

**MARKET  
INSIGHTS**

1Q | 2012

As of December 31, 2011

# Guide to the Markets

*J.P. Morgan*

**J.P.Morgan**  
Asset Management

# Table of Contents

EQUITIES	4
ECONOMY	16
FIXED INCOME	30
INTERNATIONAL	38
ASSET CLASS	50

## U.S. Market Strategy Team

Dr. David P. Kelly, CFA	david.p.kelly@jpmorgan.com
Andrew D. Goldberg	andrew.d.goldberg@jpmorgan.com
Joseph S. Tanious, CFA	joseph.s.tanious@jpmorgan.com
Andrés Garcia-Amaya	andres.d.garcia@jpmorgan.com
Brandon D. Odenath	brandon.d.odenath@jpmorgan.com
David M. Lebovitz	david.m.lebovitz@jpmorgan.com

*[www.jpmorganfunds.com/mi](http://www.jpmorganfunds.com/mi)*

*Past performance is no guarantee of comparable future results.*

### Equities

4. Returns by Style
5. Returns by Sector
6. U.S. Equity Indexes
7. S&P 500 Index at Inflection Points
8. Equity Scenarios: Bull, Bear and In-between
9. Investment Style Valuations
10. Stock Valuation Measures: S&P 500 Index
11. Earnings Estimates and Valuation Drivers
12. Broad Market Lagged Price to Earnings Ratio
13. P/E Ratios and Equity Returns
14. Deploying Corporate Cash
15. Equity Correlations and Volatility

### Economy

16. Economic Expansions and Recessions
17. Economic Growth and the Composition of GDP
18. Cyclical Sectors
19. Consumer Finances
20. Federal Finances
21. Political Polarization
22. The Aftermath of the Housing Bubble
23. Employment
24. Job Growth, Productivity and Labor Force
25. Corporate Profits
26. Consumer Price Index
27. Returns in Different Inflation Environments – 40 years
28. Oil and the Economy
29. Consumer Confidence and the Stock Market

### Fixed Income

30. Fixed Income Sector Returns
31. Interest Rates and Inflation
32. Fixed Income Yields and Returns

33. The Fed and the Money Supply
34. Credit Conditions
35. High Yield Bonds
36. Municipal Finance
37. Emerging Market Debt

### International

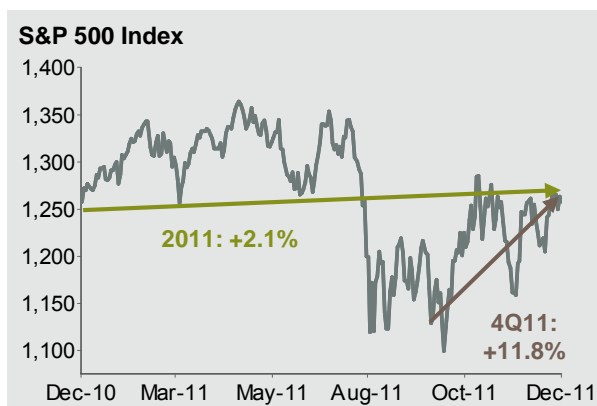
38. International Returns and Global Market Share
39. Global Economic Growth
40. Global Monetary Policy
41. The Importance of Exports
42. The Impact of Global Consumers
43. European Crisis: Fiscal Challenges
44. European Crisis: Financial System Risks
45. Chinese Growth and Economic Policy
46. Global Equity Valuations – Developed Markets
47. Global Equity Valuations – Emerging Markets
48. International Economic and Demographic Data
49. Current Account Deficit and U.S. Dollar

### Asset Class

50. Asset Class Returns
51. Correlations: 10-Years
52. Mutual Fund Flows
53. Dividend Income: Domestic and Global
54. Global Commodities
55. Gold
56. Marginal and Average Tax Rates
57. Historical Returns by Holding Period
58. Diversification and the Average Investor
59. Annual Returns and Intra-year Declines
60. Alternative Investment Returns
61. Cash Accounts
62. Corporate DB Plans and Endowments

# Returns by Style

Charts reflect index levels (price change only). All returns and annotations reflect total return, including dividends.



**4Q 2011**

	Value	Blend	Growth
Large	13.1%	11.8%	10.6%
Mid	13.4%	12.3%	11.2%
Small	16.0%	15.5%	15.0%

**2011**

	Value	Blend	Growth
Large	0.4%	2.1%	2.6%
Mid	-1.4%	-1.5%	-1.7%
Small	-5.5%	-4.2%	-2.9%

**Since Market Peak (October 2007)**

	Value	Blend	Growth
Large	-19.6%	-11.8%	-2.2%
Mid	-7.2%	-5.0%	-3.6%
Small	-10.5%	-7.0%	-3.9%

**Since Market Low (March 2009)**

	Value	Blend	Growth
Large	100.6%	97.2%	99.4%
Mid	137.0%	129.3%	122.8%
Small	121.3%	124.3%	126.8%

Source: Russell Investment Group, Standard & Poor's, FactSet, J.P. Morgan Asset Management.

All calculations are cumulative total return, including dividends reinvested for the stated period. Since Market Peak represents period 10/9/07 – 12/31/11, illustrating market returns since the most recent S&P 500 Index high on 10/9/07. Since Market Low represents period 3/9/09 – 12/31/11, illustrating market returns since the S&P 500 Index low on 3/9/09. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell-style indexes with the exception of the large blend category, which is reflected by the S&P 500 Index. Past performance is not indicative of future returns.

Data are as of 12/31/11.

# Returns by Sector

Equities

	Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials	S&P 500 Index	
<b>S&amp;P Weight</b>	13.4%	19.0%	11.9%	10.7%	12.3%	10.7%	11.5%	3.2%	3.9%	3.5%	100.0%	Weight
Russell Growth Weight	3.9%	28.0%	10.7%	12.7%	11.1%	14.2%	12.8%	1.2%	0.1%	5.3%	100.0%	
Russell Value Weight	24.4%	8.9%	12.9%	9.2%	12.3%	8.9%	8.2%	4.8%	7.8%	2.6%	100.0%	
<b>4Q 2011</b>	10.8	8.7	10.0	16.5	18.2	12.6	10.3	7.9	8.3	15.4	11.8	Return
<b>2011</b>	-17.1	2.4	12.7	-0.6	4.7	6.1	14.0	6.3	20.0	-9.8	2.1	
<b>Since Market Peak</b> (October 2007)	-60.1	0.8	4.6	-14.5	-3.1	11.0	31.0	-9.8	4.1	-13.6	-11.8	
<b>Since Market Low</b> (March 2009)	118.0	111.3	68.7	135.0	77.5	156.8	83.7	72.2	82.2	105.9	97.2	
<b>Beta to S&amp;P 500</b>	1.34	1.27	0.65	1.15	0.92	1.11	0.52	0.94	0.60	1.25	1.00	
Forward P/E Ratio	9.3x	12.0x	11.4x	12.3x	10.2x	13.7x	14.5x	16.5x	14.6x	11.3x	11.8x	P/E
<b>15-yr avg.</b>	12.9x	24.1x	19.1x	17.2x	15.0x	18.7x	18.9x	17.4x	12.3x	16.2x	16.9x	
Trailing P/E Ratio	10.8x	13.8x	15.8x	14.5x	10.9x	16.0x	15.8x	17.1x	15.0x	12.2x	13.6x	
<b>20-yr avg.</b>	15.9x	27.2x	24.4x	20.5x	18.4x	19.9x	21.1x	18.3x	14.2x	19.9x	19.7x	
Dividend Yield	1.8%	1.2%	2.3%	2.5%	2.0%	1.7%	3.0%	5.3%	4.0%	2.3%	2.3%	Div
<b>20-yr avg.</b>	2.2%	0.6%	1.4%	1.8%	2.0%	1.0%	2.0%	3.7%	4.5%	2.1%	1.7%	

Source: Standard & Poor's, Russell Investment Group, FactSet, J.P. Morgan Asset Management.

All calculations are cumulative total return, not annualized, including dividends for the stated period. Since Market Peak represents period 10/9/07 – 12/31/11. Since Market Low represents period 3/9/09 – 12/31/11.

Forward P/E 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. Trailing P/E ratios are bottom-up values defined as month-end price divided by the last twelve months of available reported earnings. Historical data can change as new information becomes available. Note that P/E ratios for the S&P 500 may differ from estimates elsewhere in this book due to the use of a bottom-up calculation of constituent earnings (as described) rather than a top-down calculation. This methodology is used to allow proper comparison of sector level data to broad index level data. Dividend yields are bottom-up values defined as the annualized value of the most recent cash dividend as a percent of month-end price. Beta calculations are based on 10 years of monthly price returns for the S&P 500 and its sub-indices.

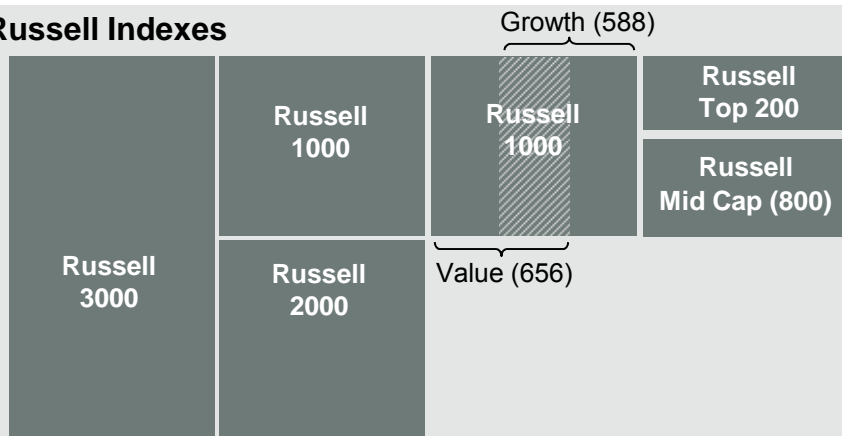
Past performance is not indicative of future returns.

Data are as of 12/31/11.

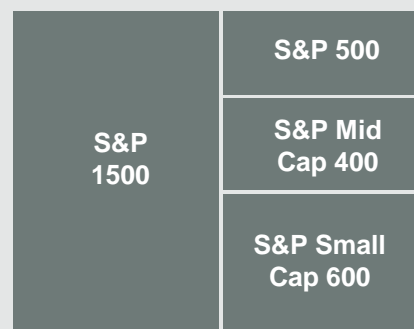
# U.S. Equity Indexes

Equities

## Russell Indexes



## S&P Indexes



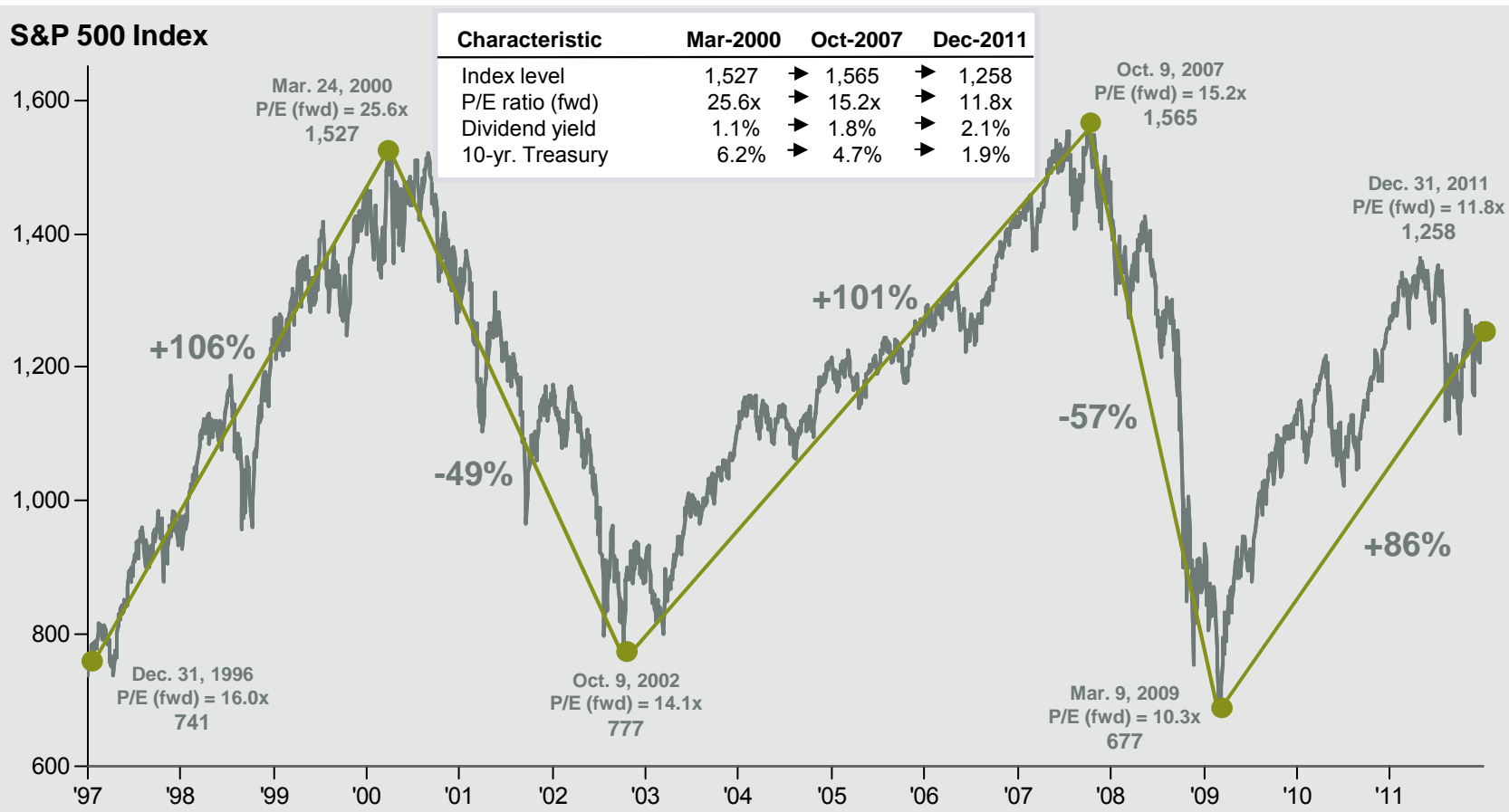
## Dow Jones

Industrials (30)

	Index	Market Cap		Weight		Size (Lipper*)			Valuation	
		Wtd Avg	Total	Top 10	Bottom 100	Large	Mid	Small	Div Yld	Fwd P/E
Large	S&P 500	95.3 bn	11,385 bn	20.2%	3.0%	89.0%	10.2%	0.8%	2.2%	11.8x
	Russell 1000	85.0	12,906	18.0	0.8	79.9	15.5	4.6	2.1	12.3
	Dow Jones	139.2	3,666	57.7	42.3	99.5	0.5	0.0	2.5	11.9
	Russell 1000 Value	73.6	6,466	24.4	0.8	79.5	14.8	5.6	2.6	11.2
	Russell 1000 Growth	96.5	6,440	28.5	0.8	80.3	16.1	3.6	1.6	13.7
Mid	S&P Mid Cap 400	3.4	1,048	6.2	10.7	0.0	49.9	50.1	1.5	13.9
	Russell Mid Cap	7.8	3,765	4.8	2.7	31.7	52.5	15.8	1.7	13.7
Sm	Russell 2000	1.2	1,105	2.8	0.4	0.0	1.4	98.6	1.5	17.4
All	Russell 3000	78.4	14,010	16.6	0.0	73.6	14.4	12.0	2.1	12.6

Market Cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's pricing database as provided by Standard & Poor's and Russell Investment Group, respectively. Dividend Yield is calculated based on the trailing 12 months of dividends and is provided by FactSet's pricing database for S&P and Dow Indexes and Russell for the Russell Indexes. Forward P/E is a bottom-up calculation based on the most recent S&P 500 price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Top 10 represents summed benchmark weight of ten largest stocks in respective index. Bottom 100 represents summed benchmark weight of 100 smallest stocks in respective index. \*Lipper mutual fund size parameters are used for illustrative purposes only and are hypothetical distributions based on Lipper mutual fund categories. As of November 2011, Lipper defines large as market cap over \$11.3 billion, small as less than \$4.0 billion and mid as all values in between. The number of holdings as of 12/31/11 are – Russell 1000: 980; Russell Mid Cap: 783; Russell 2000: 1,966; Russell 3000: 2,946. Data are as of 12/31/11.

# S&P 500 Index at Inflection Points



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

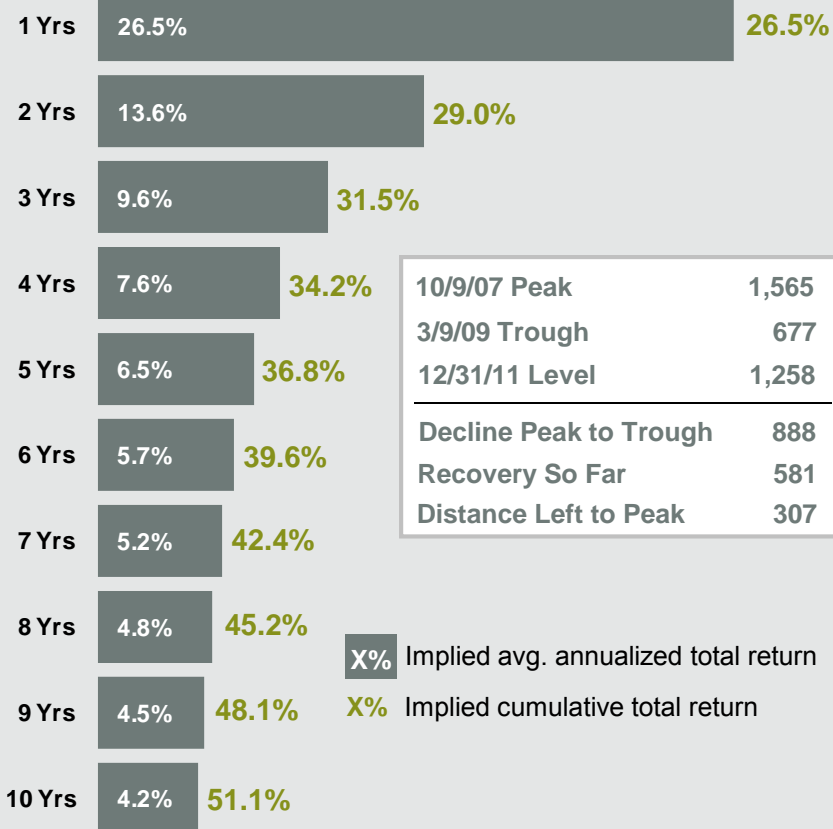
Dividend yield is calculated as the annualized dividend rate divided by price, as provided by Compustat. Forward Price to Earnings Ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided 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 12/31/11.

# Equity Scenarios: Bull, Bear and In-between

## S&P 500 Index: Return Needed to Reach 2007 Peak

Analysis as of Dec. 31, 2011. Index has risen 85.8% since low of 677.



## Bear Market Cycles vs. Subsequent Bull Runs

Market Peak	Market Low	Bear Market Return	Length of Decline	Bull Run	Length of Run	Yrs to Reach Old Peak
5/29/46	5/19/47	-28.6%	12	257.6%	122	3.1 yrs
7/15/57	10/22/57	-20.7%	3	86.4%	50	0.9 yrs
12/12/61	6/26/62	-28.0%	6	79.8%	44	1.2 yrs
2/9/66	10/7/66	-22.2%	8	48.0%	26	0.6 yrs
11/29/68	5/26/70	-36.1%	18	74.2%	31	1.8 yrs
1/5/73	10/3/74	-48.4%	21	125.6%	74	5.8 yrs
11/28/80	8/12/82	-27.1%	20	228.8%	60	0.2 yrs
8/25/87	12/4/87	-33.5%	3	582.1%	148	1.6 yrs
3/24/00	10/9/02	-49.1%	31	101.5%	60	4.6 yrs
10/9/07	3/9/09	-56.8%	17	85.8%	34*	
<b>Average:</b>		<b>-35.0%</b>	<b>14 mo's</b>	<b>176.0%</b>	<b>68 mo's</b>	<b>2.2 yrs</b>

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

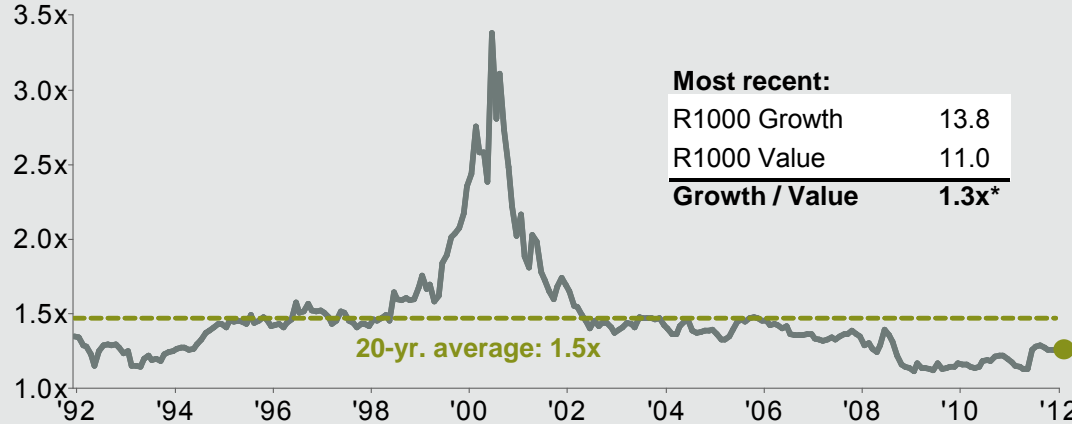
(Left) Data assume 2.0% annualized dividend yield. Implied values reflect the average geometric total returns required for the S&P 500 to reach its 10/9/07 peak of 1,565 over each stated time period. Chart is for illustrative purposes only. Past performance does not guarantee future results.

(Right) A bear market is defined as a peak-to-trough decline in the S&P 500 Index (price only) of 20% or more. The bull run data reflect the market expansion from the bear market low to the subsequent market peak. All returns are S&P 500 Index returns and do not include dividends. \*Current bull run from 3/9/09 through 12/31/11. Data are as of 12/31/11.

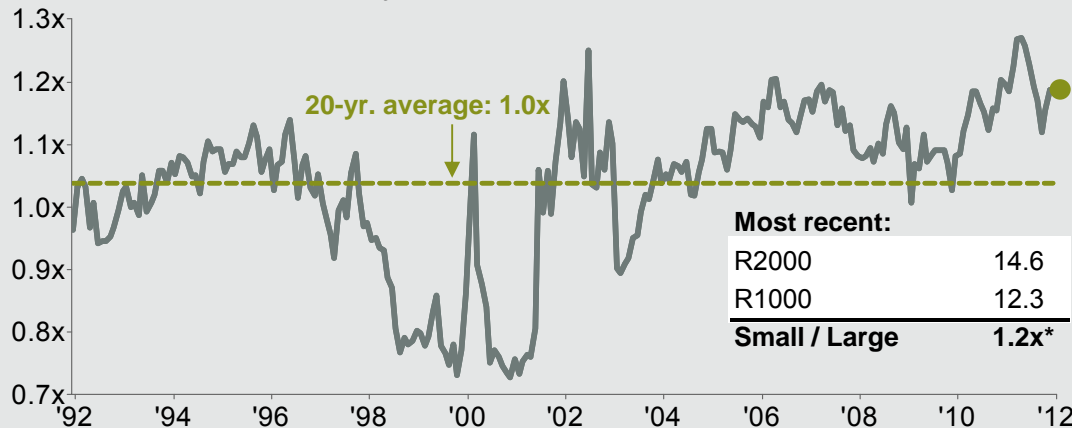
# Investment Style Valuations

Equities

**Russell 1000 Growth P/E divided by Russell 1000 Value P/E**



**Russell 2000 P/E divided by Russell 1000 P/E**



**Current P/E vs. 20-year avg. P/E**

	Value	Blend	Growth
Large	11.0 / 14.0	12.3 / 16.8	13.8 / 21.1
Mid	12.3 / 14.0	13.9 / 16.3	15.7 / 21.9
Small	13.0 / 14.2	14.6 / 17.1	16.4 / 21.3

**Current P/E as % of 20-year avg. P/E**

*E.g.: Large Cap Blend stocks are 26.6% cheaper than their historical average.*

	Value	Blend	Growth
Large	78.3%	73.4%	65.7%
Mid	88.0%	85.0%	71.7%
Small	91.3%	85.6%	76.8%

Source: Russell Investment Group, IBES, FactSet, J.P. Morgan Asset Management.

P/E ratios are calculated and provided by Russell based on IBES consensus estimates of earnings over the next twelve months. \*Represents the Russell 1000 Growth Index P/E ratio divided by the Russell 1000 Value Index P/E ratio (top) and Russell 2000 Index P/E ratio divided by the Russell 1000 Index P/E ratio (bottom). Data reflect P/E's as provided by Russell based on IBES estimates of next twelve months' earnings.

Data are as of 12/31/11.

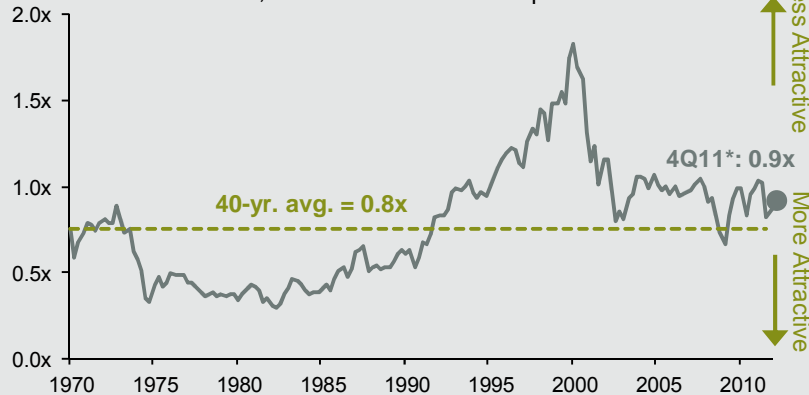
# Stock Valuation Measures: S&P 500 Index

## S&P 500 Index: Valuation Measures

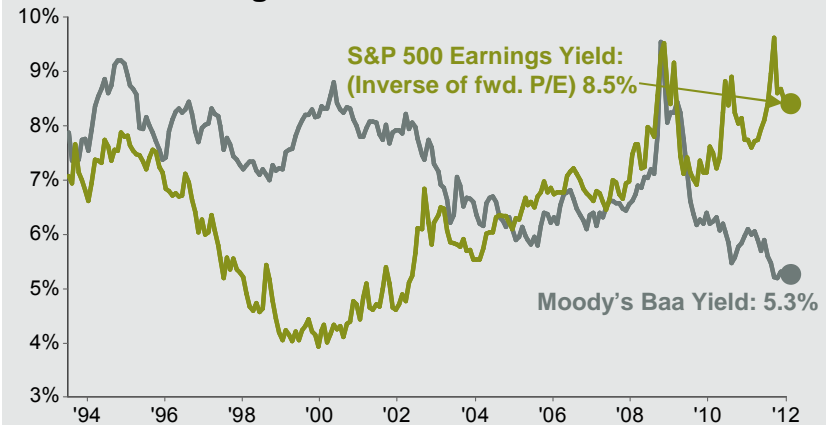
Valuation Measure	Description	Historical Averages					
		Latest	1-year ago	3-year avg.	5-year avg.	10-year avg.	15-year avg.
P/E	Price to Earnings	11.8x	12.9x	12.7x	13.0x	14.6x	16.9x
P/B	Price to Book	2.1	2.1	2.1	2.3	2.6	3.1
P/CF	Price to Cash Flow	8.2	8.4	8.0	8.6	10.0	11.1
P/S	Price to Sales	1.1	1.3	1.1	1.2	1.3	1.5
PEG	Price/Earnings to Growth	1.5	0.9	0.9	1.1	1.2	1.2
Div. Yield	Dividend Yield	2.3%	2.0%	2.3%	2.3%	2.0%	1.9%

## Q-Ratio: Stock Price Relative to Company Assets

Price to net asset value, all U.S. non-financial corporations



## S&P 500 Earnings Yield vs. Baa Bond Yield



Source: (Top) Standard & Poor's, FactSet, J.P. Morgan Asset Management.

Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next twelve months. Price to Book is price divided by book value per share. Data post-1992 include intangibles and are provided by Standard & Poor's. Price to Cash Flow is price divided by consensus analyst estimates of cash flow per share for the next twelve months. Price to Sales is calculated as price divided by consensus analyst estimates of sales per share for the next twelve months. PEG Ratio is calculated as NTM P/E divided by NTM earnings growth. Dividend Yield is calculated as consensus analyst estimates of dividends for the next twelve months divided by price. All consensus analyst estimates are provided by FactSet. (Bottom left) Q-Ratio based on data from the Federal Reserve, table B.102. \*4Q11 is an estimate provided by J.P. Morgan Asset Management as of 12/31/11. (Bottom right) Standard & Poor's, Moody's, FactSet, J.P. Morgan Asset Management. Data are as of 12/31/11.

# Earnings Estimates and Valuation Drivers

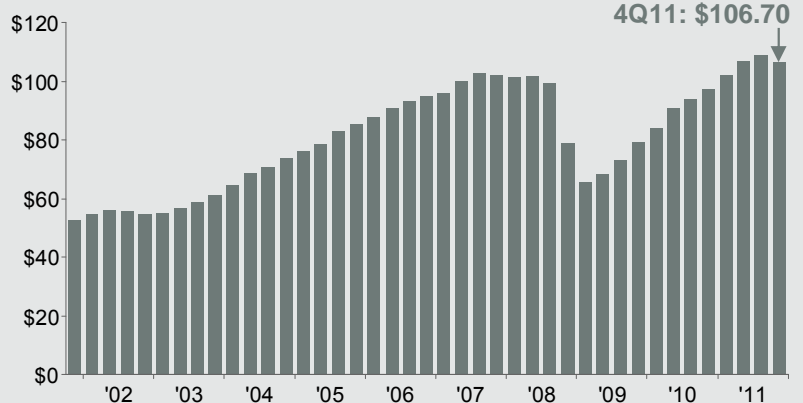
Equities

## S&P 500 Index: Forward P/E Ratio



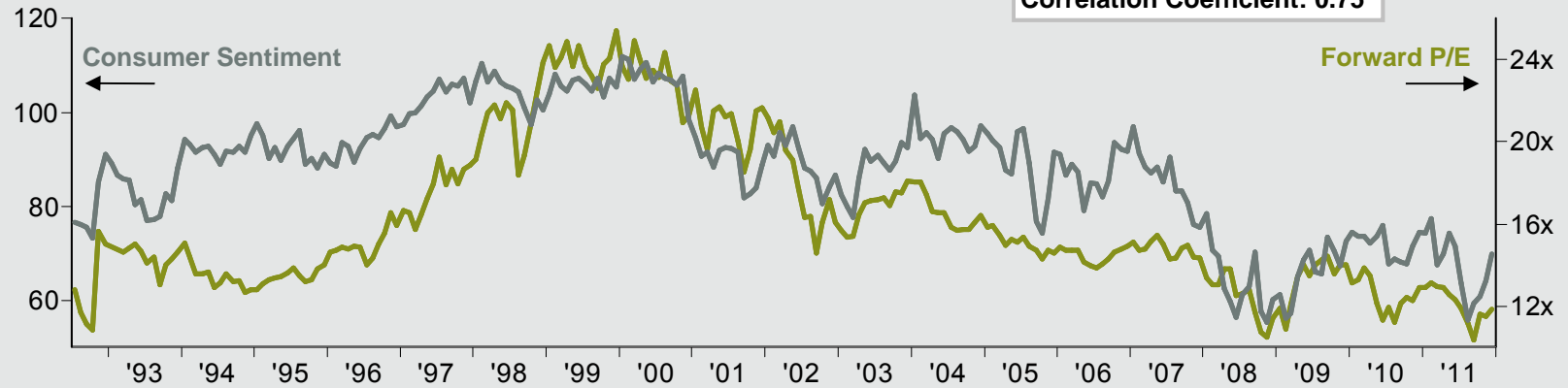
## S&P 500 Operating Earnings Estimates

Consensus estimates of the next twelve months' rolling earnings



## Multiple Expansion and Contraction

Forward P/E based on consensus EPS estimates



Source: (Top left) Standard & Poor's, Compustat, FactSet, J.P. Morgan Asset Management. (Top right) Standard & Poor's, Compustat, FactSet, J.P. Morgan Asset Management. Earnings estimates are for calendar years and taken at quarter end dates throughout the year. (Bottom) Standard & Poor's, FactSet, University of Michigan, J.P. Morgan Asset Management. Forward Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next twelve months.

