

Global  
10 January 2012 (Corrected)

# Breaking the range

## A New Year's quiz

Can you name the four best performing equity markets in 2011? Which country in the world is currently perceived by the CDS market to have the lowest probability of defaulting on its government debt? Did Irish equities outperform US Treasuries in 2011? In this month's RIC report, we kick off the New Year with a quick market quiz. We hope you enjoy it.

## The key driver of 2011: deleveraging

From a macro perspective, the over-arching theme was once again deleveraging. The unwind of the great credit boom started in 2008 with the housing market bust and the demise of Bear Stearns, and continued in 2011, most visibly in Europe. Although deleveraging shifted continents, the outcome was more of the same for the world: low economic growth, low interest rates, and low asset price returns. The RIC has argued in recent years that the best strategy to outperform in an era of deleveraging is to overweight creditors and underweight debtors.

## The RIC's 2012 asset allocation

The RIC's current asset allocation is 60% stocks, 35% bonds and 5% cash for a moderate investor. Within equities we favor the US over Europe, EM over Japan, large-caps over small-caps, and Growth over Value. Within fixed income, we are overweight corporate and EM bonds and underweight Treasuries. We also favor munis and MBS. Within commodities, we recommend exposure to gold.

## Tactics for the New Year

In the short term, we expect the New Year rally in risk assets to continue. European government funding remains a huge issue, but the RIC would swim against the tide early in 2012 by betting on upside rather than downside, driven by bearish investor positioning and US growth upgrades. A grind higher in stock prices remains plausible but we recommend taking profits if equity markets move toward our year-end targets of 1350 for the S&P 500 and 330 for MSCI ACWI.

## Breaking the range

The investment community by and large has a negative macro view and expects that major asset classes will be stuck in trading ranges in 2012. Looking further ahead, it is worth highlighting a few events that could surprise investors on the upside (and downside) this year. Potential reasons to be more optimistic on equities include: valuations, policy and a more self-sustaining period of US economic growth. On the other hand, the greatest upside risk to bonds and the largest downside risk to equity markets would be a major banking and debt crisis in Europe that spills over to the US and China.

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14 February 2012

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## 2011 review

2011 was a year marked by volatility and unprecedented levels of stock correlations, as waves of negative macro news put strains on financial markets and investor sentiment.

Most major equity markets finished the year in the red, with the greatest losses in Hong Kong (-17.4%). But US equities managed to end the year in positive territory in total return terms as better than expected US economic data in the back end of the year boosted markets.

EM equities underperformed DM in 2011 as doubts about the sustainability of EM growth weighed on equities, particularly in the second half of the year.

Within US markets, large caps beat small caps by 630bps for the year. Growth outperformed Value in both size segments.

Within US sectors, defensives beat cyclicals, with the greatest gains in Utilities (+19.9%) and Staples (+14.0%). Financials (-17.1%) and Materials (-9.8%) were the laggards for the year.

All major fixed income markets posted gains for 2011. Despite the US credit rating downgrade, the 10-year Treasury ended the year as one of the best performing assets (+17.1%) amid heightened risk-off sentiment. Munis posted a strong 11.2% return in spite of siren calls for widespread muni defaults.

In FX markets, the Yen was 2011's best performing currency (+5.9%) as it won a safe haven bid amid Europe's sovereign debt crisis. Meanwhile the Euro lost 3.2%.

Commodities rallied in the first half of the year as quantitative easing and geopolitical tensions in the Middle East boosted prices. But a stronger dollar in the second half of 2011 created headwinds for the asset class.

## Financial markets recap

Table 1: Total return (%)

Asset class	2010	As of 30 December 2011		
		1 month	3 months	2011
<b>Equity Indices (% in local currencies)</b>				
S&P 500	15.1	1.0	11.8	2.1
NASDAQ Comp	18.2	-0.5	8.2	-0.8
FTSE 100	12.6	1.3	9.4	-2.2
TOPIX	1.0	0.1	-4.2	-17.0
Hang Seng	8.6	2.6	5.1	-17.4
DJ Euro Stoxx 50	-2.8	-0.5	6.8	-14.1
MSCI EAFE	5.3	0.5	4.1	-11.7
MSCI Emerging Markets	14.4	0.0	4.9	-12.5
<b>Size &amp; Style (% US dollar terms)</b>				
Russell 2000	26.9	0.7	15.5	-4.2
S&P 500 Citigroup Growth	15.1	0.3	10.8	4.7
S&P 500 Citigroup Value	15.1	1.8	13.0	-0.5
S&P 600 Citigroup Growth	28.0	0.5	15.9	3.6
S&P 600 Citigroup Value	24.7	2.0	18.6	-1.4
<b>S&amp;P 500 Sectors (% US dollar terms)</b>				
Consumer Discretionary	27.7	1.3	12.6	6.1
Consumer Staples	14.1	2.8	10.3	14.0
Energy	20.5	-1.0	18.2	4.7
Financials	12.1	1.8	10.8	-17.1
Health Care	2.9	2.9	10.0	12.7
Industrials	26.7	1.2	16.5	-0.6
Information Technology	10.2	-0.9	8.7	2.4
Materials	22.2	-2.1	15.4	-9.8
Telecom Services	19.0	4.0	7.9	6.3
Utilities	5.5	3.4	8.3	19.9
<b>BofA Merrill Lynch Global Research Bond Indices (% US dollar terms)</b>				
10-Year Treasury	7.9	1.9	1.2	17.1
2-Year Treasury	2.3	0.0	0.1	1.5
TIPS	6.3	0.2	2.7	14.1
Municipals*	2.3	2.0	2.1	11.2
Corporate Bonds	9.5	1.9	1.8	7.5
High Yield Bonds	15.2	2.5	6.2	4.4
Emerging Markets	12.5	1.3	4.8	8.1
Preferreds	13.7	0.6	1.9	4.1
<b>Foreign Exchange** (% in local currencies)</b>				
US Dollar	-3.6	1.8	1.1	0.9
British Pound	-1.6	0.4	1.1	1.4
Euro	-9.0	-2.5	-2.6	-3.2
Yen	16.5	1.5	0.4	5.9
<b>Commodities** (% US dollar terms)</b>				
CRB Index	17.4	-2.7	2.4	-8.3
Gold	29.5	-10.5	-3.7	10.1
Oil	15.1	-1.5	24.8	8.2
<b>Alternative Investments† (% US dollar terms)</b>				
Hedge Fund - CS Tremont <sup>1</sup>	10.9	-0.8	-2.3	-2.3
Hedge Fund - HFRI Fund of Funds <sup>1</sup>	5.7	-0.6	-2.4	-4.9
Private Equity - Cambridge Assoc. <sup>2</sup>	19.8	NA	4.5	10.1
Private Real Estate - NCREIF TR <sup>3</sup>	13.1	NA	3.3	11.0

Notes: \*Not tax adjusted. \*\*BoE calculated effective FX indices. <sup>1</sup>Data as of 11/30/11; CS AUM-weighted, HFRI equal-weighted <sup>2</sup>Quarterly data as of 6/30/2011 <sup>3</sup>Quarterly data as of 9/30/11 AI data not comparable to other asset classes because of reporting delays, lack of standardized reporting, and survivorship and self selection biases.

Source: S&P, MSCI, Bloomberg, FactSet, BofAML Bond Indices (US Treasury Current 10yr, Current 2yr, Inflation-Linked; Muni Master, US Corp Master, US HY Master II Index; USD Emerging Market Sovereign Plus; US Preferred Stock, Fixed Rate).

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## Breaking the range

Happy New Year from the RIC. In this month's report we review the key lessons from market performance in 2011, highlight our best asset allocation advice and investment themes for 2012, and examine what catalysts are necessary to cause more significant moves in asset prices than the widely expected trading ranges. But first, let's kick off 2012 with a quick market quiz (the answers to which are found on [page 8](#) at the end of the overview).

### A New Year's quiz

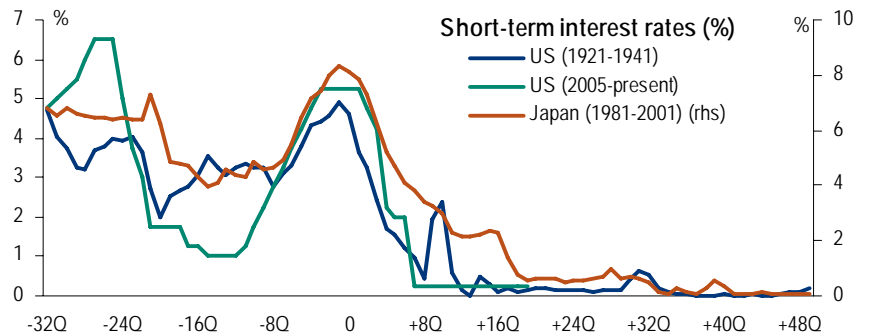
1. Greece was easily the worst performing market last year, falling 64% in value, but can you name the four best performing equity markets of 2011?
2. Which country had the best performing trade-weighted currency in 2011?
3. What has the direction of the US equity market in January accurately predicted in 14 out of the past 15 presidential election years?
4. Ten equity markets fell 30% or more in value in 2011. What is the historic probability that the same equity markets will rally in 2012, and what is the average historic gain?
5. Which country in the world is currently perceived by the CDS market to have the lowest probability of defaulting on its government debt?
6. Which is currently most at risk of default according to the CDS market: Iraq, Spain, AIG or General Motors?
7. Name the US sectors that currently have: 1) the highest investment grade corporate bond yield; 2) the highest high yield corporate bond yield; and 3) the highest dividend yield.
8. Were there more rate hikes or rate cuts in 2011?
9. How many countries will have elections in 2012?
10. US equities outperformed non-US markets by almost 15 percentage points in 2011. What was the last year the US equity market outperformed the rest of the world by such a large amount?
11. US AAA investment grade bond yields began 2012 below 4%. What year was the last time this occurred?
12. Irish equities outperformed US Treasuries in 2011 – true or false?
13. Is the current equity allocation of Merrill Lynch GWIM client base above or below 50%?

### The winners, losers and drivers of 2011

It was a tough year for investors. The strong rally in US Treasuries caught many by surprise, including ourselves; correlations within the stock market were extremely high, causing four out of five large-cap managers to underperform; and hedge funds found equity and currency trading ranges difficult to navigate. In addition, the reality that cash returns would remain at zero for perhaps many years to come (compare the US 1921-41 and Japan 1981-2001 with today – Chart 1) continues to make private clients more rather than less cautious.

Despite sensational news and dramatic headlines, broad asset returns were surprisingly muted. Global equities declined 7%, US equities were flat, commodities lost 3%, and global fixed income markets gained 6%.

**Chart 1: Short Rates in US (1921-41), Japan (1981-2001), US (2005-present)**



Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

**Table 2: Creditors vs. Debtors**

Country	Current account surplus/ deficit as % of GDP
Saudi Arabia	20.6%
Singapore	19.0%
Switzerland	13.5%
Hong Kong	6.0%
Russia	5.6%
Germany	5.5%
China	2.5%
Japan	2.2%
Korea	1.9%
Ireland	1.4%
Indonesia	0.1%
Australia	-1.5%
Brazil	-2.0%
France	-2.2%
Italy	-2.8%
Canada	-2.8%
US	-2.9%
Spain	-3.5%
India	-4.0%
UK	-4.0%
Turkey	-9.4%
Greece	-9.4%

Data as of 3Q11 or latest available

Source: BofA Merrill Lynch Global Equity Strategy, Haver, Bloomberg

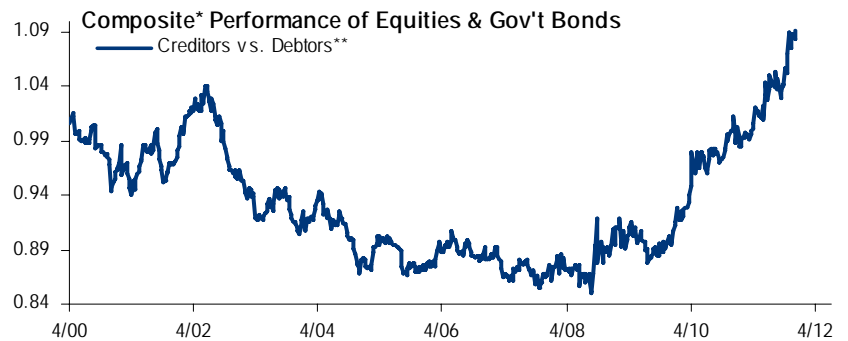
**The key driver of 2011**

From a macro perspective, the over-arching theme was once again deleveraging. The unwind of the great credit boom started in 2008 with the housing market bust and the demise of Bear Stearns, and continued in 2011, most visibly in Europe. Although deleveraging shifted continents, the outcome was more of the same for the world: low economic growth, low interest rates, and low asset price returns.

