



Identifying Opportunity.
Navigating Risk.

Market & Economic Review

As of 5/27/2011

Major Positives for the Economy and Markets

- ✓ Valuation:
 - S&P 500 attractive at 13.5x P/E with low interest rates and strong profit growth
 - Earnings yield is 7.6% compared to 10 yr. corporate bond yields of 4%
 - High quality US large caps have attractive risk/return profile
- ✓ Earnings Momentum - corporate profits exceeding estimates resulting in high cash balances, stock buybacks and dividend increases
- ✓ Global Economies – improving albeit at slower rate than normal after a recession and improvement in U.S. labor markets
- ✓ Investor Sentiment – below average, record cash flows into bond funds and large cash balances in money market funds – *Contrarian Indicators*
- ✓ US Presidential Cycle – third year has resulted in strong and above average stock market returns without any down year
- ✓ Monetary Policy – accommodating Federal Reserve although impact of ending Quantitative Easing (QE2) is unknown but higher interest rates expected

- ✓ US Economy:
 - High oil price spike may have negative impact on economic recovery
 - Record deficits at the federal level and states still trying to balance budgets
 - Potential for higher interest rates (funding costs) with end of QE2
 - Housing market has still not stabilized
 - Job growth has improved for the private sector, public sector is losing jobs and overall unemployment is at an elevated level
- ✓ Global Markets:
 - China – taking action to slow economy, negative growth/demand implications
 - Geopolitical unrest and impact on global oil markets
 - Japanese natural disasters and nuclear power plant meltdown-impact on the global supply chain
 - Emerging Market inflation due to high commodity prices
 - Sovereign debt issues are still outstanding and impact to Europe's economy and the Euro are uncertain

U.S. Leading Economic Indicators (2006-2011)



Source: The Conference Board, Haver Analytics, FMRCo (MARE) as of 2/28/11.

Global Leading Indicators (2000-2011)

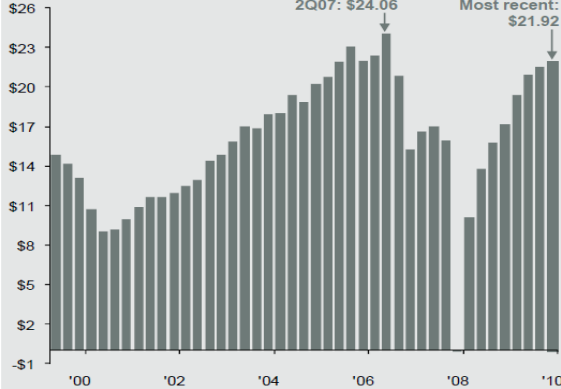


Includes 37 major economies. Please refer to appendix for country list. Source: Haver Analytics, FMRCo (MARE) as of 1/31/11.

Global economies growing but at a low rate. Can emerging markets sustain growth?

S&P 500 Earnings Per Share

Operating basis, quarterly



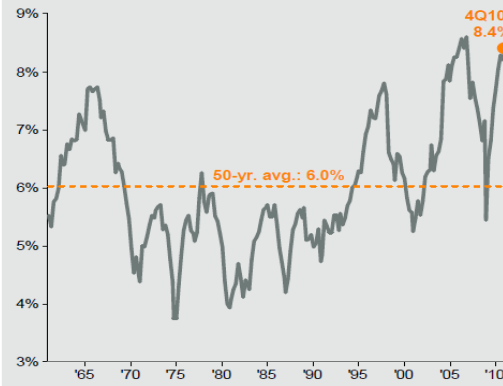
Source: Standard & Poor's, J.P. Morgan Asset Management.

EPS levels are based on operating earnings per share. Data reflect most recently available as of 3/31/11.

Most recently available is a 4Q10 99% complete estimate.

Adjusted After-Tax Corporate Profits (% of GDP)

Includes inventory and capital consumption adjustments



Source: BEA, FactSet, J.P. Morgan Asset Management.

Data are as of 3/31/11.

S&P 500 earnings close to peak levels led by expanding profit margins.

