Equities

15 February 2012 | 24 pages

Global Equity Strategist

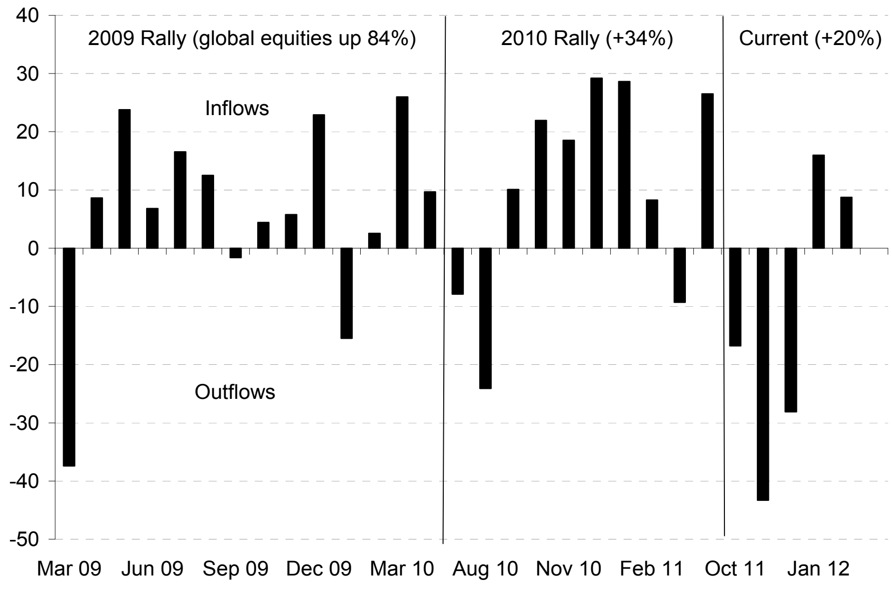
Rally Attracting Inflows

- **More Upside For Global Equities** — Global equities have rallied 20% from their October lows. While indices are due for a period of consolidation, we believe there is more upside to come. Core government bond yields are not rising and are not chocking off the equity rally, like they have done in the past. Also, equity funds are starting to benefit from inflows which should help sustain the rally. Our year-end target implies a further 11% gain in global equities.

- **Big Demand For Emerging Markets** — Most of the equity inflows are heading towards Emerging Markets. EM inflows this year have already offset 40% of last year's outflows. We expect inflows to remain strong as EM is the main beneficiary of easier global central bank policy and improving investor risk appetite.

- **Little Demand For Developed Markets** — We continue to see tepid flows into developed market equity funds. However, there are pockets of demand in each of the major developed regions. In Europe investors remain buyers of equity dividend funds. They have done so for 10 consecutive years now. Domestic investors are selling in Japan while foreigners and the BoJ are buying. In the US companies are buying back their own stock and investors are buying international equities.

Figure 1. Global Net Flows Into Equity Funds During Stock Market Rallies ($bn, Monthly)



Source: EPFR, Citi Investment Research and Analysis

- Equities

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Rally Attracting Inflows

Global equities have risen 20% from the October lows and investors are beginning to ask, how much further has the rally to go? While stock indices are due for a period of consolidation, for a number of reasons we think there is more upside to come. First, bond yields are not rising and not yet chocking off the rally in equities as they have done in the past. Core government bond yields have been flat while global equities have risen 20%. Second, equity funds are just starting to benefit from inflows. In the past equity inflows have helped sustain the rally.

How much further has the rally to go?

Emerging markets have been the main beneficiary of these inflows. By comparison flows into Developed Market equity funds have been tepid. However, in each of the major Developed equity regions we find strong pockets of demand.

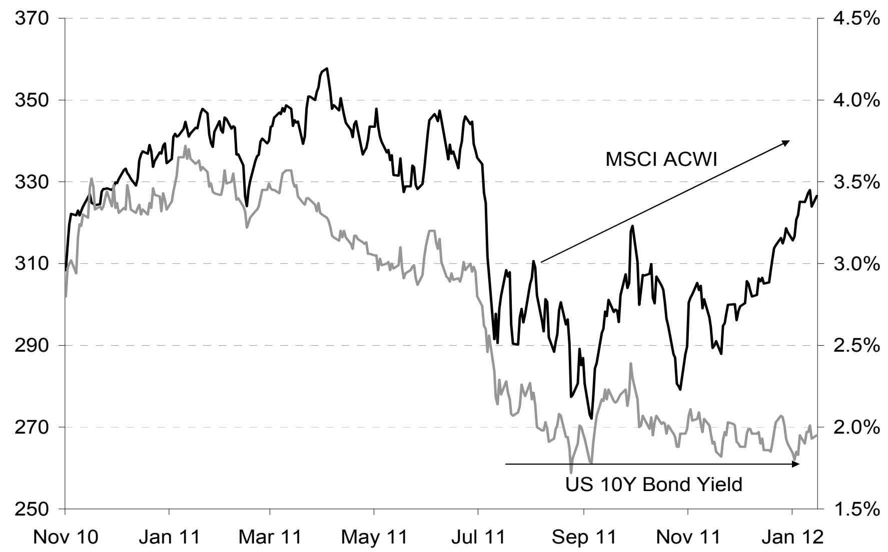
More Upside

The 20-20-20 Rule plays out again

Global equities have rallied 20% since the October lows and 9% YTD. It has been a strong few months for the asset class. But these gains are not unusually large considering where we have come from. The current rise follows the 20% correction in equity markets mid way through 2011. History shows[1] that after a pull-back as large as this, stock indices are likely to bounce strongly as long as there is no significant downturn in corporate earnings. Given the strong rise in stock indices the obvious question now is, how much further has the rally to go?

The current bounce in equities is the third significant rise in global stock indices this cycle. The first rally began in March 2009 and continued until global equity indices were 84% higher. The second rally began in 3Q 2010 and the gain was 34%. This rally is now 20%. For a number of reasons, we believe there is more upside from here — it is too early to sell. First, core government bond yields are not rising and are not choking off the rise in stock prices as they have done in the past. Second, the rise in equity markets is now beginning to attract fund inflows. In the past equity fund inflows have helped sustain the rally for longer. We discuss these issues in more detail below.

Figure 2. MSCI ACWI Price Index and US 10 Year BY



Source: DataStream, MSCI, Citi Investment Research and Analysis

[1] Global Equity Strategist — Probability of a Corporate Profits Recession, 17 August 2011

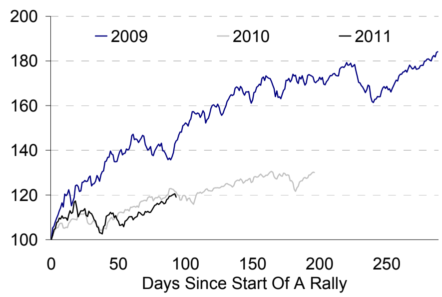
Bonds Not Choking-Off the Equity Rally

Equities up, bonds flat

Rising core government bond yields chocked off the last two equity rallies. However, they are yet to be headwind for the current rally. While global equity prices have moved 20% higher over the last 4-5 months, US government bond yields have been flat (Figure 2). German, UK and Japanese long bond yields are also flat to down while local stock indices are higher.

