

Equity Strategy

Reality check – Is the bull case still valid? We think it is

- Our view over the past few months was that market is unlikely to go through the typical seasonal weakness yet again this summer. The question is whether this call is still valid in the face of the following:
- 1) **Bullish view has clearly become consensus.** In our last 2 months' worth of continuous marketing we had hardly found an investor who thought the market could fall more than single digits. Many pundits were busy in the last 2 weeks upgrading index targets and Beta sectors, in particular the Autos following their already strong bounce. The latest Bull-Bear index moved to the top of the trading range.
- 2) CESI is below zero and PMI prints are mixed. EPS revisions are staying in negative territory.
- 3) Valuation cushion has reduced with P/E multiples back to trend.
- 4) Bond yields started to move higher on the concern of tapering off of Fed's liquidity support.
- We believe **central banks will err on the side of caution and be slow in withdrawing support.** Inflation risk appears minimal, especially given the fall in commodity prices. **Japan is in the business of exporting deflation.** Even if exit is closer than we assume, we note that following an initial wobble, the start of policy tightening was typically taken in stride by the markets.
- Inflows into equities are just starting and the valuation case vs other assets remains compelling, even taking into account some bond repricing. Europe is well behaved. **Peripheral PMIs are stabilising.**
- Our key trades remain: 1) Still look for higher indices over the summer.
- 2) Leadership in the market to remain atypical – OW Defensives – Pharma and Staples. Despite May's reversal, Defensives are still leading Cyclicals by 800bp ytd. **Key story is asset reflation, not growth acceleration.** We expect FCF basket (JPMEUFCF <Index>) to remain the winning factor.
- 3) **Stay UW commodity equities despite their underperformance.** DXY is moving higher and mining capex has only recently peaked. Still prefer EM consumer over Infrastructure. Consumer basket (JPDEUECP <Index>) is up 15% ytd, while Infrastructure basket (JPDEUCFP <Index>) is down 8%. Despite big outperformance, P/E relative of Consumer basket is just in line with historical averages.
- 4) Position in the beaten down domestic peripheral Euro plays on the expectation of an inflection point in activity, attractive valuations and the falling cost of credit (JPDEUPRR <Index>).

European Equity Strategy

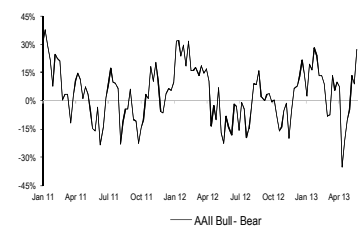
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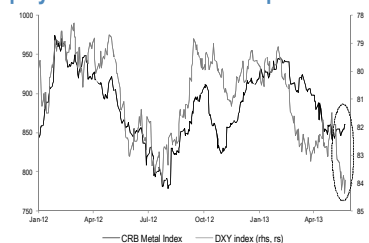
J.P. Morgan Securities plc

Bull-Bear index moved to the top of the range – bullish view is consensus



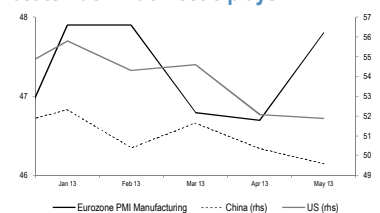
Source: Bloomberg

Metal prices vs DXY – commodity plays should remain under pressure



Source: Bloomberg

Euro PMI stabilizing when US & China are down – supportive of rotation into beaten down domestic plays



Source: Markit

See page 23 for analyst certification and important disclosures, including non-US analyst disclosures.

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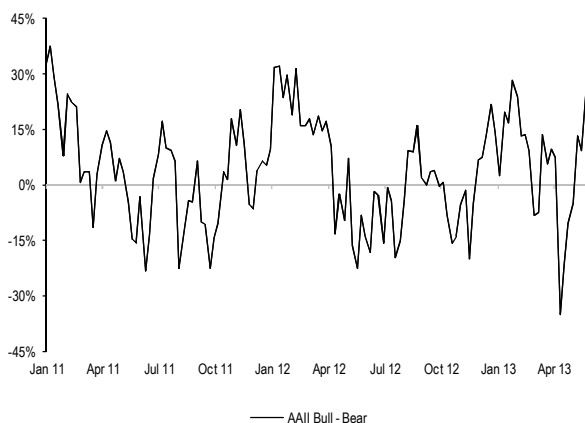
Reality check – Is the bull case still valid? We think it is

Our call over the last few months was that market will not go through the typical seasonal weakness this time around (see “[Arguments against](#)” Q2 Correction, dated 22nd April). The question is whether the most recent pick-up in market volatility is a prelude to an outright correction.

We note some of the concerns:

1) Investor sentiment is bullish

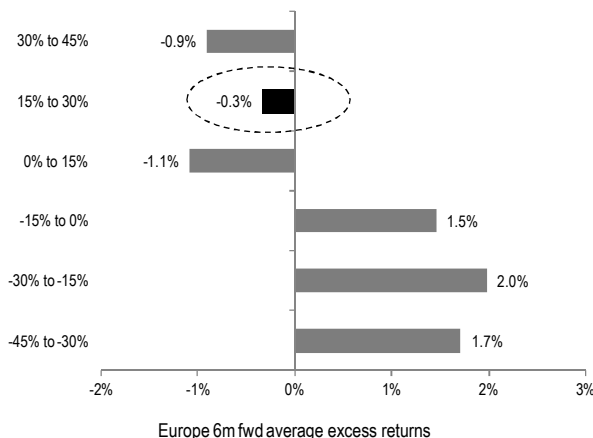
Figure 1: AAI Bull-Bear index



Source: Bloomberg

Back in mid April, investor sentiment was rather cautious. Clearly, it has turned more bullish recently. The AAI Bull-Bear index is back to its January peak, to be near the top of its recent historical range.

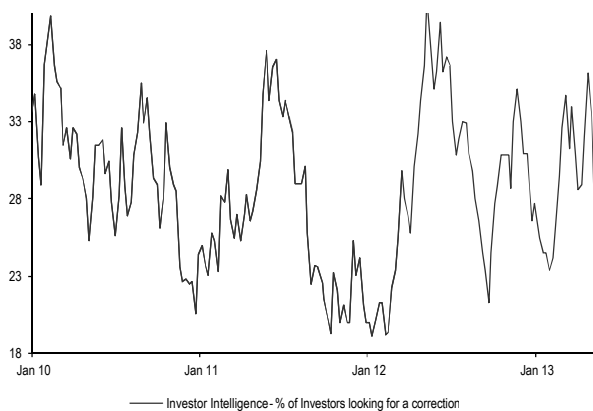
Figure 2: Average 6M forward excess return of MSCI Europe from different levels of AAI Bull-Bear



Source: Datastream

Equities tended to deliver negative excess returns from the levels of Bull-Bear such as current.

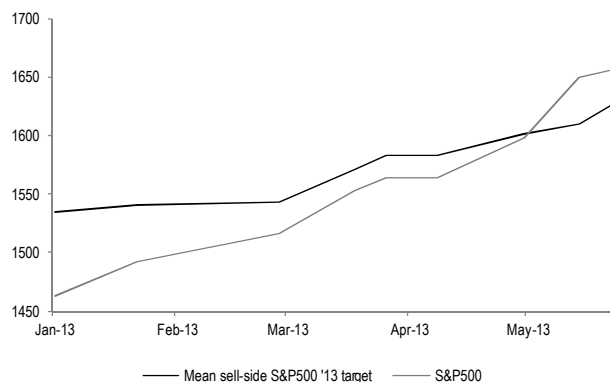
Figure 3: Investor intelligence - correction expectations



Source: Bloomberg

Also, the latest weekly Investor Intelligence survey recorded a sharp drop in the proportion of investors who expect a correction. This was typically a good contrarian indicator.

Figure 4: Ytd change in sell-side S&P500 '13 target

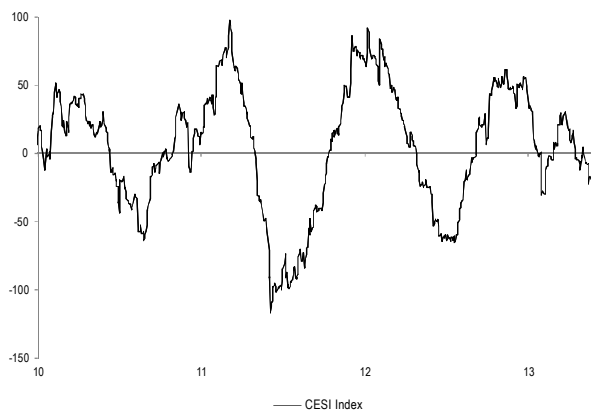


Source: Bloomberg

Sell-side appears to be in the market chasing mode. A number of pundits have only recently revised up their index targets.

2) CESI is negative – economic activity is mixed

Figure 5: US CESI



Source: Bloomberg

US CESI turned negative a few weeks ago. This was completely ignored by the market

Table 1: S&P500 performance after CESI turned negative

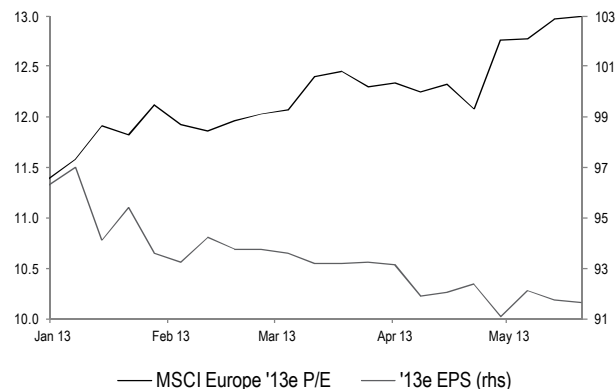
CESI < 0	S&P500 3m Perf, %	+3m max fall	+3m max rise
18 Sep 07	-4.3%	-7.4%	3.0%
11 Jan 08	-4.9%	-9.1%	1.1%
06 Oct 08	-11.6%	-28.8%	0.0%
13 Nov 09	-1.6%	-3.4%	5.2%
11 Jun 10	1.6%	-6.3%	3.3%
02 May 11	-7.9%	-7.9%	0.0%
25 Apr 12	-3.8%	-8.1%	1.1%
21 Jan 13	11.4%	0.0%	7.2%
Median	-4.0%	-7.6%	2.0%
Average	-2.6%	-8.9%	2.6%
% positive	25%		

Source: Bloomberg

Typically, equities tended to perform poorly after CESI turned negative.