The RIC has argued in recent years that the best strategy to outperform in an era of deleveraging is to overweight creditors (markets and companies with good balance sheets) and underweight debtors (markets and companies with bad balance sheets). This strategy continued to win in 2011 (creditors outperformed debtors by over 8ppt for the year— see Chart 2) as did an emphasis on high quality assets such as best of breed companies (please see [Global Best of Breed for 4Q11](#) for our Best of Breed screen).

Deleveraging did not end last year. Until the global economy is strong enough for central banks in the US, Europe and Japan to normalize monetary policy and end zero interest rates, asset allocation should continue to be biased over the medium term toward financial assets that provide high growth, high quality, and high yields.

**Chart 2: Creditors have significantly outperformed Debtors since 2008**



\* simple avg of equities and bonds

\*\*Creditors = equal-weighted basket of Saudi, Austria, Denmark, Hungary, Indonesia, Korea, Japan, China, Thailand, Philippines, Russia, Germany, HK, Sweden, Netherlands, Taiwan, Malaysia, Switzerland, Singapore, Norway. Debtors = equal-weighted basket of Portugal, Turkey, Greece, Poland, New Zealand, Italy, S Africa, Czech, Spain, India, Mexico, France, Israel, Ireland, UK, Brazil, Canada, US, Australia

Note: total returns (\$ terms)

Source: BofA Merrill Lynch Global Equity Strategy, Haver, MSCI

**Table 3: Winners & losers in 2011**

	\$100 invested in 2011
Municipals	\$111
Gold	\$110
Treasuries	\$110
US IG corporate bonds	\$108
<b>Global fixed income</b>	<b>\$106</b>
Growth stocks	\$105
US high yield bonds	\$104
Energy	\$104
US equities	\$102
<b>Cash</b>	<b>\$100</b>
Value stocks	\$100
Nasdaq	\$99
<b>Commodities</b>	<b>\$97</b>
Small cap equities	\$96
<b>Global equities</b>	<b>\$93</b>
European equities	\$89
Japanese equities	\$86
US Financials stocks	\$83
EM equities	\$82

Note: Total returns, USD. Indices used: S&P 500, Russell 2000, S&P 500 Growth, S&P 500 Value, S&P 500 Financials, Nasdaq, MSCI ACWI, MSCI Europe, MSCI Japan, MSCI EM, Gold, ML US Treasury Bill Index, ML Muni Master Index, ML Treasury Master Index, ML US Corporate Master Index, ML US High Yield Index, ML Commodity Index, ML Energy Index  
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

**Table 4: Equity allocations**

	Moderate Investor	
	Strategic	Tactical
Large cap growth	38%	47%
Large cap value	38%	33%
Small growth	4%	4%
Small value	4%	1%
International: Developed	13%	10%
International: Emerging	3%	5%

Source: BofA Merrill Lynch Global Research

**Table 5: Fixed income allocations**

	Moderate Investor	
	Strategic	Tactical
Tsys, CDs & GSEs	40%	32%
Mortgage Backeds	25%	25%
IG Corp & Preferred	25%	28%
High yield	5%	7%
International	5%	8%

Source: BofA Merrill Lynch Global Research

## Asset class winners and losers in 2011

All major fixed income sectors had positive returns in 2011 (Table 3). The key themes for the market were a desire for safe havens, as evidenced by the outperformance of Treasuries, as well as the need for portfolio income. Both high yield and EM debt funds were once again recipients of large inflows as low cash rates caused investors to increase risk in search of yield. Munis were among the top performing fixed income assets in 2011 despite siren calls for widespread municipal defaults.

In contrast, equities were essentially de-rated in the second half of 2011 despite the strength of corporate earnings and exceptionally low interest rates. Volatility, correlation and macro event risks caused investors to lower the multiple they were willing to pay. The US equity market significantly outperformed the rest of the world as debt problems in Europe and monetary tightening in EM put the global theme on ice. Elsewhere, defensives outperformed cyclicals, large-caps beat small-caps, Growth stocks beat Value stocks, high quality beat low quality, and dividend paying stocks outperformed.

Within commodity markets, 2011 was a story of two halves. Quantitative easing and geopolitical tensions in the Middle East drove commodities higher in the first half of the year. But the strength of the dollar in the second half made it difficult for commodity outperformance to continue.

## Allocation, trades and tactics for 2012

In the [December RIC Report](#), we detailed our base case for 2012, our initial asset allocation, and identified 10 key trades. All are outlined below.

**On asset allocation:** The RIC maintains its current asset allocation of 60% stocks, 35% bonds and 5% cash for a moderate investor. Assets tied to growth, quality and yield should continue to outperform in the medium term.

**On equities:** Regionally, we favor the US over Europe, and EM over Japan. We continue to be bullish on large caps over small caps, as earnings growth and valuations are better up the market cap spectrum. Scarce economic growth and regulatory risks in the Financials sector are likely to continue to fuel the outperformance of Growth over Value stocks. See Table 4 for specific allocations.

**On fixed income:** We are overweight corporate and EM bonds and underweight Treasuries. We expect total returns of 4.8% for US IG bonds, 13.9% for US HY bonds, and 10.4% for EM local currency debt. We also favor munis and MBS. See Table 5 for specific allocations.

**On commodities:** We recommend investors position for growth and large-scale monetary easing. Gold and oil are likely to benefit from low real interest rates and abundant liquidity. Our 12-month gold target is \$2000/oz, and we expect Brent crude oil to average \$108/bbl this year. In the near term, we see downside risks to industrial metals as the growth outlook deteriorates.

### 10 key trades for 2012

1. Buy gold
2. Buy US high grade Financial bonds
3. Buy high quality/high yielding munis & "kicker bonds"
4. Buy EM local currency debt
5. Buy high-yielding equities
6. Buy the Best & Distressed in Europe
7. Buy US Staples and Tobacco
8. Buy US Tech
9. Hedge risk
10. Watch the technicals

## Tactics for the New Year

In the short term, we expect the New Year rally in risk assets to continue. A grind higher in stock prices remains plausible but the RIC recommends taking profits if equity markets move toward our year-end targets of 1350 for the S&P 500 and 330 for MSCI ACWI.

### The RIC sees two main drivers behind the rally in the New Year

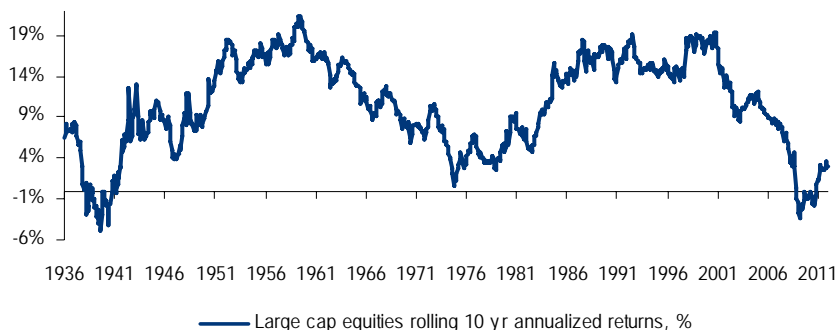
- **Bearish investor positioning:** High cash levels and low levels of equity optimism triggered buy signals on several of our tactical trading rules in 4Q11, including our Global Flows Trading Rule in December (see [Rules and Tools](#) for an in-depth explanation of our trading rules). On a recent marketing trip, we found that sentiment even in Asia was quite bearish.
- **US growth upgrades:** US economic data has surprised to the upside – from payrolls to manufacturing, and our economics team has just revised up its 2012 US GDP forecast from 1.9% to 2.1%.

European government funding remains a huge issue, but the RIC would swim against the tide early in 2012 by betting on upside rather than downside driven by the factors above.

## Breaking the range

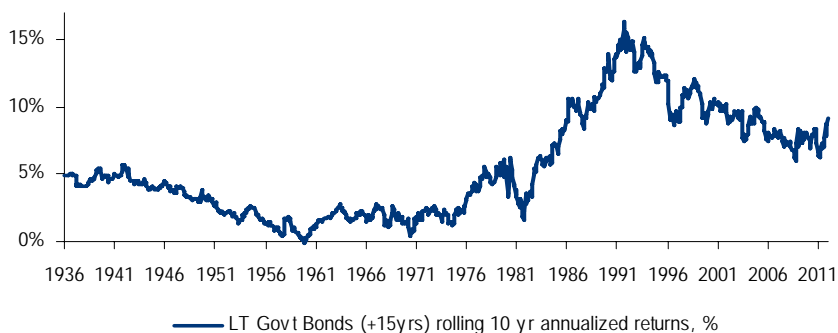
Looking further ahead, it is worth highlighting a few events that could surprise investors on the upside (and downside) this year. The investment community by and large has a negative macro view and expects that major asset classes will be stuck in trading ranges in 2012. In addition, long-term asset allocation remains skewed toward fixed income and away from equity, despite the strong performance of bonds relative to stocks over the past decade (Charts 3-4).

Chart 3: Rolling 10yr annualized equity returns



Source: BofA Merrill Lynch Global Equity Strategy, Ibbotson, Bloomberg

Chart 4: Rolling 10yr long-term government bond returns



Source: BofA Merrill Lynch Global Equity Strategy, Ibbotson, Datastream



## Reasons to be more optimistic on equities

Three factors are potentially supportive for the equity market: valuations, policy and a more self-sustaining period of US economic growth.

### Valuations

Global equity valuations are attractive, and our Global Quantitative Strategist Nigel Tupper notes that historically, when the forecast P/E has been close to the current level (10.6x), global equities have averaged over 28% over the following 12 months. Similarly, when the P/B was close to the current level of 1.6x, equities averaged 15% in the subsequent 12 months. In addition, investors and pension funds are facing lackluster returns on their bond investments with all-in yields near their all-time lows.

### Policy

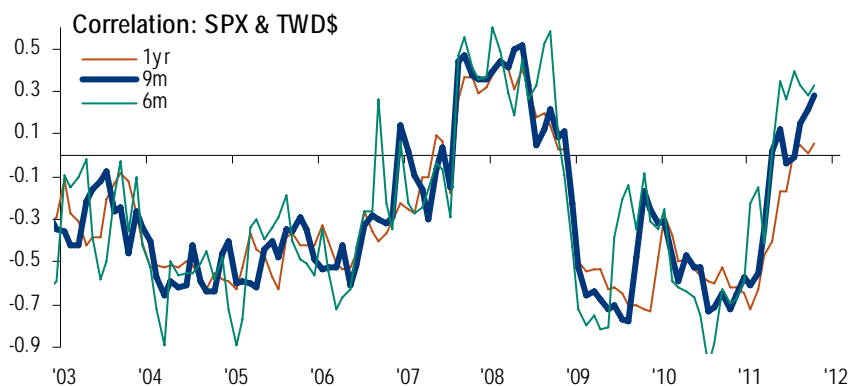
Markets could be surprised by policy developments in both the US housing market and Chinese monetary policy. Risk assets would do much better than expected if 1) the US government announced a big, credible plan to clean up foreclosed properties to boost home prices and construction activity, and 2) the Chinese government were sufficiently satisfied with lower inflation to cut interest rates and stimulate the Chinese economy more aggressively.