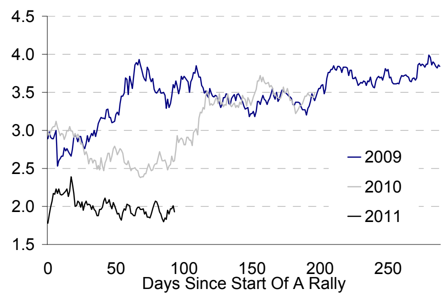
A decoupling between bonds and equities is not uncommon, at least during the early stages of a stock market rally. For example stock prices rose 20% in 2009 before bonds started to sell-off in earnest (Figure 3 and Figure 4). In 2010 bond yields fell for the first 10 weeks of the stock market rally. Both rallies ended when US 10 year government bonds yields reached 3.5 to 4%. As bond yields move higher, fixed income assets become a more attractive alternative to equities. So rising bond yields help choke off the rally in stock prices. Currently US 10 year bond yields are close to 2%, so still some way to go before becoming a competitive alternative to equities, in our view.

Figure 3. Global Equities Last 3 Rallies



Source: CIRA, MSCI, DataStream

Figure 4. US 10Yr BY During Equity Rallies

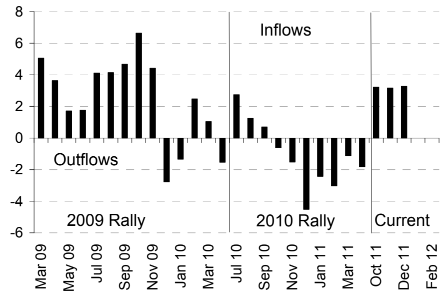


Source: CIRA, DataStream

For the time being we are still seeing strong demand for bonds which is helping to hold down yields. Of course much of this demand is coming from major central banks. However, traditional investors remain buyers of bonds as well. There have been inflows into government bonds funds during each month since the stock market rally began (Figure 5). This is not too dissimilar to 2009 or 2010 when government bond funds benefitted from inflows for a number of months after the equity market began to rally.

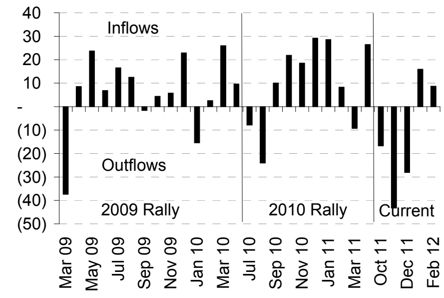
Flows into bond AND equity funds

Figure 5. US Govt Bond Fund Inflows (% of AUM) & Equity Market Rallies



Source: Citi Investment Research and Analysis, ICI

Figure 6. Monthly Equity Flows (% of AUM) & Equity Market Rallies



Source: Citi Investment Research and Analysis, EPFR

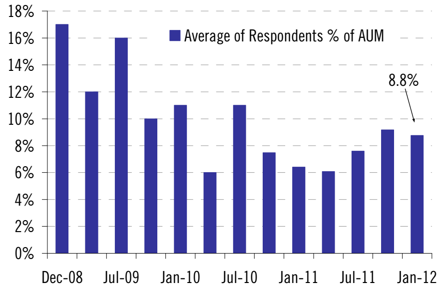
Equity Inflows Just Beginning

Another reason why the rally should be sustained is because inflows into equity funds are only just beginning. The first parts of previous rallies have been times of equity outflows. However, as stock indices rise, investors begin to participate (Figure 6)[2]. There have been inflows into global equity funds in both January and February. This of course follows a number of months of outflows. In the past inflows have typically lasted for a number of months and helped to sustain the rally.

While global stock indices are due to consolidate in the near term, we believe there is further upside in equities from here. Our regional strategists agree. Tobias Levkovich in the US believes markets are still heading higher this year but some respite in the rally seems due. He notes that while policy has helped to reduce the tail risks in the economic outlook, investors remain sceptical. He believes high cash balances will continue to come down in the US (Figure 7) and this should help provide the fuel for further gains[3].

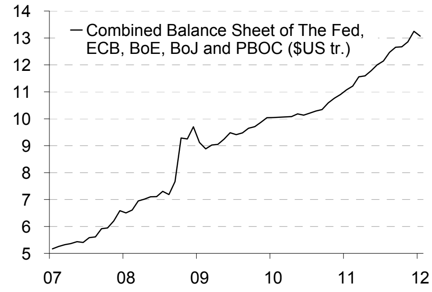
Geoffrey Dennis notes that Emerging Markets have had a blistering start to the year (up 14% in USD). Investor sentiment has improved from panic levels but is still far from signalling caution. He thinks EM have more upside from here especially as central banks ease policy further and would be a buyer into any pullback[4]. Markus Rosgen, our Asia ex Japan strategist, highlights a number of reasons why the rally in his region should continue including cheap absolute and relative valuations, easier global central bank policy (Figure 8) and still cautious investor sentiment[5]. He concedes that markets may be overbought in the short term but suggests investors should use any correction to buy more.

Figure 7. What % of your funds are in cash?



Source: Citi Investment Research and Analysis

Figure 8. Major Central Bank Balance Sheet



Source: US Fed, ECB, BoE, BoJ, PBOC, CIRA

Our credit analysts also believe the rally has further to run. Hans Lorenzen, our European Credit Strategist, believes investors are under-estimating the longer term impact of ECB policy. He notes that the LTRO will have lasting effects on liquidity within the credit markets which would serve to tighten spreads further[6]. This liquidity may encourage more investor flows into his asset class.

[2] EPFR equity fund flows monthly database currently tracks 23,956 funds globally, with $7.8tr of AUM. It covers about 80% of all developed and 95% of emerging market mutual funds and ETFs.

[3] Monday Morning Musing- Curiously Conflicted Clients, 10 February 2012

[4] Global Emerging Markets Strategy: Rallying Like It's 2009.... or 2003 , 8 February 2012

[5] Pan Asia Strategy- Alive and Kicking, 12 February 2012

[6] European Credit Outlook- Will lots of liquidity really cleanse credit markets?, 8 February 2012

More like 2010, not 2009

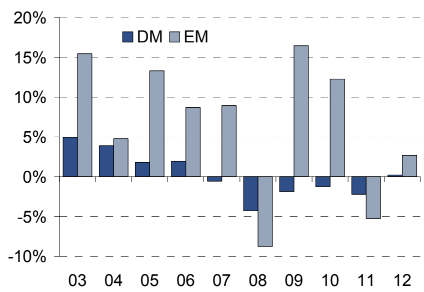
Upside not as great as 2009

While we believe there is more upside in global equities from here, investors shouldn't be anticipating the gains we had during the 2009 rally. Back then there was a rise in equity market valuations and a rise in EPS, both from depressed levels. Given how low valuations are now, we expect more upside here. But we cannot say the same for EPS. Global corporate profits are not depressed like they were in 2009. Our forecast is for a moderate rise in EPS over the next two years. Not a big recovery. This should mean the current rally will look more like the 34% gain we had in 2010-11. Not the 84% gain in 2009-10. Our year-end target implies a further 11% rise in global stock indices from here.

