Teaching old themes some new tricks

Investment Strategy | Global
12 February 2013

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The roadmap

Following the recent market rally, one of the biggest questions we get from clients is, should we buy equities today, or wait for a pullback? The recent series of strong economic and corporate earnings data confirm that the underlying macro fundamentals are improving, and there's no doubt that secular positioning argues that investors should favor equities over bonds. But from a short-term perspective, we believe that sentiment has come a bit too far, a bit too fast. Equity inflows have picked up quite dramatically over the past 11 weeks, and risk appetite has surged. This may make stocks a little vulnerable to a healthy, late-winter pullback. We recommend that investors use any weakness as a buying opportunity and stay steadfast in our conviction that equities will be 2013's best performing asset class.

Journey to the Great Rotation

In February 2011 we first introduced the concept of the Great Rotation in the RIC report. We wrote that both a normalization in growth rates and the return of "animal spirits" would catalyze the Great Rotation from bonds, into equities. But we also noted that the market would have to become less fearful, and less obsessed with tail risks.

Over the last two years, growth rates have started to stabilize, animal spirits have started to perk up, and the biggest tail risks (Europe, China, and the Fiscal Cliff) have come and gone. While the Fed continues to support the economy through QE, interest rates appear to have found a bottom. We now believe 2013 will be the year that the Great Rotation begins in earnest, although this will be a multi-year and sometimes bumpy transition. Risks to the theme include a sharp rise in interest rates, or a "tail-risk" event that sparks risk aversion.

Teaching old themes some new tricks

In this month's RIC report we revisit our Three Wise Themes of growth, yield, and quality. Over the last few years of high liquidity and low growth, these core themes have performed remarkably well. But as the Great Rotation begins to progress, we believe investors should look for new ways to play these "old" themes. We offer new, actionable investment ideas, including stock screens.

- **Go global for growth**: US multinationals, European and Japanese equities, and Emerging Market consumers
- **Four strategies to find yield**: Dividend paying stocks, leveraged Closed End Funds, Master Limited Partnerships, and bonds that act like stocks
- **Find quality within risk**: high-quality secular growth stocks within the higher beta small-cap market segment

Click the image above to watch the video.

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Financial markets recap

January 2013

A happy combination of the US Fiscal Cliff compromise, improving macro data, optimistic investor sentiment, and of course a twist of the January Effect, helped push risk assets higher this month. Equity markets in Europe and the US posted some of the strongest gains for the month.

Following last year's strong performance, Emerging Market equities lagged Developed Markets in January, returning a modest 1.4% for the month.

Within US markets, stocks outperformed bonds by the widest margin in 15 months. Value outperformed Growth within the large cap segment, while the reverse held true among small caps. Large-cap Value (+6.5%) provided the strongest returns in January.

After ranking among 2012's worst performing US sectors, Energy (+7.6%) and Health Care (+7.5%) staged a comeback in January. Laggards for the month were Tech (+1.4%) and Telecom (+3.2%).

Within fixed income markets, the best performing sectors in January were high yield bonds (+1.4%) and preferred securities (+1.2%). These areas of the bond market also ranked among the top performers in 2012.

In FX markets, the yen continued its downward trend (-6.3%), thanks to the Japanese government's 2% inflation target and policy stimulus programs. Meanwhile the euro appreciated 4.0%.

Commodities returned 3.0% for the month, with notable performance from WTI crude oil (+6.2%). Gold prices declined modestly as investor focus shifted to risk assets.

Table 1: Total return (%)

		As of 31 January 2013			
Asset class	**2012**	**1 mo**	**3 mo**	**12mo**	**YTD**
Equity Indices (%, US dollar terms)					
S&P 500	16.0	5.2	6.8	16.8	5.2
NASDAQ Comp	17.7	4.1	6.2	13.4	4.1
FTSE 100	15.2	4.1	7.4	15.7	4.1
TOPIX	8.1	3.0	10.9	6.5	3.0
Hang Seng	27.7	4.7	9.7	20.7	4.7
DJ Euro Stoxx 50	20.2	5.8	13.5	20.6	5.8
MSCI EAFE	17.9	5.3	11.3	17.8	5.3
MSCI Emerging Markets	18.6	1.4	7.7	8.0	1.4
Size & Style (%, US dollar terms)					
Russell 2000	16.3	6.3	10.6	15.5	6.3
S&P 500 Citigroup Growth	14.6	3.9	4.8	14.4	3.9
S&P 500 Citigroup Value	17.7	6.5	9.0	19.5	6.5
S&P 600 Citigroup Growth	14.6	6.1	9.8	15.3	6.1
S&P 600 Citigroup Value	18.2	5.5	10.9	15.6	5.5
S&P 500 Sectors (%, US dollar terms)					
Consumer Discretionary	23.9	5.7	9.6	23.7	5.7
Consumer Staples	10.8	5.8	5.2	19.0	5.8
Energy	4.6	7.6	6.7	10.9	7.6
Financials	28.8	6.0	10.1	26.2	6.0
Health Care	17.9	7.5	7.9	22.9	7.5
Industrials	15.3	5.6	10.2	13.9	5.6
Information Technology	14.8	1.4	2.5	8.1	1.4
Materials	15.0	3.9	9.0	7.4	3.9
Telecom Services	18.3	3.2	1.4	25.6	3.2
Utilities	1.3	4.9	0.4	10.2	4.9
BofA Merrill Lynch Global Research Bond Indices (%, US dollar terms)					
10-Year Treasury	4.2	-2.0	-1.9	1.3	-2.0
2-Year Treasury	0.3	0.0	0.1	0.2	0.0
TIPS	7.3	-0.9	-1.0	4.0	-0.9
Municipals*	7.3	0.7	0.9	5.3	0.7
US Corporate Bonds	10.4	-0.7	-0.8	7.2	-0.7
US High Yield Bonds	15.6	1.4	3.7	13.9	1.4
Emerging Market Corporate Bonds	15.8	0.2	1.9	13.1	0.2
Emerging Market Sovereign Bonds	17.5	-0.6	1.9	14.8	-0.6
Preferreds	13.6	1.2	0.9	10.5	1.2
Foreign Exchange (%, in local currencies)**					
US Dollar	1.5	1.1	2.6	4.1	1.1
British Pound	2.9	-3.2	-3.6	-0.7	-3.2
Euro	0.9	4.0	6.4	5.3	4.0
Yen	-11.0	-6.3	-13.7	-17.5	-6.3
Commodities (%, US dollar terms)**					
CRB Index	-3.4	3.0	2.8	-2.7	3.0
Gold	7.1	-0.7	-3.3	-4.3	-0.7
WTI Crude Oil	-7.1	6.2	13.0	-1.0	6.2
Brent Crude Oil	3.8	4.2	6.5	5.3	4.2
Alternative Investments† (%, US dollar terms)					
Hedge Fund - CS Tremont[1]	5.4	1.5	2.0	7.7	NA
Hedge Fund - HFRI Fund of Funds[1]	3.1	1.1	1.2	4.7	NA
Private Equity - Cambridge Assoc.[2]	9.2	NA	3.6	15.2	NA
Private Real Estate - NCREIF TR[3]	7.8	NA	2.5	10.5	NA

Notes: *Not tax adjusted. **BoE calculated effective FX indices. [1]Data as of 11/30/12; CS AUM-weighted, HFRI equal-weighted [2]Quarterly data as of 6/30/2012 [3]Quarterly data as of 9/30/12†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).

The roadmap

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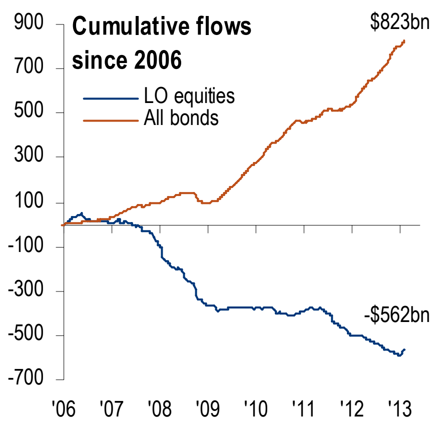
January was a very strong month for risk assets. Commodities (+4.8%) and equities (+4.6%) outperformed bonds (-0.8%) and cash (0%). As macro data improved and investor risk appetite ramped up, a number of equity markets hit new highs (including the Russell 2000 and S&P 500 Total Return indices), Brent crude oil prices jumped above $117/bbl and the 10-year Treasury yield broke above 2% for the first time since April 2012.

Following the recent market rally, one of the biggest questions we get from clients is, should we buy equities today, or wait for a pullback? The recent series of strong economic and corporate earnings data confirm that the underlying macro fundamentals are improving, and there's no doubt that secular positioning argues that investors should favor equities over bonds (Chart 1). But from a short-term perspective, we believe that sentiment has come a bit too far, a bit too fast. Equity inflows have picked up quite dramatically over the past 11 weeks, and risk appetite has surged.

Chart 1: Equities have been shunned in recent years



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

This may make stocks a little vulnerable to a healthy, late-winter pullback. But as Technical Research Analyst Mary Ann Bartels points out, the chorus calling for an equity correction has become increasingly louder, and this may make timing the pullback quite challenging. The RIC recommends that investors use any weakness as a buying opportunity and stays steadfast in its conviction that equities will be the best-performing asset class in 2013.

In this month's RIC report we revisit our Three Wise Themes of growth, yield, and quality. Over the last few years of high liquidity and low growth, these core themes have performed remarkably well. But as the Great Rotation begins to progress, we believe investors should look for new ways to play these "old" themes. We offer three ideas for owning global growth, four ways to own yield, and a "small" twist on our quality theme.

Journey to the Great Rotation

In February 2011 we first introduced the concept of the Great Rotation in the RIC report. As the economy continued to recover from the Financial Crisis and Great Recession, we observed exceptionally strong inflows into bond funds. We wrote that both a normalization in growth rates and the return of "animal spirits" would catalyze the Great Rotation from bonds, into equities. But we also noted that the market would have to become less fearful, and less obsessed with tail risks.

