)	27	65	(0.03)	139	194	(0.04)	112	246	(0.09)
Capital Goods	122	(5.2)	(2.2)	(6.9)	(5.1)	(8.6)	(8.3)	1575	1575	21	55	(0.02)	20	61	(0.03)	113	276	(0.10)	116	280	(0.10)
Commercial & Professional Serv	6	(2.2)	(0.5)	(3.0)	(0.9)	(6.1)	(1.5)	51	51	0	0	0.00	0	0	0.00	10	9	0.02	10	10	0.00
Consumer Durables & Apparel	29	(3.4)	(0.8)	(126.3)	(2.0)	(64.9)	(4.4)	312	313	9	9	0.00	12	6	0.02	32	31	0.00	28	30	(0.01)
Consumer Services	20	0.3	0.1	0.5	(1.1)	1.6	(0.6)	290	289	9	8	0.00	7	7	0.00	42	53	(0.04)	48	42	0.02
Diversified Financials	34	(5.6)	(1.3)	(8.2)	(3.2)	(271.8)	(8.5)	377	370	2	20	(0.05)	8	13	(0.01)	24	76	(0.14)	26	65	(0.11)
Energy	40	(2.0)	(2.2)	(3.5)	(4.1)	(3.5)	(7.0)	743	748	16	32	(0.02)	21	32	(0.01)	60	141	(0.11)	58	149	(0.12)
Food & Staples Retailing	14	(0.4)	(0.2)	0.6	(0.3)	3.2	0.3	234	236	5	11	(0.03)	7	12	(0.02)	20	30	(0.04)	23	32	(0.04)
Food Beverage & Tobacco	43	(1.3)	(0.7)	(2.6)	(1.7)	(4.3)	(3.1)	570	569	14	15	(0.00)	14	20	(0.01)	63	74	(0.02)	61	70	(0.02)
Health Care Equipment & Servic	13	(0.2)	(0.8)	(2.0)	(3.2)	(5.9)	(8.4)	156	157	3	7	(0.03)	1	9	(0.05)	18	22	(0.03)	12	26	(0.09)
Household & Personal Products	9	(0.0)	(0.0)	0.3	1.4	0.6	2.5	139	134	1	2	(0.01)	2	1	0.01	5	6	(0.01)	10	4	0.04
Insurance	24	(10.4)	(1.5)	(12.7)	(3.4)	(14.7)	(6.2)	447	448	6	13	(0.02)	6	15	(0.02)	29	80	(0.11)	36	70	(0.08)
Materials	123	(4.8)	(4.0)	(10.9)	(8.1)	(15.9)	(11.8)	1613	1619	21	52	(0.02)	31	58	(0.02)	97	360	(0.16)	100	366	(0.16)
Media	8	(0.5)	(0.3)	(0.1)	0.2	0.2	(0.6)	114	114	2	3	(0.01)	3	2	0.01	9	25	(0.14)	14	19	(0.04)
Pharmaceuticals, Biotechnology	26	(1.2)	(0.8)	(4.8)	(3.4)	(4.4)	(3.5)	441	446	7	9	(0.00)	5	9	(0.01)	65	79	(0.03)	57	85	(0.06)
Real Estate	70	(0.6)	(0.8)	(1.1)	(2.2)	(2.7)	(3.8)	1001	1029	19	43	(0.02)	24	51	(0.03)	86	160	(0.07)	84	191	(0.10)
Retailing	31	(0.0)	(0.5)	0.5	(0.2)	1.5	0.5	444	449	11	18	(0.02)	10	20	(0.02)	40	58	(0.04)	38	67	(0.06)
Semiconductors & Semiconductor	30	(34.1)	(8.0)	(39.6)	(27.1)	(77.2)	(46.0)	346	346	6	10	(0.01)	2	17	(0.04)	16	64	(0.14)	11	66	(0.16)
Software & Services	23	0.3	0.8	(5.5)	1.6	(1.7)	3.5	514	510	11	11	0.00	10	9	0.00	82	49	0.06	75	51	0.05
Technology Hardware & Equipment	63	(6.2)	(2.4)	(11.8)	(6.9)	(34.5)	(34.3)	914	911	12	30	(0.02)	13	27	(0.02)	51	159	(0.12)	57	150	(0.10)
Telecommunication Services	32	(1.5)	(2.0)	(2.8)	(2.8)	(2.2)	(3.2)	673	690	7	20	(0.02)	11	18	(0.01)	48	114	(0.10)	52	110	(0.08)
Transportation	58	(9.1)	(10.0)	(44.1)	(57.3)	(103.2)	(24.6)	784	790	22	24	(0.00)	20	23	(0.00)	107	149	(0.05)	100	171	(0.09)
Utilities	46	(7.4)	(13.9)	(11.1)	(16.2)	(23.5)	(60.8)	623	628	16	21	(0.01)	13	21	(0.01)	64	88	(0.04)	62	90	(0.04)