Equity Fund Flows Strongest in EM

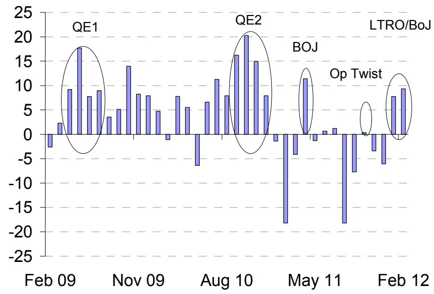
So flows into equities are just beginning and should help sustain the rally from here. Where are these flows going? A large proportion has been poured into Emerging Market funds. According to EPFR, $17bn (or 2.7% of AUM) has flowed into EM focused equity funds this year. This reverses 40% of the $48bn of outflows in 2011. The big investor shifts out of then back into EM equities help underline the high beta nature of the asset class. By comparison, Developed Markets inflows have been tepid so far this year (Figure 9). As we will discuss in more detail below, investors made significant redemptions from DM equity funds last year, but have been reluctant to jump back in this year.

Figure 9. EM vs. DM Equity Flows (% of AUM)



Source: Citi Investment Research and Analysis, EPFR

Figure 10. EM Flows ($bn)



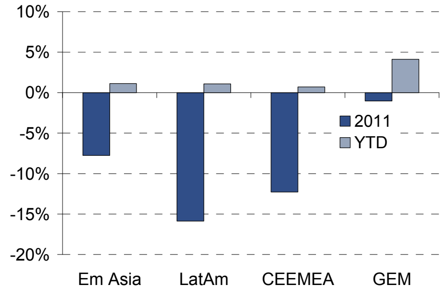
Source: Citi Investment Research and Analysis, EPFR

The strong flows into EM equities have helped the region bounce back stronger than any other. EM equity markets have rallied 26% (in USD) and outperformed DM by 8%. Big flows into EM equity funds are not unusual. In the past, EMs have been the traditional beneficiaries of rising risk appetites and a destination for global excess liquidity. Our Asian trading desk has noted that when major central banks ease policy and improve global liquidity conditions, there has been an improvement in Emerging Markets equity fund flows (Figure 10). While the return of flows into EM equities has been strong, Markus Rosgen, believes they are still a long way from levels where one would get nervous.

Regional EM funds becoming less important

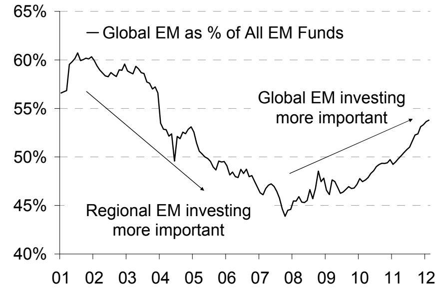
Within EM we've seen the strongest flows into Global EM funds rather than the Regional EM funds (Figure 11). This is a trend which has been in place for a few years now (Figure 12). The nature of these flows means that Global EM investors are becoming more important at the expense of Regional EM investors.

Figure 11. Region vs. Global EM Fund Inflows



Source: Citi Investment Research and Analysis, EPFR

Figure 12. GEM Fund AUM % Total EM AUM



Source: Citi Investment Research and Analysis, EPFR

Strong DM performance doesn't attract flows

While strong performance in EM has attracted strong fund inflows, rising Developed Markets have not drawn in as much new money. Relative to EM, DM inflows remain tepid. EPFR calculates that there have been $8bn, or 0.2% of AUM, of DM inflows this year. This offsets just 5% of the $140bn outflows in 2011.

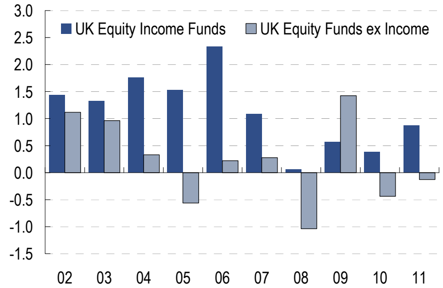
Weak demand for DM equity funds is not a recent issue. EPFR calculates DM funds have suffered outflows of $520bn over the last five years (10% of AUM). As the equity cult continues its decline[7], the biggest parts of the global equity universe, Developed Markets, will continue to suffer in our view. While there is little buying of DM equity funds we find pockets of solid demand in each of the major regions. We discuss these below.

Europe — Equity Income Fund Inflows

Demand for dividend funds

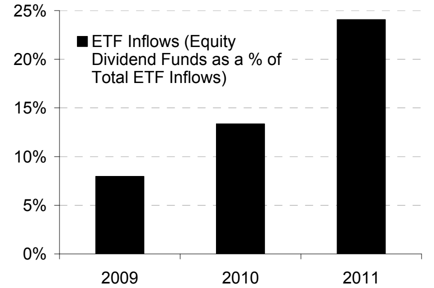
There has been little, if any, retail and institutional demand for European equities over the last 10 years. With weaker equity indices in Europe and the ongoing EMU crisis, no one should have been surprised with outflows again in 2011. However, an area of the European fund universe which has benefitted from strong demand has been equity income funds. In the UK income funds have benefitted from 10 consecutive years of inflows. Even in 2008, when there were significant redemptions from equities in general, UK equity income funds actually experienced inflows (Figure 13).

Figure 13. UK Equity Fund Inflows (£bn)



Source: Citi Investment Research and Analysis, IMA

Figure 14. ETF Inflows (Dividend vs. Total)



Source: Citi Investment Research and Analysis, EPFR

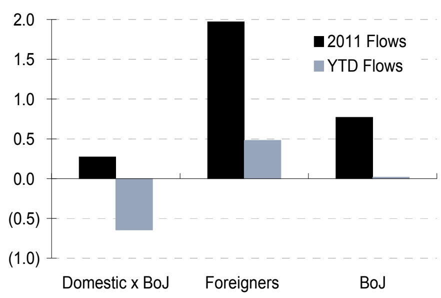
[7] Global Equity Strategist — The End Of A Cult, 1 September 2010

Demand for dividend funds is not just limited to Europe. We can see there has also been a clear shift towards dividend investing amongst buyers of ETFs. Flows into ETFs totaled $68bn globally in 2011. Of this almost a quarter were for equity dividend ETFs. Figure 14 shows that the proportion of ETF flows going into dividend strategies has been on a steady rise. Currently equity dividend funds make up just 5% of all ETF assets. As the global search for yield continues we believe this proportion has further to grow[8].

Japan — Foreigners and BoJ buying

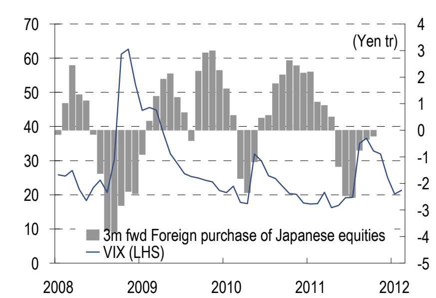
Over the last few years domestic investors have been net sellers in Japan while foreigners have been buying. However, 2011 brought a third investor into Japanese equities — The Bank of Japan. In their expanded asset purchase program the BoJ is now a buyer of Japanese ETFs and J-REITs. Equity purchases by the BoJ totalled 800bn Yen in 2011 (Figure 15). Foreigners are also buying. Kenji Abe, our Japanese strategist, notes that foreign demand for Japanese equities has often followed periods of relatively low volatility (Figure 16)[9]. Both foreign and BoJ demand helps to offset weaker domestic demand for Japanese equities.

