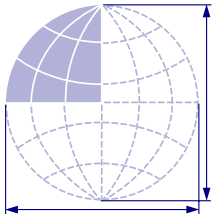


16 November 2004



Global Fund Manager Survey

Putting Liquidity to Work

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Highlights of this Issue

Risk Appetite Responds Favorably to an End to Election Uncertainty

Risk appetite has improved. The swift and uncontested result from the US Presidential election has removed a significant source of uncertainty from the markets. The net percentage of fund managers taking lower-than-normal risk fell from 16% in October to 8% in November. Investors seem to have responded positively to the continuity that a Bush victory appears to provide.

Liquidity Levels Remain Above-Normal

Liquidity levels remain high. Average cash levels in our November poll stood at 4.6% (up from October's 4.4%). This is the third highest reading that we have recorded this year. The net percentage of the panel 'overweight cash' came in at 13%, down from 18% recorded in October, but is still consistent with excess liquidity. History suggests a neutral cash position is one where cash levels are a full percentage point lower than they are today. Net new inflows to equity funds have also stabilized in recent months, although they have a long way to go to get back to the levels seen at the start of this year.

Global Growth Worries Persist, But Investors Adamant Bonds are a Sell

The combination of reduced uncertainty and an improvement in risk appetite means that fund managers are increasingly under pressure to put that cash to work. There is still not much of a 'growth' case for equities – for the fourth month running more fund managers think that economic growth is likely to deteriorate than improve. But when managers compare the valuation of equities versus bonds there is simply no comparison. Liquidity looks more likely to find its way into equities more because of a bear case on bonds than a bull case on equities.

A net 75% of our panel believe that bond yields will be higher a year from now. Bonds are increasingly seen as overvalued. 66% of our panel believe bonds to be overvalued (i.e. yields are too low), while only 3% of managers believe them to be undervalued (i.e. yields are too high). In contrast, only 14% of the panel believe equities to be overvalued, while 24% believe them to be undervalued. With bonds widely seen as overvalued, and equities seen as undervalued, it is no surprise that asset allocators are overweight equities, and underweight bonds.

Institutional investors have maintained a cyclical bias. Asset allocators continue to favor Global Emerging Market (GEM) and Japanese equities at the expense of the UK and US markets. They also favor sectors with an upstream, industrial bias (energy, materials, and industrials). At the same time they also like the cash-generative characteristics of the telecoms sector. The least-liked global sectors include the consumer-discretionary plays as well as the utilities and consumer staples. The 'cheapest' global sector continues to be pharmaceuticals.

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Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 32. Analyst Certification on page 32.

1. Survey Sound Bites

This month's survey provides one of the first snapshots of fund-manager sentiment and positioning post the US Presidential election. The survey opened immediately after the release of the U.S. non-farm payroll numbers (5th November), and continued through November 11th. The Fed raised interest rates towards the end of the fieldwork, which means that some of the interest-rate related questions may have to be interpreted with caution.

Table 1: Markets Between Fieldwork Periods

Fieldwork Dates	5/11-11/10	8/10-14/10	3/9-9/9	5/8-12/8
change from last month:				
World Equities (%)	4.6	1.7	3.7	-4.1
Dow Jones (%)	3.8	-2.6	4.2	-3.6
US 10-Year (bps)	13	-15	-4	-19
Commodities (%)	-0.5	4.9	1.5	-0.8
Trade Weight Dollar (%)	-4.0	-1.6	-0.2	0.9

Source: Datastream

Here are the highlights of the survey in greater detail:

1. **Risk appetite has improved.** The swift and uncontested result from the US Presidential election has removed a significant source of uncertainty from the markets. The net percentage of fund managers taking lower-than-normal risk fell from 16% in October to 8% in November. Investors seem to have responded positively to the continuity that a Bush victory appears to provide. And we know from our recent surveys that investors would not have welcomed a Kerry victory.
2. **Liquidity levels remain high.** Average cash levels in our November poll stood at 4.6% - up from October's 4.4% - and the third highest reading that we have recorded this year. The net percentage of the panel 'overweight cash' came in at 13%, down from 18% recorded in the previous month. History tells us that a truly neutral cash position would be one where cash levels are a full percentage point lower - see Chart 17. Not only are cash levels still above-normal, but net new inflows to equity funds have also stabilized in recent months, although they have a long way to go to get back to the levels seen at the start of this year.
3. **The combination of reduced uncertainty and an improvement in risk appetite means that fund managers are increasingly under pressure to put that cash to work.** There is still not much of a 'growth' case for equities - for the fourth month running more fund managers think that economic growth is likely to deteriorate than improve. But when managers compare the valuation of equities versus bonds there is simply no comparison. That cash looks more likely to find its way into equities more because of a bear case on bonds than a bull case on equities. A net 75% of our panel believe that bond yields will be higher a year from now.
4. **Bonds increasingly seen as overvalued.** 66% of our panel believe bonds to be overvalued (i.e. yields are too low), while only 3% of managers believe them to be undervalued (i.e. yields are too high). In contrast, only 14% of the panel believe equities to be overvalued, while 24% believe them to be undervalued. With bonds widely seen as overvalued, and equities seen as undervalued, it is no surprise that asset allocators are overweight equities, and underweight bonds.
5. **Institutional investors are content to maintain a cyclical bias.** Asset allocators continue to favor Global Emerging Market (GEM) and - to a lesser extent - Japanese equities at the expense of the UK and US markets. Despite George Bush's re-election, asset allocators and fund managers have retained one of the most widespread underweightings of US equities in the past five years. But, the equity region this month that is most in favor with investors is the eurozone, with a net overweight balance of 42%.
6. **Global investors continue to favor sectors with an upstream, industrial bias (energy, materials, and industrials).** At the same time they clearly like the cash-generative characteristics of the telecoms sector - which comes second in preference only to energy. Least liked are global consumer discretionary (net underweights on autos, retail and media). There is also little appetite to get more defensive (neutral pharma, and net underweight utilities and staples). As for valuation, technology continues in a league of its own as the sector that investors think is most overvalued (though they are quite prepared to punt the sector whenever they feel a bit of beta is needed). Interestingly, some of the defensive sectors are seen as overvalued, such as consumer staples and utilities. For value, our panel recommends looking at pharmaceuticals and insurance.
7. **USD and GBP still perceived as overvalued, while JPY and emerging-market currencies seen as most undervalued.** This picture was broadly confirmed when we asked the global asset allocators in our panel, whether they currently had any unhedged currency exposure. A net 28% of them were underweight the dollar, while a net 28% were overweight the euro. This would be consistent with the net preference for Eurozone equities over US equities - historically the US-Europe call has in effect been a currency call - and this is no exception.
8. **Almost half our panel (45%) still want companies to return cash flow to shareholders, rather than use it to grow the business.** This is encouraging companies to re-lever their balance sheets, by issuing debt to buy back equity. Companies that continue to de-lever, to rebuild balance sheets are being increasingly shunned. History suggests that the financial characteristics least in demand today often come back in the rotation of tomorrow.

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2. Dare to be Different!

Every month we contact around 300 fund managers from around the world. We ask them what they think about the macro outlook and how they have positioned their investment portfolios. This table summarizes some of their most commonly held views. As you go through the list, you might like to examine how different you are from the consensus by ticking one of the two columns.

Table 2: How Different Are You from Consensus?

	I Agree	I Disagree
This Month, Fund Managers and Asset Allocators . . .		
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40	<input type="checkbox"/>	<input type="checkbox"/>

3. Profit Expectations

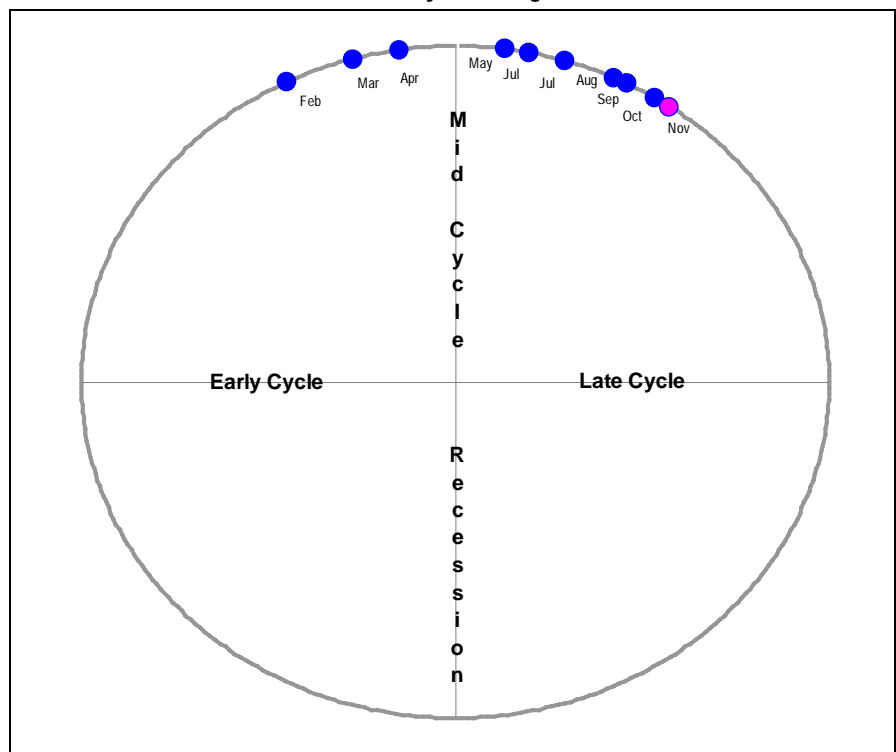
50% think the economy is “mid-cycle”; while 44% see it as “late-cycle”

Table 3: At This Time, in Which Phase of the Economic Cycle Would You Say the Global Economy is?

% saying:	Nov	Oct	Sep	Aug
Early-cycle	4	4	5	5
Mid-cycle	50	52	59	57
Late-cycle	44	41	34	34
Recession	0	1	0	1
Where Are We (In Terms of Degrees*)	215^o	207^o	205^o	197^o
Don't know	1	2	2	3

* To track how managers think we are progressing through the economic cycle, we've expressed their answer as if positioned on a circle. We have positioned “recession” at 0°, “early cycle” at 90°, “mid-cycle” at 180° and “late cycle” at 270° and calculated an overall position from those four locations.

Chart 1: Phases of the Global Economic Cycle, In Degrees*



This chart tracks, in “degrees”, how managers’ assessment of where we are in the economic cycle has changed over time. When we asked in February, the answer was firmly in “early-cycle” range; it is now into mid-cycle

* To track how managers think we are progressing through the economic cycle, we've expressed their answer to the question above as if positioned on a circle. We have positioned “recession” at 0°, “early cycle” at 90°, “mid-cycle” at 180° and “late cycle” at 270° and calculated an overall position from those four locations. This chart tracks how managers’ views of where we are in the cycle has changed this year – there’s been a steady climb upward from “early-cycle” to “mid-cycle”.

Table 4: How do You Think the Global Real Economy Will Develop Over the Next 12 Months?

% saying:	Nov	Oct	Sep	Aug
Get a Lot Stronger	1	1	1	2
Get a Little Stronger	31	29	32	31
Stay the Same	18	15	19	14
Get a Little Weaker	46	51	43	48
Get a Lot Weaker	3	4	4	5
Net % Expecting Stronger Economy	-17	-25	-14	-19
DK/Refused	0	0	0	0

A net 17% of managers expect the global economy to weaken over the next year

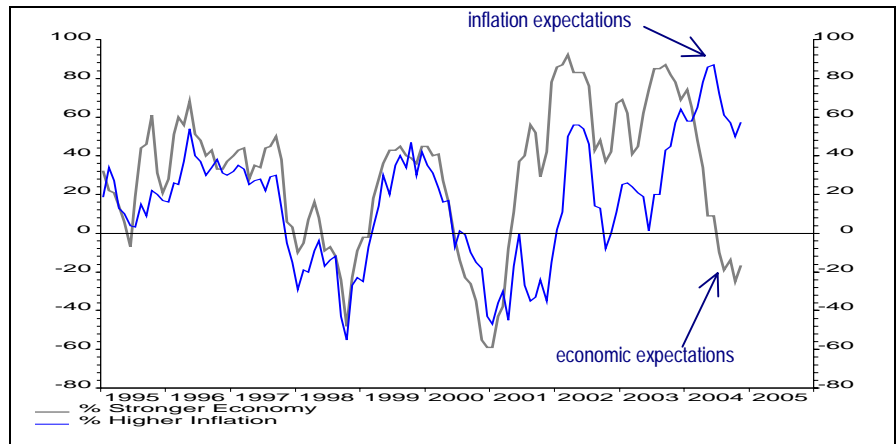
43% think the global economy has a negative output gap, 25% see no output gap

Table 5: At This Time, Do You Think the Global Economy is Operating ...

% saying	Nov	Oct	Sep	Aug
With a positive output gap (i.e. output above its long-term sustainable growth path)	24	29	25	29
With a negative output gap (i.e. output below its long-term sustainable growth path)	43	41	42	42
With a zero output gap (i.e. output in line with its long-term sustainable growth path)	25	25	28	22
Net % See a Positive Output Gap	-19	-12	-17	-13
Don't know	8	6	5	7

A tick up in growth and inflation expectations

Chart 2: Expectations for Economic Growth vs Expectations for Inflation



A net 9% think the global profit environment is deteriorating

Table 6: Over the Next 12 Months, Do You Think the Outlook for Corporate Profits World-Wide Will ...

% saying:	Nov	Oct	Sep	Aug
Improve Strongly	1	0	2	2
Improve Slightly	38	31	35	30
Remain Unchanged	12	13	16	17
Deteriorate Slightly	44	50	38	45
Deteriorate Strongly	4	4	8	6
Net % Expecting Corporate Profits to Improve	-9	-23	-9	-18
DK/Refused	1	1	1	1

Table 7: What is Your % Forecast for Global EPS Growth Over the Next 12 Months?