3) P/Es have rerated and are back to historical averages

Figure 6: MSCI Europe '13e P/E vs '13 EPS



Source: IBES

As we highlighted in [last week's report](#), P/E expansion was responsible for all of the market upmove since the start of the year.

Table 2: 12M Fwd P/E in historical context

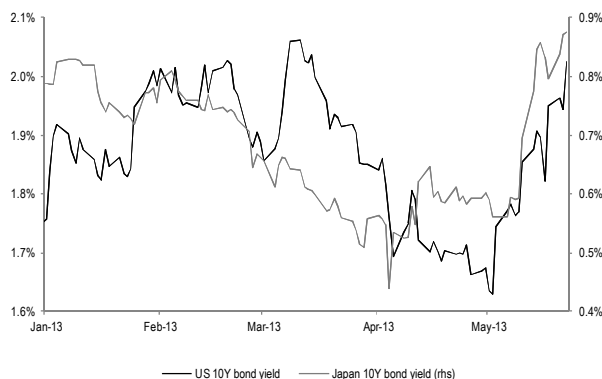
	12m Fwd P/E Current	Median since		Relative to median since	
		1988	2003	1988	2003
US	14.4	14.6	14.2	-1%	1%
Europe	12.5	12.8	12.1	-2%	3%
Switzerland	15.2	13.6	13.2	12%	15%
Sweden	14.8	13.8	13.5	7%	9%
UK	11.9	12.6	11.8	-5%	1%
EMU	12.0	12.6	11.7	-5%	3%
Germany	11.7	13.3	11.5	-13%	2%
France	12.1	12.5	11.7	-3%	3%
Italy	10.8	13.9	11.6	-22%	-7%
Spain	11.4	11.5	11.2	-1%	2%
Japan	15.9	29.7	16.2	-47%	-2%
EM	10.4	12.8	10.3	-19%	1%

Source: IBES

The main equity markets are currently trading at P/E multiples above those that prevailed over the past 10 years. Stocks have less valuation cushion against further EPS downgrades.

4) Bond yields have started to go up

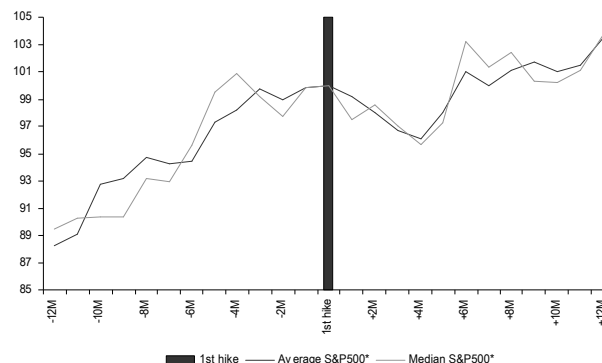
Figure 7: US and Japanese 10-year bond yields



Source: Datastream

The recent spike in the US and Japanese bond yields is reviving investor fears that the current asset reflation regime may be coming to an end. Central banks could be rolling back their accommodative policy stance sooner than expected.

Figure 8: S&P500 performance around the 1st Fed hike



Source: Datastream, *since 1971

Trying to predict the market reaction to potential tapering off of central banks' asset purchases is difficult given that we are literally in uncharted waters.

In the past, equities did pause around the starts of Fed policy normalization. Stocks were flat into the 1st rate hike and fell mid single digits over the next few months following the initial rate move.

Table 3: S&P500 performance into and after the first Fed rate hike

S&P500	'71	'77	'80	'84	'94	'04	Average	Median
-3M	-4%	0%	8%	-7%	4%	1%	0.5%	0.8%
-2M	-3%	3%	7%	-5%	3%	2%	1.2%	2.3%
-1M	-1%	-1%	3%	-4%	3%	1%	0.2%	0.2%
+1M	-4%	-2%	6%	2%	-4%	-3%	-0.8%	-2.6%
+2M	0%	-3%	1%	2%	-9%	-3%	-2.0%	-1.5%
+3M	-1%	-6%	-1%	-4%	-6%	-2%	-3.3%	-3.0%
+4M	-7%	-4%	-5%	-2%	-4%	-1%	-3.9%	-4.3%
+5M	-2%	-4%	1%	-4%	-7%	4%	-2.0%	-2.8%
+6M	4%	-10%	2%	7%	-4%	7%	1.0%	3.2%
Max Fall	-9%	-10%	-5%	-6%	-9%	-6%	-7.5%	-7.6%

Source: Datastream

In the past 6 examples of the first Fed hike following a recession, the S&P500 fell a modest 4% over the following 3-4 months.

However, the original uptrend continued, with the market making new cyclical highs within 12 months of the first hike.

Key positives remain in place

Table 4: Falls in equities into the summers of '10, '11 and '12

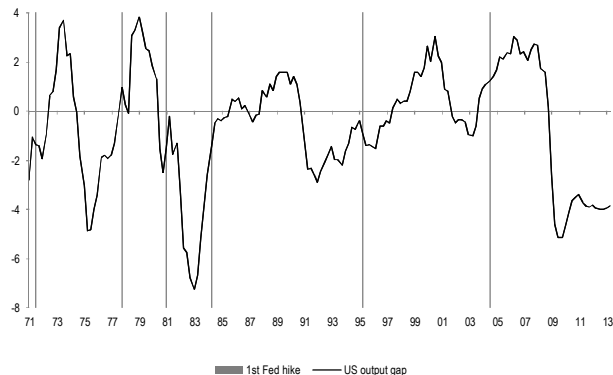
	Peak Date	Trough Date	Peak to trough
S&P500	23-Apr-10	02-Jul-10	-16%
	29-Apr-11	03-Oct-11	-19%
	02-Apr-12	01-Jun-12	-10%
SXXP	15-Apr-10	25-May-10	-15%
	01-Mar-11	22-Sep-11	-25%
	16-Mar-12	04-Jun-12	-14%
MSCI World	15-Apr-10	05-Jul-10	-15%
	02-May-11	03-Oct-11	-20%
	19-Mar-12	04-Jun-12	-12%

Source: Datastream

We acknowledge that the headwinds mentioned above could result in higher market volatility in the near term. However, our key call remains that one should not expect a correction of the same magnitude as those seen in recent years and that markets will be moving higher over the summer. We see the following key supports for equities:

1) Central banks to be slow in removing liquidity – inflation risk appears minimal

Figure 9: US output gap and 1st Fed hikes



Source: Bloomberg

We think it is very unlikely that the Fed will turn hawkish over the next few quarters. The US output gap remains significant and the unemployment rate is unlikely to reach the 6.5% threshold before 2015, in our view. There is no precedent of the Fed starting policy tightening from the current level of output gap.

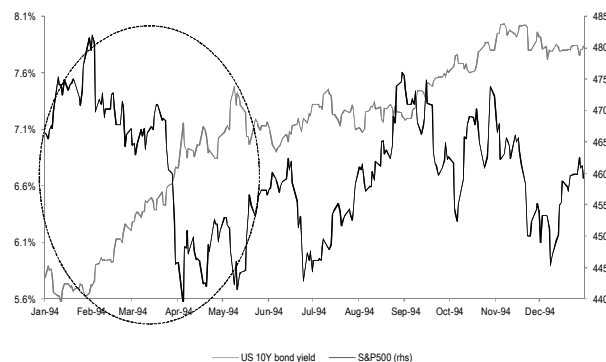
Table 5: Commodity prices vs ytd peak

	Current	Ytd Peak	Current from peak
JPM Agricultural Comm	197.6	216.6	-9%
S&P GSCI	624.9	679.4	-8%
Brent	102.4	115.6	-11%
WTI	94.0	99.3	-5%
Gold	1391.2	1692.8	-18%
Silver	22.6	32.3	-30%
Iron Ore	125.5	158.0	-21%
Copper	7300	8305	-12%

Source: Bloomberg

In addition, commodity prices have weakened recently, reducing further the potential inflationary pressure. We think the Fed will err on the side of caution and be very gradual and slow in removing accommodation.

Figure 10: US 10-year bond yield and S&P500 during 1994

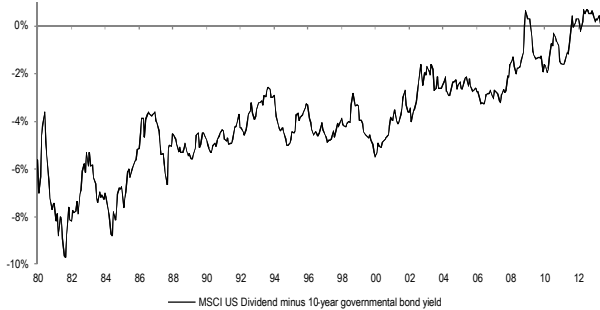


Source: Datastream

Our economists expect the Fed to start reducing asset purchases in Q4, most likely at the December meeting. This will still mean continued easing, just at a slower pace. An exit strategy is unlikely to follow the template of '94, when the Fed took the markets by surprise.

2) Even if they rise, higher bond yields are unlikely to hurt equities at this stage

Figure 11: US dividend yield gap



Source: Datastream

Equities offer a significant valuation cushion, countering a potential rise in bond yields. Our fixed income analysts expect a 40bp move up in 10Y yields into year end. This would leave the yield gap with equities still exceptionally attractive.

Table 6: Current levels of dividend, government bond, HG and HY credit yields

	DY	Govt Yield*	HG Yield**	HY Yield
USA	2.2%	2.0%	2.8%	5.2%
EMU	3.9%	2.4%	1.8%	5.7%
UK	3.9%	1.9%	2.9%	-
Japan	1.8%	0.9%	-	-

Source: Datastream, J.P. Morgan, *weighted Euro average bond yield **JPM credit indices

In all the key regions, relative to the prospective returns offered by bonds and credit, equities remain much more compelling.