US housing economist Michelle Meyer believes that while there will likely be a housing plan, it is unlikely to be big enough to prevent a further decline in house prices in 2012. China economist Ting Lu believes policy makers will be reluctant to cut rates as the government seeks to cool borrowing (especially housing-related borrowing).

### Macro

Few expect the current bout of US economic strength to persist. Should it do so, the US economy would surprise to the upside in 2012 and risk assets would respond favorably. This is not the RIC's base case, but we must highlight that for the first time in several years, a stronger dollar is now going hand-in-hand with a stronger equity market (Chart 5). This offers a glimmer of hope that the US economy is in a more self-sustaining recovery, and if so, Treasury yields at less than 2.0% would become less attractive to long-term investors.

Chart 5: Correlation between S&P 500 and US trade-weighted dollar



Using monthly price change over 6, 9 and 12 months  
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

## Reasons to be more optimistic on bonds

Put simply, the greatest upside risk to bonds and the largest downside risk to markets would be a major banking and debt crisis in Europe that spills over to the US and China. If this were to happen, we would expect to see double-digit declines in earnings growth, and further weakness in the stock prices of banks. Bonds would outperform stocks, and within equities, this would be very negative for US cyclicals, EM consumer stocks, and global Energy stocks.

## The answers to the quiz

1. The four best performing equity markets in 2011 were Venezuela (79%), Mongolia (33%), Iraq (32%), and Iran (29%). It was *that* tough a year.
2. China. The trade-weighted renminbi appreciated almost 6% last year, and if this pace slackens or even reverses in 2012, it would be a signal that monetary policy is being eased.
3. The direction of the market for the full year.
4. The probability of any equity market down 30% or more in a year rebounding the following year is roughly 2/3. The average return of such markets is remarkably slightly over 50%.
5. Norway (followed by the US and then Switzerland).
6. General Motors.
7. 1) Financials have the highest IG corporate bond yield (4.6%); 2) Tech has the highest HY corporate bond yield (9.8%); and 3) Telecoms have the highest dividend yield (5.9%).
8. There were almost twice as many rate hikes in 2011 (108) as rate cuts (55).
9. 70 countries will have elections in 2012 (either presidential, parliamentary, legislative, or referendums).
10. 1998.
11. 1958. Investment grade corporate bonds yields started 1958 around 3.8%.
12. True – Irish equities returned 14.3% in 2011 while our BofAML Treasury Master Index returned 9.8% (total returns, USD).
13. Slightly below.



# Asset markets: base case, ideas, risks

Table 6: RIC base case for global asset markets

Region/sector	Convictions	Ideas & risks
<b>Global Economics:</b> Ethan Harris Alberto Ades	<ul style="list-style-type: none"> <li>Global growth slows down.</li> <li>Developed economies remain vulnerable, with crippled sectors and regions.</li> </ul>	<ul style="list-style-type: none"> <li>Policy uncertainty freezing activity.</li> <li>Additional central bank support in year ahead.</li> <li>Biggest risks: escalating crisis in Europe, policy paralysis in US, oil supplier off-line in Mideast.</li> </ul>
<b>Global Equities:</b> Michael Hartnett	<ul style="list-style-type: none"> <li>2012 MSCI All-Country World Index target is 330.</li> <li>Developed markets in wide trading ranges until central banks can raise interest rates and cause a "good" bear market in bonds.</li> <li>Secular Emerging Market bulls.</li> <li>Secular bull markets in equities that offer growth, quality and yield.</li> </ul>	<ul style="list-style-type: none"> <li>Overweight US, Australia, EM (Russia, Brazil); Underweight China, Turkey.</li> <li>Own growth, yield and high quality Best of Breed stocks.</li> <li>Mega-cap multinationals; EM/Asia consumer remain core structural theme.</li> <li>Risks: European recession spreads to the US or Asia; policy errors including premature tightening; excess of deficits driving up interest rates; weaker EM growth.</li> </ul>
<b>Global Rates:</b> Priya Misra Bin Gao John Wraith Ralf Preusser	<ul style="list-style-type: none"> <li>10-year US Treasury yield to stay range bound through the year, ending at 2.4%. We like owning 5s as the Fed is likely to communicate a longer on-hold period. We also recommend 10s-30s curve flatteners as Operation Twist creates a demand-supply mismatch in the long end.</li> <li>European rates are likely to remain well supported in the face of a looming further deceleration in economic activity, irrespective of the continued volatility in peripheral politics.</li> <li>UK: Growth is expected to be very weak at best, with ongoing fiscal tightening offset by prolonged monetary stimulus through additional Central Bank Gilt purchases.</li> </ul>	<ul style="list-style-type: none"> <li>US: We forecast 10y yields to reach their lows in Q1 2012 as: 1) the European situation is likely to worsen before policy makers intervene and 2) policy uncertainty in the US creates downside risks to growth. We see yields modestly rising in 2H due to rising inflation expectations as a result of QE3. However, given an increased perception of ineffective monetary policy, impending fiscal tightening in the US and continuing concerns in Europe, we don't see 10y yields rising above 2.4%.</li> <li>Europe: We like receiving front-end forwards in Euribor-based products (e.g. 1y-&gt;2y) after the larger-than-expected demand in the December 3y LTRO and look for further ECB rate cuts.</li> <li>UK: Gilts are expected to richen persistently over the coming months, with long end bonds outperforming. The main risk to the UK appears to be either a full resolution of the Eurozone crisis which reverses the flight from risk flows, or an even more rapid rise in borrowing/decline in growth than forecast, which could put the UK's AAA rating in some danger in due course.</li> <li>Australia: 3y bonds appear expensive while 10y bonds look more fairly valued.</li> </ul>
<b>Global Commodities:</b> Francisco Blanch	<ul style="list-style-type: none"> <li>Given the weak global economic growth backdrop, we retain a negative bias on the commodity complex in the short-run. However, commodity prices should be supported by aggressive monetary easing across both developed and emerging economies, particularly in 2H2012.</li> <li>We see limited upside to oil prices in 2012 as global balances improve with weak demand and supply recovery. In the second half of the year, a combination of low stocks and further monetary policy loosening will likely support prices. We forecast an average 2012 Brent crude oil price of \$108/bbl in 2012, \$101/bbl for WTI.</li> <li>We maintain our 12-month gold target of \$2,000/oz given loose monetary policy and scope for further balance sheet use in the US and Europe. Negative real rates are also positive for gold and should persist through 2012.</li> </ul>	<ul style="list-style-type: none"> <li>Key risks to our outlook include a deeper-than-expected Eurozone recession, increased Middle East tensions, faster-than-expected US fiscal tightening, and a China hard-landing scenario.</li> <li>US natural gas will continue to be characterized by extremely loose fundamentals in the foreseeable future given record inventories, buoyant production and weak demand.</li> <li>With continued structural (eg, high debt in developed markets) and cyclical (low confidence) headwinds, we maintain our cautious stance on base metals.</li> </ul>
<b>Global Credit:</b> Hans Mikkelsen Oleg Melentyev	<ul style="list-style-type: none"> <li>With a slowly expanding US economy we expect that favorable excess demand conditions in the credit market will resume. Our 2012 year-end spread targets of 180bp in HG and 550bp in HY imply significant tightening next year.</li> <li>Increasing interest rates partially offset the effect of tighter spreads, and we expect total returns for HG and HY in 2012 of 4.8% and 13.9%, respectively.</li> <li>HG: modest OW higher beta, lower quality and financial bonds. HY: Up-in-quality positioning to start. Then as Europe is resolved we will likely become less defensive. OW US credit relative to EU credit.</li> </ul>	<ul style="list-style-type: none"> <li>Bullish on US corporate credit because: 1) Risks more than fully priced in credit markets, thus credit has attractive return profile with limited downside; 2) Globally negative real yields and low expected growth is just right for corporates – provided that uncertainty declines. Growth is not expected to be strong enough to prompt a big rotation into equities, thus we expect a favorable technical liquidity environment for credit in 2012; 3) We expect US financial markets to decouple from the European debt crisis.</li> <li>Risks: situation in Europe causes a US recession.</li> </ul>
<b>Global FX:</b> David Woo Alberto Ades	<ul style="list-style-type: none"> <li>ECB rate cuts, further intensification of the Euro debt crisis and tighter US fiscal policy worries will help boost the USD in H1 2012.</li> <li>The worsening of the European crisis will put further downward pressure on EMFX in 1H12. However, we expect policymakers to be forced into a response and see upside in 2H12.</li> </ul>	<ul style="list-style-type: none"> <li>Despite relatively high inflation expectations and mounting political pressure presenting a high hurdle for the Fed to implement QE3, should recession concerns rise dramatically or deflation concerns gain, the Fed may move down that road again. This would be USD negative. A lasting solution to the Eurozone crisis would also be USD negative, although we believe this is unlikely to happen in the next few months.</li> <li>As European banks deleverage and investors become more concerned over growth, capital flight from EM could put significant pressure on currencies.</li> </ul>