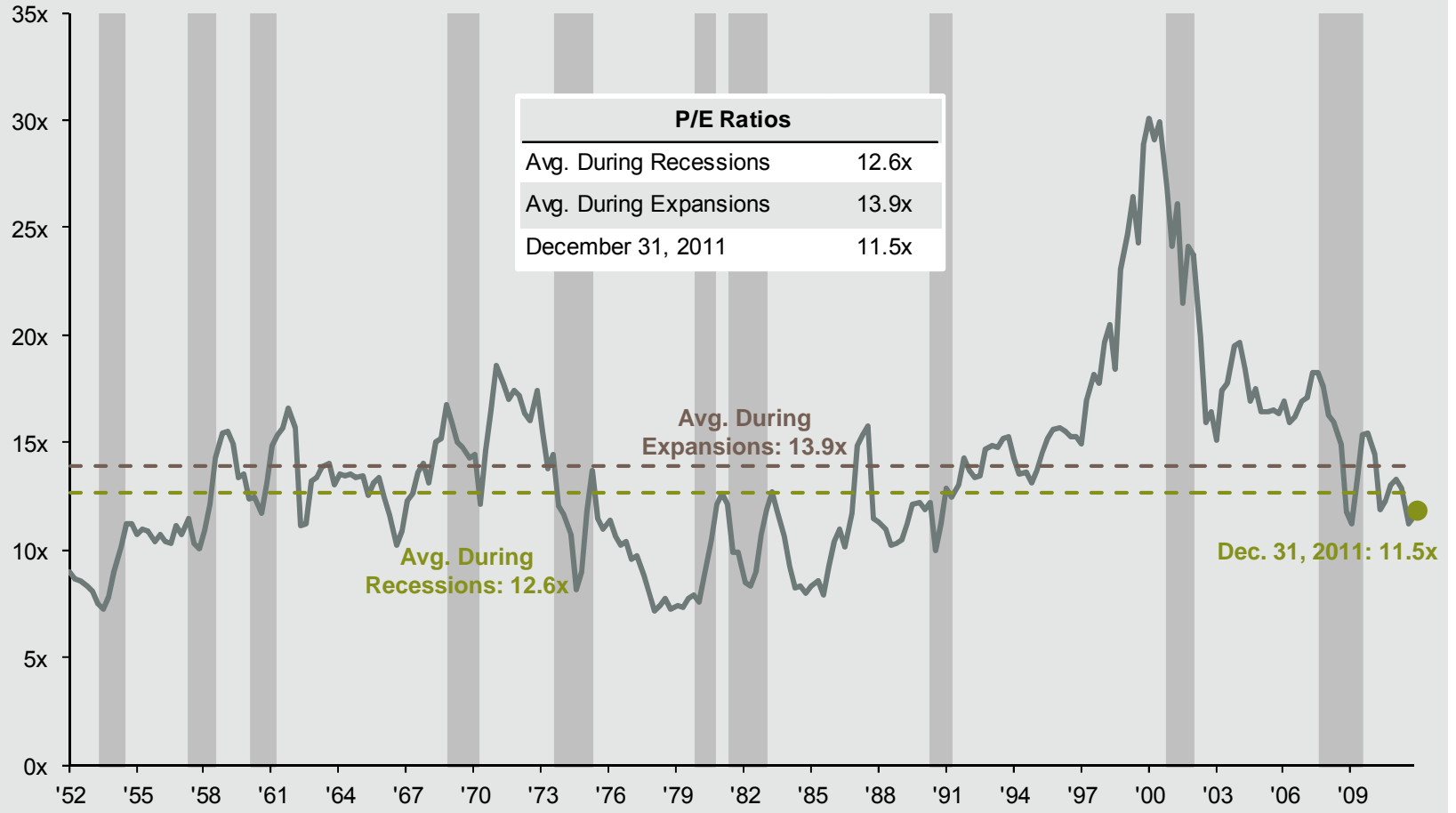
Data are as of 12/31/11.

# Broad Market Lagged Price to Earnings Ratio

Equities

## Lagged P/E Ratio – All U.S. Corporations

Ratio of Market Value of All U.S. Corporations to Adjusted After-Tax Corporate Profits for Prior Four Quarters



Source: BEA, Federal Reserve Board, Wilshire Associates, J.P. Morgan Asset Management.

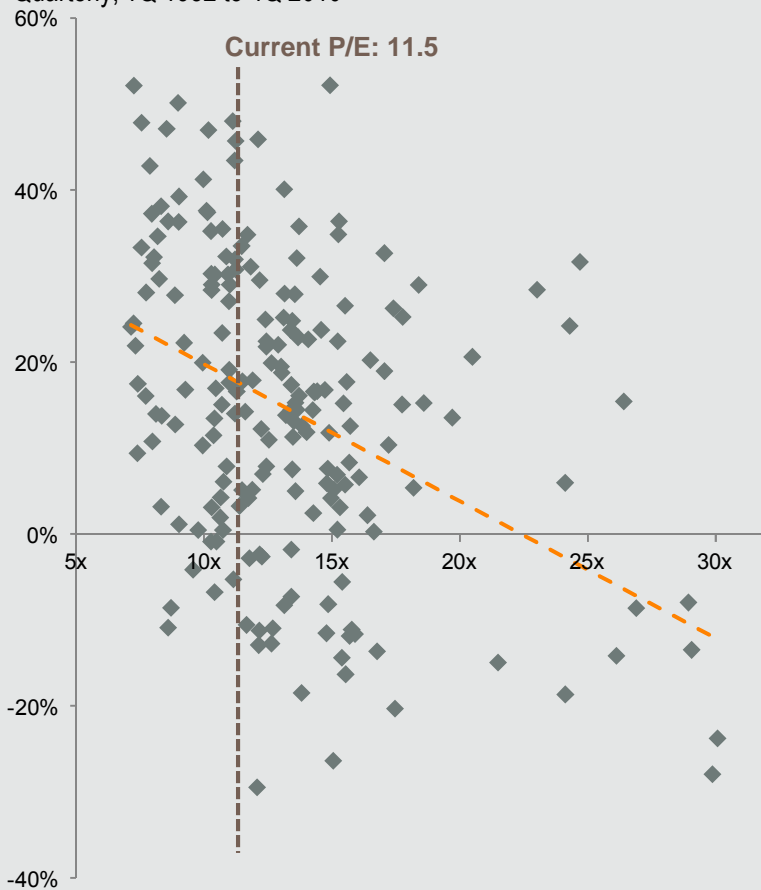
Data are as of 12/31/11.

# P/E Ratios and Equity Returns

Equities

## P/E and Total Return Over 1-yr. Periods

Quarterly, 1Q 1952 to 4Q 2010



## P/E and Total Return Over 10-yr. Annualized Periods

Quarterly, 1Q 1952 to 4Q 2001



Source: BEA, FRB, J.P. Morgan Asset Management. Prices are based on the market value of all US corporations and include quarterly dividends. Valuation based on long-term PE ratio.

Note: Orange line denote results of linear regression with R-squared of 0.39 for 1-yr. returns (LHS) and 0.71 for 10-yr. returns (RHS).

Data are as of 12/31/11.

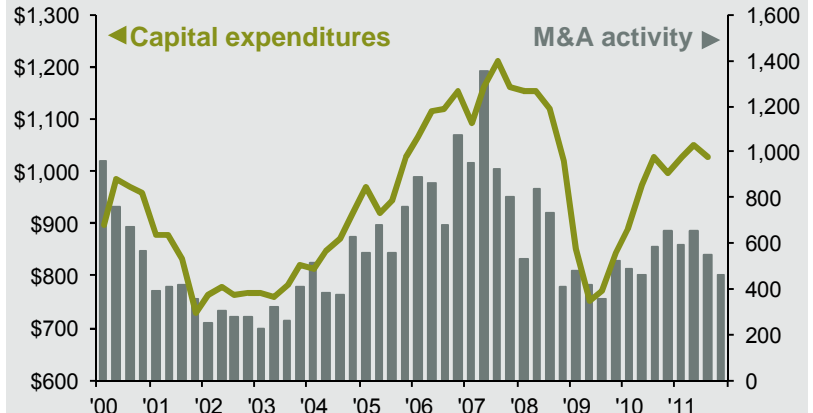
**Corporate Cash as a % of Current Assets**

S&P 500 companies – cash and cash equivalents, quarterly



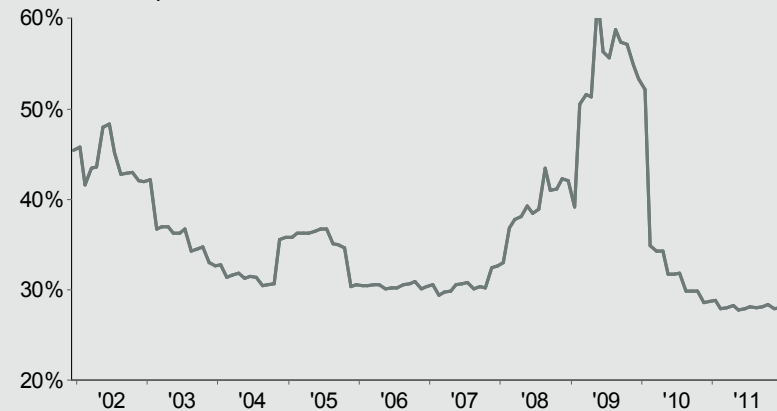
**Corporate Growth**

Quarterly deal volume and nonfarm nonfinancial capex, billions USD



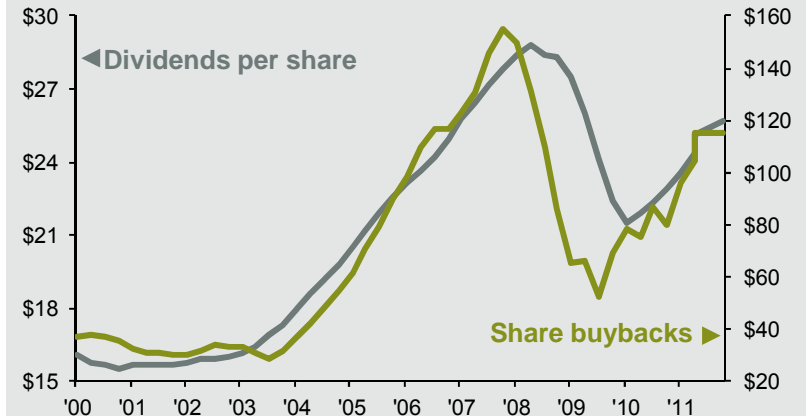
**Dividend Payout Ratio**

S&P 500 companies, LTM



**Cash Returned to Shareholders**

Rolling 4-quarter averages, S&P 500, billions USD



Source: Standard & Poor's, FRB, Bloomberg, FactSet, J.P. Morgan Securities, J.P. Morgan Asset Management.

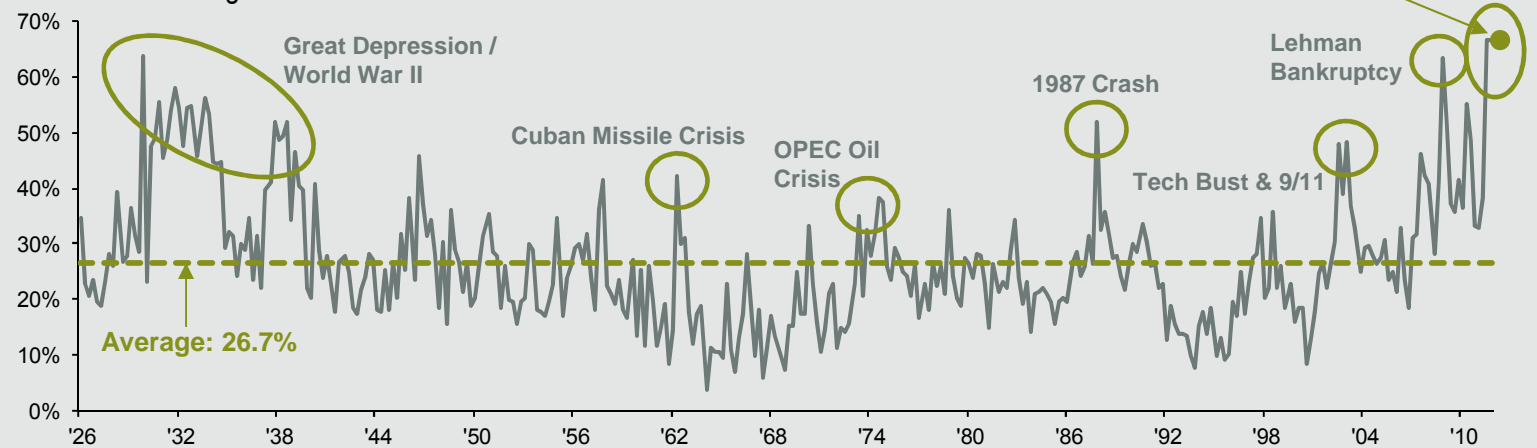
(Top left) Standard & Poor's, FactSet, J.P. Morgan Asset Management. (Top right) M&A activity is quarterly number of deals of any value and capital expenditures are for nonfarm nonfinancial corporate business. (Bottom left) Standard & Poor's, FactSet, J.P. Morgan Asset Management. (Bottom right) Standard & Poor's, Compustat, FactSet, J.P. Morgan Asset Management. Data are most recent as of 12/31/11.

# Equity Correlations and Volatility

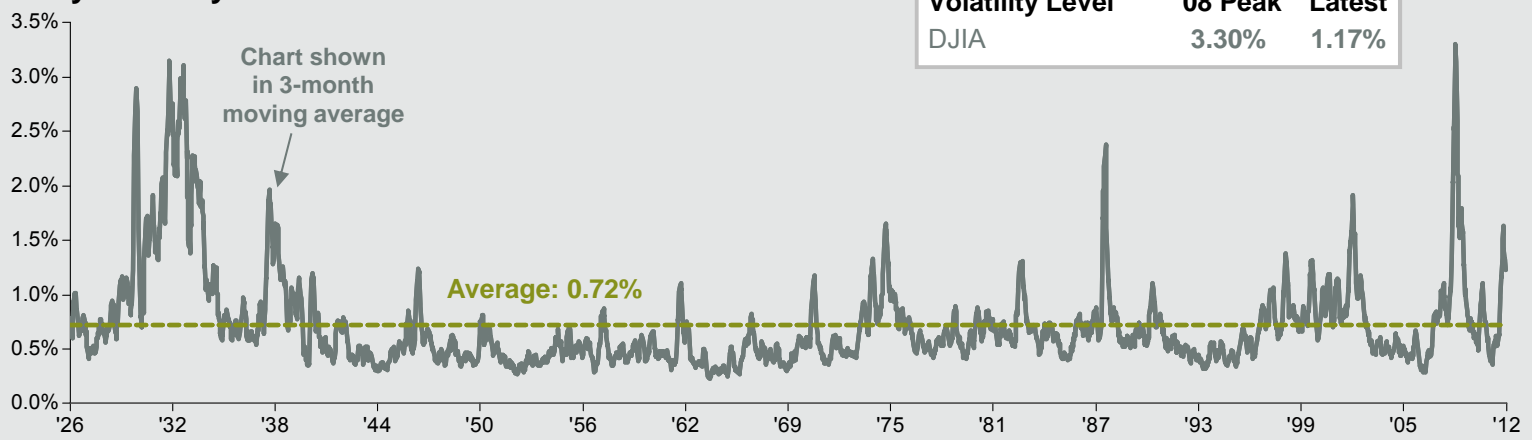
Equities

## Large Cap Stocks

Correlations Among Stocks



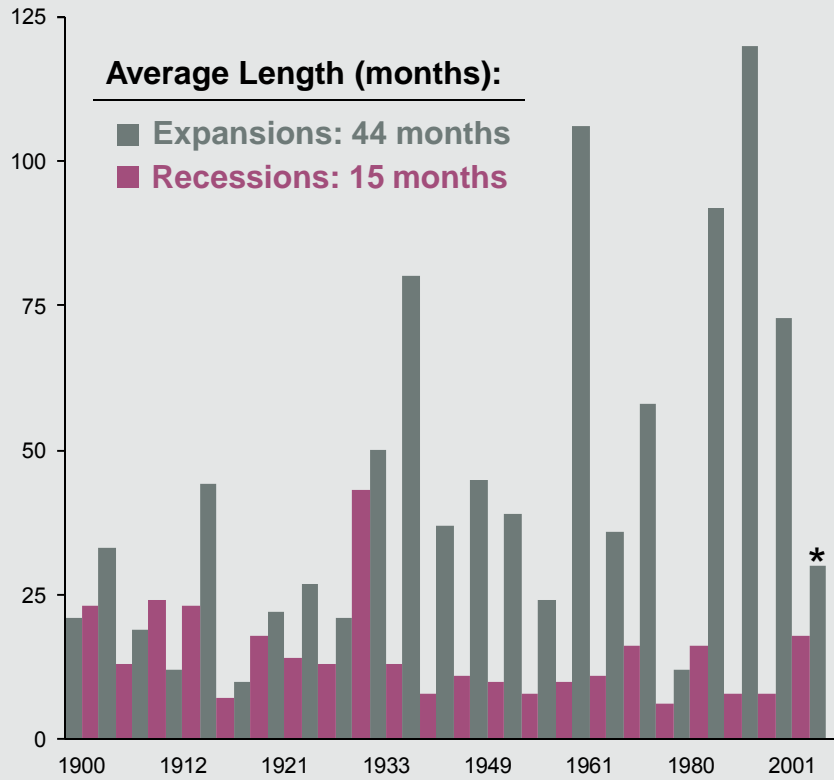
## Daily Volatility of DJIA



Source: (Top) Empirical Research Partners LLC, Standard & Poor's, J.P. Morgan Asset Management. Capitalization weighted correlation of top 750 stocks by market capitalization, daily returns, 1926 – Dec. 23, 2011. (Bottom) Dow Jones, J.P. Morgan Asset Management. Data are represented as three-month moving averages of the daily absolute percentage change in the Dow Jones Industrial Average.

Charts shown for illustrative purposes only. Data are as of 12/31/11.

### Length of Economic Expansions and Recessions



Source: NBER, J.P. Morgan Asset Management.

\*Chart assumes current expansion started in July 2009 and continued through December 2011.

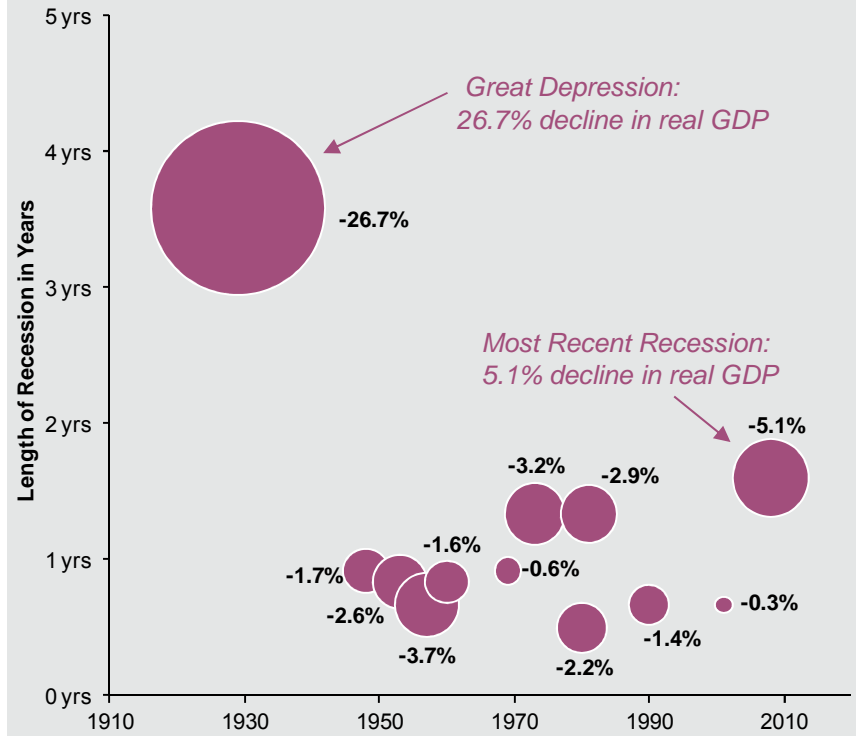
Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at [www.nber.org/cycles/](http://www.nber.org/cycles/) and reflects information through December 2011.

For illustrative purposes only.

Data reflect most recently available as of 12/31/11.

### The Great Depression and Post-War Recessions

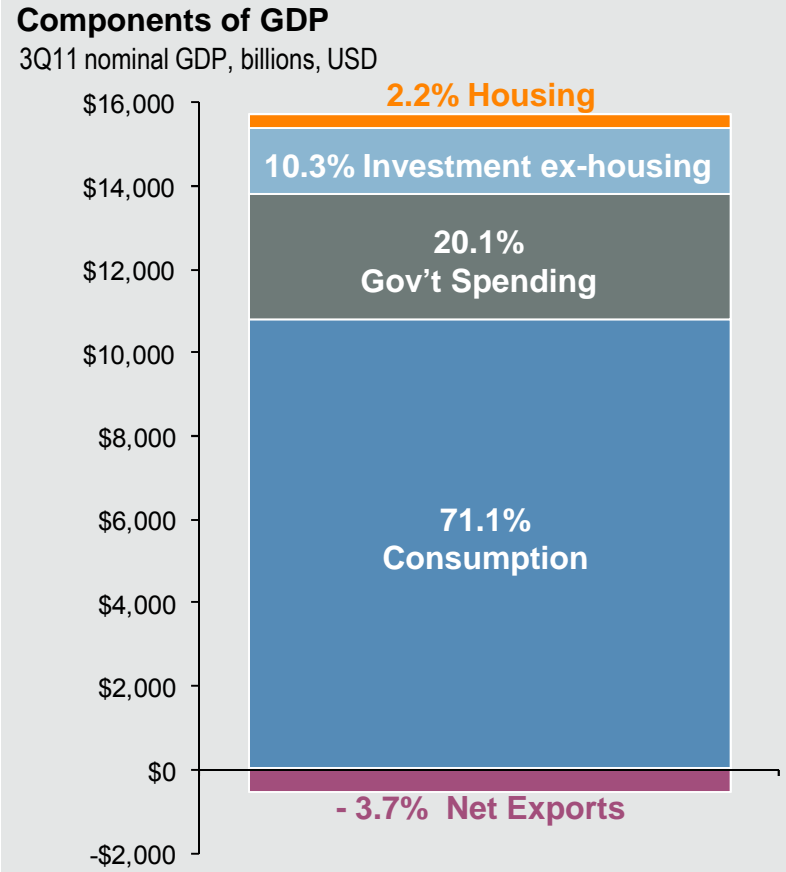
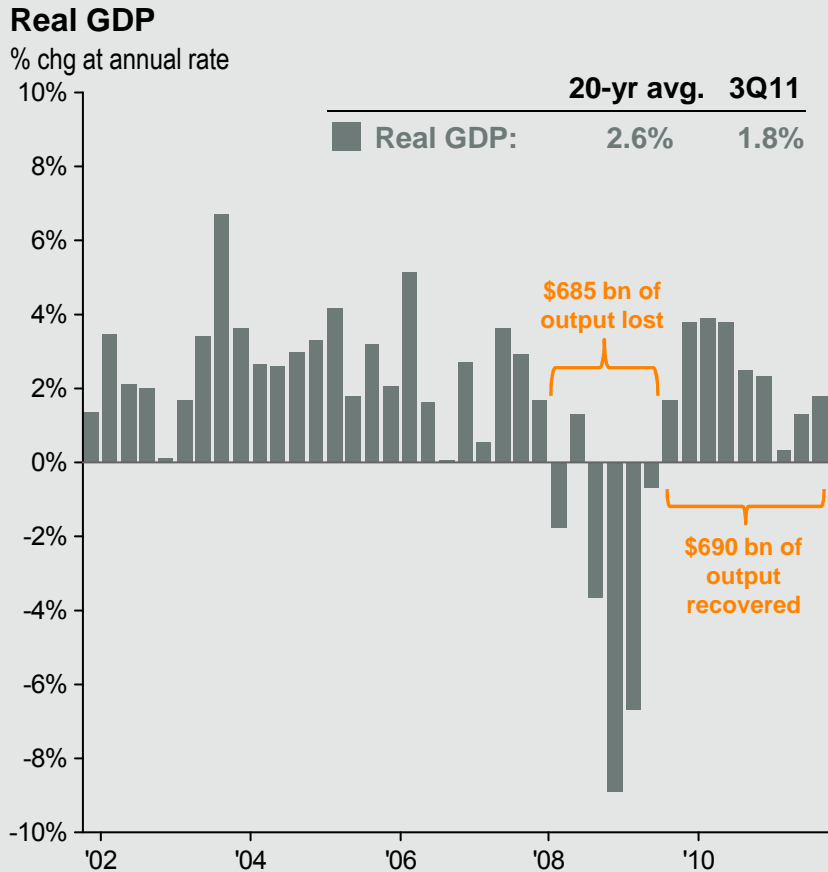
Length and severity of recession



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

Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data.

# Economic Growth and the Composition of GDP



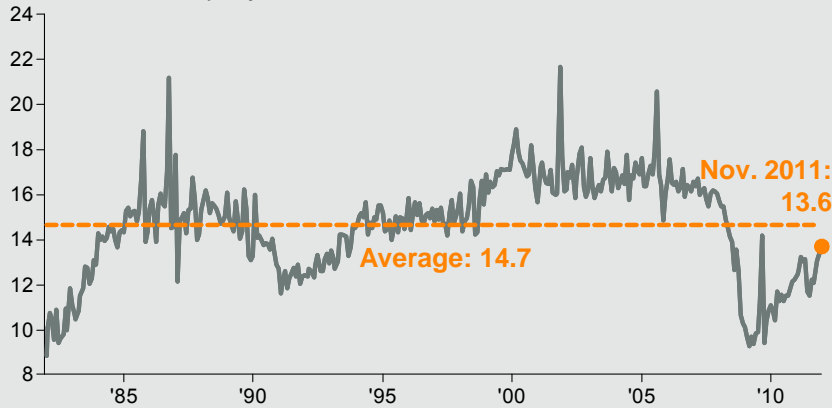
Source: BEA, FactSet, J.P. Morgan Asset Management.

GDP values shown in legend are % change vs. prior quarter annualized and reflect revised 3Q11 GDP.

Data reflect most recently available as of 12/31/11.

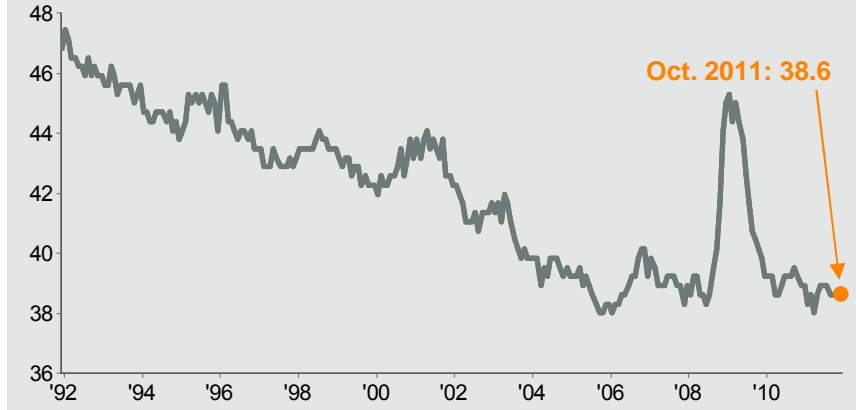
### Light Vehicle Sales

Millions, seasonally adjusted annual rate



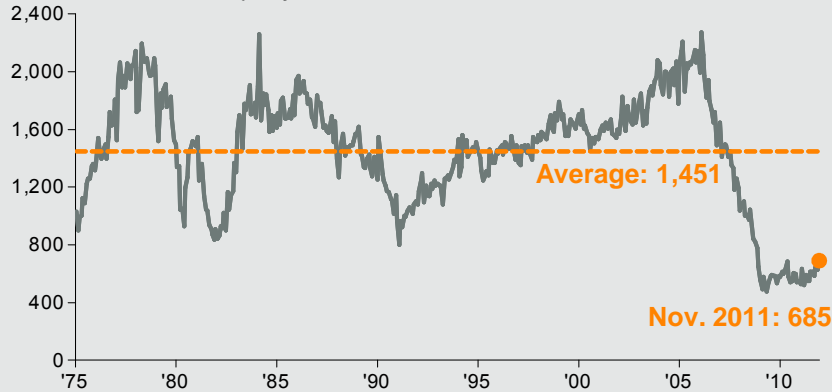
### Manufacturing and Trade Inventories

Days of sales, seasonally adjusted



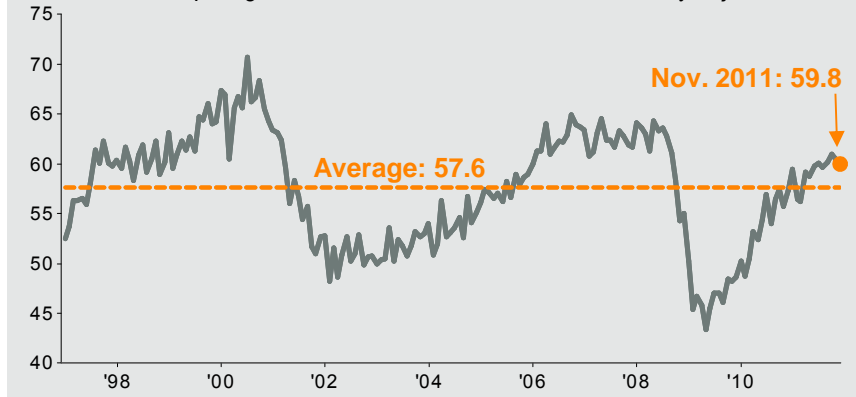
### Housing Starts

Thousands, seasonally adjusted annual rate



### Real Capital Goods Orders

Non-defense capital goods orders ex. aircraft, \$ bn, seasonally adjusted

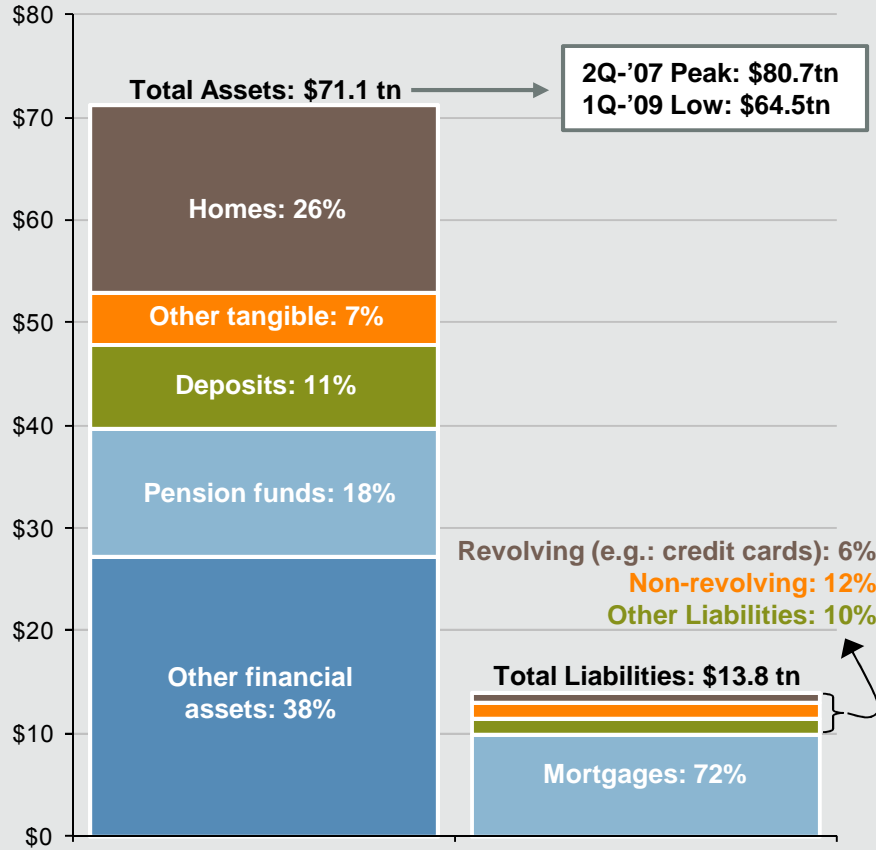


Source: (Top left) BEA, FactSet, J.P. Morgan Asset Management. (Top right) Census Bureau, FactSet, J.P. Morgan Asset Management. (Bottom left) Census Bureau, FactSet, J.P. Morgan Asset Management. (Bottom right) Census Bureau, FactSet, J.P. Morgan Asset Management. Capital goods orders deflated using the producer price index for capital goods.