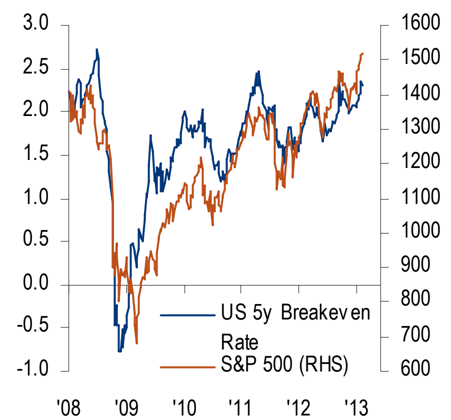
2013 will be the year the Great Rotation begins in earnest, although it will be a multi-year and sometimes bumpy transition.

Over the last two years, growth rates have started to stabilize, animal spirits have started to perk up, and the biggest tail risks (Europe, China, and the Fiscal Cliff) have come and gone. While the Fed continues to support the economy through QE, interest rates appear to have found a bottom (Chart 2). We now believe 2013 will be the year that the Great Rotation begins in earnest, although this will likely be a multi-year and sometimes bumpy transition.

Chart 2: 30y Treasury yield seems to have found a bottom

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

Chart 3: Strong relationship between inflation expectations and equities



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

Growth and policy

The RIC's base case is one of improving – but not spectacular – growth over the course of the next two years. The global economy should grow 3.2% in 2013 (up from 3.1% in 2012) and 3.9% in 2014. During this time, the Fed and central banks around the world should keep policy rates at historically low levels and maintain QE policies until employment and/or inflation rise to their targets. Note that higher inflation expectations are good for equities (Chart 3).

But first, we need to get through the 2Q13 fiscal tightening. While this may cause some bumps along the road for risk assets, it will likely be the last of fiscal austerity for the next several years. And by the end of 2013, the underlying growth momentum in key parts of the market – housing, labor, capital spending, manufacturing, business confidence – should more than offset the tightening. Our economists expect US GDP growth to pick up by Q4, and forecast a stronger rebound to 2.6% in 2014.

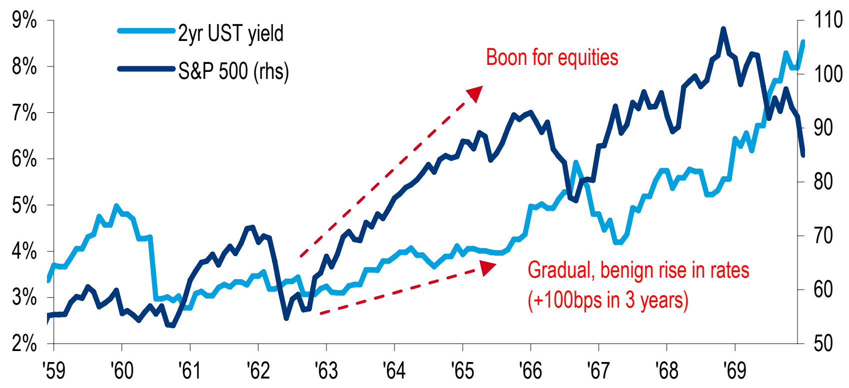
Animal spirits perk up

Over the last two years, the RIC has highlighted that the key to unlocking risk appetite is improvement in the housing, labor and credit markets. Critically, both the housing and labor markets have shown positive signs in recent months. US home prices are up 8.3% YoY (the biggest increase since May 2006), and since February 2011, payrolls have averaged 180k/month (double the rate of job creation in 2010). While it's true that we are still in the early stages of a recovery in these markets, we find the recent progress very encouraging. As home prices continue to rise, consumer and bank balance sheets will strengthen, which should contribute to increased bank lending. Moreover, the fiscal cliff compromise has improved clarity on both taxation and regulation. This should feed into higher business confidence, investment in capex, and hiring.

So how could this all play out?

The journey to the Great Rotation is unlikely to be smooth. The RIC does not expect the $800bn of inflows into bond funds over the last seven years to immediately be redirected into equities. Rather, our expectation is for a transitional period where investors begin to put incremental money into equities at the expense of bonds. The ideal scenario would be a repeat of the early 1960s, when both equities and bond yields rose in an orderly fashion (Chart 4).

Chart 4: The Great Rotation of the early 1960s



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

But it's hard to believe that the greatest bond bull market in history will end quietly. Bond prices become increasingly sensitive to rate changes when yields are low, and bond yields are much lower today than they were when we first introduced this theme two years ago. We see two major risk scenarios to the Great Rotation:

Table 2: Annual fund flows ($mn)

	Long only equities	Bonds
2007	-102,668	68,699
2008	-269,767	-3,843
2009	-11,866	181,037
2010	-15,589	182,587
2011	-108,518	79,183
2012	-86,062	262,904

Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

- **A sharp rise in interest rates**, perhaps in response to much better than expected macro data, that prompts massive outflows from bond funds and a widening of credit spreads. 1994 and 1999 stand as two examples where the 10 year Treasury yield rose more than 250bps over the course of a little more than a year, resulting in losses in bond funds and sizeable outflows. Credit Strategist Hans Mikkelsen thinks we will still be able to see an orderly rotation out of bonds if the 10-year yield were to rise to 2.5%. But a rise above 3% in a short period of time could result in a disorderly rotation.
- **A "tail-risk" type event** that sends bond yields sharply lower and increases risk aversion. With governments increasingly intervening in currency markets, we view this as one potential source for such an event.

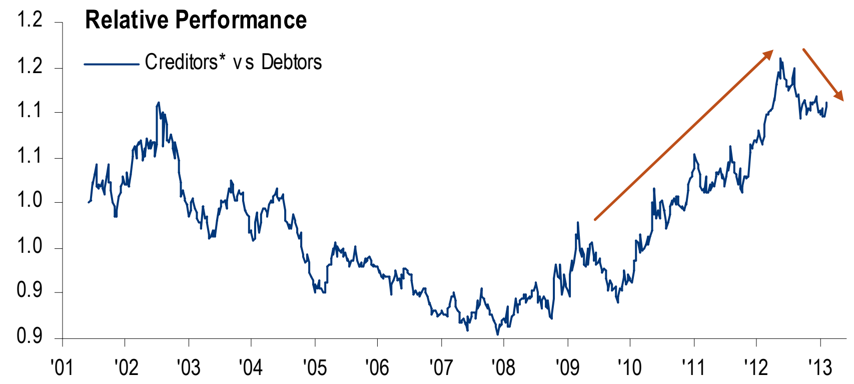
Teaching old themes some new tricks

Deleveraging has framed the investment landscape of recent years. Since the Financial Crisis, we've lived in a world of low growth, low rates and abundant liquidity. Accordingly, one of the RIC's core recommendations has been to heavily tilt portfolios toward the Three Wise Themes of growth, yield and quality. From 2007 to 2012, Creditors outperformed Debtors (a quality trade) by a remarkable 42ppt, global Growth stocks outperformed Value stocks by more than 21ppt, and global high yield and Emerging Market bonds returned an impressive 68% and 80%, respectively.

Investors should adopt a more nuanced approach to investing in growth, yield and quality.

But if we're right in our thesis that the Great Rotation is under way, then what does that mean for the Three Wise Themes? As we've highlighted in recent months, we think investors should raise exposure to some of our favored Great Rotation themes, including US housing, Financials, Europe, Japan and EM Wealth. But since the current backdrop is still one of low growth, low rates and high liquidity, the Three Wise Themes should still be a part of a balanced portfolio's foundation.

Chart 5: Equities of creditors significantly outperformed those of debtors in recent years



*Creditors = equal-weighted basket of Norway, Singapore, Switzerland, Malaysia, Taiwan, Netherlands, Sweden, Israel, HK, Germany, Russia, Philippines, Thailand, China, Japan, Korea, Hungary, Denmark, Austria and Saudi
Debtors = equal-weighted basket of Portugal, Turkey, Greece, Poland, New Zealand, Italy, S Africa, Czech, Spain, India, Mexico, France, UK, Brazil, Canada, US, Australia, Indonesia, Ireland
Note: total returns ($ terms)
Source: BofA Merrill Lynch Global Investment Strategy, Haver, MSCI

Growth: global and cyclical opportunities

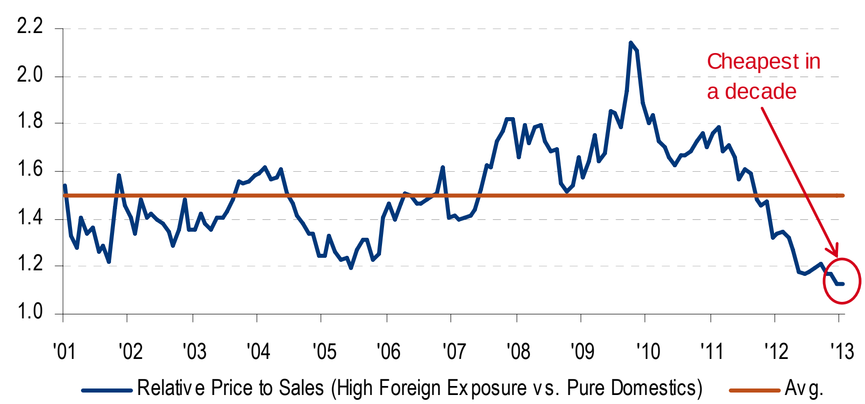
Our favorite growth themes for 2013 are US multinationals, EAFE, and the EM consumer.

As economic activity gradually picks up this year, the RIC recommends investors begin to add exposure to cyclical – not just secular – growth stories. Our favorite growth themes for 2013 are US multinationals, EAFE, and the EM consumer.

US: look to the global earners

During the last few years of risk aversion, US investors have favored domestic large-cap growth stocks and maintained their strong home-country bias. But as US Equity and Quant Strategist Savita Subramanian points out, S&P 500 companies with the highest levels of foreign sales traded at the deepest discounts to pure domestic counterparts over the last decade (Chart 6). Foreign-exposed companies have had the largest improvement in earnings revisions over the last several months, while for pure domestics, revision ratios deteriorated.