Source: BofA Merrill Lynch Research Investment Committee

## Global equity market convictions: ideas & risks

Table 7: Global equity weightings by region

Region/sector	Analyst(s)	Recommendation*	Convictions	Ideas & risks
US:	Savita Subramanian	Overweight	<ul style="list-style-type: none"> <li>2012 year-end S&amp;P 500 target is 1350, which is 13x our 2012E EPS of \$104.50.</li> <li>OW Staples and Tech; UW Materials and Financials.</li> <li>Macro market continues into 2012 with 1) the European crisis, 2) US policy, 3) risks of material slowdown in China/Emerging Markets, and 4) financial regulatory reform.</li> </ul>	<ul style="list-style-type: none"> <li>Expect a structurally higher equity risk premium over next several years given increased macro risk, but expect healthy 2012 EPS growth.</li> <li>Favor yield, quality &amp; growth over beta.</li> <li>Europe, government &amp; consumer exposure are key risks.</li> <li>Focus on sectors/industries with more stock picking opportunity.</li> </ul>
UK:	Gary Baker	Underweight	<ul style="list-style-type: none"> <li>Economic data at the margin show signs of stabilization albeit at weak levels. BoE stands poised for more assistance and government enjoying strong momentum post EU spat. Gilt market remains strongly supported.</li> <li>Defensive make-up of FTSE index continues to offer relative attractions to the slow motion crisis in Europe.</li> </ul>	<ul style="list-style-type: none"> <li>Overweight Healthcare and Telecom stocks offering high quality, strong cash flow, secure dividends, big cap exposure: all themes that we like.</li> <li>Despite global growth concerns we are also overweight Energy and Basic Resources to add some beta exposure.</li> </ul>
Europe ex-UK:	Gary Baker	Underweight	<ul style="list-style-type: none"> <li>GDP downgrades of late 2011 have temporarily abated on marginally stronger (less worse?) data but unconvincing.</li> <li>0% EPS forecast leaves market trading on 10.4x PER. Our 250 Y/E target for Stoxx600 implies flat performance but forecast 4.2% div yield.</li> <li>Resilient global growth centered on the US is a lifeline for Europe while it addresses deep-seated political problems. The pace of change remains frustratingly slow.</li> </ul>	<ul style="list-style-type: none"> <li>OW Pharma, Telecom, Basic Resources. UW Industrials, Chemicals. Y/E index target for SXXP is 250.</li> <li>Investors are watching for signs of a greater risk on rotation after flaccid attempts to rally over holiday period. More summits over next 3 weeks are a cause for concern as much as opportunity. Government debt refinancing mountain looms large.</li> </ul>
Japan:	Masatoshi Kikuchi	Neutral	<ul style="list-style-type: none"> <li>The Nikkei will bottom at around 8,000 in February and should rebound beyond 10,000 between the end of March and July-August.</li> <li>We recommend looking at opportunities for buying the dip in January-March.</li> <li>The expectation of global economic recovery with monetary easing of emerging countries and the positive impact of large supplementary budgets for reconstruction should be positive for the market.</li> <li>The strong yen and unstable politics should remain negative for the market.</li> </ul>	<ul style="list-style-type: none"> <li>We continue to OW construction/real estate, trading houses, machinery, industrial electronics, precisions/electronic components, and foods, and UW non-bank financial, electric power/gas, and materials.</li> <li>We lower consumer electronics from neutral to UW as Japanese producers will struggle to compete with Apple, Samsung, and the Chinese. We upgrade our stance on transportation stocks from neutral to OW since railways are likely to benefit from the opening of the Tokyo Sky Tree in May. Marine transport also has good potential for the container vessel market to bottom out in 1H 2012.</li> </ul>
Asia-Pac ex-Japan:	Nigel Tupper	Neutral	<ul style="list-style-type: none"> <li>Earnings growth forecasts remain high in Asia but have moderated in recent months. More earnings downgrades are expected as the cycle deteriorates.</li> <li>Inflation should fall in Asia in the next 12 months as the cycle slows, which should provide more room for central banks to cut rates.</li> <li>With the US slowing and Europe moving into recession, domestic demand is becoming an increasingly important driver of the Asia growth story.</li> </ul>	<ul style="list-style-type: none"> <li>Prefer defensives, structural growth stories and the more resilient Energy sectors across the region.</li> </ul>
Emerging Markets:	Michael Hartnett	Overweight	<ul style="list-style-type: none"> <li>EM in a secular bull market.</li> <li>High growth, infant credit cycles and abundant global liquidity are secular positives for EM.</li> <li>Shorter-term investors should wait for an abatement of DM macro risks before adding to positions.</li> </ul>	<ul style="list-style-type: none"> <li>Long EM resources; Best of Breed; mega-cap production stocks; Russian equities.</li> <li>Risks: Major banking and debt crisis in Europe that triggers a recession in the US and a hard-landing in China.</li> </ul>

\*Recommendations are relative to regional weightings in the MSCI All Country World Index.

Source: BofA Merrill Lynch Research Investment Committee

## Asset allocation for individual investors

- These tables represent our asset allocation recommendations by investor profile (Conservative – Aggressive).
- Strategic models are long-term, 20-30 year benchmarks developed by Merrill Lynch Global Wealth Management.
- Tactical models have a 12-18 month horizon, and are provided by the Research Investment Committee (RIC).

### Tier 0 (highest liquidity):

Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

### Asset allocation for US clients

Table 8: Strategic and tactical allocations without alternative assets (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Bonds	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Cash	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%
<b>Alternative Assets</b>										
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

### Tier 1 (higher liquidity):

Up to 10% of the portfolio may be unavailable for 3-5 years.

Table 9: Strategic allocations with alternative assets (Tier 1 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks		20%		40%		55%		65%		70%
Bonds		50%		45%		30%		20%		10%
Cash		25%		10%		5%		5%		5%
<b>Alternative Assets</b>										
Real Assets*		1%		1%		2%		2%		6%
Hedge Funds		4%		4%		8%		8%		9%
Private Equity		0%		0%		0%		0%		0%

\*Real Assets\* defined to include commodities, TIPS and Real estate, including REITs. Figures may not sum to 100 because of rounding.

### Tier 2 (moderate liquidity):

Up to 20% of the portfolio may be unavailable for 3-5 years.

Table 10: Strategic allocations with alternative assets (Tier 2 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks		15%		35%		50%		55%		55%
Bonds		50%		45%		25%		20%		10%
Cash		25%		10%		5%		5%		5%
<b>Alternative Assets</b>										
Real Assets*		3%		3%		7%		7%		10%
Hedge Funds		6%		6%		8%		8%		8%
Private Equity		1%		1%		5%		5%		12%

\*Real Assets\* defined to include commodities, TIPS and Real estate, including REITs. Figures may not sum to 100 because of rounding.

### Tier 3 (lower liquidity)

Up to 30% of the portfolio may be unavailable for 3-5 years.

Table 11: Strategic allocations with alternative assets (Tier 3 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks		15%		35%		40%		50%		40%
Bonds		45%		40%		25%		15%		10%
Cash		25%		10%		5%		5%		5%
<b>Alternative Assets</b>										
Real Assets*		3%		3%		9%		9%		11%
Hedge Funds		10%		10%		14%		14%		14%
Private Equity		2%		2%		7%		7%		20%

\*Real Assets\* defined to include commodities, TIPS and Real estate, including REITs. Figures may not sum to 100 because of rounding.

Notes: The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy group and are designed to serve as guidelines for a 20-30 year investment horizon. The models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. We define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Additional information regarding the liquidity tiers is available in the full disclosure section of the report. Given the less-liquid nature of alternative assets, BofA Merrill Lynch does not make Tactical allocation recommendations for portfolios that include these asset classes.

## A closer look at asset allocation for US clients: size, style and international

The tables below present in-depth size and style recommendations for US clients using the stocks, bonds and cash weights from the most liquid (Tier 0) liquidity profile on the previous page.

Table 12: Strategic and tactical allocations without alternatives

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
<b>Stocks</b>	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Lg. Cap Growth	8%	10%	16%	20%	23%	28%	25%	32%	27%	37%
Lg. Cap Value	12%	9%	16%	14%	23%	20%	25%	19%	21%	17%
Small Growth	0%	0%	2%	2%	2%	2%	3%	3%	6%	6%
Small Value	0%	0%	2%	0%	2%	1%	3%	1%	6%	2%
Intl: Developed	0%	1%	3%	3%	8%	6%	11%	10%	16%	14%
Intl: Emerging	0%	0%	1%	1%	2%	3%	3%	5%	4%	9%
<b>Bonds</b>	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Tsys, CDs & GSEs	35%	43%	27%	15%	13%	11%	6%	8%	2%	5%
Mortgage Backeds	14%	1%	13%	13%	9%	9%	6%	6%	4%	3%
IG Corp & Preferred	6%	11%	10%	14%	9%	10%	9%	7%	5%	5%
High Yield	0%	0%	0%	4%	2%	2%	1%	2%	2%	1%
International	0%	0%	0%	4%	2%	3%	3%	2%	2%	1%
<b>Cash</b>	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%

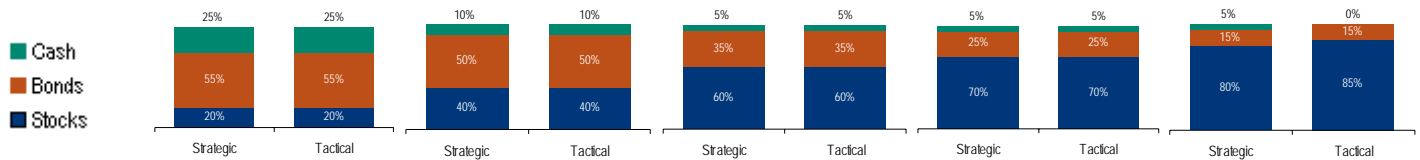


Table 13: Stocks – by size and style

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Large cap growth	40%	49%	40%	49%	38%	47%	35%	46%	33%	44%
Large cap value	60%	47%	40%	35%	38%	33%	35%	27%	26%	20%
Small growth	0%	0%	4%	4%	4%	4%	4%	4%	8%	8%
Small value	0%	0%	4%	0%	4%	1%	4%	2%	8%	2%
International: Developed	0%	4%	10%	9%	13%	10%	18%	14%	20%	16%
International: Emerging	0%	0%	2%	3%	3%	5%	4%	7%	5%	10%

Table 14: Bonds -- by sector

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Tsys, CDs & GSEs	65%	78%	55%	32%	40%	32%	25%	32%	15%	31%
Mortgage Backeds	25%	2%	25%	25%	25%	25%	25%	25%	25%	23%
IG Corp & Preferred	10%	20%	20%	28%	25%	28%	35%	28%	40%	29%
High yield	0%	0%	0%	7%	5%	7%	5%	7%	10%	9%
International	0%	0%	0%	8%	5%	8%	10%	8%	10%	8%

Notes: Further information regarding liquidity assumptions is available in the disclosure section; Figures may not sum to 100 because of rounding

The Investor Profile Asset Allocation Model was developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy Group and are designed to serve as guidelines for a 20-30-year investment horizon. The Tactical allocations are provided by the Global Research Investment Strategy Group and reflect the group's outlook over the next 12-18 months.

See [here](#) for additional disclosures for US allocation models.

## Asset allocation for global clients

The Asset Allocation for Global Clients is designed to reduce “home country bias” and introduce a currency perspective. Tactical recommendations are based on qualitative views from our BofAML Global Research strategists, translated into recommendations with a quantitative optimization model. Strategic allocations are based on market cap weights for the MSCI All-Country World and BofAML Global Fixed Income Markets Indices (12/31/2010). Both allocations are for individual investors.\*\*

### Tier 0 (highest liquidity):

Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

**Table 15: Strategic and tactical allocations without alternatives (Tier 0 liquidity)**

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
	<b>Global Equities</b>	<b>20%</b>	<b>19%</b>	<b>40%</b>	<b>39%</b>	<b>60%</b>	<b>60%</b>	<b>70%</b>	<b>71%</b>	<b>80%</b>
North America	8%	8%	19%	19%	28%	29%	32%	33%	37%	39%
Europe (ex UK)	4%	3%	7%	6%	11%	10%	13%	11%	15%	13%
UK	2%	1%	4%	3%	5%	3%	6%	4%	7%	4%
Japan	2%	2%	3%	3%	5%	5%	6%	6%	7%	7%
Pac Rim (ex Japan)	1%	1%	2%	2%	3%	3%	4%	4%	4%	4%
Emerging Markets	3%	4%	5%	6%	8%	10%	9%	13%	10%	15%
<b>Global Fixed Income</b>	<b>55%</b>	<b>58%</b>	<b>50%</b>	<b>53%</b>	<b>38%</b>	<b>39%</b>	<b>28%</b>	<b>28%</b>	<b>18%</b>	<b>17%</b>
Govt Bonds	34%	35%	30%	30%	24%	20%	18%	13%	10%	5%
Inv. Grade Credit	8%	10%	8%	10%	6%	10%	4%	8%	3%	6%
High Yield Credit	2%	2%	2%	3%	1%	2%	1%	2%	1%	2%
Collateralized Debt	11%	11%	10%	10%	7%	7%	5%	5%	4%	4%
<b>Cash (USD)</b>	<b>25%</b>	<b>23%</b>	<b>10%</b>	<b>8%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>
<b>Global Real Assets*</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
<b>Global Hedge Funds</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
<b>Global Private Equity</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

\*Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

### Tier 1 (higher liquidity):

Up to 10% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

**Table 16: Strategic and tactical allocations with alternatives (Tier 1 liquidity)**

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
	<b>Global Equities</b>	<b>18%</b>	<b>17%</b>	<b>38%</b>	<b>37%</b>	<b>56%</b>	<b>56%</b>	<b>66%</b>	<b>67%</b>	<b>73%</b>
North America	8%	8%	18%	18%	26%	27%	30%	31%	34%	35%
Europe (ex UK)	3%	2%	7%	6%	10%	9%	12%	10%	14%	12%
UK	2%	1%	3%	2%	5%	3%	6%	4%	6%	3%
Japan	2%	2%	3%	3%	5%	5%	6%	6%	6%	6%
Pac Rim (ex Japan)	1%	1%	2%	2%	3%	3%	3%	3%	4%	4%
Emerging Markets	2%	3%	5%	6%	7%	9%	9%	13%	9%	15%
<b>Global Fixed Income</b>	<b>52%</b>	<b>55%</b>	<b>50%</b>	<b>53%</b>	<b>32%</b>	<b>33%</b>	<b>22%</b>	<b>22%</b>	<b>10%</b>	<b>9%</b>
Govt Bonds	32%	33%	30%	30%	20%	16%	14%	10%	6%	3%
Inv. Grade Credit	8%	10%	8%	10%	5%	9%	3%	6%	2%	4%
High Yield Credit	2%	2%	2%	3%	1%	2%	1%	2%	0%	0%
Collateralized Debt	10%	10%	10%	10%	6%	6%	4%	4%	2%	2%
<b>Cash (USD)</b>	<b>25%</b>	<b>23%</b>	<b>7%</b>	<b>5%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>
<b>Global Real Assets^*</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>2%</b>	<b>2%</b>	<b>6%</b>	<b>6%</b>	<b>12%</b>	<b>12%</b>
<b>Global Hedge Funds^</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>8%</b>	<b>8%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>3%</b>
<b>Global Private Equity^</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

\*The RIC does not make tactical allocations to these categories due to their long term, less liquid nature. Strategic benchmark weights are reflected in both columns

\*\*Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Notes: The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy group and are designed to serve as guidelines for a 20-30 year investment horizon. The models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. We define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Additional information regarding the liquidity tiers is available in the full disclosure section of the report. Given the less-liquid nature of alternative assets, BofA Merrill Lynch does not make Tactical allocation recommendations for portfolios that include these asset classes.