3) Activity momentum is mixed, but the US economy is unlikely to go through yet another ‘double dip scare’

Figure 12: Initial jobless claims



Source: Bloomberg

Some of the US dataflow has softened most recently. However, jobless claims, the key indicator, remain below 350k. This is healthy and not indicative of a shift in corporate behavior.

Figure 13: Shiller house price index

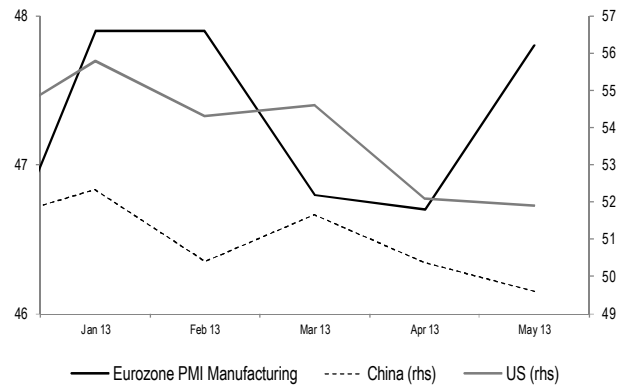


Source: Bloomberg

Likewise, housing market indicators remain positive. House price appreciation is driving a positive wealth effect.

4) Eurozone’s activity is stabilizing

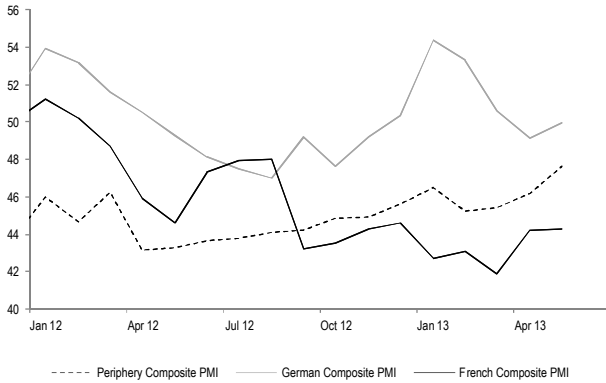
Figure 14: Euro area, China and US manufacturing PMIs



Source: Markit

The latest developments point to some activity improvement in the Euro area. The Eurozone flash composite PMI went up for a second month in a row in May. Interestingly, PMIs weakened in the US and in China at the same time.

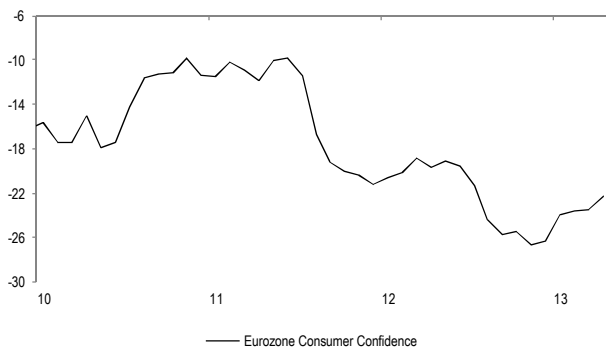
Figure 15: Core vs periphery composite PMIs



Source: Markit, J.P. Morgan

The improvement in periphery is particularly encouraging. Peripheral PMI rose strongly, by 1.5pts, and is now in line with the Euro area average. Reduced fiscal drag and improving funding conditions may be finally helping the region.

Figure 16: Euro area consumer confidence is up for 6 months in a row

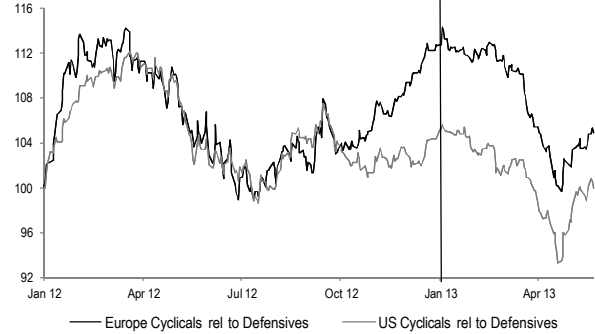


Source: EC, Datastream

Other indicators such as consumer confidence have also stabilized most recently in Eurozone.

Key positioning – 1) Market leadership to remain atypical

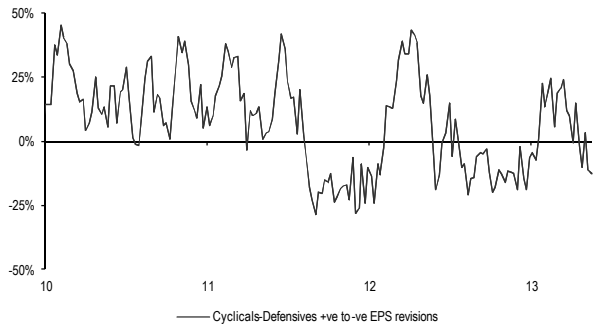
Figure 17: Cyclical relative performance to Defensives



Source: Datastream, MSCI

Cyclicals bounced back in the last month, but are still materially underperforming ytd. We don't think that the current regime of low real yields and low growth expectations will change in the near future. This is supportive of further Defensive outperformance in our view.

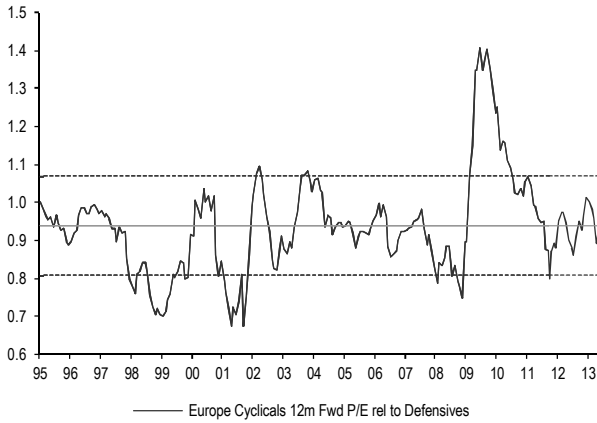
Figure 18: Cyclical vs Defensives EPS revisions



Source: IBES

We note that the EPS revision momentum of Cyclicals relative to Defensives is still negative.

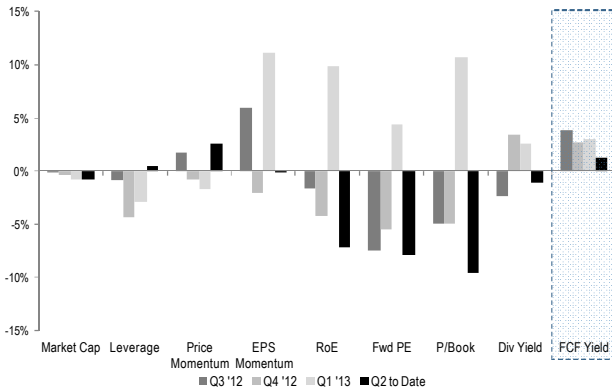
Figure 19: Cyclical 12m Fwd P/E relative to Defensives



Source: IBES

Cyclicals' valuations are not particularly compelling relative to Defensives.

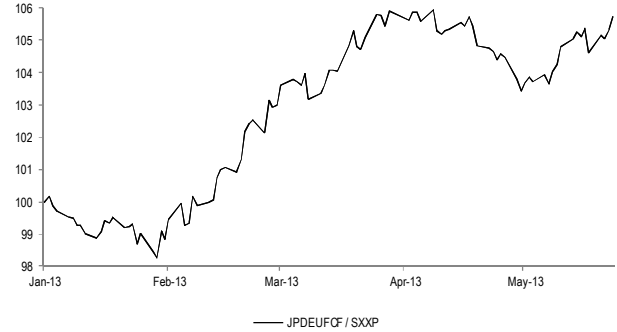
Figure 20: European factors performance



Source: IBES, Datastream, *performance of the top quintile vs bottom quintile

In addition to the low beta exposure, the core of our portfolio revolves around high and sustainable FCF yield stocks. FCF yield factor continues to be a consistent outperformer, having delivered positive returns in all 4 quarters last year.

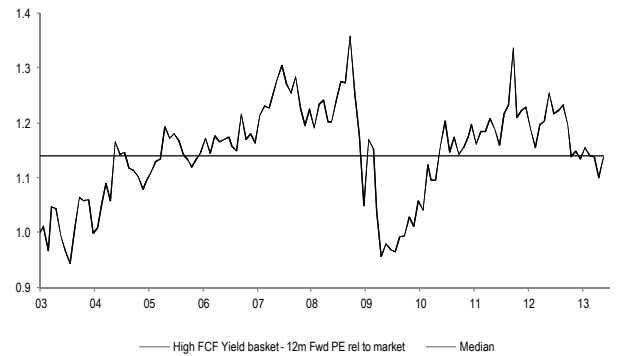
Figure 21: Relative performance of JPM high and sustainable FCF yield basket



Source: Bloomberg

Our basket of high and sustainable FCF yield stocks (JPDEUFCF <index> on Bloomberg) outperformed the European market by 600bp ytd. We think that there is more to go.

Figure 22: High and sustainable FCF Yield basket P/E relative to the market



Source: Datastream, J.P.Morgan

The relative valuation of the basket remains attractive in our view.

