The Rules and Themes of Deleveraging

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The RIC's rules

The RIC believes the Era of Deleveraging is unfinished, and thus our deleveraging guidelines bear repeating:

- Wide trading ranges for the major asset classes are likely. Note US equities are approaching the top of their trading range.
- Bull markets (and bubbles) in growth, yield and quality are likely. We believe credit markets run the greatest risk of a bubble outcome.
- Good themes—such as the EM consumer and US real estate, and good, steady allocations—such as companies over countries, creditors over debtors, Growth over Value, and the US over Europe, keep working.

What happens after the summer rally?

Policy and positioning still suggest upside for equities this summer. But while there are many reasons for an equity rally, there are limited reasons for a re-rating. As a result we maintain our existing allocation of 60% stocks, 35% bonds and 5% cash. The RIC would use the late summer as an opportunity to re-balance portfolios towards our Three Wise Themes of yield, growth and quality.

Macro theme to add exposure to: US Real Estate

Real estate markets in Phoenix, Miami, Detroit and Denver have outperformed US Treasuries over the last 12 months, and our economists forecast a strong 45% cumulative return for US real estate prices over the next 10 years. We recommend investing in the US housing recovery via non-agency MBS (Strategist Chris Flanagan sees roughly 10% upside from current levels), home renovation retailers, and select US financials and REITs.

Other themes: distressed Europe & EM domestic demand

We recommend European exposure via best of breed companies, dividend growth stocks, and European corporate bond funds with exposure to core Europe (particularly France). Within EM, we favor assets tied to the EM consumer, and less correlated Frontier Markets.

Unanticipated risks

Unanticipated risks this year include an "Arab autumn" (which could cause oil prices to soar), a jump in bond market volatility that derails the nascent US housing recovery, policy failure in China, or successful policy stimulus in the US that ignites the Great Rotation.

Click the image above to watch the video.

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July review

Following a bleak second quarter, risk assets rebounded in July thanks to bearish investor sentiment and active policy intervention.

Equities finished a range-bound month on an upswing, with Japan being the only major region to post a loss for the month.

EM outperformed DM as a rebound in commodity prices supported Emerging Market equities.

In US markets, large caps outperformed small caps in both July and the year to date. Across size and style segments, Growth outperformed Value in large cap, but underperformed in small cap. But for the year as a whole, Growth has outperformed Value in both size segments.

Defensive sectors generally outperformed in July, with Telecom (+6.5%), Energy (+4.2%), and Staples (+2.8%) among the best performers. Meanwhile, cyclical sectors such as Materials (-1.2%) and Discretionary (-0.3%) lagged for the month.

Within fixed income, riskier areas of the market such as EM Sovereigns (+3.0%) and US investment grade bonds (+2.8%) outperformed Treasuries as investors flocked to higher yielding assets.

Ongoing uncertainty regarding the European sovereign debt crisis caused the euro to depreciate in July. Meanwhile the yen appreciated 3.0% for the month, swinging back into positive territory for the year to date.

Commodities rebounded in July as increased tensions in the Middle East and oil supply disruptions contributed to a 9.3% jump in Brent crude oil prices.

Financial markets recap

Table 1: Total return (%)

		As of 31 July 2012			
Asset class	2011	1 mo	3 mo	12 mo	YTD
Equity Indices (%, US dollar terms)					
S&P 500	2.1	1.4	-0.8	9.1	11.0
NASDAQ Comp	-0.8	0.2	-3.2	7.9	13.5
FTSE 100	-2.7	1.1	-4.3	-4.0	4.5
TOPIX	-11.9	-2.4	-5.6	-11.5	0.8
Hang Seng	-17.3	1.9	-4.0	-7.9	10.4
DJ Euro Stoxx 50	-16.7	0.1	-4.3	-22.4	-1.6
MSCI EAFE	-11.7	1.1	-4.0	-11.0	4.6
MSCI Emerging Markets	-18.2	2.0	-5.8	-13.6	6.2
Size & Style (%, US dollar terms)					
Russell 2000	-4.2	-1.4	-3.3	0.2	7.0
S&P 500 Citigroup Growth	4.7	1.8	-0.2	10.4	12.0
S&P 500 Citigroup Value	-0.5	0.9	-1.4	7.7	9.9
S&P 600 Citigroup Growth	3.6	-1.1	-2.6	3.8	7.5
S&P 600 Citigroup Value	-1.4	-0.5	-3.6	4.3	6.8
S&P 500 Sectors (%, US dollar terms)					
Consumer Discretionary	6.1	-0.3	-4.2	11.9	12.6
Consumer Staples	14.0	2.8	5.5	19.7	11.6
Energy	4.7	4.2	-1.1	-5.0	1.7
Financials	-17.1	0.2	-4.4	1.1	13.9
Health Care	12.7	1.1	3.0	15.4	12.1
Industrials	-0.6	0.4	-2.1	6.6	7.8
Information Technology	2.4	1.0	-4.0	13.1	14.5
Materials	-9.8	-1.2	-4.5	-5.2	5.3
Telecom Services	6.3	6.5	15.4	30.6	24.1
Utilities	19.9	2.5	7.3	19.3	7.5
BofA Merrill Lynch Global Research Bond Indices (%, US dollar terms)					
10-Year Treasury	17.1	1.7	4.5	15.6	5.2
2-Year Treasury	1.5	0.2	0.1	0.5	0.2
TIPS	14.1	1.9	3.2	10.0	6.2
Municipals*	11.2	1.6	2.5	11.0	5.8
US Corporate Bonds	7.5	2.8	3.9	9.7	7.8
US High Yield Bonds	4.4	1.9	2.7	7.2	9.1
Emerging Market Corporate Bonds	3.8	2.4	2.4	6.3	9.2
Emerging Market Sovereign Bonds	5.8	3.0	3.4	8.5	10.0
Preferreds	4.1	1.7	3.6	10.8	11.1
Foreign Exchange (%, in local currencies)**					
US Dollar	0.5	-0.1	2.4	7.7	1.2
British Pound	1.6	1.3	0.8	5.9	3.8
Euro	-3.2	-2.9	-4.9	-9.2	-4.8
Yen	5.9	3.0	5.0	4.9	0.7
Commodities (%, US dollar terms)**					
CRB Index	-8.3	5.4	-2.1	-12.4	-1.9
Gold	10.1	1.1	-3.0	-0.8	3.2
WTI Crude Oil	8.2	3.6	-16.0	-8.0	-10.9
Brent Crude Oil	13.8	9.3	-11.4	-8.9	-1.9
Alternative Investments† (%, US dollar terms)					
Hedge Fund - CS Tremont[1]	-2.5	-0.4	-1.8	-2.0	2.2
Hedge Fund - HFRI Fund of Funds	-5.6	0.7	-1.3	-4.2	1.8
Private Equity - Cambridge Assoc.[2]	10.8	NA	5.4	10.8	5.4
Private Real Estate - NCREIF TR[3]	14.3	NA	2.7	12.0	5.3

Notes: *Not tax adjusted. **BoE calculated effective FX indices. [1]Data as of 6/30/12; CS AUM-weighted, HFRI equal-weighted [2]Quarterly data as of 3/31/2012 [3]Quarterly data as of 6/30/12†AI data not comparable to other asset classes because of reporting delays, lack of standardized reporting, and survivorship and self selection biases. Crude oil prices are spot in USD.
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; EM Corporate Plus Index; EM External Debt Sovereign Index; US Preferred Stock, Fixed Rate).

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The RIC's Rules

In the last month, the president of the ECB vowed to do "whatever it takes" to ensure the survival of the euro; a major macro hedge fund announced it would return $2bn to investors; Chinese export growth ground to a halt; trading glitches nearly brought down a major US financial trading company; tensions in Syria and the Middle East mounted; and a famous fixed income investor modestly proclaimed "the death of equities." Amid this dizzying array of events, the equity, credit and commodity markets rallied, government bond yields rose, and volatility, almost perversely, plunged close to multi-year lows.

As the RIC has noted (see The Longest Pictures), these baffling short-run movements in asset prices are coinciding with unprecedented central bank financial market intervention, historically low interest rates, and record levels of peacetime debt across the Western world. This is indeed a daunting investment environment. And yet, through the years following the Great Financial Crisis, certain investment rules and themes consistently worked well. Because the RIC believes the Era of Deleveraging is unfinished, these investment guidelines bear repeating:

1. **Wide trading ranges for the major asset classes.** A macro backdrop dominated by debt, deflation and deleveraging is likely to cause low economic growth, low interest rates and low investment returns. Not until there is visible evidence that policy is working to create self-sustaining economic growth will a Great Rotation across asset classes, regions and sectors occur, and spark brand new bull markets in cheap assets. In the meantime, many major asset markets such as global equities are likely to undergo wide trading ranges. Note that US equities are approaching the top of their trading range.

2. **Bull markets (and bubbles) in growth, yield and quality.** The longer the deleveraging cycle takes to complete, the stronger are the bull markets in the scarce assets that provide growth, yield and quality. And eventually, too much liquidity can end up chasing too few assets, causing investment bubbles. The RIC believes credit markets run the greatest risk of such an outcome.