% saying:	Nov	Oct	Sep
Minus 25% or less	0	0	0
Minus 20%	1	0	0
Minus 15%	1	0	1
Minus 10%	2	3	3
Minus 5%	5	8	5
Zero	4	4	5
Plus 5%	37	42	33
Plus 10%	39	31	37
Plus 15%	4	4	9
Plus 20%	0	0	1
Plus 25% or more	0	0	0
Average EPS %	5.9	5.4	6.5
DK / Refused	6	7	7

Chart 3: Profit Expectations and EPS Forecasts

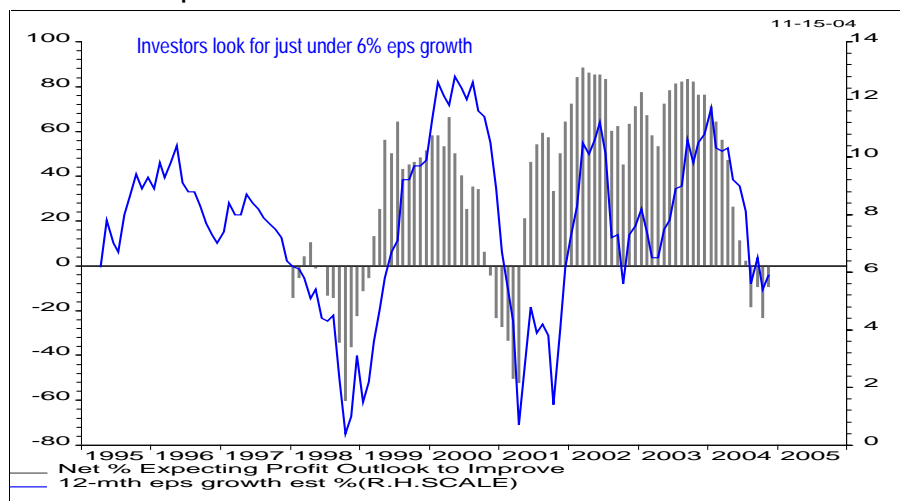
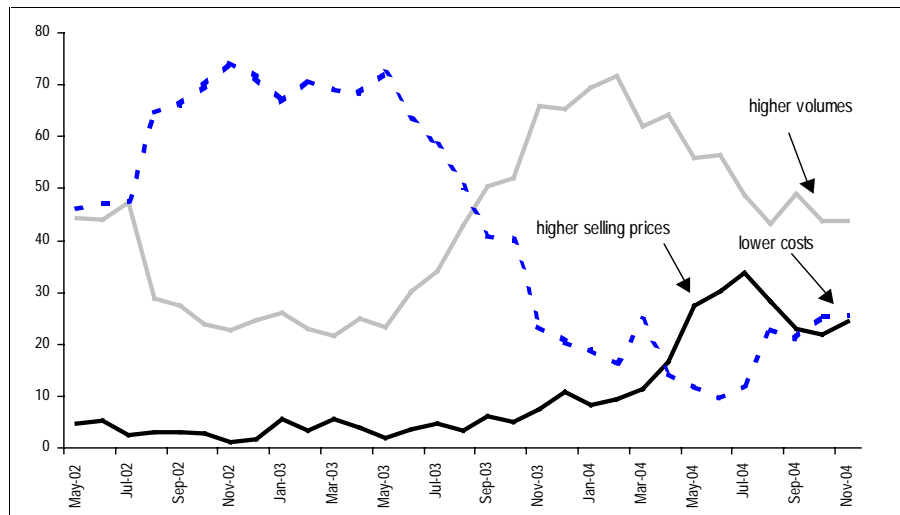


Table 8: What Do You See as the Most Positive Contributor to Global Corporate Earnings Over the Next Twelve Months?

% saying:	Nov	Oct	Sep	Aug
Higher Volumes	44	44	49	43
Higher Selling Prices	24	22	23	28
Lower Costs	26	26	21	23
DK/Refused	6	9	7	6

44% of managers think higher volumes will drive earnings growth

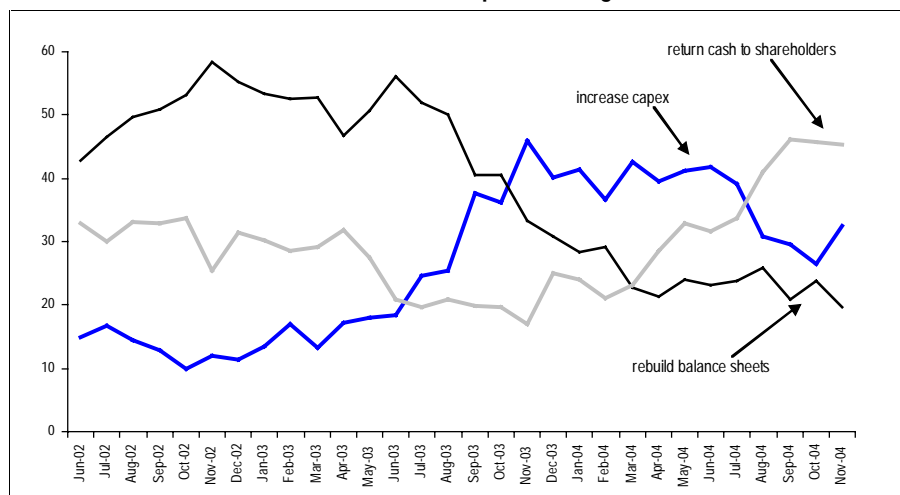
“Lower costs” as a driver of earnings has overtaken “higher selling prices”

Chart 4: What’s the Most Positive Contributor to Earnings Over the Next Twelve Months?


45% of the panel want corporate cash returned to shareholders

Table 9: What Would You Most Like to See Companies Doing With Cash Flow at the Current Time?

% saying:	Nov	Oct	Sep	Aug
Increase capital spending	32	26	30	31
Improve balance sheets (e.g. repay debt, top up company pension plan)	20	24	21	26
Return cash to shareholders (increased share buybacks / dividends)	45	46	46	41
Don't Know / Refused / Other	3	4	3	2

Chart 5: What Would You Most Like to See Companies Doing With Cash Flow?


4. Interest Rate Prospects

Table 10: Inflation & Monetary Policy

% saying:		Nov	Oct	Sep
In 12m, Will	A Lot Higher	1	3	4
Global Core Inflation	Slightly Higher	67	65	67
Be...	Unchanged	19	19	18
	Slightly Lower	11	11	10
	A Lot Lower	0	1	0
Net % Saying Higher		50	57	57
Do You Think Global Monetary Policy is...	Too Stimulative	37	44	43
	About Right	57	51	51
	Too Restrictive	4	1	4
Net % Saying Too Stimulative		27	33	42

Chart 6: Expectations for Inflation and Assessment of Interest Rates

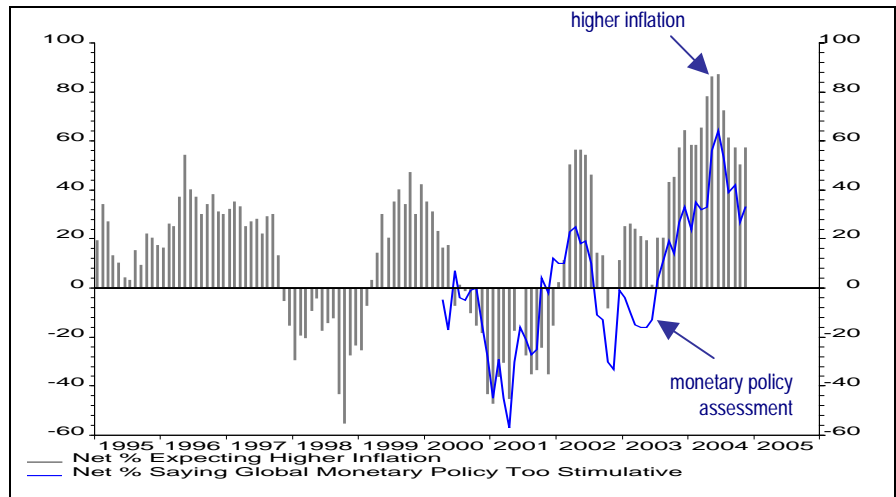


Table 11: Outlook for Rates

% saying:		Nov	Oct	Sep
In 12 Months, Will Short-Term Interest Rates Be...	A Lot Higher	10	11	18
	Slightly Higher	80	81	76
	Unchanged	6	5	6
	Slightly Lower	4	2	1
	A Lot Lower	0	1	0
Net % Saying Higher		85	81	90
In 12 Months, Will Long-Term Interest Rates Be...	A Lot Higher	15	9	9
	Slightly Higher	67	69	64
	Unchanged	12	13	15
	Slightly Lower	6	7	11
	A Lot Lower	1	1	1
Net % Expect Higher		75	65	70

Chart 7: Outlook for Rates

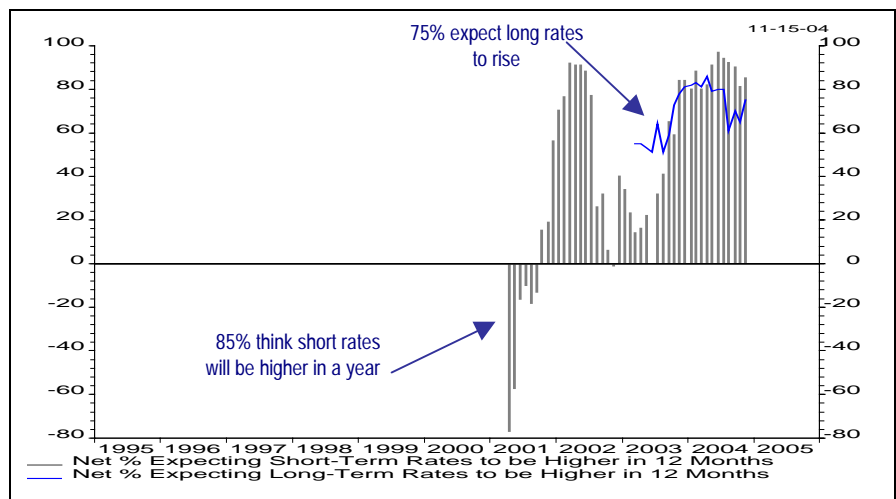


Table 12: Which one of the following factors is most responsible for your expectations of core inflation?

Of managers expecting higher inflation, the most commonly cited driver is commodity prices

% saying:	Of Managers Expecting Higher Inflation:			
	Nov	Oct	Sep	Aug
Total % Saying Inflation Will Be "Slightly" or "A Lot" Higher:	68	63	68	71
Commodities	33	39	30	34
Wages	20	12	23	19
Productivity	8	7	9	8
Profit margins	4	2	3	3
None of the above	3	3	2	6
Don't know	1	1	1	1

A net 96% think the next move in Fed funds is up

Table 13: Do you think the next move in Fed Funds will be up or down?

% saying:	Nov	Oct	Sep	Aug
Up	97	95	98	98
Down	1	1	0	0
Net % Saying Up	96	94	98	98
DK/Refused	2	4	2	2

The majority of investors think the Fed will raise rates within three months

Table 14: And when do you expect this move by the Fed?

% saying:	Nov	Oct	Sep	Aug
Total % Expecting Next Move to be Up	97	95	98	98
In 3 months' time or less	91	78	83	85
In 6 months' time	5	16	11	9
In 9 months' time	0	0	1	2
In 12 months' time or more	0	0	0	0
Don't Know / Refused	0	1	1	1
Average time from now (in months)	3	4	3	3

Both equity and debt fund managers think 3% is a "neutral" Fed rate

Table 15: At this time, what do you consider to be a neutral Fed Funds rate (i.e. one that is neither stimulative nor restrictive)?

% saying:	Equity Fund Managers	Fixed Income Fund Managers*
1% or less		0
2%		20
3%		47
4%		30
5%		2
6% or more		0
"Neutral" Fed Funds Rate	3.1 (3.0% last month)	3.1 (3.1% last month)
Don't know		1

* Results from the Merrill Lynch FX & Debt Investor Survey

5. Equity Valuation

On balance, a net 10% think global equities are undervalued...

Table 16: Do You Think Global Equity Markets are Currently . . .

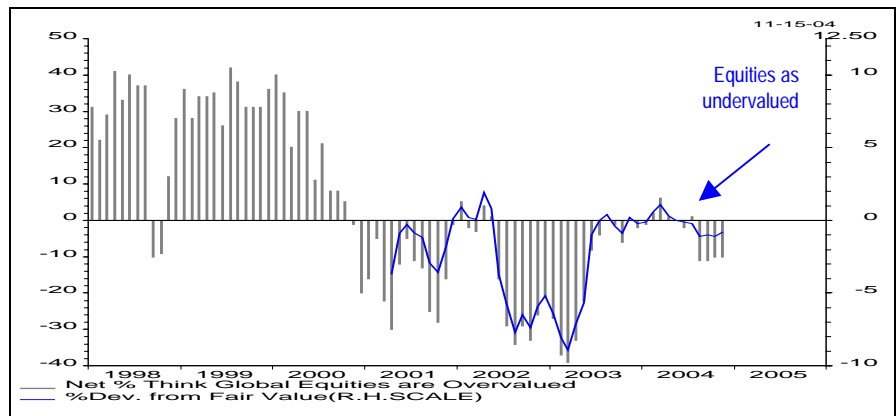
% saying:	Nov	Oct	Sep	Aug
Overvalued	14	16	16	17
Fairly Valued	60	56	54	54
Undervalued	24	26	28	28
Net % Saying "Overvalued"	-10	-10	-11	-11
DK/Refused	2	2	2	1

...But in percentage terms, equities are only 1% below fair value

Table 17: If You Think Global Equity Markets are Over or Undervalued, by About How Much Would You Say?

% saying:	Nov	Oct	Sep	Aug
More than 25% overvalued	1	2	1	2
20% overvalued	2	1	2	3
15% overvalued	3	2	3	2
10% overvalued	5	6	7	5
5% overvalued	2	4	2	4
Fair Value	60	56	54	54
5% undervalued	6	4	5	4
10% undervalued	13	15	15	16
15% undervalued	5	7	7	6
20% undervalued	0	1	1	2
More than 25% undervalued	0	0	0	0
Mean Deviation from Fair Value (%)	-1	-1	-1	-1
DK/Refused	2	4	2	5

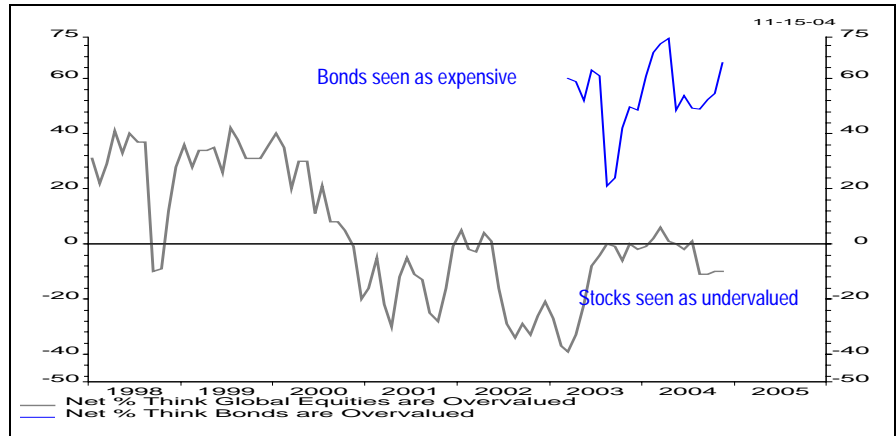
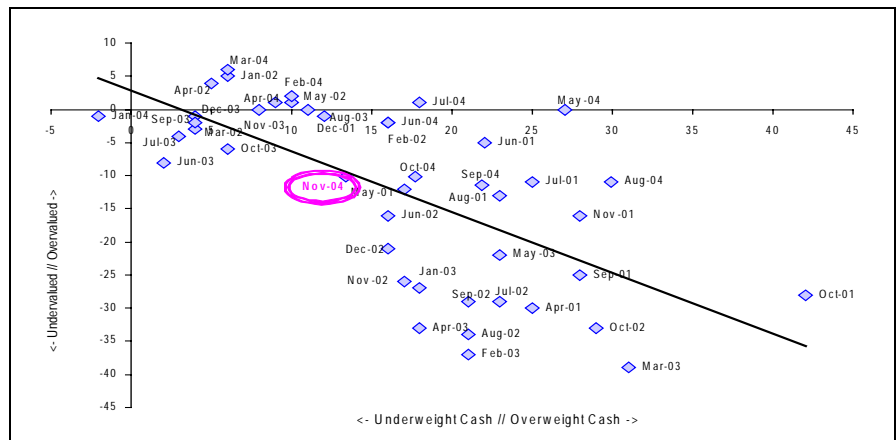
Chart 8: Equity Valuation and Mean Deviation of Equities from Fair Value



Equities seen at fair value, but 66% think bonds are overvalued (to see what fixed income managers think see the last pages)

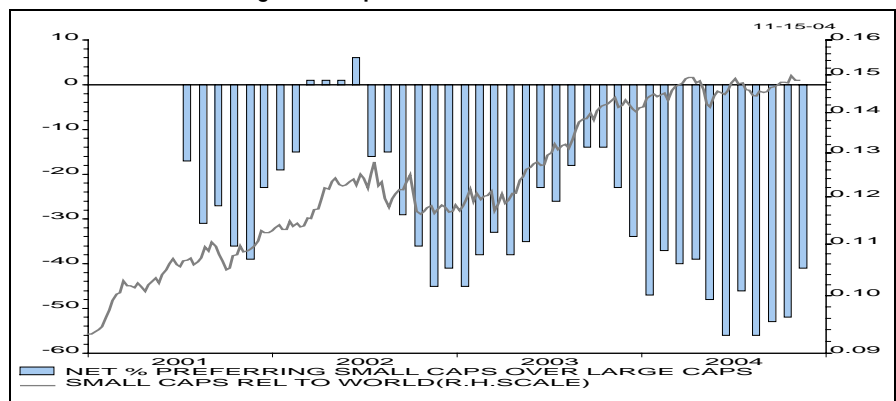
Table 18: Do You Think Global Bond Markets are Currently . . .