\*\*BofAML Global Research also publishes a tactical Global Asset Allocation for institutional investors, distinct from the RIC's tactical Asset Allocation for Global Clients, published herein. The institutional tactical Global Asset Allocation, published quarterly, is based on the same views and methodology, but is designed for institutional investors with a 3-6 month time horizon.

## Asset allocation for global clients (continued)

Table 17: Strategic and tactical allocations with alternatives (Tier 2 liquidity)

Tier 2 (moderate liquidity):  
Up to 20% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Global Equities</b>	<b>14%</b>	<b>14%</b>	<b>35%</b>	<b>34%</b>	<b>45%</b>	<b>45%</b>	<b>51%</b>	<b>52%</b>	<b>53%</b>	<b>55%</b>
North America	6%	6%	16%	16%	21%	22%	24%	25%	24%	25%
Europe (ex UK)	3%	2%	6%	5%	8%	7%	9%	7%	10%	8%
UK	1%	1%	3%	2%	4%	2%	4%	2%	5%	3%
Japan	1%	1%	3%	3%	4%	4%	4%	4%	4%	4%
Pac Rim (ex Japan)	1%	1%	2%	2%	2%	2%	3%	3%	3%	3%
Emerging Markets	2%	3%	5%	6%	6%	8%	7%	11%	7%	12%
<b>Global Fixed Income</b>	<b>51%</b>	<b>53%</b>	<b>48%</b>	<b>51%</b>	<b>33%</b>	<b>34%</b>	<b>27%</b>	<b>27%</b>	<b>15%</b>	<b>14%</b>
Govt Bonds	31%	31%	30%	30%	21%	17%	17%	12%	9%	5%
Inv. Grade Credit	8%	10%	7%	9%	5%	9%	4%	8%	2%	4%
High Yield Credit	2%	2%	2%	3%	1%	2%	1%	2%	1%	2%
Collateralized Debt	10%	10%	9%	9%	6%	6%	5%	5%	3%	3%
<b>Cash (USD)</b>	<b>25%</b>	<b>23%</b>	<b>7%</b>	<b>5%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>
<b>Global Real Assets<sup>^*</sup></b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>8%</b>	<b>8%</b>
<b>Global Hedge Funds<sup>^</sup></b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>9%</b>	<b>9%</b>	<b>4%</b>	<b>4%</b>	<b>6%</b>	<b>6%</b>
<b>Global Private Equity<sup>^</sup></b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>7%</b>	<b>7%</b>	<b>12%</b>	<b>12%</b>	<b>16%</b>	<b>16%</b>

<sup>^</sup>The RIC does not make tactical allocations to these categories due to their long term, less liquid nature. Strategic benchmark weights are reflected in both columns.

<sup>\*</sup>Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Table 18: Strategic and tactical allocations with alternatives (Tier 3 liquidity)

Tier 3 (lower liquidity):  
Up to 30% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Global Equities</b>	<b>12%</b>	<b>12%</b>	<b>32%</b>	<b>31%</b>	<b>41%</b>	<b>41%</b>	<b>47%</b>	<b>48%</b>	<b>46%</b>	<b>48%</b>
North America	5%	5%	14%	14%	19%	20%	22%	23%	21%	21%
Europe (ex UK)	2%	1%	6%	5%	8%	7%	9%	7%	9%	7%
UK	1%	1%	3%	2%	4%	2%	4%	2%	4%	2%
Japan	1%	1%	3%	3%	3%	3%	4%	4%	4%	4%
Pac Rim (ex Japan)	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%
Emerging Markets	2%	3%	4%	5%	5%	7%	6%	10%	6%	12%
<b>Global Fixed Income</b>	<b>48%</b>	<b>50%</b>	<b>48%</b>	<b>51%</b>	<b>27%</b>	<b>28%</b>	<b>21%</b>	<b>21%</b>	<b>7%</b>	<b>6%</b>
Govt Bonds	30%	29%	30%	30%	17%	13%	13%	9%	5%	3%
Inv. Grade Credit	7%	9%	7%	9%	4%	8%	3%	6%	1%	2%
High Yield Credit	2%	3%	2%	3%	1%	2%	1%	2%	0%	0%
Collateralized Debt	9%	9%	9%	9%	5%	5%	4%	4%	1%	1%
<b>Cash (USD)</b>	<b>25%</b>	<b>23%</b>	<b>5%</b>	<b>3%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>	<b>2%</b>	<b>1%</b>
<b>Global Real Assets<sup>^*</sup></b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>6%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>15%</b>	<b>15%</b>
<b>Global Hedge Funds<sup>^</sup></b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>16%</b>	<b>16%</b>	<b>11%</b>	<b>11%</b>	<b>14%</b>	<b>14%</b>
<b>Global Private Equity<sup>^</sup></b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>8%</b>	<b>8%</b>	<b>12%</b>	<b>12%</b>	<b>16%</b>	<b>16%</b>

<sup>^</sup>The RIC does not make tactical allocations to these categories due to their long term, less liquid nature. Strategic benchmark weights are reflected in both columns.

<sup>\*</sup>Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Notes: Further information regarding liquidity assumptions is available in the disclosure section. The Investor Profile Asset Allocation Model was developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy Group and are designed to serve as guidelines for a 20-30 year investment horizon. The Tactical allocations are provided by the Global Research Investment Strategy Group and reflect their outlook over the next 12-18 months. Numbers highlighted in bold signify changes.

## Fixed-income allocation models for US clients

We prefer both investment grade and high yield corporates, as well as emerging market sovereigns over Treasuries. For those in higher income tax brackets, we also favor municipals. In all sectors we like intermediate-term maturities.

We recommend that investors extend maturity from cash with funds not needed for liquidity purposes. Mortgage-backed securities are good choice for those who can accept some flexibility about the timing of the return of principal payments.

Preferred securities offer good value in our view, but investors should recognize the prospect that trust preferreds from U.S. banks could be called ahead of schedule because of the coming loss of Tier 1 capital treatment.

**Table 19: Combined municipal and taxable recommended sector allocations by Investor Profile**

Sector	Conservative			Moderate**			Aggressive		
	Federal tax bracket								
	<25%*	28%	35%	<25%*	28%	35%	<25%*	28%	35%
Munis	0%	45%	50%	0%	58%	63%	0%	75%	80%
Treasuries & CDs	40%	22%	20%	25%	11%	9%	23%	6%	5%
TIPS	3%	2%	2%	4%	2%	1%	4%	1%	1%
Agencies (GSEs)	35%	19%	17%	3%	1%	1%	4%	1%	1%
Mortgages	2%	1%	1%	25%	10%	9%	23%	6%	5%
Corporates	20%	11%	10%	26%	11%	9%	26%	6%	5%
Preferreds	0%	0%	0%	2%	1%	1%	3%	1%	1%
High Yield*	0%	0%	0%	7%	3%	3%	9%	2%	2%
International: Developed	0%	0%	0%	3%	1%	1%	3%	1%	1%
International: Emerging Markets	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>5%</u>	<u>2%</u>	<u>2%</u>	<u>5%</u>	<u>1%</u>	<u>1%</u>
<b>TOTALS</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>TAXABLE-Maturity</b>									
1-4.99 years	100%	100%	100%	50%	50%	50%	49%	49%	49%
5-14.99 years	0%	0%	0%	41%	41%	41%	40%	40%	40%
15+ years	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>9%</u>	<u>9%</u>	<u>9%</u>	<u>11%</u>	<u>11%</u>	<u>11%</u>
<b>TOTALS</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>58%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>TAX EXEMPT-Maturity</b>									
1-4.99 years	100%	100%	100%	15%	15%	15%	10%	10%	10%
5-9.99 years				30%	30%	30%	30%	30%	30%
10-14.99 years				30%	30%	30%	25%	25%	25%
15+ years				<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>35%</u>	<u>35%</u>	<u>35%</u>
<b>TOTALS</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Including tax-deferred accounts like IRAs and 401(k)s. \*\* The Moderate Category applies to the "Moderately Conservative", "Moderate", and "Moderately Aggressive" Profiles.

Source: BofA Merrill Lynch Global Research



## US Equity sector allocation models

Table 20: Portfolio Strategy team's US equity sector weightings by investor profile

	Weight in S&P 500	Conservative	Moderately conservative	Moderate	Moderately aggressive	Aggressive
Consumer Discretionary	10.7%	10.0%	6.0%	11.0%	12.0%	10.0%
Consumer Staples	11.5%	22.0%	15.0%	12.0%	8.0%	6.0%
Energy	12.3%	12.0%	12.0%	10.0%	12.0%	12.0%
Financials	13.4%	12.0%	12.0%	13.0%	7.0%	7.0%
Health Care	11.8%	12.0%	9.0%	11.0%	17.0%	18.0%
Industrials	10.7%	14.0%	12.0%	16.0%	18.0%	16.0%
Info Technology	19.0%	6.0%	8.0%	16.0%	23.0%	25.0%
Materials	3.5%	0.0%	4.0%	2.0%	3.0%	3.0%
Telecom Services	3.2%	3.0%	10.0%	3.0%	0.0%	3.0%
Utilities	3.9%	9.0%	12.0%	6.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: BofA Merrill Lynch Research Portfolios, S&P; S&P 500 Sector Weights are as of 30 December 2011; weights may not add up to 100% due to rounding.