Chart 6: S&P 500 stocks with high foreign exposure are cheap relative to domestic plays

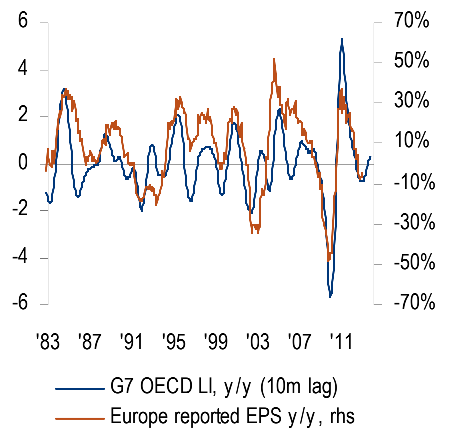


Source: BofA Merrill Lynch US Equity and Quant Strategy

Buy Japan and Europe

The RIC believes international Developed Market (DM) equities will provide strong returns and portfolio diversification. Policymakers in both Europe and Japan have been clear about their commitment to stimulate growth and repair the

Chart 7: Global economic lead indicators imply upside for European earnings growth



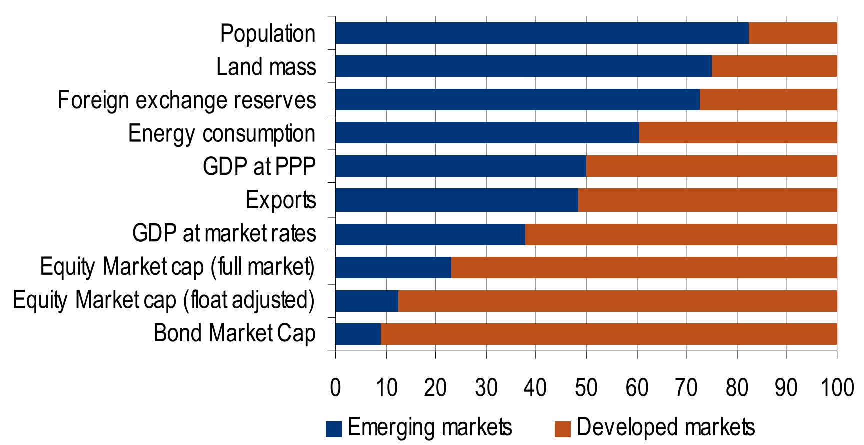
Source: BofA Merrill Lynch European Investment Strategy

macro environment. Manufacturing data in Europe have improved for the past three months and our economists expect the Eurozone will show stable growth by the end of this year. In Japan, government policies to weaken the yen have been a boon for the export sector. And critically, lead indicators and earnings revision ratios are improving for both regions, which bodes well for equities (Chart 7). The RIC recommends a healthy 8% allocation to international DM stocks for the moderate investor. MSCI EAFE is our favored way to invest in this theme.

Emerging Market growth will continue to lead in 2013

EM accounts for over 80% of the world's population, and yet makes up less than 15% of global equity and bond markets (Chart 8). With wages and retail sales in China up 88%[1] and 127%, respectively, over the last five years (versus just 11% and 9% in the US), it's no wonder that the Emerging Market consumer remains at the top of our list of favored investment themes. We believe one of the best ways to access this high growth market is via DM consumer companies with high EM exposure. On page 9 we provide an updated screen of large (greater than $10bn market cap) DM consumer companies with greater than 30% of sales from EM.

Chart 8: Sizing up the EM landscape

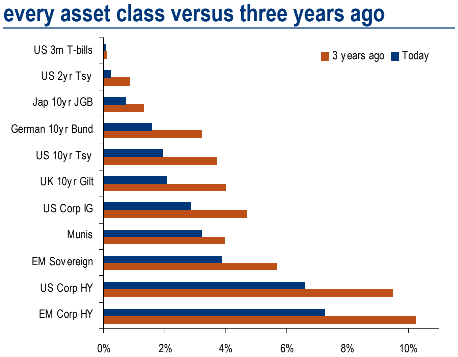


Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, Haver, DataStream

Look beyond bonds for yield

With zero interest rate policies still in place across the G7, investors have poured money into bond funds in recent years in search of portfolio income. But with yields across a number of bond markets at historic lows (Chart 9), income has become increasingly difficult to come by. Although we believe that some exposure to bonds remains an integral part of any diversified portfolio, we suggest that investors seeking yield also look for opportunities beyond bonds.

Chart 9: Yields are lower today across nearly every asset class versus three years ago



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

The RIC recommends four strategies to find yield (see Fixed Income Strategist Marty Mauro's Finding Yield report for more details, including stock screens):

- **Dividend paying stocks**: stocks with dividend yields in excess of their corporate bond yields (see the January 2013 RIC for a screen), high quality stocks with high dividends (see the US and International HQDY screens on page 20), property REITS, mortgage REITS, and business development corporations. Also see the Research Portfolio team's Income Portfolio.

[1] Note that this incorporates our economists' forecast for nominal China wages to rise 11.3% in 2012. Over the 5 years ending in 2011, nominal wages increased 100% in China.

- **Selected leveraged CEFs**: Leveraged Closed End Funds boost their yield by borrowing at a low short-term rate and purchasing securities that have a higher yield. Shareholders benefit from the margin between the yield on the securities that the fund purchases and the rate at which the fund borrows. Yields can range from 5-8%.

- **Master Limited Partnerships**: MLPs remain an attractive source of income and growth. The Alerian MLP Index currently yields 6%, and analyst Gabe Moreen expects MLP cash distributions to increase 7% in 2013. But following the strong 12% rally year to date, we would recommend waiting for a pullback to add exposure.

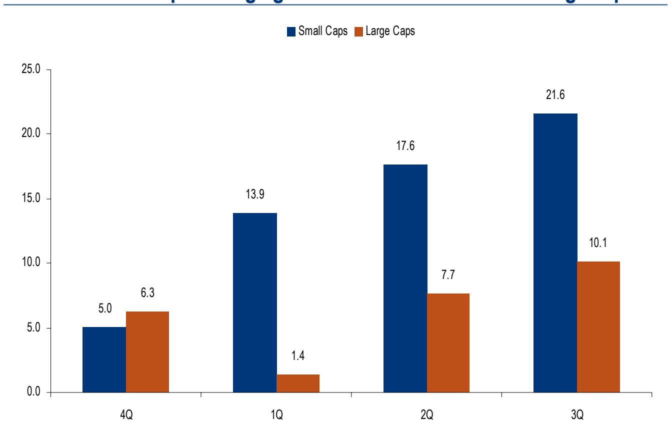
- **Bonds that act like stocks**: For investors willing to accept credit risk, Mauro recommends lower quality bonds such as high yield and Emerging Market debt, as they tend to be more highly correlated with equities rather than Treasuries. Mauro also recommends senior loan funds, as these securities are less vulnerable to a rise in market rates than bonds.

Find quality within risk

As we become more convinced that the Great Rotation is beginning to take root, the RIC believes investors should broaden their definition of quality. While we continue to believe that large-cap, best of breed stocks will perform well on an absolute basis, we cannot ignore the fact that a pickup in growth and risk appetite should be very beneficial for higher beta assets. Just as we recommend investors should consider global growth, not just domestic growth, so too should investors consider small-cap quality, not just large-cap quality, as the recovery progresses.

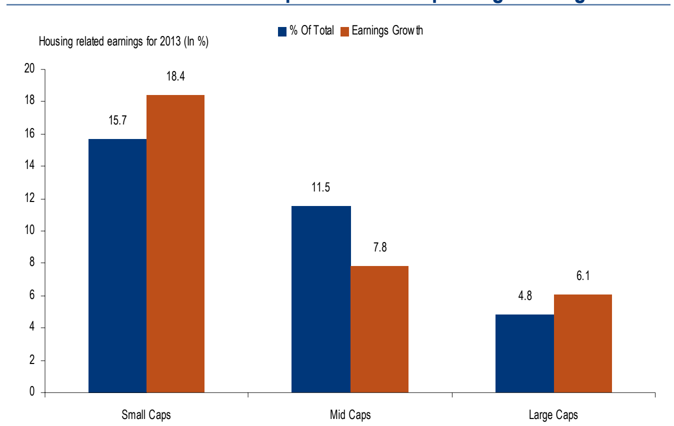
Owning secular growth stocks within the higher beta small-cap market segment could be one way to maintain exposure to quality, but also position for capital gain. Small-cap strategist Steven DeSanctis defines secular growth stocks as companies that have both a lower than average variability of earnings and are expected to grow profits between 10-20% over the next few years (see screen on page 9). And note that small-cap balance sheets are in great shape, with over half of the segment now paying dividends (the highest level since 1996). M&A activity also appears poised to pick up in 2013, after the lowest level of deals since 2003.

Chart 10: Small-cap earnings growth should be better than large caps…



Source: BofA Merrill Lynch Small Cap Research; Standard & Poor's; Thomson Financial.