Data reflect most recently available as of 12/31/11.

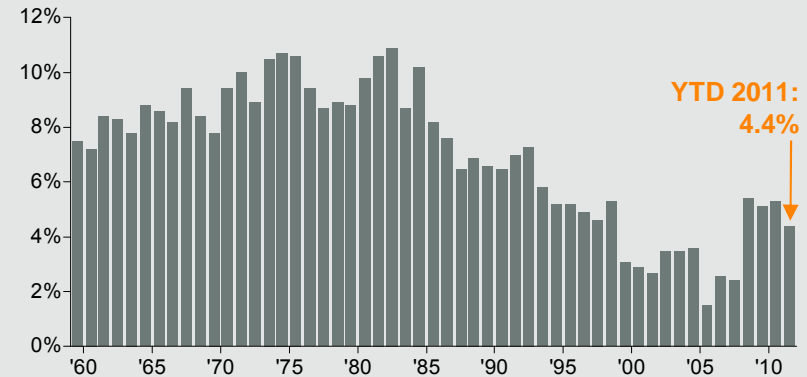
**Consumer Balance Sheet**

Trillions of dollars outstanding, not seasonally adjusted



**Personal Savings Rate**

Annual, % of disposable income



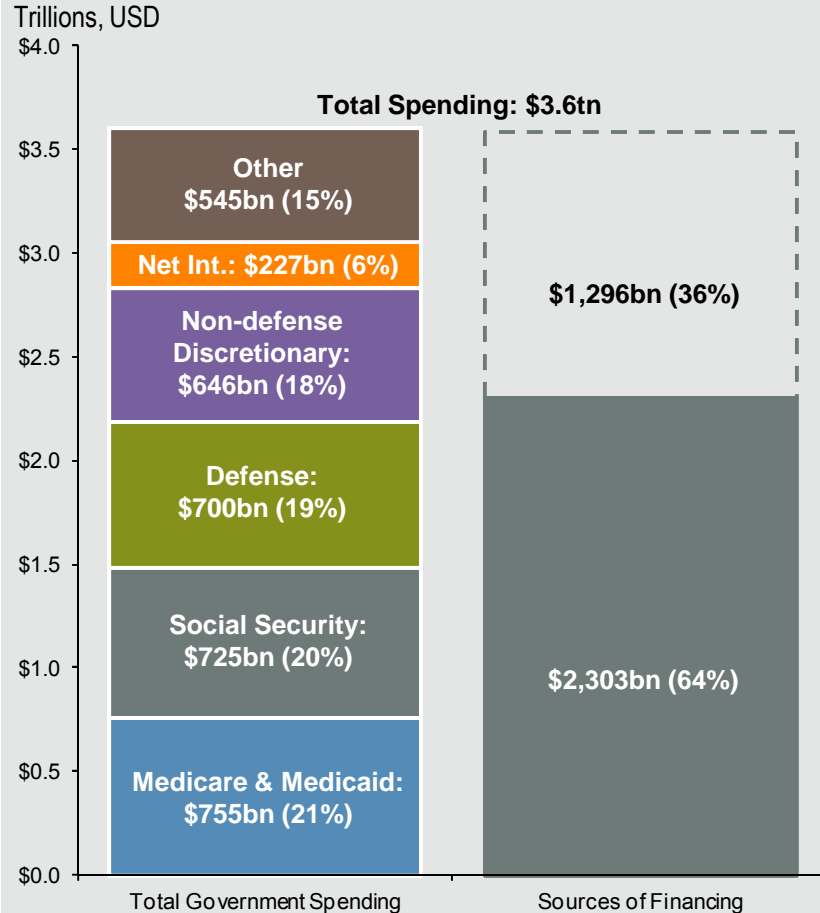
**Household Debt Service Ratio**

Debt payments as % of disposable personal income, seasonally adjusted

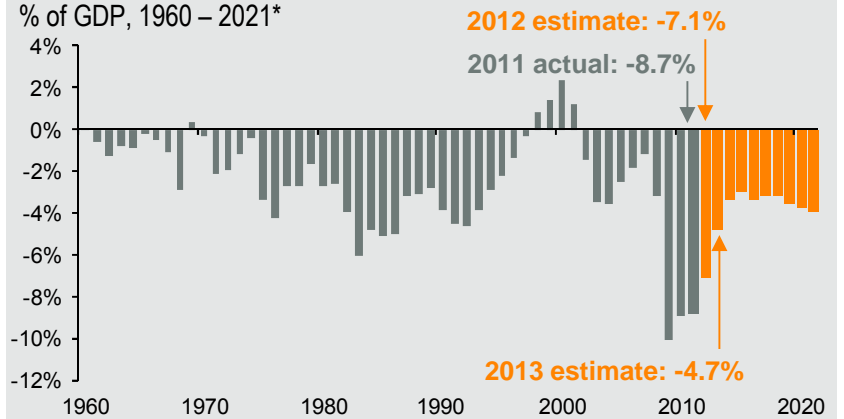


Source: (Left) FRB, J.P. Morgan Asset Management. Data includes households and nonprofit organizations. (Right) BEA, FRB, J.P. Morgan Asset Management. Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings. Savings rate data as of November 2011. \*4Q11 Household Debt Service Ratio is J.P. Morgan Asset Management estimate. All other data are as of 3Q11.

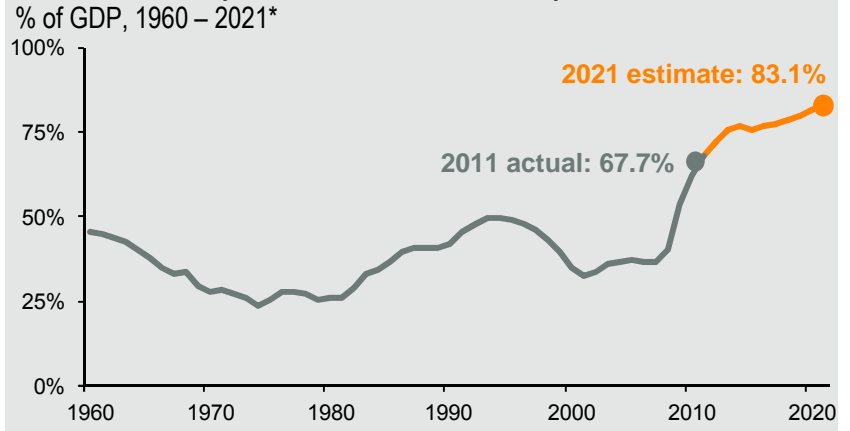
**The 2011 Federal Budget**



**Federal Budget Surplus/Deficit**



**Federal Debt (Accumulated Deficits)**



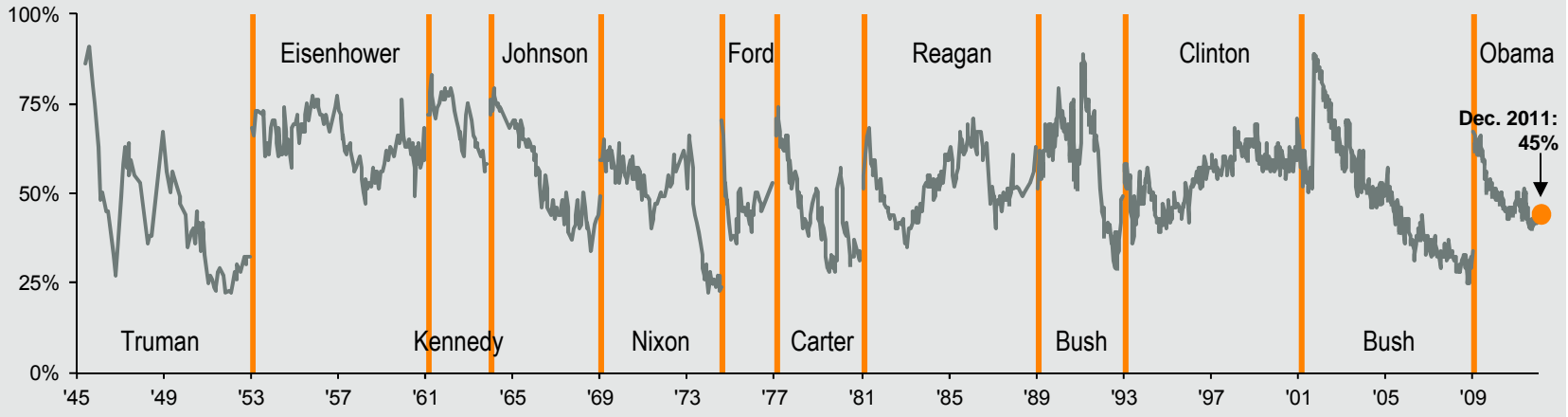
Source: U.S. Treasury, BEA, CBO, OMB, J.P. Morgan Asset Management.

2011 numbers are actuals. \*Estimates for 2012 – 2021 are based on adjustments to the August alternative scenario from the CBO's "Budget and Economic Outlook: An Update" which was released on August 24, 2011. This adjusted alternative scenario assumes an extension of all Bush tax cuts, annual adjustments to AMT and Medicare payment schedules and a 1-year extension for calendar year 2012 only of the payroll tax cut and extended unemployment benefits. Additionally, this adjusted alternative scenario assumes a reduction in troop presence in Iraq and Afghanistan starting in 2012, which is in line with current policy.

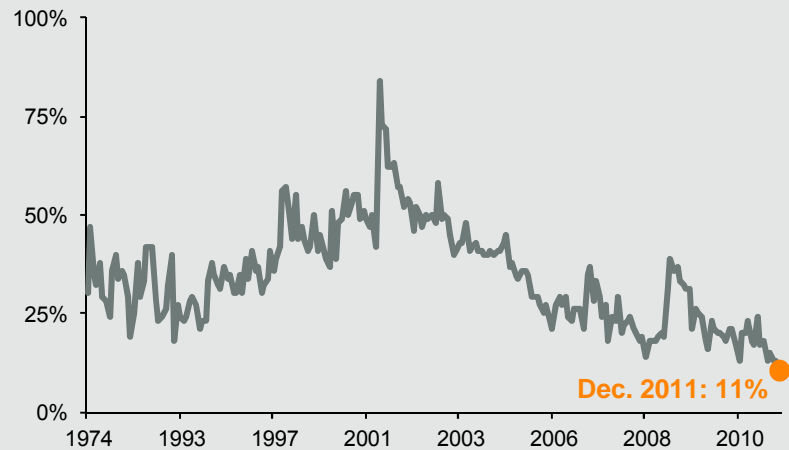
Note: Years shown are fiscal years (Oct. 1 through Sep. 30). Top right chart displays federal surplus/deficit (revenues – outlays).

Data reflect most recently available as of 12/31/11.

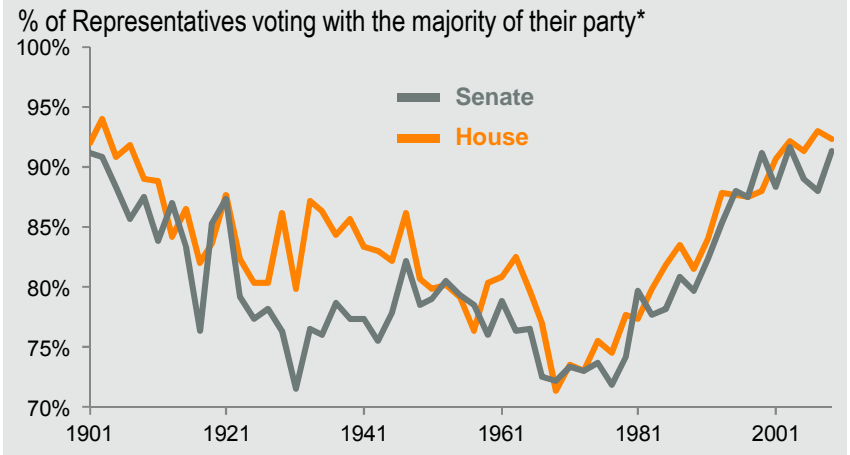
Presidential Approval Rating Over Term Cycles



Congressional Approval Ratings



Political Polarization

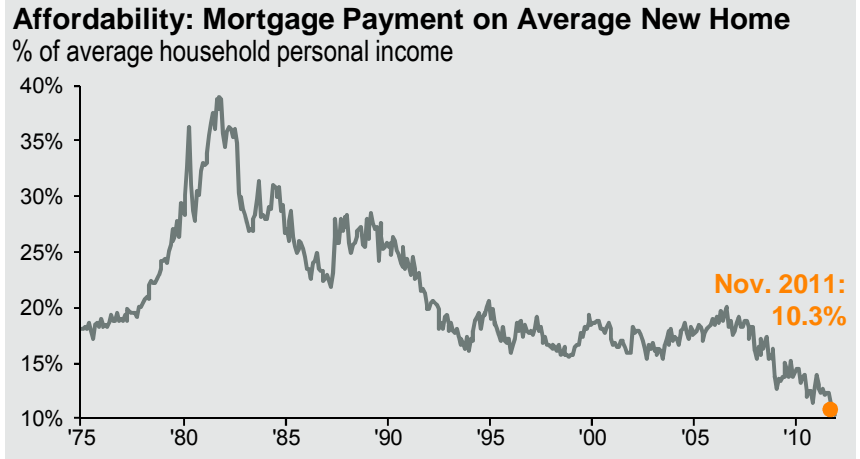
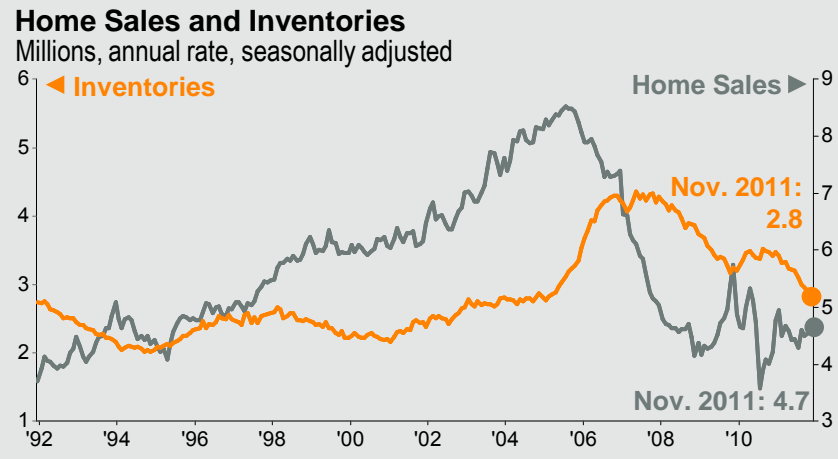
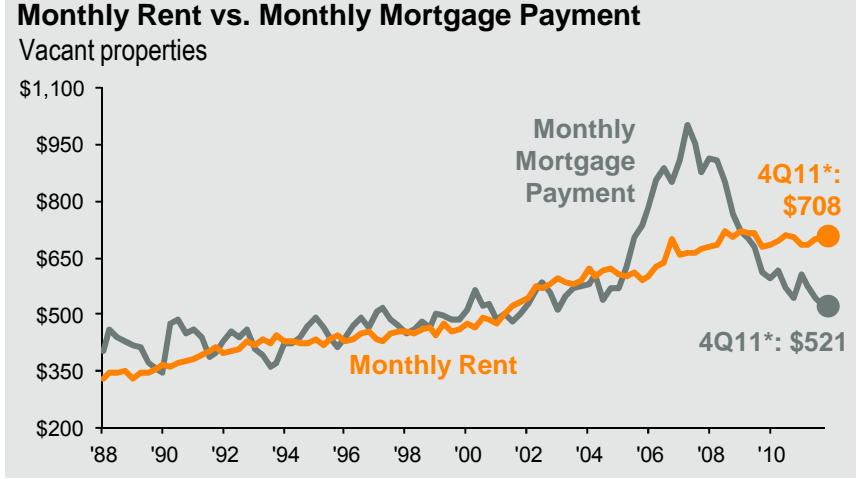
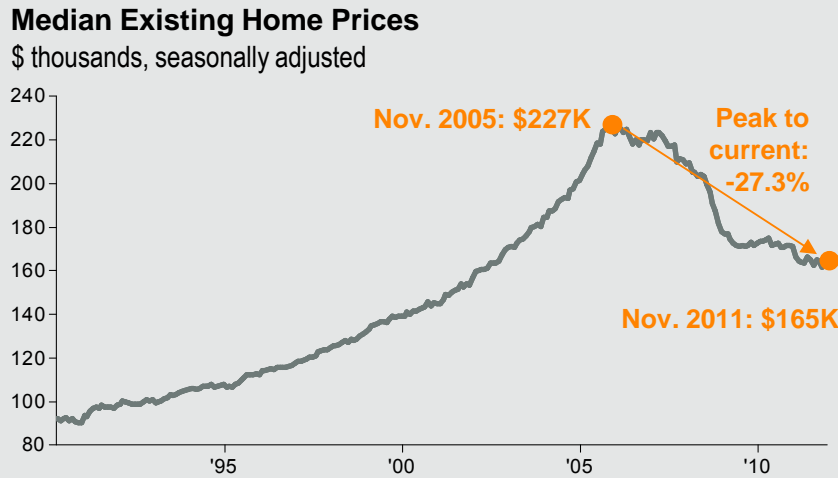


Source: (Top) Gallup Inc., J.P. Morgan Asset Management. (Bottom left) Gallup Inc., J.P. Morgan Asset Management. (Bottom right) Keith T. Poole, J.P. Morgan Asset Management.

\*In roll call votes where the majority in one party voted the opposite way to the majority in the other. Data compiled by Professors Keith T. Poole and Howard Rosenthal available at [www.voteview.com](http://www.voteview.com).

Data are most recent as of 12/31/11.

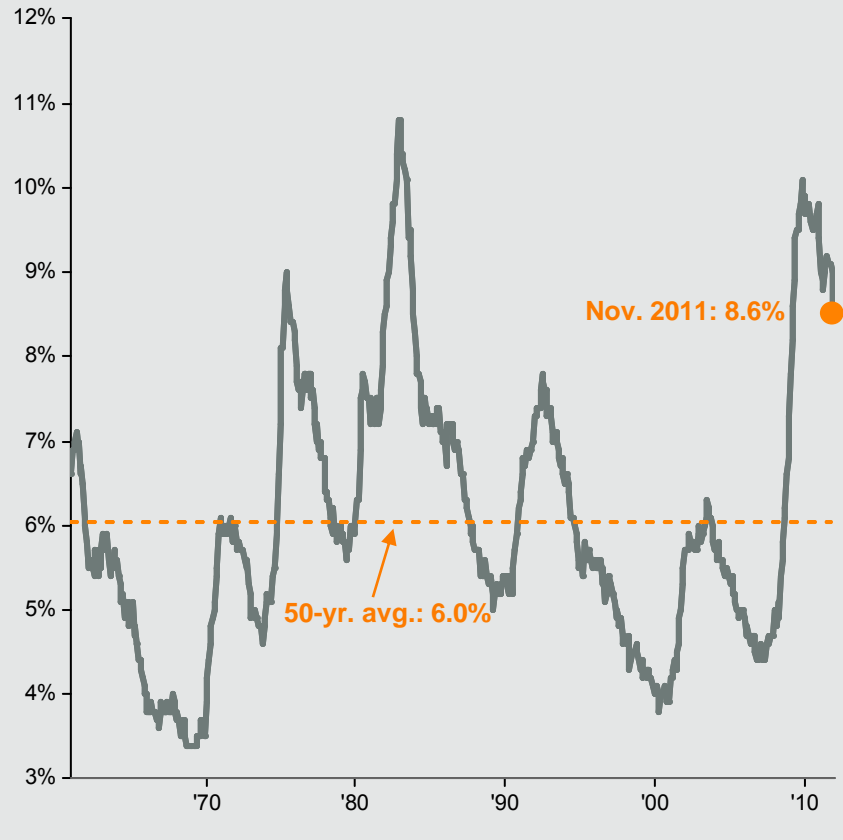
# The Aftermath of the Housing Bubble



Sources: (Top left) National Association of Realtors, FactSet, J.P. Morgan Asset Management. (Top right) Census Bureau, J.P. Morgan Asset Management. Monthly mortgage payment assumes a 20% down payment at prevailing 30-year fixed-rate mortgage rates; analysis based on median asking rent and median mortgage payment based on asking price. \*4Q11 estimates provided by J.P. Morgan Asset Management. (Bottom left) Census Bureau, National Association of Realtors, J.P. Morgan Asset Management. Home sales include both new and existing home sales. Existing home sales include single-family, townhouses, condominiums and co-ops. (Bottom right) Census Bureau, FRB, BEA, J.P. Morgan Asset Management. Calculation assumes a 20% down payment, a 30-year fixed-rate mortgage, excludes property tax and homeowners' insurance and is expressed as a % of pre-tax income. Data reflect most recently available as of 12/31/11.

### Civilian Unemployment Rate

Seasonally adjusted

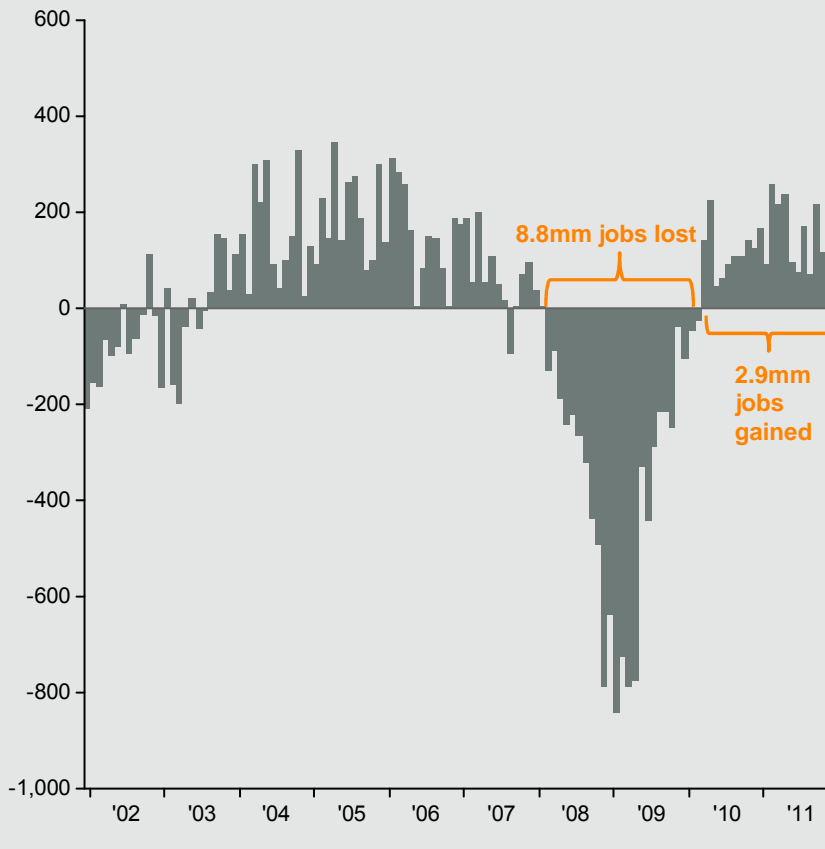


Source: BLS, FactSet, J.P. Morgan Asset Management.

Data reflect most recently available as of 12/31/11.

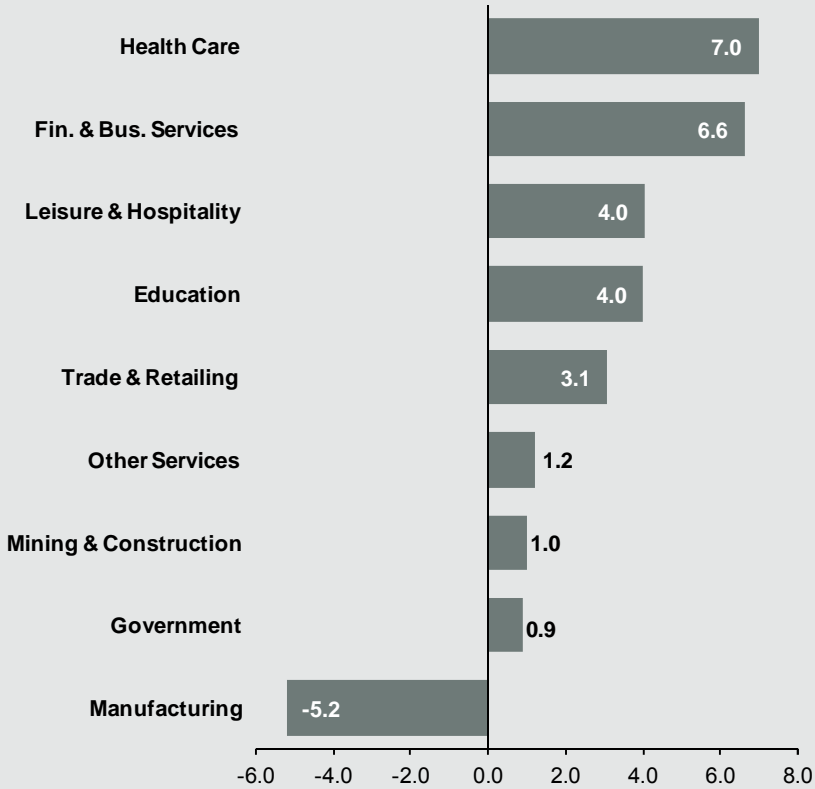
### Employment – Total Private Payroll

Total job gain/loss (thousands)



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

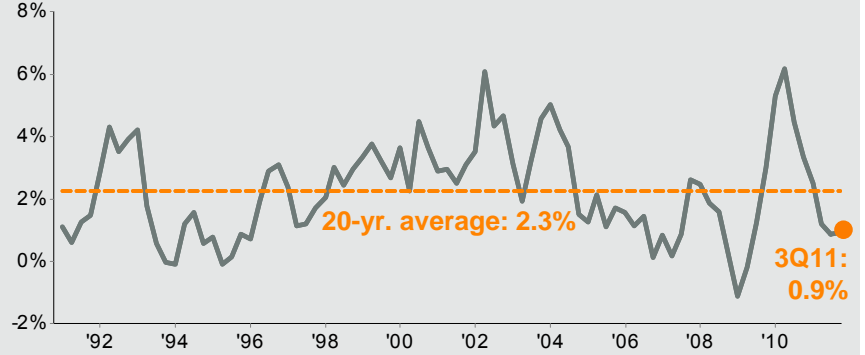
**20 Years – Net Job Creation**  
Net change in millions of payroll jobs, sa



Source: BLS, FactSet, J.P. Morgan Asset Management.  
Data reflect most recently available as of 12/31/11.

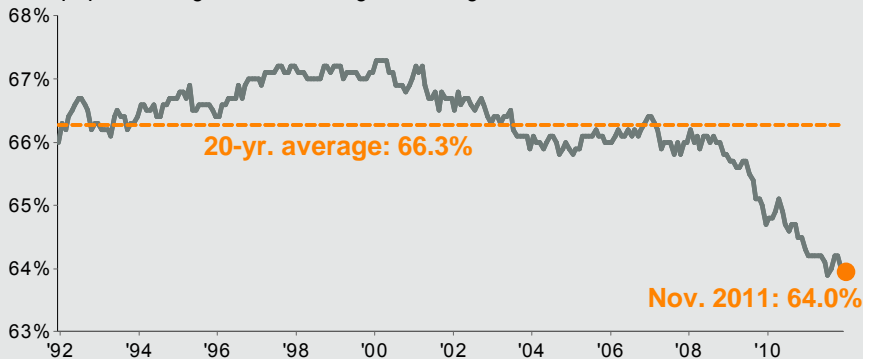
**Labor Productivity: Output per Hour**

Non-farm business productivity, % change year-over-year



**Labor Force Participation Rate**

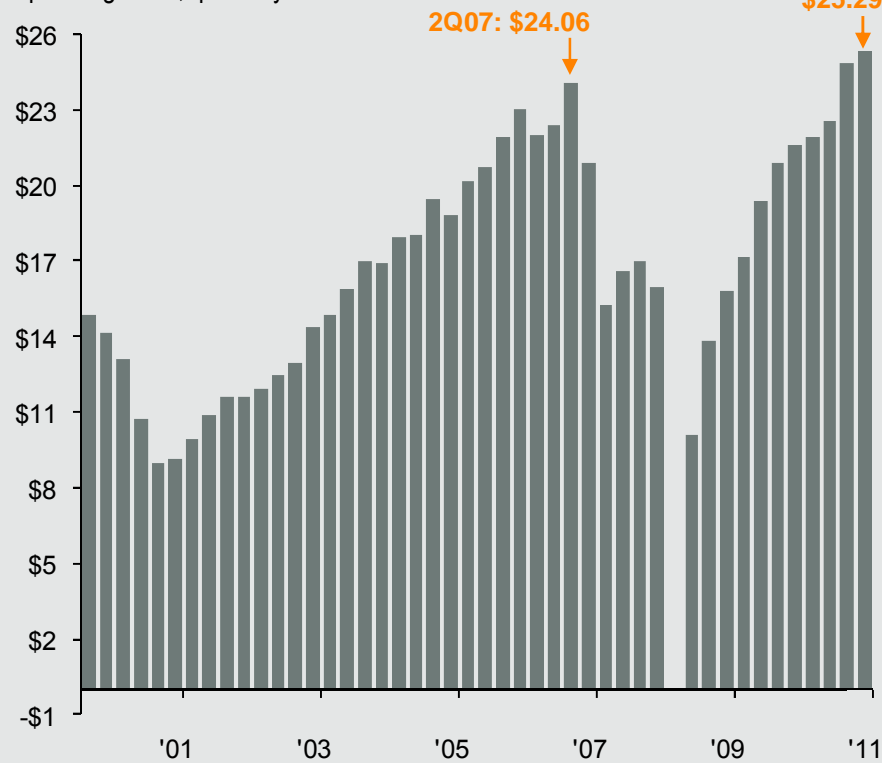
% of population aged 16+ working or looking for work



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

### S&P 500 Earnings Per Share

Operating basis, quarterly



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

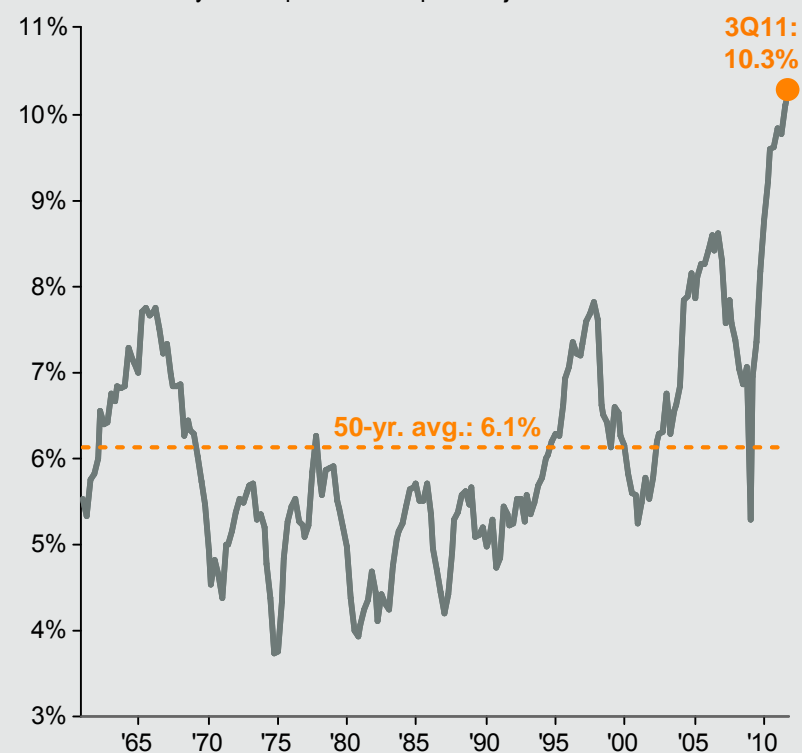
EPS levels are based on operating earnings per share.

Most recently available is a 3Q11 99% complete estimate.

Data reflect most recently available as of 12/31/11.