Household Debt Service Ratio

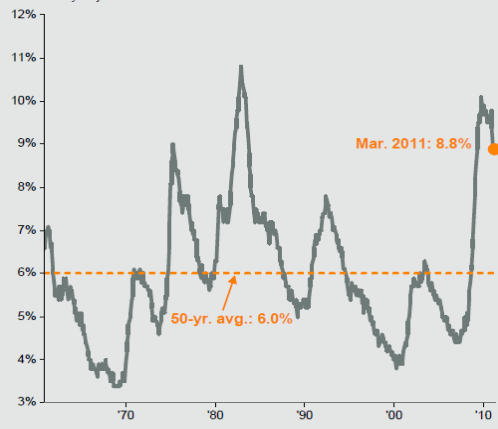
Debt payments as % of disposable personal income, seasonally adjusted



Households have improved their “balance sheet” by reducing outstanding debt levels.

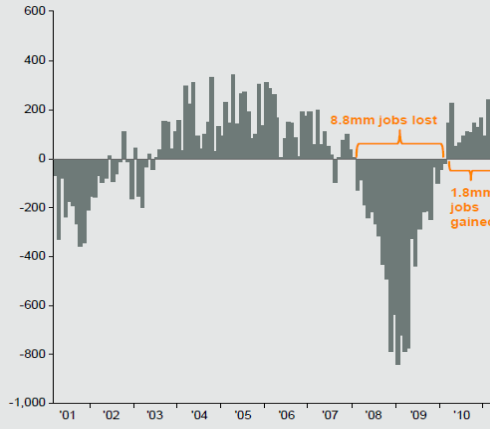
Civilian Unemployment Rate

Seasonally adjusted



Employment – Total Private Payroll

Total job gain/loss (thousands)

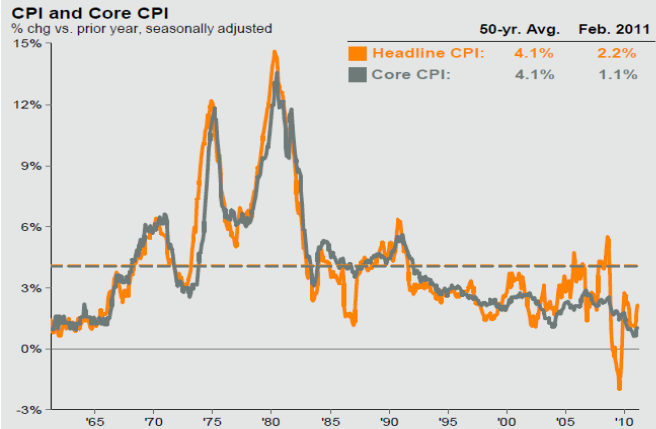


Unemployment rate down & positive job growth in Private sector. Still long way to go to replace recession job losses.

Source: BLS, J.P. Morgan Asset Management.
Data reflect most recently available as of 3/31/11.

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Data reflect most recently available as of 3/31/11.

Inflation Accelerating!

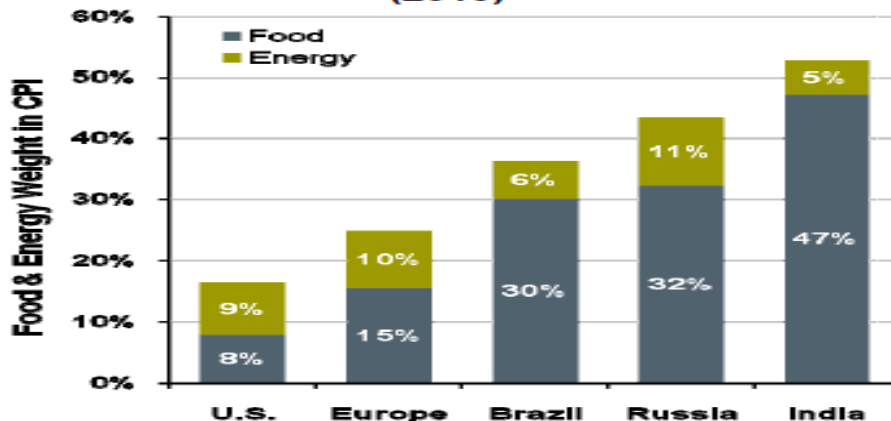


CPI Components	Weight in CPI	12-month Change
Food & Bev.	14.8%	2.2%
Housing	41.5%	0.7%
Apparel	3.6%	-0.4%
Transportation	17.3%	7.3%
Medical Care	6.6%	2.9%
Recreation	6.3%	-0.1%
Educ. & Comm.	6.4%	1.2%
Other	3.5%	2.0%
Headline CPI	100.0%	2.2%
Less:		
Energy	9.1%	11.2%
Food	13.7%	2.3%
Core CPI	77.2%	1.1%