% saying:	Nov	Oct	Sep	Aug
Overvalued	68	58	58	54
Fairly Valued	26	34	31	36
Undervalued	3	3	5	6
Net % Say Overvalued	66	55	52	49
DK/Refused	3	6	6	5

Chart 9: Equity Valuation vs Bond Market Valuation

Chart 10: Equity Valuation and Net % of Managers Overweight Cash

Table 19: In the Current Environment, Do You Prefer Large-Cap or Small Cap Stocks?

Large-caps preferred by a wide margin to small-caps

% saying:	Nov	Oct	Sep	Aug
Large-Cap	54	62	61	65
Small-Cap	13	9	8	9
No Preference	28	25	26	22
Net Preferring Small Caps	-41	-52	-53	-56
DK/Refused	5	4	5	5

Chart 11: Net % Preferring Small Caps and Relative Performance


6. Risk Assessment

Investors use an equity risk premium of around 3.7%

Chart 12: Estimated ERP

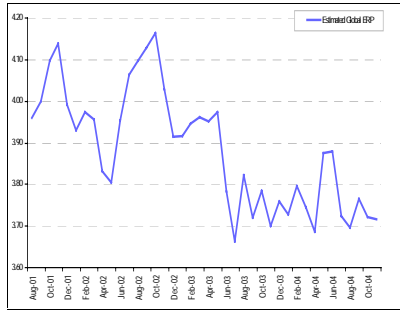


Table 20: Looking Ahead, What's the Appropriate ERP With Which To Assess Equity Valuations?

% saying:	Nov	Oct	Sep	Aug
1% or less	1	0	1	1
2%	4	2	1	4
3%	36	37	39	33
4%	31	32	32	33
5%	12	11	10	10
6%	5	1	3	3
7%	1	1	1	1
8% or More	0	0	1	0
Estimated ERP (%)	3.7	3.7	3.8	3.7
DK/Refused	10	16	11	15

Table 21: Risk Appetite & Investing Time Horizons

% saying:	Nov	Oct	Sep
How would you describe your current investment time horizon?			
Longer than normal	4	7	7
Normal	70	64	65
Shorter than normal	24	27	26
Net % Say Longer Than Normal	-21	-20	-19
DK/Refused	2	2	2
What level of risk are you currently taking in your investment strategy / portfolio, relative to your benchmark?			
Higher than normal	16	12	10
Normal	58	57	60
Lower than normal	24	29	28
Net % Say Higher Than Normal	-8	-16	-19
DK/Refused	2	2	3

Chart 13: Risk Appetite & Investing Time Horizons

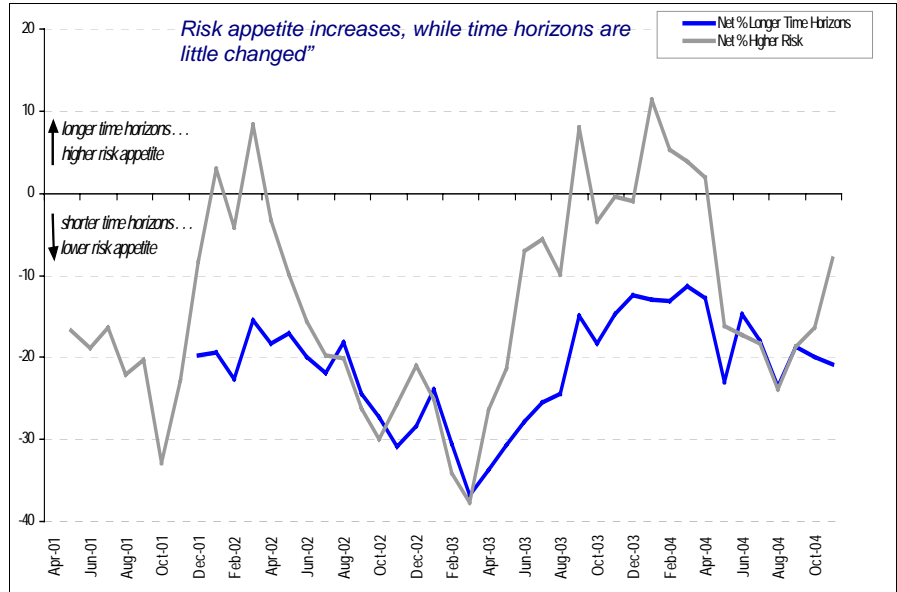
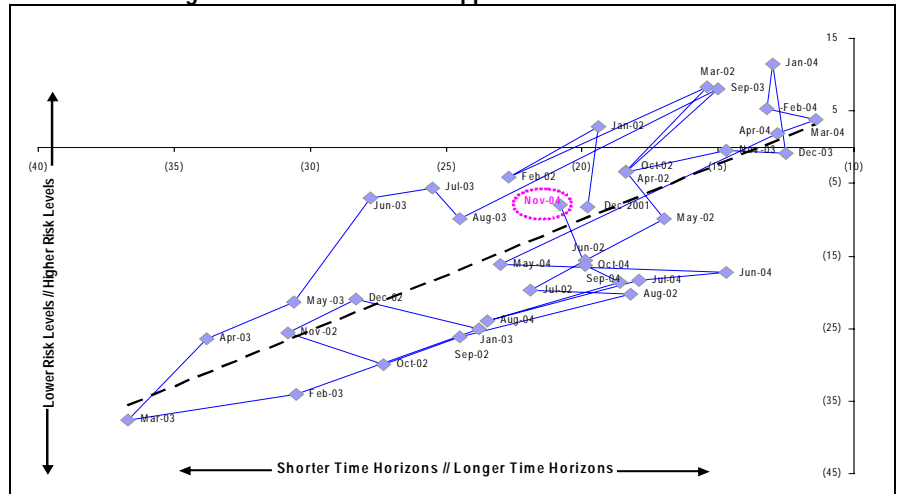


Chart 14: Investing Time Horizons and Risk Appetite



This chart plots the relationship between risk appetites and time horizons, and shows that generally they tend to move together.

7. Cash Positions

13% of the panel are overweight cash

Table 22: Are You Currently Overweight, Underweight or Neutral Cash Relative to Your Benchmark?

% saying:	Nov	Oct	Sep	Aug
Overweight	28	30	34	41
Neutral	42	42	41	27
Underweight	14	12	12	11
Net Balance Overweight	13	18	22	30
Not Applicable/DK	16	16	12	21

Average cash in portfolios is around 4.6%

Table 23: Which of the Following Comes Closest to Your Current Cash Position?

% saying:	Nov	Oct	Sep	Aug
0%	14	19	14	17
2%	25	25	27	19
4%	20	18	16	18
6%	8	9	11	12
8%	6	4	6	6
10%	5	5	7	7
12% or more	11	12	11	12
Mean Cash Balance (%)	4.6	4.4	4.7	4.8
Not Applicable/DK	10	9	9	11

A net 20% of managers report net cash inflows to their funds over the last three months. 33% say inflows broadly match outflows

Table 24: Over the Last Three Months, Have You Seen Net Inflows or Outflows to the Equity Funds You Manage?

	Nov	Oct	Sep	Aug
Net Cash Inflows	31	29	33	29
Net Cash Outflows	12	17	13	15
No Change (ie inflows match outflows)	33	32	31	35
Net % Seeing Inflows	20	12	20	13
NA / Don't Know	24	22	22	21

Chart 15: Net % of Managers Reporting Net Inflows

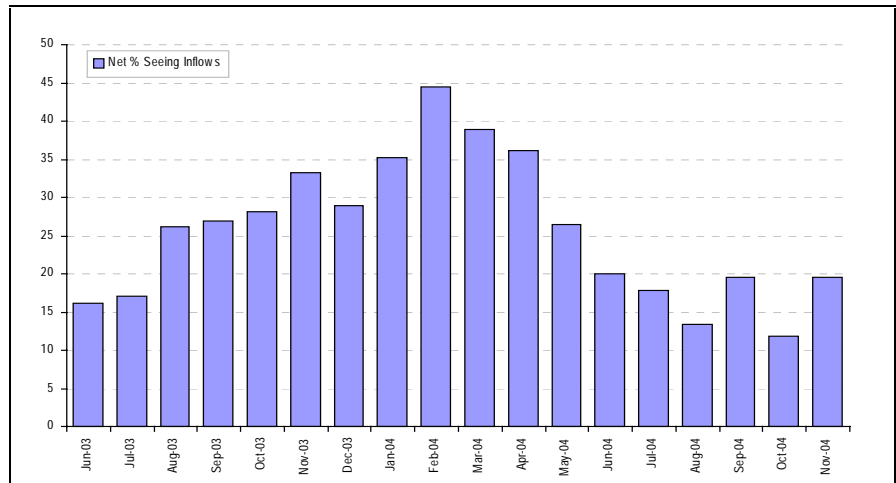
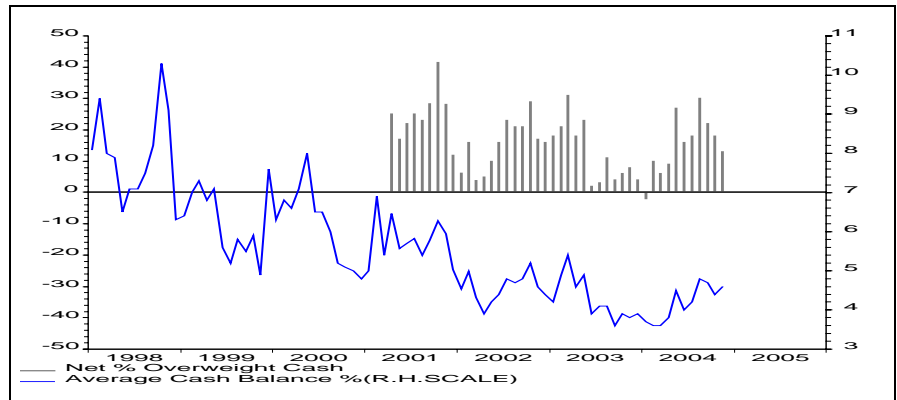


Chart 16: Net Overweight Cash and Mean Cash Balance

Cash positions up slightly



Please note that the sample of hedge funds is low, please use the hedge fund results as indicative only.

Chart 17: Net Overweight Cash and Mean Cash Balance

This chart shows the same data in Chart 16, but as a scatter so the trend and any outliers can be seen.

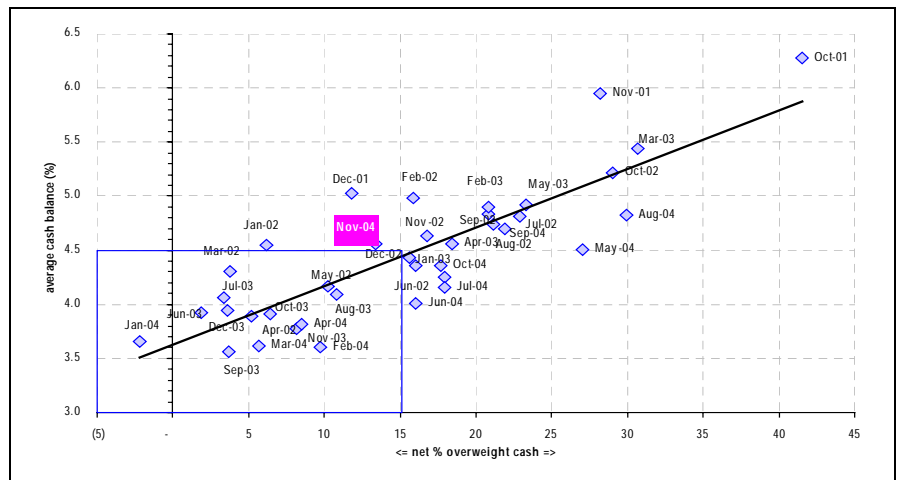
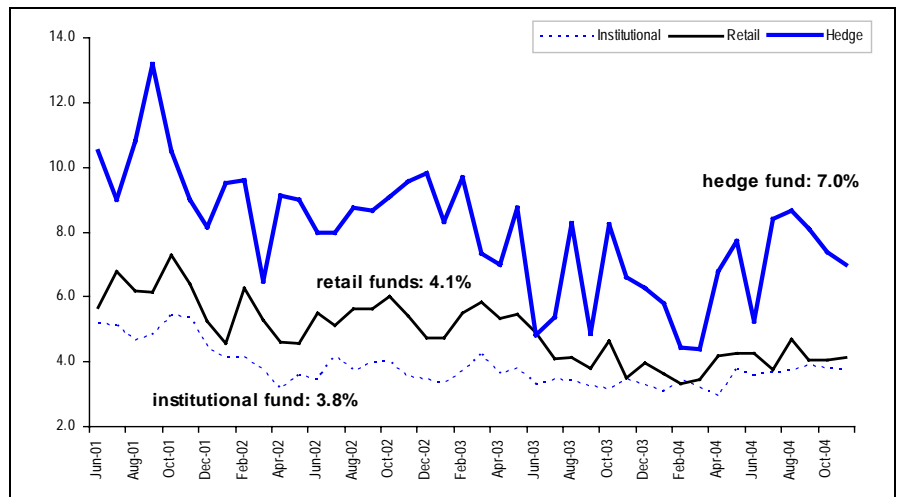


Chart 18: Cash Balances By Type of Fund

Hedge funds are the most liquid



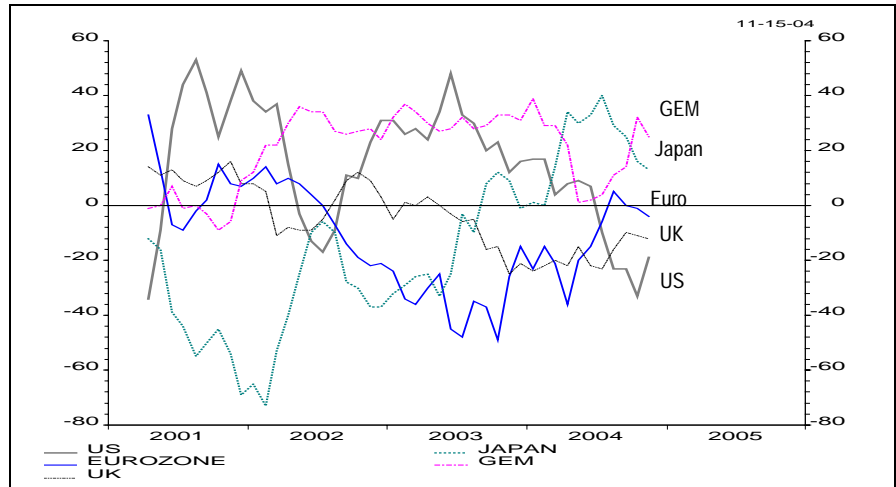
Please note that the sample of hedge funds is low, please use the hedge fund results as indicative only.