Chart 11: …thanks to more exposure to an improving housing market



Source: BofA Merrill Lynch Small Cap Research; Standard & Poor's; Thomson Financial

EM consumer & small cap stock screens

Note: these are stock screens and not recommended stock portfolios. These screens are not recommended lists either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

Table 3: Developed Market consumer companies with high sales exposure to Emerging Markets

Bloomberg ticker	BofAML ticker	ADR ticker	Company name	Country	Industry	Mkt cap ($ bn)	% of sales from EM (2012)	12m fwd P/E
WYNN UW	WYNN	--	Wynn Resorts	United States	Hotels Restaurants & Leisure	12.73	71%	20.6
SAB LN	SBMRF	SBMRY	SABMiller	United Kingdom	Beverages	80.10	71%	18.8
MJN US	MJN	--	Mead Johnson	United States	Food Products	15.74	66%	22.9
PM US	PM	--	Philip Morris	United States	Tobacco	151.10	60%	15.4
UHR VX	SWGAF	SWGAY	Swatch	Switzerland	Textiles, Apparel & Luxury Goods	29.67	59%	15.8
BATS LN	BTAFF	BTI	British American Tobacco	United Kingdom	Tobacco	100.02	58%	14.3
LVS US	LVS	--	Las Vegas Sands	United States	Hotels Restaurants & Leisure	45.00	58%	19.9
CFR VX	CFRHF	CFRUY	Richemont	Switzerland	Textiles, Apparel & Luxury Goods	46.50	58%	15.7
UNA NA	UNLNF	UN	Unilever	Netherlands	Food Products	117.83	55%	16.9
CARLB DC	CABJF	CABGY	Carlsberg	Denmark	Beverages	16.32	54%	13.4
CL US	CL	--	Colgate-Palmolive	United States	Household Products	51.26	52%	18.1
ABI BB	AHBIF	BUD	Anheuser-Busch InBev	Belgium	Beverages	137.61	51%	16.6
BN FP	GPDNF	DANOY	Danone	France	Food Products	43.80	51%	15.9
YUM US	YUM	--	Yum! Brands	United States	Hotels Restaurants & Leisure	29.50	51%	20.1
ADS GY	ADDDF	ADDYY	Adidas	Germany	Textiles, Apparel & Luxury Goods	19.16	50%	14.7
HEIA NA	HINKF	HEINY	Heineken	Netherlands	Beverages	40.41	49%	15.8
DGE LN	DGEAF	DEO	Diageo	United Kingdom	Beverages	74.80	48%	17.1
MDLZ US	MDLZ	--	Mondelez	United States	Food Products	49.33	45%	17.2
HEN3 GR	HENOF	HENKY	Henkel	Germany	Household Products	34.67	44%	16.1
NESN VX	NSRGF	NSRGY	Nestle	Switzerland	Food Products	224.45	41%	17.4
RI FP	PDRDF	PDRDY	Pernod-Ricard	France	Beverages	32.32	40%	16.6
BEI GR	BDRFF	BDRFF	Beiersdorf	Germany	Personal Products	21.87	40%	26.6
MC FP	LVMHF	LVMUY	LVMH Moet Hennessy	France	Textiles, Apparel & Luxury Goods	90.25	38%	16.9
OR FP	LRLCF	LRLCY	L'Oreal	France	Personal Products	88.16	38%	20.9
KMB US	KMB	--	Kimberly-Clark	United States	Household Products	35.57	37%	16.0
PG US	PG	--	Procter & Gamble	United States	Household Products	206.92	35%	17.7
PP FP	PPRUF	PPRUY	PPR	France	Multiline Retail	27.08	35%	15.9
IMT LN	ITYBF	ITYBY	Imperial Tobacco Group	United Kingdom	Tobacco	35.67	34%	10.4
PEP US	PEP	--	PepsiCo	United States	Beverages	112.30	34%	16.2
ML FP	MGDDF	MGDDY	Michelin	France	Auto Components	17.33	34%	7.6
KO US	KO	--	Coca-Cola	United States	Beverages	173.89	32%	17.6
RB/ LN	RBGPF	RBGLY	Reckitt Benckiser	United Kingdom	Household Products	48.11	30%	16.6
WPP LN	WPPFG	WPPGY	WPP	Ireland	Media	20.36	30%	12.8
NKE US	NKE	--	NIKE	United States	Textiles, Apparel & Luxury Goo	49.19	30%	18.7
PUB FP	PGPEF	PUBGY	Publicis Groupe	France	Media	13.68	24%	13.9
MCD US	MCD	--	McDonald's	United States	Hotels Restaurants & Leisure	95.25	20%	16.1

Market cap data as of 2/8/13. Companies that qualify for this screen are not necessarily rated as Buy or Neutral by BofA Merrill Lynch fundamental analysts at the time of publishing. Shaded companies are those that don't meet the 30% EM sales criteria, but still have a high share of EM exposure. Data for Michelin based on group sales in tons.

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, FactSet, iQ, company sources

Table 4: Buy rated small-cap secular growth stocks

Symbol	Company name	IBES mean EPS LTG	Price	Mkt cap	Aurora	Enhanced contrarian	Sector	Analyst
LOPE	Grand Canyon Education Inc.	18.0	24.90	1,118	88	53	Discretionary	Gubins,Sara
RUE	Rue21 Inc.	17.0	28.88	688	65	66	Discretionary	Hutchinson,Lorraine
SAH	Sonic Automotive Inc. Cl A	19.6	25.02	1,414	72	67	Discretionary	Murphy,John
PMT	PennyMac Mortgage Investment Trust	11.3	25.88	1,524	85	59	Financials	Bruce,Kenneth
BRLI	Bio-Reference Laboratories Inc.	17.5	26.45	733	99	90	Health Care	Willoughby,Robert
MDAS	MedAssets Inc.	11.3	19.47	1,146	91	80	Health Care	Willoughby,Robert
PMC	PharMerica Corp.	16.1	15.10	445	80	94	Health Care	Willoughby,Robert
HEI	Heico Corp.	18.6	46.39	2,452	82	72	Industrials	Epstein,Ronald J.
HXL	Hexcel Corp.	12.1	27.37	2,734	78	88	Industrials	Epstein,Ronald J.
FEIC	FEI Co.	18.2	61.83	2,379	72	75	Tech	De Bruin,Derik
CIEN	Ciena Corp.	16.7	16.06	1,616	82	60	Tech	Liani,Tal

Source: BofA Merrill Lynch Small Cap Research; Russell Investment Group; FactSet Research Systems.

Asset markets: base case, ideas, risks

Table 5: 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 -0.4%annually in both 2012 and 2013, respectively. Risks remain skewed to the downside. ▪ The ECB stands ready to back euro area countries with its OMT program if any countries request help and sign a MoU. ▪ The US consumer will come under pressure as fiscal austerity takes a bite out of income. We expect the full sequester to be enacted causing growth to bottom in 2Q at 1.0%. ▪ Throughout 2013 we expect the Fed to purchase outright $40 bn/month in MBS and $45 bn/month in Treasury securities.	▪ Downside risks: US fiscal tightening; Europe fails to ratify fiscal integration; Greece leaves euro area. ▪ Upside risks: US housing market rebound, rapid recovery in China.
Global Equities Michael Hartnett	▪ MSCI All-Country World Index year-end target for 2013 is 370. ▪ Positives: powerful policy support, bearish positioning, improving macro, reasonable valuations, receding tail risks, healthy corporate balance sheets, US real estate. ▪ Negatives: US & EU fiscal policy, bank deleveraging. ▪ EU to outperform US in 1H13, US to outperform EU in 2H13. Bullish in EM consumer-related assets. Japan remains one of our favored trades.	▪ Cautious in early 2013, as the recent jump higher in investor sentiment makes equities vulnerable to a near-term pullback. But barring a major policy mistake or global recession, we remain constructive on equities in the medium term. Buy the dips. ▪ Add exposure to assets tied to US real estate, distressed Europe, Japan and EM wealth. ▪ Upside risks: policy stimulus works to create stronger than expected growth in 2013. ▪ Downside risks: crash in credit, relapse in US real estate, or financial event in China.
Global Rates Priya Misra Ralf Preusser John Wraith	▪ US: Despite the rally in risk assets and back-up in Treasury yields, we remain concerned about the consumer facing a large drop in disposable income. This in addition to the likely sequestration cuts will weigh on growth and should keep the Fed rate guidance and QE in place. We recommend staying long the belly of the curve. ▪ Europe: ECB OMT helped remove some tail risks and resulted in a normalization of peripheral curves, but plenty of event risks in Europe still await and along with the weakening global growth outlook should limit the sell-off in Bunds. ▪ UK: We expect outright yields in Gilts to stay close to current levels, with further downside progress increasingly difficult, but safe haven demand preventing a material selloff.	▪ US: While long end rates could remain at the higher end of the range, the 5y sector of the curve offers attractive risk reward for a tactical long, in our view. The possibility of an earlier end to QE as indicated by the FOMC minutes does not signal an immediate change in the rate guidance, which should provide continued support to the belly of the curve. The expiry of the unlimited FDIC deposit insurance and lower funding rates should benefit the carry profile of the 5y sector. ▪ Europe: We are underweight Spain and France against Italy and Germany and position for a rally in swaps through mid-curve receivers. ▪ 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	▪ We believe commodity demand will be modestly supported in 2013 given global economic growth of 3.2% and a relatively healthy EM. Still, we remain concerned about US fiscal policy and the ongoing recession in Europe. ▪ As monetary pressures build, we see Brent crude oil prices touching $120/bbl. However, while the rest of the world fights for scarce molecules of oil and gas, North America's energy supplies are surging. We see a risk of WTI crude oil prices dropping to $50/bbl over the next 18-24 months. ▪ Large-scale policy easing by the Fed and the ECB should push gold prices higher, and we keep our targets of $2,000/oz for 2013 and $2,400/oz for end of 2014. ▪ A stronger Chinese economy will likely lend support to supply constrained metals this year, and we expect copper prices to average $7,750/t in 4Q13.	▪ Risks: Deeper-than-expected euro area recession; Increased Middle East tensions; Faster-than-expected US fiscal tightening; A China hard-landing scenario. ▪ From a geopolitical perspective, the return of Iran's idled oil output, or a further loss, could be the biggest swing factor for Brent.
Global Credit Hans Mikkelsen Oleg Melentyev	▪ Macro backdrop for corp credit in is 2013 still positive. Systemic uncertainties have significantly declined while global growth remains low. More value in Asia, but better technicals in Europe and the US. ▪ Era of equity-like returns in IG is over. 2013 IG return forecasts: 1.5 in US, 2% in EM, 2-3% in Asia, 3.5% in Europe. HY should still do well – forecast 6-7% in US, EU & Asia & a bit more in EM. US IG & HY spreads should tighten to 120bp and 475bp, respectively. ▪ High beta sectors (ie, Financials & cyclicals) should outperform as investors continue to reach for yield. Prefer to start the year in mid-quality in HY, and add on weakness.	▪ We are concerned about the Great Rotation trade out of bonds, into equities for US IG and prefer to position now for higher interest rates. US HY (leveraged loans in particular) should do well in a rising interest rate environment. EU and Asian credit should be less susceptible to the rotation. ▪ Biggest risk to US IG is possibility of wider credit spreads following massive fund outflows, should interest rates rise rapidly. Biggest risk to US HY is that fiscal uncertainties increase recession probabilities.
Global FX David Woo Alberto Ades	▪ We expect EUR-USD to fall in 2013 and 2014. Near-term downside growth risks and continued European sovereign debt issues should push the EUR lower. ▪ We expect the USD to strengthen against G10, amid European worries, risk-negative impacts of US fiscal tightening, and lingering concerns about a hard landing in China. ▪ We think high beta currencies will be supported by the resilience in EM economic activity at the start of the year. We recommend buying MXN, KRW and INR on any potential dips.	▪ 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. ▪ Debate surrounding the debt ceiling and spending sequester in US could bring about additional austerity which could cause EMFX to sell off as EM growth and risk assets would likely suffer.