3. **Good themes and good, steady allocations work.** Tactical opportunities to rent "bad assets" will periodically be created by policy stimulus and extreme positioning. But "good themes" – such as US real estate and the EM consumer – and "good allocations" – such as companies over countries, creditors over debtors, Growth over Value, and the US over Europe – will keep winning until the Era of Deleveraging ends.

Table 2: Year to date asset returns

	YTD
Global Equities	10%
US	13%
Europe	8%
UK	9%
Japan	2%
Pacific Rim ex-Japan	14%
Emerging Markets	9%
Global Fixed Income	3%
Government	2%
US Treasuries	2%
Quasi-government	3%
Investment Grade Corporate	6%
High Yield Corporate	11%
EM Corporate Debt	10%
Collateralized Debt	3%
Commodities	3%
Energy	-1%
Industrial Metals	-6%
Precious Metals	2%
Agriculture	15%
Cash	0%
US Dollar	1%

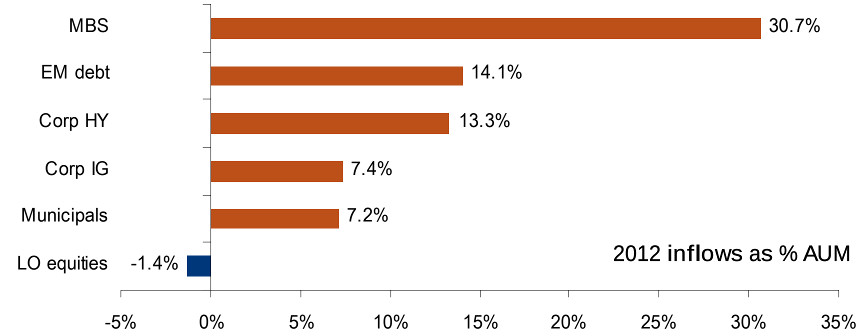
Notes: Total returns in USD as of 8/10/12; Equity returns are MSCI indices; BofA Merrill Lynch Global Bond Indices are: Fixed Income Markets; Government Bond II; US Treasury Master; Large Cap Quasi-Govt; Large Cap Corporate; High Yield; Emerging Markets Corporate Plus; Large Cap Collateralized; Commodity returns are Merrill Lynch Commodity eXtra TR Indices.
Source: BofA Merrill Lynch Global Equity Strategy; Bloomberg

The winners, losers & surprises of 2012

Despite many a call for the death of equities, the stock market has outperformed in 2012 (Table 2). Global equities have returned 10% versus 3% in both fixed income and commodities. The winners across asset markets have been US and Pac Rim equities, high yield and EM debt, and agricultural commodities. Meanwhile, the losers have been energy, Japanese equities, and government bonds.

In terms of market surprises, it is interesting to note that the underperformance of global fixed income as an asset class has coincided with an ongoing thirst for bonds (granted, much of that exposure has been directed toward higher yielding areas of the market). Since the beginning of 2008, investors have poured a massive $572bn in to bonds, and redeemed $61bn from equity funds. Other areas of surprise have been the difference in investor behavior within the stock and bond markets. Investors have favored the *defensive* areas of the equity market (such as the US and healthcare). In contrast, investors have favored the *riskier* areas of fixed income (such as high yield and Emerging Market bonds – see Chart 1). But the RIC thinks the biggest upside surprise to consensus is the strong rally in assets tied to the turn in the US housing market, such as homebuilder stocks and mortgage-backed securities.

Chart 1: 2012 inflows as a % of AUM



Source: BofA Merrill Lynch Global Equity Strategy, EPFR Global

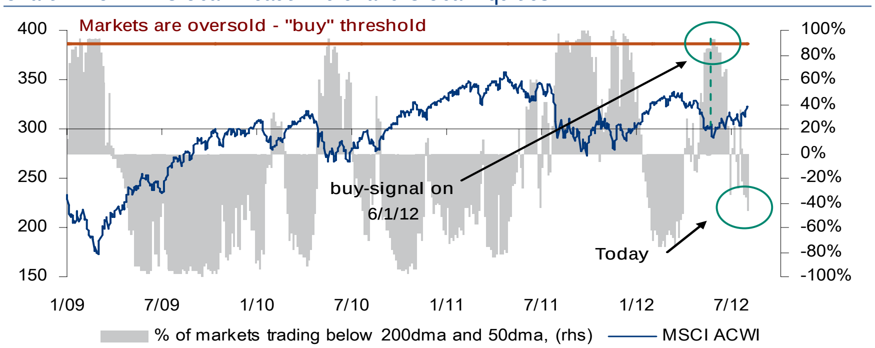
What happens after the summer rally?

The BofAML Global Breadth Rule flashes a buy signal when a net 89% of global equity markets (40 out of 45) are trading below both their 200dma and 50dma.

Since the rule signaled buy on June 1, global equity prices are up nearly 11%.

During the second quarter of the year, stocks and commodities declined and bonds rallied as Europe threatened to cause a global recession. In fact, equity markets sold off so much that our Global Breadth Rule flashed a buy signal on June 1 (see Chart 2 and margin comment). But since then, risk assets have risen as bearish investor positioning has coincided with global rate cuts (nine in July) and hints of QE in both the US and Europe.

Chart 2: BofAML Global Breadth Rule* and Global Equities



* Buy signal is triggered when a net 89% of global equity markets (40 out of 45) are trading below both their 200dma and 50dma.
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

If policymakers remain active and macro data improve, equities can continue to grind higher in the third quarter.

So can the summer rally continue? Weekly fund flows have shown us that investors have remained on the sidelines for much of the recent equity rally. In addition, we know that institutional long-only cash balances remain elevated at 4.7% and private client cash holdings are a high 10-15%. So if policymakers remain active and, crucially, macro data improve, equities can continue to grind higher in the third quarter.

Looking beyond the near-term outlook, the RIC's base case remains one of low growth and low rates. Our economists recently cut their growth forecasts for Europe and China, and continue to expect below 2% growth in the US in 2012 and 2013. They expect the Fed to push out its rate guidance until late 2015, and forecast the 10-year Treasury yield to end the year at just 1.75%. Additionally, ongoing fiscal uncertainty in the US and Europe likely will continue to stymie the "animal spirits" of the corporate sector.

Even though we are not surprised by the summer rally, and we are encouraged by the recent improvement in US real estate – an area of the market that we have often cited as a catalyst for the Great Rotation – the likely absence of sustained, above-trend global growth makes it difficult to make a case for a re-rating of the equity market. Consequently, the RIC maintains asset allocation of 60% stocks, 35% bonds and 5% cash.

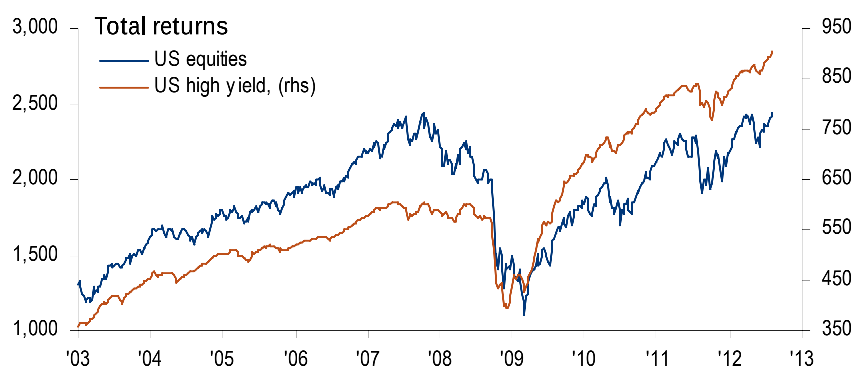
Table 3: Asset allocation for a moderate investor

	Strategic	Tactical
Stocks	60%	60%
Lg. Cap Growth	38%	42%
Lg. Cap Value	38%	35%
Small Growth	4%	4%
Small Value	4%	2%
International: Developed	13%	12%
International: Emerging	3%	5%
Bonds	35%	35%
Tsys, CDs & GSEs	40%	32%
Mortgage Backeds	25%	25%
IG Corp & Preferred	25%	26%
High yield	5%	6%
International	5%	11%
Cash	5%	5%

Figures here represent tactical asset allocation advice for a Moderate Investor. Please see page 12 of the RIC report for allocations for other investor profiles.

Source: BofA Merrill Lynch Research Investment Committee

Chart 3: The strong performance of credit argues against being underweight equities



US high yield and S&P 500 total return indices

Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

In our view, investors should use the late summer as an opportunity to rebalance their portfolios toward our favorite deleveraging themes (Table 4). This is particularly true in equities, where these assets are much less overbought from a long-term perspective. Technical Research Analyst Mary Ann Bartels recently highlighted that mega-caps – which represent growth, quality, yield and big bases – are now the new leadership in the equity market. She recommends focusing on mega-caps with big bases that remain under-owned by institutional investors.