8. Regional Preferences

Where is the Outlook for Corporate Profits Most / Least Favourable?

% saying:		Nov	Oct	Sep
Most	US	14	7	11
	Eurozone	21	20	21
	UK	3	4	7
	Japanese	22	23	31
	Global Emg Mkt	32	37	23
Least	US	32	40	34
	Eurozone	25	21	21
	UK	15	15	17
	Japanese	8	7	6
	Global Emg Mkt	7	5	9
Net	US	-19	-33	-23
	Eurozone	-4	-1	0
	UK	-12	-11	-10
	Japanese	13	16	25
	Global Emg Mkt	25	32	14

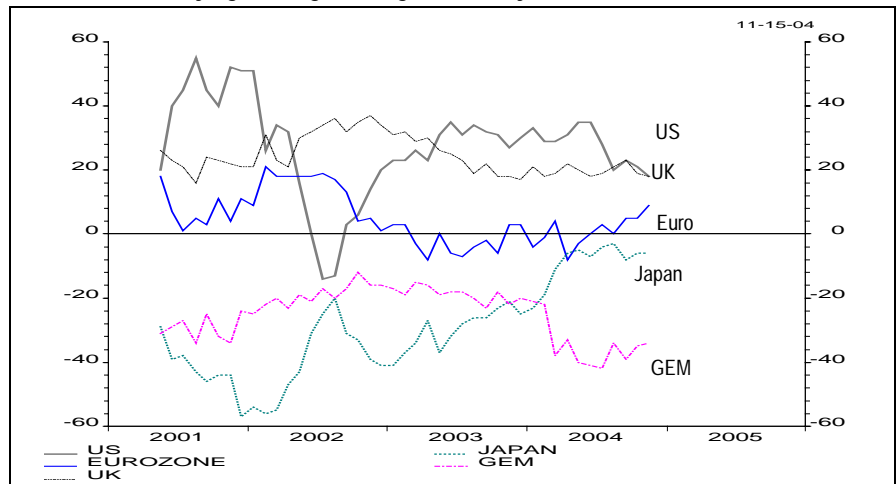
Chart 19: Net % Saying Profit Outlook is Most Favorable



In Which Region is the Quality* of Earnings the Best / Worst?

% saying:		Nov	Oct	Sep
Best	US	34	35	35
	Eurozone	16	14	12
	UK	20	21	25
	Japanese	8	10	8
	Global Emg Mkt	6	5	5
Worst	US	16	14	12
	Eurozone	7	8	7
	UK	2	3	2
	Japanese	14	16	16
	Global Emg Mkt	40	40	44
Net	US	18	21	23
	Eurozone	9	5	5
	UK	18	19	23
	Japanese	-6	-6	-8
	Global Emg Mkt	-34	-35	-39

Chart 20: Net % Saying Earnings are Highest Quality

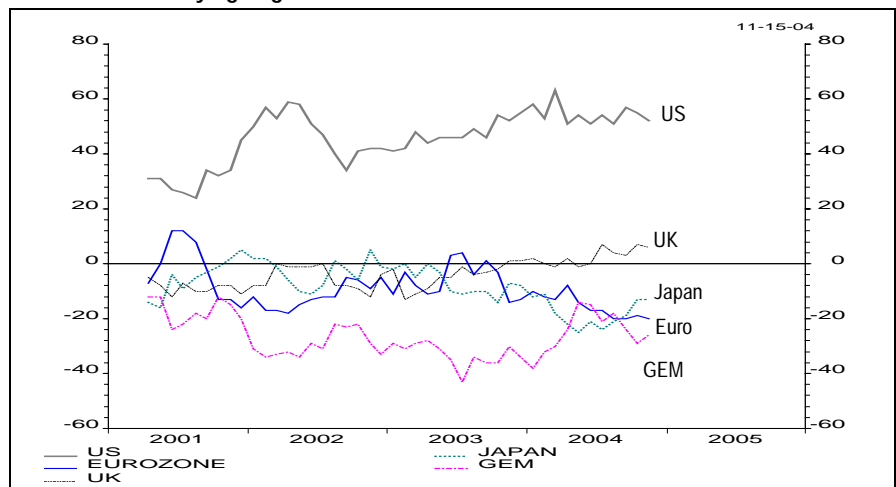


* Most / Least Volatile Earnings

Which of the Following Equity Markets is Most Overvalued / Most Undervalued?

% saying:		Nov	Oct	Sep
Over	US	56	59	61
	Eurozone	5	7	6
	UK	12	12	9
	Japanese	6	8	6
	Global Emg Mkt	7	5	6
Under	US	4	4	3
	Eurozone	25	26	26
	UK	5	5	6
	Japanese	19	21	25
	Global Emg Mkt	33	34	30
Net	US	52	55	57
	Eurozone	-20	-19	-20
	UK	6	7	3
	Japanese	-13	-13	-19
	Global Emg Mkt	-26	-29	-24

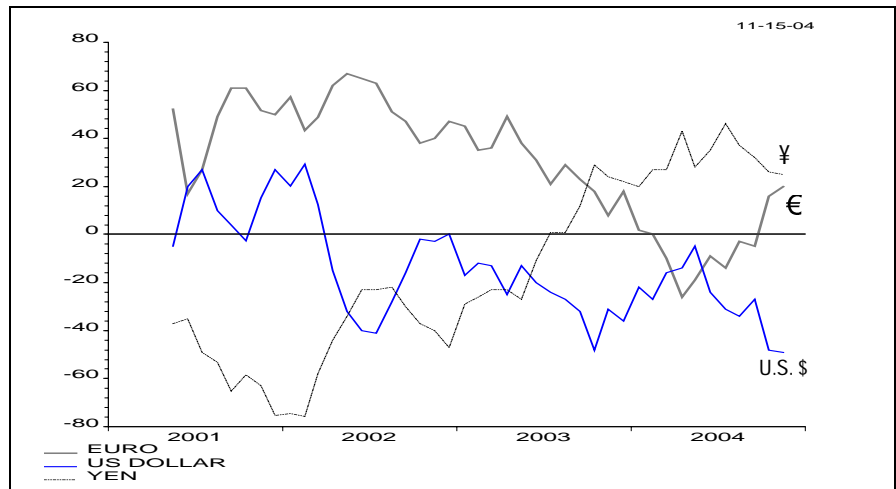
Chart 21: Net % Saying Region is Most Overvalued



Over the next 12 months, which currency do you expect to appreciate / depreciate the most on a trade-weight basis?

% saying:		Nov	Oct	Sep
Appreciate	USD	16	13	20
	EUR	37	31	21
	YEN	29	34	37
Depreciate	USD	65	61	47
	EUR	17	15	26
	YEN	4	8	5
Net	USD	-49	-48	-27
	EUR	20	17	-5
	YEN	25	27	32

Chart 22: Net % Think Currency Will Appreciate / Depreciate the Most



Over the next 12 months, which region would you most like to overweight / underweight?

% saying:		Nov	Oct	Sep
Most	US	10	5	6
	Eurozone	25	27	23
	UK	6	7	9
	Japanese	24	25	31
	Global Emg Mkt	27	30	21
Least	US	50	52	48
	Eurozone	13	11	9
	UK	15	14	17
	Japanese	8	8	9
	Global Emg Mkt	6	9	7
Net	US	-40	-48	-42
	Eurozone	12	16	14
	UK	-9	-7	-8
	Japanese	16	17	22
	Global Emg Mkt	21	21	14

Chart 23: Net % Would Overweight the Region on a 12-month View

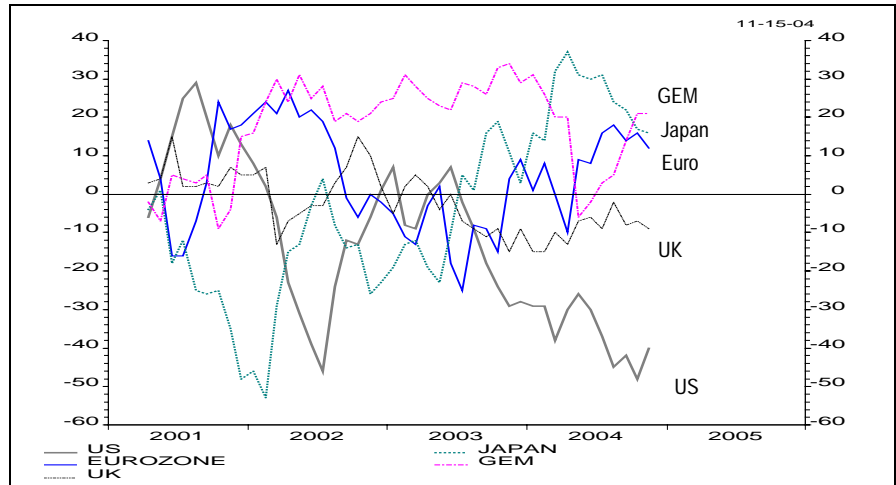


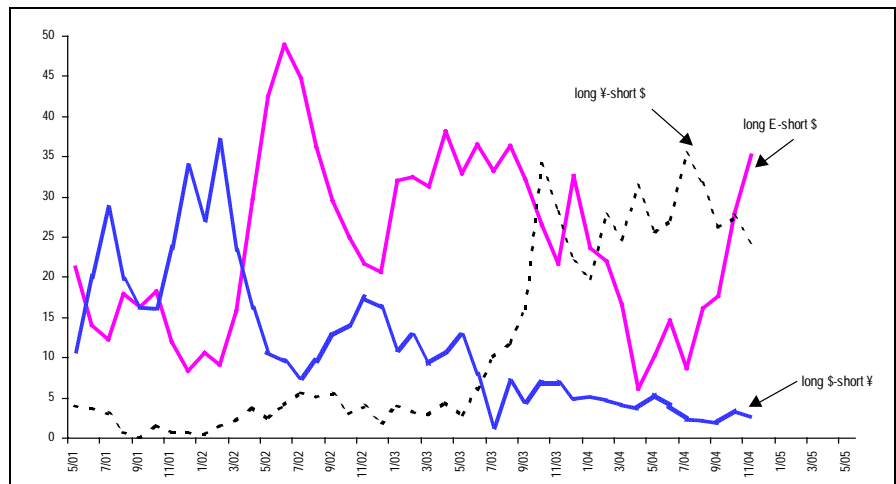
Table 25: Implied Equity Pair Trade

"Long"	"Short"				
	US	Euro	UK	Japan	GEM
U.S.		5	2	0	1
Eurozone	16		3	4	2
UK	3	0		2	0
Japan	12	3	6		2
GEM	18	4	4	1	

Table 26: Implied FX Pair Trade

"Long"	"Short"			
	USD	EUR	JPY	Don't Know
USD		13	3	0
EUR	35		1	1
JPY	24	4		0
Don't Know	6	0	0	

Chart 24: Implied Currency Pair Trade (Selected Trades)



9. Questions on China

Managers look for China's economy to weaken over the next year.

A net 35% think China's inflation will be higher over the next year

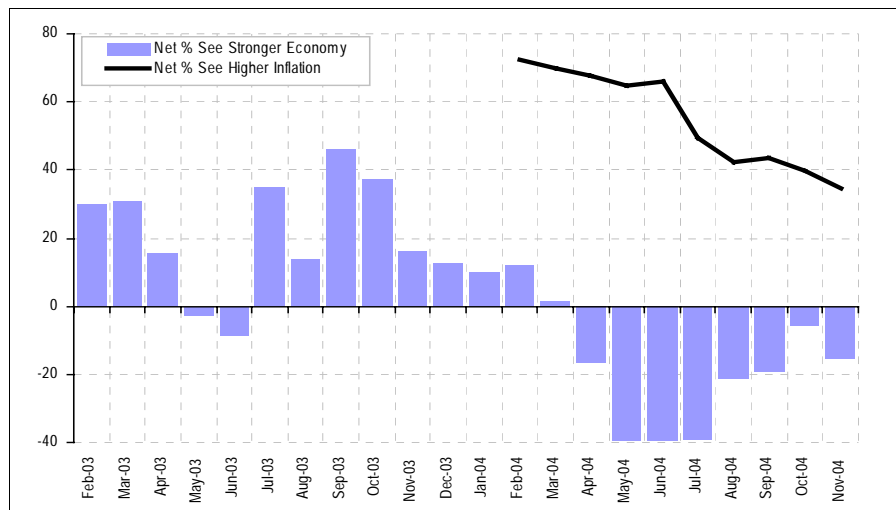
53% think the renminbi is undervalued (with managers split as to whether it is "moderate" or "significant" undervaluation)

Table 27: Assessment of China

		Nov*	Oct*	Sep*	Aug*
<i>How do you think that China's economy will develop over the next 12 months?</i>	Get a lot stronger	8	10	5	5
	Get a little stronger	22	23	20	22
	Stay the same	22	26	28	21
	Get a little weaker	42	35	40	44
	Get a lot weaker	3	3	4	5
	Net % Say Stronger	-15	-6	-19	-22
<i>In 12 months' time do you think China's inflation rate (in year-on-year terms) will be...</i>	A lot higher	8	10	10	6
	A little higher	46	47	50	53
	the Same	20	19	19	19
	A little lower	19	16	16	16
	A lot lower	1	1	0	0
	Net % Say Higher	35	40	44	42
<i>Based on current fundamentals, do you think the Chinese Renminbi is . . .</i>	Significantly overvalued	6	5		
	Moderately overvalued+	8	11	9	11
	Fairly valued	8	12	11	12
	Moderately undervalued+	34	28	57	53
	Significantly undervalued	33	31		
	Net % Say Overvalued	-53	-43	-48	-41

* now including Asia-ex-Japan panelists. + Before October, the answer options were only "overvalued" or "undervalued", we've shown this history on the "moderate" row.

Net % See Stronger Chinese Economy / Higher Inflation Over Next 12-Months



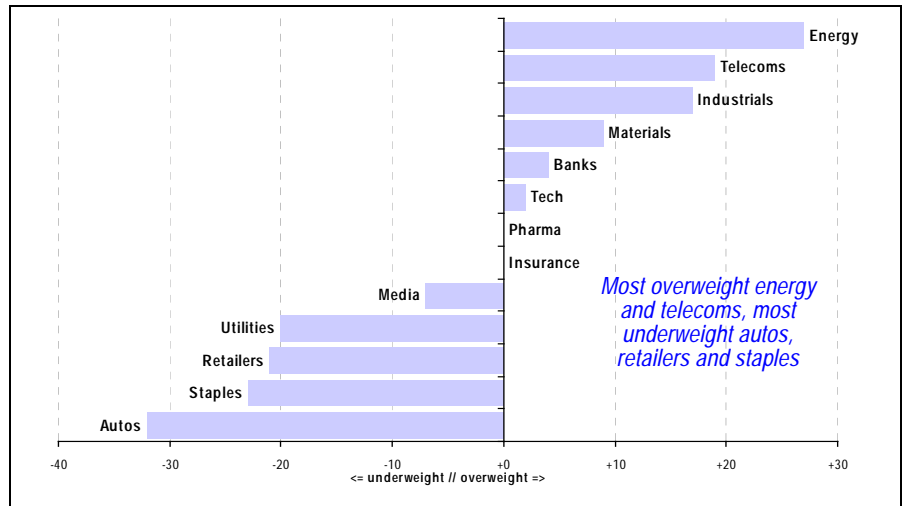
* From 2/03-8/03 question was asked of Japan & APR Specialists. From 9/03-6/04 Global specialists. From 7/04 APR plus global.