Table 21: US Equity Strategy team's sector weightings in rank order of preference

Sector	S&P 500 Weight	BofAML Weight (+ / = / -)	Comments	Favored Industries/Sub- industries
Consumer Staples	11.5%	++	<ul style="list-style-type: none"> <li>The only major sector* with no significant deceleration in expected earnings growth in 2012</li> <li>Best performing sector historically when profits decelerate</li> <li>Contrarian: under owned by fund managers – Health Care is favored defensive play</li> <li>Quality, dividend yield and dividend growth</li> <li>Risks: inflation, upside surprise to profits growth</li> </ul>	Food & Staples Retailing, Tobacco
Information Technology	19.0%	+	<ul style="list-style-type: none"> <li>Ranks highest in our quant model on valuation, momentum and estimate revisions</li> <li>Sector has strong secular growth segments, and its cyclical segments are already in a downturn and discounting the worst</li> <li>Cash rich – yield, buyback, capex play</li> <li>Risks: consensus long, global recession, highest European exposure, gov't cuts for Comm. Equipment</li> </ul>	Software, IT Services
Consumer Discretionary	10.7%	=	<ul style="list-style-type: none"> <li>Media a beneficiary of ad spend (2012 elections &amp; Olympics)</li> <li>Stock pickers industries: Restaurants and Retail</li> <li>Hedge against a global slowdown, as sector is domestically focused</li> <li>Risks: Higher oil prices, consumer deleveraging, employment, housing</li> </ul>	Media, Restaurants
Health Care	11.9%	=	<ul style="list-style-type: none"> <li>Performs well historically when profits decelerate</li> <li>Large-cap Pharmaceuticals – cheap, strong yield and unloved</li> <li>Risk: most government spending exposure of any sector</li> </ul>	Pharmaceuticals for yield, Health Care Equipment & Services
Industrials	10.7%	=	<ul style="list-style-type: none"> <li>B2B spending exposure</li> <li>International exposure – Europe more of a concern than EM</li> <li>Defense names at risk from government spending cuts</li> </ul>	Air Freight & Logistics, Electrical Equipment, Road & Rail
Energy	12.3%	=	<ul style="list-style-type: none"> <li>Sector earnings currently reflect oil price of \$92/bbl WTI – well below our forecast</li> <li>But oil price volatility since 2008 suggests higher risk premium is warranted</li> <li>Risks: global slowdown / recession</li> </ul>	Energy Equipment & Services
Telecommunication Services	3.2%	=	<ul style="list-style-type: none"> <li>Eclipses Utilities as sector with the highest dividend yield</li> <li>Good sector for stock pickers – low intra-stock correlations</li> <li>Crisis hedge – three periods of best performance were Lehman crisis, Greek crisis and US debt downgrade.</li> <li>Risks: poor quant model rank, protracted downward revision cycle</li> </ul>	Diversified Telecom
Utilities	3.9%	=	<ul style="list-style-type: none"> <li>Most expensive sector, no growth</li> <li>Deregulated Utilities pricing could benefit from EPA regulation if Democratic leadership</li> <li>Hedge against global macroeconomic uncertainty and weak equity market returns – yield play, purely domestic, and least correlated with the equity market</li> </ul>	Regulated Utilities
Financials	13.4%	--	<ul style="list-style-type: none"> <li>Still a value trap – prices falling faster than earnings deteriorating</li> <li>High risk due to regulatory reform, litigation, further declines in home prices, stress in the European financial system, and slow US growth</li> <li>Old leadership rarely becomes new leadership</li> <li>2012 dividend growth likely to eclipse earnings growth</li> <li>Secular growth theme: electronic payment systems</li> </ul>	Insurance
Materials	3.5%	--	<ul style="list-style-type: none"> <li>Ranks poorly in Quant model (weak estimate trends and price momentum)</li> <li>All risk, no reward: highest beta among non-Financial cyclical sectors but lowest long term growth prospects</li> </ul>	Chemicals

\*Weights in S&P 500 as of 12/30/11

\*Note: Financials growth is also expected to accelerate in 2012 but this is due to large write downs in 2011 rather than real earnings power.

Source: BofA Merrill Lynch US Equity & US Quant Strategy

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## Core portfolio

The Core is a sector-driven US equity portfolio whose target sector weightings and selected industry representation are reflective of our US Equity Strategy team's current recommendations. Individual stocks are chosen based on their potential to deliver above average earnings growth, yet have attractive valuations based on P/E-to-EPS growth rate. Sector weights are benchmarked to the S&P 500.

Sectors/Target Weights	Symbol	Proposed Weight	Price		Yield †	ORQ Rating	5 YR EPS		Footnotes
			Close 1/6/2012	When added			Growth	P/E Ratio	
<b>Consumer Discretionary (11%)</b>									
Starwood Hotels	HOT	4%	50.42	\$49.94	0.99%	C-1-8	31.8	28.33	BObijopsw
Yum Brands Inc	YUM	3%	59.85	\$38.52	1.90%	B-1-7	13.0	21.00	BObijopsw
Tiffany & Co.	TIF	4%	65.75	\$49.34	1.76%	B-1-7	12.0	17.49	Bbijpsw
<b>Consumer Staples (15%)</b>									
Green Mountain	GMCR	2%	43.17	\$44.10	0.00%	C-1-9	42.9	61.67	Bbgijopsw
Wal*Mart Stores	WMT	4%	59.00	\$48.74	2.47%	A-1-7	9.0	16.12	BObgijopsv
CVS/Caremark	CVS	3%	41.46	\$37.97	1.57%	B-1-7	14.0	16.58	BObgijopsw
AB InBev	BUD	4%	58.92	\$55.80	2.00%	A-1-7	12.3	18.83	Bbgijopsv
PM	PM	2%	77.08	\$71.52	4.00%	B-1-7	11.0	19.92	Bbijpsw
<b>Energy (12%)</b>									
Halliburton	HAL	3%	34.98	\$32.41	1.03%	C-1-7	16.0	16.90	Bbijopsw
Schlumberger	SLB	3%	67.78	\$70.11	1.48%	B-1-7	16.0	23.95	Bbijpsw
Occidental	OXY	3%	95.77	\$98.60	1.92%	B-1-7	0.5	16.86	BObgijopsw
Apache Corp	APA	3%	97.04	\$86.16	0.62%	B-1-7	3.3	10.90	BObijopsw
<b>Financials (10%)</b>									
ACE Limited	ACE	2%	70.03	\$44.47	2.68%	B-1-7	10.0	9.00	BObijopsw
Amer Express	AXP	3%	48.27	\$41.75	1.49%	B-1-7	10.0	14.37	BObijopsw
BlackRock, Inc.	BLK	3%	179.13	\$159.18	3.07%	B-1-7	12.0	16.45	Bbgijopsv
JP Morgan Chase	JPM	2%	35.36	\$43.62	2.83%	B-1-7	8.0	8.93	#BObijopsw
<b>Health Care (11%)</b>									
Express Scripts	ESRX	2%	49.39	\$26.28	0.00%	B-1-9	20.0	21.29	BObgijopsw
Cardinal Health	CAH	4%	41.56	\$34.73	2.07%	B-1-7	10.0	18.72	BObijopsw
Baxter	BAX	3%	50.14	\$55.56	2.67%	B-1-7	12.0	12.60	BObgijopsw
Celgene Corp	CELG	2%	67.22	\$59.23	0.00%	B-1-9	25.7	24.01	Bbijopsw
<b>Industrials (10%)</b>									
Dover Corp	DOV	3%	57.66	\$66.30	2.19%	B-1-7	15.0	16.76	Bbijpsw
Fluor Corp	FLR	3%	51.72	\$63.35	0.97%	B-1-7	15.0	26.12	Bbgijopsw
Honeywell Intl.	HON	2%	55.18	\$37.82	2.70%	B-1-7	13.0	19.23	BObgijopsw
Boeing	BA	2%	73.98	\$55.47	2.38%	B-1-7	16.0	16.62	BObijopsw
<b>Information Technology (22%)</b>									
Sandisk	SNDK	4%	49.93	\$51.30	0.00%	C-1-9	11.0	9.18	Bbijpsw
QUALCOMM	QCOM	3%	56.16	\$43.25	1.53%	C-1-7	13.0	26.24	Bbijopsw
Microsoft Corp	MSFT	3%	28.11	\$22.65	2.85%	B-1-7	12.0	13.32	Bbgijopsv
IBM	IBM	3%	182.54	\$85.81	1.64%	B-1-7	10.0	15.80	BObijopsw
Apple	AAPL	3%	422.40	\$259.69	0.00%	C-1-9	15.0	27.88	Bbijopsw
Google	GOOG	3%	650.02	\$407.98	0.00%	C-1-9	19.4	21.95	#Bbgijopsw
Broadcom	BRCM	3%	30.14	\$39.76	1.19%	C-1-7	15.0	11.08	Bbijopsv
<b>Materials (2%)</b>									
FMC Corp	FMC	2%	87.97	\$59.66	0.68%	B-1-7	8.9	18.18	Bbgijopsw
<b>Telecom Services (3%)</b>									
Vodafone Group	VOD	3%	27.85	\$28.25	5.29%	B-1-7	12.9	9.38	BObijopsv
<b>Utilities (4%)</b>									
PPL Corp.	PPL	4%	28.52	\$27.28	4.91%	B-1-7	12.2	9.14	BObgijopsv
<b>Cash (0%)</b>									
		0%							
		100%			1.82%				

†: Investors should be aware that foreign governments sometimes withhold a percentage of dividends paid to US shareholders, which may adversely impact an investor who is following the portfolio. This may affect the yield received when compared to the stated yield for the Sector Strategy portfolios. Please see [Footnote Key](#) at the back of this report.

Source: BofA Merrill Lynch Research Portfolios

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## Global stock lists

### US 1 List ([methodology](#))

Table 22: US 1 List (as of 6 January 2012)

Ticker	Company	Rating	Date added	Price when added	Price as of 6 Jan	Footnotes
ANF	Abercrombie	C-1-7	5/31/2011	75.77	44.91	Bbijopsvw
APC	Anadarko Petro	C-1-7	6/21/2011	72.15	80.27	BObijopsvw
C	Citigroup	C-1-7	7/6/2011	42.01	28.55	BObijopsvw
CNH	CNH Global	C-1-9	1/31/2011	48.43	39.63	Bbijopsv
CL	Colgate-Palm	A-1-7	9/19/2011	93.32	89.80	Bbgijopsv
CMCSA	Comcast Corp	B-1-7	6/28/2011	24.76	24.69	#BObijopsv
COV	Covidien	B-1-7	8/16/2011	49.90	46.00	BObijopsvw
DKS	Dick's	C-1-7	5/2/2011	40.61	34.64	Bbijpv
EQIX	Equinix	B-1-9	1/31/2011	88.42	104.92	Bbgijopsvw
ESRX	Express Scripts	B-1-9	9/12/2011	44.43	49.39	BObgijopsvw
F	Ford Motor	C-1-7	8/9/2011	10.91	11.71	BObijopsvw
HMSY	HMS	C-1-9	11/7/2011	28.73	31.21	Bbijpsw
KSU	Kansas City Sou	B-1-9	8/2/2011	56.72	69.68	Bbijopsv
KLAC	KLA-Tencor	C-1-7	9/26/2011	39.69	47.73	Bbijopsv
KFT	Kraft Foods Inc.	B-1-7	10/31/2011	35.18	37.55	BObijopsvw
LVS	Las Vegas Sands	C-1-9	9/12/2011	47.54	42.17	BObijopsv
LNC	Lincoln National	C-1-7	10/17/2011	17.23	20.06	BObijopsvw
MRO	Marathon	B-1-7	6/30/2011	31.98	30.69	BObgijopsvw
ORCL	Oracle	B-1-7	7/6/2011	33.21	26.93	BObijopsv
PFE	Pfizer Inc.	A-1-7	8/9/2011	17.60	21.57	BObijopsvw
QCOM	QUALCOMM	C-1-7	10/31/2011	51.60	56.16	Bbijopsv
SPR	Spirit AeroSys-A	C-1-9	11/14/2011	19.72	22.10	Bbijopsv
TDC	Teradata	B-1-9	12/27/2011	49.56	47.37	Bbijpsv
WMT	Wal*Mart Stores	A-1-7	9/12/2011	51.82	59.00	BObgijopsv

Note: We last modified this portfolio on 6 January 2012. Please see the [original report](#) for details, including price objectives and investment rationale. Please see [Footnote Key](#) at the back of this report. One or more members of the US 1 Committee (or a household member) owns stock of one or more companies on the US 1 list.