Table 4: Our deleveraging portfolio - structural longs & shorts

Long	Short
Creditors	Debtors
Quality	Junk
Companies	Countries
Income	Beta
Growth	Value
Large	Small
Credit	Equity
Gold	Cash
US	Europe
EM	Japan
Global mega-caps	Banks

Source: BofA Merrill Lynch Global Equity Strategy

Macro themes to add exposure to

In addition to our "Three Wise Themes" of yield, growth and quality, the RIC believes three other macro themes – US real estate, distressed European assets and EM growth – also will be wise investments in coming quarters.

Table 5: Year over year home price changes (Core Logic data - June 2012)

	Total	Excl Distressed
United States	2.5	3.2
Phoenix	16.9	11.7
Miami	9.6	8.1
Detroit	9.1	5.0
Denver	7.2	6.3
Tampa	5.3	4.4
Portland	4.5	3.8
San Francisco	4.3	4.8
Seattle	4.0	5.0
Washington dc	3.3	3.1
Boston	3.0	3.8
Minneapolis	3.0	3.4
Dallas	2.7	6.1
Las Vegas	2.0	3.7
New York	2.0	1.8
Los Angeles	0.8	3.5
San Diego	0.5	2.6
Philadelphia	0.4	1.4
Charlotte	-0.2	0.7
Chicago	-3.1	1.5
Cleveland	-3.1	0.2
Atlanta	-3.2	2.0

Source: BofA Merrill Lynch Global Equity Strategy, Core Logic

US Real Estate

US real estate prices troughed earlier this year, and are now up 2.5% in year-over-year terms. Even including distressed properties, home prices are up across most major metropolitan areas (Table 5). Real estate in Phoenix, Miami, Detroit and Denver has outperformed US Treasuries in the last 12 months. Our economists forecast a strong 45% cumulative return for US real estate prices over the next 10 years.

Many assets such as homebuilder stocks and mortgage-backed securities have already started to rally from the housing recovery, and we expect this trend to continue (Chart 4). Despite the impressive YTD gains in non-agency MBS (ABX up roughly 18%), MBS/ABS Strategist Chris Flanagan believes the asset class could offer roughly 10% upside from current levels (see the latest Structured Product Weekly for more details).

Chart 4: 2007'H2-vintage ABS returns

Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

If MBS/ABS values continue to surge higher, banks may soon be able to "write-up" some of their mortgage related assets. This strengthening in bank balance sheets would likely encourage more lending, and thereby lead to a virtuous cycle in US real estate. Selective exposure to some US banks is therefore warranted.

In addition to MBS and select US financials, we also recommend home renovation retailers as a way to invest in the US housing recovery. And note that Analyst Jeffrey Spector still sees value in select REITs (see the latest US REIT Weekly for a list of his top picks).

Select distressed European assets

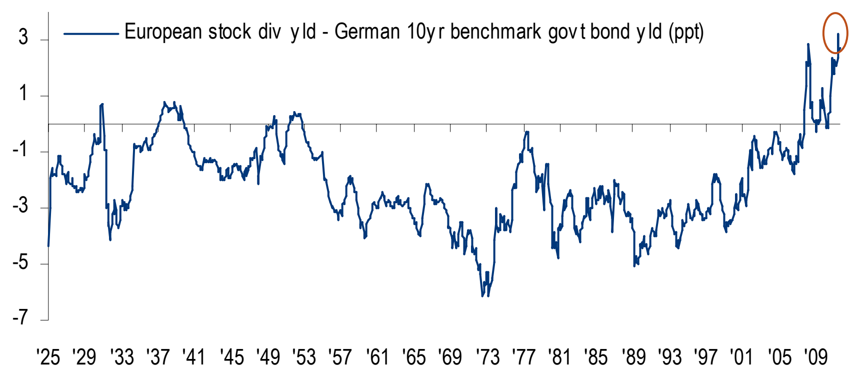
Many European assets are trading at distressed valuations relative to history, due in part to the depreciation of the euro. For example the dividend yield of European equities recently exceeded the 10-year German bund yield by the widest margin in nearly 90 years (Chart 5). Despite the ongoing uncertainty caused by the European sovereign debt crisis, some European asset markets have performed surprisingly well. Over the last 12 months, Irish equities (23%), UK equities (14%) Irish government bonds (12%) and Portuguese government bonds (7%) have all been among the top performing global assets.

In our view, some of the best ways to own European exposure are through high quality best of breed companies, dividend growth stocks, and European corporate bond funds with exposure to core Europe (i.e. German, UK, French and Swiss credit). Our multi-asset strategist John Bilton argues that French corporate bonds

For European dividend growth ideas, see Multi-Asset Strategist John Bilton's "Finding 'smart yield' in Europe" report (published July 17th).

look particularly attractive as France remains AAA, the average yield on French IG credit is 270bp and the universe is dominated by well-known, well-capitalized multinationals. John cautions that it is still too soon to consider peripheral credit. True, yield levels are optically attractive but there remains a real risk of sovereign downgrades hanging over countries like Spain and Italy.

Chart 5: EU equities were recently the cheapest relative to German bunds in nearly 90 years

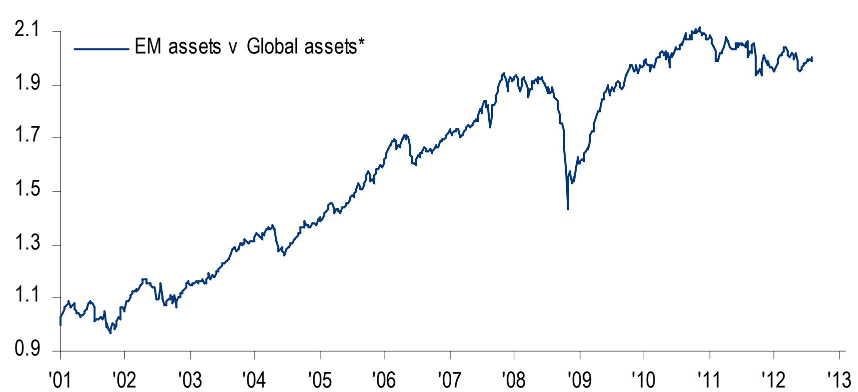


Note: EU dividend yield data is MSCI Europe data starting in 1969, GFD prior to that
Source: BofA Merrill Lynch Global Equity Strategy, Global Financial Data, Bloomberg, DataStream

EM domestic demand growth

Just as investors have called for the death of equities after a tumultuous few years, similarly the death of EM has gained traction. But in our view, the death of EM has been greatly exaggerated: while EM equities have been roughly flat over the last 12 months, EM bonds have produced excellent returns (10.5% sovereign, 8.0% corporate). We believe the compelling growth story in EM remains in place and we remain overweight EM equities and bonds. For a moderate investor, the RIC recommends a 5% tactical allocation to EM equities (relative to a 3% benchmark). And within bonds, for a moderate investor in the 25% tax bracket Fixed Income Strategist Marty Mauro recommends a 3% allocation to EM USD bonds, and a 5% allocation to EM local currency bonds.

Chart 6: EM assets versus Global assets

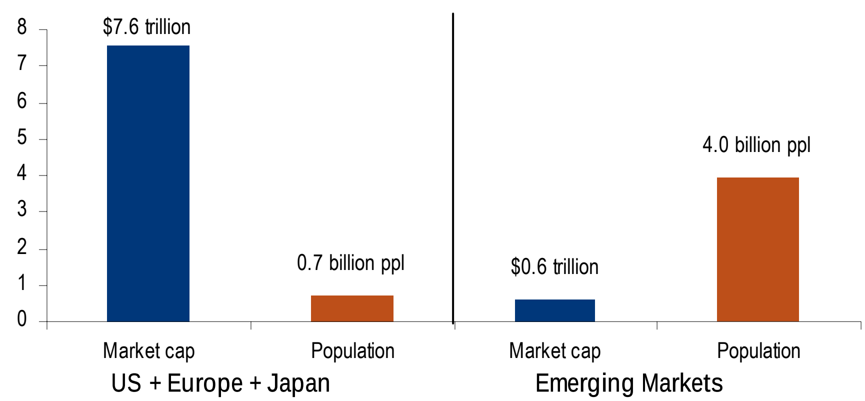


* Global and EM assets = equal-weighted index of equities and bonds
Source: BofA Merrill Lynch Global Equity Strategy, DataStream, Bloomberg

EM Consumer

The combined population of the US, Europe and Japan is 700 million people – a relatively rich, but aging population. Meanwhile, there are more than 4 billion people living in Emerging Markets, which account for more than 80% of the global population – with low, but growing incomes. And yet, the market cap of the consumer sectors in EM is still significantly smaller than it is in DM (Chart 7). In our opinion some of the best ways to access this high growth market are through DM consumer companies with high EM exposure, EM healthcare, and Russian domestic demand plays.

Chart 7: Per capita consumer market cap in DM is 67x that of EM



Consumer market cap represents the combined market caps of the Discretionary, Staples and Healthcare sectors
Source: BofA Merrill Lynch Global Equity Strategy, DataStream Haver

Frontier markets

We suggest investors look to less correlated Frontier markets for further beta exposure outside of core EM markets. In his guide to the frontier markets in EMEA (published July 17th), EEMEA Equity Strategist Mike Harris outlines the key market drivers for key Frontier Markets. These are structurally under-owned and currently cheap relative to their history. Specifically, Harris favors Saudi Arabia, Nigeria and Qatar.