10. Global Sectors

Table 28: Net Sector Positions

	Nov	Oct
Tech	+2	-9
Banks	+4	+3
Insurance	+0	+1
Staples	-23	-21
Pharma	+0	-2
Telecoms	+19	+14
Energy	+27	+32
Materials	+9	+13
Industrials	+17	+12
Utilities	-20	-14
Retailers	-21	-26
Media	-7	-11
Autos	-32	-27

Chart 25: This Month's Snapshot – Current Sector Positioning

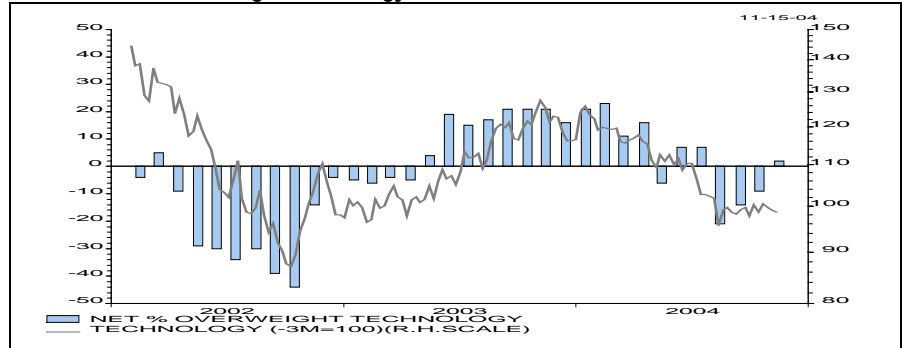


■ Sector Positions and Sector Performance Relative to World

Tech

% saying:	Nov	Oct	Sep
Aggressively Overweight	3	2	2
Moderately Overweight	24	16	18
Neutral	18	19	16
Moderately Underweight	17	17	23
Aggressively Underweight	8	10	11
Net % Overweight	2	-9	-14

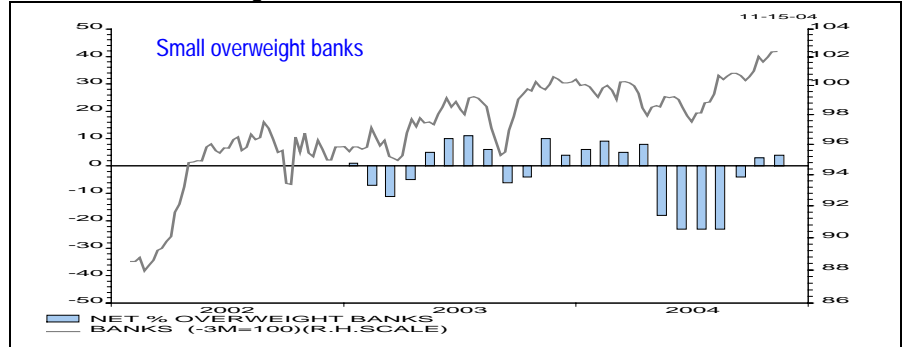
Chart 26: Net % Overweight Technology



Banks

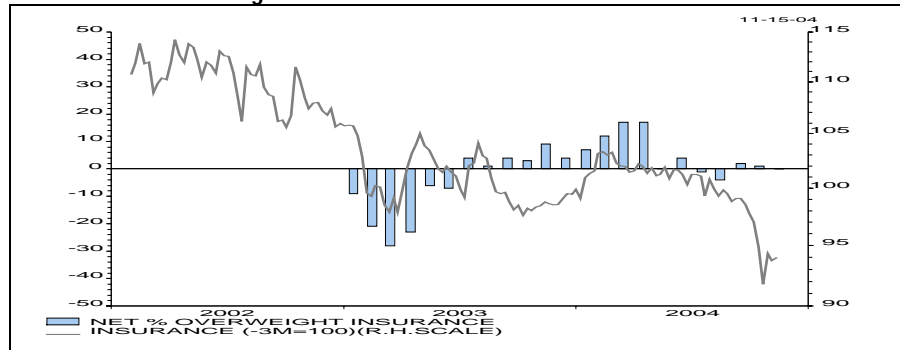
% saying:	Nov	Oct	Sep
Aggressively Overweight	6	4	2
Moderately Overweight	20	19	20
Neutral	21	20	22
Moderately Underweight	16	15	20
Aggressively Underweight	6	5	6
Net % Overweight	4	3	-4

Chart 27: Net % Overweight Banks

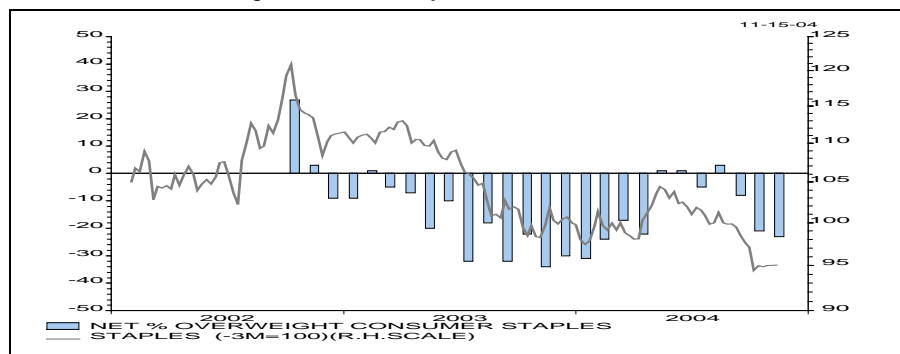


Insurance

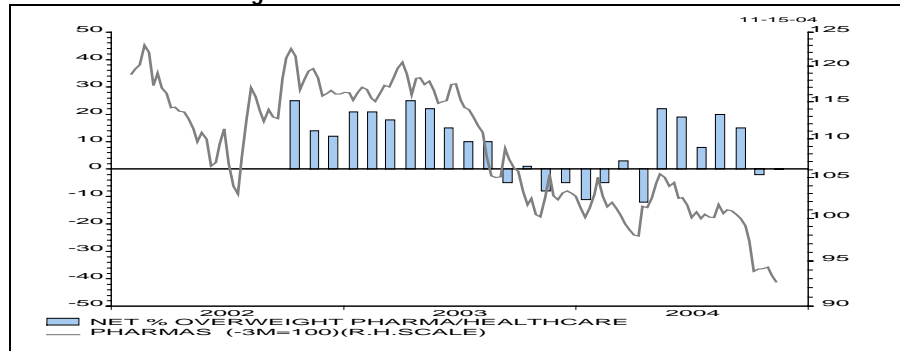
% saying:	Nov	Oct	Sep
Aggressively Overweight	5	3	5
Moderately Overweight	18	18	20
Neutral	23	24	22
Moderately Underweight	16	16	16
Aggressively Underweight	7	4	7
Net % Overweight	0	1	2

Chart 28: Net % Overweight Insurance

Consumer Staples

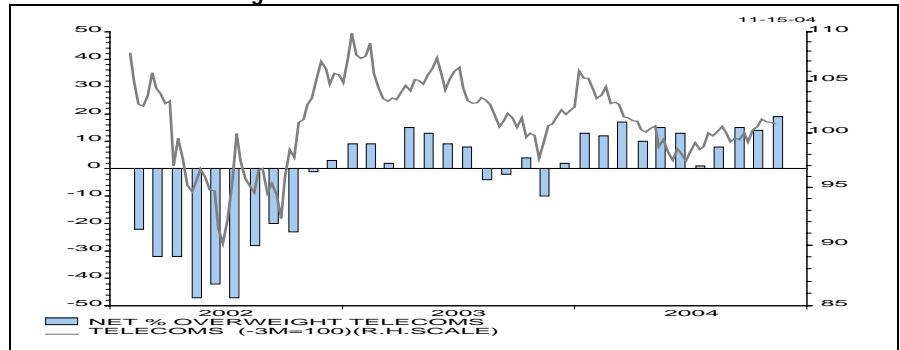
% saying:	Nov	Oct	Sep
Aggressively Overweight	2	1	5
Moderately Overweight	11	9	13
Neutral	21	23	27
Moderately Underweight	24	19	21
Aggressively Underweight	12	12	5
Net % Overweight	-23	-21	-8

Chart 29: Net % Overweight Consumer Staples

Pharma / Healthcare

% saying:	Nov	Oct	Sep
Aggressively Overweight	6	3	9
Moderately Overweight	17	16	23
Neutral	23	24	21
Moderately Underweight	16	15	14
Aggressively Underweight	7	6	3
Net % Overweight	0	-2	15

Chart 30: Net % Overweight Pharma/Health

Telecoms

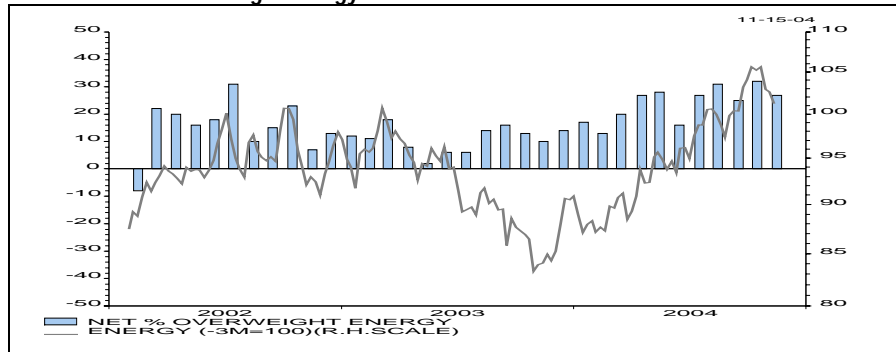
% saying:	Nov	Oct	Sep
Aggressively Overweight	8	6	8
Moderately Overweight	26	24	24
Neutral	19	19	22
Moderately Underweight	12	13	13
Aggressively Underweight	3	3	4
Net % Overweight	19	14	15

Chart 31: Net % Overweight Telecoms


Energy

% saying:	Nov	Oct	Sep
Aggressively Overweight	8	13	11
Moderately Overweight	29	26	26
Neutral	21	18	22
Moderately Underweight	9	5	9
Aggressively Underweight	1	2	3
Net % Overweight	27	32	25

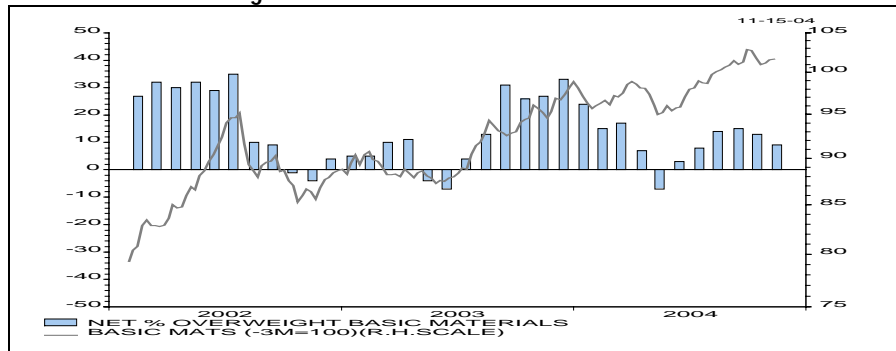
Chart 32: Net % Overweight Energy



Basic Materials

% saying:	Nov	Oct	Sep
Aggressively Overweight	4	5	9
Moderately Overweight	23	24	23
Neutral	24	19	21
Moderately Underweight	14	13	13
Aggressively Underweight	4	3	4
Net % Overweight	9	13	15

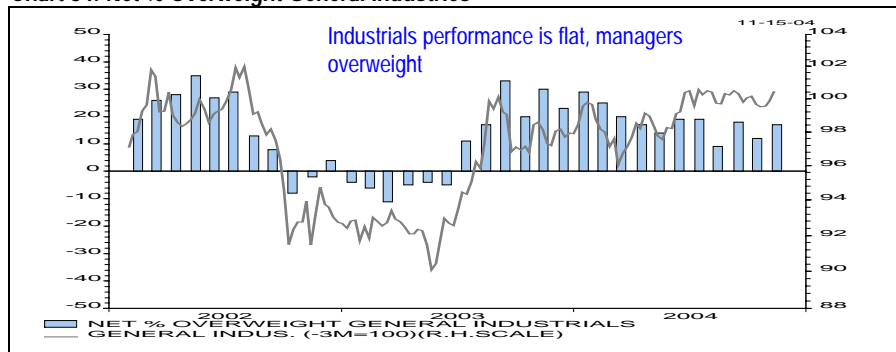
Chart 33: Net % Overweight Basic Materials



General Industrials

% saying:	Nov	Oct	Sep
Aggressively Overweight	5	5	10
Moderately Overweight	26	19	23
Neutral	24	28	24
Moderately Underweight	10	11	13
Aggressively Underweight	4	1	2
Net % Overweight	17	12	18

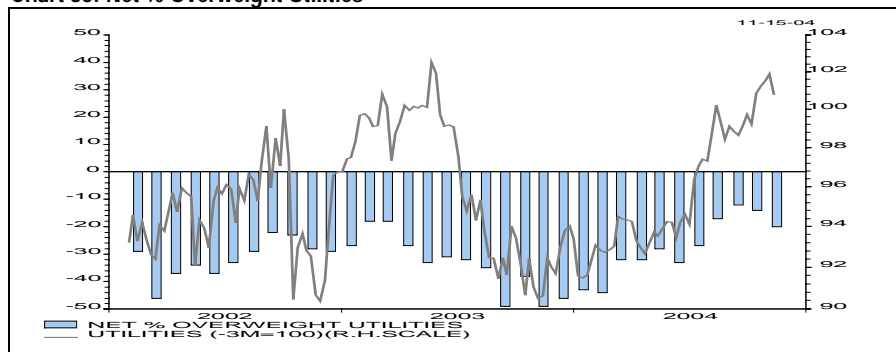
Chart 34: Net % Overweight General Industrials



Utilities

% saying:	Nov	Oct	Sep
Aggressively Overweight	2	3	5
Moderately Overweight	13	13	15
Neutral	18	18	18
Moderately Underweight	25	21	21
Aggressively Underweight	10	9	11
Net % Overweight	-20	-14	-12

Chart 35: Net % Overweight Utilities

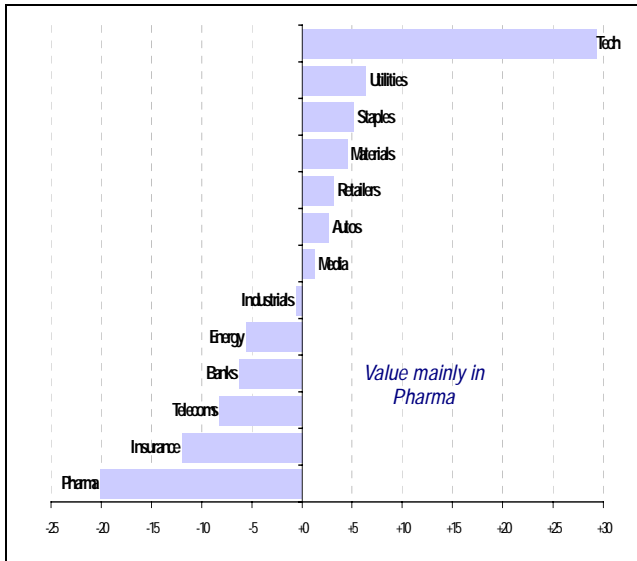


Global Sector Valuation

Table 29: Which Sector is the Most Over/Undervalued?