Table 7: High and sustainable FCF yield basket (JPDEUFCF <index>)

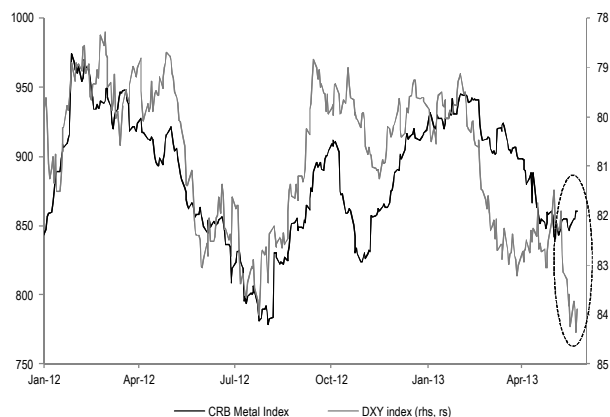
Company	Sector	BBG Ticker	13e FCF Yield	13e EPS Growth
ADIDAS (XET)	DISCRETIONARY	ADS GR	2%	19%
AHOLD KON.	STAPLES	AH NA	4%	5%
ANHEUSER-BUSCH INBEV	STAPLES	ABI BB	3%	10%
ATOS	IT	ATO FP	5%	22%
AXEL SPRINGER (XET)	DISCRETIONARY	SPR GR	4%	-11%
BAYER (XET)	HEALTH CARE	BAYN GR	4%	6%
BT GROUP	TELECOMS	BT/A LN	7%	7%
BUNZL	INDUSTRIALS	BNZL LN	3%	8%
CONTINENTAL (XET)	DISCRETIONARY	CON GR	6%	-14%
DEUTSCHE TELEKOM (XET)	TELECOMS	DTE GR	5%	19%
DSV 'B'	INDUSTRIALS	DSV DC	6%	4%
EXPERIAN	INDUSTRIALS	EXPN LN	2%	8%
GEMALTO	IT	GTO FP	4%	10%
IMPERIAL TOBACCO GP.	STAPLES	IMT LN	3%	5%
KERRY GROUP 'A'	STAPLES	KYG ID	3%	7%
PEARSON	DISCRETIONARY	PSON LN	2%	-6%
RANDSTAD HOLDING	INDUSTRIALS	RAND NA	4%	3%
REED ELSEVIER (AMS)	DISCRETIONARY	REN NA	4%	3%
SAGE GROUP	IT	SGE LN	3%	10%
SAP (XET)	IT	SAP GR	4%	11%
SMITH & NEPHEW	HEALTH CARE	SN/ LN	3%	3%
SMITHS GROUP	INDUSTRIALS	SMIN LN	2%	3%
UNITED INTERNET (XET)	IT	UTDI GR	3%	92%
WPP	DISCRETIONARY	WPP LN	4%	11%
WOLTERS KLUWER	DISCRETIONARY	WKL NA	5%	0%

Source: Bloomberg, Datastream, IBES

We list in the above table the constituents of our high and sustainable FCF yield basket.

2) Stay UW commodity exposure

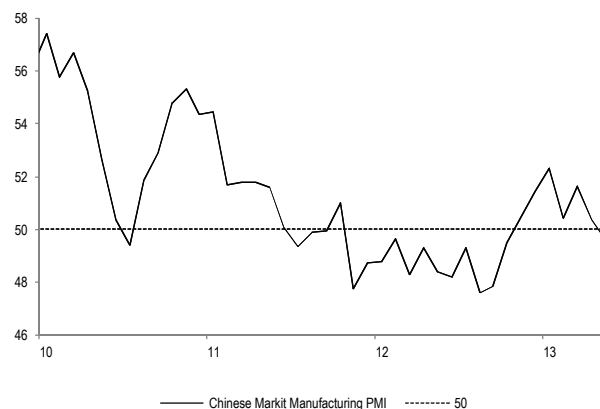
Figure 23: Metal prices and USD



Source: Bloomberg

Within Cyclical, Mining remains our key UW. The strengthening dollar is a headwind for the space and the most recent upmove points to further downside in commodity prices.

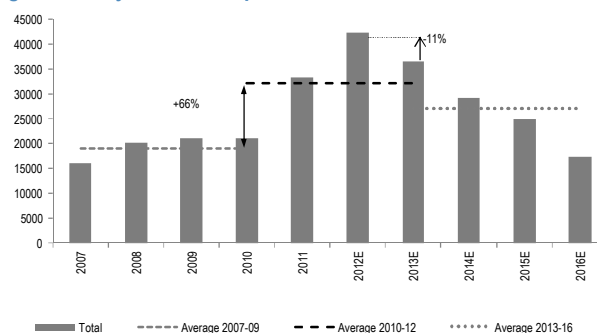
Figure 24: Chinese manufacturing PMI



Source: Markit

At the same time, EM activity continues to be weak. The latest Chinese manufacturing PMI was particularly soft, falling below the expansionary threshold for the first time in seven months.

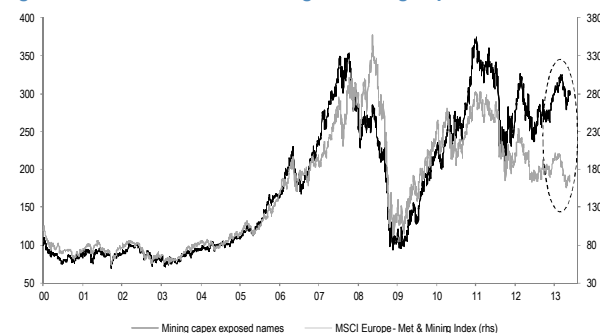
Figure 25: Major Miners' capex estimates



Source: J.P. Morgan

Finally, Miners have only recently started cutting their capex spend. We believe it will take years before this leads to a better demand supply conditions.

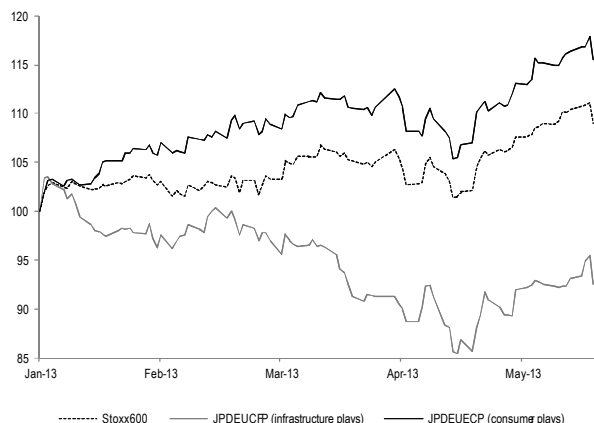
Figure 26: Performance of Mining vs Mining capex stocks



Source: Datastream, J.P. Morgan

Recent profit warnings from indirect mining plays Fleetwood and Transfield Services in Australia are a reminder of the broader implications of the potential end of the commodity supercycle. As miners shift their focus toward capital discipline, Mining equipment providers will have to reprice lower, in our view.

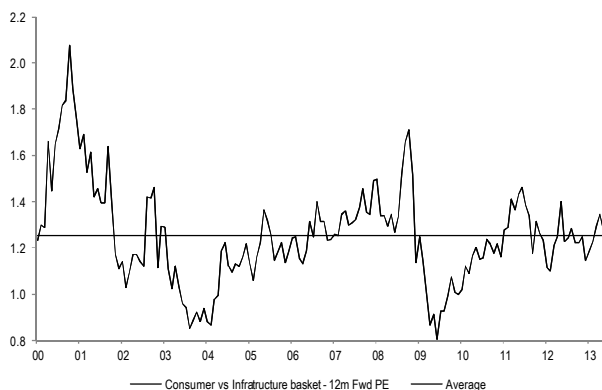
Figure 27: EM infrastructure vs consumer baskets performance



Source: Bloomberg, J.P. Morgan

We continue to favor consumer over infrastructure EM exposure. Consumer is significantly outperforming already, but we think there is more to go.

Figure 28: Relative 12m Fwd P/E of consumer vs infrastructure baskets



Source: IBES, J.P.Morgan

We note that despite its strong outperformance since the start of the year, the EM Consumer basket is still trading in line with its long term P/E relative to the Infrastructure basket.

Table 8: EM consumer plays basket (JPDEUECP <index>) – up 15% ytd

BBG Ticker	Company	Sector	% sales from EM	YTD perf %
SAB LN	SABMILLER	STAPLES	77%	25%
JMT PL	JERONIMO MARTINS	STAPLES	60%	17%
ULVR LN	UNILEVER (UK)	STAPLES	56%	22%
UHR VX	THE SWATCH GROUP	DISCRETIONARY	55%	29%
BN FP	DANONE	STAPLES	52%	18%
PC IM	PIRELLI	DISCRETIONARY	49%	2%
BEI GY	BEIERSDORF (XET)	STAPLES	45%	14%
HEN3 GY	HENKEL PREF (XET)	STAPLES	43%	26%
CO FP	CASINO GUICHARD-P	STAPLES	43%	20%
EEEE GA	COCA-COLA HLC.BT.	STAPLES	65%	15%
CARLB DC	CARLSBERG 'B'	STAPLES	57%	3%
CFR VX	RICHEMONT	DISCRETIONARY	42%	30%
CA FP	CARREFOUR	STAPLES	38%	26%
IFX GY	INFINEON TECHS.	IT	36%	8%
NRE1V FH	NOKIAN RENKAAT	DISCRETIONARY	31%	11%
MEO GY	METRO (XET)	STAPLES	30%	30%
TSCO LN	TESCO	STAPLES	27%	15%
PP FP	PPR	DISCRETIONARY	26%	25%
DIA SQ	DIA	STAPLES	25%	32%

Source: J.P. Morgan Equity Strategy, J.P. Morgan Equity Derivatives Strategy, Bloomberg, IBES, Worldscope

We list in the above table the components of our EM consumer basket.