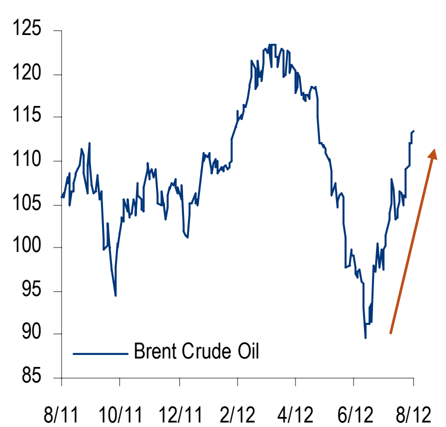
Unanticipated risks

With so many bearish eyes focused on Europe, the US fiscal cliff, and Chinese economic growth as potential negative risks for the macro and market outlook, the RIC would like to highlight a couple of unanticipated risks.

An "Arab autumn"

The Arab Spring was a factor earlier this year in the run-up in oil prices, which in turn hurt the pace of economic growth. Oil prices have risen sharply in recent weeks (Chart 8). Part of this undoubtedly reflects anticipation of QE policies. But the rise also coincides with a deteriorating situation in Syria. Should geopolitics in the Middle East induce a further rise in oil and gasoline prices in the US, the fragility of the economic recovery will once again be revealed. According to Commodity Strategist Francisco Blanch, a potential disruption of Iranian exports or a shutdown of the Strait of Hormuz could raise oil prices by as much as $100/bbl. Gold remains a good hedge against such an outcome.

Chart 8: Oil prices have jumped quickly



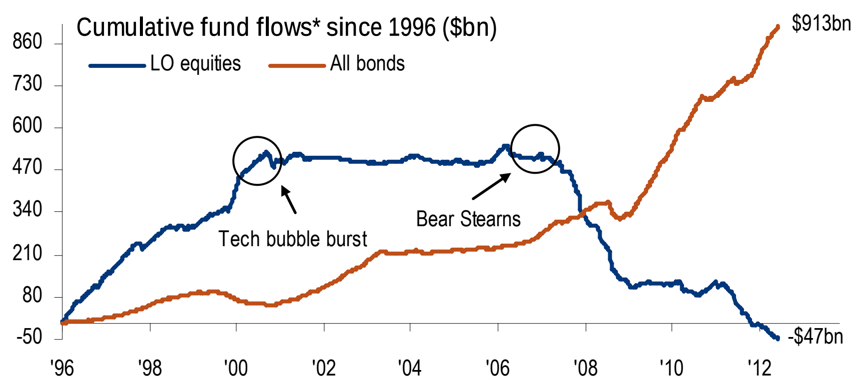
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

Other Risks: Bond, China and normality

A big jump in bond market volatility would be bad news for the nascent real estate recovery in the US. Growth in China is slowing, and while the consensus view remains that a hard landing is unlikely thanks to the perceived policy flexibility of the authorities, the risk remains that real estate and banking woes are so great that policy easing would not work in China. Such an outcome would be negative for most commodity markets.

But the biggest risk of all relative to current market positioning would be if economic growth turns out to be much better than we and many others expect. In the latest Fund Manager Survey of 200-300 mostly long-only investors, the percentage of respondents expecting "above-trend" growth in the next 12 months was just 5%. The consensus is firmly that policy easing is unlikely to accelerate that pace of economic activity. Should this prove to be wrong, then recent trends in fund flows will likely be reversed (Chart 9).

Chart 9: Investors are betting that policymakers are impotent



* data 1996-2002 from Lipper FMI; 2002-onwards from EPFR Global
Source: BofA Merrill Lynch Global Equity Strategy, EPFR Global, Lipper FMI

Asset markets: base case, ideas, risks

Table 6: RIC base case for global asset markets

Region/sector Analyst(s)	Convictions	Ideas & risks
Global Economics: Ethan Harris Alberto Ades	■ Europe remains mired in a prolonged recession, contracting -0.7% annually in both 2012 and 2013. Risks remain skewed to the downside. ■ The ECB will cut rates and buy bonds this year, but its interventions are likely to remain modest and reactive. ■ The US faces a fiscal drag of as much as 4.6% of GDP at the end of 2012. We believe growth will slow before year-end as the fiscal cliff creates macro and micro uncertainty – fears of recession coupled with uncertainty around tax policy. ■ The Fed pushes out its rate guidance until late 2015 and announces QE3 in September.	■ Risks: US fiscal tightening; Chinese hard landing; Europe fails to ratify fiscal integration; Greece leaves EU.
Global Equities: Michael Hartnett	■ MSCI All-Country World Index target remains 330. ■ Positives: bearish investors, low bond returns, healthy corporate balance sheet, US real estate, easy money policies. ■ Negatives: US & EU fiscal policy, bank deleveraging, slowing China. ■ OW US vs. Europe, EM vs. Japan, creditors vs. debtors, large vs. small, and the "Three Wise Themes" of yield, growth and quality.	■ Q3 trading upside for oversold BRICs & Europe. ■ Risks to the upside: US real estate fuels strong rally in banks. ■ Risks to the downside: either an "Arab autumn" spike in oil prices or US fiscal cliff causes recession.
Global Rates: Priya Misra Ralf Preusser John Wraith	■ US: A weaker US and global economy, the systemic implications of the Eurozone crisis, and a shrinking pool of safe haven assets are likely to keep a bid for Treasury yields. Near term positioning and mortgage pipeline risks may cause a modest back-up in term premium, but we expect 10y rates to stay below 1.75%. Increasing perception of ineffective monetary policy is likely to result in lower TIPS breakevens and a flatter 10s-30s curve. ■ Europe: Bunds are likely to remain in a relatively tight trading range in August due to market uncertainty about the hoped-for ECB intervention. The periphery is likely to cheapen as expectations of imminent ECB intervention wane. Risks are binary into September. ■ UK: Expect outright yields in Gilts to stay close to current levels, with further downside progress increasingly difficult, but safe haven demand preventing a material sell off.	■ US: Eurobonds or other forms of debt mutualization would create a significant competitor to Treasuries. Postponement of the fiscal cliff. ■ Europe: Given the high uncertainty we expect carry-and-roll down positions on the EUR swaps curve to benefit from the still relatively steep curves without being heavily exposed to the question of ECB intervention. ■ UK: The UK's weak economic outlook risks putting mounting pressure on the fiscal policy stance and the AAA credit rating. This could undermine Gilts, and we recommend underweight positions against Treasuries.
Global Commodities: Francisco Blanch	■ Despite global deflationary trends, oil markets have recently rebounded given an extremely tight physical market in the North Sea and the blockade in Iran. As a result, super-backwardation in Brent crude oil markets may persist. ■ Base case, we expect a substantial policy response to ongoing economic woes in Europe and beyond including QE3 in the US, aggressive policy action in Europe, and both fiscal and monetary responses in EMs. ■ Still, as long as the danger of a Euro area debt deflation collapse and currency break up persists, the risk of $60/bbl Brent crude oil prices will likely remain for years. ■ We maintain a 12-month target for gold of $2,000/oz, as the approaching US fiscal cliff could be a trigger bringing new buyers into the market.	■ Risks: Deeper-than-expected Euro area recession; Increased Middle East tensions; Faster-than-expected US fiscal tightening; A China hard-landing scenario.
Global Credit: Hans Mikkelsen Oleg Melentyev	■ We remain bullish on US corporate credit because the impact of declining systemic uncertainties trumps diminishing growth: 1) excess demand - negative real yields and low expected growth are just right for corporates as investors reach for yield but are not ready for a rotation into equities; 2) moderately increasing interest rates bring higher demand for corporate bonds; 3) stable home prices and extremely well capitalized banks mean that financials should transition to low beta sectors. ■ Our year-end spread targets of 175bp in HG and 550bp in HY imply significant tightening. But we expect that increasing interest rates will partially offset the effect of tighter spreads. 2012 total return targets are 6.5% for HG and 12% for HY.	■ Risks: The situation in Europe negatively impacts consumer and business confidence and causes a US recession; hard lading in China; US fiscal cliff.
Global FX: David Woo Alberto Ades	■ We expect the euro to drop over the rest of the year, with a target of 1.15 for end-2012. We are skeptical that Europe will be able to substantially solve the many sovereign debt crises. ■ CNY appreciation should take a breather, with a short-term target of 6.40 for the end of the year. However, we still feel that we are a long way from sustainability at around 5.60. ■ USD should broadly strengthen over the rest of 2012, given European concerns, the risks that QE3 from the Fed may not occur, and worries about a hard landing in China.	■ A surprise resolution to the European crisis provides further upside risk to our view, while a country exit would cause the euro to fall further.