### Adjusted After-Tax Corporate Profits (% of GDP)

Includes inventory and capital consumption adjustments



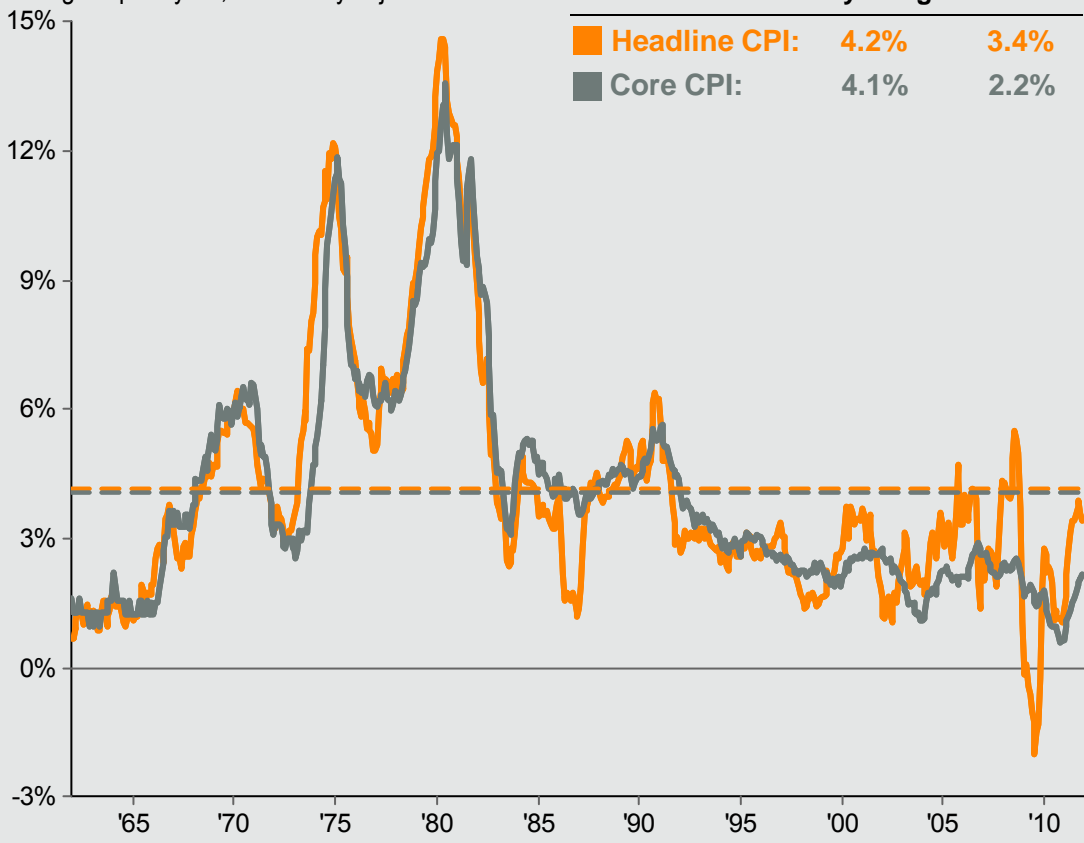
Source: BEA, FactSet, J.P. Morgan Asset Management.

# Consumer Price Index

Economy

## CPI and Core CPI

% chg vs. prior year, seasonally adjusted



CPI Components	Weight in CPI	12-month Change
Food & Bev.	14.8%	4.4%
Housing	41.5%	1.9%
Apparel	3.6%	4.8%
Transportation	17.3%	8.1%
Medical Care	6.6%	3.4%
Recreation	6.3%	0.3%
Educ. & Comm.	6.4%	1.4%
Other	3.5%	1.9%
<b>Headline CPI</b>	<b>100.0%</b>	<b>3.4%</b>
Less:		
Energy	9.1%	12.4%
Food	13.7%	4.6%
<b>Core CPI</b>	<b>77.2%</b>	<b>2.2%</b>

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

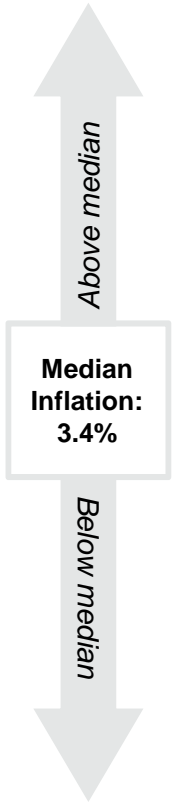
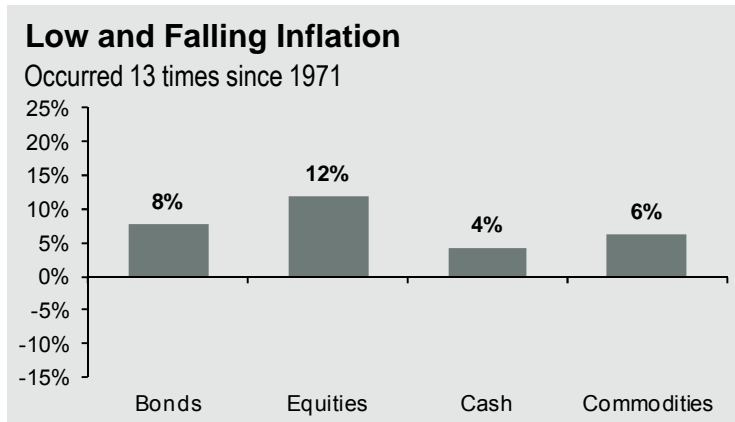
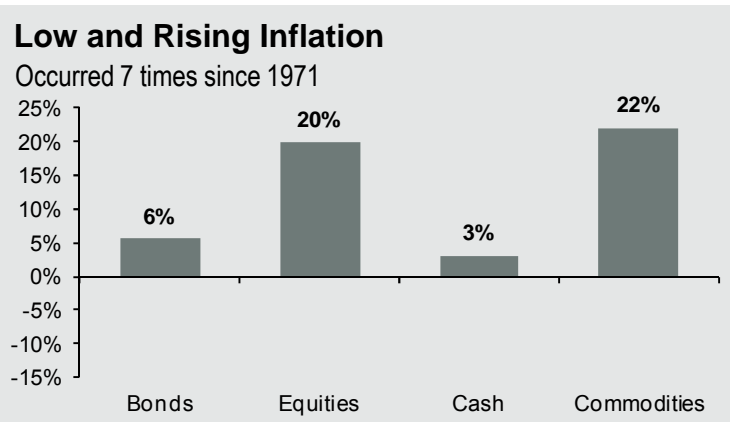
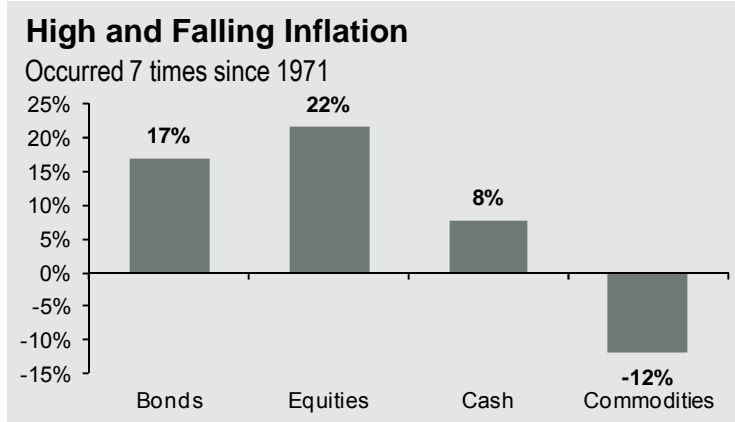
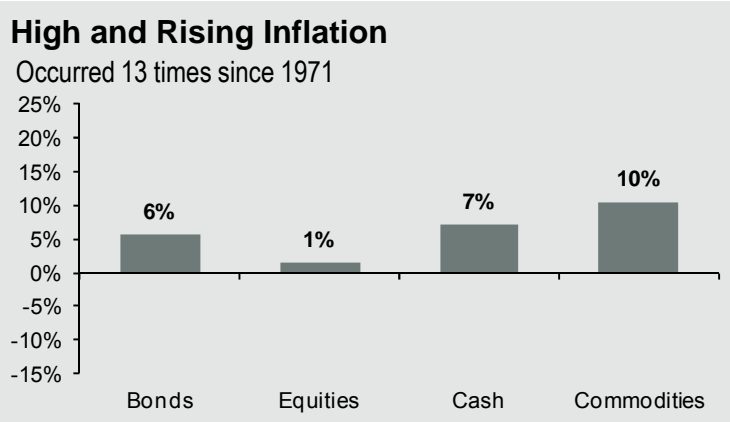
CPI values shown are % change vs. 1 year ago and reflect November 2011 CPI data. CPI component weights are as of December 2010 and 12-month change reflects non-seasonally adjusted data through November 2011. Core CPI is defined as CPI excluding food and energy prices.

Data reflect most recently available as of 12/31/11.

# Returns in Different Inflation Environments - 40 years

← Rising inflation scenarios

Falling inflation scenarios →



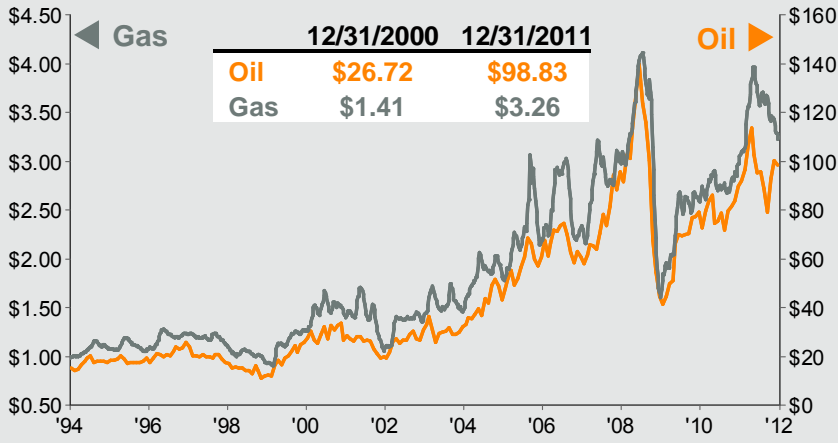
Source: BLS, Barclays Capital, Robert Shiller, Federal Reserve, Strategas/Ibbotson, Standard and Poor's, FactSet, J.P. Morgan Asset Management.

High or low inflation distinction is relative to median CPI-U inflation for the period 1971 to 2010. Rising or falling inflation distinction is relative to previous year CPI-U inflation rate. Bond returns are based on the Barclays U.S. Aggregate index since its inception in 1976 and a composite bond index prior to that. Equity returns based on S&P 500 price return and annual dividend yield. Cash returns are based on the Barclays 1-3 Month T-Bill index since its inception in 1992 and 3-month T-Bill rates prior to that. Commodities returns based on GSCI.

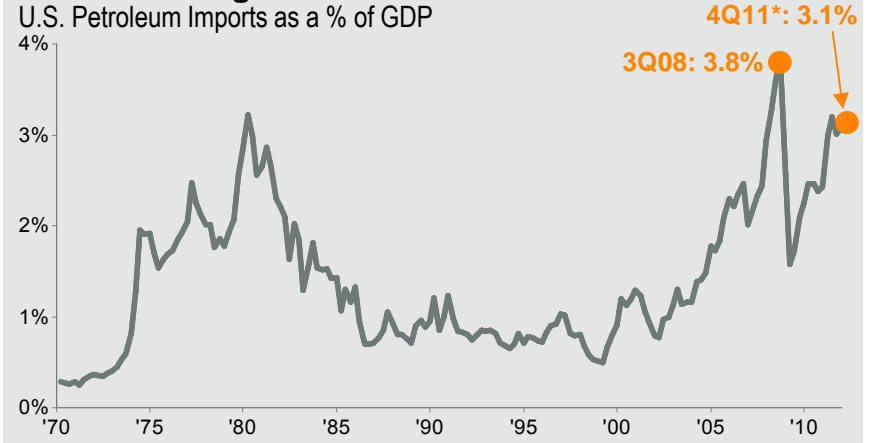
For illustrative purposes only. Past performance is not indicative of comparable future returns.

Data reflect most recently available as of 12/31/11.

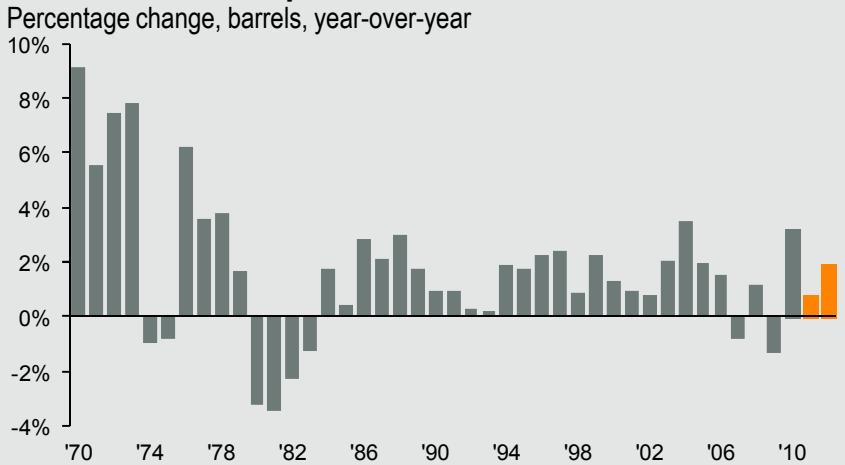
**WTI Crude Oil & Retail Gasoline Prices**



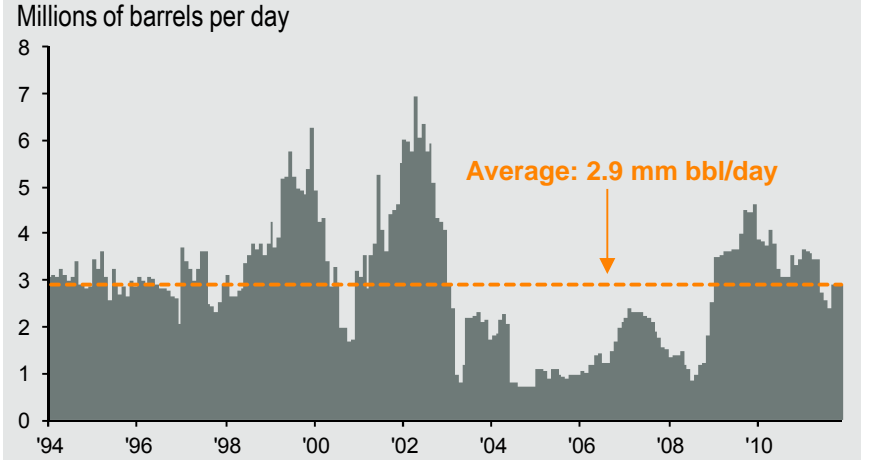
**Economic Drag From Oil Prices**



**World Oil Consumption**



**OPEC Spare Capacity – Crude Oil**



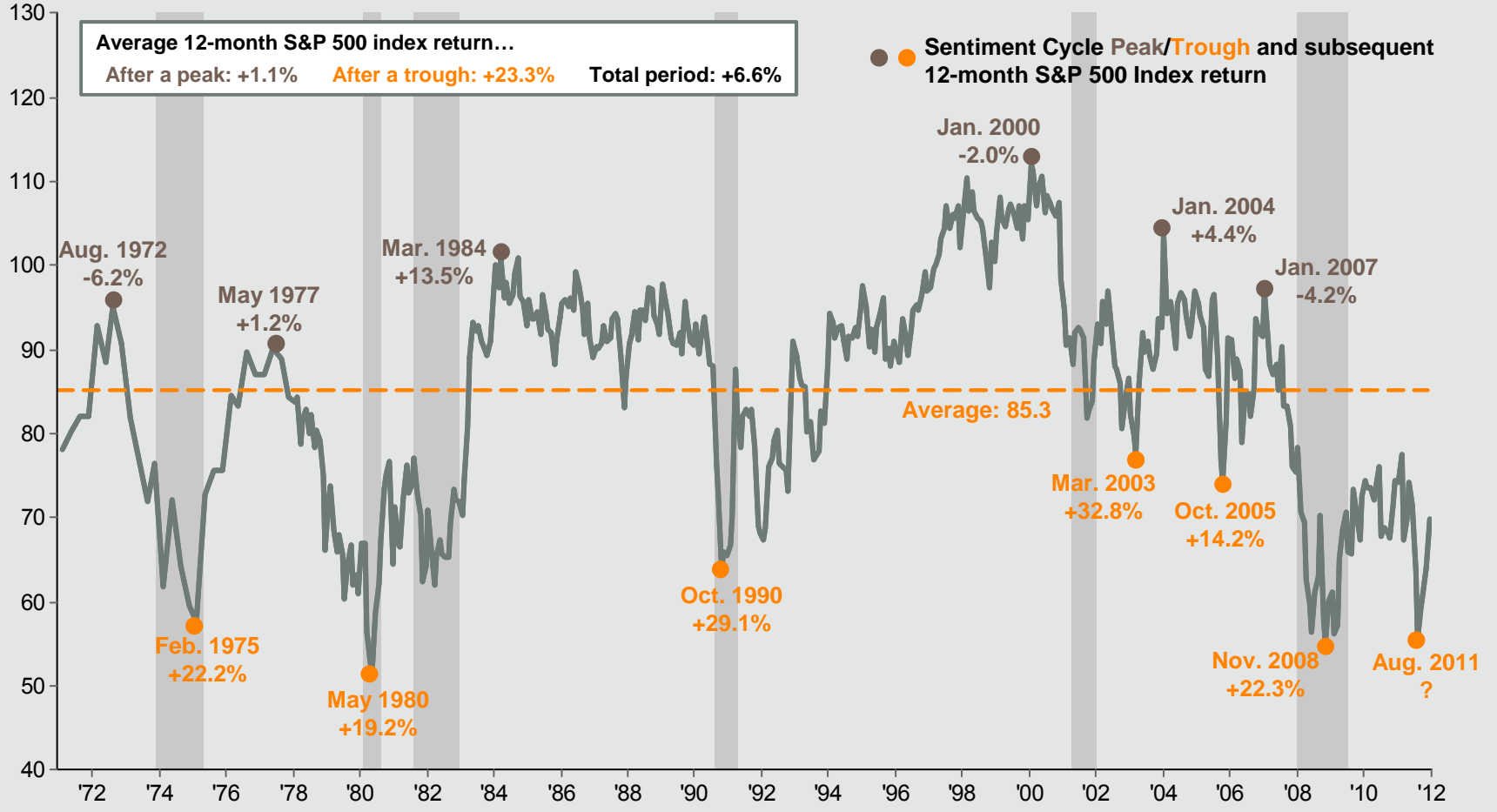
Source: U.S. Department of Energy, FactSet, J.P. Morgan Asset Management. Price of gas based on U.S. retail national average of all formulations and WTI for crude. 2011 and 2012 world oil consumption based on estimates from U.S. Department of Energy. Data reflect most recently available as of 12/31/11.

Source: (Top) BEA, FactSet, J.P. Morgan Asset Management. (Bottom) OPEC, EIA, J.P. Morgan Asset Management.

\*4Q11 drag from oil prices is a J.P. Morgan Asset Management estimate.

# Consumer Confidence and the Stock Market

## Consumer Sentiment Index – University of Michigan



Source: University of Michigan, FactSet, J.P. Morgan Asset Management.

Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends.

Data reflect most recently available as of 12/31/11.

# Fixed Income Sector Returns

Fixed Income

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	4Q11	10-yrs '02 - '11
Corp.	10.3%	TIPS 16.7%	High Yield 29.0%	EMD 11.9%	EMD 12.3%	High Yield 11.8%	TIPS 11.6%	Treas. 13.7%	High Yield 58.2%	High Yield 15.1%	TIPS 13.6%	High Yield 6.5%	EMD 185.6%
Barclays Agg	8.4%	EMD 12.2%	EMD 26.9%	High Yield 11.1%	Asset Alloc. 3.6%	EMD 10.0%	Treas. 9.0%	MBS 8.3%	EMD 34.2%	EMD 12.8%	Muni 10.7%	EMD 4.9%	High Yield 133.6%
MBS	8.2%	Treas. 11.8%	TIPS 10.6%	TIPS 6.3%	Muni 3.5%	MBS 5.2%	Barclays Agg 7.0%	Barclays Agg 5.2%	Corp. 18.7%	Corp. 9.0%	Treas. 9.8%	TIPS 2.7%	TIPS 107.5%
TIPS	7.9%	Barclays Agg 10.3%	Asset Alloc. 10.0%	Asset Alloc. 6.0%	TIPS 2.8%	Asset Alloc. 5.1%	MBS 6.9%	Asset Alloc. -1.4%	Asset Alloc. 15.8%	Asset Alloc. 7.6%	Asset Alloc. 8.9%	Asset Alloc. 2.4%	Asset Alloc. 96.0%
Asset Alloc.	6.8%	Corp. 10.1%	Corp. 8.2%	Corp. 5.4%	Treas. 2.8%	Muni 4.8%	Asset Alloc. 6.2%	TIPS -2.4%	Muni 12.9%	Barclays Agg 6.5%	Corp. 8.2%	Muni 2.1%	Corp. 85.2%
Treas.	6.7%	Asset Alloc. 10.0%	Muni 5.3%	MBS 4.7%	High Yield 2.7%	Barclays Agg 4.3%	EMD 5.2%	Muni -2.5%	TIPS 11.4%	TIPS 6.3%	Barclays Agg 7.8%	Corp. 1.9%	Barclays Agg 75.4%
High Yield	5.3%	Muni 9.6%	Barclays Agg 4.1%	Muni 4.5%	MBS 2.6%	Corp. 4.3%	Corp. 4.6%	Corp. -4.9%	Barclays Agg 5.9%	Treas. 5.9%	EMD 7.0%	Barclays Agg 1.1%	Treas. 74.3%
Muni	5.1%	MBS 8.7%	MBS 3.1%	Barclays Agg 4.3%	Barclays Agg 2.4%	Treas. 3.1%	Muni 3.4%	EMD -14.7%	MBS 5.9%	MBS 5.4%	MBS 6.2%	Treas. 0.9%	MBS 73.9%
EMD	1.5%	High Yield -1.4%	Treas. 2.2%	Treas. 3.5%	Corp. 1.7%	TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 2.4%	High Yield 5.0%	MBS 0.9%	Muni 68.8%

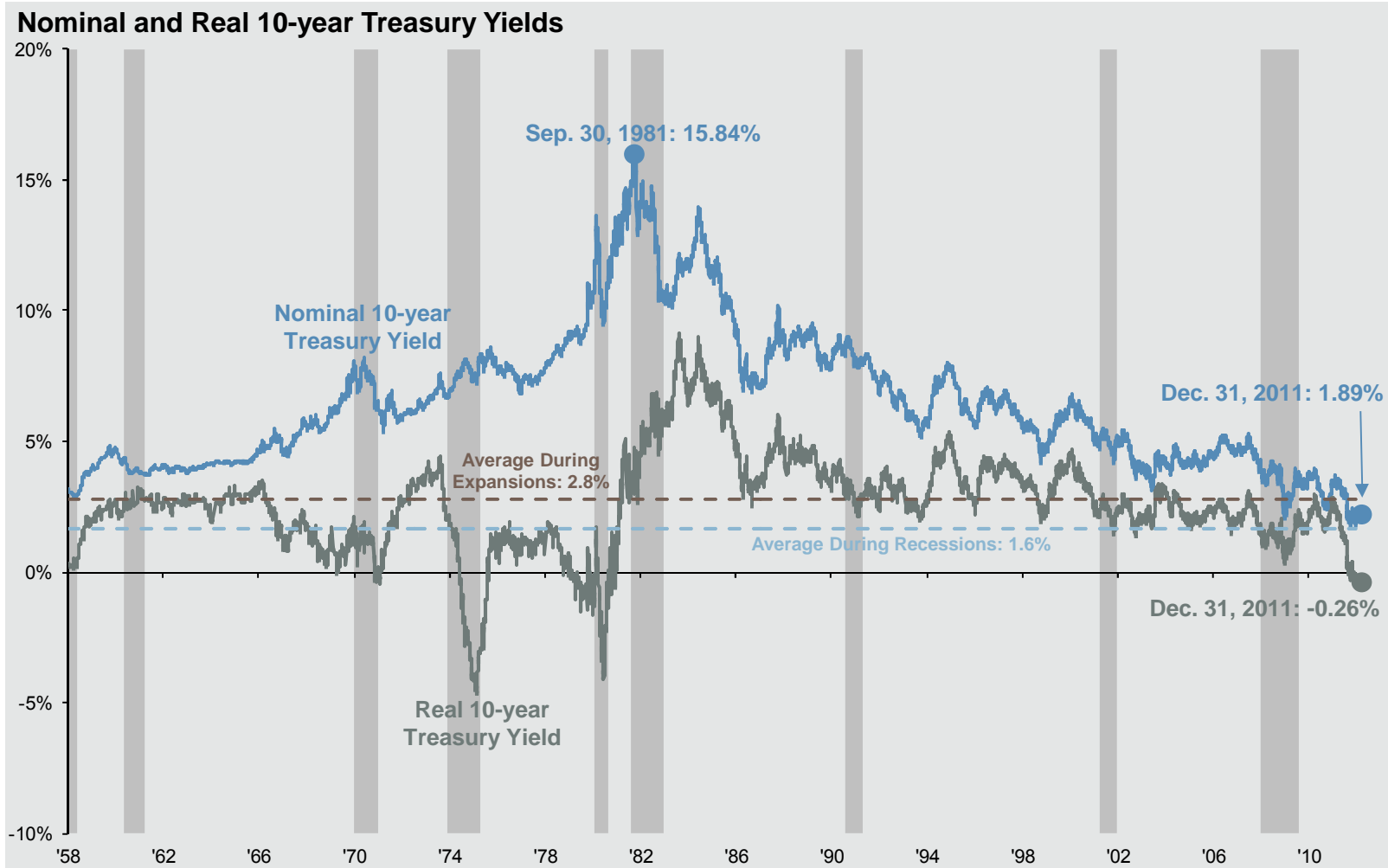
Source: Barclays Capital, FactSet, J.P. Morgan Asset Management.

Past performance is not indicative of future returns. Fixed income sectors shown above are provided by Barclays Capital and are represented by: Barclays Capital U.S. Aggregate Index; MBS: Fixed Rate MBS Index; Corporate: U.S. Corporates; Municipals: Muni Bond Index; Emerging Debt: Emerging Markets Index; High Yield: Corporate High Yield Index; Treasuries: Barclays Capital U.S. Treasury; TIPS: Barclays Capital TIPS. The "Asset Allocation" portfolio assumes the following weights:

10% in MBS, 20% in Corporate, 15% in Municipals, 10% in Emerging Debt, 10% in High Yield, 25% in Treasuries, 10% in TIPS.

Asset allocation portfolio assumes annual rebalancing.

Data are as of 12/31/11.



Source: Federal Reserve, BLS, J.P. Morgan Asset Management.

Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core inflation for that month except for December 2011, where real yields are calculated by subtracting out November 2011 year-over-year core inflation.

Data are as of 12/31/11.

# Fixed Income Yields and Returns

U.S. Treasuries	# of issues	Mkt. Value	Avg. Maturity	Yield		Return	
				12/31/2010	12/31/2011	2011	4Q11
2-Year	} # of issues: 154 Total value: \$4.558 tn		2 years	0.61%	0.25%	1.53%	0.09%
5-Year			5	2.01	0.83	9.36	1.26
10-Year			10	3.30	1.89	17.18	1.23
30-Year			30	4.34	2.89	35.60	1.95
Sector							
Broad Market	7,829	\$15,926 bn	7.1 years	2.97%	2.24%	7.84%	1.12%
MBS	969	5,064	4.9	3.67	2.68	6.23	0.88
Corporates	4,005	3,175	10.5	4.02	3.74	8.15	1.93
Municipals	46,035	1,284	13.5	3.80	2.82	10.70	2.12
Emerging Debt	463	634	11.1	5.76	6.07	6.97	4.93
High Yield	1,847	928	6.7	7.51	8.36	4.98	6.46
TIPS	31	718	9.3	2.78	1.69	13.56	2.69

Source: U.S. Treasury, Barclays Capital, FactSet, J.P. Morgan Asset Management.

Fixed income sectors shown above are provided by Barclays Capital and are represented by – Broad Market: US Barclays Capital Index; MBS: Fixed Rate MBS Index; Corporate: U.S. Corporates; Municipals: Muni Bond Index; Emerging Debt: Emerging Markets Index; High Yield: Corporate High Yield Index. TIPS: Treasury Inflation Protection Securities (TIPS). Treasury securities data for # of issues and market value based on U.S. Treasury benchmarks from Barclays Capital. Yield and return information based on Bellwethers for Treasury securities.

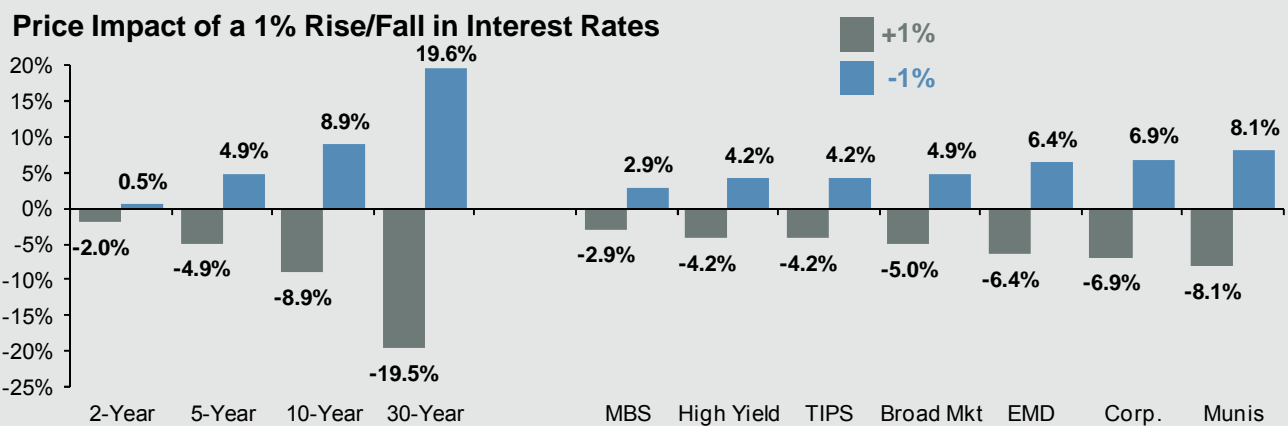
Change in bond price is calculated using both duration and convexity according to the following formula:  

$$\text{New Price} = (\text{Price} + (\text{Price} * \text{-Duration} * \text{Change in Interest Rates})) + (0.5 * \text{Price} * \text{Convexity} * (\text{Change in Interest Rates})^2)$$

\*Calculation assumes 2-year Treasury interest rate falls 0.25% to 0.00% as interest rates can only fall to 0.00%.

Chart is for illustrative purposes only. Past performance is not indicative of comparable future results.

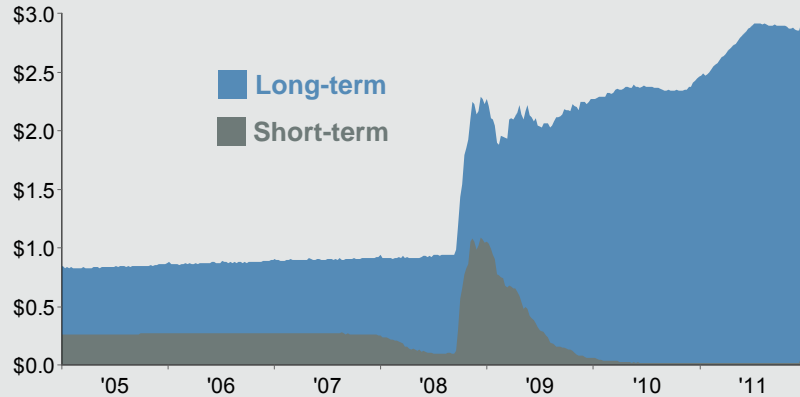
Data are as of 12/31/11.