	Rating, Price Target Potential & Revisions						Performance Analysis										Potential to H & L	
							Absolute					Relative						
Country/Sector Name	Research Rating	Score, Best=1 / Worst=5	Potential to PT, %	1W Chg in PT, %	1M Chg in PT, %	3M Chg in PT, %	1M Chg in US$, %	3MChg in US$, %	6M Chg in US$, %	YTD Chg in US$, %	2010 Chg in US$, %	1M Chg in US$, %	3MChg in US$, %	6M Chg in US$, %	YTD Chg in US$, %	2010 Chg in US$, %	Potential to SYH P, %	Potential to SYL P, %
Australia	**Buy**	**2.30**	**19.3**	**(0.3)**	**1.2**	**(0.1)**	**(3.7)**	**(3.1)**	**(12.1)**	**(12.5)**	**20.3**	**(0.2)**	**0.4**	**0.0**	**2.2**	**8.4**	**149.7**	**(36.3)**
China	**Buy**	**2.20**	**38.3**	**(0.6)**	**(7.1)**	**(11.6)**	**(4.6)**	**(4.5)**	**(19.4)**	**(24.0)**	**18.0**	**(0.9)**	**1.6**	**(3.4)**	**(4.1)**	**13.0**	**150.7**	**(55.4)**
Hong Kong	**Buy**	**2.43**	**23.3**	**(0.2)**	**(4.6)**	**(9.3)**	**(3.4)**	**(6.4)**	**(12.7)**	**(15.2)**	**36.6**	**0.2**	**(0.6)**	**4.6**	**6.9**	**30.0**	**79.3**	**(52.7)**
India	**Buy**	**2.29**	**34.3**	**(0.3)**	**(3.5)**	**(5.1)**	**(11.9)**	**(20.3)**	**(28.5)**	**(35.8)**	**25.0**	**(0.9)**	**(2.8)**	**(2.6)**	**0.2**	**2.3**	**203.8**	**(54.3)**
Indonesia	Buy	2.25	19.1	0.2	(1.0)	(4.1)	(4.1)	(6.2)	(8.4)	(4.2)	65.2	(2.4)	(1.5)	(4.2)	(4.9)	7.7	59.6	(75.5)
Japan	**Hold**	**2.51**	**22.9**	**(0.3)**	**(4.2)**	**(7.1)**	**(0.7)**	**(6.6)**	**(5.5)**	**(11.2)**	**16.5**	**1.1**	**(0.2)**	**2.2**	**3.0**	**6.3**	**191.6**	**(26.1)**
Korea	Buy	1.94	37.8	(0.5)	(3.9)	(7.1)	(3.8)	(6.7)	(17.9)	(13.9)	43.7	(0.8)	(2.8)	(3.0)	(1.7)	14.4	95.4	(52.6)
Malaysia	Buy	2.46	10.1	0.2	(3.6)	(7.1)	(2.1)	(0.4)	(9.8)	(3.2)	39.6	(0.6)	0.0	(0.5)	3.5	4.8	32.7	(49.5)
New Zealand	Hold	2.56	8.5	(1.2)	(6.6)	(8.1)	(0.4)	(10.0)	(9.5)	(0.6)	6.3	1.7	(0.3)	2.3	3.7	(3.3)	72.1	(24.2)
Philippines	Buy	2.33	11.4	(0.2)	1.2	0.8	(2.1)	(0.5)	2.6	1.9	94.0	(0.4)	0.4	(0.0)	(0.5)	33.7	23.8	(67.6)