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	■ 2012 year-end S&P 500 target is 1450, which is 14x our 2012E EPS of $102. ■ OW Staples and Tech; UW Materials and Financials. ■ 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.	■ Expect a structurally higher equity risk premium over next several years given increased macro risk, but expect healthy 2012 EPS growth. ■ Favor yield, quality and growth over beta. ■ Europe, government and consumer exposure are key risks. ■ Focus on sectors/industries with more stock picking opportunity.
UK: Gary Baker	Neutral	■ Macro data have disappointed, with manufacturing PMI reaching its lowest level since May 2009. This will likely gain more attention as the focus returns after the Olympic Games. ■ Earnings revisions trends are weakening but remain above the European market average.	■ Hopes of a more dynamic policy response from Chinese authorities have lifted sentiment in the large Basic Resources sector, which has outperformed recently, offsetting the negative news flow in Banks. ■ OW policy sensitive sectors: Banks, Basic Resources, Energy (and Telecoms). UW Consumer Staples. FTSE trading on 9.6x 12M forward PER.
Europe ex-UK: Gary Baker	Underweight	■ Economic momentum is weakening further in Germany and France. ■ Our economists have marked down their 2013 Euro area GDP growth estimates to -0.7% (from 0.0%). Earnings revisions are also losing momentum with Materials, Energy and Industrials most hit.	■ A 15% rally since early June has pushed the Stoxx to the top end of its trading range and at 10.7x 2012 P/E we see limited room for further upside in the absence of more policy actions or earnings growth. ■ Stoxx is trading on 9.8x 12M forward PER. Consensus 2012E EPS 0% growth in line with our top-down estimate. 258 Y/E target for Stoxx 600 implies modest downside.
Asia-Pac ex-Japan: Nigel Tupper	Neutral	■ Macro data are deteriorating, but tactical indicators have recently turned positive. ■ The probability of a trough is increasing as central banks continue to ease monetary policy across the region. ■ Valuation disparity between defensives and cyclicals remains at extremes.	■ The risk is being too defensive at the trough of the cycle. ■ We recommend balancing defensiveness with early cycle sectors. ■ Our preferred styles include Stable Growth, Dividend, Quality and Momentum. ■ Also OW inexpensive early cycle sectors that are showing signs of recovery.
Emerging Markets: Michael Hartnett	Overweight	■ High growth, infant credit cycles and abundant global liquidity remain secular positives for EM, but China's growth is set to moderate over the next five years. ■ Our regional strategists favor Hong Kong, Korea, India, Malaysia, Australia, Russia, South Africa, Turkey and selective Frontier Markets (Saudi, Qatar, Nigeria)	■ Continue to favor Best of Breed and high yielding Emerging Market stocks. ■ While inflation is not a near term risk, watch for signs of rising inflation and margin compression across EMs. ■ Risks: major banking and debt crisis in Europe that triggers a recession in the US and a hard landing in China.

Note: We have suspended our publication of Japan equity strategy recommendations and will resume them upon initiation of our new strategist's views. *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).

Asset allocation for US clients

Tier 0 (highest liquidity):
Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

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.
Traditional Assets										
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%
Alternative Assets	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
Traditional Assets					
Stocks	20%	40%	55%	65%	70%
Bonds	50%	45%	30%	20%	10%
Cash	25%	10%	5%	5%	5%
Alternative Assets					
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
Traditional Assets					
Stocks	15%	35%	50%	55%	55%
Bonds	50%	45%	25%	20%	10%
Cash	25%	10%	5%	5%	5%
Alternative Assets					
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
Traditional Assets					
Stocks	15%	35%	40%	50%	40%
Bonds	45%	40%	25%	15%	10%
Cash	25%	10%	5%	5%	5%
Alternative Assets					
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
Stocks	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Lg. Cap Growth	8%	9%	16%	18%	23%	25%	25%	27%	27%	32%
Lg. Cap Value	12%	10%	16%	15%	23%	21%	25%	22%	21%	20%
Small Growth	0%	0%	2%	2%	2%	2%	3%	3%	6%	6%
Small Value	0%	0%	2%	1%	2%	1%	3%	2%	6%	3%
Intl: Developed	0%	1%	3%	3%	8%	7%	11%	11%	16%	16%
Intl: Emerging	0%	0%	1%	1%	2%	4%	3%	5%	4%	8%
Bonds	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Tsys, CDs & GSEs	35%	43%	27%	16%	13%	11%	6%	8%	2%	5%
Mortgage Backeds	14%	1%	13%	12%	9%	9%	6%	6%	4%	3%
IG Corp & Preferred	6%	11%	10%	13%	9%	9%	9%	6%	5%	4%
High Yield	0%	0%	0%	3%	2%	2%	1%	2%	2%	1%
International	0%	0%	0%	6%	2%	4%	3%	3%	2%	2%
Cash	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%

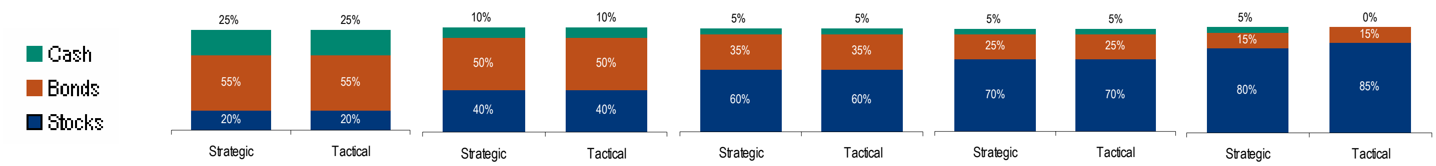


Table 13: Stocks – by size and style

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Large cap growth	40%	42%	40%	44%	38%	42%	35%	39%	33%	37%
Large cap value	60%	53%	40%	38%	38%	35%	35%	32%	26%	24%
Small growth	0%	0%	4%	4%	4%	4%	4%	4%	8%	8%
Small value	0%	0%	4%	2%	4%	2%	4%	2%	8%	4%
International: Developed	0%	5%	10%	9%	13%	12%	18%	16%	20%	19%
International: Emerging	0%	0%	2%	3%	3%	5%	4%	7%	5%	8%

Source: BofA Merrill Lynch Global Research

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%	29%
Mortgage Backeds	25%	2%	25%	25%	25%	25%	25%	25%	25%	21%
IG Corp & Preferred	10%	20%	20%	26%	25%	26%	35%	26%	40%	27%
High yield	0%	0%	0%	6%	5%	6%	5%	6%	10%	8%
International	0%	0%	0%	11%	5%	11%	10%	11%	10%	15%

Source: BofA Merrill Lynch Global Research

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.
Global Equities	20%	20%	40%	40%	60%	60%	70%	70%	80%	80%
North America	8%	9%	19%	20%	28%	29%	32%	33%	37%	38%
Europe (ex UK)	4%	3%	7%	6%	11%	10%	13%	12%	15%	14%
UK	2%	2%	4%	4%	5%	5%	6%	6%	7%	7%
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%	3%	5%	5%	8%	8%	9%	9%	10%	10%
Global Fixed Income	55%	58%	50%	53%	38%	39%	28%	29%	18%	19%
Govt Bonds	34%	35%	30%	29%	24%	18%	18%	12%	10%	6%
Inv. Grade Credit	8%	9%	8%	10%	6%	11%	4%	8%	3%	6%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	1%	2%
Collateralized Debt	11%	11%	10%	10%	7%	8%	5%	7%	4%	5%
Cash (USD)	25%	22%	10%	7%	2%	1%	2%	1%	2%	1%
Global Real Assets*	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Hedge Funds	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Private Equity	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

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.
Global Equities	18%	18%	38%	38%	56%	56%	66%	66%	73%	73%
North America	8%	9%	18%	19%	26%	27%	30%	31%	34%	35%
Europe (ex UK)	3%	2%	7%	6%	10%	9%	12%	11%	14%	13%
UK	2%	2%	3%	3%	5%	5%	6%	6%	6%	6%
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%	2%	5%	5%	7%	7%	9%	9%	9%	9%
Global Fixed Income	52%	55%	50%	53%	32%	33%	22%	23%	10%	11%
Govt Bonds	32%	33%	30%	29%	20%	14%	14%	8%	6%	5%
Inv. Grade Credit	8%	9%	8%	10%	5%	10%	3%	7%	2%	3%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	0%	2%
Collateralized Debt	10%	10%	10%	10%	6%	7%	4%	6%	2%	1%
Cash (USD)	25%	22%	7%	4%	2%	1%	2%	1%	2%	1%
Global Real Assets^*	1%	1%	1%	1%	2%	2%	6%	6%	12%	12%
Global Hedge Funds^	4%	4%	4%	4%	8%	8%	4%	4%	3%	3%
Global Private Equity^	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

^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)

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.

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

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
Global Equities	14%	14%	35%	35%	45%	45%	51%	51%	53%	53%
North America	6%	7%	16%	17%	21%	22%	24%	25%	24%	25%
Europe (ex UK)	3%	2%	6%	5%	8%	7%	9%	8%	10%	9%
UK	1%	1%	3%	3%	4%	4%	4%	4%	5%	5%
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%	2%	5%	5%	6%	6%	7%	7%	7%	7%
Global Fixed Income	51%	54%	48%	51%	33%	34%	27%	28%	15%	16%
Govt Bonds	31%	32%	30%	29%	21%	15%	17%	11%	9%	8%
Inv. Grade Credit	8%	9%	7%	9%	5%	10%	4%	8%	2%	4%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	1%	2%
Collateralized Debt	10%	10%	9%	9%	6%	7%	5%	7%	3%	2%
Cash (USD)	25%	22%	7%	4%	2%	1%	2%	1%	2%	1%
Global Real Assets^*	2%	2%	2%	2%	4%	4%	4%	4%	8%	8%
Global Hedge Funds^	6%	6%	6%	6%	9%	9%	4%	4%	6%	6%
Global Private Equity^	2%	2%	2%	2%	7%	7%	12%	12%	16%	16%

^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

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.

