

# The “Death” of Bonds?



Research Investment Committee  
MLPF&S

Michael Hartnett  
Chief Global Equity Strategist  
MLPF&S

Kate Moore  
Global Equity Strategist  
MLPF&S

[See Team Page for Full List of Contributors](#)

## The “Death” of Bonds?

On August 13, 1979, the cover of *Business Week* infamously proclaimed “The Death of Equities.” That day the Dow Jones Industrial Average stood at 875; twenty years later the index was at 10,973. But a brand new bull market in equities was signaled not by a magazine cover—but rather by a peak in bond yields in late 1981.

Similarly, the recent “Death of Equities” headline on the front cover of the *Financial Times* may indicate that the long-running bear market in equities that began in the late 1990s is in its last throes. But a brand new secular equity bull market, characterized by new all-time price highs, multiple re-rating, and/or above-trend earnings growth, is unlikely to begin until Treasury yields rise in response to stronger growth and a healthier global economy.

## The secular catalysts

For significant and sustained gains in equity prices over the next 12 months, a market re-rating needs to occur. The good news is that US housing is improving. But our economists do not expect a sustainable uptrend in home prices to begin until 2014, so it is not currently a sufficient catalyst for the Great Rotation from bonds to stocks. The bad news is that uncertain fiscal policies in the US and Europe are impeding the return of “animal spirits” in the corporate sector. Until US and European companies are willing to spend the combined \$2tn cash they have on their balance sheets, a significant re-rating is unlikely. Above-trend growth (driven by China and EM) could also contribute to an equity re-rating, but markets first need to see policy easing in China work to stimulate domestic demand.

## Short-term: sentiment is bearish, risk assets could rally

Investor sentiment is now extremely bearish and markets are very oversold. Our June [Global Fund Manager Survey](#) revealed a jump in average cash levels to 5.3% (the highest since Jan’09), and 42 of 45 global equity markets recently traded below their 200-day moving average. Historically such sentiment readings have coincided with a 5-7% equity rally in the following 4-6 weeks. Moreover, the pressure for policy makers to act is rising. Our economists expect the Fed to announce another round of QE in August or September. Aggressive policy moves should ensure a strong floor for the S&P 500 in the 1200-1250 range. But big bang policy coordination is required for a significant move above 1350-1400.

## 10 Summer Investment Ideas

- 1) Beneficiaries of US real estate; 2) Dividend growth stocks; 3) European Best of Breed; 4) Secular growth in US Tech; 5) More QE will support gold; 6) Companies over countries; 7) Focus on Asia over EMEA and LatAm within EM; 8) DM stocks to play the EM consumer; 9) Dollar stores: a high conviction US consumer play; 10) Explore hedges.



Click the image above to watch the video.

## Table of contents

<a href="#">Financial markets recap</a>	2
<a href="#">The “Death” of Bonds?</a>	3
<a href="#">Asset markets: base case, ideas, risks</a>	11
<a href="#">Global equity market convictions: ideas &amp; risks</a>	12
<a href="#">Asset allocation</a>	13
<a href="#">Major market sector recommendations</a>	18
<a href="#">Global stock lists, forecasts</a>	20

## Next issue

10 July 2012

BofA Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 28 to 30. Analyst Certification on Page 27. Link to Definitions on page 27.

## May 2012 review

Another round of disconcerting macro data, coupled with a steady pace of stress signals from Europe, drove the markets to a heightened flight to quality in May. US Treasuries rallied for the second month in a row, reflecting their status as a global safe haven of choice.

Though US stocks outperformed all other equity markets for the month, the S&P's 6% decline ranked among the top 10 worst May performances since 1930. Emerging markets took a big hit, reversing nearly all the gains from early 2012.

In the US, Growth stocks outpaced Value stocks, holding the lead within both size segments in both May and the year-to-date.

Yield led the way in US sectors, with Telecom (+2.6%) and Utilities (+0.6%) ranking among the top performers. Energy (-10.2%) was the biggest laggard, followed closely by Financials (-9.1%).