Table 9: Chinese FAI plays basket (JPDEUCFP <index>) – down 8% ytd

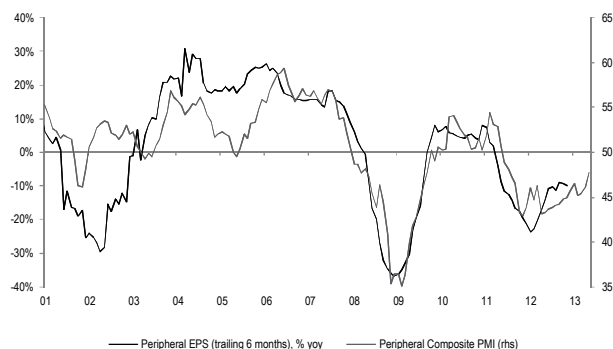
BBG Ticker	Company	Sector	% Sales from China	YTD Perf, %
KNEBV FH	KONE 'B'	INDUSTRIALS	15%	29%
ABBN VX	ABB 'R'	INDUSTRIALS	13%	17%
ALFA SS	ALFA LAVAL	INDUSTRIALS	13%	11%
VSVS LN	VESUVIUS	INDUSTRIALS	12%	8%
SU FP	SCHNEIDER ELECTRIC	INDUSTRIALS	12%	15%
ATCOA SS	ATLAS COPCO 'A'	INDUSTRIALS	12%	4%
SKFB SS	SKF 'B'	INDUSTRIALS	12%	-1%
KAZ LN	KAZAKHMYS	MATERIALS	48%	-56%
RIO LN	RIO TINTO	MATERIALS	31%	-13%
BLT LN	BHP BILLITON	MATERIALS	25%	-6%
VED LN	VEDANTA RESOURCES	MATERIALS	23%	15%
ANTO LN	ANTOFAGASTA	MATERIALS	19%	-24%
AAL LN	ANGLO AMERICAN	MATERIALS	12%	-13%
JMAT LN	JOHNSON MATTHEY	MATERIALS	15%	13%
LXS GY	LANXESS	MATERIALS	13%	-11%

Source: J.P. Morgan Equity Strategy, J.P. Morgan Equity Derivatives Strategy, Bloomberg, IBES, Worldscope

We list in the above table the constituents of our Chinese infrastructure basket.

3 – Opportunities in beaten down domestic plays

Figure 29: Periphery PMI vs EPS momentum



Source: Markit, IBES, J.P. Morgan

The case for an improving backdrop for the beaten down domestic Eurozone plays is building, in our view. Eurozone PMIs have started to stabilize, even in the periphery. The momentum is pointing to an improving earnings profile going forward.

Table 10: Eurozone domestic margin recovery plays

Company	BBG Ticker	EBIT Margins			Western European sales
		Current	'05 - '07 peak	'05 - '12 Median	
VINCI	DG FP	9%	11%	10%	77%
ACCOR	AC FP	8%	12%	9%	76%
PEUGEOT	UG FP	-1%	3%	1%	68%
SALZGITTER (XET)	SZG GR	1%	23%	6%	64%
THYSSENKRUPP (XET)	TKA GR	2%	7%	4%	70%
VOESTALPINE	VOE AV	7%	16%	10%	72%
ATLANTIA	ATL IM	38%	52%	45%	100%
ACCIONA	ANA SM	11%	32%	12%	82%
KESKO 'B'	KESBV FH	2%	4%	3%	100%
OPAP	OPAP GA	16%	19%	17%	100%
UPM-KYMMENE	UPM1V FH	-12%	6%	5%	60%
ZARDOYA OTIS	ZOT SM	32%	39%	33%	89%
SAINT GOBAIN	SGO FP	4%	8%	6%	67%
LAGARDERE GROUPE	MMB FP	3%	10%	5%	80%
CARREFOUR	CA FP	1%	4%	3%	68%
DEUTSCHE LUFTHANSA (XET)	LHA GR	5%	8%	5%	61%
EDP ENERGIAS DE PORTUGAL	EDP PL	13%	18%	16%	83%
ENEL	ENEL IM	9%	18%	16%	82%
BOUYGUES	EN FP	4%	7%	7%	67%
UMICORE	UMI BB	15%	20%	17%	76%
TELECOM ITALIA	TIT IM	14%	27%	20%	64%
FORTUM	FUM1V FH	30%	48%	37%	79%
GDF SUEZ	GSZ FP	7%	14%	11%	78%
AXEL SPRINGER (XET)	SPR GR	13%	18%	16%	65%
RANDSTAD HOLDING	RAND NA	1%	6%	2%	63%
RWE (XET)	RWE GR	7%	16%	14%	81%

Source: Datastream, Worldscope, Bloomberg

In our recent report, [“Where to for European margins? Domestic plays stand to benefit the most from here”](#), we screened for the stocks whose profitability should be the most sensitive to a pick-up in domestic activity. As a group, they currently trade at a 30% P/Book discount to the market and below the '09 lows.

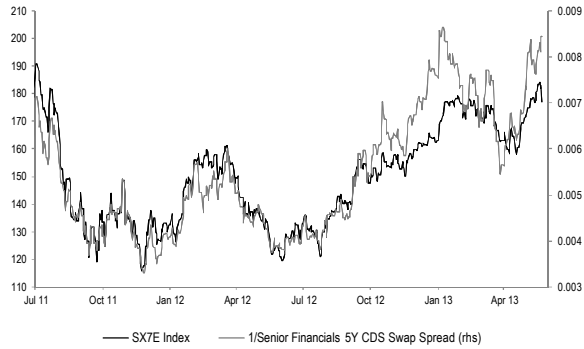
Table 11: Periphery recovery basket (JPDEUPRR <Index>)

Company	Ticker	YTD Perf, %	Correl to Peripheral Spreads
ABERTIS INFRAESTRUCTURAS	ABE SQ	12%	-49%
ACCIONA	ANA SQ	-16%	-39%
ACERINOX 'R'	ACX SQ	-4%	-25%
ACS ACTIV.CONSTR.Y SERV.	ACS SQ	12%	-46%
AUTOGRILL	AGL IM	7%	-18%
BANCA MONTE DEI PASCHI	BMPS IM	3%	-37%
BBV.ARGENTARIA	BBVA SQ	5%	-44%
BANCO DE SABADELL	SAB SQ	-24%	-37%
BANCO ESPIRITO SANTO	BES PL	-12%	-47%
BANCO POPULAR ESPANOL	POP SQ	7%	-34%
CAIXABANK	CABK SQ	6%	-40%
CRH (DUB)	CRH LN	7%	-17%
EDP ENERGIAS DE PORTUGAL	EDP PL	7%	-44%
ENEL	ENEL IM	-9%	-45%
ENEL GREEN POWER	EGPW IM	15%	-44%
FIAT	F IM	37%	-15%
GAS NATURAL SDG	GAS SQ	18%	-32%
IBERDROLA	IBE SQ	3%	-51%
INTESA SANPAOLO	ISP IM	8%	-34%
MAPFRE	MAP SQ	19%	-46%
MEDIASET	MS IM	5%	-44%
MEDIOBANCA BC.FIN	MB IM	5%	-54%
OPAP	OPAP GA	41%	-24%
PORTUGAL TELECOM SGPS	PTC PL	-4%	-27%
REPSOL YPF	REP SQ	18%	-34%
TELECOM ITALIA	TIT IM	-5%	-40%
TELEFONICA	TEF SQ	7%	-56%
UNICREDIT	UCG IM	12%	-36%
UNIONE DI BANCHE ITALIAN	UBI IM	-4%	-43%
ZARDOYA OTIS	ZOT SQ	-5%	-20%

Source: J.P. Morgan, Datastream

The above screen shows the stocks that tended to display the highest sensitivity to the peripheral spread compression. We believe they should benefit the most from the falling cost of credit in Eurozone.

Figure 30: Banks performance and 5Y Senior CDS spreads



Source: Bloomberg

Banks fit this theme well as they are attractively priced, are sensitive to an inflection in economic activity and benefit from peripheral bond yield compression through falling cost of equity.

European Equity Strategy Key Calls and Drivers

We think equities are supported by asset reflation and reduced tail risks on a 12-18 months view. They remain the underowned and relatively cheap asset class. Sectorwise, we prefer financial to operating leverage, i.e. Financials vs Cyclical. We started this trade on 6th August and believe there is more to go. The call for sustained easing in tail risks should be more fruitful than the call that growth should show a clear pickup. Our key longs are Financials, Staples, Pharma and Tech. Mining and Capital Goods remains our key UW. Regionally, after 3 years of championing the DAX, we think German equities will not be the key outperformers in '13. Yield compression is a bigger benefit for the periphery. The weakening Yen is a problem for German exporters, as is the rebalancing in China. Stylewise, we think high and sustainable FCF yield stocks will continue to be rewarded in the current low growth/low yield environment.

Table 12: J.P. Morgan Equity Strategy — Factors driving our medium-term views

Driver	Impact	Our Core Working Assumptions	Recent Developments
Global Growth	Neutral	Global growth to remain weak but improving	Global composite PMI down in April to 51.9
European Growth	Negative	Eurozone to exit recession in Q2	May flash composite PMI up at 47.7, manufacturing and services nudged up
Inflation	Neutral	DM and EM inflation to be range-bound	Chinese CPI rose to 2.4% in April
Monetary Policy	Positive	BOJ and Fed maximum dovish	Central banks remain in dovish mode, aggressive BOJ move
Currency	Neutral	Looking for stable EUR/USD	Recent Euro weakness is a positive
Earnings	Negative	Downside to '13 IBES forecasts	EPS revisions still negative
Valuations	Positive	Equities attractively valued vs bonds and history	MSCI Europe on 12.4 Fwd P/E
Technical	Neutral		HF beta negative, Bull/Bear back to historical high levels.

Source: J.P. Morgan estimates.

Table 13: J.P. Morgan Equity Strategy — Scenarios: Base Case and Risks

Scenario	Assumption
Upside scenario	Euro growth surprises on the upside. Multiples rerate significantly. No further EPS downgrades. Global growth accelerates.
Base-case scenario	Eurozone stress does not return. No US recession. Earnings forecasts are cut further. Modest multiple expansion.
Downside scenario	Renewed Euro crisis. US enters a recession. Multiple compression. Earnings fall.

Source: J.P. Morgan estimates

Table 14: J.P. Morgan Equity Strategy — Key sector calls*

Sector	Recommendations	Key Drivers
Staples	Overweight	Defensive growth, EM exposure, high and stable FCF generation
Banks	Overweight	Benefits from lower funding costs and ECB support, cheap valuations. Asset quality improving.
Healthcare	Overweight	Defensive growth, improving FCF, USD appreciation is a positive
IT	Overweight	Cheap, inventory cycle turning, final demand resilient, highly cash generative
Mining	Underweight	Not cheap, earnings supercycle has come to an end, weak cash flows
Utilities	Underweight	Structural derating continues, earnings remain under pressure

Source: J.P. Morgan estimates. * Please see the last page for the full list of our calls and sector allocation.

