

10 reasons for a 10% correction

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**Bank of America
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■ Still cautious short-term... 10 reasons for a tactical 10% correction in global equities:

1. CPI: headline will be 3-4% in Q2
2. PPI: headline will be 6-7% in Q2
3. ECB hikes in April; Portuguese bond yields at new highs; Euro banks breaking down (Chart 1)
4. QE2 ends in June; Fed likely to test market reaction
5. ISM peaking...EPS momentum peaking
6. GDP estimates heading lower - this key reason
7. FMS cash levels low, equity allocations high
8. CCMP: tech leadership fading (it's not a party without the chips – Chart 2)
9. Oil: big rotation from cyclicals to defensives; compare sector performance between a. Jackson Hole and Libya and b. since oil > \$95/b - see Materials in particular (Charts 3 and 4)
10. UST, US\$: inability of bonds to rally was key reason for Feb equity resilience; bonds now rallying & US dollar finally catching a bid (and metals down)

3 reasons equities may not correct much:

1. Hedge fund pain trade is up
2. China CPI peak
3. Oil falls \$10-20

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ECB hikes in April; Portuguese bond yields at new highs; Euro banks breaking down

Chart 1: Euro banks breaking down



Source: Bofa Merrill Lynch Global Equity Strategy, Bloomberg

CCMP: tech leadership fading (it's not a party without the chips)

Chart 2: Tech leadership fading

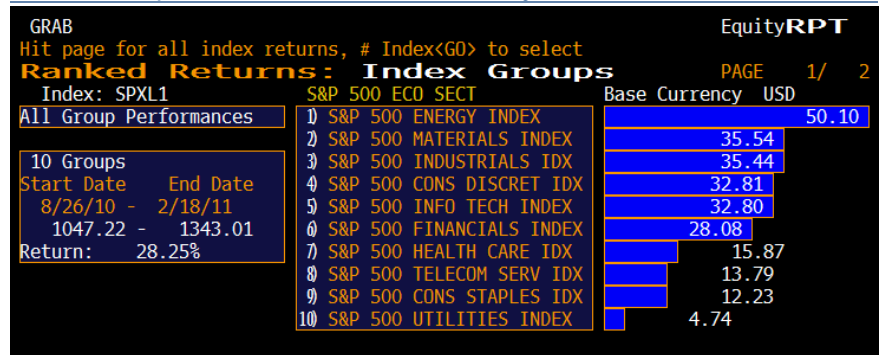


Source: Bofa Merrill Lynch Global Equity Strategy, Bloomberg

Oil: big rotation from cyclicals to defensives

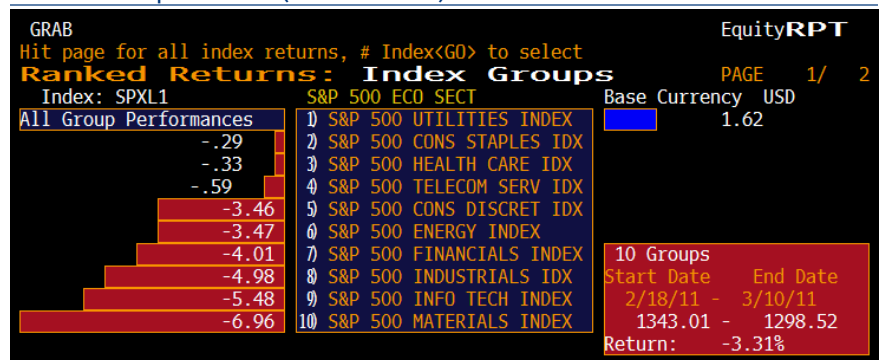
Compare sector performance between a) Jackson Hole and Libya and b) since oil > \$95/b - see Materials in particular

Chart 3: Sector performance (from Jackson Hole to Libya)



Source: Bofa Merrill Lynch Global Equity Strategy, Bloomberg

Chart 4: Sector performance (since oil > \$95/b)



Source: Bofa Merrill Lynch Global Equity Strategy, Bloomberg

Link to Definitions

Macro

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

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