Source: BLS, J.P. Morgan Asset Management.
Data reflect most recently available as of 3/31/11. CPI values shown are % change vs. 1 year ago and reflect February 2011 CPI data. CPI component weights are as of Feb. 2011 and 12-month change reflects data through February 2011. Core CPI is defined as CPI excluding food and energy prices.

Energy & food costs spike – negative impact to economic growth and consumer spending.

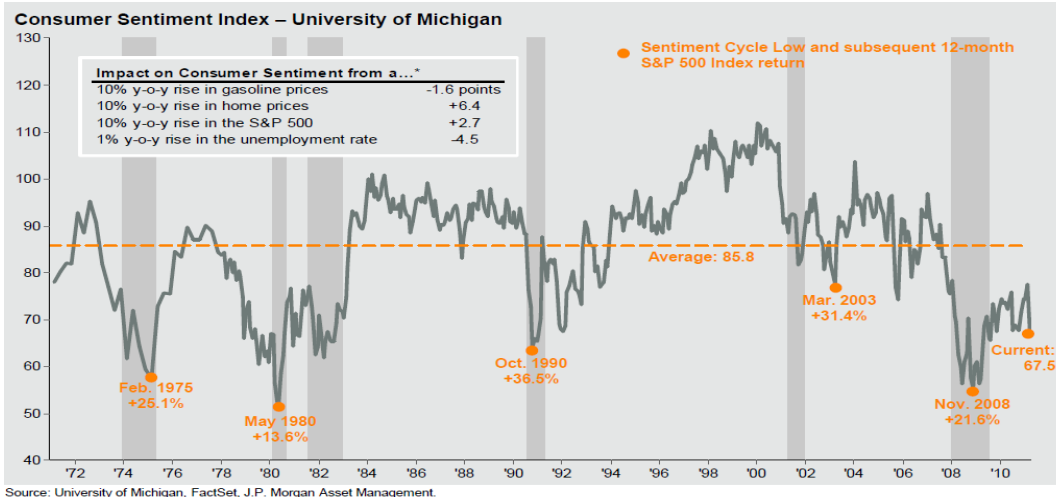
Weight of Food & Energy in Consumer Price Indices (2010)



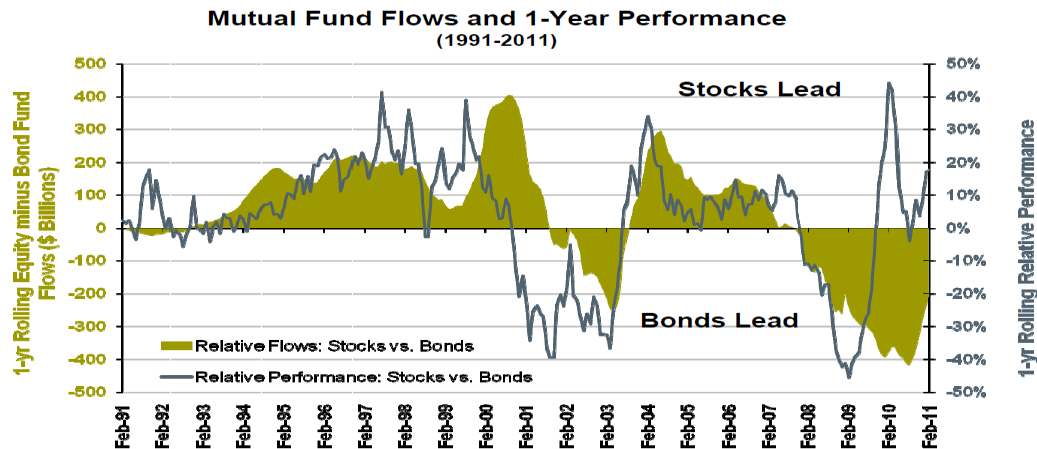
Source: Haver Analytics, Country statistical organizations, FMRCo (MARE) as of 12/31/2010.