Figure 15. Japanese Equity Fund Flows tr. JPY



Source: Astra Manager, BoJ, CIRA

Figure 16. Foreigners Buying Japan and VIX



Source: CIRA, TSE, BoJ, Bloomberg

US — Companies Buying Domestic Equities

Companies buying domestic equities, US investors buying international equities

In the US, more than anywhere else, equity demand is increasingly coming from companies. As we show in Figure 17, buybacks in the US look to have more than offset traditional investor outflows from equities. The financial logic for companies to retire equity and de-equitise is clear — the cost of equity is unusually high, while the cost of debt or cash is unusually low. By issuing debt (or more likely reducing cash) and buying equity, companies are picking up a significant carry[10]. In 2011 US companies bought back more than $300bn worth of stock. We believe corporate, not investor, demand helped stabilise US stock prices last year and was a reason why the US outperformed other regions.

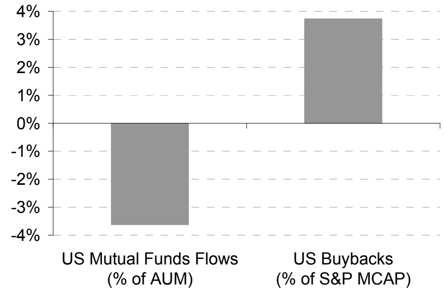
While US investors may be buying more equities in 2012 as risk appetites improve, history shows that much of these flows will probably go into non-domestic equities. There have been outflows from US equity funds in each of the last three years and inflows into non-US funds (Figure 18). Even in 2011, when US equities were amongst the best performing in the world, investors continued to be significant sellers of domestic equity funds. They were net buyers of underperforming foreign equities.

[8] Global Equity Strategist- The Global Search For Yield, 1 February 2012

[9] Japan Equity Strategist- The Big Long: Inside the Rising Sun Machine, 7 February 2012

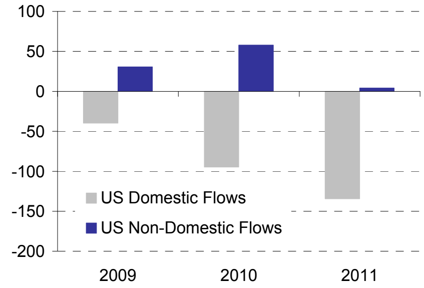
[10] Global Equity Strategist- De-equitisation - A Truly Global Theme, 2 Nov 2011

Figure 17. US Buybacks * vs. Flows (2011)



* First 3 quarters of 2011
Source: CIRA, ICI, S&P

Figure 18. US Mutual Fund Flows ($ bn.)



Source: CIRA, ICI

Strategy Outlook

Global equities have risen 20% from the October lows and investors are beginning to ask, how much further can the rally go? While stock indices are due for a period of consolidation, for a number of reasons we believe there is more upside to come.

Core government bond yields are not rising and are not chocking off the equity rally as they have done in the past. During the last two equity rallies stock prices began to top out with US 10 year yields at 3.5% - 4%. They are 2% now.

Meanwhile, we are only just beginning to see flows into equity funds. In the past equity fund inflows have helped sustain the rally for longer. Our year end market targets imply a further 11% gain in global equities from here.

Much of the flows into equities are heading toward Emerging Markets. EM equities are the natural beneficiary of improving investor risk appetites and easier central bank policy. By comparison, DM flows remain tepid at best. However, within each of the major DM markets we can find pockets of strong equity demand. In Europe there continues to be clear demand for equity dividend funds. Domestic investors are selling in Japan but Foreigners and the BoJ are buying. In the US companies are buyers of domestic equities and domestic investors are buyers of international equities.

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Macro Out-takes

We provide brief summaries compiled by Bruce Rolph in The Globaliser presenting our colleagues' most recent work. Please let us know if you would like more detail.

Regional Strategy

Asia Pacific
Markus Rosgen
06-Feb-12

Pan Asia Strategy: Results Season: Skeptics vs. Low Expectations & Valuations

'While markets have gone up, skepticism remains', *observes Asian Strategist Markus Rosgen*, 'especially when it comes to earnings… yes - earnings are higher today than in the 2008 peak, but Asian companies have not been "over-earning": our analysis shows EPS at a mere 4% above trend... what's more, all sectors – with the exception of the consumer sector - are cheaper today ahead of the results season than they have been on average since 2002… with many sectors 20-30% cheaper than on average… we remain bullish, with a MXASJ target of 575-600… long HK, Korea and Taiwan… and long banks, tech, industrials and energy'.

US
Tobias Levkovich
03-Feb-12

US Equity Strategy: Monday Morning Musings- Credit Conditions Soften But Recession Still Unlikely

'Credit trends are a key precursor to business activity of all sorts', *agrees US Strategist Tobias Levkovich*, 'and the latest Fed's senior loan officers' survey show European banks operating in the US tightening up credit due to home country capital requirements - dragging down overall conditions… even so, US recession calls seem as premature as they did months ago… with ISM and ECRI leading indices rebounding… a quick look at the 2000-01 and 2008-09 recessions also show that junk bond yields have to rise very substantively to generate unwelcome economic results and such preconditions are not in place currently even as yields have climbed somewhat… moreover, healthy corporate balance sheets support overall low funding costs with the Fed anchoring low rates through 2014… so while some consolidation of gains seems probable, stock prices are not set to plunge'.

Europe
Jonathan Stubbs & Adrian Cattley
09-Feb-12

European Equity Strategy: Pan European- Another Country

'Last year's losers are this year's winners- At the stock and sector level, the Survivors' Party is playing out in its normal fashion *states the European Strategy Team*. Cyclicals/Financials leading. However, at the country level we believe this is not playing out the same way. Germany and Denmark OK last year, leaders this year. Last year saw equities led by bonds and CDS. This year that has broken down and equities have rallied without bonds selling off. Structurally we maintain our preference for the better growth and balance sheets of the North over the South of Europe. We screen for the strong, growing companies in these countries.'

Global Emerging Markets
Geoffrey Dennis
08-Feb-12

Global Emerging Markets Strategy: Rallying Like It's 2009….or 2003

'Emerging markets have strongly rallied out of the gate at the beginning of 2012', *exclaims Strategist Geoffrey Dennis*, 'up 11.2% in January - the best first month of the year since 2001 and the first January gain of any kind since 2006… EM equities are now up by 14% YTD… this is in line with our bullish view for the year and has given markets a strong start towards our year-end target of 1,225 on MSCI GEMs… our sentiment indicator has also risen from Panic to just above Neutral… which suggests sentiment is much better, but not yet euphoric – good news for the rally… and, as the current conditions of ample liquidity, against a background of attractive EM valuations, should remain for some time, we would be buyers of any pullback… for now, we add more beta by raising Brazil from a strong Neutral to Overweight, and cut lower-beta Sth Africa to Neutral'.