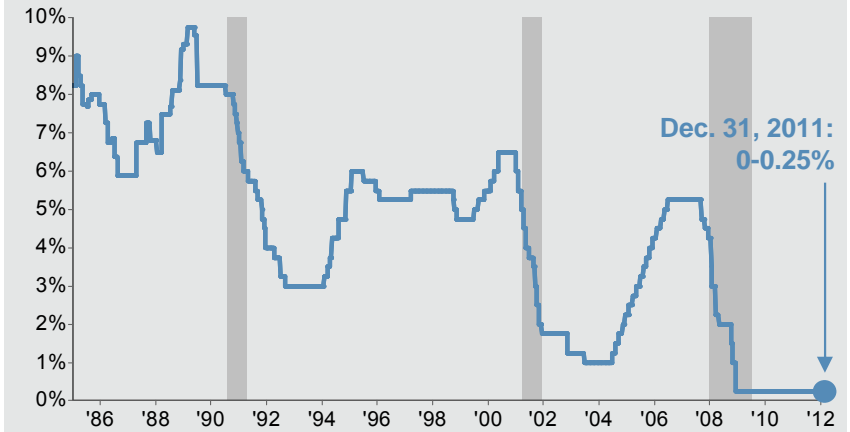
# The Fed and the Money Supply

## Federal Reserve Balance Sheet

U.S. Federal Reserve, total reserve bank credit, \$ trillions

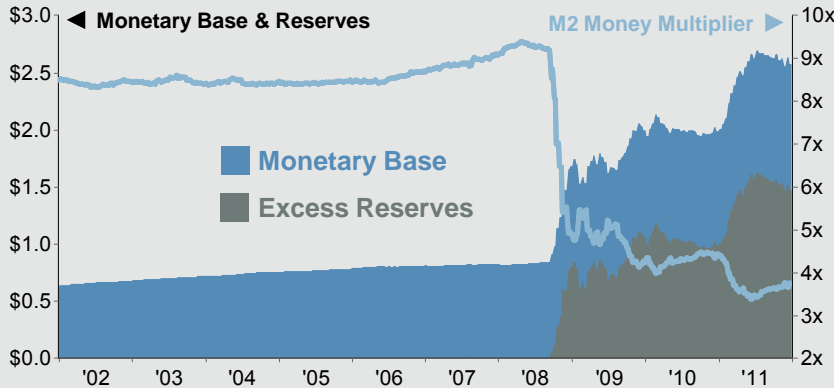


## Federal Funds Rate



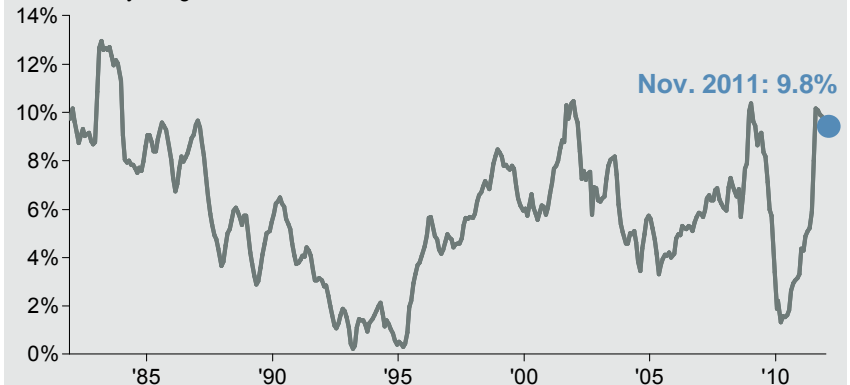
## Excess Reserves, Monetary Base and Multiplier

\$ trillions



## Money Supply Growth

Year-over-year growth in M2



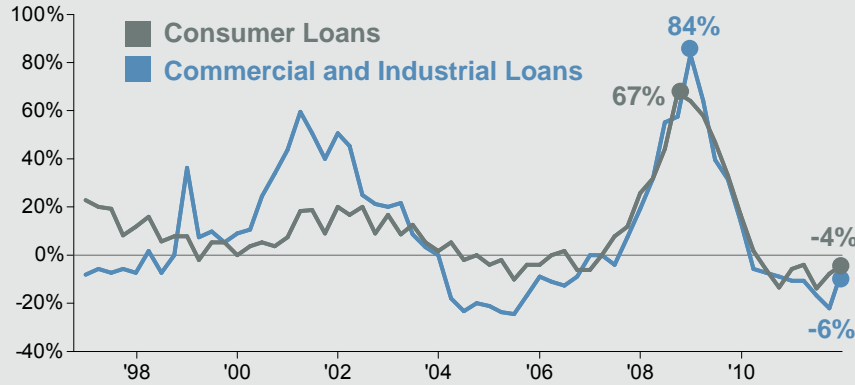
Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.

Monetary base is defined as the total amount of a currency that is either circulated in the hands of the public or in the commercial bank deposits held in the central bank's reserves. Money multiplier defined as M2 divided by the monetary base.

Data are as of 12/31/11.

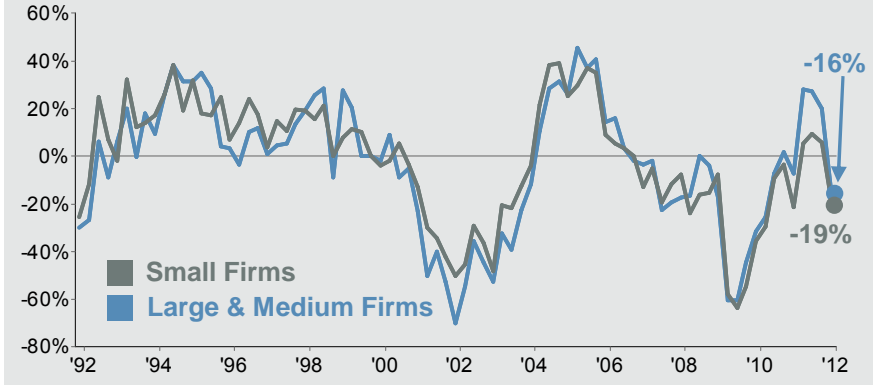
**Lending Standards: Consumer Loans**

Net percent of banks reporting tighter lending standards



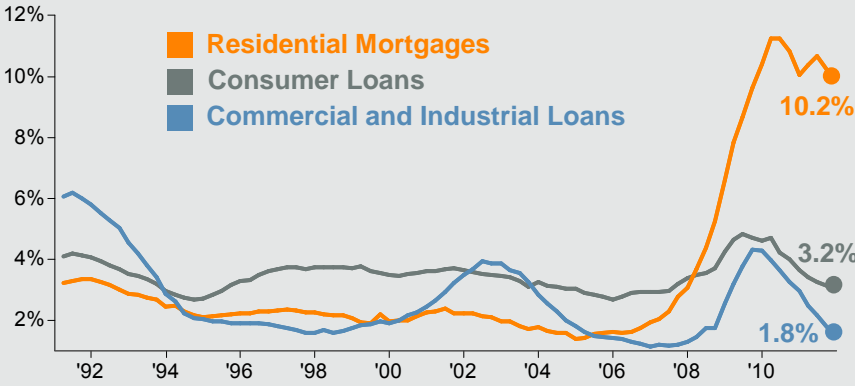
**Consumer & Industrial Loan Demand**

Net percent of banks reporting stronger demand



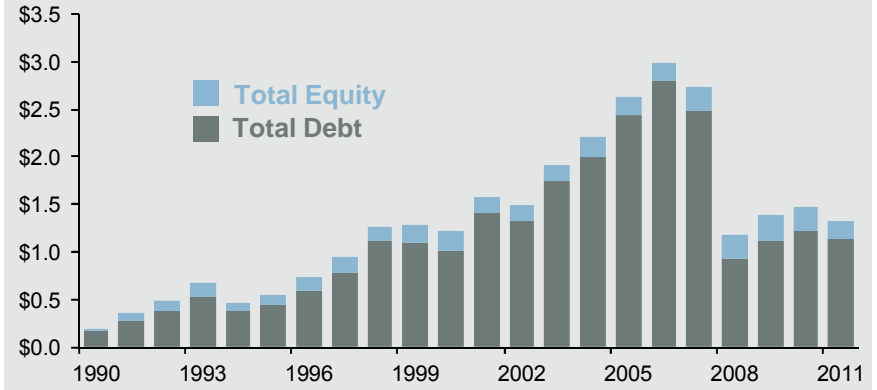
**Delinquency Rates**

All banks, seasonally adjusted



**U.S. Corporate Issuance**

\$ trillions



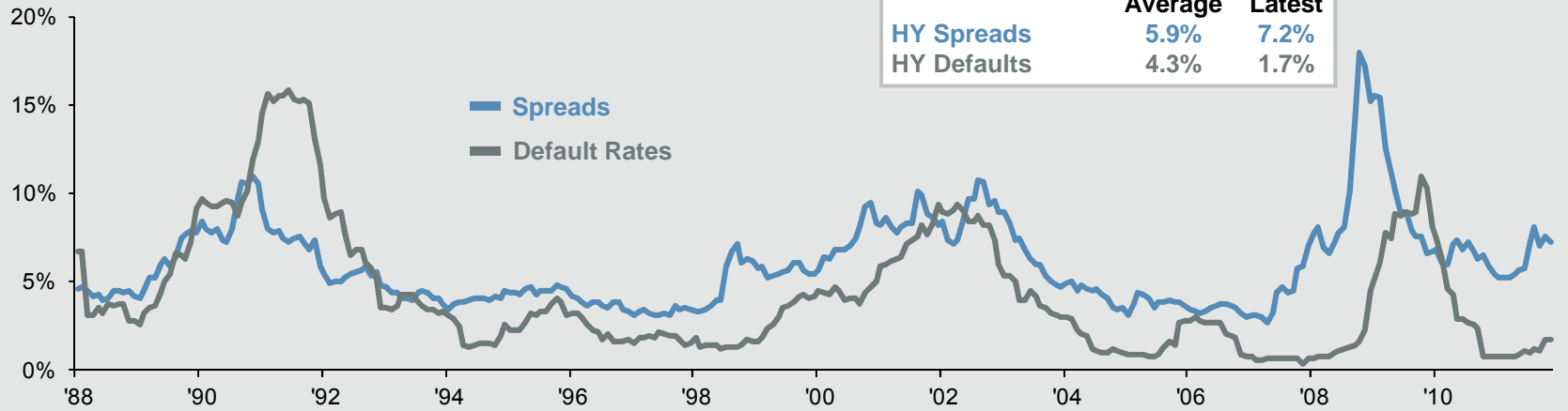
Source: (Top left) Federal Reserve, FactSet, J.P. Morgan Asset Management. (Top right) Federal Reserve, FactSet, J.P. Morgan Asset Management. (Bottom left): Federal Reserve, FactSet, J.P. Morgan Asset Management. (Bottom right) SIFMA, J.P. Morgan Asset Management.

All data reflect most recently available releases. 2Q11 – 4Q11 estimates of lending standards on consumer loans are J.P. Morgan Asset Management estimates. 2011 corporate issuance is through November 2011.

Data are as of 12/31/11.

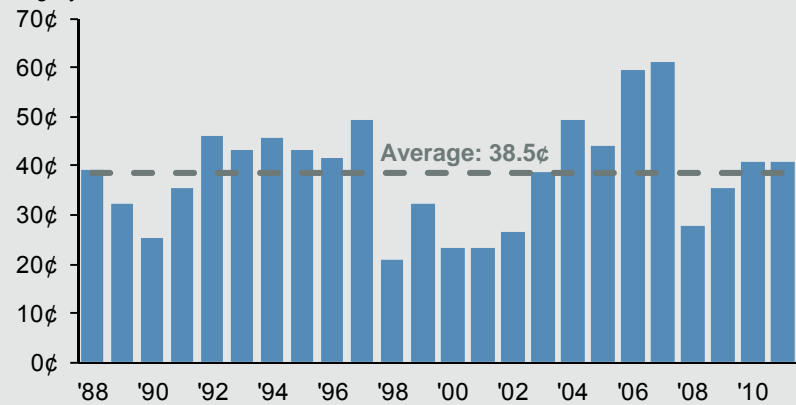
# High Yield Bonds

## High Yield Spreads and Defaults



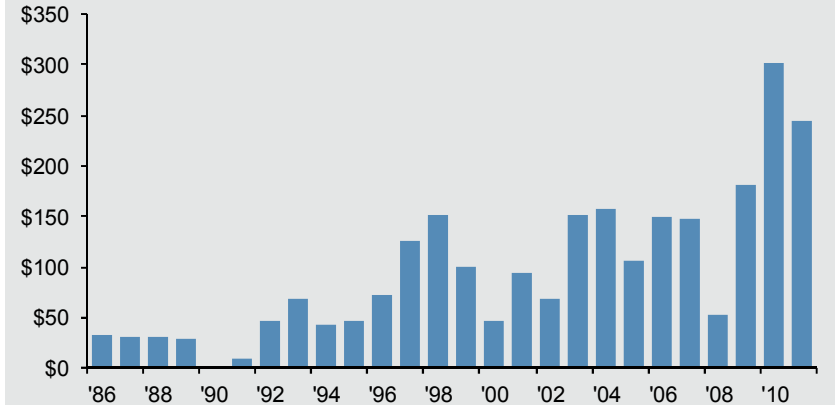
## Historical High Yield Recovery Rates

High yield bonds, cents on the dollar



## Annual High Yield Bond Issuance

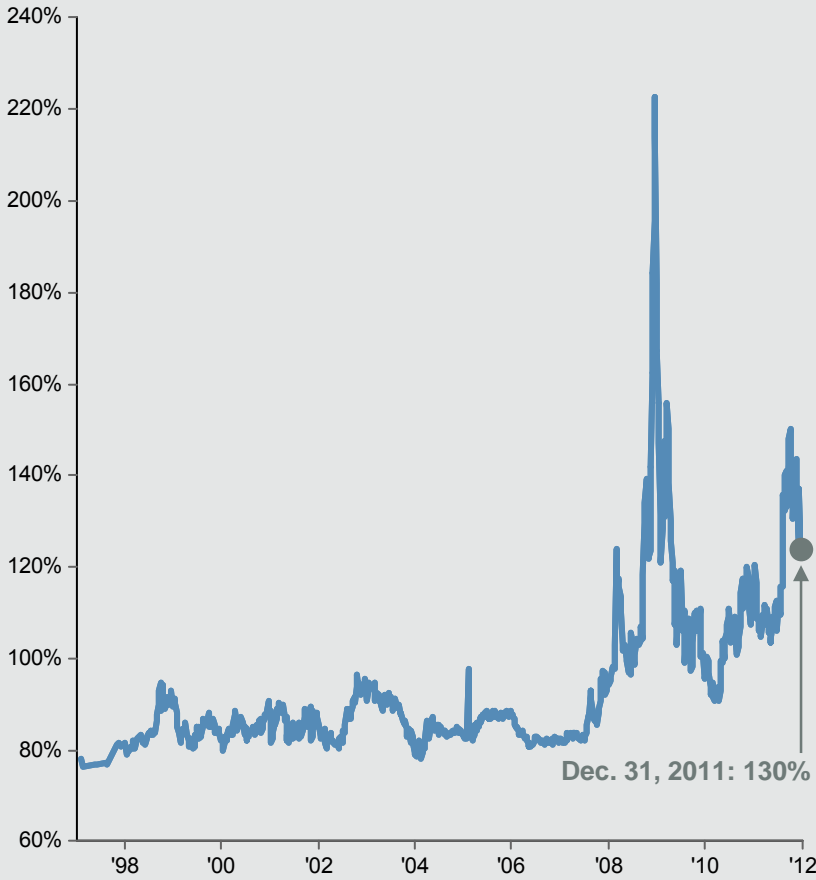
Billions USD



Source (Top chart): U.S. Treasury, J.P. Morgan, J.P. Morgan Asset Management. Default rates are defined as the par value percentage of the total market trading at or below 50% of par value and include any Chapter 11 filing, prepackaged filing or missed interest payments. (Bottom left): J.P. Morgan, Moody's, J.P. Morgan Asset Management. (Bottom right): J.P. Morgan Asset Management. Yield to worst is defined as the lowest potential yield that can be received on a bond without the issuer actually defaulting and reflects the possibility of the bond being called at an unfavorable time for the holder. Spreads indicated are benchmark yields less comparable maturity Treasury yields. Past performance is not indicative of comparable future results. 2011 issuance and recovery rates are as of December 15, 2011. Data are as of 12/31/11.

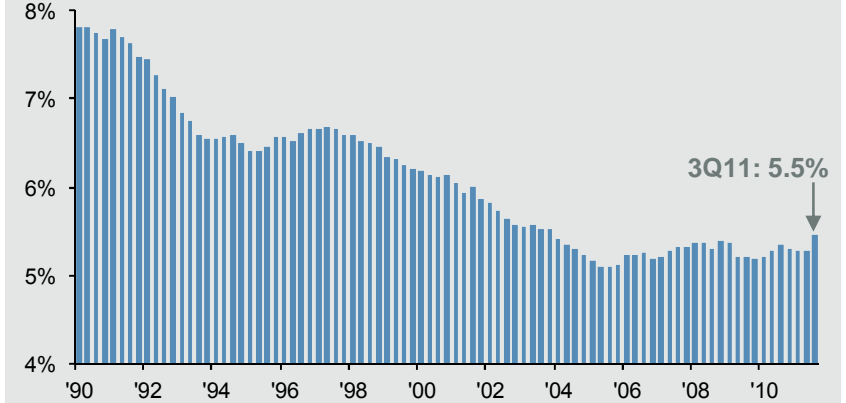
**Muni/Treasury Ratio**

Ratio of Barclays 10-year Municipal Bond yield to 10-year Treasury



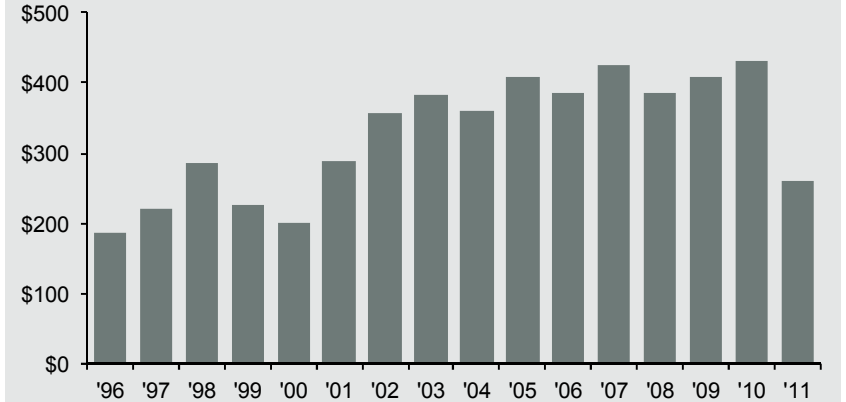
**State & Local Government Debt Service**

Percent of current expenditures



**Municipal Bond Issuance\***

Billions USD, revenue and GO issues



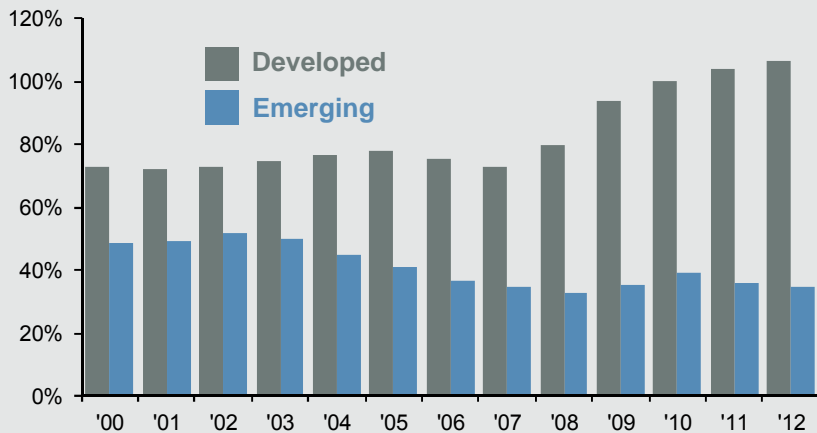
Source (Left chart): Barclays Capital, U.S. Treasury, FactSet, J.P. Morgan Asset Management. (Top right) BEA, J.P. Morgan Asset Management. (Bottom Right) SIFMA, J.P. Morgan Asset Management.

\*Excludes maturities of 13 months or less and private placements. 2011 issuance data is as of November 2011.

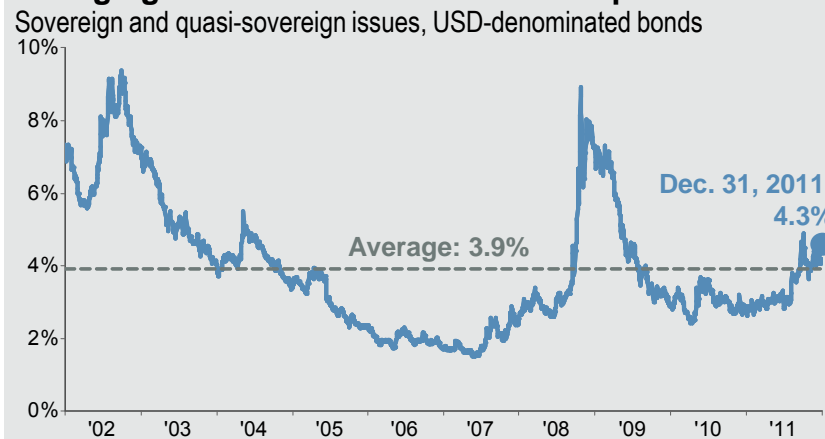
Data are as of 12/31/11.

# Emerging Market Debt

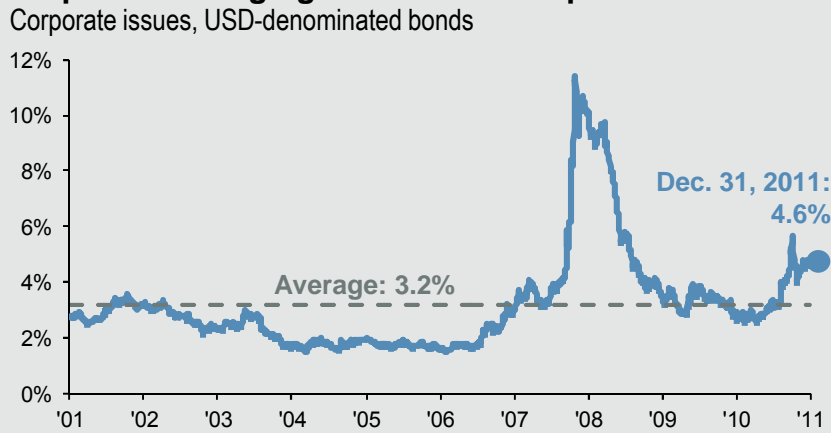
**EM & DM Gross Debt to GDP**



**Emerging Markets Bond Index Global Spreads**



**Corporate Emerging Markets Bond Spreads**



**Local Emerging Market Bond Yields**



Source: J.P. Morgan, IMF, MorganMarkets, FactSet, J.P. Morgan Asset Management.

Spreads measure the credit risk premium over comparable maturity U.S. Treasury bonds. The J.P. Morgan EMBI Global (EMBIG) Index is a USD-denominated external debt index tracking bonds issued by sovereigns and quasi-sovereigns in developing nations. The J.P. Morgan Corporate Emerging Bond Index (CEMBI) is a USD-denominated external debt index tracking bonds issued by corporations. The J.P. Morgan GBI-EM index is a local currency-denominated index tracking bonds issued by emerging market governments. Debt to GDP ratios use IMF definition and data for developed and emerging countries; 2012 ratios are IMF estimates. Past performance is not indicative of comparable future results. Data are as of 12/31/11.

## International Returns and Global Market Share

Country / Region	4Q11		2011	
	Local	USD	Local	USD
<b>Regions / Broad Indexes</b>				
USA (S&P 500)	-	11.8	-	2.1
EAFE	4.1	3.4	-11.7	-11.7
Europe ex-U.K.	6.6	3.5	-12.1	-14.5
Pacific ex-Japan	2.2	6.0	-12.8	-12.7
Emerging Markets	4.9	4.4	-12.5	-18.2
<b>MSCI: Selected Countries</b>				
United Kingdom	9.4	9.1	-1.8	-2.5
France	6.3	2.8	-13.2	-16.0
Germany	7.4	3.9	-14.7	-17.5
Japan	-4.0	-3.8	-18.6	-14.2
China	7.9	8.1	-18.3	-18.2
India	-7.0	-14.2	-25.4	-37.2
Brazil	9.5	8.9	-11.9	-21.6
Russia	5.9	6.2	-15.5	-19.3

	Size of Equity Market	Size of Economy
	% of global market cap.	% of global GDP
<b>Developed Markets</b>	<b>87.4%</b>	<b>51.0%</b>
United States	46.0%	19.1%
Canada	4.5%	1.8%
Japan	8.0%	5.6%
United Kingdom	8.6%	2.9%
Europe ex-U.K.	15.2%	15.4%
France	3.5%	2.8%
Germany	2.9%	3.9%
Spain	1.2%	1.8%
Italy	0.8%	2.3%
Other Europe	6.8%	4.6%
Other Developed	5.1%	6.3%
<b>Emerging Markets</b>	<b>12.6%</b>	<b>49.0%</b>
Korea	1.9%	2.0%
Brazil	1.9%	2.9%
Russia	0.8%	3.0%
India	0.8%	5.7%
China	2.2%	14.4%
Mexico	0.6%	2.1%
Other EM	4.4%	19.0%

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

All return values are MSCI Gross Index (official) data. Returns are as of 12/31/11. MSCI ACWI weights as of 12/31/11. Share of global GDP based on purchasing power parity (PPP) as calculated by the IMF for 2011.

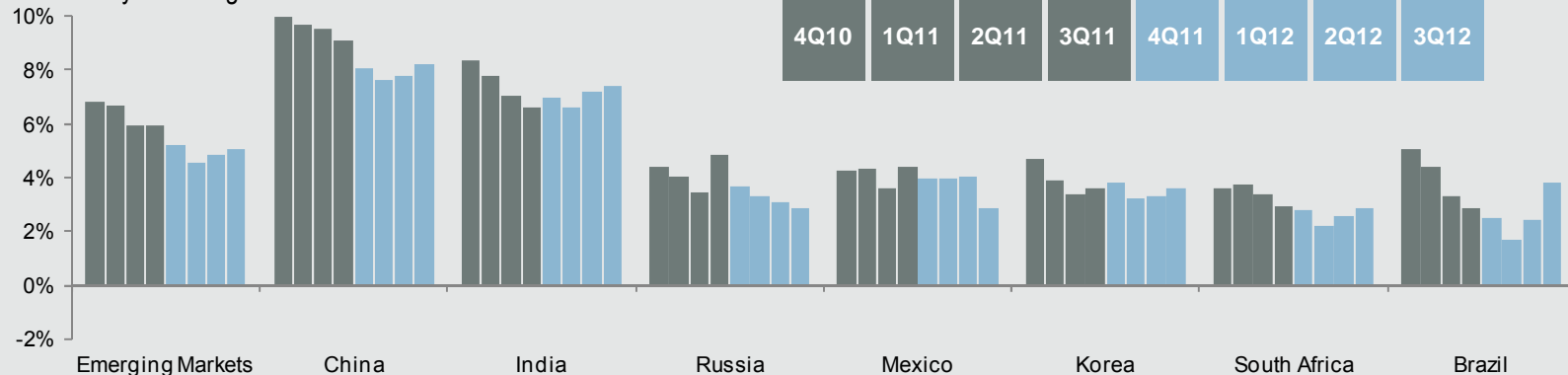
International investing involves a greater degree of risk and volatility. Changes in currency exchange rate and political and economic climate can raise or lower returns. Past performance is not indicative of future results. Europe and other developed regions exclude Emerging Markets, which are shown separately. Europe excludes the U.K. and Pacific excludes Japan.

Data are as of 12/31/11.

# Global Economic Growth

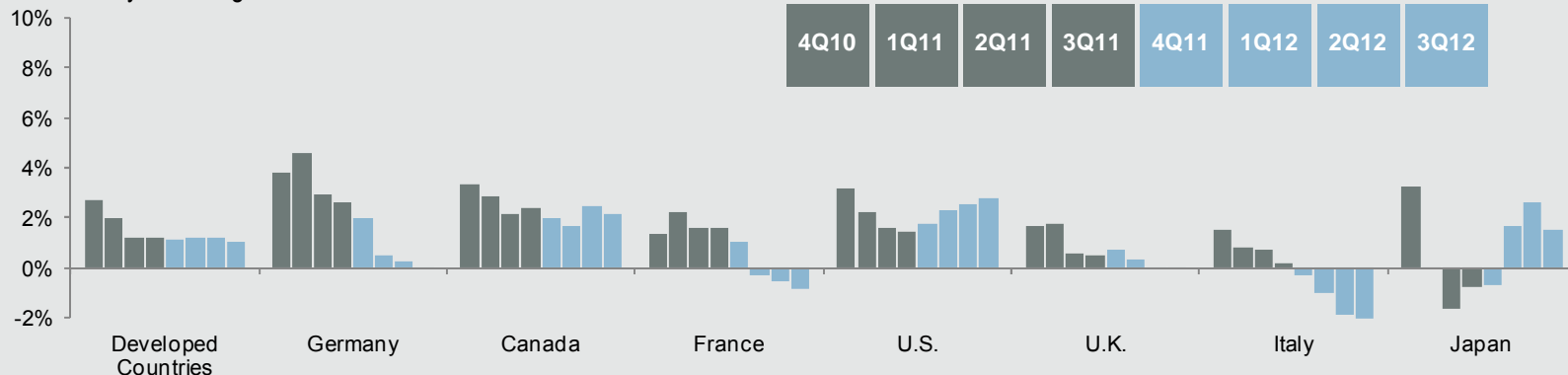
## Emerging Market Country Real GDP Growth

Year-over-year % chg. – forecasts from JPMSI



## Developed Market Country Real GDP Growth

Year-over-year % chg. – forecasts from JPMSI



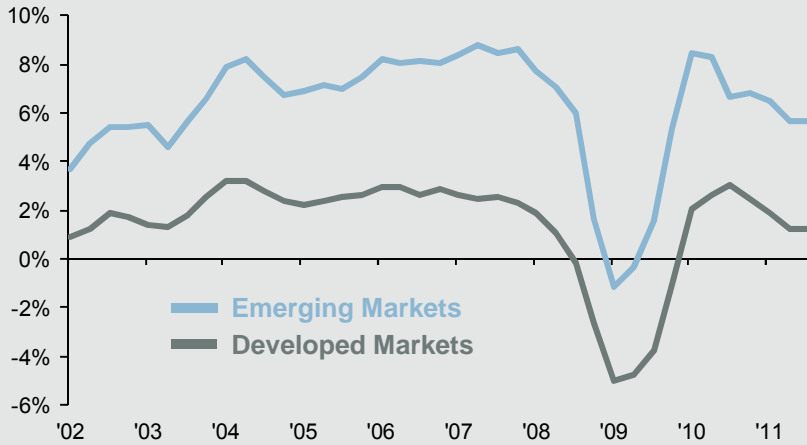
Source: J.P. Morgan Global Economic Research, J.P. Morgan Asset Management.

Forecast and aggregate data come from J.P. Morgan Global Economic Research.

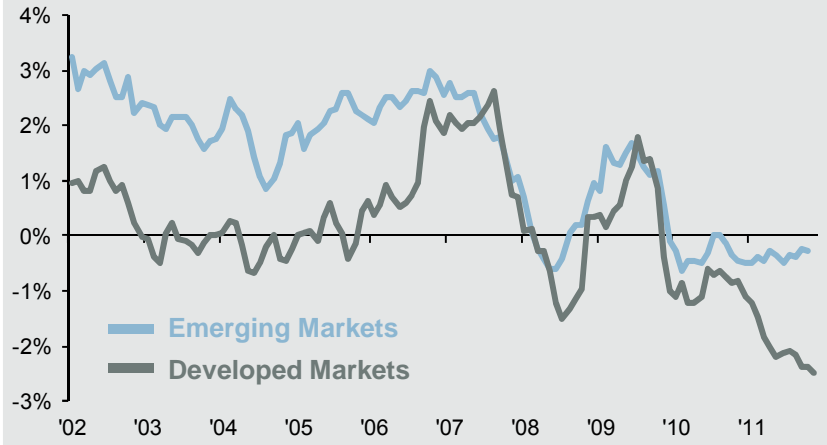
Data reflect most recently available as of 12/31/11.