Source: BofA Merrill Lynch Research Investment Committee

Global equity market convictions: ideas & risks

Table 6: Global equity weightings by region

Region/sector Analyst(s)	Recommendation*	Convictions	Ideas & risks
US Savita Subramanian	Overweight	■ 2013 year-end S&P 500 target is 1600, which is 14.5x our 2013E EPS of $110. ■ The remaining portions of the US Fiscal Cliff and growth in Europe & China remain overhangs, but we expect a pick-up in economic activity as we gain clarity on these issues this year, boosting corporate profits growth and driving modest multiple expansion. ■ Pro-cyclical sector preferences: OW Tech, Industrials & Energy, UW Utilities and Telecom.	■ A pick-up in corporate profits growth could cause investors to seek out undervalued assets. ■ We recommend taking advantage of attractive valuations via four flavors of growth: 1) Dividend Growth, 2) Cyclical Growth, 3) Global Growth, and 4) Stable Growth (Quality). ■ Key risks: Global recession, no bottom in China growth, re-emergence of tail risks from Europe.
Europe John Bilton	Europe ex-UK: Overweight UK: Neutral	■ SX5E target 3,000 on a PE of 11.8 and with 2013 EPS growing 7.5% YoY to €254; EU leads US in 1H13, but a passenger in 2H13. ■ Near term scope for consolidation until earnings growth starts to materialise, in our view 1Q13 earnings season will give evidence of uplift in EU earnings. ■ FTSE target of 6400, as anticipated UK markets out of the blocks fast in 2013, but as global recovery takes hold expect higher quality FTSE names to be sold to fund deeper value EZ names. ■ Cyclicals lead defensives and value & risk outperform best of breed; OW basics, autos, banks, fin svcs, energy, media & pharma; UW telcos, utilities, retail, Pers &HH, and food & bev. ■ Three key themes, rotation – as bonds run out of yield, reflation – as central banks focus in on nominal growth, and regearing – as firms that can access cheap debt funding lock in a competitive funding advantage and uplift to RoE.	■ Long European basic resources (SXPP) and banks (SX7P) vs. Telecom (SXKP) and Food and Beverage (SX3P). ■ Risks: Spain refuse to enter OMT; quicker than appropriate fiscal tightening; US policy uncertainty in early 13 and substantial rise in Euro/$ above 1.45 for a prolonged period.
Japan Naoki Kamiyama	Overweight	■ Under our baseline scenario expanded demand and a lower cost of capital, we forecast TOPIX of 1,050 by YE13. We would expect the yen to begin a sustained depreciation around 90 early in 2013, driven lower initially by the domestic factor of stronger monetary easing under pressure from the new political leadership and later by the recovery in the US economy. Increase government spending (prior to the higher consumption tax rate) should shift the focus of corporate managers to Japan's low cost of capital.	■ Positive to exporters, financials, and construction. Negative to defensives. ■ Policy action in Japan will have no sustained impact if failure to agree a timely resolution to the fiscal cliff means the recovery in the US economy is delayed.
Asia-Pac ex-Japan Nigel Tupper	Underweight	■ Our 12-month index target for MSCI APxJ is 530 implying 12% upside from the 8-Feb level of 475. ■ Macro data is hinting at a trough in the cycle and the short-term momentum indicators we monitor are generally positive on equity performance in the next 1-3 months. ■ Valuations in Asia are attractive, presenting a good entry point for long-term investors, in our view.	■ Balance quality and yield with some early cycle cyclicals. ■ Overweight Banks, overweight Korea. ■ Our preferred styles in Asia include Value, Quality, Momentum, and Dividend.
Emerging Markets Michael Hartnett	Overweight	■ High growth, infant credit cycles and abundant global liquidity remain secular positives for EM, but China's growth appears set to moderate over the next five years. ■ Recovery of EM activity in 2013 will by led primarily by the BRIC economies, particularly China. ■ Favor Brazil in Latin America, Korea in EM Asia, and Russia in EMEA.	■ Own EM consumer (via DM plays on EM consumer and high quality EM consumer stocks) and EM debt funds. ■ While inflation is not a near term risk, watch for signs of rising inflation and margin compression across EMs.

*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

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

Asset allocation for US clients

Tier 0 (highest liquidity):
Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories. Tier 0 clients can also reference the Tier 1 strategic allocations if fulfilling the Alternative Assets allocation with liquid forms of alternative investments (including non-traditional funds).

Table 7: Strategic and core allocations without alternative assets (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core
Traditional Assets										
Stocks	20%	24%	40%	44%	60%	65%	70%	75%	80%	85%
Bonds	55%	53%	50%	48%	35%	33%	25%	23%	15%	13%
Cash	25%	23%	10%	8%	5%	2%	5%	2%	5%	2%
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 8: 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 Fund Strategies	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 9: 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 Fund Strategies	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 10: 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 Fund Strategies	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 and are designed to serve as guidelines for a 20-30 year investment horizon. The Core allocations are provided by the BofA Merrill Lynch Global Research Investment Committee. The Merrill Lynch Global Wealth Management 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. Merrill Lynch Global Wealth Management defines 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. Given the less-liquid nature of certain alternative assets, BofA Merrill Lynch Global Research does not make Core allocation recommendations for portfolios that include these asset classes. Merrill Lynch Global Wealth Management clients should consult with their financial advisor about these allocations.

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 11: Strategic and core allocations without alternatives

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Core	Strategic	Core	Strategic	Core	Strategic Core		Strategic	Core
Stocks	**20%**	**24%**	**40%**	**44%**	**60%**	**65%**	**70% 75%**		**80%**	**85%**
Lg. Cap Growth	8%	11%	16%	19%	23%	28%	25%	28%	27%	29%
Lg. Cap Value	12%	11%	16%	15%	23%	22%	25%	24%	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%	5%
Intl: Developed	0%	1%	3%	4%	8%	8%	11%	12%	16%	17%
Intl: Emerging	0%	1%	1%	3%	2%	4%	3%	6%	4%	8%
Bonds	**55%**	**53%**	**50%**	**48%**	**35%**	**33%**	**25% 23%**		**15%**	**13%**
Tsys, CDs & GSEs	35%	41%	27%	16%	13%	11%	6%	7%	2%	4%
Mortgage Backeds	14%	1%	13%	11%	9%	7%	6%	5%	4%	2%
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%	5%	2%	4%	3%	3%	2%	2%
Cash	**25%**	**23%**	**10%**	**8%**	**5% 2%**		**5%**	**2%**	**5%**	**2%**

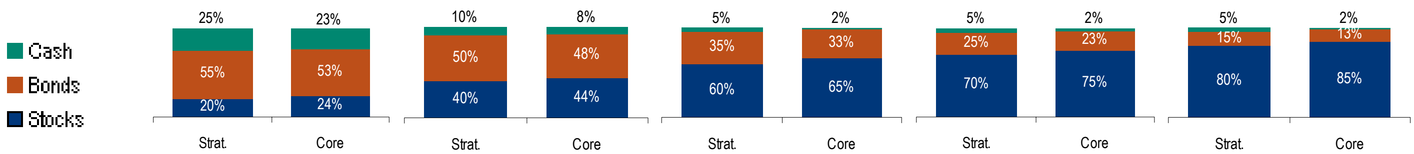


Table 12: Stocks – by size and style

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Core	Strategic	Core	Strategic	Core	Strategic	Core	Strategic Core	
Large cap growth	40%	41%	40%	41%	38%	39%	35%	36%	33%	34%
Large cap value	60%	54%	40%	39%	38%	36%	35%	33%	26%	24%
Small growth	0%	0%	4%	4%	4%	4%	4%	4%	8%	8%
Small value	0%	0%	4%	3%	4%	3%	4%	3%	8%	6%
International: Developed	0%	4%	10%	10%	13%	13%	18%	18%	20%	20%
International: Emerging	0%	1%	2%	3%	3%	5%	4%	6%	5%	8%

Source: BofA Merrill Lynch Global Research

Table 13: Bonds -- by sector

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Core Strategic		Core	Strategic	Core	Strategic Core Strategic			Core
Tsys, CDs & GSEs	65%	78%	55%	32%	40%	32%	25%	32%	15%	29%
Mortgage Backeds	25%	2%	25%	23%	25%	23%	25%	23%	25%	19%
IG Corp & Preferred	10%	20%	20%	27%	25%	27%	35%	27%	40%	27%
High yield	0%	0%	0%	7%	5%	7%	5%	7%	10%	10%
International	0%	0%	0%	11%	5%	11%	10%	11%	10%	15%

Source: BofA Merrill Lynch Global Research

Notes: 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 and are designed to serve as guidelines for a 20-30-year investment horizon. The Core allocations are provided by the BofA Merrill Lynch Global Research Investment Committee and reflect the group's outlook over the next 12-18 months.

Asset allocation for global clients

The Asset Allocation for Global Clients is designed to reduce "home country bias" and introduce a currency perspective. Core 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. Tier 0 clients can also reference the Tier 1 strategic allocations if fulfilling the Alternative Assets allocation with liquid forms of alternative investments (including non-traditional funds).