Net % Saying Over(Under)	Nov	Oct	Sep	Aug
Tech	+29	+37	+42	+34
Banks	-6	-10	-10	-1
Insurance	-12	-6	-4	-6
Staples	+5	+7	+3	+1
Pharma	-20	-18	-12	-17
Telecoms	-8	-6	-9	-7
Energy	-6	-5	-4	-1
Materials	+5	+4	-1	+3
Industrials	-1	-2	-3	-3
Utilities	+6	-1	-3	-2
Retailers	+3	+1	+4	+1
Media	+1	-0	-0	+3
Autos	+3	-2	-3	-3

Chart 36: Sector Valuation Assessment



Global Sector Positions vs Sector Valuation

Chart 37: Technology Weight & Valuation

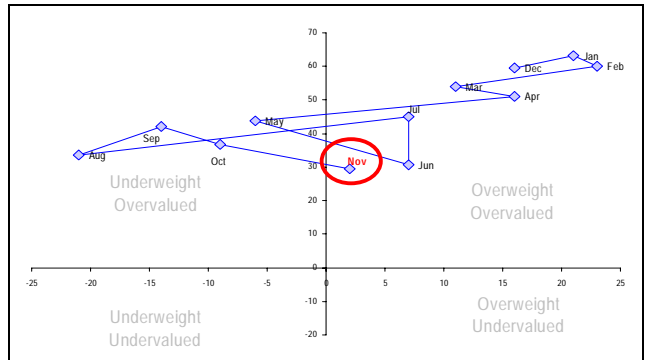


Chart 38: Banks Weight & Valuation

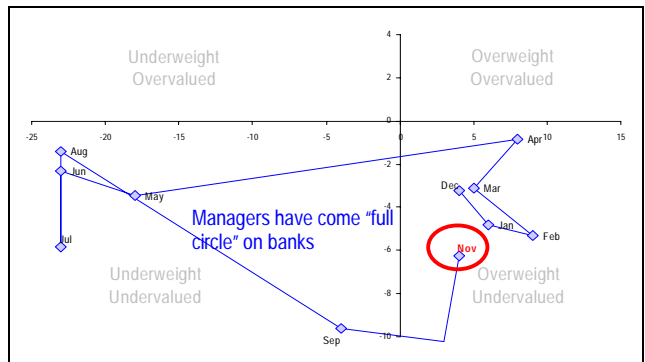


Chart 39: Insurance Weight & Valuation

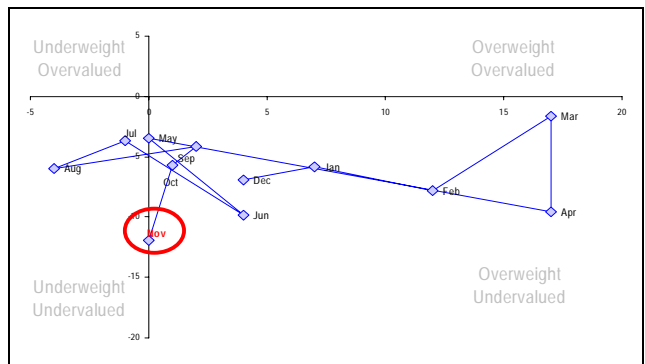


Chart 40: Staples Weight & Valuation

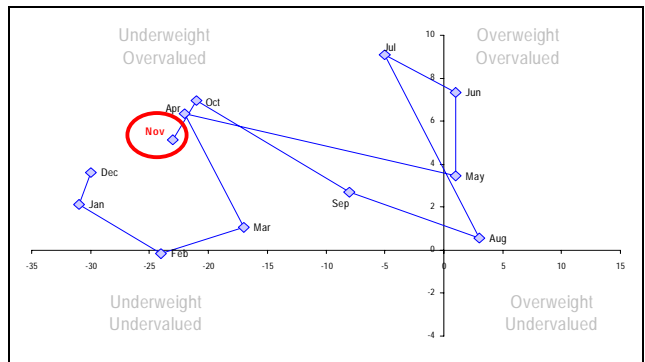


Chart 41: Pharma Weight & Valuation

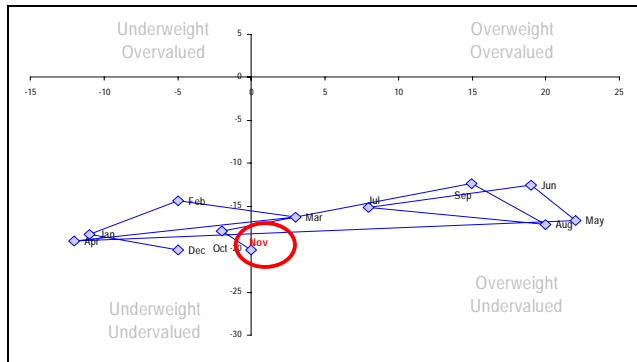


Chart 45: Industrials Weight & Valuation

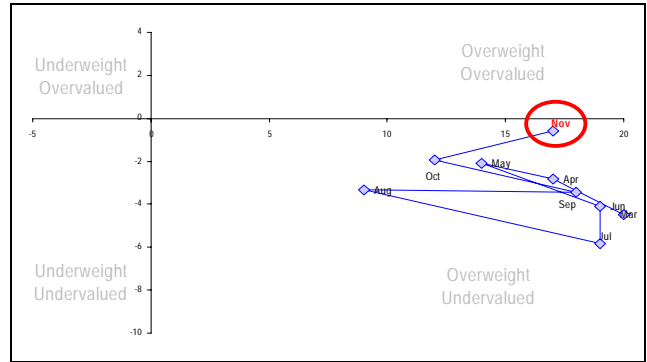


Chart 42: Telecoms Weight & Valuation

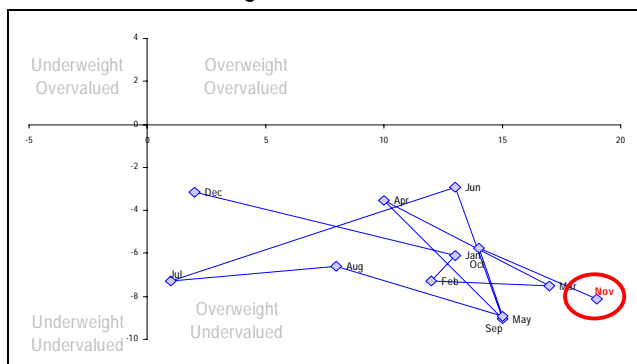


Chart 46: Utilities Weight & Valuation

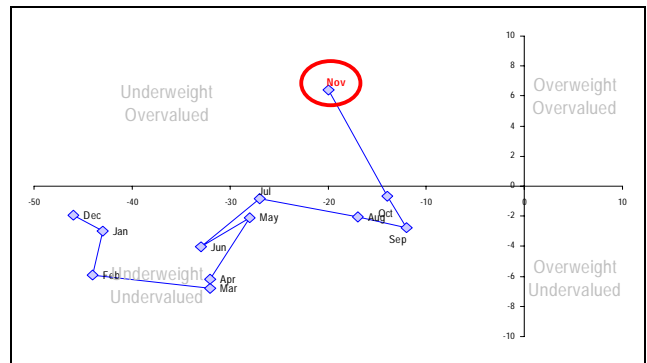


Chart 43: Energy Weight & Valuation

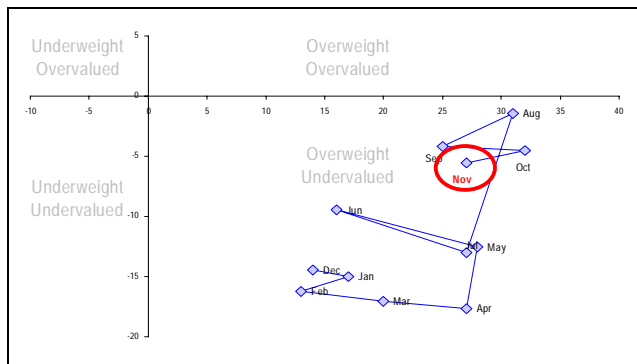


Chart 47: Retail Weight & Valuation

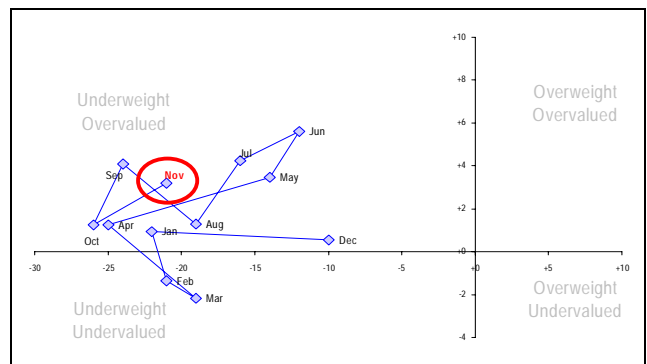


Chart 44: Materials Weight & Valuation

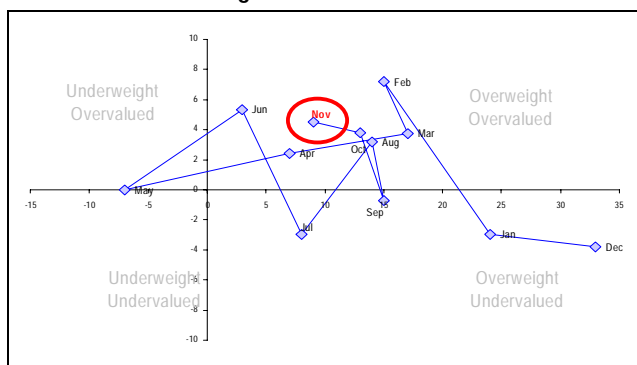
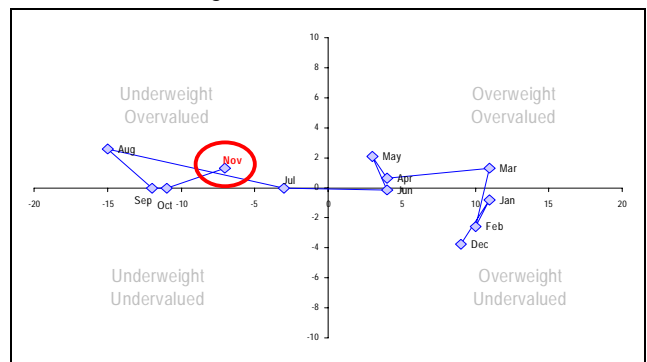


Chart 48: Media Weight & Valuation



11. Asset Allocation

Asset allocators have a 52% weighting in equities (in a cash/bond/equity fund).

What's an "Overweight" Equity Position? (Table 30 crossed by Chart 51)

Managers Who are...	Have on Average an Equity Weight of...
Overweight	56.3%
Neutral	47.8%
Underweight	45.0%

Table 30: What is Your Current Equity Weighting in a Global Mixed Fund?

% saying:	Nov	Oct	Sep	Aug
25% or less	9	7	8	7
30%	1	2	4	4
35%	4	3	4	6
40%	5	5	4	6
45%	6	8	8	10
50%	15	12	11	10
55%	13	11	11	12
60%	11	16	16	12
65%	8	9	5	4
70%	5	5	4	4
75% or more	8	8	8	6
Mean Weight (%)	52	53	52	50
DK / Refused	16	14	17	19

Asset allocators don't expect corporate bonds to outperform governments over the next year

Table 31: Over the next 12 months, do you expect corporate / high yield bonds to outperform government (sovereign) bonds?

% saying:	Nov	Oct	Sep	Aug
Yes	30	25	30	24
No	42	46	47	43
No preference - total returns will be similar	18	15	13	20
Net % Think Corporates Will Outperform	-12	-21	-17	-19
Don't Know	9	14	9	13

Opinion divided as to whether inflation-linked will beat conventionals

Table 32: Over the next 12 months, do you expect inflation-linked bonds to outperform conventional bonds?

% saying:	Nov	Oct	Sep	Aug
Yes	36	33	32	33
No	34	30	40	33
No preference - total returns will be similar	15	17	16	19
Net % Think IL Will Outperform	2	3	-8	0
Don't Know	15	20	12	15

Chart 49: Net % Think Corporate Bonds Will Outperform Government Bonds

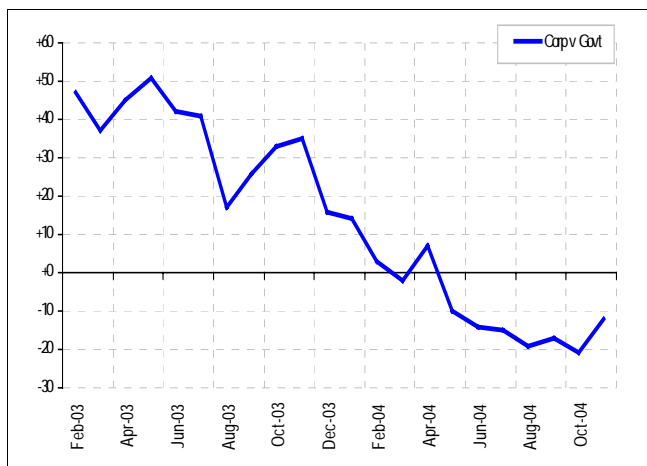
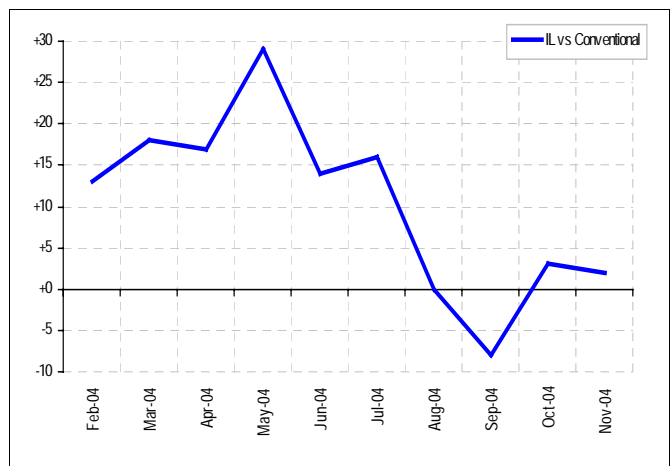


Chart 50: Net % Think Inflation Linked Bonds Will Outperform Conventional Bonds

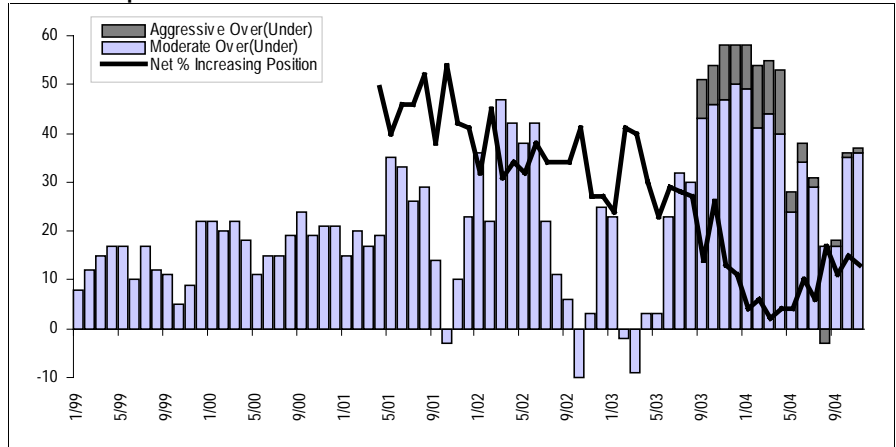


■ Assets: Current Position & Future Intentions

Equities

% saying:	Nov	Oct	Sep
Aggressively Overweight	5	5	4
Moderately Overweight	48	49	39
Neutral	25	22	27
Moderately Underweight	12	14	22
Aggressively Underweight	4	4	3
Net % Overweight	37	36	18
Increase	31	30	32
Decrease	18	15	21
Net % Increasing	13	15	11