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

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

^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: 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 favor munis, corporate bonds over Treasuries, TIPS, and intermediate-term maturities. We see a greater risk that global central banks err on the side of inflation, rather than deflation, and see that as an upward risk to long-term yields. It would take only a bit more than a 15 basis point increase in yield for the 30-year Treasury to show a negative return over the next 12 months. Investors have considerably more leeway for yields to rise in both the investment grade and high yield corporate bond markets.

In the municipal market, we emphasize diversification among local governments, state general obligation bonds, and essential service revenue bonds. Some degree of caution is warranted in choosing local government obligations in areas with weak housing markets, but that kind of risk can generally be handled through diversification. Meeting pension obligations will be a thornier challenge for municipalities in coming years, but we don't see that as a reason to avoid the market. We are more concerned about price risk for long-term maturities in the municipal market. With yields at historic lows, it would not take much of a rise in yields for long-term munis to show a negative return. We favor intermediate-term maturities over long-term maturities.

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

	Conservative			Moderate**			Aggressive		
	Federal tax bracket								
Sector	<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%	10%	9%	23%	5%	4%
TIPS	3%	2%	2%	4%	2%	2%	4%	1%	1%
Agencies (GSEs)	35%	19%	17%	3%	1%	1%	2%	1%	0%
Mortgages	2%	1%	1%	25%	11%	9%	21%	5%	4%
Corporates	20%	11%	10%	24%	10%	9%	24%	6%	5%
Preferreds	0%	0%	0%	2%	1%	1%	3%	1%	1%
High Yield*	0%	0%	0%	6%	3%	2%	8%	2%	2%
International: Developed Markets	0%	0%	0%	3%	1%	1%	3%	1%	1%
International: Emerging Markets USD	0%	0%	0%	3%	1%	1%	5%	1%	1%
International: Emerging Markets Local	0%	0%	0%	5%	2%	2%	7%	2%	1%
TOTALS	100%	100%	100%	100%	100%	100%	100%	100%	100%
TAXABLE-Maturity									
1-4.99 years	100%	100%	100%	52%	52%	52%	53%	53%	53%
5-14.99 years	0%	0%	0%	41%	41%	41%	38%	38%	38%
15+ years	0%	0%	0%	7%	7%	7%	9%	9%	9%
TOTALS	100%	100%	100%	100%	100%	58%	100%	100%	100%
TAX EXEMPT-Maturity									
1-4.99 years	100%	100%	100%	10%	10%	10%	5%	5%	5%
5-9.99 years				30%	30%	30%	25%	25%	25%
10-14.99 years				30%	30%	30%	35%	35%	35%
15+ years				30%	30%	30%	35%	35%	35%
TOTALS	100%	100%	100%	100%	100%	100%	100%	100%	100%

* Including tax-deferred accounts like IRAs and 401(k)s. ** The Moderate Category applies to the "Moderately Conservative", "Moderate", and "Moderately Aggressive" Profiles.
Changes from last month are highlighted in bold.
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	10.8%	10.0%	6.0%	11.0%	12.0%	13.0%
Consumer Staples	11.4%	22.0%	15.0%	12.0%	8.0%	4.0%
Energy	11.2%	12.0%	12.0%	10.0%	12.0%	13.0%
Financials	14.2%	12.0%	14.0%	13.0%	7.0%	7.0%
Health Care	11.9%	12.0%	9.0%	11.0%	17.0%	18.0%
Industrials	10.2%	14.0%	12.0%	16.0%	18.0%	14.0%
Info Technology	19.7%	6.0%	8.0%	16.0%	23.0%	25.0%
Materials	3.3%	0.0%	2.0%	2.0%	3.0%	3.0%
Telecom Services	3.4%	3.0%	10.0%	3.0%	0.0%	3.0%
Utilities	3.8%	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 31 July 2012; 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	11.4%	++	Best performing sector historically when profits decelerate Contrarian: under owned by fund managers – Health Care is favored defensive play Quality, dividend yield and dividend growth Risks: inflation, upside surprise to profits growth	Food & Staples Retailing, Tobacco
Information Technology	19.7%	+	Ranks highest in our quant model on valuation, momentum and estimate revisions Sector has strong secular growth segments, and its cyclical segments are already in a downturn and discounting the worst Cash rich – yield, buyback, capex play Risks: consensus long, global recession, highest European exposure, gov't cuts for Comm. Equipment	IT Services, Software
Consumer Discretionary	10.8%	=	Media a beneficiary of ad spend (2012 elections and Olympics) Stock pickers industries: Restaurants and Retail Hedge against a global slowdown, as sector is domestically focused Risks: Higher oil prices, consumer deleveraging, employment, housing	Media, Restaurants
Health Care	11.9%	=	Performs well historically when profits decelerate Large-cap Pharmaceuticals – cheap, strong yield and unloved Risk: most government spending exposure of any sector	Pharmaceuticals for yield, Health Care Equipment & Services
Industrials	10.2%	=	B2B spending exposure Ranks well in our quant model on valuation, price momentum, and estimate revisions International exposure – Europe more of a concern than EM Defense names at risk from government spending cuts	Air Freight & Logistics, Electrical Equipment, Road & Rail
Energy	11.2%	=	Sector earnings currently reflect oil price of $86/bbl WTI – well below our forecast But oil price volatility since 2008 suggests higher risk premium is warranted Risks: global slowdown / recession	Energy Equipment & Services
Telecommunication Services	3.4%	=	Eclipses Utilities as sector with the highest dividend yield Good sector for stock pickers – low intra-stock correlations Crisis hedge – three periods of best performance were Lehman crisis, Greek crisis and US debt downgrade. Risks: poor quant model rank, protracted downward revision cycle	Diversified Telecom
Utilities	3.8%	=	Expensive, no growth Deregulated Utilities pricing could benefit from EPA regulation if Democratic leadership Hedge against global macroeconomic uncertainty and weak equity market returns – yield play, purely domestic, and least correlated with the equity market	Regulated Utilities
Financials	14.2%	- -	High risk due to regulatory reform, litigation, further declines in home prices, stress in the European financial system, and slow US growth Old leadership rarely becomes new leadership 2012 dividend growth likely to eclipse earnings growth Secular growth theme: electronic payment systems	Insurance
Materials	3.3%	- -	Ranks poorly in Quant model (weak estimate trends and price momentum) All risk, no reward: highest beta among non-Financial cyclical sectors but lowest long term growth prospects	Chemicals

*Weights in S&P 500 as of 7/31/12 *Note: Financials growth is also expected to accelerate in 2012 but we believe this is due to large writedowns in 2011 rather than real earnings power.
Source: BofA Merrill Lynch US Equity & US Quant Strategy

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.