Table 14: Strategic and core allocations without alternatives (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately Aggressive		Aggressive	
	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core
Global Equities	**20%**	**24%**	**40%**	**45%**	**60%**	**66%**	**70%**	**78%**	**80%**	**90%**
North America	8%	10%	19%	22%	28%	32%	32%	37%	37%	43%
Europe (ex UK)	4%	5%	7%	8%	11%	13%	13%	15%	15%	17%
UK	2%	2%	4%	4%	5%	5%	6%	6%	7%	7%
Japan	2%	2%	3%	4%	5%	6%	6%	7%	7%	8%
Pac Rim (ex Japan)	1%	1%	2%	1%	3%	2%	4%	3%	4%	3%
Emerging Markets	3%	4%	5%	6%	8%	9%	9%	11%	10%	12%
Global Fixed Income	**55%**	**56%**	**50%**	**47%**	**38%**	**32%**	**28%**	**20%**	**18%**	**8%**
Govt Bonds	34%	34%	30%	26%	24%	18%	18%	11%	10%	1%
Inv. Grade Credit	8%	8%	8%	8%	6%	6%	4%	4%	3%	3%
High Yield Credit	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%
Collateralized Debt	11%	12%	10%	10%	7%	7%	5%	5%	4%	4%
Cash (USD)	**25%**	**20%**	**10%**	**8%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
Global Real Assets*	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Global Hedge Fund Strat	**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 core allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 15: Strategic and core allocations with alternatives (Tier 1 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core
Global Equities	**18%**	**22%**	**38%**	**43%**	**56%**	**62%**	**66%**	**74%**	**73%**	**80%**
North America	8%	10%	18%	21%	26%	30%	30%	35%	34%	39%
Europe (ex UK)	3%	4%	7%	8%	10%	12%	12%	14%	14%	16%
UK	2%	2%	3%	3%	5%	5%	6%	6%	6%	5%
Japan	2%	2%	3%	4%	5%	6%	6%	7%	6%	7%
Pac Rim (ex Japan)	1%	1%	2%	1%	3%	2%	3%	2%	4%	3%
Emerging Markets	2%	3%	5%	6%	7%	8%	9%	11%	9%	10%
Global Fixed Income	**52%**	**53%**	**50%**	**47%**	**32%**	**26%**	**22%**	**14%**	**10%**	**3%**
Govt Bonds	32%	32%	30%	26%	20%	14%	14%	7%	6%	0%
Inv. Grade Credit	8%	8%	8%	8%	5%	5%	3%	3%	2%	2%
High Yield Credit	2%	2%	2%	2%	1%	1%	1%	1%	0%	0%
Collateralized Debt	10%	11%	10%	10%	6%	6%	4%	4%	2%	1%
Cash (USD)	**25%**	**20%**	**7%**	**5%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
Global Real Assets^*	**1%**	**1%**	**1%**	**1%**	**2%**	**2%**	**6%**	**6%**	**12%**	**12%**
Global Hedge Fund Strat^	**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 core 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: Merrill Lynch Global Wealth Management's Strategic Profile Asset Allocation Models were developed for private Merrill Lynch Global Wealth Management Clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management are designed to serve as guidelines for a 20-30 year investment horizon. The Core allocations are provided by the BofA Merrill Lynch Global Research Investment Committee. The Merrill Lynch Global Wealth Management 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. Merrill Lynch Global Wealth Management defines 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. Given the less-liquid nature of certain alternative assets, BofA Merrill Lynch does not make Core allocation recommendations for portfolios that include these asset classes. Merrill Lynch Global Wealth Management clients should consult with their financial advisor about these allocations.

**BofAML Global Research also publishes a tactical Global Asset Allocation for institutional investors, distinct from the RIC's Core Asset Allocation for Global Clients, published herein. The institutional Core Global Asset Allocation, published weekly, is based on the same views and framework, 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 core allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 16: Strategic and core allocations with alternatives (Tier 2 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core
Global Equities	**14%**	**18%**	**35%**	**40%**	**45%**	**51%**	**51%**	**59%**	**53%**	**63%**
North America	6%	8%	16%	19%	21%	25%	24%	29%	24%	30%
Europe (ex UK)	3%	4%	6%	7%	8%	10%	9%	11%	10%	12%
UK	1%	1%	3%	3%	4%	4%	4%	4%	5%	5%
Japan	1%	1%	3%	4%	4%	5%	4%	5%	4%	5%
Pac Rim (ex Japan)	1%	1%	2%	1%	2%	1%	3%	2%	3%	2%
Emerging Markets	2%	3%	5%	6%	6%	7%	7%	9%	7%	9%
Global Fixed Income	**51%**	**52%**	**48%**	**45%**	**33%**	**27%**	**27%**	**19%**	**15%**	**5%**
Govt Bonds	31%	31%	30%	26%	21%	15%	17%	10%	9%	0%
Inv. Grade Credit	8%	8%	7%	7%	5%	5%	4%	4%	2%	2%
High Yield Credit	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%
Collateralized Debt	10%	11%	9%	9%	6%	6%	5%	5%	3%	3%
Cash (USD)	**25%**	**20%**	**7%**	**5%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
Global Real Assets^*	**2%**	**2%**	**2%**	**2%**	**4%**	**4%**	**4%**	**4%**	**8%**	**8%**
Global Hedge Fund Strat^	**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 core 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 core allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 17: Strategic and core allocations with alternatives (Tier 3 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core	Strat.	Core
Global Equities	**12%**	**16%**	**32%**	**37%**	**41%**	**47%**	**47%**	**55%**	**46%**	**52%**
North America	5%	7%	14%	17%	19%	23%	22%	27%	21%	25%
Europe (ex UK)	2%	3%	6%	7%	8%	10%	9%	11%	9%	11%
UK	1%	1%	3%	3%	4%	4%	4%	4%	4%	3%
Japan	1%	1%	3%	4%	3%	4%	4%	5%	4%	5%
Pac Rim (ex Japan)	1%	1%	2%	1%	2%	1%	2%	1%	2%	1%
Emerging Markets	2%	3%	4%	5%	5%	6%	6%	8%	6%	7%
Global Fixed Income	**48%**	**49%**	**48%**	**45%**	**27%**	**21%**	**21%**	**13%**	**7%**	**1%**
Govt Bonds	30%	30%	30%	26%	17%	11%	13%	6%	5%	0%
Inv. Grade Credit	7%	7%	7%	7%	4%	4%	3%	3%	1%	1%
High Yield Credit	2%	2%	2%	2%	1%	1%	1%	1%	0%	0%
Collateralized Debt	9%	10%	9%	9%	5%	5%	4%	4%	1%	0%
Cash (USD)	**25%**	**20%**	**5%**	**3%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
Global Real Assets^*	**3%**	**3%**	**3%**	**3%**	**6%**	**6%**	**7%**	**7%**	**15%**	**15%**
Global Hedge Fund Strat^	**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 core 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 Asset Allocation Model was developed by Merrill Lynch Global Wealth Management. The Strategic allocations are identified by Merrill Lynch Global Wealth Management and are designed to serve as guidelines for a 20-30 year investment horizon for Merrill Lynch Global Wealth Management clients The Core allocations are provided by the BofA Merrill Lynch Global Research Investment Committee and reflect their outlook over the next 12-18 months.

Fixed-income allocation for US clients

We still favor lower quality securities and 5-to-10 year maturities. But since low quality has been outperforming for most of the past five years, it's time to be a bit more selective. That might include looking outside the bond market.

In our view, the biggest positive for risk assets is the liquidity that the Fed is providing through its Quantitative Easing (QE). Although some Fed officials would like to see QE end later this year, we think the program will extend well into 2014. We think the Fed purchases ultimately result in more demand for assets with better yields.

Both preferreds and HY appear to have little potential for price appreciation, but the upside seems to be more limited with preferreds, and the income is better with high yield. Except for the securities that will be called, preferreds are long duration instruments. With that long duration comes greater interest rate risk. Among preferreds, we favor issues that are likely to be called and have relatively attractive yields to call.

The new tax law increases the appeal of munis for much of the traditional investor base. The increase in the marginal tax rate at the top income levels, the phaseout of deductions and exemptions, and the medicare surtax all make tax-exempt income more attractive.

Table 18: 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%	**27%**	**11% 10%**		**25%**	**6%**	**5%**
TIPS	3%	2%	2%	4%	2%	2%	4%	1%	1%
Agencies (GSEs)	35%	19%	17%	**1%**	**0%**	**0%**	**0%**	**0%**	0%
Mortgages	2%	1%	1%	**23%**	**10%**	9%	**19%**	5%	4%
Corporates	20%	11%	10%	**26%**	**11%**	9%	**26%**	**7%**	5%
Preferreds	0%	0%	0%	**1%**	1%	**0%**	**1%**	**0%**	**0%**
High Yield*	0%	0%	0%	**7%**	3%	**3%**	**10%**	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%	**51%**	**51% 51%**	
5-14.99 years	0%	0%	0%	**43%**	**43% 43%**		**40%**	**40% 40%**	
15+ years	0%	0%	0%	**5%**	**5%**	**5%**	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 19: 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	11.5%	10.0%	6.0%	11.0%	12.0%	13.0%
Consumer Staples	10.7%	22.0%	15.0%	12.0%	8.0%	4.0%
Energy	11.2%	12.0%	12.0%	10.0%	12.0%	13.0%
Financials	15.7%	12.0%	14.0%	15.0%	7.0%	7.0%
Health Care	12.3%	15.0%	9.0%	11.0%	17.0%	18.0%
Industrials	10.2%	11.0%	12.0%	14.0%	18.0%	14.0%
Info Technology	18.4%	6.0%	8.0%	16.0%	23.0%	25.0%
Materials	3.6%	0.0%	2.0%	2.0%	3.0%	3.0%
Telecom Services	3.0%	3.0%	10.0%	3.0%	0.0%	3.0%
Utilities	3.4%	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 January 2013; weights may not add up to 100% due to rounding.