# Global Monetary Policy

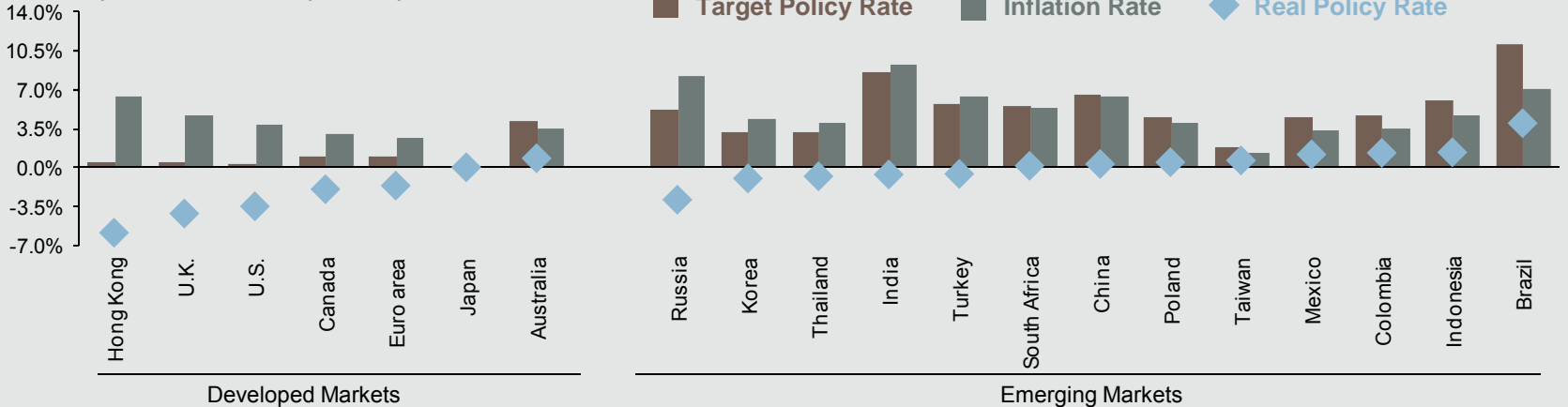
**Real GDP Growth Rates – Quarterly Year-over-Year**



**Real Policy Rates – Monthly**



**Country Level Monetary Policy and Inflation**



Source: J.P. Morgan Global Economics Research, J.P. Morgan Asset Management.

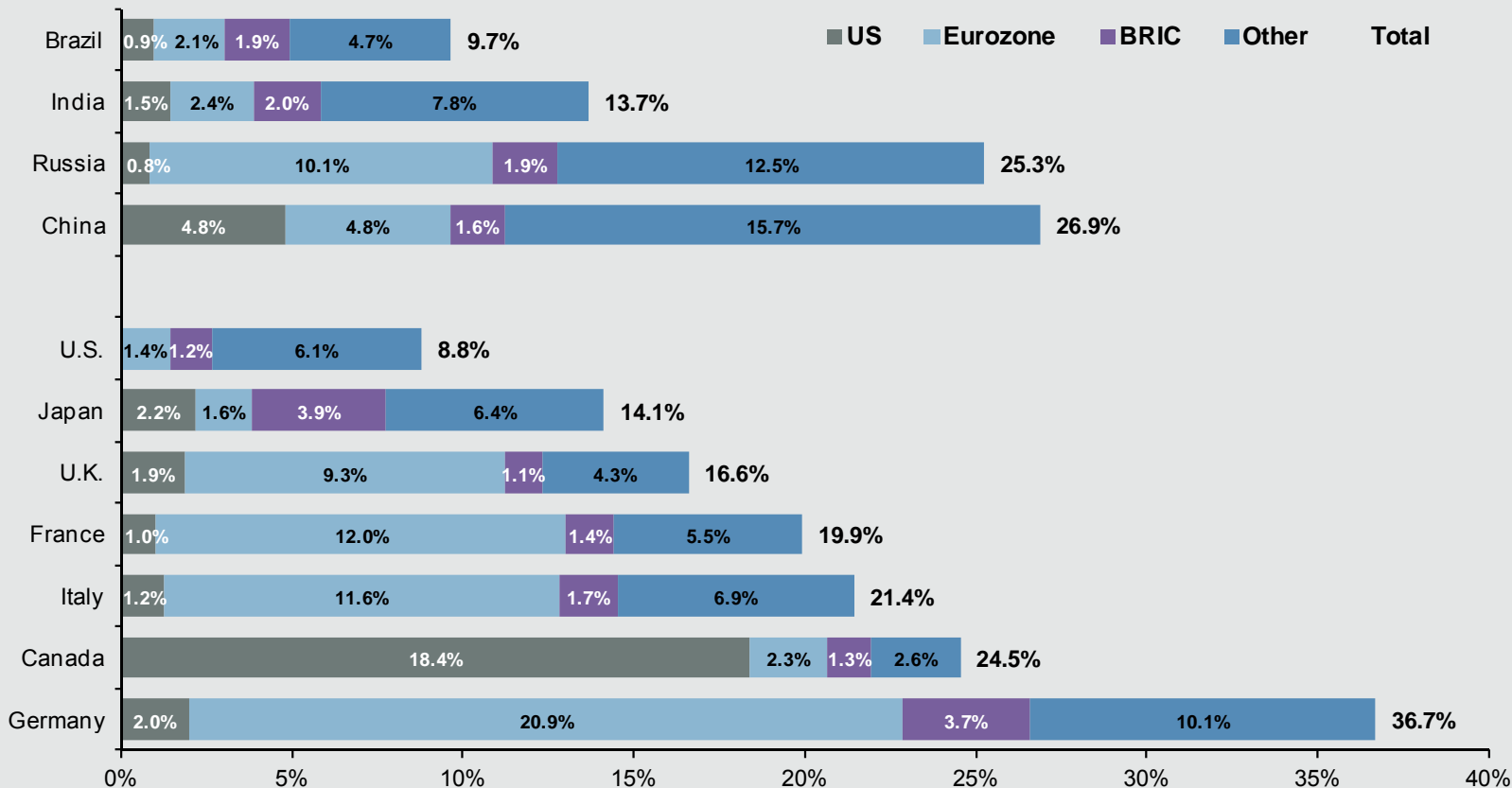
(Top charts) Emerging and Developed Economy GDP growth and real policy rates represent GDP weighted aggregates estimated by J.P. Morgan Global Economics Research. (Bottom chart) Target policy rates are the short-term target interest rates set by central banks. Inflation rates shown represent year-over-year quarterly rates for 3Q11. Real policy rates are short-term target interest rates set by central banks minus year-over-year inflation.

Data are as of 12/31/11.

# The Importance of Exports

## Exports as a % of GDP – 2010

Goods exports only

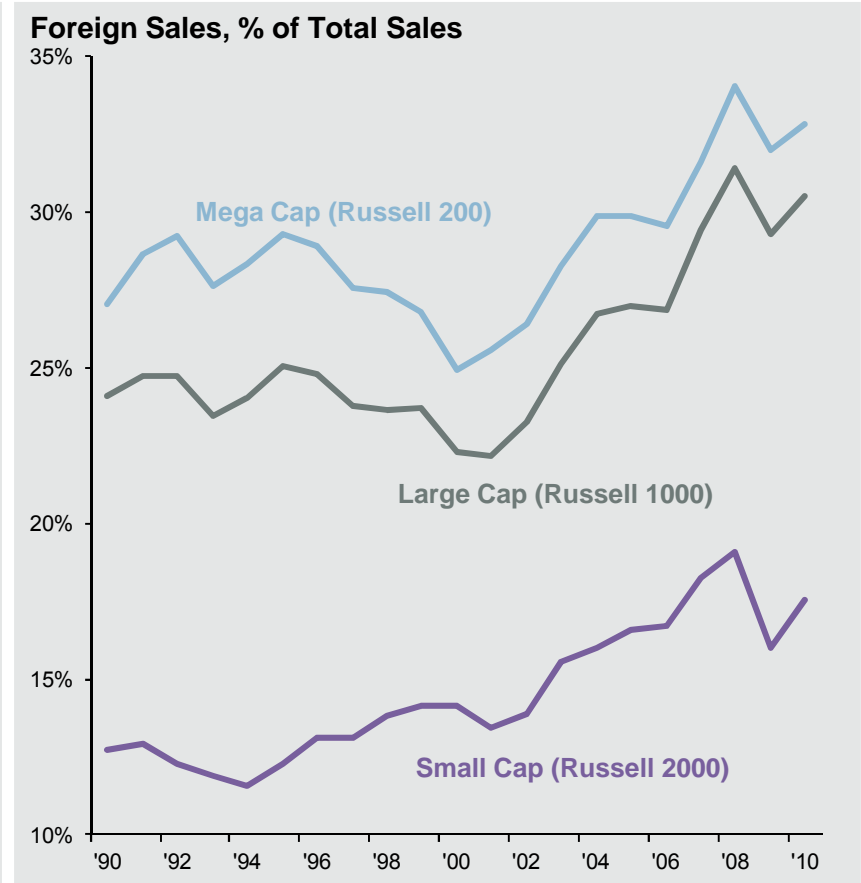
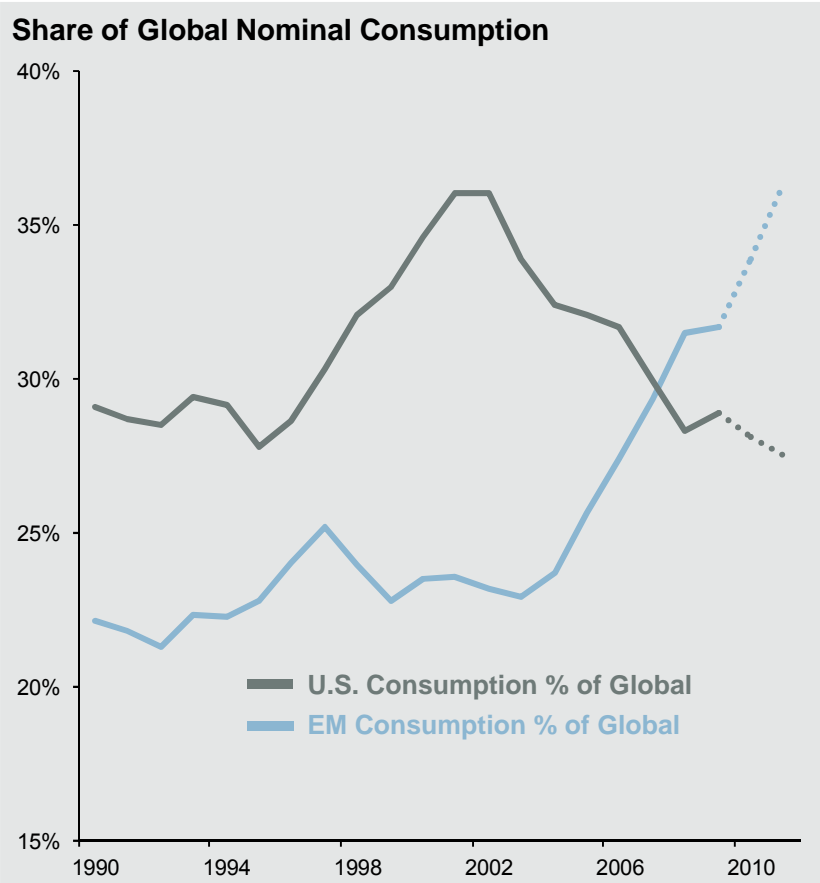


Source: IMF, J.P. Morgan Asset Management.

Numbers represent exports of goods only, and would be higher if services were included.

Data reflect most recently available as of 12/31/11.

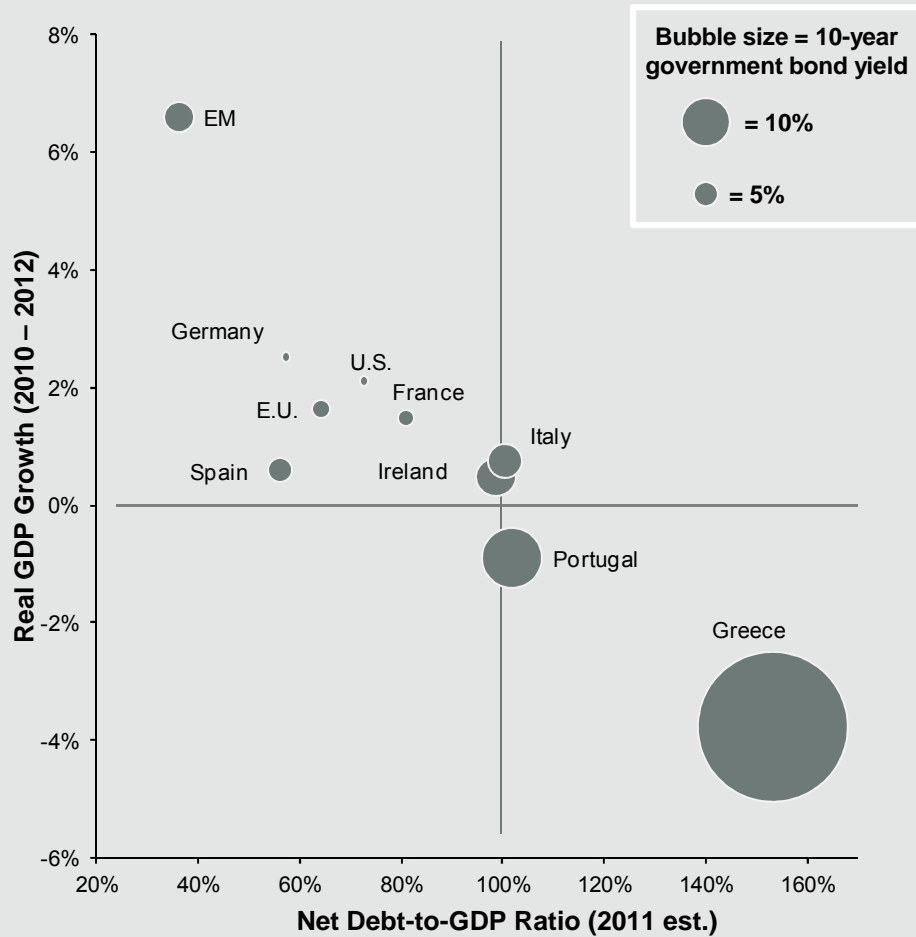
# The Impact of Global Consumers



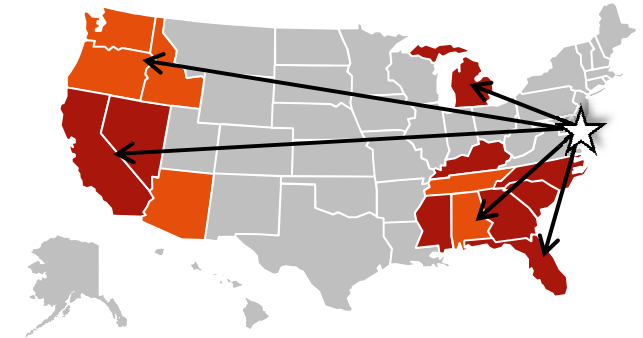
Source: FactSet, Compustat, Russell, J.P. Morgan Global Economics Research, J.P. Morgan Asset Management.  
 Estimates of global consumption for 2010 and 2011 provided by J.P. Morgan Global Economics Research.  
 Foreign sales as a percentage of total sales is calculated as an unweighted average of individual index constituent companies' reported sales figures and does not capture all index members due to differences in reporting practices.  
 Data are as of 12/31/11.

# European Crisis: Fiscal Challenges

## GDP Growth, Debt to GDP and Borrowing Costs



## Example of Fiscal Redistribution in U.S.



## The E.U. Lacks a Similar Fiscal Mechanism



Source: IMF, BLS, J.P. Morgan Asset Management.

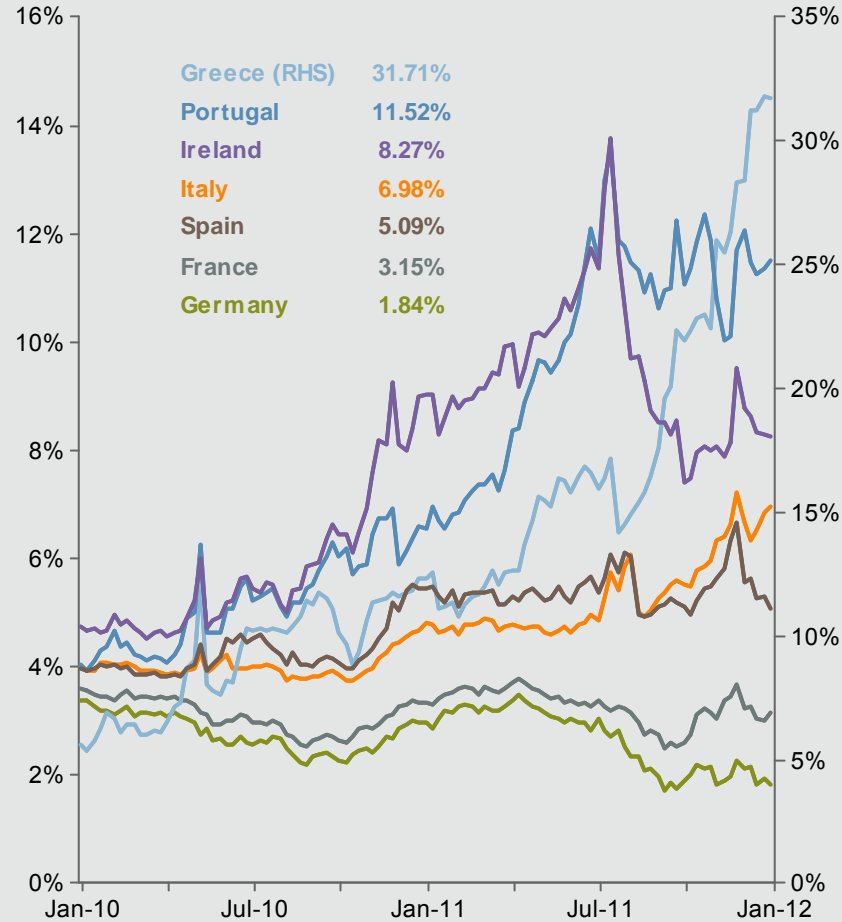
Maps are for illustrative purposes only and are intended to show the current sources of stress in each region. The U.S. state colors are based on level of unemployment rate. European country colors are based on levels of sovereign stress, including but not exclusively the measure shown in the above chart on the left. Bond yields as of 12/31/11.

Data are as of 12/31/11.

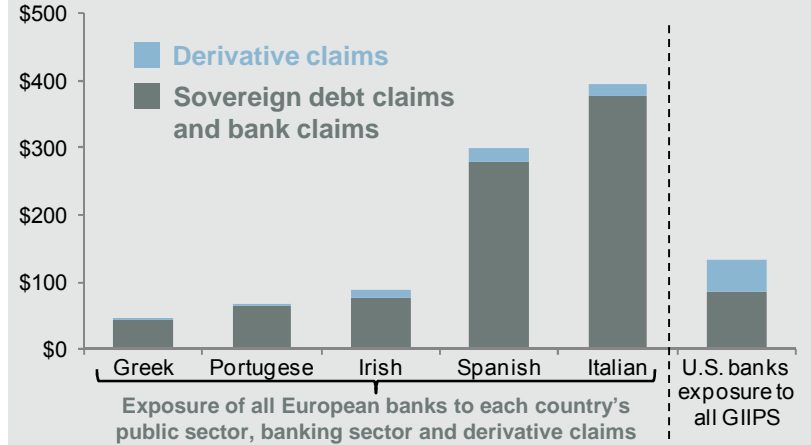
# European Crisis: Financial System Risks

## European Sovereign Funding Costs

10-year benchmark bond yields, weekly

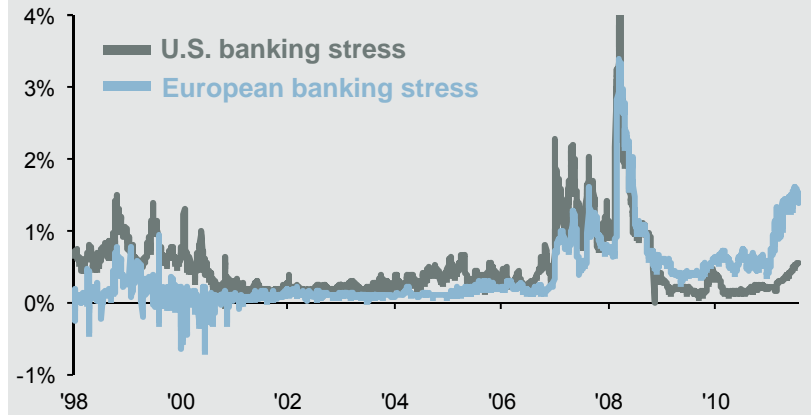


## European Bank Exposure – \$ Billions



## Interbank Short-term Lending Rates

3mo LIBOR – 3mo UST, 3mo EURIBOR – 3mo German Bund

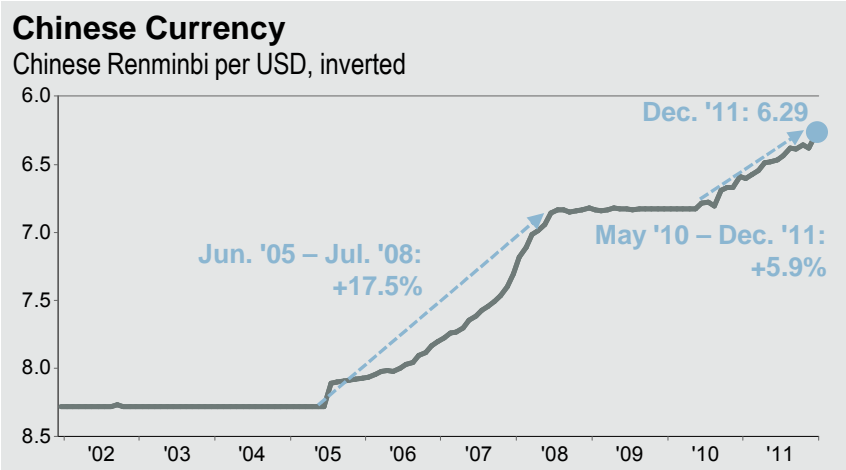
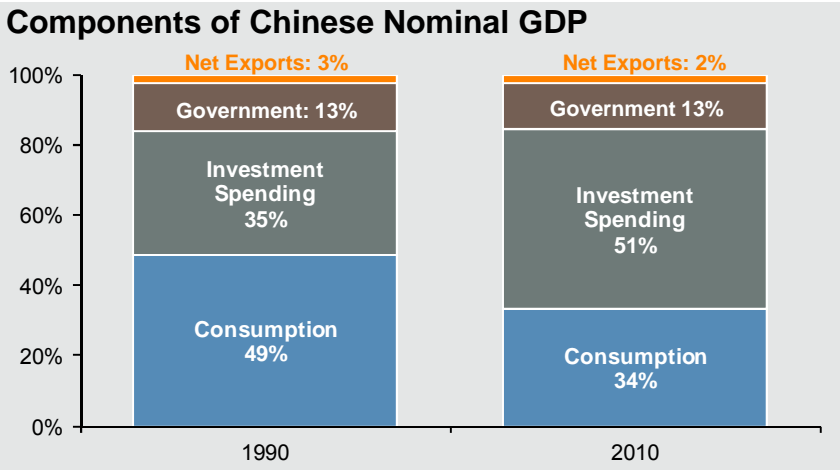
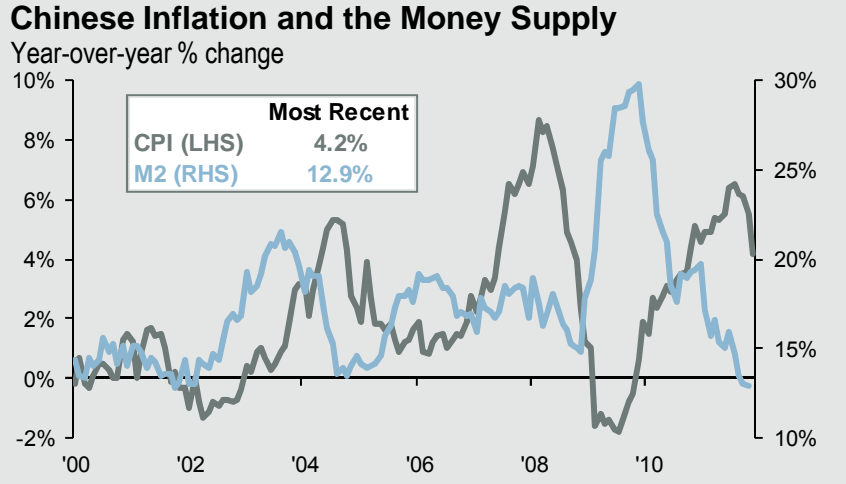
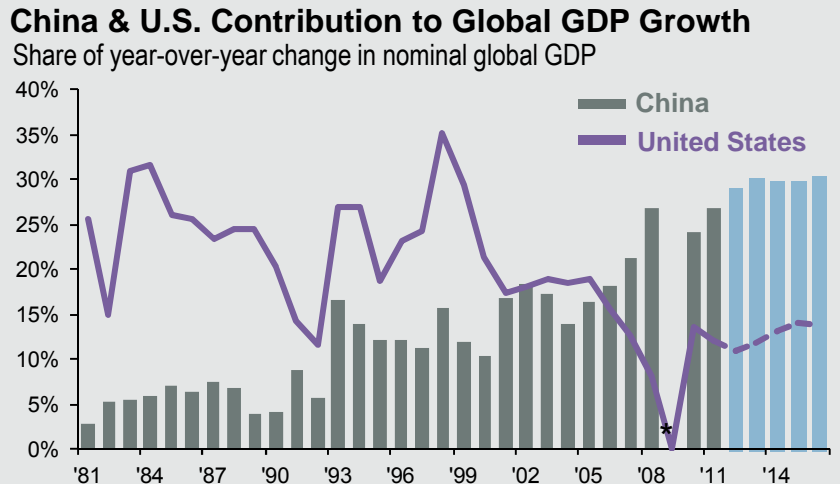


Source: IMF, FactSet, Bloomberg, BIS, J.P. Morgan Asset Management.

Bank exposure based on 3Q11 data.

Data are as of 12/31/11.

# Chinese Growth and Economic Policy

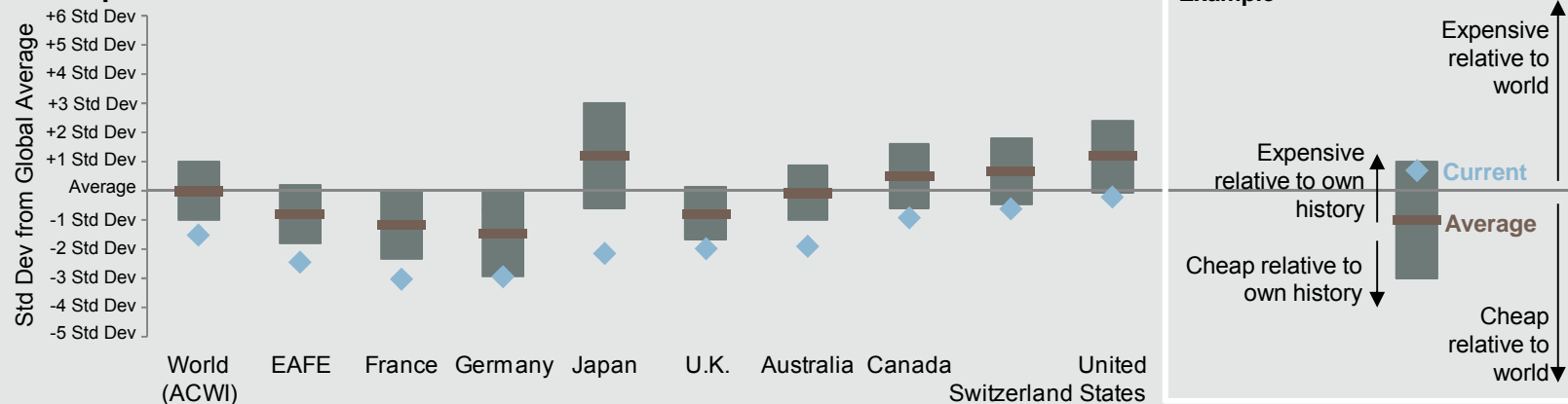


Source: (Top left) IMF, J.P. Morgan Asset Management. (Top right) National Bureau of Statistics, J.P. Morgan Economics, J.P. Morgan Asset Management. (Bottom left) IMF, J.P. Morgan Asset Management. (Bottom right) FactSet, J.P. Morgan Asset Management.

\*In 2009, global growth was negligible, while Chinese growth was robust, which resulted in China contributing over 1200% to global growth. Calculations based on PPP exchange rates and 2012 – 2016 growth forecasts are from the IMF.

# Global Equity Valuations - Developed Markets

## Developed Market Countries



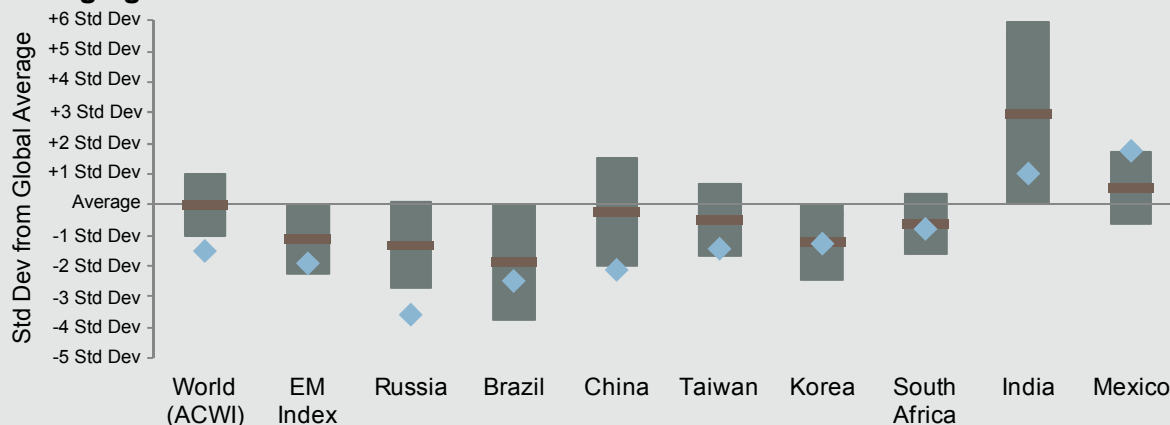
	Current Composite Index	Current				10-year avg.			
		Fwd. P/E	P/B	P/CF	Div. Yld.	Fwd. P/E	P/B	P/CF	Div. Yld.
<b>World (ACWI)</b>	<b>-1.51</b>	10.8	1.6	6.0	2.9%	13.8	2.1	7.6	2.5%
<b>EAFE</b>	<b>-2.44</b>	10.2	1.2	4.7	3.9%	13.4	1.8	6.6	3.0%
<b>France</b>	<b>-3.02</b>	9.1	1.1	4.0	4.5%	12.0	1.8	6.3	3.2%
<b>Germany</b>	<b>-2.94</b>	8.9	1.2	3.5	3.9%	12.3	1.5	5.3	3.0%
<b>Japan</b>	<b>-2.14</b>	11.8	0.9	3.9	2.6%	18.5	1.5	6.3	1.5%
<b>U.K.</b>	<b>-1.98</b>	9.4	1.6	6.4	4.0%	11.9	2.0	8.5	3.7%
<b>Australia</b>	<b>-1.90</b>	10.4	1.6	7.1	5.3%	13.7	2.2	10.3	4.2%
<b>Canada</b>	<b>-0.92</b>	11.6	1.7	7.3	2.7%	14.1	2.1	8.4	2.2%
<b>Switzerland</b>	<b>-0.62</b>	11.7	1.9	9.5	3.7%	13.8	2.5	9.8	2.5%
<b>United States</b>	<b>-0.21</b>	11.8	2.0	7.4	2.1%	14.8	2.6	9.0	1.9%

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

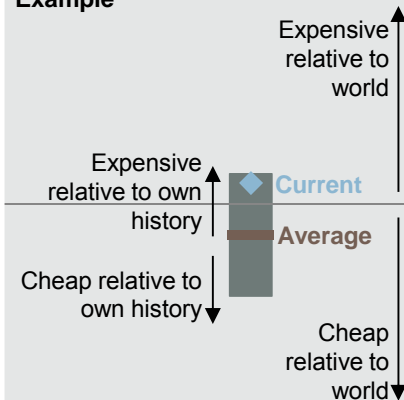
Note: Each valuation index shows an equally weighted composite of four metrics: price to forward earnings (Fwd. P/E), price to current book (P/B), price to last 12 months' cash flow (P/CF) and price to last 12 months' dividends normalized using means and average variability over the last 10 years. The grey bars represent valuation index variability relative to that of the All Country World Index (ACWI). See disclosures page at the end for metric definitions.