Source: BofA Merrill Lynch Global Research

## Endeavor, the Small Cap US Buy List ([methodology](#))

Table 23: Endeavor stocks (as of 6 January 2012)

GICS sector	Company	Symbol	BofAML opinion	Price as of 6 Jan (US\$)	Mkt value (US\$ mn)	MLSCR Model scores (100=best; 1=worst)		Date added	Footnotes
						Aurora	Enhanced contrarian		
Consumer Discretionary	AMERICAN AXLE & MFG HOLDINGS	AXL	C-1-9	11.40	613	64	94	8/9/2010	BObgijpsvw
Consumer Discretionary	EXPRESS INC	EXPR	C-1-9	19.09	2,005	81	57	9/19/2011	Bbgijopsv
Consumer Discretionary	FINISH LINE INC -CL A	FINL	C-1-7	19.41	1,058	87	56	7/13/2010	Bbjpw
Consumer Discretionary	SONIC AUTOMOTIVE INC -CL A	SAH	C-1-7	14.64	777	98	96	10/10/2011	Bbijpsvw
Consumer Staples	SUSSER HOLDINGS CORP	SUSS	C-1-9	22.52	413	100	98	7/5/2011	Bbjopw
Energy	SM ENERGY CO	SM	C-1-7	78.14	5,342	48	67	1/6/2011	Bbgijopsv
Financials	SIGNATURE BANK/NY	SBNY	A-1-9	61.16	2,661	55	21	8/8/2011	Bgjiosv
Financials	CALAMOS ASSET MANAGEMENT INC	CLMS	C-2-7	12.77	253	67	97	5/11/2010	Bbjopw
Health Care	HEALTH MANAGEMENT ASSOC	HMA	C-1-9	7.49	2,323	56	93	7/14/2009	BObijpsvw
Health Care	VIOPHARMA INC	VPHM	C-1-9	27.93	1,532	100	88	8/8/2011	Bbijopsv
Health Care	PHARMERICA CORP	PMC	C-1-9	14.55	480	100	99	1/20/2009	Bbjpw
Health Care	SIRONA DENTAL SYSTEMS INC	SIRO	B-1-9	43.45	2,437	45	64	6/11/2010	Bbijpv
Industrials	TAL INTERNATIONAL GROUP INC	TAL	B-1-7	31.48	966	90	94	9/19/2011	Bbgijpsvw
Industrials	ALASKA AIR GROUP INC	ALK	C-1-9	73.86	2,424	99	93	10/10/2011	Bbijopsv
Industrials	TRIUMPH GROUP INC	TGI	C-1-7	60.99	2,696	99	98	10/16/2007	Bbjps
Information Technology	ANCESTRY.COM INC	ACOM	C-1-9	27.33	1,062	57	74	10/12/2010	Bbgijopsvw
Information Technology	KEMET CORP	KEM	C-1-9	7.30	458	25	89	9/19/2011	Bbijopsvw
Information Technology	GT ADVANCED TECHNOLOGIES INC	GTAT	C-2-9	7.60	1,050	38	91	1/6/2011	Bbijopsv
Information Technology	CADENCE DESIGN SYSTEMS INC	CDNS	C-1-9	10.19	3,129	93	53	7/5/2011	Bbijops
Materials	GRAPHIC PACKAGING HOLDING CO	GPK	C-1-9	4.62	1,779	84	91	5/18/2011	Bbgijpsv

Please see [Footnote Key](#) at the back of this report. Source: BofA Merrill Lynch Small Cap Research

10 January 2012

## US High Quality & Dividend Yield Screen (methodology)

Table 24: High Quality and Dividend Yield Screen (as of January 2012)

Date								Market value	Cost	Price			
Added	Ticker	Name	Sector	ROE (%)	Debt/equity	Yield (%)	Quality	(US\$ mn)	Price	(6 Jan, US\$)	QRQ	FCF/DIV	Footnotes
10/1/2010	ABT	Abbott Labs	Health Care	19.8	0.68	3.4	A	87,595	52.58	56.23	A-2-7	2.1	BObjjopsw
4/1/2011	APD	Air Products	Materials	21.4	0.79	2.7	A	17,929	90.48	85.19	B-1-7	1.5	Bbijpsw
11/1/11	BAX	Baxter	Health Care	32.4	0.65	2.7	A	27,900	53.52	49.48	B-1-7	2.6	BObgjopsw
12/1/2011	CSX	CSX Corporation	Industrials	21.3	1.05	2.3	A-	22,112	21.73	21.06	B-1-7	1.1	BObjop
12/1/2010	CVX	Chevron	Energy	24.3	0.08	3.0	A	211,894	82.70	106.4	A-2-7	2.4	Bbijjopsw
12/1/2010	EMR	Emerson	Industrials	24.3	0.50	3.4	A+	34,279	55.98	46.59	B-2-7	2.2	Bbijpsw
11/1/2011	ETN	Eaton Corp	Industrials	17.0	0.49	3.1	A	14,548	44.28	43.53	B-1-7	2.7	BObgjopsw
12/1/2010	GD	General Dynamics	Industrials	19.7	0.30	2.8	A+	23,649	67.62	66.41	B-1-7	4.1	BObgjopsw
1/3/2012	GIS	General Mills	Consumer Staples	25.6	1.19	3.0	A+	26,002	40.53	40.41	B-1-7	1.8	BObgjopsw
2/1/2011	GPS	Gap Inc.	Consumer Discretionary	28.0	0.62	2.4	A	6,436	19.52	18.55	B-2-7	4.0	Bbgjopsw
1/3/2012	HD	The Home Depot	Consumer Discretionary	20.0	0.61	2.8	A	64,808	42.81	42.04	B-1-7	2.3	BObgjopsv
3/1/2011	HON	Honeywell Intl.	Industrials	23.1	0.70	2.7	A-	42,040	56.45	54.35	B-1-7	2.5	BObgjopsw
2/2/2009	JNJ	Johnson & Johnson	Health Care	19.2	0.30	3.5	A+	179,089	57.69	65.58	A-2-7	1.9	BObgjopsw
1/3/2012	KO	Coca Cola	Consumer Staples	41.5	0.88	2.7	A+	158,918	70.64	69.97	A-1-7	2.7	BObjopsw
2/2/2009	KMB	Kimberly-Clark	Consumer Staples	31.0	1.19	3.8	A	28,990	50.98	73.56	A-1-7	1.5	Bbgjopsw
1/1/2009	MCD	McDonald's Corp	Consumer Discretionary	39.8	0.94	2.8	A	102,659	62.19	100.33	B-1-7	1.4	BObgjopsw
5/3/2010	MDT	Medtronic	Health Care	21.5	0.61	2.5	A	40,367	44.13	38.25	A-1-7	3.6	BObgjopsw
8/1/2011	MSFT	Microsoft Corp	Information Technology	44.2	0.20	3.1	A-	194,358	27.27	25.96	B-1-7	3.6	Bbgjopsw
11/1/2011	NSC	Norfolk Southern	Industrials	17.5	0.68	2.4	A-	24,489	72.70	72.86	B-1-7	1.1	BObgjopsw
3/1/2011	PG	Procter & Gamble	Consumer Staples	18.3	0.52	3.1	A+	183,541	62.74	66.71	A-2-7	1.8	Bbgjpsw
1/3/2012	PEP	PepsiCo	Consumer Staples	29.4	1.13	3.1	A+	103,732	66.84	66.35	A-1-7	1.7	BObgjopsw
12/1/2011	UNP	Union Pacific	Industrials	17.2	0.51	2.3	A	51,177	102.93	105.94	B-1-7	1.4	BObgjpsw
12/1/2010	UTX	United Tech	Industrials	22.1	0.50	2.6	A+	66,226	78.26	73.09	B-1-7	3.0	BObjopsw
1/3/2012	VFC	V F Corp	Consumer Discretionary	16.3	0.67	2.3	A	11,072	130.70	126.99	B-1-7	2.3	BObgjpsv
10/1/2011	WAG	Walgreen	Consumer Staples	18.5	0.17	2.7	A+	29,400	32.89	33.06	B-2-7	3.0	Bbijopsw
12/1/2010	WMT	Wal*Mart Stores	Consumer Staples	23.5	0.88	2.4	A+	104,377	54.70	59.76	A-1-7	2.3	BObgjopsv
		<b>Average</b>		<b>24.5</b>	<b>0.6</b>	<b>2.8</b>		<b>71,446</b>					<b>2.3</b>
		<b>S&amp;P 500 benchmark:</b>		<b>16.3</b>	<b>1.2</b>	<b>2.2</b>							

Source: BofA Merrill Lynch Global Research, BofA Merrill Lynch US Quantitative Strategy, FactSet, S&P

Note: Calculations are based on data from the last 12 months. Financials stocks are excluded because they typically have very high Debt/Equity ratios that have nothing to do with their capital structure. We calculated the Return on Equity (ROE) of the S&P 500 after excluding companies with ROEs that were greater than two standard deviations above the mean. Disclaimer: These stocks have been selected according to the specified screening criteria and do not constitute a recommended list. Investors looking for a high quality dividend yield oriented investment can consider this analysis as one part of their decision making process, but should also consider other factors including fundamental opinions, financial risk, investment risk, management strategies and operating and financial outlooks.

## International High Quality & Dividend Yield Screen (methodology)

Table 25: Global Non-US High Quality and High Dividend Yield Screen (as of January 2012)

Ticker symbol	ADR symbol	Company	Country	Sector	MCAP	Quality	Dividend yield (%)	BofAML Opinion	Price as of 5 Jan (US\$)
BHPBF	BBL	BHP BILLITON PLC	United Kingdom	Materials	61,627	A-	3.5%	B-2-7	30.20
CMPGF		COMPASS GROUP	United Kingdom	Auto, Dur, Services	18,014	A-	3.2%	B-1-7	9.30
SGGEF		SAGE GROUP (THE)	United Kingdom	Software & Services	6,052	A-	3.3%	C-1-7	4.56
BCKIF		BABCOCK INT'L GROUP	United Kingdom	Industrials	4,105	A-	2.7%	B-1-7	11.30
AZNCF	AZN	ASTRAZENECA	United Kingdom	Health Care	62,135	A+	5.8%	B-2-7	46.59
NXGPF		NEXT	United Kingdom	Retailing	7,336	A+	2.9%	B-2-7	40.46
IAPLF		ICAP	United Kingdom	Div Financials	3,526	A-	6.0%	B-1-7	5.09
SBGSF		SCHNEIDER ELECTRIC	France	Industrials	28,724	A-	3.9%	B-1-7	54.38
SMAWF	SI	SIEMENS	Germany	Industrials	87,750	A-	4.1%	B-2-7	97.09
ANWF	ANZBY	ANZ BANKING GROUP	Australia	Banks	55,331	A-	6.8%	A-1-7	21.25
BHPLF	BHP	BHP BILLITON LTD	Australia	Materials	113,325	A-	2.9%	B-2-7	36.70
CHEUF		CHEUNG KONG HOLDINGS	Hong Kong	Div Financials	27,556	A-	3.2%	B-1-7	12.03
SMBMF		SEMBCORP MARINE	Singapore	Industrials	6,143	A	2.9%	B-1-7	3.04
SNPHF		SANTEN PHARMACEUTICAL CO	Japan	Health Care	3,589	A-	3.2%	B-1-7	41.05
SSUMF	SSUMY	SUMITOMO CORP	Japan	Industrials	16,937	A-	4.7%	B-1-7	13.71
NVSEF	NVS	NOVARTIS	Switzerland	Health Care	157,673	A-	4.1%	A-2-7	57.13
BZLFF		BUNZL	United Kingdom	Industrials	4,539	A	2.7%	A-2-7	13.65
VCISF		VINCI	France	Industrials	24,726	A+	5.0%	A-1-7	43.57
CTAGF		CAPITA	United Kingdom	Industrials	5,991	A	3.3%	C-1-7	9.97
RUKEF	RUK	REED ELSEVIER (GB)	United Kingdom	Media	9,812	A-	4.0%	B-2-7	7.89

Note: Dividend yields are gross of taxes. Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES, S&P

Note: Please be aware that links on this page are directed to lists that are updated as of the date of this publication. There may have been updates to one or more lists. Financial Advisors should check for the latest available constituents.