Table 20: Sector Weightings (Sectors listed in order of preference)

Sector	Weight in S&P 500	BofAML Weight (+ / = / -)	Comments	Industry Preferences/Themes
Information Technology	18.4%	+	■ Cash rich - dividend, buyback, capex play ■ Attractive valuation - greatest implied upside on forward P/E of any sector ■ Highest foreign exposure, secular and cyclical growth, lower EPS volatility vs. history ■ Stock pickers industries: Tech hardware and software ■ Risks: Consensus overweight, govt. spending cuts (Comm. Eqpt.)	Mega-cap tech
Industrials	10.2%	+	■ Highest percentage of high quality stocks ■ GDP-sensitive, capex exposure, global exposure ■ Risks: Defense stocks at risk from govt. spending cuts, high European exposure	Industrial conglomerates Machinery Avoid defense stocks
Energy	11.2%	+	■ Attractive valuation: only sector besides health care with implied upside on relative P/B, P/OCF and fwd. P/E ■ Benefits from US domestic energy advantage ■ Cyclical recovery play, foreign exposure ■ Risks: oil price volatility	Domestic refiners Energy equipment & services
Health Care	12.3%	=	■ Large cap pharmaceuticals are our preferred yield play (cheap, underowned) ■ Attractive valuation: only sector besides energy with implied upside on relative P/B, P/OCF and fwd. P/E ■ Obama's re-election/health care reform: benefits hospitals, Medicaid managed care, labs, and PBMs ■ Risks: Most government spending exposure of any sector	Pharmaceuticals
Consumer Staples	10.7%	=	■ Contrarian - underowned by fund managers ■ High quality, dividend yield, and dividend growth potential (lower payout ratio than utilities/telecom) ■ Higher foreign exposure and less government risk than the other defensive sectors ■ Risks: inflation, upside surprise to profits growth	Food & staples retailing
Consumer Discretionary	11.5%	=	■ Household durables (contains homebuilders) and specialty retail (contains home improvement stores) beneficiaries of improvement in housing market ■ Risks: higher oil prices, consumer deleveraging, continued high unemployment	Select specialty retail Select household durables
Financials	15.7%	=	■ Benefits from US cyclical recovery / housing recovery ■ Old leadership rarely becomes new leadership, high beta ■ Attractively valued on relative P/B, but remains expensive vs. history on relative fwd. P/E ■ Risks: regulatory reform, litigation, stress in European financial system, US recession	Mega-cap financials
Materials	3.6%	=	■ Poor risk-reward vs. other non-financial cyclicals (high beta but lower LTG) ■ Risk: no bottoming in China growth (more leveraged to improvement in China than Industrials, which is also highly exposed to improvement in Europe as well as EM).	Chemicals Avoid metals & mining until more signs of improvement in China
Utilities	3.4%	-	■ Most expensive sector vs. history on relative fwd. P/E, no growth, high payout ratios (little room to raise dividends) ■ High dividend yield, underowned by fund managers, hedge against macro uncertainty, purely domestic	
Telecom	3.0%	-	■ Expensive (trading near all-time-highs on relative fwd. P/E), high payout ratios (little room to raise dividends) ■ Highest dividend yield, hedge against macro uncertainty, low intra-stock correlations	

*Weights in S&P 500 as of 1/31/2013. May not add to 100% due to rounding.

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 21: Core

			Price						
Sectors/Target Weights	**Symbol**	**Proposed Weight**	**Close 02/08/2013**	**When added**	**Yield †**	**QRQ Rating**	**EPS Growth**	**P/E Ratio**	**Footnote**
Consumer Discretionary (11%)									
AutoZone	AZO	3%	385.89	$363.12	0.00%	B-1-9	18.4	16.43	Bbgijopsvw
Garmin	GRMN	2%	38.08	$40.74	4.73%	C-1-7	6.7	12.91	Bbijops
Comcast Corp	CMCSA	2%	38.75	$32.33	1.68%	B-1-7	18.0	19.97	#BObgijopsv
The Home Depot	HD	4%	67.01	$50.97	1.73%	B-1-7	16.0	27.13	Bbijopsvw
Consumer Staples (11%)									
Wal*Mart Stores	WMT	4%	71.48	$51.91	2.22%	A-1-7	9.0	15.99	Bbijopsv
CVS/Caremark	CVS	4%	51.20	$38.60	1.76%	B-1-7	14.0	14.93	Bbgijoprsvw
AB InBev	BUD	3%	85.74	$55.80	1.82%	A-2-7	7.8	18.58	BObgijopsv
Energy (12%)									
Cameron	CAM	3%	65.41	$55.90	0.00%	C-1-9	16.0	20.83	Bbjpw
Marathon Petrol	MPC	3%	81.43	$64.74	1.72%	C-1-7	0.8	8.30	Bbijopsvw
Occidental	OXY	3%	88.36	$95.56	2.44%	B-1-7	3.0	12.45	Bbgijopsvw
Chesapeake	CHK	3%	20.23	$21.60	1.73%	C-1-7	6.9	38.17	BObgijopsvw
Financials (14%)									
ACE Limited	ACE	2%	86.20	$44.47	2.27%	B-1-7	10.0	11.25	Bbijopsvw
Amer Express	AXP	3%	61.80	$41.75	1.29%	B-1-7	10.0	15.83	BObijopsvw
BlackRock, Inc.	BLK	3%	238.16	$159.18	2.82%	B-1-7	12.1	17.40	Bbgijoprsvw
JP Morgan Chase	JPM	3%	48.63	$42.55	2.47%	B-1-7	-1.1	7.77	BObgijopsvw
Wells Fargo	WFC	3%	34.88	$32.75	2.87%	B-1-7	13.2	10.27	BObgijopsv
Health Care (12%)									
Agilent	A	4%	45.08	$43.08	1.06%	B-1-7	9.1	14.45	Bbgijopsvw
Allergan	AGN	4%	107.63	$96.18	0.19%	B-1-7	17.0	26.00	Bbijopsvw
Gilead	GILD	4%	40.90	$32.37	0.00%	B-1-9	20.7	20.97	BObijopsvw
Industrials (11%)									
Deere & Co	DE	3%	92.81	$73.27	1.98%	B-1-7	10.0	12.16	Bbgijoprsvw
Fluor Corp	FLR	3%	63.71	$58.94	1.00%	B-1-7	15.0	16.94	Bbijopsvw
Honeywell	HON	2%	70.53	$37.82	2.33%	B-1-7	10.0	15.74	Bbijopsvw
Union Pacific	UNP	3%	133.15	$121.43	2.07%	B-1-7	11.0	16.08	Bbgijopsvw
Information Technology (22%)									
QUALCOMM	QCOM	3%	66.95	$43.25	1.49%	C-1-7	13.0	20.66	Bbijopsvw
Microsoft Corp	MSFT	3%	27.55	$22.65	3.34%	B-1-7	12.0	10.05	Bbijopsvw
Visa	V	4%	157.80	$119.85	0.84%	B-1-7	N/A	25.45	Bbijopsvw
EMC Corp	EMC	3%	24.88	$28.52	0.00%	C-1-9	15.0	14.55	Bbijopsvw
Apple	AAPL	3%	474.98	$259.69	2.23%	C-1-7	15.0	10.76	Bbijopsvw
Google	GOOG	3%	785.37	$407.98	0.00%	C-2-9	14.3	19.69	#Bbijopsv
Skyworks	SWKS	3%	23.93	$23.59	0.00%	C-1-9	13.0	12.53	Bbijopsvw
Materials (3%)									
Agrium Inc.	AGU	3%	114.39	$103.46	1.75%	C-1-7	6.2	11.23	Bbgijopsv
Telecom Services (2%)									
SBA Comm. Corp.	SBAC	2%	69.49	$60.56	0.00%	B-1-9	N/A	N/A	BObgiopsw
Utilities (2%)									
Edison Int'l	EIX	2%	47.84	$40.68	2.82%	XRVW	N/A	N/A	BObijopsv
Cash (0%)		*0%*							
		100%			1.52%				

†: 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: Honeywell.

Global stock lists

US 1 List (methodology)

Table 22: US 1 List (as of 11 February 2013)

Ticker	Company	Rating	Date added	Price when added	Price as of 8 Feb	Footnotes
APC	Anadarko Petro	C-1-7	7/3/12	69.05	84.45	BObijopsvw
CHKP	Check Point	C-1-9	11/12/12	44.59	51.66	Bbijosv
C	Citigroup	B-1-7	11/12/12	36.42	42.68	BObgijopsvw
CMCSA	Comcast Corp	B-1-7	7/10/12	31.35	38.75	#BObgijopsv
CSX	CSX Corporation	B-1-7	4/2/12	22.12	21.97	Bbjop
EQIX	Equinix	B-1-9	4/23/12	151.34	219.71	BObijopsvw
ESRX	Express Scripts	B-1-9	9/17/12	62.60	55.74	BObijopsvw
F	Ford Motor	C-1-7	8/28/12	9.34	13.10	BObgijopsv
FDX	FedEx Corp.	B-1-7	2/4/13	103.39	106.41	Bbgijopsv
HES	Hess	B-1-7	7/3/12	45.30	67.37	Bbijopsvw
ISRG	Intuitive Surg	C-1-9	10/29/12	542.22	578.75	Bbijopsw
KLAC	KLA-Tencor	C-1-7	10/1/12	47.30	56.57	Bbijopsvw
KRFT	Kraft Foods Group	B-1-7	10/2/12	45.42	46.90	BObgijopsvw
NWL	Newell	C-1-7	10/15/12	20.21	24.14	BObijopsvw
OZM	Och-Ziff	C-1-7	8/7/12	8.40	10.39	Bbijopvw
PETM	PetSmart	B-1-7	2/4/13	63.58	67.14	Bbijopvw
PFG	Principal Fincl	B-1-7	12/18/12	28.70	30.90	Bbgijopsv
QCOM	QUALCOMM	C-1-7	10/31/11	51.60	66.95	Bbijopsvw
SIRI	Sirius XM Radio	C-1-9	10/15/12	2.80	3.12	BObgijopsv
SWKS	Skyworks	C-1-9	11/19/12	20.66	23.93	Bbijopsvw
TGI	Triumph Group	C-1-7	7/24/12	58.34	72.40	Bbijopsw
UA	Under Armour	C-1-9	6/12/12	52.92	50.20	Bbijops
URBN	Urban Outfitter	C-1-9	9/10/12	39.48	42.58	Bbjp
VVUS	Vivus, Inc.	C-1-9	1/7/13	14.87	13.58	Bbgijpsvw
WMT	Wal*Mart Stores	A-1-7	9/17/12	73.99	71.48	Bbijopsv

Note: We last modified this portfolio on 7 January 2013. 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 11 February 2013)