Table 22: Core Portfolio

			Price						
Sectors/Target Weights	Symbol	Proposed Weight	Close 8/10/2012	When added	Yield †	QRQ Rating	EPS Growth	P/E Ratio	Footnote
Consumer Discretionary (11%)									
AutoZone	AZO	3%	359.29	$363.12	0.00%	B-1-9	18.1	15.29	Bbgijopsv
Yum Brands Inc	YUM	2%	66.83	$38.52	1.71%	B-1-7	13.0	20.44	Bbijopsvw
Comcast Corp	CMCSA	2%	34.73	$32.33	1.87%	B-1-7	18.0	18.09	#BObgijopsv
The Home Depot	HD	4%	53.06	$50.97	2.19%	B-1-7	16.0	21.48	BObijopsvw
Consumer Staples (15%)									
Wal*Mart Stores	WMT	4%	73.68	$48.74	2.16%	A-1-7	9.0	16.48	BObijopsv
CVS/Caremark	CVS	4%	44.95	$38.60	1.45%	B-1-7	14.0	14.36	BObijoprsvw
AB InBev	BUD	4%	81.09	$55.80	1.92%	A-1-7	11.3	17.48	BObijopsv
PM	PM	3%	92.21	$74.36	3.34%	B-1-7	9.0	17.84	Bbijpvw
Energy (12%)									
Halliburton	HAL	3%	35.19	$32.29	1.02%	C-1-7	16.0	10.66	Bbijopsv
Schlumberger	SLB	3%	75.35	$70.11	1.46%	B-1-7	16.0	17.32	Bbijopvw
Occidental	OXY	3%	91.40	$98.60	2.36%	B-1-7	-1.9	12.45	BObgijopsvw
Chesapeake	CHK	3%	19.68	$21.60	1.78%	C-1-7	6.8	26.59	Bbgijopsvw
Financials (10%)									
ACE Limited	ACE	2%	72.74	$44.47	2.69%	B-1-7	10.0	9.33	Bbijopsvw
Amer Express	AXP	3%	55.85	$41.75	1.43%	B-1-7	10.0	12.55	BObijopsvw
BlackRock, Inc.	BLK	3%	174.41	$159.18	3.44%	B-1-7	12.0	13.46	Bbgijoprsvw
JP Morgan Chase	JPM	2%	36.97	$43.62	3.25%	XRVW	8.0	N/A	Bbijopsvw
Health Care (11%)									
Express Scripts	ESRX	2%	61.92	$26.28	0.00%	B-1-9	20.0	26.92	Bbijopsvw
Agilent	A	4%	40.53	$43.08	0.99%	B-1-7	11.2	12.51	Bbijopsvw
GlaxoSmithKline	GSK	3%	46.84	$45.07	4.51%	A-1-7	7.7	12.56	Bbijpsv
Gilead	GILD	2%	56.77	$52.02	0.00%	B-1-9	10.8	15.14	BObgijopsvw
Industrials (10%)									
Deere & Co	DE	3%	79.37	$73.27	2.32%	B-1-7	15.0	9.48	BObgijoprsvw
Fluor Corp	FLR	3%	53.66	$58.94	1.19%	B-1-7	15.0	13.62	Bbgijopsvw
Honeywell	HON	2%	59.01	$37.82	2.52%	XRVW	13.0	N/A	Bbijopsvw
Boeing	BA	2%	74.21	$55.47	2.37%	B-1-7	16.0	14.84	BObijopsvw
Information Technology (22%)									
QUALCOMM	QCOM	3%	61.98	$43.25	1.61%	C-1-7	13.0	19.80	Bbijopsvw
Microsoft Corp	MSFT	3%	30.42	$22.65	2.63%	B-1-7	12.0	11.10	Bbijoprsvw
Visa	V	4%	129.09	$119.85	0.68%	B-1-7	N/A	21.23	Bbijopvw
EMC Corp	EMC	3%	26.99	$28.84	0.00%	C-1-9	N/A	15.60	Bbijopsvw
Apple	AAPL	3%	621.70	$259.69	1.71%	C-1-7	15.0	14.11	Bbijopsvw
Google	GOOG	3%	642.00	$407.98	0.00%	C-1-9	16.8	15.00	#Bbijopsvw
Broadcom	BRCM	3%	35.35	$38.24	1.13%	C-1-7	15.0	11.98	Bbgijopsv
Materials (2%)									
FMC Corp	FMC	2%	54.61	$29.83	0.66%	B-1-7	9.8	15.69	Bbgijopsvw
Telecom Services (3%)									
Vodafone Group	VOD	3%	29.98	$28.25	4.96%	B-1-7	8.0	11.65	Bbijopsv
Utilities (4%)									
Edison Int'l	EIX	4%	44.98	$40.68	2.89%	B-1-7	-3.0	23.67	Bbijopsv
Cash (0%)		*0%*							
		100%			1.84%				

†: 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 Research Portfolios. Source: Bloomberg, BofA Merrill Lynch Global Research.

One or more analysts responsible for selecting the securities held in the Research Portfolios own such securities: Cardinal Health, Honeywell, and Vodafone.

Global stock lists

US 1 List (methodology)

Table 23: US 1 List (as of 10 August 2012)

Ticker	Company	Rating	Date added	Price when added	Price as of 10 Aug	Footnotes
APC	Anadarko Petro	C-1-7	7/3/2012	69.05	69.68	BObijopsvw
PLCE	The Children's Place	C-1-9	5/14/2012	45.16	49.68	Bbijopsvw
CNH	CNH Global	C-1-9	2/6/2012	43.38	41.18	Bbijopsv
CMCSA	Comcast Corp	B-1-7	7/10/2012	31.35	34.73	#BObgijopsv
COV	Covidien	B-1-7	8/16/2011	49.90	57.17	Bbijopsvw
CSX	CSX Corporation	B-1-7	4/2/2012	22.12	22.98	Bbijopv
DAL	Delta Air	C-1-9	5/14/2012	11.43	9.06	Bbgijopsv
DG	Dollar General	C-1-9	4/2/2012	46.76	51.77	Bbgijpsv
EQIX	Equinix	B-1-9	1/31/2011	88.42	182.49	Bbijopsvw
ESRX	Express Scripts	B-1-9	9/12/2011	44.43	61.92	Bbijopsvw
F	Ford Motor	C-1-7	8/9/2011	10.91	9.35	BObijopsv
HES	Hess	B-1-7	7/3/2012	45.30	49.68	BObijopsv
HMSY	HMS	C-1-9	11/7/2011	28.73	35.90	Bbijopsvw
HSP	Hospira Inc.	C-1-9	1/17/2012	32.15	34.15	Bbijopsv
KLAC	KLA-Tencor	C-1-7	9/26/2011	39.69	53.12	Bbijopsv
KFT	Kraft Foods Inc.	B-1-7	10/31/2011	35.18	40.92	Bbgijopsvw
MET	MetLife Inc.	B-1-7	3/5/2012	38.67	34.97	Bbijopsvw
NEE	NextEra Energy	B-1-7	4/2/2012	61.83	69.80	Bbgijopsvw
OZM	Och-Ziff	C-1-7	8/7/2012	8.40	8.39	Bbgijopvw
ORCL	Oracle	B-1-7	7/6/2011	33.21	31.61	BObijopsv
QCOM	QUALCOMM	C-1-7	10/31/2011	51.60	61.98	Bbijopsvw
REGN	Regeneron Pharma	C-1-9	3/12/2012	110.15	136.84	Bbjop
TGI	Triumph Group	C-1-7	7/24/2012	58.34	62.79	Bbijops
UA	Under Armour	C-1-9	6/12/2012	52.92	56.76	Bbijopsvw
WMT	Wal*Mart Stores	A-1-7	9/12/2011	51.82	73.68	BObijopsv
WCRX	Warner Chilcott	C-1-9	5/7/2012	21.71	17.56	Bbijpv

Note: We last modified this portfolio on 8 August 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 24: Endeavor stocks (as of 10 August 2012)

GICS sector	Company	Symbol	BofAML opinion	Price as of 10 Aug (US$)	Mkt value (US$ mn)	MLSCR Model scores (100=best; 1=worst) Aurora	Enhanced contrarian	Date added	Footnotes
Consumer Discretionary	AMERICAN AXLE & MFG HOLDINGS	AXL	C-1-9	10.87	814	64	94	8/9/2010	Bbgijopsvw
Consumer Discretionary	JACK IN THE BOX INC	JACK	C-1-9	25.56	1,138	94	85	7/9/2012	Bbijpv
Consumer Discretionary	RED ROBIN GOURMET BURGERS	RRGB	C-1-9	31.26	452	37	56	5/14/2012	Bbw
Consumer Discretionary	SONIC AUTOMOTIVE INC -CL A	SAH	C-1-7	17.65	938	63	71	10/10/2011	Bbgijopsvw
Consumer Staples	SUSSER HOLDINGS CORP	SUSS	RSTR**	38.46	806	99	85	7/5/2011	Bbijopsv
Financials	CORESITE REALTY CORP	COR	C-1-7	26.92	569	96	92	5/14/2012	Bbijpvw
Health Care	HEALTH MANAGEMENT ASSOC	HMA	C-1-9	6.81	1,746	64	95	7/14/2009	Bbijpsw
Health Care	PHARMERICA CORP	PMC	C-1-9	12.40	366	80	96	1/20/2009	Bbijpvw
Health Care	WELLCARE HEALTH PLANS INC	WCG	C-1-9	55.39	2,387	100	99	3/9/2012	Bbpw
Industrials	TAL INTERNATIONAL GROUP INC	TAL	B-2-7	35.17	1,181	90	94	9/19/2011	Bbgijopsvw
Industrials	ALASKA AIR GROUP INC	ALK	C-1-9	34.18	2,417	95	91	10/10/2011	Bbijopsv
Industrials	TRIUMPH GROUP INC	TGI	C-1-7	62.79	3,135	100	100	10/16/2007	Bbijops
Information Technology	ANCESTRY.COM INC	ACOM	C-1-9	32.49	1,384	75	74	10/12/2010	Bbijopsv
Information Technology	FEI CO	FEIC	C-1-7	54.23	2,065	92	86	5/14/2012	Bbijops
Information Technology	MENTOR GRAPHICS CORP	MENT	C-1-9	15.71	1,730	98	97	5/14/2012	Bbijopsv
Information Technology	CADENCE DESIGN SYSTEMS INC	CDNS	C-1-9	12.56	3,453	92	82	7/5/2011	Bbijopsv
Materials	GRAPHIC PACKAGING HOLDING CO	GPK	C-1-9	5.60	2,205	64	90	5/18/2011	Bbijopsv
Materials	NORANDA ALUMINUM HOLDING CP	NOR	C-1-7	6.36	428	15	81	4/16/2012	Bbijopsvw
Telecomm. Services	LEAP WIRELESS INTL INC	LEAP	C-1-9	5.45	433	20	84	3/9/2012	Bbijpsvw

Please see Footnote Key at the back of this report. Source: BofA Merrill Lynch Small Cap Research