## Research portfolios and stock lists

### Stock lists

Regional Focus or 1 Lists are best investment ideas chosen from among our Buy-rated stocks.

[US](#)  
[Europe](#)

[Asia-Pacific](#)  
[Japan](#)

#### [Most Attractive Buy \(MAB\)](#)

Designed to identify common stocks that are attractive based on technical analysis, the objective of this list is to capture short to intermediate-term (3-6 month) price appreciation, but positions can be held longer term.

#### [Growth10 / Value10](#)

Consist of 10 stocks each, chosen by the highest five-year EPS growth rate (Growth 10) or lowest trailing 12-month P/E ratio (Value 10) after quantitative screening criteria.

## Stock portfolios

### US Large Cap Equity

Five portfolios offerings are available to match each of the client profiles of Capital Preservation, Income, Income & Growth, Growth and Aggressive Growth. These match the risk profiles of conservative, moderately conservative, moderate, moderately aggressive and aggressive, respectively. A sixth portfolio called the Core Portfolio is designed to reflect weighting decisions of our US equity strategy team. Each of these portfolios employs a combination of top-down sector weightings and bottom-up stock selection focusing on the 10 GICS sectors.

[Holdings](#)

[Primer](#)

### US Mid-Cap Equity

Launched in April 2010, this portfolio invests in stocks between \$2-12 billion that are selected using a combination of fundamental, quantitative and portfolio management tools, and is built on the GICS sector framework.

[Holdings](#)

[Primer](#)

### International Equity

This portfolio consists of ADRs and US-listed shares of non-US companies representing all major regions outside the US: Europe/Middle East/Africa, Asia, Latin America and Canada, and is built on the GICS sector framework.

[Holdings](#)

[Primer](#)

## Global economic, interest rate, FX forecast summaries

Table 26: Global economic forecasts (as of 6 January 2012)

	GDP growth, %				CPI inflation*, %				ST interest rates**, %				Exchange rate***				
	2009	2010	2011F	2012F	2009	2010	2011F	2012F	Curr.	2010	2011F	2012F	CCY pair	Spot rate	2010	2011	2012F
<b>Global and Regional Aggregates</b>																	
Global	-0.8	5.1	3.8	3.6	1.6	3.2	4.3	3.5	3.25	2.60	3.01	2.94					
Global ex US	-0.1	5.6	4.4	4.0	2.2	3.7	4.6	4.0	4.11	3.28	3.78	3.74					
Developed Markets	-3.8	2.9	1.5	1.3	0.0	1.4	2.7	1.7	0.62	0.58	0.59	0.43					
G5	-4.0	2.7	1.4	1.1	-0.1	1.4	2.7	1.6	0.52	0.46	0.46	0.27					
Emerging Markets	2.6	7.5	6.3	5.5	3.5	5.2	6.1	5.0	6.47	4.83	5.56	5.17					
Europe, Middle East and Africa (EMEA)	-4.2	2.6	2.3	0.5	3.1	3.2	4.1	3.2	2.70	2.54	2.60	2.30					
European Union	-4.0	1.9	1.6	-0.2	0.9	2.0	3.1	2.0	1.27	1.20	1.28	0.88					
Emerging EMEA	-3.6	4.3	4.5	2.7	7.7	5.8	6.2	5.7	6.66	6.09	6.15	5.95					
PacRim	4.0	8.1	5.9	6.2	0.5	3.5	4.7	3.5	4.58	2.87	3.60	3.39					
PacRim ex Japan	6.1	8.9	7.2	6.9	0.9	4.4	5.7	4.2	5.69	3.47	4.30	4.01					
Emerging Asia	6.6	9.2	7.5	7.1	0.9	4.6	5.8	4.2	5.95	3.52	4.40	4.05					
Americas	-3.1	3.9	2.6	2.5	1.4	2.9	4.1	3.2	2.59	2.50	2.87	2.65					
Latin America	-2.0	6.3	4.5	3.5	6.4	6.3	6.7	6.7	9.18	8.88	10.17	9.44					
<b>G5</b>																	
US	-3.5	3.0	1.8	2.1	-0.4	1.6	3.2	1.8	0.250	0.130	0.125	0.125					
Euro area	-4.2	1.8	1.5	-0.6	0.3	1.6	2.7	1.8	1.00	1.00	1.00	0.50	EUR-USD	1.27	1.34	1.30	1.30
Japan	-5.5	4.4	-0.7	2.4	-1.4	-1.0	-0.4	-0.4	0.10	0.05	0.05	0.05	USD-JPY	77	81	77	76
UK	-4.4	1.8	0.9	0.3	2.2	3.3	4.5	2.3	0.50	0.50	0.50	0.50	EUR-GBP	0.82	0.86	0.83	0.85
Canada	-2.8	3.2	2.4	2.1	0.3	1.8	3.0	2.8	1.00	1.00	1.00	0.25	USD-CAD	1.03	1.00	1.02	1.05

Notes: Global and regional aggregates are based on the IMF PPP weights unless stated otherwise. Countries within each region are ordered according to these weights.

\* Annual averages. The HICP measure of inflation is used for Euro area economies. \*\* Central bank target rate, year-end, where available, short-term rates elsewhere.

Source: BofA Merrill Lynch Global Research

## **Additional disclosure: US allocation models**

Merrill Lynch Global Wealth Management provides Strategic asset allocation models, with and without alternative investments, to help provide investors with a range of investment solutions. Asset allocation models that include alternative investments are segmented into three liquidity tiers to provide additional flexibility and transparency when considering investment exposure to alternative investments. Under our classification scheme, alternative investments include Hedge Funds, Private Equity and Real Assets. Real Assets represent tangible non-traditional assets and other assets, which tend to offer inflation protection. For the model portfolio we include real estate (public and private), commodities and other inflation protection investments (eg, TIPS) in Real Assets. Historically, each asset class has had different return characteristics and varying correlations with other asset classes over different time periods. From an overall portfolio standpoint, it is beneficial for an investor to own non-correlated assets, which may help smooth return patterns over a longer time period. Commodities, for example, may perform differently than Equities. While correlation results vary over time and under different market conditions, the underlying theme of portfolio diversification has historically been critical.

Given that alternative investments tend to be less liquid investments, we do not provide Tactical recommendations for allocations to these asset classes. Investors should carefully evaluate with their Financial Advisor how best to implement allocation recommendations to alternative assets.

For asset allocation models including alternative investments, we define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given duration of time under typical market conditions. The asset allocation models were developed based on the following guidelines. The actual liquidity of a given portfolio may vary considerably depending on assets held in the portfolio and market conditions.

- **Tier 1 (Higher Liquidity):** Up to 10 of the portfolio may be unavailable for 3-5 years.
- **Tier 2 (Moderate Liquidity):** Up to 20 of the portfolio may be unavailable for 3-5 years.
- **Tier 3 (Lower Liquidity):** Up to 30 of the portfolio may be unavailable for 3-5 years.

The Strategic allocation models provide long term (20 years or more) benchmarks and are relevant to developing a long term investment strategy. The Tactical asset allocation models, which reflect a 12-18 month horizon, are intended to help investors evaluate shorter term market opportunities and risks for their portfolio. Investors should work with their Financial Advisor to discuss their personal financial situation and goals, and determine which asset allocation strategy is appropriate. With any investment strategy, investors should also consider liquidity needs, taxes, and transactions costs. These factors may be given even more weight in making Tactical decisions within portfolios.

It is important to note that liquidity and other investment characteristics of an investor's portfolio may vary significantly from the models based upon the actual investments selected and market conditions. Investors should communicate with their Financial Advisors to determine the appropriateness and alignment of their chosen asset allocation with their tolerance for risk, need for liquidity, and alignment with their financial goals and other specific circumstances.

## **Methodology: US 1 List**

The US 1 List represents a collection of our best investment ideas that are drawn primarily from US fundamental equity research analysts' "Buy" recommendations. To be included in the list, stocks must be listed in the US and must have an average daily trading volume of at least \$5mn in the six months preceding their selection for the list. Once selected, a stock will remain on the list for 12 months unless the US 1 Committee removes the stock in connection with a downgrade or otherwise. At the end of the 12-month period, the Committee may extend a company's inclusion on the list for another 12 months if it continues to meet the US 1 criteria.

The list will generally consist of between 20 and 30 equally weighted stocks, but not fewer than 15 stocks. It will be rebalanced to achieve equal weighting in connection with the addition and deletion of any stock. Sector weighting in the selection process is considered. However, the US 1 list is not required to reflect the weights of the S&P 500 or any other index.

A US 1 Index will be established to track the performance of the list. The Index will be calculated on both a price-return (without the reinvestment of dividends) and a total-return basis and will be available on Bloomberg at (MLUS1PR <Index>) and (MLUS1TR <Index>), respectively.



## **Methodology: Endeavor List**

Endeavor is a concentrated list of approximately 15 to 20 smaller cap stocks that represents the strategic views of BofA Merrill Lynch Small Cap Research. The Endeavor list includes those smaller cap stocks that are most compelling using a multi-disciplinary process. Candidates for the Endeavor buy list carry a favorable view by a BofA Merrill Lynch Fundamental Analyst and are attractively ranked by our Aurora (growth) or Enhanced Contrarian (value) quantitative models.

## **Methodology: US High Quality & Dividend Yield Screen**

We list a screen of preferred securities that meet specified selection criteria and have relatively high yields for their credit rating and industry sector. The US High Quality & Dividend Yield Screen is not a recommended list.

### **Screening criteria**

We combined our two secular themes through the following criteria. In our view, these screening factors were likely to uncover higher-quality companies that offered relatively secure dividend yield. The stocks are selected from the S&P 500.

- S&P Common Stock Rank of A+, A, or A-. The S&P Common Stock Rankings are our main measure of quality. These rankings are based primarily on the growth and stability of earnings and dividends over a 10-year period.
- Return on Equity (ROE) greater than the average S&P 500 ROE.
- Debt/Equity lower than the S&P 500.
- Dividend yield greater than the S&P 500.
- BofA Merrill Lynch Research Investment Opinion indicates Buy or Neutral as well as the likelihood that the dividend will remain the same or be increased (ie, a dividend rating of "7").
- The ratio of the last 12 months' free cash flow to dividends must be greater than 1.0.

## **Methodology: International High Quality & Dividend Yield Screen**

We list a screen of preferred securities that meet specified selection criteria and have relatively high yields for their credit rating and industry sector. The International High Quality & Dividend Yield Screen is not a recommended list.

This monthly screen selects high quality and high dividend yield stocks from the MSCI AC World ex-USA Index covered by BofA Merrill Lynch Global Research. The screen uses the following criteria to uncover higher quality companies that offer relatively secure dividend yield.

- S&P Common Stock Rank (quality rank) of A+, A, or A-. The S&P Common Stock rankings are our main measure of quality. These rankings are based on the stability and growth in earnings and dividends over a seven-year period for non-US companies.
- Return on Equity (ROE) greater than the MSCI Index.
- Debt/Equity lower than the MSCI Index.
- Dividend yield greater than the MSCI Index.
- BofAML Investment Opinion indicates Buy or Neutral, as well as the likelihood that the dividend will remain the same or be increased (ie, a dividend rating of 7).
- The ratio of the past 12 months' free cash flow to dividends is greater than 1.0.

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## Link to Definitions

### Macro

Click [here](#) for definitions of commonly used terms.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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