Food & energy price increases having more severe impact in Emerging Markets.

Consumer Sentiment & Mutual Fund Flows



Low Consumer Sentiment has been contrarian indicator – positive for equities.

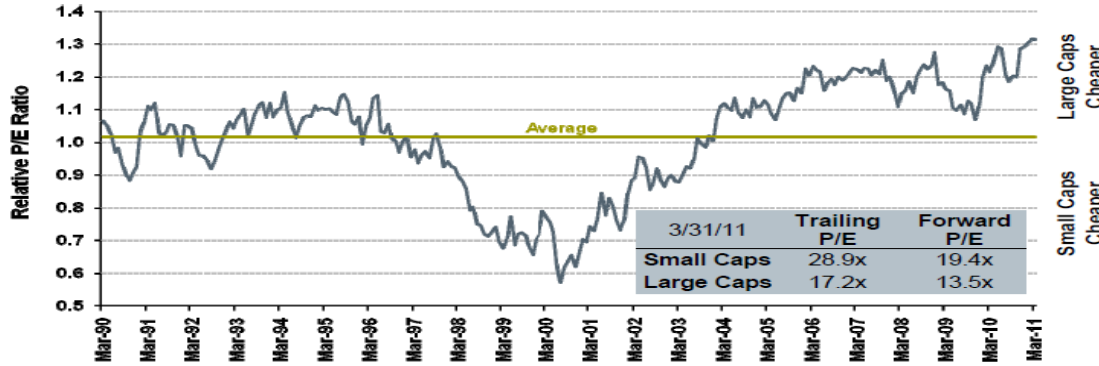


Strong bond mutual fund cash flows has been a contrarian indicator - positive for equities.

Relative Flows reflects net sales to stock funds minus net sales to bond funds. Relative Performance reflects total stock returns minus total bond returns. All references to stocks represented by the Standard and Poor's 500 Index. All references to bonds represented by the Barclay's Capital® U.S. Aggregate Bond Index. Source: Ibbotson Associates, Investment Company Institute, FMRCo (MARE) as of 2/28/11. Past performance is no guarantee of future results.

Global Equity Valuations are Attractive

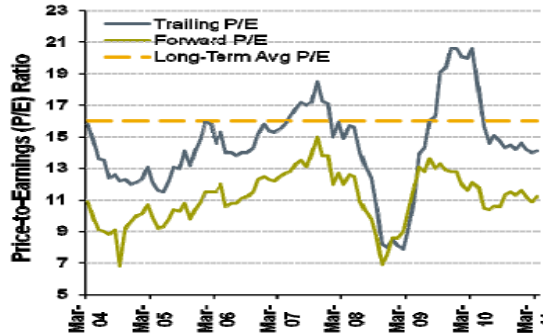
Relative P/E Ratios – Small-Cap vs. Large-Cap U.S. Stocks
(2010-2011)



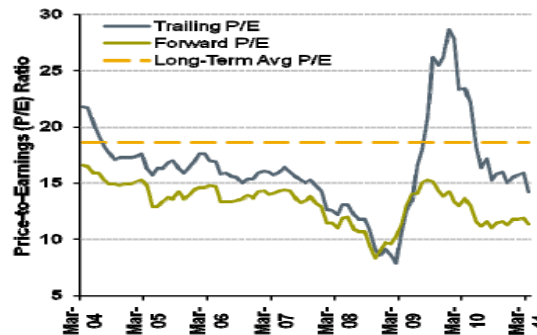
Price-to-earnings ratio (P/E): The price of a stock divided by its earnings per share. Also known as the "multiple," the P/E ratio gives investors an idea of how much they are paying for a company's earnings power. Chart shows relative P/E ratios excluding negative earnings for the Russell 2000 Index vs. the Russell 1000 Index. Source: FactSet, FMRCo. (MARE) as of 3/31/11

Large Cap stocks very attractive relative to Small Caps.