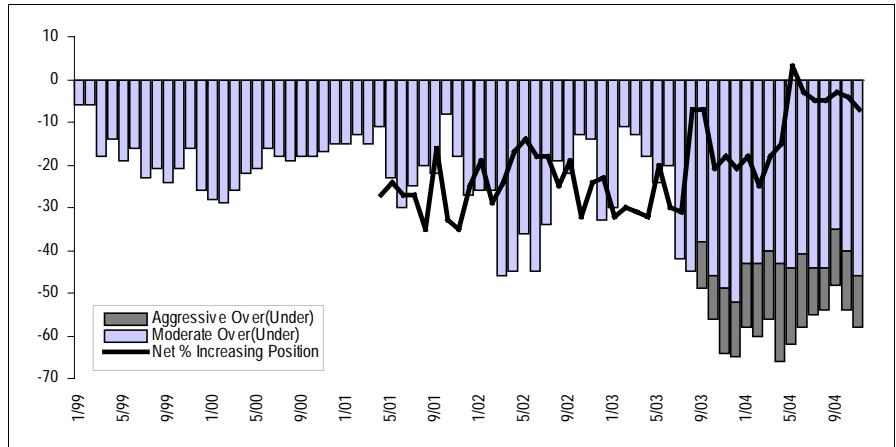
Chart 51: Equities



Bonds

% saying:	Nov	Oct	Sep
Aggressively Overweight	3	2	2
Moderately Overweight	6	6	10
Neutral	15	18	18
Moderately Underweight	52	46	45
Aggressively Underweight	15	16	15
Net % Overweight	-58	-54	-48
Increase	13	16	16
Decrease	20	20	19
Net % Increasing	-7	-4	-3

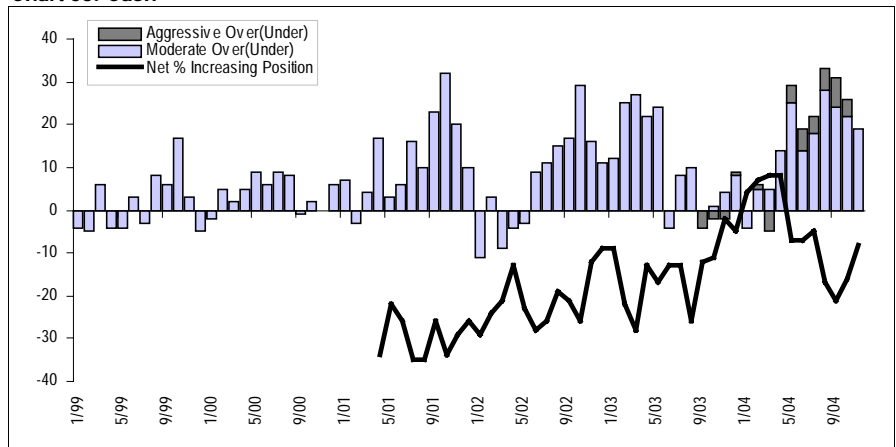
Chart 52: Bonds



Cash

% saying:	Nov	Oct	Sep
Aggressively Overweight	4	6	8
Moderately Overweight	30	33	34
Neutral	40	37	35
Moderately Underweight	11	11	10
Aggressively Underweight	4	2	1
Net % Overweight	19	26	31
Increase	13	8	9
Decrease	21	24	30
Net % Increasing	-8	-16	-21

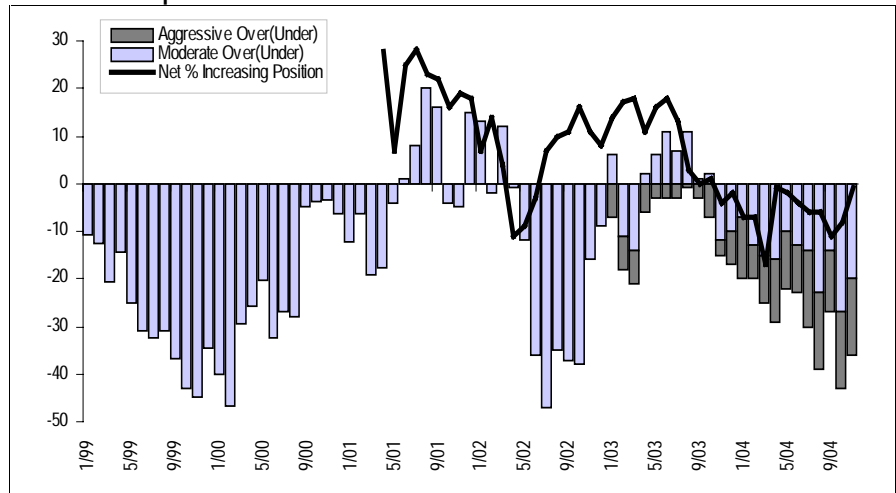
Chart 53: Cash



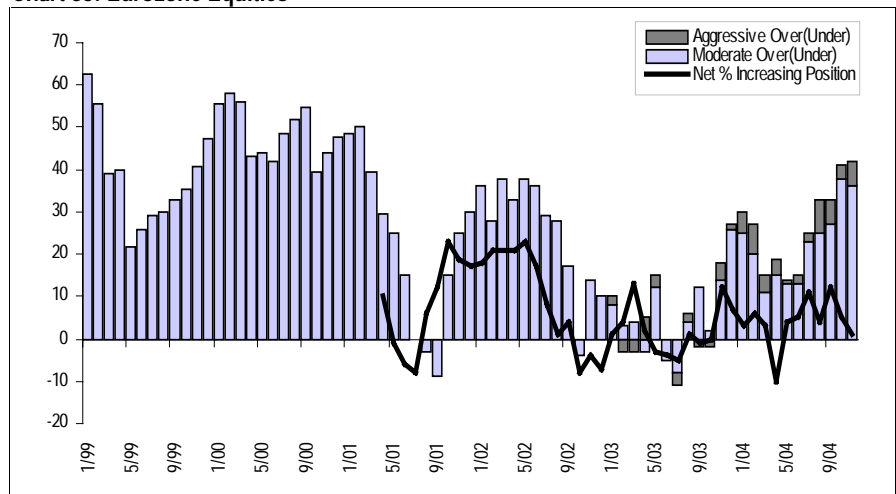
Note: all data prior to April 2001 is estimated from regional asset allocation data.

Equity Allocation: Position & Intentions
Chart 54: US Equities

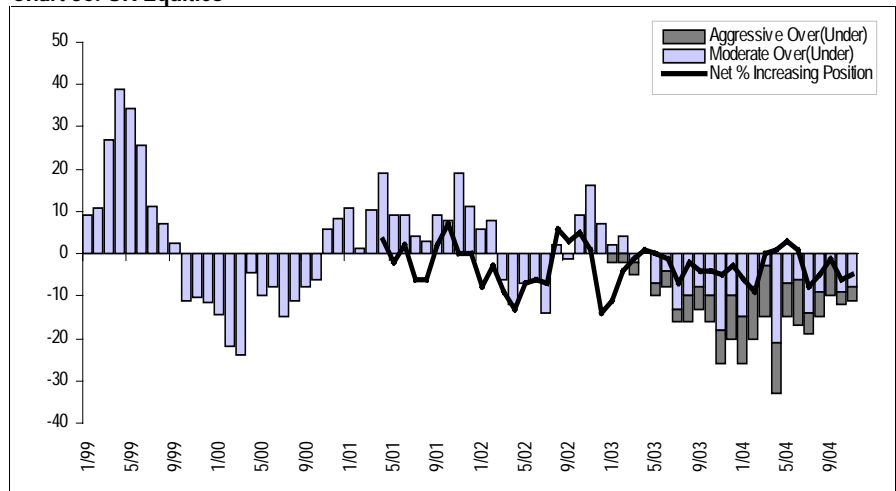
U.S. Equities			
% saying:	Nov	Oct	Sep
Aggressively Overweight	1	2	3
Moderately Overweight	18	12	18
Neutral	17	18	23
Moderately Underweight	38	39	32
Aggressively Underweight	17	18	16
Net % Overweight	-36	-43	-27
Increase	17	12	11
Decrease	18	20	22
Net % Increasing	-1	-8	-11


Chart 55: Eurozone Equities

Eurozone Equities			
% saying:	Nov	Oct	Sep
Aggressively Overweight	8	5	8
Moderately Overweight	49	50	42
Neutral	21	22	27
Moderately Underweight	13	12	15
Aggressively Underweight	2	2	2
Net % Overweight	42	41	33
Increase	17	18	22
Decrease	16	13	10
Net % Increasing	1	5	12


Chart 56: UK Equities

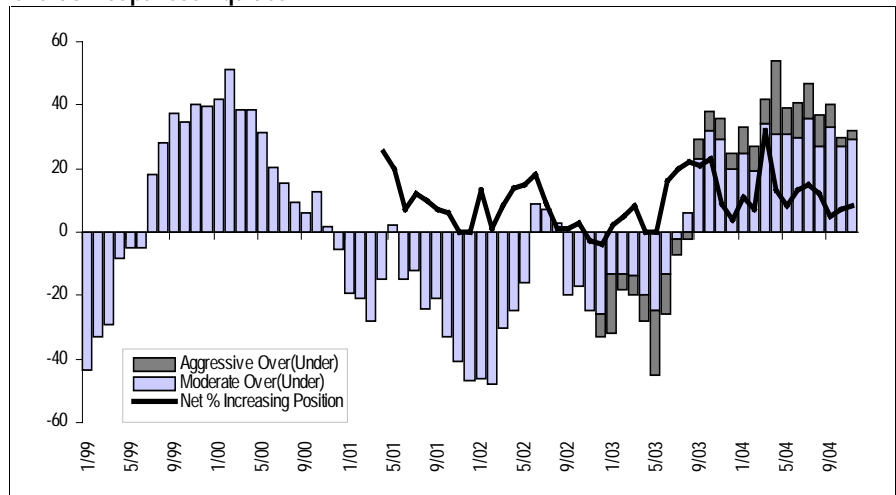
UK Equities			
% saying:	Nov	Oct	Sep
Aggressively Overweight	2	4	1
Moderately Overweight	19	16	22
Neutral	34	35	35
Moderately Underweight	27	25	24
Aggressively Underweight	5	7	9
Net % Overweight	-11	-12	-10
Increase	9	9	13
Decrease	14	15	14
Net % Increasing	-5	-6	-1



Japanese Equities

% saying:	Nov	Oct	Sep
Aggressively Overweight	8	7	11
Moderately Overweight	41	40	44
Neutral	26	27	22
Moderately Underweight	12	13	11
Aggressively Underweight	5	4	4
Net % Overweight	32	30	40
Increase	20	20	18
Decrease	12	13	13
Net % Increasing	8	7	5

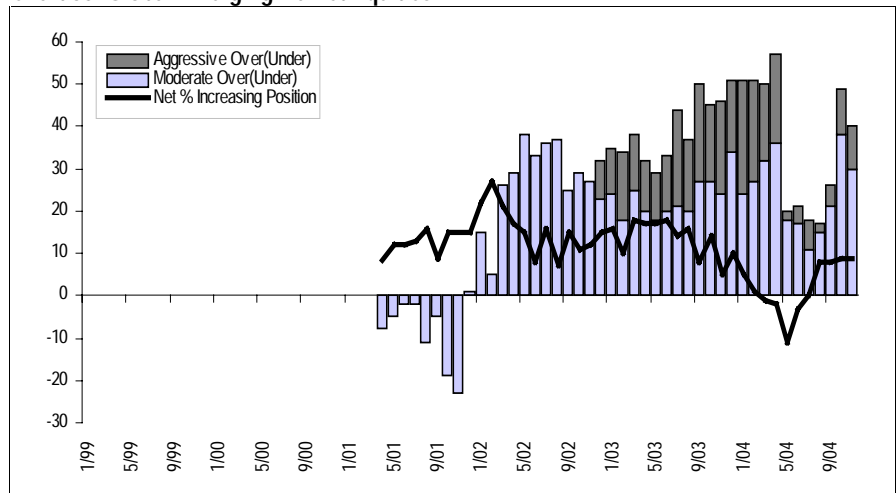
Chart 57: Japanese Equities



GEM Equities

% saying:	Nov	Oct	Sep
Aggressively Overweight	12	13	7
Moderately Overweight	38	42	36
Neutral	26	21	25
Moderately Underweight	8	4	15
Aggressively Underweight	2	2	2
Net % Overweight	40	49	26
Increase	16	20	15
Decrease	7	11	7
Net % Increasing	9	9	8

Chart 58: Global Emerging Market Equities

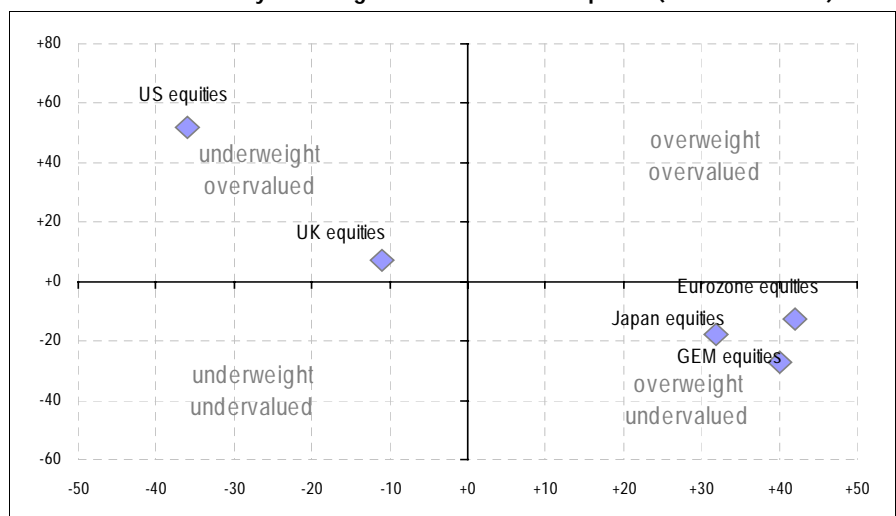


US equities are seen as the most expensive – asset allocators are underweight

UK equities are also in the underweight & overvalued quadrant

Eurozone, Japan and GEM are all overweight and undervalued

Chart 59: Current Country Overweights vs Valuation Perceptions (Asset Allocators)



12. Currency Valuation

Table 33: Fund Manager Currency Valuation

		Nov	Oct	Sep	Aug
U.S. Dollar	Overvalued	50	57	41	45
	Fairly Valued	14	19	21	24
	Undervalued	26	14	23	18
	Net % Saying Overvalued	24	43	18	27
	Don't Know	10	10	14	13
Japanese Yen	Overvalued	15	12	17	12
	Fairly Valued	24	25	25	21
	Undervalued	48	50	43	50
	Net % Saying Overvalued	-33	-38	-26	-39
	Don't Know	13	13	16	18
Euro	Overvalued	40	26	30	29
	Fairly Valued	28	36	38	35
	Undervalued	21	27	18	23
	Net % Saying Overvalued	19	-1	12	6
	Don't Know	11	12	14	14
Sterling	Overvalued	34	42	38	45
	Fairly Valued	38	35	32	27
	Undervalued	10	6	9	7
	Net % Saying Overvalued	24	36	29	38
	Don't Know	18	17	21	22
Global Emerging Market Currencies	Overvalued	8	6	-	-
	Fairly Valued	13	18	-	-
	Undervalued	45	43	-	-
	Net % Saying Overvalued	-37	-37	-	-
	Don't Know	35	34	-	-