# Global Equity Valuations - Emerging Markets

## Emerging Market Countries



### Example



	Current Composite Index	Current				10-year avg.			
		Fwd. P/E	P/B	P/CF	Div. Yld.	Fwd. P/E	P/B	P/CF	Div. Yld.
<b>World (ACWI)</b>	<b>-1.51</b>	10.8	1.6	6.0	2.9%	13.8	2.1	7.6	2.5%
<b>EM Index</b>	<b>-1.92</b>	9.4	1.5	5.6	3.1%	10.9	1.9	6.3	2.7%
<b>Russia</b>	<b>-3.59</b>	5.0	0.8	3.3	3.2%	8.0	1.3	5.5	2.0%
<b>Brazil</b>	<b>-2.49</b>	9.0	1.4	5.0	4.1%	9.3	1.9	5.6	3.7%
<b>China</b>	<b>-2.13</b>	8.3	1.5	5.9	3.5%	12.4	2.1	8.3	2.7%
<b>Taiwan</b>	<b>-1.44</b>	13.3	1.7	6.2	4.2%	14.9	1.9	7.1	3.4%
<b>Korea</b>	<b>-1.28</b>	8.5	1.2	3.8	1.5%	9.3	1.5	4.0	1.8%
<b>South Africa</b>	<b>-0.80</b>	10.1	2.2	8.7	3.5%	11.1	2.4	7.9	3.2%
<b>India</b>	<b>1.01</b>	12.2	2.2	9.3	1.6%	14.8	3.2	13.2	1.6%
<b>Mexico</b>	<b>1.75</b>	15.7	2.6	10.0	1.7%	13.1	2.6	8.6	2.1%

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

Note: Each valuation index shows an equally weighted composite of four metrics: price to forward earnings (Fwd. P/E), price to current book (P/B), price to last 12 months' cash flow (P/CF) and price to last 12 months' dividends normalized using means and average variability over the last 10 years. The grey bars represent valuation index variability relative to that of the All Country World Index (ACWI). See disclosures page at the end for metric definitions.

Data are as of 12/31/11.

## International Economic and Demographic Data

Economics						Demographics				
	GDP USD (B\$)	GDP Per Capita	GDP Growth	Unempl. Rate	Inflation (CPI)	Population	Population Growth	Percent Age >65	Median Age	Migration per 1000
<b>Developed</b>										
<b>U.S.</b>	\$15,176	\$48,147	1.8%	8.6%	3.4%	313 mm	1.0%	13.1%	36.9 yrs	+4.2
<b>Canada</b>	1,759	51,147	3.5	7.4	2.8	34	0.8	15.9	41.0	+5.7
<b>U.K.</b>	2,481	39,604	2.3	8.3	4.8	63	0.6	16.5	40.0	+2.6
<b>Germany</b>	3,629	44,556	2.0	6.9	3.5	81	-0.2	20.6	44.9	+0.5
<b>France</b>	2,808	44,401	1.6	9.7	2.5	65	0.5	16.8	39.9	+1.5
<b>Japan</b>	5,855	45,774	5.6	4.5	-0.5	126	-0.3	22.9	44.8	-
<b>Italy</b>	2,246	37,046	-0.6	8.0	3.7	61	0.4	20.3	43.5	+4.9
<b>Emerging</b>										
<b>Russia</b>	1,885	13,236	3.5	6.3	6.8	139	-0.5	13.0	38.7	+0.3
<b>Mexico</b>	1,185	10,803	5.5	5.0	3.5	114	1.1	6.6	27.1	-3.2
<b>Brazil</b>	2,518	12,917	-0.2	5.2	6.6	203	1.1	6.7	29.3	-0.1
<b>China</b>	6,988	5,184	7.9	4.1	4.2	1,337	0.5	8.9	35.5	-0.3
<b>India</b>	1,843	1,527	7.5	10.0	9.1	1,189	1.3	5.5	26.2	-0.1

Source: FactSet, CIA, J.P. Morgan Securities, J.P. Morgan Asset Management.

All GDP Growth data are from J.P. Morgan Economics and expressed as % change versus prior quarter annualized with the exception of India, which is from the India Ministry of Statistics & Programme Implementation and represents % change versus a year ago. All GDP Growth data are for 3Q11. India unemployment is from CIA estimates and is as of 2010, and Italy unemployment is as of 6/30/11. CPI Inflation is shown as % change versus a year ago and all data are for 3Q11. Unemployment rate for developed countries refers to November 2011 and comes from FactSet Economics, Eurostat and Statistics Canada. Demographic data provided by CIA World Factbook at CIA.gov.

Data are as of 12/31/11.

# Current Account Deficit and U.S. Dollar

### Current Account Balance, % of GDP



Source: BEA, FactSet, J.P. Morgan Asset Management.  
Data are as of 12/31/11 and are reported quarterly.

### U.S. Dollar Index

Nominal trade-weighted exchange index: major currencies



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.  
Data are as of 12/31/11.

# Asset Class Returns

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	4Q11	10-ys '02 - '11
REITs	13.9%	DJ UBS Cmdty 23.9%	MSCI EME 56.3%	REITs 31.6%	MSCI EME 34.5%	REITs 35.1%	MSCI EME 39.8%	Barclays Agg 5.2%	MSCI EME 79.0%	REITs 28.0%	REITs 8.3%	Russell 2000 15.5%	MSCI EME 277.2%
Market Neutral	9.3%	Barclays Agg 10.3%	Russell 2000 47.3%	MSCI EME 26.0%	DJ UBS Cmdty 17.6%	MSCI EME 32.6%	MSCI EAFE 11.6%	Market Neutral 1.1%*	MSCI EAFE 32.5%	Russell 2000 26.9%	Barclays Agg 7.8%	REITs 15.3%	REITs 164.2%
Barclays Agg	8.4%	Market Neutral 7.4%	MSCI EAFE 39.2%	MSCI EAFE 20.7%	MSCI EAFE 14.0%	MSCI EAFE 26.9%	DJ UBS Cmdty 11.1%	Asset Alloc. -23.8%	REITs 28.0%	MSCI EME 19.2%	Market Neutral 5.0%	S&P 500 11.8%	Barclays Agg 75.4%
Russell 2000	2.5%	REITs 3.8%	REITs 37.1%	Russell 2000 18.3%	REITs 12.2%	Russell 2000 18.4%	Market Neutral 9.3%	Russell 2000 -33.8%	Russell 2000 27.2%	DJ UBS Cmdty 16.7%	S&P 500 2.1%	Asset Alloc. 6.5%	Asset Alloc. 73.5%
MSCI EME	-2.4%	Asset Alloc. -5.4%	S&P 500 28.7%	Asset Alloc. 12.5%	Asset Alloc. 8.0%	S&P 500 15.8%	Asset Alloc. 7.3%	DJ UBS Cmdty -36.6%	S&P 500 26.5%	S&P 500 15.1%	Asset Alloc. -0.2%	MSCI EME 4.5%	Russell 2000 72.8%
Asset Alloc.	-3.4%	MSCI EME -6.0%	Asset Alloc. 25.2%	S&P 500 10.9%	Market Neutral 6.1%	Asset Alloc. 14.9%	Barclays Agg 7.0%	S&P 500 -37.0%	Asset Alloc. 22.5%	Asset Alloc. 12.7%	Russell 2000 -4.2%	MSCI EAFE 3.4%	Market Neutral 72.7%
S&P 500	-11.9%	MSCI EAFE -15.7%	DJ UBS Cmdty 22.7%	DJ UBS Cmdty 7.6%	S&P 500 4.9%	Market Neutral 11.2%	S&P 500 5.5%	REITs -37.7%	DJ UBS Cmdty 18.7%	MSCI EAFE 8.2%	MSCI EAFE -11.7%	Market Neutral 2.9%	MSCI EAFE 64.8%
MSCI EAFE	-21.2%	Russell 2000 -20.5%	Market Neutral 7.1%	Market Neutral 6.5%	Russell 2000 4.6%	Barclays Agg 4.3%	Russell 2000 -1.6%	MSCI EAFE -43.1%	Barclays Agg 5.9%	Barclays Agg 6.5%	DJ UBS Cmdty -13.4%	Barclays Agg 1.1%	DJ UBS Cmdty 58.0%
DJ UBS Cmdty	-22.3%	S&P 500 -22.1%	Barclays Agg 4.1%	Barclays Agg 4.3%	Barclays Agg 2.4%	DJ UBS Cmdty -2.7%	REITs -15.7%	MSCI EME -53.2%	Market Neutral 4.1%	Market Neutral -2.5%	MSCI EME -18.2%	DJ UBS Cmdty 0.3%	S&P 500 33.4%

Source: Russell, MSCI, Dow Jones, Standard and Poor's, Credit Suisse, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management.

The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EMI, 30% in the Barclays Capital Aggregate, 5% in the CS/Tremont Equity Market Neutral Index, 5% in the DJ UBS Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data except commodities represent total return for stated period. Past performance is not indicative of future returns. Data are as of 12/31/11, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 11/30/11. "10-ys" returns represent cumulative total return and are not annualized. These returns reflect the period from 1/1/02 – 12/31/11. Please see disclosure page at end for index definitions. \*Market Neutral returns include estimates found in disclosures. Data are as of 12/31/11.

# Correlations: 10-Years

	Large Cap	Small Cap	EAFE	EME	Core Bonds	Corp. HY	EMD	Cmdty.	REITs	Hedge Funds	Eq Market Neutral*
Large Cap	1.00	0.94	0.92	0.87	-0.32	0.79	0.65	0.43	0.74	0.79	0.49
Small Cap		1.00	0.88	0.83	-0.37	0.73	0.56	0.36	0.79	0.74	0.46
EAFE			1.00	0.91	-0.22	0.75	0.63	0.51	0.73	0.85	0.66
EME				1.00	-0.20	0.80	0.70	0.54	0.64	0.86	0.53
Core Bonds					1.00	-0.11	0.16	-0.23	-0.04	-0.22	-0.02
Corp. HY						1.00	0.85	0.51	0.68	0.78	0.40
EMD							1.00	0.42	0.59	0.64	0.34
Commodities								1.00	0.39	0.69	0.49
REITs									1.00	0.60	0.50
Hedge Funds										1.00	0.58
Eq Market Neutral*											1.00

Source: Standard & Poor's, Russell, Barclays Capital Inc., MSCI Inc., Credit Suisse/Tremont, NCREIF, DJ UBS, J.P. Morgan Asset Management.

Indexes used – Large Cap: S&P 500 Index; Small Cap: Russell 2000; EAFE: MSCI EAFE; EME: MSCI Emerging Markets; Bonds: Barclays Capital Aggregate; Corp HY: Barclays Capital Corporate High Yield; EMD: Barclays Capital Emerging Market; Cmdty.: DJ UBS Commodity Index; Real Estate: NAREIT Equity REIT Index; Hedge Funds: CS/Tremont Multi-Strategy Index; Equity Market Neutral: CS/Tremont Equity Market Neutral Index. \*Market Neutral returns include estimates found in disclosures.

All correlation coefficients calculated based on quarterly total return data for period 9/30/01 to 9/30/11.

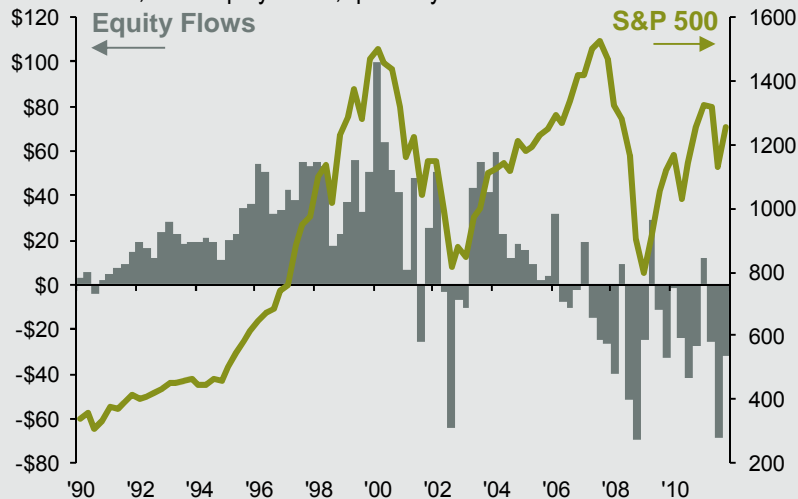
This chart is for illustrative purposes only.

# Mutual Fund Flows

Billions, USD	AUM	Fund Flows												
		YTD 2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
<b>Domestic Equity</b>	3,871	(115)	(95)	(28)	(147)	(65)	0	18	101	120	(26)	55	261	176
<b>World Equity</b>	1,404	13	58	28	(80)	139	149	106	71	24	(3)	(22)	53	11
<b>Taxable Bond</b>	2,365	131	230	311	21	97	45	26	3	40	125	76	(36)	8
<b>Tax-exempt Bond</b>	484	(17)	11	69	8	11	15	5	(14)	(7)	16	12	(14)	(12)
<b>Hybrid</b>	830	27	23	9	(27)	41	18	37	48	39	9	9	(36)	(14)
<b>Money Market</b>	2,653	(162)	(525)	(539)	637	654	245	62	(157)	(263)	(46)	375	159	194

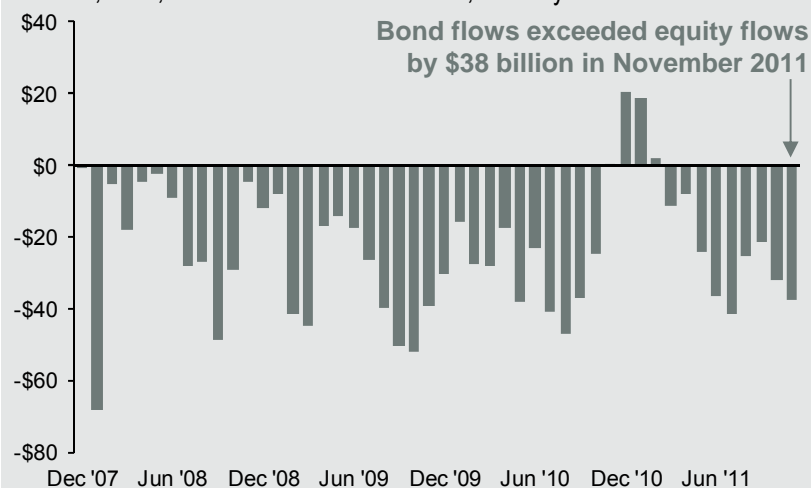
## U.S. Equity Fund Flows and Market Performance

Billions USD, U.S. equity funds, quarterly



## Difference Between Flows Into Stock and Bond Funds

Billions, USD, U.S. and international funds, monthly



Source: Investment Company Institute, J.P. Morgan Asset Management.

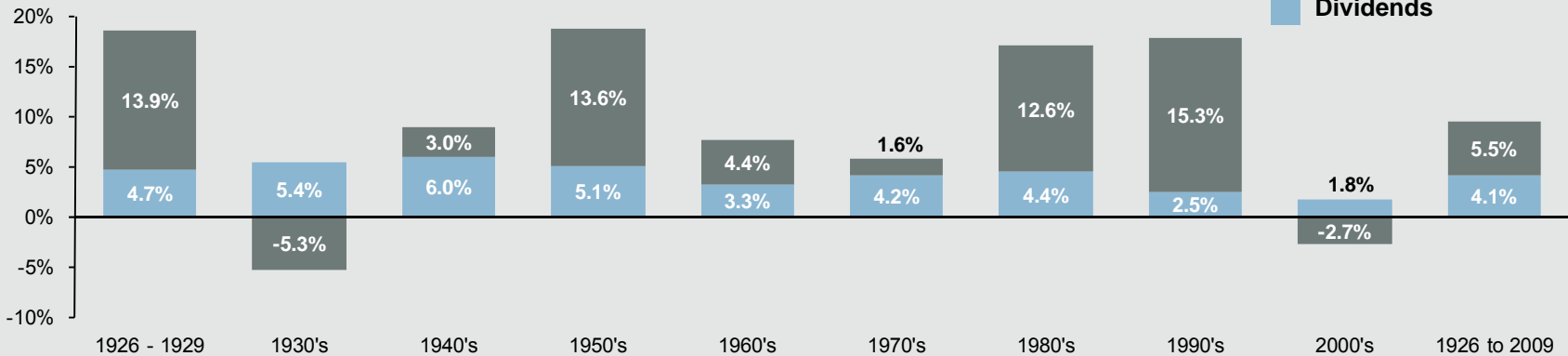
Data include flows through November 2011 and exclude ETFs. ICI data are subject to periodic revisions. World equity flows are inclusive of emerging market, global equity and regional equity flows. Hybrid flows include asset allocation, balanced fund, flexible portfolio and mixed income flows.

Data are as of 12/31/11.

# Dividend Income: Domestic and Global

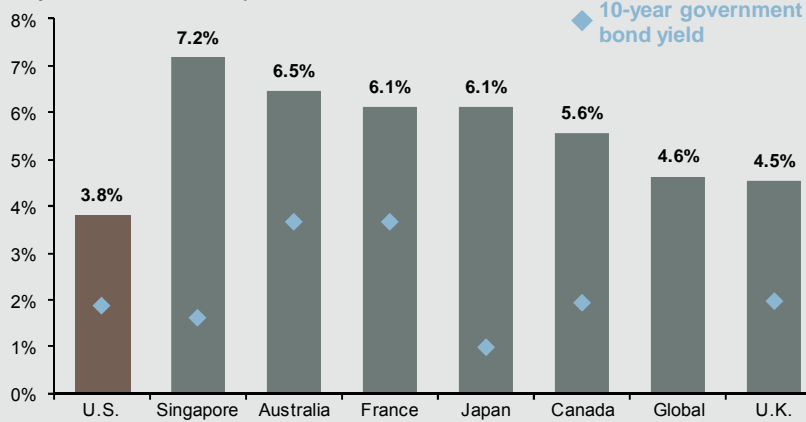
## S&P 500 Total Return: Dividends vs. Capital Appreciation

Average annualized returns



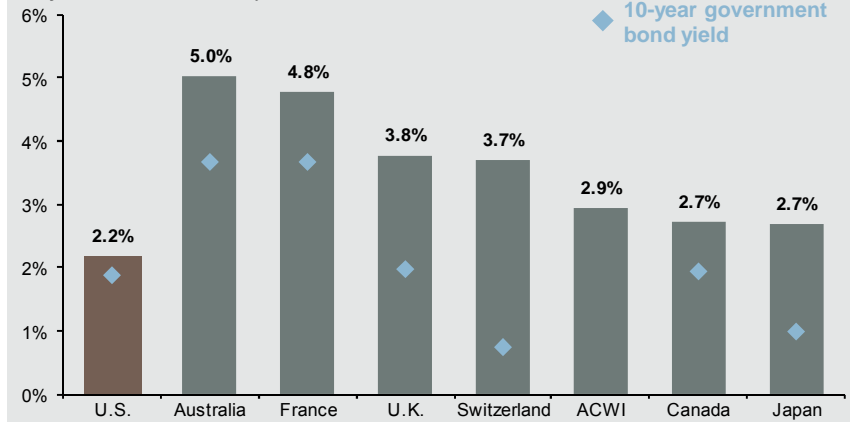
## REIT Dividend Yields

Major world markets by capitalization



## Equity Dividend Yields

Major world markets by capitalization

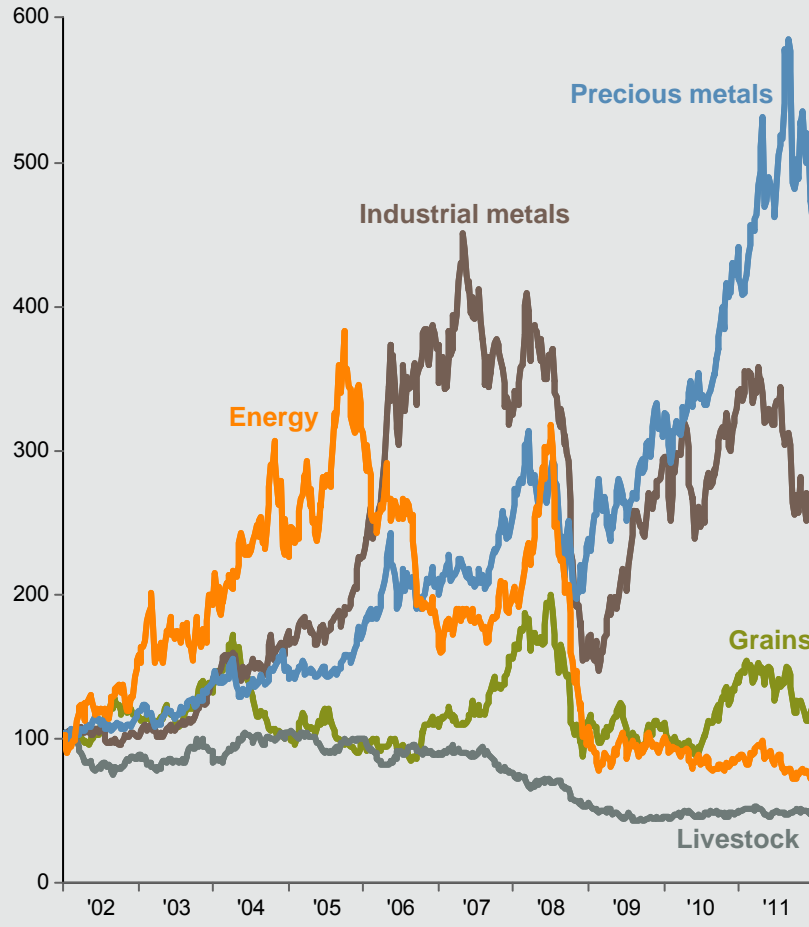


Source: (Top chart) Standard & Poor's, Ibbotson, J.P. Morgan Asset Management. (Bottom left) FactSet, NAREIT, J.P. Morgan Asset Management. Yields shown are that of the appropriate FTSE NAREIT REIT index, which excludes property development companies. (Bottom right) FactSet, MSCI, J.P. Morgan Asset Management. Yields shown are that of the appropriate MSCI index.

Data are as of 12/31/11.

**Commodity Prices**

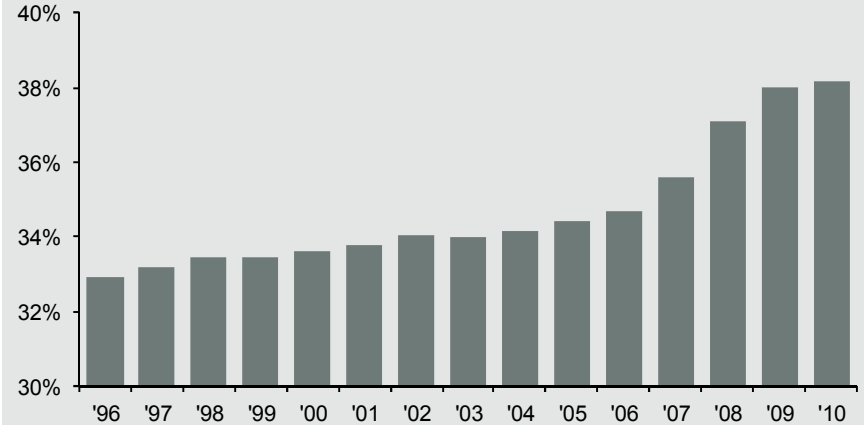
Weekly index prices rebased to 100



Source: Dow Jones/UBS, FactSet, J.P. Morgan Asset Management.  
Commodity prices represented by the appropriate DJ/UBS Commodity sub-index.  
Data reflect most recently available as of 12/31/11.

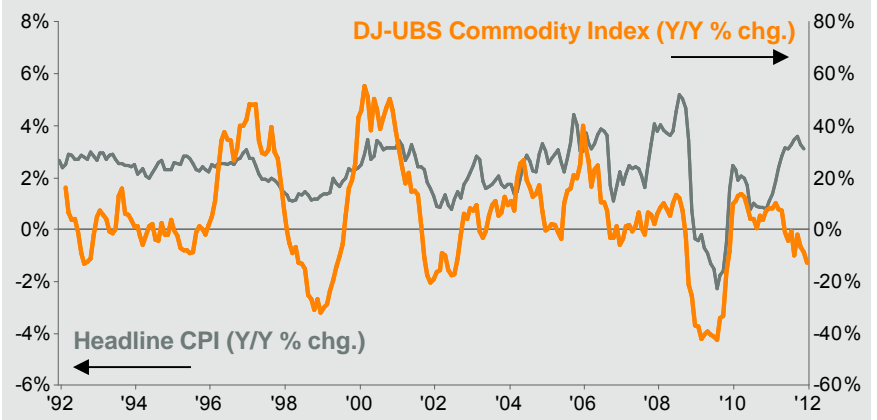
**Oil Demand: Emerging Markets Share**

Emerging markets as % of total global oil consumption



**Commodity Prices and Inflation**

Year over year % chg.



Source: (Top) USDA, BP Statistical Review of World Energy, J.P. Morgan Asset Management. (Bottom) BLS, DJ/UBS, FactSet, J.P. Morgan Asset Management  
Data are as of 12/31/11.

**Gold Prices**

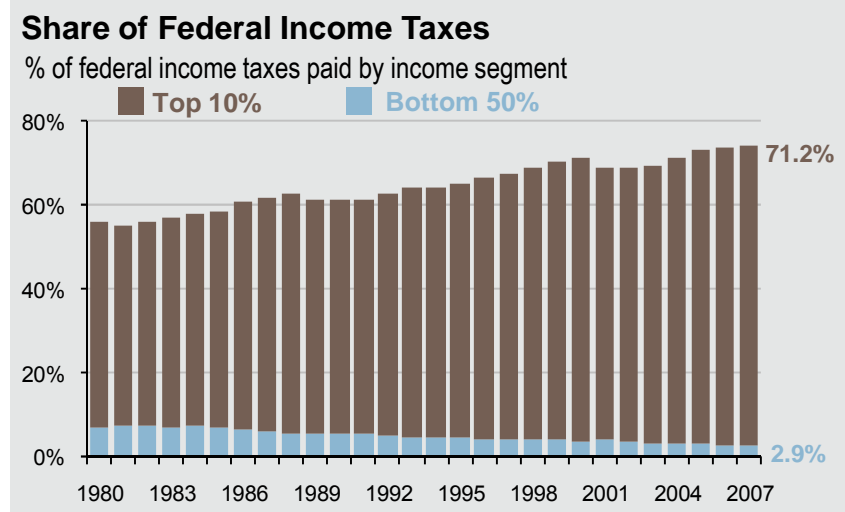
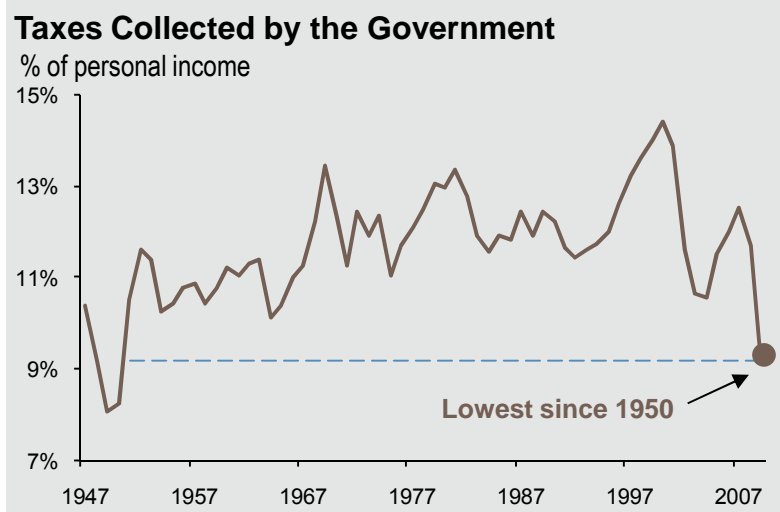
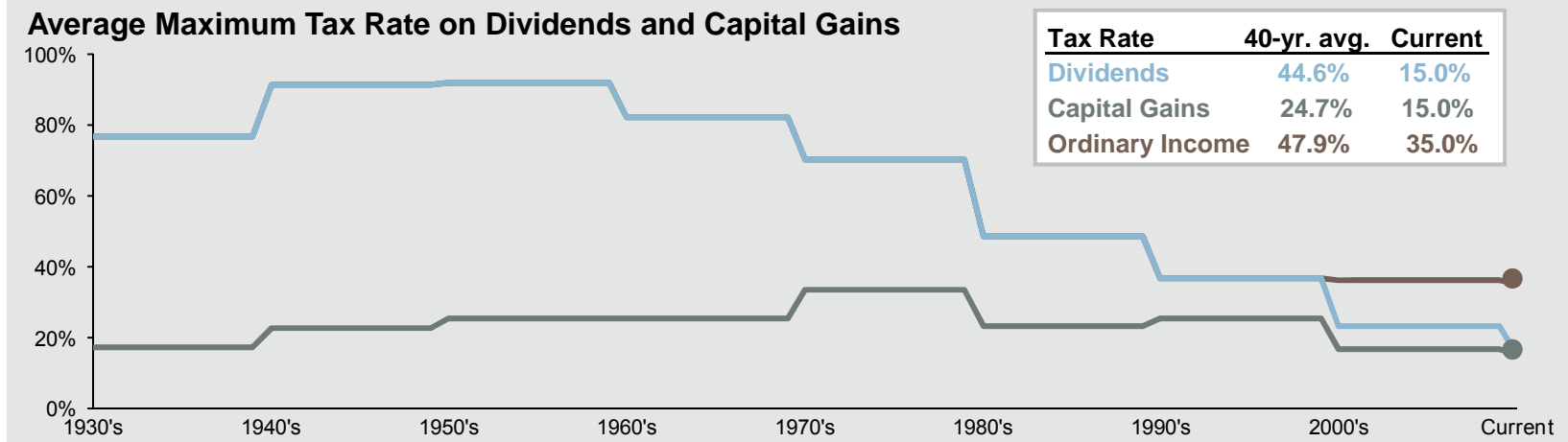


World Gold Production		
Year	Troy Ounces	Total Value
2000	83.3 mm	\$23 bn
2001	83.6 mm	\$23 bn
2002	82.0 mm	\$25 bn
2003	81.7 mm	\$30 bn
2004	77.8 mm	\$32 bn
2005	79.4 mm	\$35 bn
2006	76.2 mm	\$46 bn
2007	75.9 mm	\$53 bn
2008	73.6 mm	\$64 bn
2009	78.8 mm	\$86 bn
2010	80.4 mm	\$113 bn

Source: (Left chart) EcoWin, BLS, U.S. Department of Energy, FactSet, J.P. Morgan Asset Management. (Right table) U.S. Geological Survey, World Gold Council, J.P. Morgan Asset Management. CPI adjusted gold values are calculated using month averages of gold spot prices divided by the CPI value for that month. CPI is rebased to 100 at the start of the chart.

Data reflect most recently available as of 12/31/11.

# Marginal and Average Tax Rates

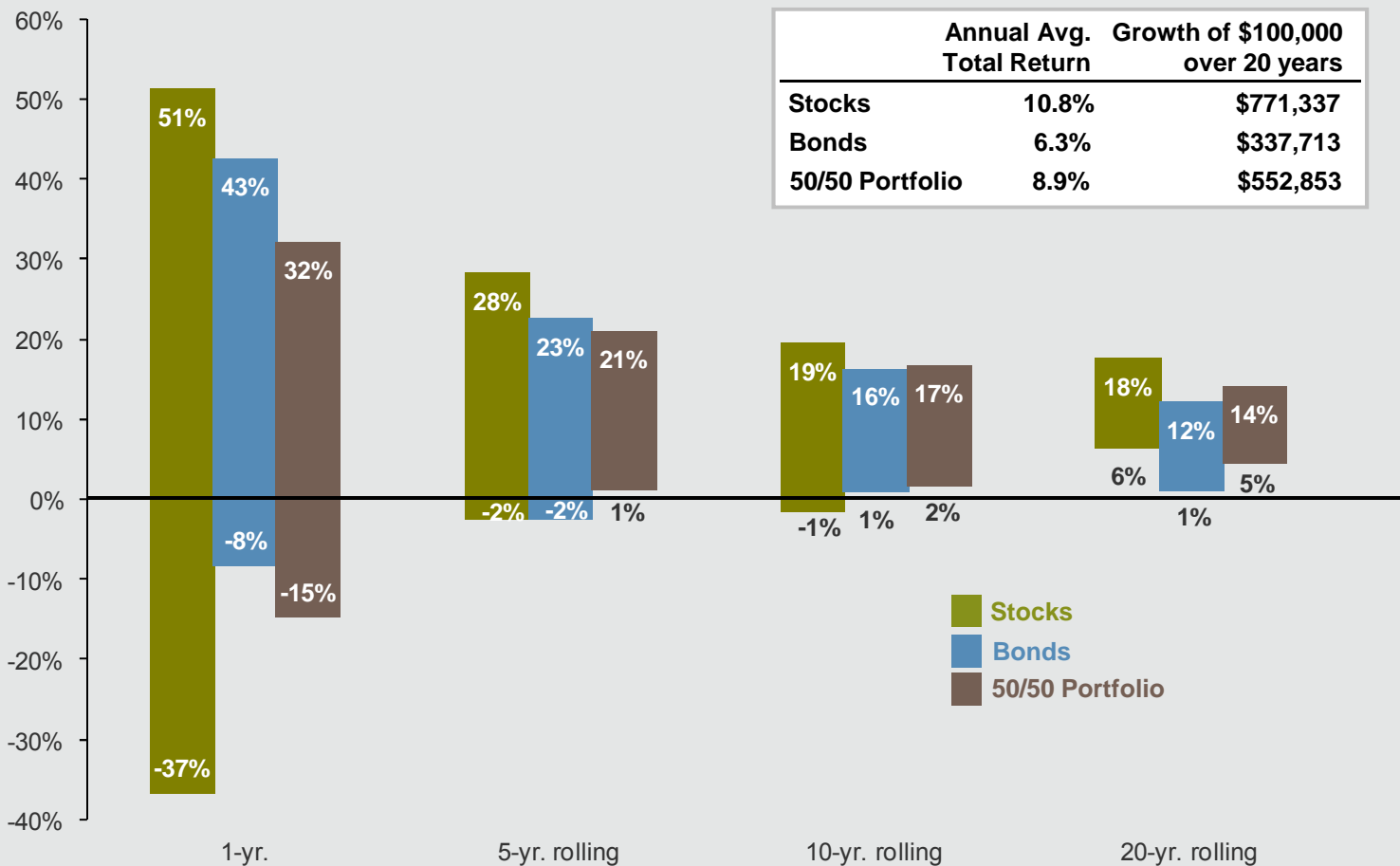


Source: (Top) The Tax Foundation, J.P. Morgan Asset Management. Tax rates based on maximum U.S. individual income tax. (Bottom left) BEA, J.P. Morgan Asset Management. (Bottom right) The Tax Foundation, IRS, J.P. Morgan Asset Management. Personal taxes include taxes on income, personal property and payments for personal licenses (see NIPA tables 3.4 and 3.4u). Data through 2007 is latest available from IRS. Includes all returns with positive AGI. 2007 dollar cut-off/minimum AGI for tax return to fall into top 10%: \$113,018; bottom 50%: \$32,870. The only tax analyzed here is the federal individual income tax, which is responsible for about 25% of the nation's taxes paid. Data are as of 9/30/11.