Emerging Markets' P/E Ratio
(2003-2011)



Developed Markets' P/E Ratio
(2003-2010)

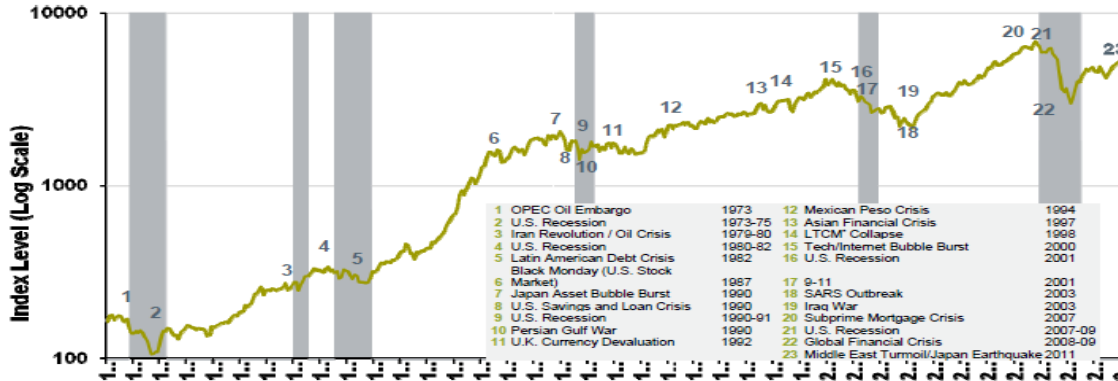


Past performance is no guarantee of future results. You cannot invest directly in an index. Please refer to the appendix for important index information. Price-to-earnings ratio (P/E): The price of a stock divided by its earnings per share. Also known as the "multiple," the P/E ratio gives investors an idea of how much they are paying for a company's earnings power. Long-term average P/E for Emerging Markets includes data from 1988-2010. Long-term average P/E for Developed Markets include data from 1978-2010. Foreign Developed: MSCI EAFE Index, Emerging Markets: MSCI EM Index. Source: FactSet, FMRCo (MARE) as of 3/31/11.

International stocks trading below historical average with emerging markets trading at 2006 levels.

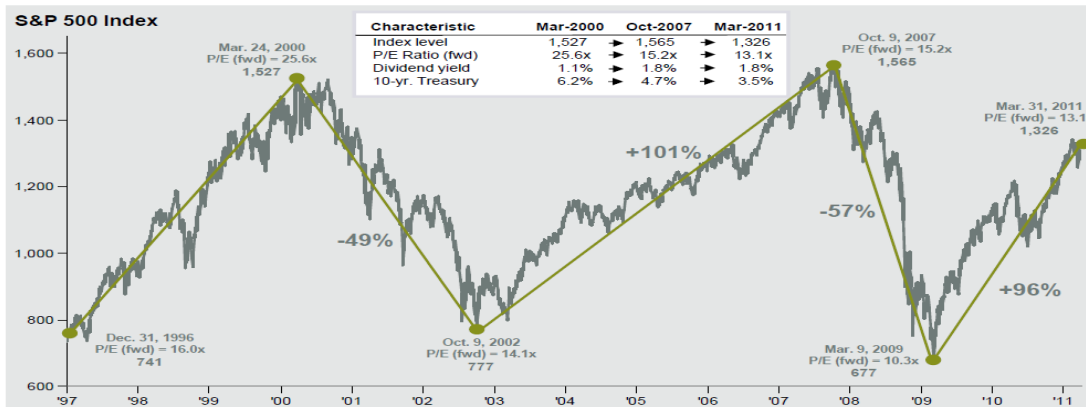
Market Resilient & Still Below Peak

Foreign Developed-Country Stock Total Return & Major Global Events
(Jan 1973 – Mar 2011)



International equity markets have been extremely resilient over the long-term, although many short-term shocks to the markets.

*Long-Term Capital Management: A hedge fund (1994-2000). You cannot invest directly in an index. Events in table are those which had, in the opinion of the speaker, a material impact on capital markets during the period represented. Shaded regions represent U.S. recessions as defined by National Bureau of Economic Research. On a logarithmic scale, equal distances represent equal ratios. For example, the distance from 1 to 2 is the same as that from 2 to 4, etc. All returns represented by the MSCI EAFE Index. Source: FactSet, Haver Analytics, FMRCo (MARE) as of 3/31/11. Past performance is no guarantee of future results.



Significant move up on the S&P 500 but still below 2008 levels.

Source: Standard & Poor's, First Call, Compustat, FactSet, J.P. Morgan Asset Management.

Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future results.

Data are as of 3/31/11.