10-year Treasuries returned 3.5% for the month, as the flight to quality pushed yields to record lows. Risk assets finished at the other end of the spectrum, with high yield and Emerging Market bonds losing the most ground.

Within currency markets, the US dollar appreciated 3.5% for the month as it won a safe haven bid. The Yen posted another month of solid gains, pushing the currency back into positive territory year-to-date.

Continued worries of a global growth slowdown and the appreciation of the US dollar weighed heavily on commodities. Brent crude oil prices dropped 14.3% and gold prices fell 6.3%.

## Financial markets recap

Table 1: Total return (%)

Asset class	2011	As of 31 May 2012			
		1 mo	3 mo	12 mo	YTD
<b>Equity Indices (% , US dollar terms)</b>					
S&P 500	2.1	-6.0	-3.5	-0.4	5.2
NASDAQ Comp	-0.8	-7.0	-4.4	0.9	9.1
FTSE 100	-2.7	-11.5	-11.2	-13.4	-3.3
TOPIX	-11.9	-8.2	-10.1	-8.9	-1.9
Hang Seng	-17.3	-10.8	-12.8	-18.5	2.7
DJ Euro Stoxx 50	-16.7	-12.8	-20.1	-33.8	-10.4
MSCI EAFE	-11.7	-11.4	-13.3	-20.1	-3.4
MSCI Emerging Markets	-18.2	-11.2	-15.1	-20.1	0.2
<b>Size &amp; Style (% , US dollar terms)</b>					
Russell 2000	-4.2	-6.6	-5.7	-8.9	3.4
S&P 500 Citigroup Growth	4.7	-5.5	-2.4	2.7	6.1
S&P 500 Citigroup Value	-0.5	-6.7	-4.8	-3.7	4.0
S&P 600 Citigroup Growth	3.6	-5.4	-3.3	-4.9	4.4
S&P 600 Citigroup Value	-1.4	-7.1	-6.3	-3.9	2.9
<b>S&amp;P 500 Sectors (% , US dollar terms)</b>					
Consumer Discretionary	6.1	-5.7	0.0	8.4	10.8
Consumer Staples	14.0	-1.1	2.6	7.9	4.7
Energy	4.7	-10.2	-14.0	-14.8	-7.6
Financials	-17.1	-9.1	-4.6	-10.0	8.3
Health Care	12.7	-3.6	0.5	2.6	4.9
Industrials	-0.6	-6.0	-5.9	-5.4	3.5
Information Technology	2.4	-7.7	-4.8	7.6	10.1
Materials	-9.8	-7.8	-8.3	-11.7	1.6
Telecom Services	6.3	2.6	9.4	8.2	10.4
Utilities	19.9	0.6	3.8	10.7	0.7
<b>BofA Merrill Lynch Global Research Bond Indices (% , US dollar terms)</b>					
10-Year Treasury	17.1	3.5	4.4	17.3	4.1
2-Year Treasury	1.5	0.0	0.1	0.7	0.1
TIPS	14.1	1.8	2.8	13.8	4.8
Municipals*	11.2	0.9	1.4	11.1	4.2
US Corporate Bonds	7.5	0.6	1.3	7.7	4.4
US High Yield Bonds	4.4	-1.2	-0.3	3.3	4.9
Emerging Market Corporate Bonds	3.8	-1.9	-0.6	3.5	4.6
Emerging Market Sovereign Bonds	5.8	-3.0	-1.6	4.3	3.2
Preferreds	4.1	-0.3	0.4	5.4	6.9
<b>Foreign Exchange** (% , in local currencies)</b>					
US Dollar	0.5	3.5	3.6	6.7	2.5
British Pound	1.6	-0.4	2.1	3.7	2.5
Euro	-3.2	-3.4	-4.7	-9.2	-3.2
Yen	5.9	5.0	6.8	10.0	0.7
<b>Commodities** (% , US dollar terms)</b>					
CRB Index	-8.3	-10.8	-15.3	-22.0	-10.6
Gold	10.1	-6.3	-8.0	1.6	-0.2
WTI Crude Oil	8.2	-17.5	-19.2	-15.7	-12.4
Brent Crude Oil	13.8	-14.3	-17.7	-12.3	-5.2
<b>Alternative Investments† (% , US dollar terms)</b>					
Hedge Fund - CS Tremont <sup>1</sup>	-2.5	1.6	-2.6	4.0	1.6
Hedge Fund - HFRI Fund of Funds <sup>1</sup>	-5.6	1.3	-4.8	3.1	1.3
Private Equity - Cambridge Assoc. <sup>2</sup>	10.8	NA	5.4	10.8	NA
Private Real Estate - NCREIF TR <sup>3</sup>	14.3	NA	2.6	13.4	2.6