US High Quality & Dividend Yield Screen (methodology)

Table 25: High Quality and Dividend Yield Screen (as of August 2012)

Date Added	Ticker	Name	Sector	ROE (%)	Debt/ equity	Yield (%)	Quality	Market value (US$ mn)	Cost Price	Price (US$)	QRQ	FCF/ DIV	Footnotes
10/1/2010	ABT	Abbott Labs	Health Care	20.4	0.7	2.9	A	104,332	52.24	66.31	A-2-7	2.1	BObijopsvw
4/1/2012	ADP	ADP	Information Technology	21.7	0	2.7	A	27,658	55.19	56.55	B-1-7	2.1	Bbijopsv
4/1/2011	APD	Air Products	Materials	18.6	0.6	3	A	17,005	90.18	80.43	B-1-7	1.2	Bbijopsvw
11/1/2011	BAX	Baxter	Health Care	33.3	0.8	2.2	A	32,215	54.98	58.51	B-1-7	2.7	Bbgijopsvw
7/2/2012	CHRW	C.H. Robinson	Industrials	34.6	0	2.4	A+	8,594	58.53	52.85	B-2-7	2.1	Bbjp
12/1/2010	CVX	Chevron	Energy	21.7	0.1	3	A+	216,221	80.97	109.58	A-2-7	1.9	Bbijopsvw
11/1/2011	ETN	Eaton Corp	Industrials	17.7	0.6	3.3	A	14,804	44.82	43.84	B-1-7	2.9	BObijopsvw
12/1/2010	GD	General Dynamics	Industrials	17.9	0.3	2.3	A+	22,877	66.09	63.44	B-1-7	5	Bbijopsvw
1/3/2012	KO	Coca Cola	Consumer Staples	25.9	1	2.4	A+	182,281	69.97	80.8	A-1-7	1.7	BObgijopsvw
8/1/2012	KMB	Kimberly-Clark	Consumer Staples	31.9	1.1	3.3	A	34,079	86.91	86.91	A-1-7	1.6	Bbijopsvw
2/2/2009	MCD	McDonald's Corp	Consumer Discretionary	38.2	0.9	3	A	90,812	58.02	89.36	B-1-7	1.5	Bbgijopsvw
5/3/2010	MDT	Medtronic	Health Care	20.6	0.6	2.5	A	41,020	43.69	39.42	A-1-7	3.9	BObgijopsvw
8/1/2011	MSFT	Microsoft Corp	Information Technology	27.5	0.2	2.6	A-	220,340	27.4	29.47	B-1-7	2.8	Bbijoprsvw
4/1/2012	OXY	Occidental	Energy	18.8	0.2	2.3	A-	70,587	95.23	87.03	B-1-7	2.8	BObgijopsvw
4/1/2012	PAYX	PAYX	Information Technology	35.3	0	3.9	A	10,548	30.99	32.69	A-2-7	1.3	Bbijopvw
3/1/2012	RTN	Raytheon Co.	Industrials	20.9	0.5	3.2	A-	18,494	50.52	55.48	A-2-7	3.4	Bbgijopsvw
6/1/2012	TIF	Tiffany & Co.	Consumer Discretionary	18.9	0.4	2.1	A-	6,961	55.39	54.93	B-1-7	2.4	Bbijopsvw
12/1/2010	UTX	United Tech	Industrials	23.4	0.9	2.6	A+	67,841	75.27	74.44	B-1-7	2.7	BObgijopsvw
2/1/2012	XOM	ExxonMobil	Energy	28.3	0.1	2.3	A+	406,125	83.74	86.85	A-1-7	3.1	Bbijopsvw
			Average	25	0.5	2.7		83,831				2.5	
			S&P 500 benchmarks:	16.8	1.1	2.1							

Note: Prices and data as of 7/31/12; ratings as of publication on 8/1/12. 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.

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

International High Quality & Dividend Yield Screen (methodology)

Table 26: Global Non-US High Quality and High Dividend Yield Screen (as of 9 August 2012)

Ticker symbol	ADR symbol	Company	Country	Sector	MCAP	Quality	Dividend yield (%)	BofAML Opinion	Price (US$)	ADR price (US$)
BHPBF	BBL	BHP BILLITON PLC	United Kingdom	Materials	61,849	A-	3.8%	B-2-7	31.05	62.07
SCBFF	SCBFF	STANDARD CHARTERED	United Kingdom	Banks	54,704	A	3.3%	B-2-7	21.31	21.45
CMPGF	CMPGY	COMPASS GROUP	United Kingdom	Auto, Dur, Services	20,336	A-	2.9%	B-1-7	11.00	11.00
SGGEF	SGPYY	SAGE GROUP (THE)	United Kingdom	Software & Services	5,878	A-	3.7%	C-1-7	4.67	18.70
AZNCF	AZN	ASTRAZENECA	United Kingdom	Health Care	59,737	A+	6.1%	B-2-7	46.88	46.83
SMAWF	SI	SIEMENS	Germany	Industrials	77,799	A-	4.3%	B-2-7	91.01	90.88
BHPLF	BHP	BHP BILLITON LTD	Australia	Materials	108,348	A-	3.2%	B-2-7	34.71	69.51
JCYCF	JCYGY	JARDINE CYCLE & CARRIAGE	Singapore	Retailing	13,351	A	3.3%	C-1-7	39.01	78.02
DHTMF	DHTMY	DAIHATSU MOTOR CO	Japan	Auto, Dur, Services	7,214	A-	3.4%	B-2-7	17.32	34.65
XWPPF	WPPGY	WPP	United Kingdom	Media	15,955	A	3.0%	A-1-7	13.41	67.13
BHPBF	BBL	BHP BILLITON PLC	United Kingdom	Materials	61,849	A-	3.8%	B-2-7	31.05	62.07
SCBFF	SCBFF	STANDARD CHARTERED	United Kingdom	Banks	54,704	A	3.3%	B-2-7	21.31	21.45

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

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 27: Global economic forecasts (as of 10 August 2012)

	GDP growth, %				CPI inflation*, %				ST interest rates**, %				Exchange rate***				
	2010	2011	2012F	2013F	2010	2011	2012F	2013F	Current	2011	2012F	2013F	CCY pair	Spot rate	2010	2011	2012F
Global and Regional Aggregates																	
Global	5.1	3.8	3.3	3.6	3.2	4.3	3.4	3.6	3.04	2.98	2.69	2.78					
Global ex US	5.7	4.3	3.8	4.2	3.6	4.6	3.8	4.1	3.85	3.75	3.41	3.61					
Developed Markets	2.9	1.4	1.1	0.9	1.4	2.7	1.9	1.6	0.53	0.58	0.37	0.38					
G5	2.8	1.3	1.0	0.7	1.4	2.7	1.9	1.5	0.44	0.46	0.27	0.28					
Emerging Markets	7.6	6.2	5.3	5.4	5.1	6.0	4.6	4.8	6.12	5.52	4.74	4.54					
Europe, Middle East and Africa (EMEA)	2.8	2.4	0.5	0.7	3.2	4.0	3.1	2.8	2.40	2.54	2.23	2.18					
European Union	2.0	1.6	-0.4	-0.2	1.9	2.9	2.4	1.7	0.99	1.17	0.80	0.77					
Emerging EMEA	4.5	4.8	2.9	3.0	5.6	5.9	4.9	4.9	6.14	5.99	5.78	5.54					
PacRim	8.1	5.7	5.9	6.0	3.5	4.7	3.4	3.7	5.47	3.59	3.07	3.12					
PacRim ex Japan	8.9	7.0	6.5	6.8	4.4	5.6	4.0	4.3	6.81	4.28	3.63	3.65					
Emerging Asia	9.2	7.3	6.8	7.0	4.6	5.8	4.1	4.4	7.20	4.40	3.74	3.77					
Americas	3.9	2.5	2.2	1.8	2.9	4.1	3.1	2.9	1.32	2.85	2.33	2.12					
Latin America	6.4	4.5	3.2	2.8	6.3	6.7	6.1	6.0	4.23	10.10	8.23	7.34					
G5																	
US	3.0	1.7	1.9	1.4	1.6	3.2	2.0	1.8	0.3	0.1	0.1	0.0					
Euro area	1.9	1.5	-0.7	-0.7	1.6	2.7	2.3	1.7	0.8	1.0	0.5	0.5	EUR-USD	1.23	1.34	1.30	1.15
Japan	4.4	-0.7	2.3	1.4	-1.0	-0.3	-0.1	0.0	0.1	0.1	0.1	0.1	USD-JPY	78	81	77	78
UK	1.8	0.8	-0.5	1.0	3.3	4.5	2.5	1.7	0.5	0.5	0.5	0.5	EUR-GBP	0.78	0.86	0.83	0.75
Canada	3.2	2.4	1.6	2.4	1.8	2.9	2.0	1.8	1.0	1.0	0.3	2.0	USD-CAD	0.99	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.

Note: US short-term rate forecast for 2012 year-end is 0-0.25%. Midpoint used in table above for global and regional aggregation purposes.

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 considerable depending on assets held it 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.

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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*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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