CEEMEA
Andrew Howell
01-Feb-12

CEEMEA Strategy: Investor Survey- New bull market or not, majority thinks there is more to go for

'New bull market or not, a majority think there is more to go for', *concludes CEEMEA Strategist Andrew Howell*, 'based on our latest survey of CEEMEA, GEM, frontier markets and global investors… out of 115 respondents, nearly half are bullishly positioned, vs 25% who describe their positioning as defensive… respondents were also closely divided as to whether the recent gains are likely to be lasting… but, beyond the near term, nearly two-thirds of respondents expect markets to rise by 10% or more to year-end, vs less than 10% who expect a double-digit decline… emerging- is also preferred over developed- markets… with Russia and China, preferred markets… overall, the tone of the survey is consistent with other indicators (eg. cash levels) suggesting investors have become much more upbeat... which leaves markets more vulnerable to adverse developments'.

Japan
Kenji Abe
07-Feb-12

Japan Equity Strategist: The Big Long- Inside the Rising Sun Machine

'Japanese equities have more room to rise than those in other regions', *argues Strategist Kenji Abe*, 'and we recommend taking a long position… for 3 reasons: first, we think Japan's RoE has more room to rise than in other regions… second, the recovery in Japanese equity prices has lagged the recovery in the fundamentals and they strike us as marked laggards… and third, we expect the economy to pick up steam in 2012 as Japan recovers from the earthquake, whilst yen strength, which has weighed on valuations, is in its final stages… we set our March 2013 TOPIX target at 880… and continue to prefer stocks trading at low PBRs and high medium-term EPS growth rates'.

Credit Analysis

Fixed Income
Hans Lorenzen
08-Feb-12

European Credit Outlook: Will lots of liquidity really cleanse credit markets?

'The fundamental outlook is still very negative', *agrees the European Credit Outlook*, 'with Citi's growth forecasts for Europe meaningfully below consensus for 2012 and 2013… likely driving a sharp increase in default rates, plus the risks from Greece to Portugal… however, we reckon the effect of the LTROs is still being underestimated substantially… as with QE in the US… the fact that new money is flowing into a shrinking credit market provides a powerful positive technical… the rally is likely to continue, so investors should move up in quality… from more cyclical and periphery-sensitive sectors into defensive sectors with little periphery exposure'.

Economics Analysis

Economics
Willem Buiter
06-Feb-12

Global Economics View: Rising Risks of Greek Euro Area Exit

'The risks of a Greek Euro Area exit (a "Grexit") are rising', *confesses Chief Global Economist Willem Buiter*, 'indeed, we are raising our estimate of the likelihood of such an event to 50% over the next 18 months, from 25-30% previously… mostly because the willingness of EA creditors to continue providing further support to Greece have fallen substantially… however, the costs of Grexit to the rest of the euro area would be moderate, as post-Grexit fear contagion would likely be contained by policy action… although following Grexit, the New Drachma could depreciate between 50-70% vis-a-vis the Euro'.

Market Outlook

Global equities have rallied by 20% from their October lows. While indices are due for a period of consolidation, we believe there is more upside to come. The rally in equities has not been against a backdrop of rising bond yields. So the obvious alternative to equities, core government bonds, still looks unattractive. Current valuations imply equity investors are pricing in a c10% decline in EPS. Our outlook is for profits to stall in 2012 and then resume growth in 2013. Our MSCI ACWI 2012 year-end target remains at 360 (currently 325).

Regional Strategy

Our key regional and global sector recommendations are summarised in Figure 20. We remain Overweight Global Emerging Markets. Despite a strong start to 2012, valuations are still attractive in EM and the region should benefit from easier monetary policy this year. We are also Overweight Japan. Japanese stocks are trading at less than 1x book value. We are Overweight the UK. Companies listed here have large international businesses and should continue to generate solid EPS growth, even if the UK economy falls into recession. UK equities also benefit from aggressive monetary policy. We remain Neutral on Europe ex UK. While sovereign concerns will continue to weigh on growth, ongoing liquidity provisions by the central bank should help support equity markets. We also remain Neutral on Australia. We are Underweight the US. Stock prices should continue to rise but we see better gains elsewhere. US equities look expensive compared to all other regions.

Sector Strategy

Our global sector strategy has a more cyclical/pro-beta tilt. This is consistent with our positive view on markets. We are Overweight Financials. Despite the strong rally YTD, the sector continues to trade at a discount to book value. We remain Overweight IT and Consumer Staples. These sectors have solid earnings momentum and they are strong de-equitisers. Consumer Discretionary is our least preferred cyclical. We are also Underweight Healthcare as valuations look unattractive. We are Underweight the Utilities sector. This defensive sector, hampered by regulatory issues, should continue to be left behind as markets rise.

Risk

The main risks to our outlook stem from Europe and potential secondary consequences for global growth.

Figure 20. Regional And Global Sector Recommendations (Arrows show latest changes)

Overweight	Neutral	Underweight
Global Emerging Markets	Australia	US
Asia Pac ex-Japan	Europe ex-UK	
Japan		
UK		

Overweight	Neutral	Underweight
Consumer Staples	Energy	Consumer Disc
Financials	Industrials	Health Care
IT	Materials	Utilities
	Telecoms	

Source: CIRA

Figure 19. Strategists' forecasts

Region	Index	Current Level	End 2012 Target	Exp Gain (%)
US	S&P 500	1351	1425	6
Pan Euro	DJ Stoxx600	263	285	9
UK	FTSE 100	5900	6200	5
Japan	Topix	787	870	11
Asia x Jpn	MSCI	521	575	10
Australia	S&P/ASX 200	4243	4750	12
GEMs	MSCI EM	1047	1225	17
LATAM	MSCI Latam	4173	4900	17
CEEMEA	MSCI EM EMEA	350	350	0
Global	**MSCI ACWI**	325	360	11

Source: MSCI, Citi Investment Research and Analysis

GDP	**2011F**	**2012F**	**2013F**
Global	3.0	2.3	3.0
US	1.7	1.9	1.9
Euro zone	1.5	-1.5	-0.4
Japan	-1.0	1.0	1.3
EM	6.0	5.2	5.9
Asia	7.3	6.9	7.3
CPI	**2011F**	**2012F**	**2013F**
Global	3.8	2.9	2.8
US	3.2	1.7	1.7
Euro zone	2.7	2.2	1.4
Japan	-0.3	-0.4	-0.2
EM	6.2	5.2	5.1
Asia	5.8	4.2	4.3
Interest Rates	**Current**	**2Q12**	**4Q12**
US Fed Funds	0.25	0.25	0.25
ECB	1.00	0.50	0.50
UK Base	0.50	0.50	0.50
Japan Call	0.10	0.10	0.10
10Yr Yield	**Current**	**2Q12**	**4Q12**
US	1.95	2.05	2.40
Euro Zone	1.93	1.50	1.50
UK	2.09	1.85	1.60
Japan	0.97	1.05	1.30
Ex Rates	**Current**	**2Q12**	**4Q12**
US$/€	1.32	1.24	1.20
£/US$	1.57	1.52	1.50
€/£	0.84	0.82	0.80
US$/¥	78	77	76