Notes: \*Not tax adjusted. \*\*BoE calculated effective FX indices. †Data as of 4/30/12; CS AUM-weighted, HFRI equal-weighted ‡Quarterly data as of 12/31/2011 †Quarterly data as of 3/31/12 †AI data not comparable to other asset classes because of reporting delays, lack of standardized reporting, and survivorship and self selection biases. Crude oil prices are spot in USD.  
Source: S&P, MSCI, Bloomberg, FactSet, BofAML Bond Indices (US Treasury Current 10yr, Current 2yr, Inflation-Linked; Muni Master, US Corp Master, US HY Master II Index; EM Corporate Plus Index; EM External Debt Sovereign Index; US Preferred Stock, Fixed Rate).

**Michael Hartnett**  
 Chief Global Equity Strategist  
 MLPF&S

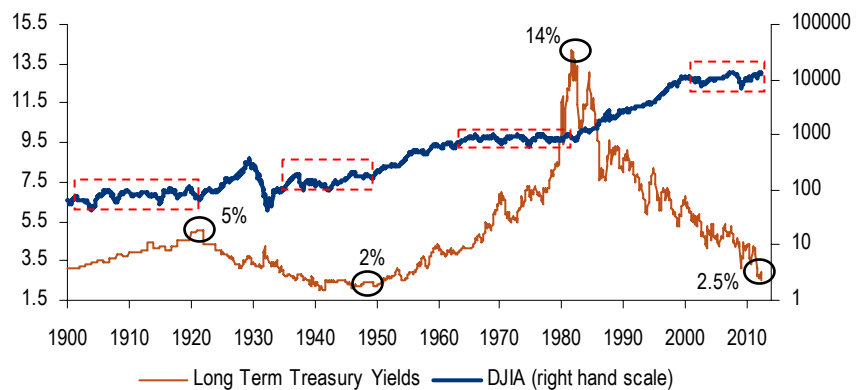
**Kate Moore**  
 Global Equity Strategist  
 MLPF&S

## The “Death” of bonds?

On August 13, 1979, the cover of *Business Week* famously proclaimed “The Death of Equities.” That day the Dow Jones Industrials Average stood at 875; twenty years later the index was at 10,973.

But the “The Death of Equities” cover signaled the beginning of the end of a secular equity bear market that began in the late 1960s, rather than its immediate demise. On August 13, 1982, the Dow Jones stood at 788. A brand new bull market in equities was signaled not by a magazine cover – but rather by a peak in bond yields in late 1981. Every new bull market in equities (early 1920s, late 1940s, and early 1980s) has coincided with an inflection point in bond yields (Chart 1).