Table 15: J.P. Morgan Equity Strategy — Key regional calls

Region	Recommendations	J.P. Morgan Views
EM	Underweight	EM has underperformed and is cheap but inflation remains a threat
DM	Overweight	More defensive than EM, relative valuations not expensive
US	Neutral	Consensus long, narrowing relative growth momentum with Europe due to fiscal cliff
Europe	Neutral	Cheap, under owned, new ECB stance supportive, lower fiscal drag in '13e
EMU	Neutral	OW periphery vs core
UK	Neutral	Commodity sectors to be a drag on the market
Others	Neutral	

Source: J.P. Morgan estimates

Top Picks

Table 16: J.P. Morgan European Strategy: Top European picks

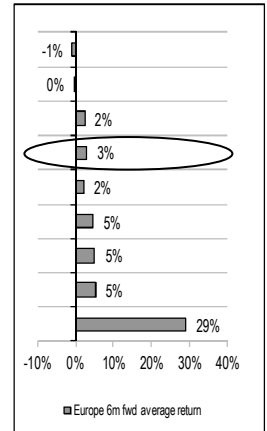
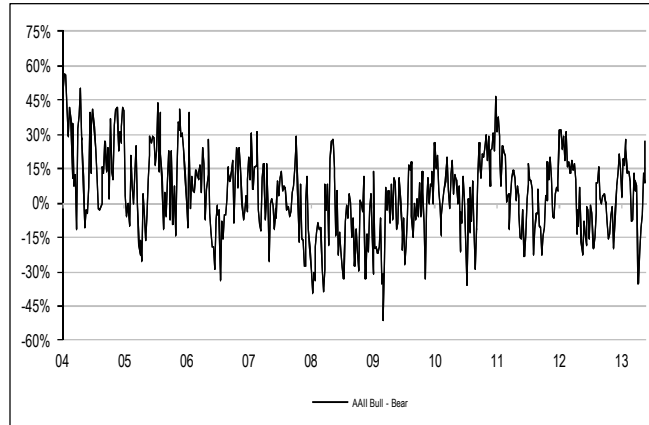
Name	Price	Ticker	JPM Rating	Analyst Name	Sector	IBES consensus estimates			Performance		
						13e EPS Gr	13e P/E	13e DY	13 ytd	-3m	-12m
Ophir Energy	400.7 £	OPHR LN	OW	James Thompson	Energy	-	-	0.0%	-8.2%	-3.9%	-19.1%
Petrofac	1350.0 £	PFC LN	OW	Andrew Dobbing	Energy	5.5%	10.5	3.3%	-16.8%	-15.0%	-11.1%
ENI	18.0 E	ENI IM	OW	Nitin Sharma	Energy	-6.9%	9.8	6.0%	-1.8%	3.0%	17.4%
Croda	2538.0 £	CRDA LN	OW	Martin Evans	Materials	7.8%	18.5	2.5%	6.8%	-2.0%	17.1%
Holcim	76.2 SF	HOLN VX	OW	Elodie Rall	Materials	10.2%	17.1	1.9%	13.8%	4.8%	41.5%
Thyssen Krupp	15.2 E	TKA GY	OW	Alessandro Abate	Materials	-	27.4	1.1%	-14.5%	-12.1%	3.7%
Rio Tinto	2913.0 £	RIO LN	OW	Lyndon Fagan	Materials	10.9%	7.9	4.1%	-17.0%	-16.2%	4.4%
Volvo	96.8 SK	VOLVB SS	OW	Alexander Whight	Industrials	-21.8%	20.3	3.1%	9.0%	-2.6%	20.7%
Brenntag	122.7 E	BNR GY	OW	Robert Plant	Industrials	8.9%	17.3	2.1%	25.1%	11.9%	38.4%
Lufthansa	16.1 E	LHA GY	OW	Jamie N Baker	Industrials	379.2%	12.9	3.1%	12.8%	6.9%	90.6%
Royal Vopak	46.3 E	VPK NA	OW	Elodie Rall	Industrials	1.7%	16.9	2.0%	-13.2%	-14.8%	0.3%
Publicis	56.4 E	PUB FP	OW	Filippo Pietro Lo Franco	Discretionary	11.3%	15.7	1.8%	24.7%	11.8%	55.4%
BAT	3715.0 £	BATS LN	OW	Rae Maile	Staples	10.6%	16.2	4.0%	19.0%	7.6%	24.2%
Coca Cola Hellenic	20.3 E	EEEEK GA	OW	Mike J Gibbs	Staples	18.8%	21.9	1.4%	14.9%	3.8%	62.7%
Unilever	2866.0 £	ULVR LN	OW	Celine Pannuti	Staples	11.7%	20.2	3.0%	21.1%	9.0%	42.8%
PPR	172.0 E	PP FP	OW	Melanie A Flouquet	Discretionary	3.3%	16.5	2.5%	22.1%	0.3%	45.5%
Compass	893.0 £	CPG LN	OW	Mike J Gibbs	Discretionary	10.3%	19.1	2.6%	23.2%	11.8%	43.9%
SCA	174.8 SK	SCAB SS	OW	Celine Pannuti	Staples	-11.2%	19.1	2.8%	24.0%	10.4%	71.4%
Sanofi	84.8 E	SAN FP	OW	Richard Vosser	Health Care	-5.2%	14.4	3.4%	18.8%	16.4%	57.5%
Elekta	100.6 SK	EKTAB SS	OW	David J Adlington	Health Care	14.5%	27.5	1.3%	-0.8%	0.3%	16.6%
UBS	17.3 SF	UBSN VX	OW	Kian Abouhossein	Financials	61.9%	17.5	1.4%	21.4%	15.6%	57.3%
UCG	4.2 E	UCG IM	N	Marta Bastoni	Financials	31.3%	22.0	1.9%	12.3%	1.4%	64.0%
Santander	5.4 E	SAN SM	N	Jaime Becerril	Financials	117.0%	10.8	10.5%	-6.9%	-5.2%	34.1%
Societe Generale	30.9 E	GLE FP	OW	Delphine Lee	Financials	17.8%	9.4	3.1%	9.0%	3.6%	94.0%
Aberdeen Asset Mgmt	475.0 £	ADN LN	OW	Rae Maile	Financials	34.1%	15.7	3.2%	29.4%	9.2%	96.9%
Allianz	118.0 E	ALV GY	OW	Michael Huttner	Financials	10.5%	9.4	4.2%	12.8%	13.5%	56.2%
Great Portland Estates	566.0 £	GPOR LN	OW	Tim Leckie	Financials	10.8%	91.8	1.5%	15.7%	15.5%	44.1%
Ericsson	78.3 SK	ERICB SS	OW	Sandeep S Deshpande	IT	38.3%	15.9	3.7%	20.2%	-0.3%	28.5%
SAP	60.5 E	SAP GR	OW	Stacy E Pollard	IT	11.3%	18.0	1.6%	-0.4%	1.3%	27.2%
Iliad	170.9 E	ILD FP	OW	Hannes C Wittig	Telecoms	47.1%	35.9	0.2%	31.4%	18.7%	69.1%
Enagas	19.3 E	ENG SM	OW	Javier Garrido	Utilities	6.5%	11.4	6.5%	19.5%	5.0%	48.4%

Source: Datastream, MSCI, IBES, J.P. Morgan, Prices and Valuations as of COB 23rd May, 2013

Please see the most recent company-specific research published by J.P. Morgan for an analysis of valuation methodology and risks on companies recommended in this report. Research is available at <http://www.morganmarkets.com>, or you can contact the covering analyst or your J.P. Morgan representative.

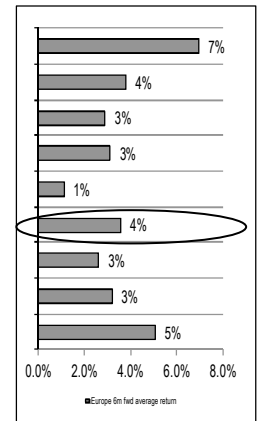
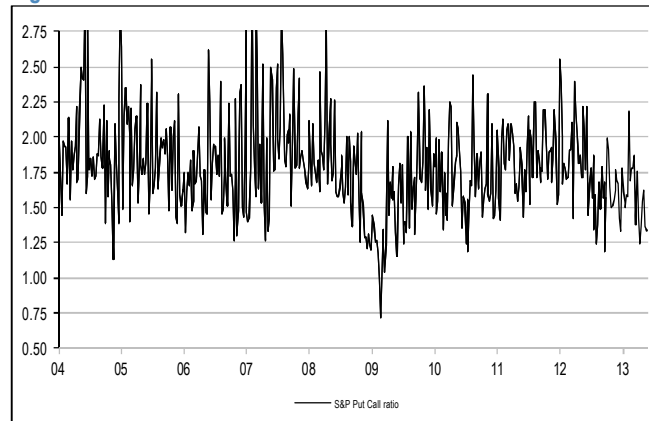
Technical Indicators

Figure 31: AAll Bulls vs. Bears



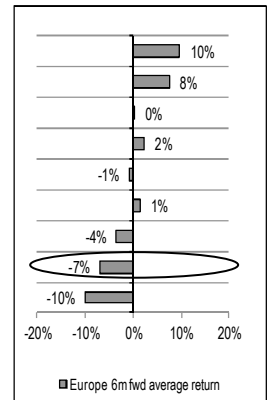
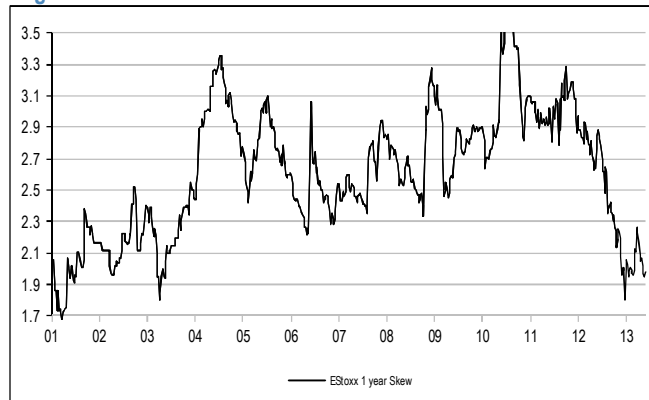
Source: Datastream, Bloomberg, J.P. Morgan