Source: Factset, Citi Investment Research

Global Market Intelligence

Figure 21. Global Market Intelligence by Region

10 Feb 12	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US$bn	%	11E	12E	13E	11E	12E	13E	12E	12E	12E	10	10	Weekly	YTD
Global	**27,847**	**100**	**12.9**	**11.8**	**10.5**	**8.8**	**9.8**	**12.9**	**1.6**	**13.2**	**3.0**	**1.5**	**7.6**	**-0.2**	**7.0**
Developed World	24,160	86.8	13.2	12.0	10.7	8.2	10.1	13.0	1.6	13.1	2.9	1.5	7.8	-0.2	6.7
Emerging World	3,686	13.2	11.2	10.5	9.3	11.9	8.4	12.1	1.5	14.5	3.1	1.4	7.0	-0.2	9.1
North America	**13,912**	**50.0**	**14.0**	**12.7**	**11.3**	**15.2**	**9.6**	**12.7**	**1.9**	**15.3**	**2.2**	**1.7**	**8.3**	**-0.3**	**6.8**
USA	12,684	45.5	14.0	12.8	11.4	14.3	9.6	12.7	2.0	15.5	2.1	1.6	8.3	-0.2	7.1
Canada	1,228	4.4	13.5	12.3	10.9	24.4	9.6	13.3	1.6	13.3	2.8	2.5	8.6	-1.6	3.6
Europe	**6,628**	**23.8**	**11.4**	**10.6**	**9.5**	**0.3**	**7.9**	**11.5**	**1.4**	**12.8**	**4.2**	**1.3**	**7.1**	**-0.9**	**6.4**
United Kingdom	**2,345**	**8.4**	**10.8**	**10.2**	**9.3**	**13.0**	**5.5**	**10.5**	**1.5**	**15.0**	**4.1**	**1.3**	**8.1**	**-0.8**	**5.0**
Europe ex UK	**4,283**	**15.4**	**11.8**	**10.8**	**9.7**	**-6.0**	**9.4**	**12.1**	**1.3**	**11.9**	**4.3**	**1.4**	**6.8**	**-1.0**	**7.1**
France	936	3.4	10.4	10.0	9.0	-0.1	4.6	10.7	1.1	10.7	4.6	1.2	6.5	-1.5	7.0
Switzerland	865	3.1	14.1	12.5	11.3	-9.6	12.7	10.8	1.9	15.2	3.8	2.1	10.4	-0.4	3.5
Germany	857	3.1	11.0	10.2	9.2	-0.8	8.0	10.7	1.3	12.4	3.8	1.2	6.2	-1.1	13.2
Spain	326	1.2	10.1	9.6	8.7	-13.4	5.8	10.1	1.1	11.7	7.2	1.8	6.0	-0.7	2.8
Sweden	326	1.2	14.0	13.0	11.6	-12.2	7.8	12.4	1.9	15.1	4.2	1.4	8.5	-1.2	8.2
Italy	246	0.9	10.3	9.0	7.4	-10.3	20.1	20.6	0.7	8.2	5.1	1.5	5.3	-0.3	8.8
Netherlands	246	0.9	10.8	10.1	9.1	-1.9	6.8	11.6	1.3	13.0	4.0	1.3	7.7	-2.9	2.2
Denmark	113	0.4	21.6	16.7	13.4	-16.3	29.4	24.6	2.0	12.1	2.1	1.7	6.9	1.3	11.5
Belgium	98	0.4	15.6	12.1	10.8	-10.1	29.5	11.6	1.3	11.0	3.6	2.7	8.0	-1.6	6.5
Norway	97	0.3	11.1	10.2	9.2	12.7	8.0	10.8	1.4	13.8	4.7	1.3	4.7	2.0	6.5
Finland	88	0.3	12.8	13.9	11.4	-18.3	-7.7	21.8	1.4	10.3	5.0	1.6	5.4	-1.1	9.4
Ireland	27	0.1	22.2	20.1	16.2	26.7	10.7	24.3	1.5	7.7	2.6	1.0	9.8	-3.3	-1.5
Austria	27	0.1	16.3	9.0	7.6	-43.2	81.6	18.3	0.8	9.2	4.0	1.1	6.0	-2.3	14.8
Portugal	21	0.1	12.1	11.3	9.9	-6.0	7.3	13.8	1.1	9.8	6.3	1.8	8.4	1.4	-0.5
Greece	10	0.0	28.3	9.0	7.5	-78.8	215.5	18.9	0.8	8.8	3.3	1.1	5.3	3.2	21.7
Japan	**2,175**	**7.8**	**16.1**	**12.9**	**10.8**	**-4.0**	**30.8**	**22.6**	**0.9**	**7.0**	**2.6**	**1.0**	**7.1**	**2.6**	**7.0**
Asia Pac ex Jp	**3,546**	**12.7**	**12.6**	**11.6**	**10.2**	**6.0**	**10.0**	**13.4**	**1.6**	**13.5**	**3.5**	**1.4**	**7.6**	**0.5**	**9.0**
Pacific ex Jp	**1,378**	**4.9**	**12.5**	**12.2**	**11.0**	**9.7**	**3.1**	**10.5**	**1.5**	**12.1**	**4.6**	**2.1**	**8.5**	**0.2**	**6.9**
Australia	887	3.2	12.0	11.2	10.2	12.9	7.3	9.9	1.6	14.0	5.3	2.1	7.9	-0.4	4.2
Hong Kong	296	1.1	13.4	15.0	13.3	5.4	-10.5	12.3	1.3	8.4	3.1	2.6	14.9	1.2	11.9
Singapore	183	0.7	13.7	13.4	12.1	1.5	2.2	11.0	1.4	10.5	3.7	1.9	9.1	1.4	12.9
New Zealand	12	0.0	14.3	13.8	12.1	-1.4	3.4	14.1	1.5	10.6	5.7	1.5	7.7	1.6	3.0
Em Asia	**2,168**	**7.8**	**12.6**	**11.2**	**9.7**	**3.8**	**14.6**	**15.1**	**1.6**	**14.4**	**2.7**	**1.2**	**7.2**	**0.6**	**10.5**
China	657	2.4	10.6	9.5	8.4	16.3	11.7	12.8	1.5	16.2	3.4	1.3	7.2	0.1	13.5
Korea	541	1.9	10.9	9.6	8.4	0.7	17.6	14.3	1.2	12.8	1.4	0.8	5.9	0.8	8.7
Taiwan	400	1.4	16.5	15.2	12.3	-24.4	16.7	24.5	1.7	11.5	3.9	1.4	7.6	1.6	9.9
India	251	0.9	16.5	14.3	12.4	12.3	15.0	15.7	2.3	16.1	1.6	2.2	10.4	1.2	16.7
Malaysia	123	0.4	16.6	14.6	13.3	8.9	13.6	10.5	2.1	14.0	3.6	2.3	9.4	1.2	2.4
Indonesia	98	0.4	14.8	13.0	11.3	20.9	13.9	15.4	3.1	23.5	3.0	2.6	8.2	-4.1	0.1
Thailand	71	0.3	12.7	11.3	9.8	19.9	12.6	15.0	2.0	17.5	3.8	1.2	7.7	2.2	10.0
Philippines	27	0.1	17.4	15.8	14.2	2.2	10.1	10.7	2.5	15.3	2.4	2.8	9.5	0.7	10.4
Latin America	**861**	**3.1**	**12.1**	**11.4**	**10.1**	**10.6**	**6.2**	**11.8**	**1.6**	**14.3**	**3.3**	**2.2**	**7.2**	**-1.1**	**6.7**
Brazil	566	2.0	10.3	10.0	9.1	10.4	3.0	10.7	1.4	14.0	3.8	2.2	6.8	-1.7	8.4
Mexico	169	0.6	20.3	16.2	13.4	9.4	25.4	17.3	2.5	15.2	1.9	2.1	7.6	-0.2	2.0
Chile	66	0.2	17.1	16.0	14.6	4.8	6.9	12.5	2.3	13.5	2.7	2.7	11.4	0.8	5.0
Colombia	36	0.1	17.5	15.7	12.6	25.8	11.5	9.4	2.4	17.9	3.9	3.8	12.2	0.8	2.8
Peru	24	0.1	12.8	11.8	10.5	22.1	8.3	12.3	3.0	24.9	3.3	8.0	15.7	-1.7	9.5
CEEMEA	**657**	**2.4**	**7.7**	**7.8**	**7.4**	**34.8**	**-2.0**	**5.4**	**1.2**	**14.8**	**3.9**	**1.5**	**6.0**	**-1.6**	**8.1**
South Africa	277	1.0	13.4	10.9	9.7	22.0	22.8	12.1	2.0	18.6	4.0	1.6	8.0	-0.9	4.4
Russia	239	0.9	4.8	5.4	5.4	49.7	-12.2	0.7	0.7	13.7	3.4	1.3	4.7	-2.6	10.2
Poland	50	0.2	8.1	10.2	10.2	42.0	-20.9	-0.3	1.2	11.5	5.5	1.6	5.1	-2.0	7.8
Turkey	50	0.2	10.5	9.5	8.4	-3.2	10.9	13.2	1.4	15.2	3.4	1.5	7.9	-1.6	15.1
Egypt	12	0.0	10.0	8.8	8.4	5.7	13.1	8.1	1.1	12.3	4.1	2.4	7.5	4.1	32.5
Czech Republic	12	0.0	11.5	10.5	10.1	-15.8	9.7	3.6	1.7	16.2	6.7	2.6	5.5	-1.3	2.7
Hungary	11	0.0	9.8	8.7	7.3	-2.3	12.1	19.7	0.9	10.6	4.1	1.0	6.2	-3.3	14.2
Morocco	5	0.0	14.3	12.8	13.7	-2.4	11.5	6.0	3.8	26.4	5.7	4.4	7.6	-0.8	3.7
Israel	**67**	**0.2**	**8.8**	**8.3**	**7.6**	**9.2**	**5.7**	**9.2**	**1.4**	**16.8**	**3.2**	**2.8**	**9.4**	**-1.6**	**6.5**