Singapore	Buy	2.32	22.8	(0.2)	(5.0)	(10.8)	(6.3)	(10.4)	(18.5)	(23.2)	30.3	(0.2)	(1.3)	(2.9)	(6.5)	8.2	109.0	(46.4)
Taiwan	Hold	2.53	28.9	0.0	(4.6)	(7.8)	(8.9)	(14.8)	(25.4)	(26.2)	35.0	(0.5)	(2.4)	(0.6)	1.5	12.3	122.5	(49.0)
Thailand	Buy	1.99	20.2	(0.1)	(2.8)	(5.1)	1.5	(3.3)	(1.3)	(2.0)	58.3	(0.5)	(0.1)	(0.4)	1.8	1.7	29.9	(68.0)
Automobiles & Components	Buy	2.35	24.7	(0.2)	(3.2)	(6.3)	(5.7)	(8.9)	(13.2)	(11.3)	35.9	(2.1)	(1.5)	1.0	8.0	18.2	109.9	(55.1)
Banks	Buy	2.34	24.9	(0.3)	(4.6)	(7.6)	(2.9)	(6.6)	(11.2)	(14.6)	28.0	0.8	0.3	1.6	1.4	4.8	111.8	(43.7)
Capital Goods	Buy	2.22	36.3	(0.2)	(6.3)	(10.9)	(3.9)	(7.8)	(19.4)	(22.7)	37.7	(0.5)	(1.6)	(7.8)	(8.2)	18.2	163.9	(47.3)
Commercial & Professional Serv	Buy	2.30	15.8	0.0	0.0	(1.8)	(1.1)	1.7	(2.6)	(6.0)	17.4	1.6	7.1	8.8	9.1	4.3	87.6	(29.9)
Consumer Durables & Apparel	Buy	2.35	24.6	(1.6)	(5.2)	(7.4)	(2.9)	(7.3)	(12.2)	(17.4)	22.6	0.8	0.2	2.1	1.4	9.4	140.1	(43.8)
Consumer Services	Buy	2.14	20.7	0.1	(2.1)	(3.3)	(2.9)	(4.5)	(5.8)	0.2	58.2	0.3	0.5	7.3	17.4	38.2	47.0	(46.2)
Diversified Financials	Buy	2.36	34.0	(0.4)	(4.3)	(10.0)	(3.9)	(8.9)	(18.2)	(31.0)	19.7	1.0	(1.0)	(2.8)	(14.5)	0.8	235.0	(41.3)
Energy	Buy	2.20	24.3	(0.2)	(3.6)	(8.8)	(5.4)	(7.6)	(17.6)	(15.8)	35.4	(2.1)	(1.3)	(5.9)	0.0	11.8	86.7	(51.6)
Food & Staples Retailing	Buy	2.31	14.1	0.1	0.2	0.4	(1.3)	(3.6)	2.0	0.5	34.7	1.8	2.4	16.0	19.3	17.3	43.9	(41.1)
Food Beverage & Tobacco	Buy	2.38	14.4	(0.2)	(1.7)	(2.6)	(3.1)	(3.2)	(0.5)	3.7	34.1	(0.1)	2.7	12.1	20.1	7.9	49.9	(51.3)
Health Care Equipment & Servic	Hold	2.65	21.3	(0.1)	(6.2)	(7.8)	1.6	(11.1)	(14.0)	(18.0)	18.7	4.2	(5.9)	(4.2)	(3.6)	8.8	108.3	(32.4)
Household & Personal Products	Hold	2.58	8.2	0.2	3.7	5.1	(2.9)	(3.6)	(0.5)	1.1	27.0	1.6	5.3	16.0	24.5	5.8	29.2	(52.0)
Insurance	Buy	2.20	34.5	0.0	(4.5)	(8.0)	(5.7)	(7.3)	(17.4)	(21.2)	16.8	(2.3)	(1.4)	(3.5)	(5.2)	3.5	134.9	(27.1)
Materials	Buy	2.26	37.8	(0.5)	(7.1)	(11.3)	(5.7)	(12.9)	(22.9)	(21.4)	36.4	(1.8)	(6.1)	(10.0)	(4.2)	18.8	158.0	(49.7)