GICS sector	Company	Symbol	BofAML opinion	Price (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	12.24	916	27	84	8/9/2010	BObgijopsvw
Consumer Discretionary	JACK IN THE BOX INC	JACK	C-1-9	29.83	1,309	99	92	7/9/2012	Bbijpsw
Consumer Discretionary	SONIC AUTOMOTIVE INC -CL A	SAH	C-1-7	25.02	1,414	72	67	10/10/2011	Bbgijopsvw
Consumer Staples	SUSSER HOLDINGS CORP	SUSS	C-1-9	43.17	907	70	60	7/5/2011	Bbijopsv
Financials	CORESITE REALTY CORP	COR	C-1-7	30.60	646	98	97	5/14/2012	Bbgijpsvw
Health Care	HEALTH MANAGEMENT ASSOC	HMA	C-1-9	10.69	2,741	86	98	7/14/2009	Bbijpsw
Health Care	PHARMERICA CORP	PMC	C-1-9	15.10	445	80	94	1/20/2009	Bbjpw
Health Care	MEDASSETS INC	MDAS	C-1-9	19.47	1,146	91	80	1/11/2013	Bbijopsvw
Health Care	WELLCARE HEALTH PLANS INC	WCG	C-1-9	54.36	2,348	27	77	3/9/2012	Bbjp
Industrials	TAL INTERNATIONAL GROUP INC	TAL	B-1-7	43.66	1,467	64	88	9/19/2011	Bbgijopsvw
Industrials	ALASKA AIR GROUP INC	ALK	C-1-9	48.67	3,425	72	81	10/10/2011	Bbijopsv
Industrials	TRIUMPH GROUP INC	TGI	C-1-7	72.40	3,628	95	98	10/16/2007	Bbijopsw
Information Technology	FEI CO	FEIC	C-1-7	61.83	2,379	72	75	5/14/2012	Bbijopsvw
Information Technology	MENTOR GRAPHICS CORP	MENT	C-1-9	17.39	1,955	86	93	5/14/2012	Bbijopsvw
Information Technology	CADENCE DESIGN SYSTEMS INC	CDNS	C-1-9	14.16	3,965	98	99	7/5/2011	Bbijopsw
Materials	GRAPHIC PACKAGING HOLDING CO	GPK	C-1-9	7.24	2,850	98	98	5/18/2011	Bbgijopsv
Materials	NORANDA ALUMINUM HOLDING CP	NOR	C-1-7	5.79	391	16	83	4/16/2012	Bbijopsvw

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 24: High Quality and Dividend Yield Screen (February 2013)

Date Added	Ticker	Name	Sector	ROE (%)	Debt/ equity	Yield (%)	Quality	Market value (US$ mn)	Cost Price	Price (US$)	QRQ	FCF/ DIV	Footnotes
4/1/2012	ADP	ADP	Information Technology	22.6	0.1	2.7	A	28,784	55.19	59.29	B-1-7	2.1	Bbijopsvw
11/1/2011	BAX	Baxter	Health Care	32.6	0.8	2.3	A+	37,270	53.52	67.84	B-1-7	2.2	BObijopsvw
12/1/2010	CVX	Chevron	Energy	19.0	0.1	3.0	A+	225,369	82.70	115.15	A-2-7	1.5	Bbgijopsvw
1/2/2013	EMR	Emerson	Industrials	19.0	0.5	2.8	A+	41,457	54.60	57.25	B-2-7	1.8	Bbijopsvw
10/1/2012	HON	Honeywell	Industrials	24.5	0.6	2.2	A-	53,457	60.80	68.24	B-1-7	2.5	Bbijopsvw
1/3/2012	KO	Coca Cola	Consumer Staples	26.5	1.0	2.7	A+	143,644	35.07	37.24	A-1-7	1.7	BObgijopsvw
10/1/2012	LLTC	Linear Technology	Information Technology	56.7	1.0	3.4	A-	8,474	32.57	36.62	B-1-7	1.5	Bbijopsw
2/2/2009	MCD	McDonald's Corp	Consumer Discretionary	40.0	1.0	3.0	A	95,669	57.90	95.29	B-1-7	1.4	Bbgijopsvw
5/3/2010	MDT	Medtronic	Health Care	19.1	0.7	2.2	A	47,129	44.13	46.6	A-1-7	3.7	BObgijopsvw
10/1/2012	MMM	3M	Industrials	26.6	0.3	2.3	A+	64,008	93.29	100.55	B-1-7	2.6	Bbgijopsvw
8/1/2011	MSFT	Microsoft Corp	Information Technology	22.6	0.2	3.0	A-	208,080	27.27	27.45	B-1-7	2.3	Bbijopsvw
2/1/2013	PG	Procter & Gamble	Consumer Staples	17.4	0.5	2.9	A+	205,505	75.16	75.16	A-1-7	2.0	Bbgijopsvw
4/1/2012	PAYX	PAYX	Information Technology	34.4	0.0	4.0	A	10,555	30.99	32.65	A-2-7	1.3	Bbjopw
2/1/2013	UTX	United Tech	Industrials	20.3	0.9	2.3	A+	73,841	87.57	87.57	B-1-7	2.9	BObgijopsvw
12/3/2012	WMT	Wal*Mart Stores	Consumer Staples	23.5	0.8	2.2	A+	117,000	71.34	69.95	A-1-7	2.3	Bbijopsv
2/1/2012	XOM	ExxonMobil	Energy	27.5	0.1	2.3	A+	410,204	83.97	89.97	A-1-7	2.8	Bbijopsvw
			Average	**27.0**	**0.5**	**2.7**		**107,294**				**2.1**	
			S&P 500 benchmarks:	**14.3**	**1.1**	**2.0**							

Note: Data as of 1/31/2013, ratings as of 2/1/2013. 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 calculate the benchmark S&P 500 ROE by taking the average of the aggregate ROE (S&P 500 EPS ÷ by book value per share) and the median ROE.

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

International High Quality & Dividend Yield Screen (methodology)

Table 25: Global Non-US High Quality and High Dividend Yield Screen (February 2013)

Ticker symbol	ADR symbol	Company	Country	Sector	MCAP	Quality	Dividend yield (%)	BofAML Opinion	Price as of 7 Feb (US$)	Price of ADR as of 7 Feb (US$)
MEGGF	MEGGY	MEGGITT	United Kingdom	Industrials	5,395	A-	2.5%	B-1-7	6.85	13.91
SBGSF	SBGSY	SCHNEIDER ELECTRIC	France	Industrials	42,128	A-	3.0%	B-2-7	72.64	14.52
SNYNF	SNY	SANOFI	France	Health Care	129,251	A	3.7%	A-1-7	89.17	45.30
JCYCF	JCYGY	JARDINE CYCLE & CARRIAGE	Singapore	Retailing	14,544	A	3.0%	C-1-7	41.96	83.66
ALFVF	ALFVY	ALFA LAVAL	Sweden	Industrials	8,952	A-	2.4%	B-2-7	22.23	22.88

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 26: Global economic forecasts (as of 8 February 2013)

	GDP growth, %				CPI inflation*, %				ST interest rates**, %				Exchange rate***				
	2011	2012F	2013F	2014F	2011	2012F	2013F	2014F	Current	2012F	2013F	2014F	CCY pair	Spot rate	2011	2012	2013F
Global and Regional Aggregates																	
Global	**3.8**	**3.1**	**3.2**	**3.9**	**4.3**	**3.2**	**3.2**	**3.4**	**2.68**	**2.70**	**2.69**	**2.98**					
Global ex US	**4.3**	**3.3**	**3.6**	**4.2**	**4.6**	**3.4**	**3.6**	**3.8**	**3.36**	**3.37**	**3.35**	**3.70**					
Developed Markets	1.4	1.2	0.9	1.9	2.6	1.9	1.5	1.8	0.51	0.48	0.46	0.54					
G5	1.3	1.1	0.9	1.8	2.7	2.0	1.5	1.8	0.44	0.38	0.38	0.46					
Emerging Markets	6.2	4.9	5.2	5.7	6.0	4.4	4.8	4.8	5.10	4.87	4.78	5.19					
Europe, Middle East and Africa (EMEA)	2.4	0.6	0.9	2.0	4.0	3.3	2.9	2.9	2.34	2.42	2.31	2.44					
European Union	1.6	-0.2	0.0	1.2	3.0	2.6	1.9	1.8	0.91	0.93	0.87	0.96					
Emerging EMEA	4.9	2.8	2.8	3.8	5.9	4.8	4.8	4.8	5.99	5.93	5.48	5.64					
PacRim	5.8	5.4	5.8	5.9	4.7	3.1	3.3	3.6	3.22	3.28	3.16	3.40					
PacRim ex Japan	7.1	6.1	6.5	6.7	5.6	3.7	3.9	4.0	3.92	3.90	3.72	3.98					
Emerging Asia	7.3	6.2	6.7	6.9	5.7	3.8	4.0	4.0	3.97	3.91	3.76	4.02					
Americas	2.6	2.4	1.9	2.9	4.2	3.2	3.4	3.4	2.56	2.41	2.63	3.12					
Latin America	4.4	2.9	3.0	3.5	6.9	6.2	8.0	7.6	8.94	8.27	8.88	10.35					
G5																	
US	1.8	2.2	1.4	2.6	3.2	2.1	1.6	1.8	0.25	0.13	0.13	0.13					
Euro area	1.5	-0.4	-0.4	0.8	2.7	2.5	1.8	1.8	0.75	0.75	0.75	0.75	EUR-USD	1.34	1.30	1.32	1.25
Japan	-0.7	1.7	1.5	1.1	-0.3	-0.1	0.0	1.7	0.10	0.05	0.05	0.05	USD-JPY	93	77	87	90
UK	0.9	-0.1	1.1	2.2	4.5	2.8	2.5	2.0	0.50	0.50	0.50	1.00	EUR-GBP	0.85	0.83	0.81	0.83
Canada	2.6	1.9	1.4	2.4	2.9	1.5	1.4	1.9	1.00	1.00	1.25	2.25	USD-CAD	1.00	1.02	0.99	1.01

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

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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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%

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