# Historical Returns by Holding Period

## Range of Stock, Bond and Blended Total Returns

Annual total returns, 1950 – 2011



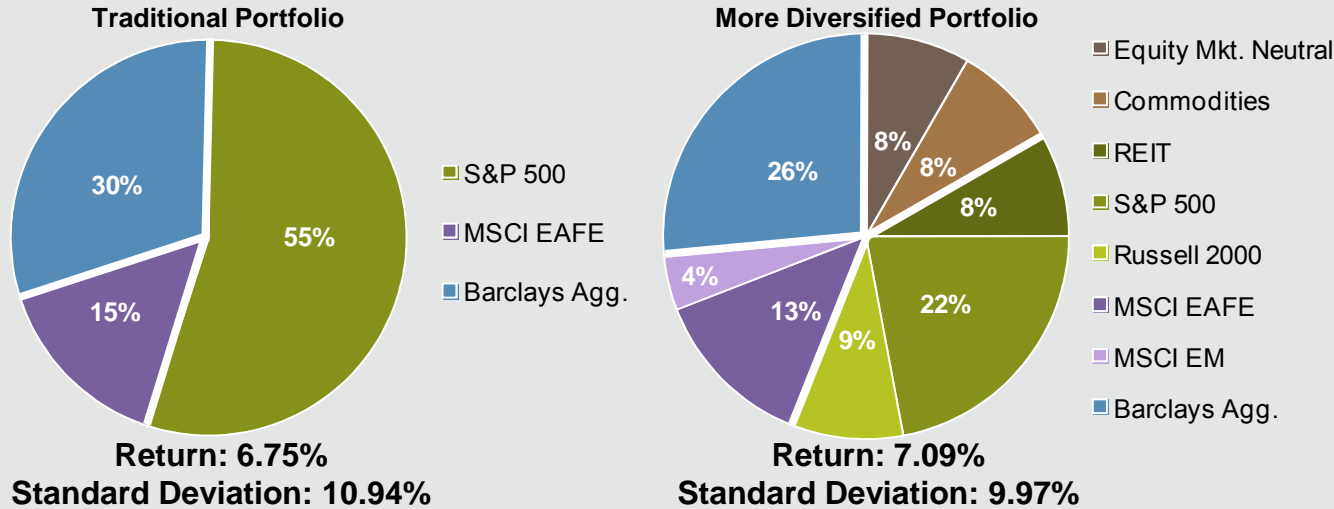
	Annual Avg. Total Return	Growth of \$100,000 over 20 years
<b>Stocks</b>	<b>10.8%</b>	<b>\$771,337</b>
<b>Bonds</b>	<b>6.3%</b>	<b>\$337,713</b>
<b>50/50 Portfolio</b>	<b>8.9%</b>	<b>\$552,853</b>

Sources: Barclays Capital, FactSet, Robert Shiller, Strategas/Ibbotson, Federal Reserve, J.P. Morgan Asset Management.

Data are as of 12/31/11.

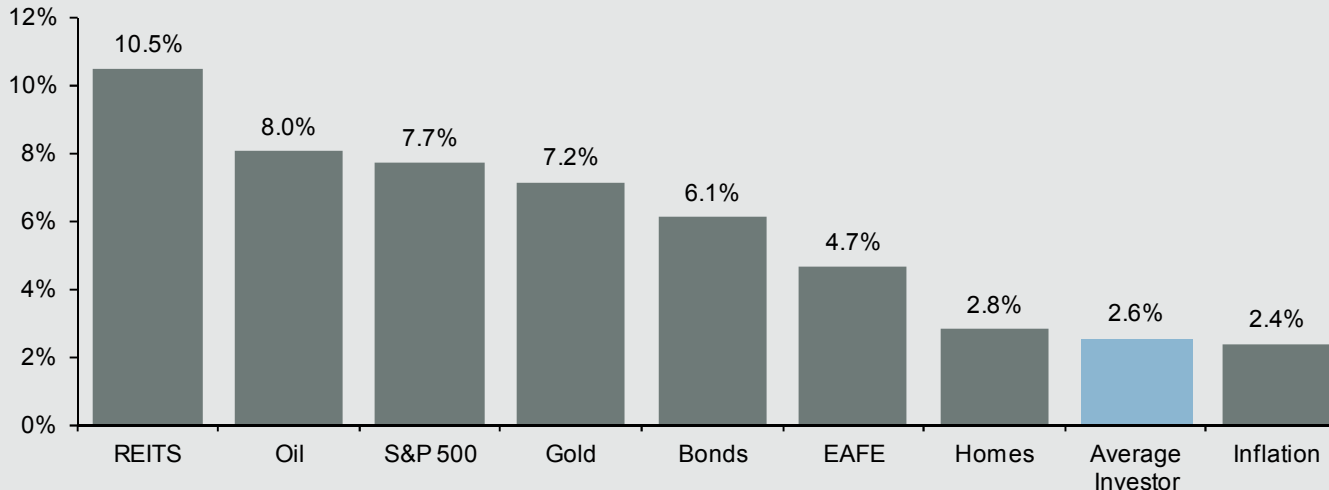
# Diversification and the Average Investor

## Maximizing the Power of Diversification (1994 – 2011)



(Top) Indexes and weights of the traditional portfolio are as follows: U.S. stocks: 55% S&P 500, U.S. bonds: 30% Barclays Capital Aggregate. International stocks: 15% MSCI EAFE. Portfolio with 25% in alternatives is as follows: U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000; International Stocks: 4.4% MSCI EM, 13.2% MSCI EAFE; U.S. Bonds: 26.5% Barclays Capital Aggregate; Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Index. Return and standard deviation calculated using Morningstar Direct. Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss. Data are as of 12/31/11.

## 20-year Annualized Returns by Asset Class (1991 – 2010)



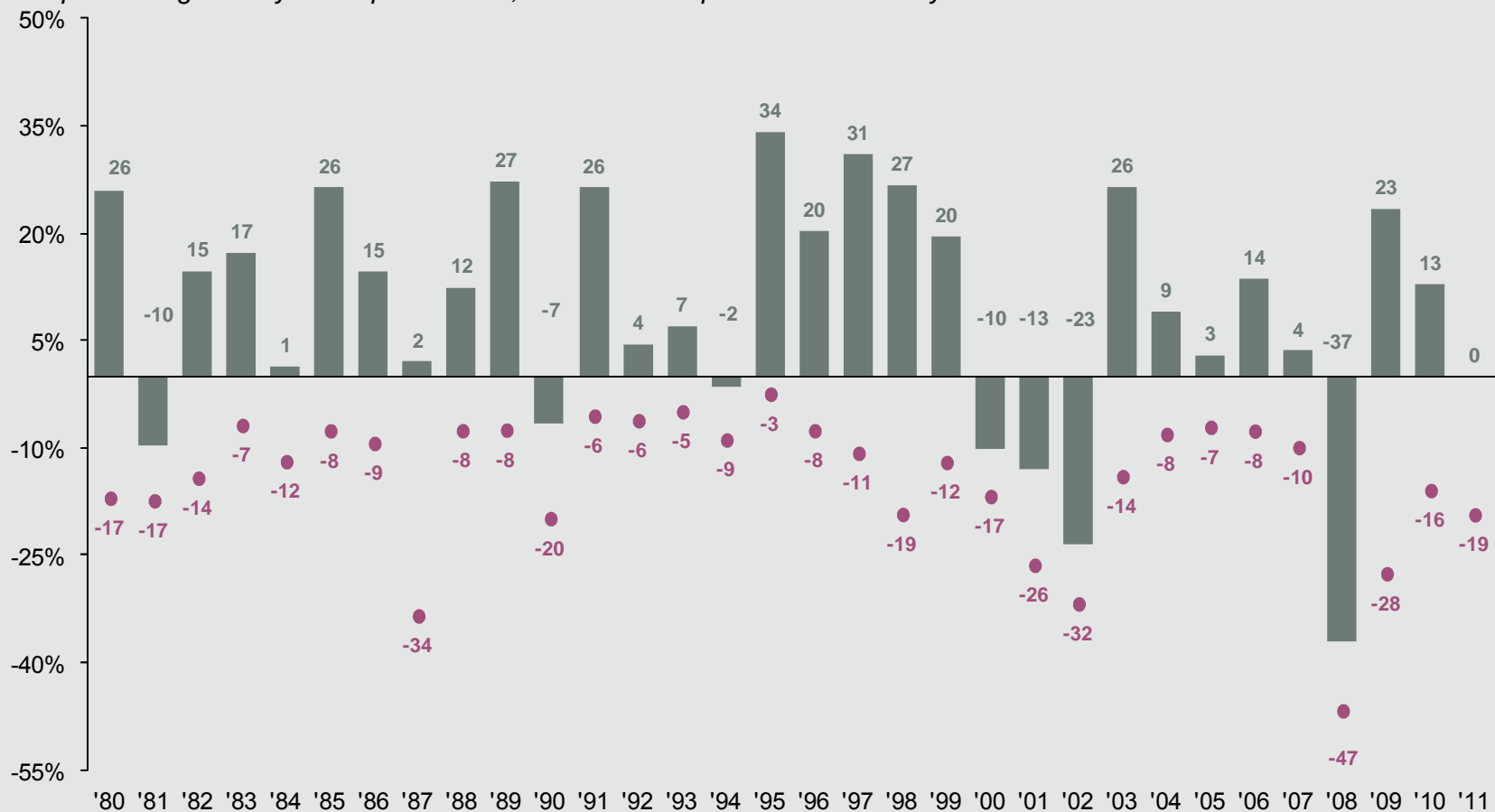
(Bottom) Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/10 to match Dalbar's most recent analysis.

Asset Class

# Annual Returns and Intra-year Declines

## Intra-year Declines vs. Calendar Year Returns

Despite average intra-year drops of 14.5%, annual returns positive in 25 of 32 years



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

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops over periods of 6 months or less. For illustrative purposes only.

Data are as of 12/31/11.

## Alternative Investment Returns

<b>Hedge Funds</b> (as of 9/30/11)	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>
CSFB/Tremont HF Index	1.3%	4.6%	4.2%	6.6%
Multi-Strategy	4.6%	6.2%	4.0%	6.5%
Distressed	-0.7%	3.5%	3.0%	7.8%
Convertible Arbitrage	3.1%	11.5%	3.9%	4.8%
Equity Market Neutral*	2.2%	1.5%	3.5%	5.5%
Risk Arbitrage**	-1.4%	4.2%	4.6%	4.3%
Fixed Income Arbitrage**	6.2%	6.1%	2.4%	4.0%
Global Macro	9.8%	9.3%	9.3%	10.9%
<b>Real Estate</b> (as of 9/30/11)	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>
NCREIF Property Index	16.1%	-1.5%	3.4%	7.8%
Apartment	18.6%	-0.1%	3.1%	7.8%
Industrial	15.4%	-2.6%	2.5%	7.2%
Office	15.3%	-3.1%	3.5%	6.9%
Retail	15.3%	1.1%	4.4%	10.5%
<b>Private Equity</b> (as of 6/30/11)	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>
U.S. Venture Capital Index	26.3%	4.3%	7.4%	1.3%
U.S. Private Equity Index	24.8%	6.5%	10.0%	11.3%

Source: Cambridge Associates LLC, NCREIF, CS/Tremont, J.P. Morgan Asset Management. Cambridge PE and VC data provided at no charge. Other indexes shown are unmanaged and are for illustrative purposes only. Past performance is no guarantee of future results. Returns for all periods are as of 9/30/11 with the exception of Private Equity and Venture Capital returns, which are as of 6/30/11. All returns are annualized for periods greater than 1 year. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They may not be tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

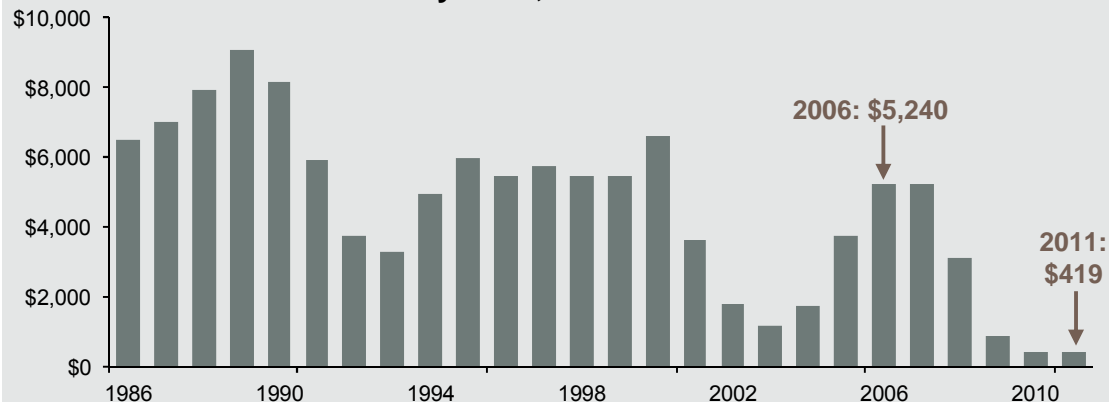
\*Market Neutral returns include estimates found in disclosures.

\*\*Arbitrage is the simultaneous purchase and sale of an asset in order to profit from a difference in the price.

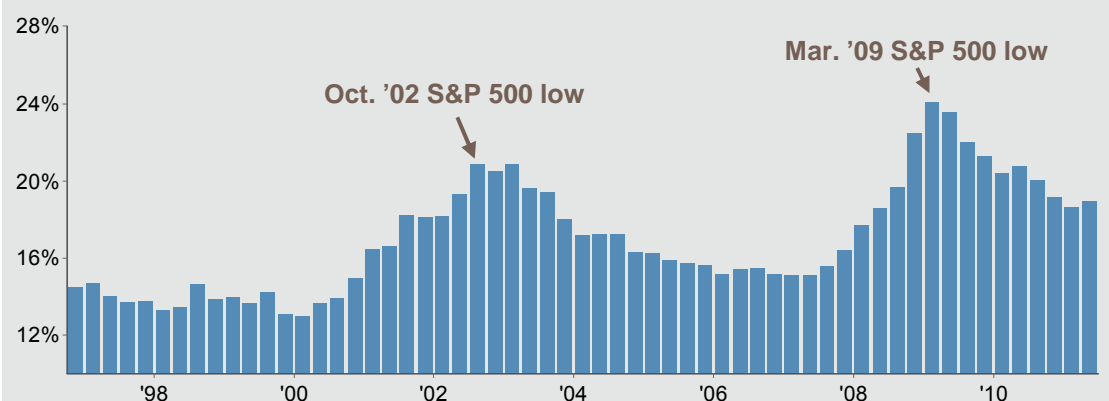
Data are as of 12/31/11.

# Cash Accounts

**Annual Income Generated by \$100,000 Investment in a 6-month CD**



**Cash as a % of Total Household Financial Assets**



Money Supply Component	\$ Billions	Weight in Money Supply
<b>M2-M1</b>	<b>7,493</b>	<b>76.3%</b>
Retail MMMFs	712	7.3%
Savings deposits	6,013	61.3%
Small time deposits	768	7.8%
<b>Institutional MMMFs</b>	<b>1,717</b>	<b>17.5%</b>
<b>Cash in IRA &amp; Keogh accounts</b>	<b>605</b>	<b>6.2%</b>
<b>Total</b>	<b>9,814</b>	<b>100.0%</b>

Source: Federal Reserve, St. Louis Fed, Bankrate.com, J.P. Morgan Asset Management. All cash measures obtained from the Federal Reserve are seasonally adjusted monthly numbers. All numbers are in billions of U.S. dollars.

Small-denomination time deposits are those issued in amounts of less than \$100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits.

Annual income is for illustrative purposes and is calculated based on the 6-month CD yield on average during each year and \$100,000 invested.

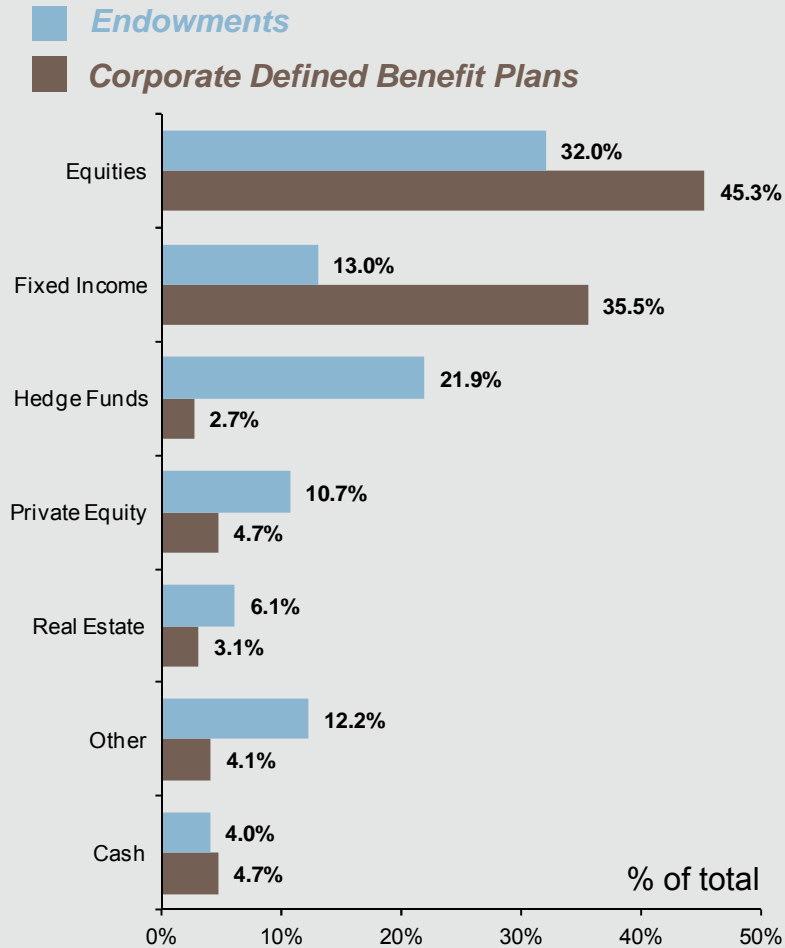
IRA and Keogh account balances at money market mutual funds are subtracted from retail money funds.

Past performance is not indicative of comparable future results.

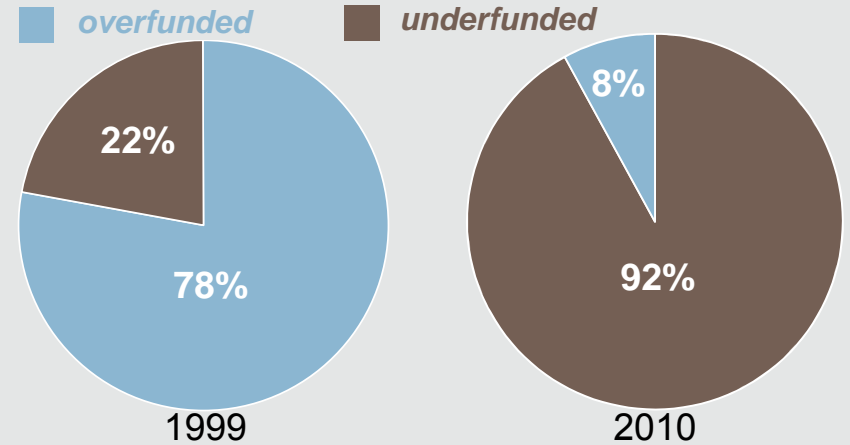
Data are as of 12/31/11.

# Corporate DB Plans and Endowments

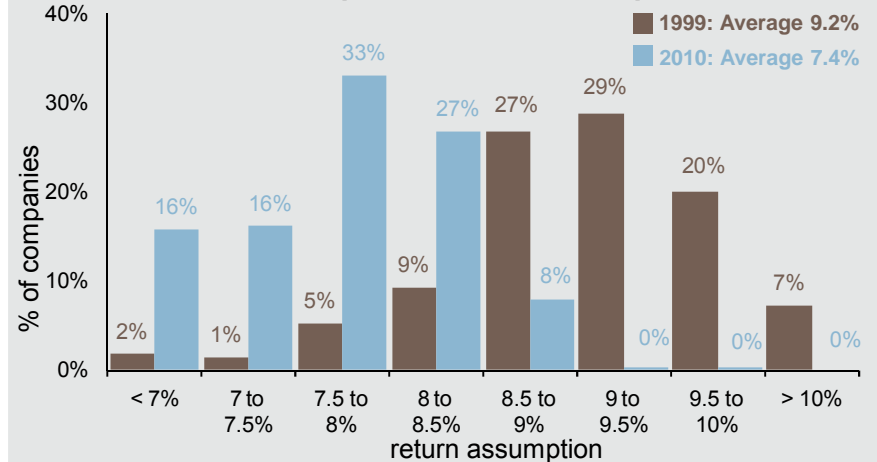
**Asset Allocation: Corporate DB Plans vs. Endowments**



**Defined Benefit Plans – Funded Status: S&P 500 companies**



**Pension Return Assumptions: S&P 500 companies**



Source: NACUBO (National Association of College and University Business Officers), Towers Watson, Compustat/FactSet, J.P. Morgan Asset Management. Endowments represents dollar-weighted average data of 842 colleges and universities. Pension Return Assumptions based on all available and reported data from S&P 500 Index companies. Funded Status based on 351 companies reporting pension funding status as of 3/31/11. Return assumption bands are inclusive of upper range. All information is shown for illustrative purposes only. Data are as of 12/31/10.

**All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.**

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. This world-renowned index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 Index focuses on the large-cap segment of the market, with approximately 75% coverage of U.S. equities, it is also an ideal proxy for the total market. An investor cannot invest directly in an index.

The **S&P 400 Mid Cap Index** is representative of 400 stocks in the mid-range sector of the domestic stock market, representing all major industries.

The **Russell 3000 Index**® measures the performance of the 3,000 largest U.S. companies based on total market capitalization.

The **Russell 1000 Index**® measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Growth Index**® measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index**® measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell Midcap Index**® measures the performance of the 800 smallest companies in the Russell 1000 Index.

The **Russell Midcap Growth Index**® measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

The **Russell Midcap Value Index**® measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value index.

The **Russell 2000 Index**® measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

The **Russell 2000 Growth Index**® measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000 Value Index**® measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The **MSCI® EAFE** (Europe, Australia, Far East) Net Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises 21 MSCI country indexes, representing the developed markets outside of North America.

The **MSCI Emerging Markets Index**™ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2007, the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

The **MSCI ACWI (All Country World Index) Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the **MSCI ACWI** consisted of 45 country indices comprising 23 developed and 22 emerging market country indices.

The **MSCI Small Cap Indices**™ target 40% of the eligible Small Cap universe within each industry group, within each country. MSCI defines the Small Cap universe as all listed securities that have a market capitalization in the range of USD200-1,500 million.

The **MSCI Value and Growth Indices**™ cover the full range of developed, emerging and All Country MSCI Equity indexes. As of the close of May 30, 2003, MSCI implemented an enhanced methodology for the MSCI Global Value and Growth Indices, adopting a two dimensional framework for style segmentation in which value and growth securities are categorized using different attributes - three for value and five for growth including forward-looking variables. The objective of the index design is to divide constituents of an underlying MSCI Standard Country Index into a value index and a growth index, each targeting 50% of the free float adjusted market capitalization of the underlying country index. Country Value/Growth indices are then aggregated into regional Value/Growth indices. Prior to May 30, 2003, the indices used Price/Book Value (P/BV) ratios to divide the standard MSCI country indices into value and growth indices. All securities were classified as either "value" securities (low P/BV securities) or "growth" securities (high P/BV securities), relative to each MSCI country index.

The following **MSCI Total Return Indices**™ are calculated with gross dividends:

This series approximates the maximum possible dividend reinvestment. The amount reinvested is the dividend distributed to individuals resident in the country of the company, but does not include tax credits.

The **MSCI Europe Index**™ is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The **MSCI Pacific Index**™ is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region. As of June 2007, the MSCI Pacific Index consisted of the following 5 Developed Market countries: Australia, Hong Kong, Japan, New Zealand, and Singapore.

**Credit Suisse/Tremont Hedge Fund Index** is compiled by Credit Suisse Tremont Index, LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The Index uses the Credit Suisse/Tremont database, which tracks over 4500 funds, and consists only of funds with a minimum of US\$50 million under management, a 12-month track record, and audited financial statements. It is calculated and rebalanced on a monthly basis, and shown net of all performance fees and expenses. It is the exclusive property of Credit Suisse Tremont Index, LLC.

The **NCREIF Property Index** is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

The **NAREIT EQUITY REIT Index** is designed to provide the most comprehensive assessment of overall industry performance, and includes all tax-qualified real estate investment trusts (REITs) that are listed on the NYSE, the American Stock Exchange or the NASDAQ National Market List.

**All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.**

The **Dow Jones-UBS Commodity Index** is composed of futures contracts on physical commodities and represents nineteen separate commodities traded on U.S. exchanges, with the exception of aluminum, nickel, and zinc.

The **S&P GSCI Index** is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully collateralized basis with full reinvestment. Individual components qualify for inclusion in the index on the basis of liquidity and are weighted by their respective world production quantities.

The **Barclays Capital U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indexes that are calculated and reported on a regular basis.

This **U.S. Treasury Index** is a component of the U.S. Government index.

**West Texas Intermediate (WTI)** is the underlying commodity for the New York Mercantile Exchange's oil futures contracts.

The **Barclays Capital High Yield Index** covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included.

The **Barclays Capital 1-3 Month U.S. Treasury Bill Index** includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The **Barclays Capital General Obligation Bond Index** is a component of the **Barclays Capital Municipal Bond Index**. To be included in the index, bonds must be general obligation bonds rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.

The **Barclays Capital Revenue Bond Index** is a component of the **Barclays Capital Municipal Bond Index**. To be included in the index, bonds must be revenue bonds rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark.

The **Barclays High Yield Municipal Index** includes bonds rated Ba1 or lower or non-rated bonds using the middle rating of Moody's, S&P and Fitch.

The **Barclays Capital Taxable Municipal Bond Index** is a rules-based, market-value weighted index engineered for the long-term taxable bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies if all three rate the bond: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate and must be at least one year from their maturity date. Remarketed issues (unless covered to fixed rate), bonds with floating rates, and derivatives, are excluded from the benchmark.

**Municipal Bond Index:** To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives are excluded from the benchmark.

The **Barclays Capital Emerging Markets Index** includes USD-denominated debt from emerging markets in the following regions: Americas, Europe, Middle East, Africa, and Asia. As with other fixed income benchmarks provided by Barclays Capital, the index is rules-based, which allows for an unbiased view of the marketplace and easy replicability.

The **Barclays Capital MBS Index** covers the mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac. Aggregate components must have a weighted average maturity of at least one year, must have \$250 million par amount outstanding, and must be fixed rate mortgages.

The **Barclays Capital Corporate Bond Index** is the Corporate component of the U.S. Credit index.

The **Barclays Capital TIPS Index** consists of Inflation-Protection securities issued by the U.S. Treasury.

The **J.P. Morgan EMBI Global Index** includes U.S. dollar denominated Brady bonds, Eurobonds, traded loans and local market debt instruments issued by sovereign and quasi-sovereign entities.

The **J.P. Morgan Domestic High Yield Index** is designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market.

The **CS/Tremont Equity Market Neutral Index** takes both long and short positions in stocks with the aim of minimizing exposure to the systematic risk of the market (i.e., a beta of zero).

The **CS/Tremont Multi-Strategy Index** consists of funds that allocate capital based on perceived opportunities among several hedge fund strategies. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.

\*Market Neutral returns for November 2008 are estimates by J.P. Morgan Funds Market Strategy, and are based on a December 8, 2008 published estimate for November returns by CS/Tremont in which the Market Neutral returns were estimated to be +0.85% (with 69% of all CS/Tremont constituents having reported return data). Presumed to be excluded from the November return are three funds, which were later marked to \$0 by CS/Tremont in connection with the Bernard Madoff scandal. J.P. Morgan Funds believes this distortion is not an accurate representation of returns in the category. CS/Tremont later published a finalized November return of -40.56% for the month, reflecting this mark-down. CS/Tremont assumes no responsibility for these estimates.

**Past performance is no guarantee of comparable future results.**

**Diversification does not guarantee investment returns and does not eliminate the risk of loss.**

**Bonds** are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of **equity** securities may rise, or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries, or the securities market as a whole, such as changes in economic or political conditions. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

**Small-capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies since smaller companies generally have a higher risk of failure. Historically, smaller companies' stock has experienced a greater degree of market volatility than the average stock.

**Mid-capitalization** investing typically carries more risk than investing in well-established "blue-chip" companies. Historically, mid-cap companies' stock has experienced a greater degree of market volatility than the average stock.

**Real estate** investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

**International** investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in **emerging markets** can be more volatile. As mentioned above, the normal risks of investing in foreign countries are heightened when investing in emerging markets. In addition, the small size of securities markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not provide adequate legal protection for private or foreign investment or private property.

Investments in **commodities** may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

### Can't find a slide?

Please visit [www.jpmmorganfunds.com/bench](http://www.jpmmorganfunds.com/bench) to access slides from previous editions that are now "on the bench".

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

**Derivatives** may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

**Price to forward earnings** is a measure of the price-to-earnings ratio (P/E) using forecasted earnings. **Price to book value** compares a stock's market value to its book value. **Price to cash flow** is a measure of the market's expectations of a firm's future financial health. **Price to dividends** is the ratio of the price of a share on a stock exchange to the dividends per share paid in the previous year, used as a measure of a company's potential as an investment.

There is no guarantee that the use of **long and short positions** will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Investing using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

The views expressed are those of J.P. Morgan Asset Management. They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

**Contact J.P. Morgan Distribution Services Inc. at 1-800-480-4111 for a fund prospectus. You can also visit us at [www.jpmmorganfunds.com](http://www.jpmmorganfunds.com). Investors should carefully consider the investment objectives and risks as well as charges and expenses of the mutual fund before investing. The prospectus contains this and other information about the mutual fund. Read the prospectus carefully before investing.**

J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co. Those businesses include, but are not limited to, J.P. Morgan Investment Management Inc., Security Capital Research & Management Incorporated and J.P. Morgan Alternative Asset Management, Inc.

JPMorgan Distribution Services Inc., member FINRA/SIPC.

© JPMorgan Chase & Co., January 2012.

Unless otherwise stated, all data are as of December 31, 2011 or most recently available.

Prepared by:  
Andrew D. Goldberg, Joseph S. Tanious, Andrés Garcia-Amaya, David M. Lebovitz, Brandon D. Odenath and David Kelly.

JP-LITTLEBOOK