Media	Buy	2.30	18.0	0.0	(1.1)	(1.6)	(1.9)	(5.8)	(1.4)	(8.9)	15.8	1.5	2.0	9.9	7.9	(1.9)	116.2	(35.7)
Pharmaceuticals, Biotechnology	Hold	2.50	17.0	(0.3)	(2.3)	(3.7)	(0.7)	(5.9)	(7.1)	(10.1)	28.0	3.6	3.4	7.1	10.8	8.5	63.3	(34.3)
Real Estate	Buy	2.27	34.5	(0.6)	(5.4)	(8.6)	(4.1)	(7.4)	(17.9)	(23.0)	15.7	(0.2)	(1.1)	(4.7)	(6.8)	3.9	219.5	(42.0)
Retailing	Buy	2.20	30.5	(0.2)	(1.6)	(3.4)	(7.4)	(10.2)	(6.4)	(5.5)	33.6	(4.4)	(4.2)	7.5	13.8	20.2	85.5	(50.3)
Semiconductors & Semiconductor	Hold	2.69	22.2	0.3	(8.4)	(11.1)	(6.8)	(11.9)	(27.5)	(29.2)	1.9	(0.5)	(1.9)	(8.5)	(7.8)	(13.0)	286.5	(42.6)
Software & Services	Buy	2.26	23.0	(0.0)	0.6	0.6	(5.8)	(4.4)	(4.4)	(1.7)	21.9	(1.6)	4.9	10.2	21.0	6.5	139.9	(48.3)
Technology Hardware & Equipment	Hold	2.55	25.0	(0.2)	(3.7)	(9.2)	(4.3)	(7.7)	(20.1)	(26.9)	18.6	0.8	1.5	(3.9)	(7.9)	3.0	167.5	(41.2)
Telecommunication Services	Buy	2.32	13.8	(0.2)	(3.1)	(2.7)	(3.0)	(3.8)	(0.6)	3.9	22.1	0.9	3.0	14.7	22.4	(0.5)	85.1	(36.1)
Transportation	Hold	2.58	19.1	(0.6)	(0.5)	(3.7)	(2.6)	(6.1)	(10.0)	(19.8)	34.2	1.0	0.4	3.3	(4.7)	17.2	186.8	(34.2)
Utilities	Buy	2.48	20.6	0.0	(1.6)	(3.0)	(1.0)	(4.6)	(5.9)	(14.7)	12.3	2.7	2.3	7.6	2.3	(4.8)	151.7	(33.3)

Source: Bloomberg, I/B/E/S, Jefferies

Note: 5Y EPS CAGR is by default using 2 actual & 4 forecast numbers, otherwise 3 & 3, EPSR = EPS Revision, NoA = Number of Analyst, EPSUP/DN = Upward/Downward Revision in EPS, FCFY = Free Cash Flow Yield, NCMC = Net Cash/Market Cap, NDE = Net Debt/Equity. Countries bolded are the ones we covered in the Global Outlook report.

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6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.

7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US$.

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9. Transaction fees are not included

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	579	40.30%	58	10.02%
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