Source: Citi Investment Research and Analysis, MSCI, Worldscope, Factset Consensus Estimates

Figure 22. Global Market Intelligence by Sector

10 Feb 12	Free MC	Wgt	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/ Sales	EV/ EBITDA	Perf % (local)	
	US$bn	%	11E	12E	13E	11E	12E	13E	12E	12E	12E	10	10	Weekly	YTD
Global	**27,847**	**100**	**12.9**	**11.8**	**10.5**	**8.8**	**9.8**	**12.9**	**1.6**	**13.2**	**3.0**	**1.5**	**7.6**	**-0.2**	**7.0**
Sectors- Level 1															
Energy	3,309	11.9	10.1	9.9	9.0	28.0	1.4	10.6	1.4	14.4	2.9	1.1	6.5	-0.2	5.1
Materials	2,326	8.4	11.8	11.1	9.6	20.3	5.7	15.6	1.6	14.1	2.6	1.7	7.4	-1.7	10.9
Industrials	2,964	10.6	13.9	12.6	11.1	12.8	10.2	13.5	1.8	14.3	2.7	1.3	8.7	-0.5	9.2
Consumer Disc.	2,850	10.2	16.0	13.6	11.4	11.0	18.4	19.0	1.9	13.8	2.1	1.3	7.5	0.4	9.8
Consumer Staples	2,787	10.0	16.4	14.9	13.5	6.5	9.7	10.2	2.7	18.3	3.2	1.5	9.8	0.3	0.4
Health Care	2,471	8.9	12.4	12.0	11.1	9.2	3.2	8.0	2.3	19.1	2.9	1.9	9.0	-0.4	2.5
Financials	5,388	19.3	11.8	10.3	9.1	-1.0	15.4	12.8	1.0	9.4	3.6	NA	NA	-0.6	11.3
IT	3,478	12.5	14.5	12.9	11.2	6.7	13.8	14.6	2.4	18.3	1.4	1.7	7.6	1.1	10.5
Telecoms	1,249	4.5	12.2	11.2	10.7	0.0	4.9	8.5	1.6	13.6	6.1	1.9	5.6	-0.5	-1.7
Utilities	1,024	3.7	14.6	13.6	12.2	-16.2	16.2	17.7	1.2	8.2	4.8	1.6	7.5	0.2	-0.2
Sectors- Level 2															
Energy	3,309	11.9	10.1	9.9	9.0	28.0	1.4	10.6	1.4	14.4	2.9	1.1	6.5	-0.2	5.1
Materials	2,326	8.4	11.8	11.1	9.6	20.3	5.7	15.6	1.6	14.1	2.6	1.7	7.4	-1.7	10.9
Capital Goods	2,202	7.9	12.9	11.9	10.6	18.6	8.4	12.4	1.8	15.1	2.8	1.2	9.0	-0.4	10.4
Comm Svc & Supp	202	0.7	17.0	15.5	13.9	8.7	9.5	12.0	2.3	14.6	2.9	1.3	9.2	-0.4	5.6
Transport	560	2.0	18.4	15.2	12.7	-10.6	20.4	20.1	1.7	11.1	2.3	1.7	7.8	-0.7	5.7
Autos	718	2.6	10.5	9.8	8.2	17.3	10.4	19.3	1.1	12.0	2.2	0.9	6.3	1.1	16.1
Consumer Durables	401	1.4	37.9	17.9	13.0	-35.0	111.7	38.0	1.7	9.7	2.0	1.5	7.5	0.4	12.3
Consumer Services	411	1.5	18.8	17.4	15.3	16.9	8.0	14.2	3.3	18.7	2.4	2.0	10.8	-0.1	5.6
Media	606	2.2	15.6	13.3	11.5	18.3	17.5	15.6	2.0	15.8	2.1	2.0	7.7	0.1	7.5
Retailing	713	2.6	18.5	16.2	14.0	11.9	13.8	15.0	2.9	17.8	1.8	1.1	8.9	0.1	7.1
Food & Staples	615	2.2	14.8	13.4	12.1	6.0	10.8	10.9	1.9	14.0	3.0	0.7	7.5	-0.5	0.1
Food Bev & Tobac.	1,731	6.2	16.8	15.3	13.9	7.6	9.6	10.3	3.1	20.1	3.3	2.2	10.6	0.6	0.7
Household Products	441	1.6	17.2	15.9	14.7	3.3	8.1	8.3	3.4	21.4	3.1	2.1	11.1	0.4	-0.7
Health Care	628	2.3	14.1	12.9	11.7	11.1	8.9	11.0	2.1	16.6	1.3	1.1	8.6	-0.5	6.4
Pharma & Biotech	1,843	6.6	11.9	11.7	11.0	8.7	1.5	7.0	2.3	20.0	3.4	2.5	9.2	-0.4	1.3
Banks	2,496	9.0	10.1	9.3	8.3	7.9	8.8	11.9	1.0	10.6	4.2	NA	NA	-0.2	10.4
Div Financials	1,141	4.1	12.2	10.1	8.5	-15.0	20.6	18.1	0.8	7.9	2.3	NA	NA	-1.3	16.3
Insurance	1,035	3.7	13.7	9.8	8.8	-12.1	38.7	10.3	1.0	9.8	3.7	NA	NA	-0.9	9.5
Real Estate	717	2.6	18.0	18.1	16.5	11.7	-0.7	10.1	1.3	6.9	3.8	NA	NA	-0.4	9.2
Software & Services	1,437	5.2	15.6	14.0	12.4	13.6	11.6	12.8	3.4	24.1	1.3	2.7	9.8	0.4	8.1
Tech	1,405	5.0	13.7	11.7	10.3	11.4	18.8	13.5	1.9	16.2	1.3	1.3	6.8	2.6	13.8
Semi & Semi Equip	636	2.3	13.9	13.4	11.0	-12.6	7.1	21.1	2.0	15.3	2.2	1.7	5.6	-0.6	9.1
Telecom	1,249	4.5	12.2	11.2	10.7	0.0	4.9	8.5	1.6	13.6	6.1	1.9	5.6	-0.5	-1.7
Utilities	1,024	3.7	14.6	13.6	12.2	-16.2	16.2	17.7	1.2	8.2	4.8	1.6	7.5	0.2	-0.2