Figure 32: Put Call ratios



Source: Datastream, Bloomberg, J.P. Morgan

Figure 33: Skew



Source: Datastream, Bloomberg, J.P. Morgan

Performance

Table 17: Sector Index Performances — MSCI Europe

(%change) Industry Group	Local currency		
	4week	12m	13YTD
Europe	3.1	29.4	10.9
Energy	3.1	12.0	5.4
Materials	2.2	14.0	(2.8)
	Chemicals	3.4	24.3
	Construction Materials	4.6	42.0
	Metals & Mining	0.1	(0.6)
Industrials	3.2	30.5	10.4
	Capital Goods	3.1	31.3
	Transport	2.9	28.1
	Business Svs	6.2	33.8
Consumer Discretionary	6.2	33.8	12.3
	Automobile	10.3	31.7
	Consumer Durables	8.7	35.9
	Media	1.2	37.3
	Retailing	2.3	30.2
	Hotels, Restaurants & Leisure	4.6	35.4
Consumer Staples	1.7	29.4	15.1
	Food & Drug Retailing	4.1	31.1
	Food Beverage & Tobacco	0.9	26.7
	Household Products	4.1	47.1
Healthcare	3.6	41.3	21.5
Financials	4.4	47.1	11.4
	Banks	4.7	47.6
	Diversified Financials	7.6	44.5
	Insurance	1.8	51.3
	Real Estate	3.9	31.3
Information Technology	2.8	37.8	11.6
	Software and Services	2.0	32.2
	Technology Hardware	1.6	27.8
	Semicon & Semicon Equip	5.6	63.4
Telecommunications Services	(0.6)	10.7	11.7
Utilities	1.5	14.3	6.1

Source: MSCI, Datastream, as at COB 23rd May, 2013

Table 18: Country and Region Index Performances

(%change) Country	Index	Local Currency			US\$		
		4week	12m	13YTD	4week	12m	13YTD
Austria	ATX	0.4	27.5	2.0	(0.4)	30.7	(0.2)
Belgium	BEL 20	2.0	29.5	9.3	1.2	32.7	6.9
Denmark	KFX	1.0	24.1	9.5	0.2	26.8	7.2
Finland	HEX 20	3.1	24.2	8.9	2.3	27.4	6.6
France	CAC 40	3.3	32.1	9.0	2.5	35.4	6.6
Germany	DAX	6.6	32.9	9.7	5.8	36.2	7.4
Greece	ASE General	6.9	97.3	14.4	6.1	102.3	11.9
Ireland	ISEQ	3.6	33.1	19.0	2.7	36.5	16.4
Italy	FTSE MIB	2.2	31.2	4.5	1.3	34.5	2.3
Japan	Topix	1.3	64.7	38.2	(0.6)	28.6	17.9
Netherlands	AEX	3.2	26.3	6.6	2.3	29.5	4.3
Norway	OBX	(1.8)	20.1	6.0	(1.2)	23.5	0.9
Portugal	BVL GEN	(3.6)	30.6	7.4	(4.4)	33.9	5.1
Spain	IBEX 35	(0.3)	29.5	2.2	(1.1)	32.8	(0.0)
Sweden	OMX	2.5	25.6	10.8	1.6	35.4	8.2
Switzerland	SMI	3.4	40.4	19.7	1.0	38.2	13.0
United States	S&P 500	4.1	25.1	15.7	4.1	25.1	15.7
United States	NASDAQ	5.1	21.4	14.6	5.1	21.4	14.6
United Kingdom	FTSE 100	3.9	27.2	13.5	1.4	21.9	5.2
EMU	MSCI EMU	2.8	30.0	7.1	2.0	33.2	4.8
Europe	MSCI Europe	3.1	29.4	10.9	1.5	29.3	6.0
Global	MSCI AC World	3.3	28.5	15.1	2.3	25.8	11.6

Source: MSCI, Datastream, as at COB 23rd May, 2013.

Earnings

Table 19: IBES Consensus EPS Sector Forecasts — MSCI Europe

	EPS Growth (%)			
	2012E	2013E	2014E	2015E
Europe	(5.4)	5.2	12.2	10.0
Energy	(7.6)	(3.0)	7.7	5.9
Materials	(26.2)	2.2	18.4	11.8
Chemicals	(1.1)	1.8	11.7	8.8
Construction Materials	12.5	22.9	33.6	22.5
Metals & Mining	(41.3)	(0.3)	22.1	12.6
Industrials	(0.1)	7.0	17.4	12.1
Capital Goods	(0.1)	5.4	17.3	11.4
Transport	(3.7)	20.5	23.7	18.0
Business Svs	3.7	8.0	12.2	10.8
Discretionary	28.3	(12.2)	13.9	11.9
Automobile	44.5	(28.6)	16.5	14.3
Consumer Durables	23.0	9.8	13.9	10.1
Media	10.8	4.9	8.9	8.3
Retailing	8.8	7.3	12.3	11.6
Hotels, Restaurants & Leisure	8.1	(3.2)	13.2	12.1
Staples	8.8	5.4	10.1	9.3
Food & Drug Retailing	0.1	(1.5)	10.2	7.1
Food Beverage & Tobacco	10.3	7.3	10.2	9.8
Household Products	12.4	2.6	8.8	8.9
Healthcare	0.1	0.4	9.2	8.7
Financials	(8.5)	20.8	14.4	12.3
Banks	(27.6)	28.0	19.7	14.8
Diversified Financials	4.5	22.8	15.6	16.0
Insurance	31.7	11.0	5.7	6.0
Real Estate	8.1	3.9	6.2	6.1
IT	(31.0)	25.1	29.6	17.4
Software and Services	7.0	9.7	13.6	12.3
Technology Hardware	(65.5)	110.8	41.5	18.2
Semicon & Semicon Equip	(50.4)	5.2	68.5	29.0
Telecoms	(5.9)	(7.9)	5.1	6.1
Utilities	4.6	(10.1)	3.3	4.0

Source: IBES, MSCI, Datastream. As at COB 23rd May, 2013.

Table 20: IBES Consensus EPS Country Forecasts

Country	Index	EPS Growth (%)			
		2012	2013E	2014E	2015E
Austria	ATX	11.4	18.5	16.6	6.7
Belgium	BEL 20	9.7	4.2	11.0	8.1
Denmark	Denmark KFX	25.9	23.0	17.8	13.6
Finland	MSCI Finland	(30.8)	23.0	19.7	11.1
France	CAC 40	(1.8)	(0.4)	13.2	10.7
Germany	DAX	10.9	(5.5)	12.9	10.2
Greece	MSCI Greece	13.8	(51.2)	7.8	12.8
Ireland	MSCI Ireland	(1.5)	(0.8)	40.3	23.1
Italy	MSCI Italy	(14.5)	10.6	17.4	14.6
Netherlands	AEX	(12.6)	10.1	12.3	8.3
Norway	MSCI Norway	9.6	(3.1)	13.2	7.5
Portugal	MSCI Portugal	(15.7)	0.6	25.0	24.9
Spain	IBEX 35	(39.3)	27.6	18.2	11.6
Sweden	OMX	7.0	(5.8)	13.5	10.8
Switzerland	SMI	7.2	6.5	11.6	10.2
United Kingdom	FTSE 100	(10.8)	3.9	10.4	8.8
EMU	MSCI EMU	(4.8)	3.2	14.3	11.0
Europe ex UK	MSCI Europe ex UK	(0.6)	3.4	13.7	11.0
Europe	MSCI Europe	(5.4)	5.2	12.1	10.0
United States	S&P 500	6.0	7.1	11.0	10.1
Japan	Topix	17.5	52.8	12.8	11.1
Emerging Market	MSCI EM	(1.4)	11.9	9.5	4.5
Global	MSCI AC World	1.8	5.9	11.3	9.4

Source: IBES, MSCI, Datastream. As at COB 23rd May, 2013** Japan refers to the period from March in the year stated to March in the following year – EPS post-goodwill.