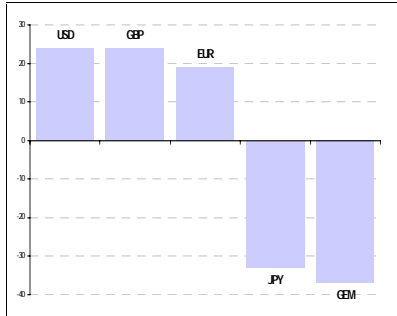
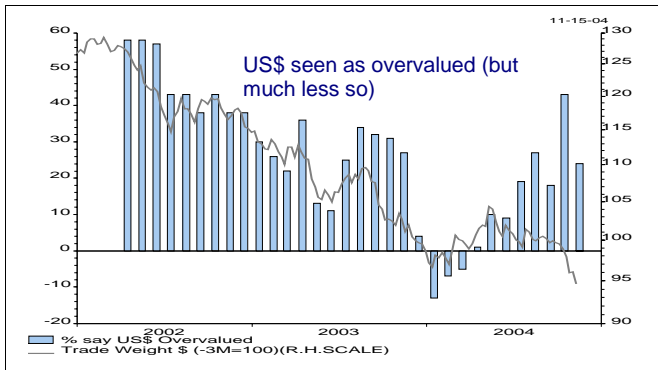
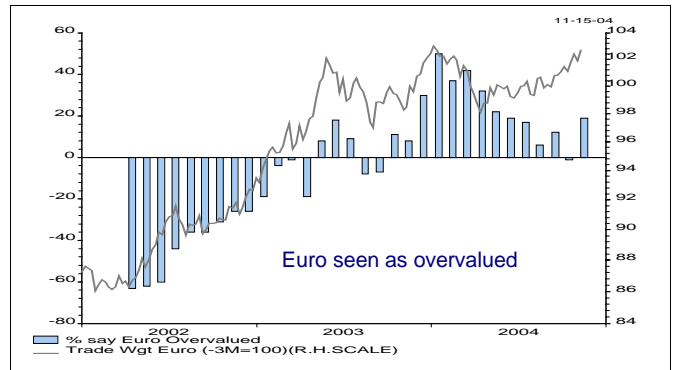
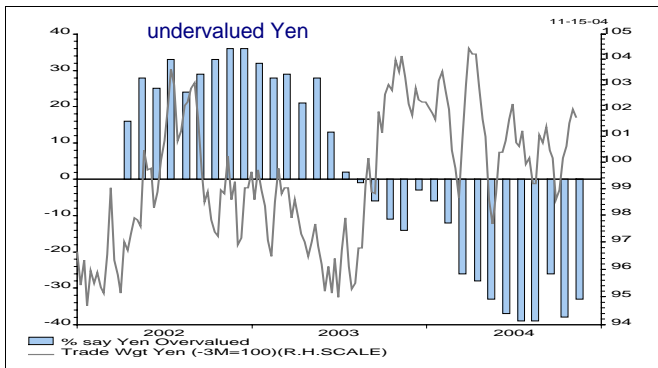
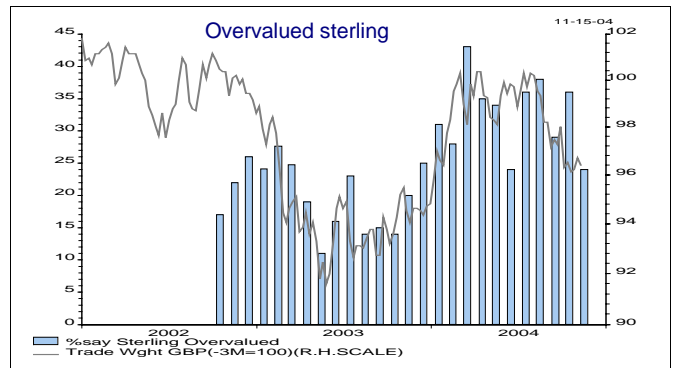
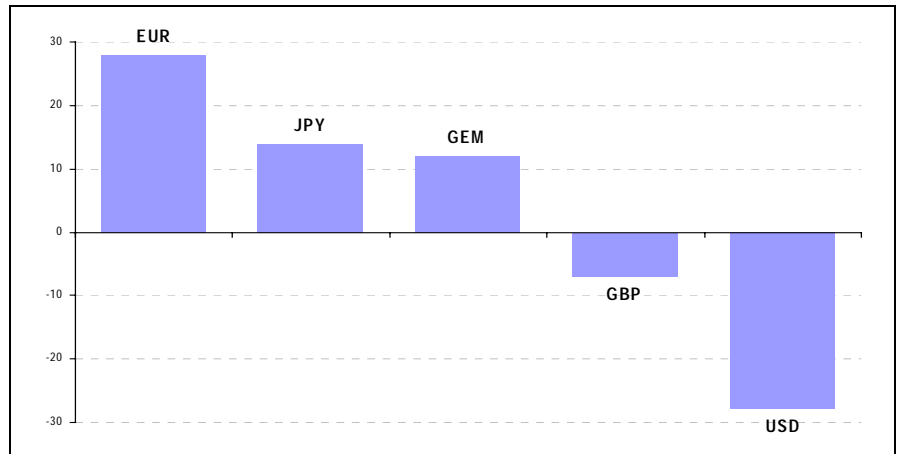
Chart 60: FX Valuation Snapshot

Chart 61: USD Valuation & Trade Weight

Chart 62: Euro Valuation & Trade Weight

Chart 63: Yen Valuation & Trade Weight

Chart 64: Sterling Valuation & Trade Weight


Table 34: Relative to your benchmark, do you currently have unhedged exposure to any of the following currencies?

		Nov	Oct	Aug	Jul
<i>Asset allocators are most underweight the dollar. . .</i>	U.S. Dollar				
	Overweight	12	9	-	-
	Underweight	40	31	-	-
	None	23	25	-	-
	Net % Overweight	-28	-22	-	-
<i>Overweight the Yen . . .</i>	Japanese Yen				
	Overweight	27	27	-	-
	Underweight	13	8	-	-
	None	34	30	-	-
	Net % Overweight	14	19	-	-
<i>Most overweight the Euro</i>	Euro				
	Overweight	37	27	-	-
	Underweight	9	12	-	-
	None	26	26	-	-
	Net % Overweight	28	15	-	-
Sterling	Overweight	12	16	-	-
	Underweight	19	15	-	-
	None	39	35	-	-
	Net % Overweight	-7	1	-	-
	Not Applicable / Don't Know	31	34	-	-
Global Emerging Market Currencies	Overweight	19	23	-	-
	Underweight	7	1	-	-
	None	38	38	-	-
	Net % Overweight	12	22	-	-
	Not Applicable / Don't Know	37	38	-	-

Chart 65: Currency Positions (Net % With Unhedged Exposure)



13. Demographic Data

Table 35: Position / Institution / Approach to Global Equity Strategy

% saying:	Nov	Oct	Sep	Aug
Structure of the Panel (# saying)				
Global Specialists	140	143	133	130
Regional Specialists With A Global View	87	87	77	87
Regional Specialists Only	75	73	80	76
Total # of Respondents to Global Questions	227	230	210	217
Total number involved in Global Asset Allocation	173	171	158	162
Which of the Following Best Describes the Type of Money You are Running? (% saying)				
Institutional Fund	56	54	53	56
Hedge Fund	7	9	10	9
Retail Fund	28	27	26	25
Other	9	10	12	10
What Do You Estimate to be the Total Current Value of Assets Under Your Direct Control? (% saying)				
Up to \$250mn	17	18	17	20
Around \$500mn	12	13	15	14
Around \$1bn	14	14	14	14
Around \$2.5bn	11	11	9	8
Around \$5bn	7	8	7	8
Around \$7.5bn	4	4	5	2
Around \$10bn or more	16	16	15	18
No Funds Under Direct Control	20	16	18	16
Total Responding to Global Questions (USDbn)	612	648	568	614
Total, Including Regional Specialists (USDbn)	931	998	881	940

■ Additional information on how the survey works

Taylor Nelson Sofres (TNS) begins fieldwork on the day the U.S. payroll data is released. Fieldwork continues through the following week and is closed on the following Thursday. TNS sends a link containing the unprocessed results to its survey panelists on Friday. If you would like to become a panelist, please e-mail fms@ml.com or contact Sarah Franks. All bona fide institutional fund managers are invited to participate in the panel.

If you have a moment, we do recommend you take a look at the Taylor Nelson Sofres (TNS) web site that displays all the results from the latest survey (the URL for the site is below). The results site has a breakdown of global specialists and regional specialists, and also features the results from the regional questionnaires.

See the November 2004 results in English at:

http://online.tns-global.com/multimedia/ml/november2004_ks2.htm

and in Japanese at:

http://online.tns-global.com/multimedia/ml/november2004_ksj.htm

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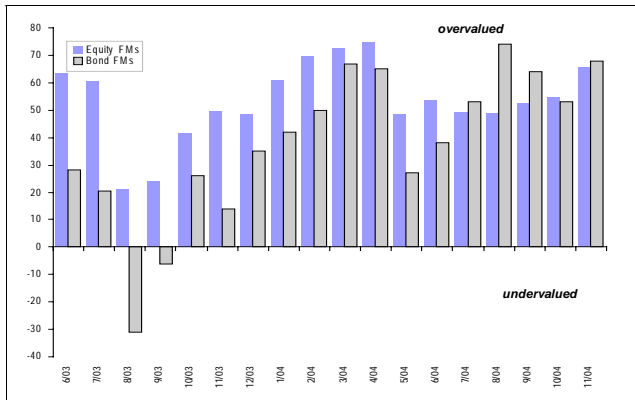
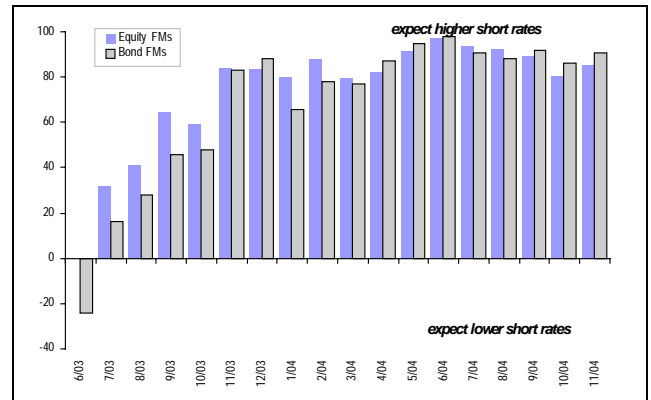
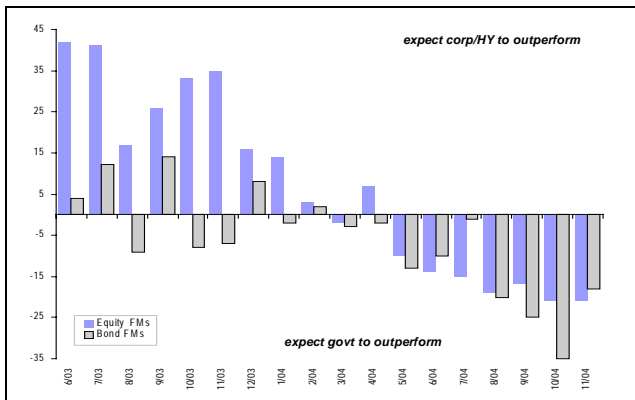
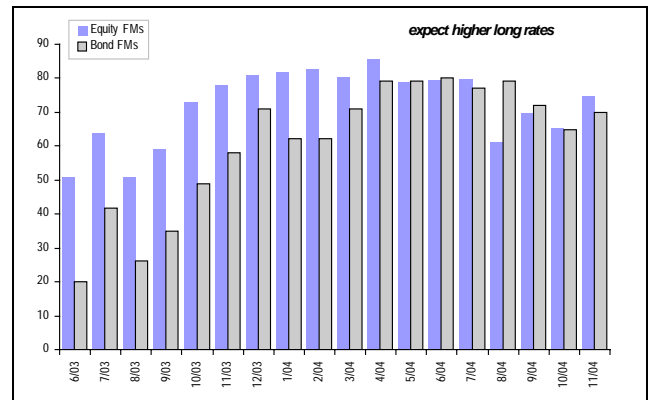
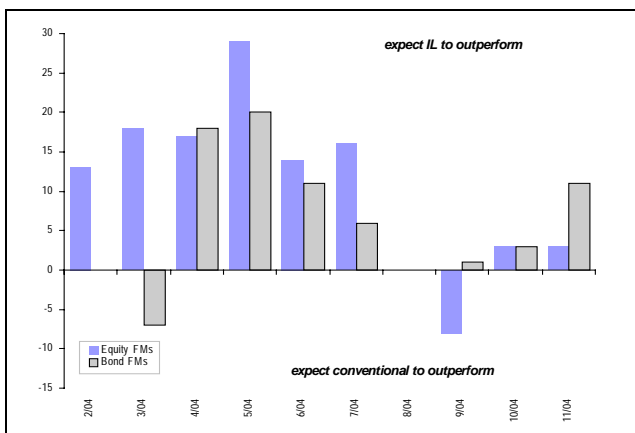
14. Comparing the Fund Manager Survey and the Global Investor Survey

About The Global Fixed Income Investor Survey

The Merrill Lynch Global FX & Debt Investor Survey (“Global Investor Survey”) is a long-running survey for fixed income managers. The fieldwork for the Global Investor Survey and the Fund Manager Survey is conducted at the same time – but each survey has a completely separate panel of respondents. There are five “crossover” questions that we ask both groups of investors. On these two pages, we compare their responses to these five questions.

Table 36: Equity Fund Managers vs Fixed Income Managers

	Nov	Oct	Sep	Aug	Jul
Net % Think Bonds Are Overvalued					
Equity Fund Managers	66	55	52	49	49
Bond Fund Managers	68	53	64	74	53
Net % Prefer Corporate Bonds to Government Bonds					
Equity Fund Managers	-21	-21	-17	-19	-15
Bond Fund Managers	-18	-35	-25	-20	-1
Net % Prefer Inflation Linked Bonds to Conventional Bonds					
Equity Fund Managers	3	3	-8	0	16
Bond Fund Managers	11	3	1	0	6
Net % Expecting Higher Short Rates in 12M Time					
Equity Fund Managers	85	81	90	92	94
Bond Fund Managers	91	86	92	88	91
Net % Expecting Higher Long Rates in 12M Time					
Equity Fund Managers	75	65	70	61	80
Bond Fund Managers	70	65	72	79	77

Chart 66: Net % Think Bonds are Overvalued

Chart 69: Net % Think Short Rates Will Be Higher in 12m

Chart 67: Net % Think Corporate/High-Yield Bonds Will Outperform Government Bonds

Chart 70: Net % Think Long Rates Will Be Higher in 12m

Chart 68: Net % Think Inflation Linked Bonds Will Outperform Conventional Bonds


Analyst Certification

We, David Bowers and Sarah Franks, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Important Disclosures

Investment Rating Distribution: Global Group (as of 30 September 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1095	44.05%	Buy	374	34.16%
Neutral	1207	48.55%	Neutral	333	27.59%
Sell	184	7.40%	Sell	37	20.11%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. **INVESTMENT RATINGS**, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. **INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

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