Source: Citi Investment Research and Analysis, MSCI, Worldscope, Factset Consensus Estimates

Figure 23. 2012 P/E Estimates by Region and Sector

10 Feb 12 P/E 12E	Global	DM	GEM	US	Eur ex UK	UK	Jap	Dev Asia	Em Asia	Lat Am	CEEMEA
Region	**11.8**	**12.0**	**10.5**	**12.8**	**10.8**	**10.2**	**12.9**	**12.2**	**11.2**	**11.4**	**7.8**
Sectors- Level 1											
Energy	9.9	10.7	7.2	11.0	9.2	8.8	9.0	16.8	9.8	9.3	5.0
Materials	11.1	11.5	10.0	13.0	13.0	8.8	13.0	10.4	11.0	9.6	9.0
Industrials	12.6	12.7	12.6	13.4	12.8	12.2	10.3	15.3	12.2	17.1	10.3
Consumer Disc.	13.6	14.0	11.2	15.1	11.0	12.3	15.1	15.1	10.2	14.4	13.8
Consumer Staples	14.9	14.6	18.7	14.8	15.0	13.5	15.5	13.5	17.9	19.9	18.1
Health Care	12.0	12.0	17.4	12.0	12.1	10.3	16.1	15.2	19.0	19.2	13.9
Financials	10.3	10.4	9.5	11.5	8.2	9.6	11.1	11.5	9.2	10.7	9.1
IT	12.9	12.8	13.4	12.4	15.5	24.7	15.0	19.1	13.3	15.8	11.1
Telecom Services	11.2	11.0	11.8	15.0	8.9	10.2	8.7	12.0	12.6	11.1	11.0
Utilities	13.6	13.9	12.0	14.5	9.6	11.6	-115.7	14.7	13.8	11.6	9.8
Sectors- Level 2											
Energy	9.9	10.7	7.2	11.0	9.2	8.8	9.0	16.8	9.8	9.3	5.0
Materials	11.1	11.5	10.0	13.0	13.0	8.8	13.0	10.4	11.0	9.6	9.0
Capital Goods	11.9	12.0	11.5	13.1	12.3	11.0	9.2	13.0	11.3	15.2	10.2
Comm Svc & Supp	15.5	15.5	14.3	15.7	15.2	14.8	16.5	15.9	14.3		
Transport	15.2	14.9	18.6	13.8	14.8		16.1	19.6	18.7	19.2	11.9
Autos & Components	9.8	9.9	9.0	9.0	7.8	8.5	12.8		9.0		9.7
Consumer Durables	17.9	19.5	10.2	17.8	15.7	20.1	43.3	9.5	14.3	7.4	8.4
Consumer Services	17.4	17.6	14.1	19.1	13.3	14.1	16.8	15.3	13.7	18.4	
Media	13.3	13.1	18.2	13.4	11.7	12.1	17.4	11.6	19.3	17.4	18.4
Retailing	16.2	16.3	15.5	16.9	18.8	10.2	13.5	17.4	13.1	25.9	12.6
Food & Staples Retailing	13.4	12.7	21.6	13.8	11.3	9.5	12.7	13.4	18.8	23.9	21.2
Food Bev & Tobacco	15.3	15.1	17.1	15.0	15.6	14.5	16.6	13.9	16.3	18.5	13.7
Household Products	15.9	15.5	23.4	15.4	16.0	14.5	17.7		24.9	20.3	
Health Care Equip & Svc	12.9	12.9	17.0	12.2	17.5	13.0	17.9	15.6	19.7	19.2	12.8
Pharma & Biotech	11.7	11.7	17.6	11.9	11.6	10.2	15.8	15.0	18.9		14.7
Banks	9.3	9.5	8.8	10.4	8.2	9.4	8.4	10.3	8.5	9.9	8.4
Div Financials	10.1	10.0	12.7	10.1	8.1	11.7	15.8	16.6	12.2	18.1	10.8
Insurance	9.8	9.6	12.9	9.9	7.8	9.1	20.5	12.0	13.9	10.1	10.6
Real Estate	18.1	19.9	9.4	34.8	13.7	17.2	17.1	13.0	8.3	20.3	12.1
Software & Services	14.0	13.8	17.7	13.6	14.8	14.0	19.1	14.7	18.3	15.8	11.1
Tech Hardware & Equip	11.7	11.4	15.2	11.0	16.6		13.3	47.3	15.2		
Semi & Semi Equip	13.4	14.9	11.4	13.7	15.6	41.0	481.7	20.6	11.4		
Telecom	11.2	11.0	11.8	15.0	8.9	10.2	8.7	12.0	12.6	11.1	11.0
Utilities	13.6	13.9	12.0	14.5	9.6	11.6	-115.7	14.7	13.8	11.6	9.8

Source: Citi Investment Research and Analysis, MSCI, Worldscope, Factset Consensus Estimates

Notes

Appendix A-1

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