Valuations

Table 21: IBES Consensus European Sector Valuations

	P/E			Dividend Yields			EV/EBITDA			Price to Book		
	2013e	2014e	2015e	2013e	2014e	2015e	2013e	2014e	2015e	2013e	2014e	2015e
Europe	13.0	11.6	10.5	3.6%	3.9%	4.3%	6.7	6.2	5.7	1.5	1.5	1.4
Energy	9.3	8.7	8.2	4.7%	5.0%	5.2%	3.7	3.6	3.5	1.2	1.1	1.0
Materials	13.1	11.1	9.9	3.1%	3.4%	3.7%	7.1	6.2	5.6	1.3	1.3	1.2
Chemicals	14.9	13.3	12.2	3.0%	3.2%	3.4%	8.3	7.5	7.0	2.3	2.2	2.0
Construction Materials	16.9	12.7	10.3	2.3%	2.8%	3.2%	8.0	6.8	6.0	1.1	1.0	1.0
Metals & Mining	11.0	9.0	8.0	3.2%	3.6%	3.9%	6.4	5.6	5.0	1.0	1.0	0.9
Industrials	15.2	12.9	11.5	3.2%	3.5%	3.8%	7.7	6.7	6.1	2.3	2.1	1.9
Capital Goods	14.8	12.6	11.3	3.2%	3.5%	3.9%	7.8	6.7	6.1	2.3	2.1	1.9
Transport	15.1	12.2	10.3	3.4%	3.5%	3.8%	6.4	5.7	5.1	1.8	1.7	1.5
Business Svcs	17.8	15.8	14.3	2.6%	2.8%	3.2%	11.9	9.9	8.8	4.4	3.9	3.5
Discretionary	13.6	12.0	10.7	2.8%	3.2%	3.5%	6.2	5.4	4.7	1.9	1.8	1.6
Automobile	9.2	7.9	6.9	3.1%	3.6%	4.0%	3.7	3.1	2.8	1.0	0.9	0.8
Consumer Durables	17.8	15.7	14.2	2.0%	2.3%	2.6%	9.6	8.5	6.4	3.1	2.7	2.4
Media	14.7	13.5	12.4	3.5%	3.7%	4.1%	8.6	7.9	7.3	3.3	3.0	2.8
Retailing	18.1	16.1	14.4	2.9%	3.2%	3.6%	11.7	10.8	9.6	4.2	3.9	3.5
Hotels, Restaurants & Leisure	18.0	15.9	14.2	2.7%	2.9%	3.4%	9.5	8.5	7.5	3.1	2.9	2.6
Staples	17.7	16.1	14.7	2.7%	3.0%	3.3%	10.9	9.8	8.9	3.2	2.9	2.7
Food & Drug Retailing	13.3	12.0	11.2	3.2%	3.7%	3.9%	6.9	6.3	5.8	1.7	1.7	1.6
Food Beverage & Tobacco	18.2	16.5	15.0	2.8%	3.1%	3.4%	11.7	10.6	9.6	3.5	3.2	3.0
Household Products	20.6	19.0	17.4	2.0%	2.2%	2.4%	12.0	10.5	9.4	3.6	3.3	3.0
Healthcare	15.3	14.0	12.9	3.1%	3.3%	3.6%	10.1	9.2	8.5	3.4	3.2	2.9
Financials	11.0	9.6	8.5	3.9%	4.5%	5.2%	-	-	-	0.9	0.8	0.8
Banks	11.1	9.2	8.1	3.9%	4.6%	5.4%	-	-	-	0.8	0.8	0.7
Diversified Financials	11.6	10.0	8.7	2.4%	3.3%	4.7%	-	-	-	0.9	0.9	0.9
Insurance	9.7	9.2	8.7	4.8%	5.0%	5.3%	-	-	-	1.0	1.0	0.9
Real Estate	18.6	17.5	16.5	4.6%	4.8%	5.0%	-	-	-	1.0	1.0	1.0
IT	21.1	16.3	13.9	1.8%	2.0%	2.2%	10.2	8.2	6.8	3.0	2.7	2.4
Software and Services	17.3	15.2	13.6	1.7%	1.9%	2.1%	10.1	8.6	7.1	3.8	3.3	2.9
Technology Hardware	21.0	14.8	12.6	2.4%	2.8%	3.1%	7.8	6.2	5.0	1.8	1.7	1.6
Semicon & Semicon Equip	35.5	21.1	16.3	1.3%	1.5%	1.6%	15.5	10.4	8.5	3.7	3.4	2.9
Telecoms	10.8	10.3	9.7	5.7%	5.9%	6.1%	5.1	5.0	4.8	1.5	1.5	1.4
Utilities	11.7	11.3	10.9	6.1%	6.1%	6.2%	6.6	6.4	6.3	1.1	1.0	1.0

Source: IBES, MSCI, Datastream. As at COB 23rd May, 2013

Table 22: IBES Consensus P/E and 12-Month Forward Dividend Yields — Country Forecasts

Country	Index	P/E				Dividend Yield 12-Month Forward
		12-Mth Fwd	2013E	2014E	2015E	
Austria	ATX	11.2	11.9	10.2	9.5	2.8%
Belgium	BEL 20	14.8	15.5	14.0	12.9	5.0%
Denmark	Denmark KFX	15.9	17.1	14.5	12.8	2.0%
Finland	MSCI Finland	15.1	16.3	13.7	12.3	3.9%
France	CAC 40	11.7	12.4	11.0	9.9	5.3%
Germany	DAX	11.7	12.4	11.0	10.0	3.3%
Greece	MSCI Greece	12.6	13.0	12.1	10.7	3.7%
Ireland	MSCI Ireland	20.9	24.3	17.3	14.1	2.7%
Italy	MSCI Italy	10.6	11.4	9.7	8.5	3.6%
Netherlands	AEX	11.6	12.3	10.9	10.1	3.4%
Norway	MSCI Norway	10.3	10.9	9.6	8.9	5.1%
Portugal	MSCI Portugal	14.2	15.7	12.6	10.1	5.2%
Spain	IBEX 35	12.1	13.0	11.0	9.9	4.6%
Sweden	OMX	14.2	15.0	13.2	11.9	3.9%
Switzerland	SMI	14.7	15.4	13.8	12.6	2.8%
United Kingdom	FTSE 100	12.0	12.5	11.3	10.4	3.9%
EMU	MSCI EMU	12.0	12.7	11.1	10.0	4.2%
Europe ex UK	MSCI Europe ex UK	12.7	13.4	11.8	10.7	3.8%
Europe	MSCI Europe	12.4	13.0	11.6	10.5	3.8%
United States	S&P 500	14.3	15.0	13.5	12.3	2.4%
Japan	Topix	15.3	15.7	13.9	12.4	1.6%
Emerging Market	MSCI EM	10.4	10.9	9.8	8.9	2.7%
Global	MSCI AC World	13.6	14.3	12.8	11.7	2.8%

Source: IBES, MSCI, Datastream. As at COB 23rd May, 2013; ** Japan refers to the period from March in the year stated to March in the following year – P/E post goodwill

Economic, Interest Rate and Exchange Rate Outlook

Table 23: Economic Outlook in Summary

	Real GDP % oya			Real GDP % oqa, saar						Consumer prices % oya				
	2012	2013E	2014E	4Q12	1Q13E	2Q13E	3Q13E	4Q13E	1Q14E	2Q14E	2Q13E	4Q13E	2Q13E	4Q13E
United States	2.2	1.8	2.3	0.4	2.5	2.0	2.0	2.5	2.0	2.5	1.4	1.2	1.7	1.7
Eurozone	-0.5	-0.7	1.2	-2.3	-0.9	-0.5	0.5	1.0	1.5	1.5	1.4	1.2	1.4	1.3
United Kingdom	0.3	1.0	1.9	-1.2	1.2	1.0	1.5	2.0	2.0	2.0	2.8	2.7	2.5	2.5
Japan	2.0	1.7	1.2	1.0	3.5	3.2	2.5	2.9	3.4	-3.6	0.1	0.7	2.6	2.4
Emerging markets	4.6	4.8	5.2	5.4	4.0	5.1	5.5	5.2	5.4	5.2	4.2	4.2	4.2	4.1
Global	2.4	2.3	3.0	1.6	2.3	2.6	3.0	3.1	3.3	2.6	2.3	2.3	2.7	2.6

Source: J.P. Morgan economic research, J.P. Morgan estimates, as of COB 23rd May, 2013.

Table 24: Official Rates Outlook

%	Official interest rate	Current	Last change (bp)	Forecast next change (bp)	Forecast for			
					Jun-13	Sep-13	Dec-13	Mar-14
United States	Federal funds rate	0.125	16 Dec 08 (-87.5bp)	On Hold	0.125	0.125	0.125	0.125
Eurozone	Refi rate	0.50	2 May 13 (-25bp)	On Hold	0.50	0.50	0.50	0.50
United Kingdom	Repo rate	0.50	5 Mar 09 (-50bp)	On Hold	0.50	0.50	0.50	0.50
Japan	Overnight call rate	0.05	5 Oct 10(-5bp)	On Hold	0.05	0.05	0.05	0.05

Source: J.P. Morgan estimates, Datastream, as of COB 23rd May, 2013

Table 25: 10-Year Government Bond Yield Forecasts

%	23-May-13	Forecast for end of			
		Jun 13E	Sep 13E	Dec 13E	Mar 14E
United States	1.76	2.00	2.25	2.40	2.50
Eurozone	1.26	1.20	1.30	1.45	1.55
United Kingdom	1.78	1.85	1.95	2.05	2.20
Japan	0.59	0.50	0.50	0.60	0.70

Source: J.P. Morgan estimates, Datastream, as of COB 23rd May, 2013.

Table 26: Exchange Rate Forecasts vs. US Dollar

	23-May-13	Forecast for end of			
		Jun 13	Sep 13	Dec 13	Mar 14
EUR	1.31	1.30	1.30	1.30	1.32
GBP	1.55	1.51	1.49	1.49	1.52
CHF	0.95	0.93	0.93	0.93	0.91
JPY	101	100	102	105	106

Source: J.P. Morgan estimates, Datastream, forecasts as of COB 23rd May, 2013

Sector, Regional and Asset Class Allocations

Table 27: J.P. Morgan Equity Strategy — European Sector Allocations

	MSCI Europe Weights	J.P. Morgan Allocation	Deviation From MSCI	J.P. Morgan Recommendation
Energy	9.8%	10.0%	0.2%	Neutral
Materials	8.8%	6.0%	-2.8%	Underweight
				-
				=
				-
Industrials	11.1%	9.0%	-2.1%	Underweight
				-
				=
				+
Consumer Discretionary	9.2%	9.0%	-0.2%	Neutral
				=
				=
				=
				=
Consumer Staples	14.8%	18.0%	3.2%	Overweight
				=
				+
				+
Healthcare	12.9%	14.0%	1.1%	Overweight
Financials	20.9%	22.0%	1.1%	Overweight
				+
				+
				=
				=
Information Technology	3.1%	4.0%	0.9%	Overweight
				+
				=
				+
Telecoms	5.4%	5.0%	-0.4%	Neutral
Utilities	4.0%	3.0%	-1.0%	Underweight
	100.0%	100.0%	0.0%	Balanced

Source: MSCI, Datastream, J.P. Morgan

Table 28: J.P. Morgan Equity Strategy — European Regional Allocations

	MSCI Europe Weights	Allocation	Deviation	Recommendation
US				Neutral
Europe				Neutral
Japan				Overweight
EM				Underweight
Eurozone	44%	43%	-1%	Neutral
United Kingdom	34%	34%	0%	Neutral
Others*	22%	23%	1%	Neutral
	100%	100%	0%	Balanced

Source: MSCI, J.P. Morgan estimates * Switzerland, Sweden, Norway and Denmark.

Table 29: J.P. Morgan Equity Strategy — Asset Class Allocation

	Benchmark Weighting	Allocation	Deviation	Recommendation
Equities	60%	70%	10%	Overweight
Bonds	30%	25%	-5%	Underweight
Cash	10%	5%	-5%	Underweight
	100%	100%	0%	Balanced

Source: MSCI, J.P. Morgan estimates * Switzerland, Sweden, Norway and Denmark

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