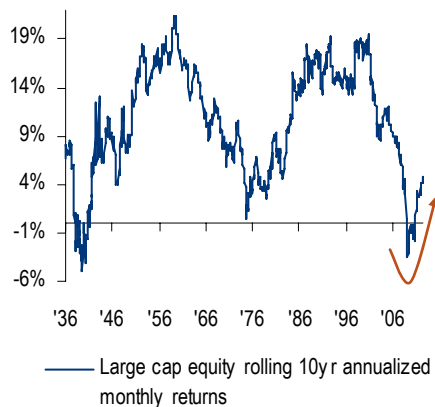
**Chart 1: New secular equity bull markets coincide with big inflection point in bond yields**



Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg, Haver

Similarly, the recent “Death of Equities” headline on the front cover of the *Financial Times* (on May 24, 2012) may indicate that the long-running bear market in equities that began in the late 1990s is in its last throes, in our view. Long-run equity returns are already on the rise, as shown in Chart 2. But a brand new secular equity bull market, characterized by new all-time price highs, multiple re-rating and/or above-trend earnings growth, is unlikely to begin until Treasury yields rise in response to stronger growth and a healthier global economy.

**Chart 2: Long-run equity returns are on the rise**



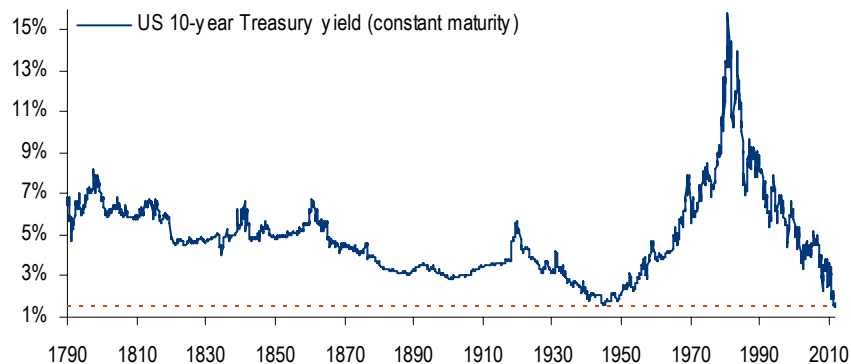
Source: BofA Merrill Lynch Global Equity Strategy, Ibbotson, Bloomberg

### The “push” from bonds is getting stronger

The good news is that the “push” to lower bond market allocations is becoming stronger due to the collapse in yields. The 10-year US Treasury yield recently fell to its lowest level in the history of the republic (Chart 3). Expected returns from Treasuries are on the wane. For 10-year US Treasury returns to match the long-run return of equities (10.5% per annum) in the next 12 months, the current yield would need to fall to roughly 0.6%, and to match the 4.1% annualized return from equities in their dismal last 10 years, the 10-year Treasury would need to fall to roughly 1.3%.

Note that despite much current apocalyptic investment commentary, global equities (1.9%) have ever so slightly outperformed global fixed income (1.1%) in 2012.

Chart 3: 10 year US Treasury yields recently fell to a 220 year low



Source: BofA Merrill Lynch Global Equity Strategy, Global Financial Data, Bloomberg

### But the “pull” from equities remains modest

Sadly, the “pull” to raise equity allocations remains too modest to argue for a significant overweight of equities at this time. On the positive side, equity valuations are very attractive: the 12-month forward price-to-earnings ratio of the US equity market is trading at a 24% discount to its long-term average; the dividend yield of European equities now exceeds the German bond yield by its widest margin since the 1920s; and the price-to-book of EM equities is close to 2008 lows.

But attractive valuations on their own are insufficient for an equity re-rating. Strong buying catalysts are needed for private individuals, mutual funds and pension funds to flock back to stocks. Yes, real estate is improving. But the ongoing uncertainty associated with European and US fiscal policies, the persistent weakness of G7 labor market and banking sectors and the residual fears of a China hard landing argue for the following client asset allocation advice:

Table 2: The RIC’s asset allocation\*

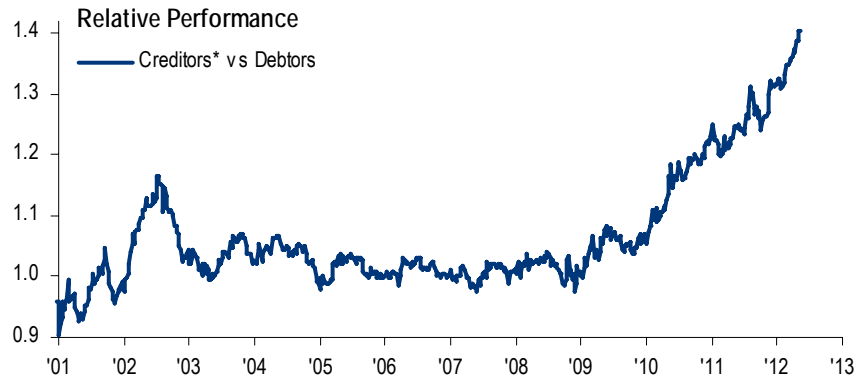
	Strategic	Tactical
<b>Stocks</b>	60%	60%
Lg. Cap Growth	38%	42%
Lg. Cap Value	38%	35%
Small Growth	4%	4%
Small Value	4%	2%
International: Developed	13%	12%
International: Emerging	3%	5%
<b>Bonds</b>	35%	35%
Tsys, CDs & GSEs	40%	32%
Mortgage Backeds	25%	25%
IG Corp & Preferred	25%	26%
High yield	5%	6%
International	5%	11%
<b>Cash</b>	5%	5%

\*Asset allocation listed here is for a Moderate investor. Please see page 13 for our full [asset allocation tables](#).

Source: BofA Merrill Lynch Global Research

- **Stay close to benchmark** in the major asset classes, as the RIC has been advocating in 2012 (Table 2). Broad asset class returns have been muted this year, with global equities and bonds returning just 1-2% year to date.
- Portfolios should remain heavily tilted towards our “Three Wise Themes” of **Yield, Growth and Quality**. In particular, we are overweight large-cap Growth, corporate bonds, and EM equities and debt.
- Within fixed income, we prefer **companies over countries**. In general, assets tied to corporate balance sheets (including equities) are more attractive than assets tied to government balance sheets.
- In an era of deleveraging, one of the best strategies is to be **overweight creditors** (markets and companies with good balance sheets) and **underweight debtors** (markets and companies with bad balance sheets). Since the start of 2009, creditors have outperformed debtors by a staggering 51ppt (Chart 4).
- Private clients with cash levels well in excess of 10% should be encouraged to be **opportunistic** in coming months and quarters. Macro threats breed investment opportunities. We highlight [10 Investment Ideas for Summer](#) on page 8.

**Chart 4: Creditors have massively outperformed debtors in recent years**



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

## The secular catalysts

Global equity market cap is up from \$26 trillion at the 2009 lows during the Global Financial Crisis to \$47 trillion today. We attribute much of the big gains to a combination of \$10tn of central bank liquidity injections via FX reserve accumulation and QE balance sheet expansion and the 110% rise in global corporate profits over the same period. But it appears global profit margins have now peaked and further QE policies run the risk of diminishing returns as bond yields are already so low. The bottom line is for significant and sustained gains in equity prices over the next 12 months, re-rating needs to occur.

In our [year-ahead report](#), we started to explore the forces that would open the door for equities to trade at higher multiples and inspire the Great Rotation from bonds into stocks. We re-visit these catalysts below.

### The good news: the US real estate market

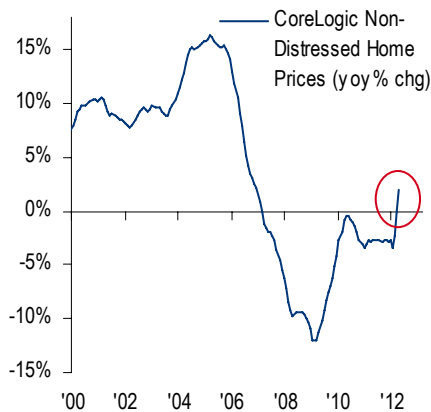
The best investment news of 2012 is the ongoing improvement in the US real estate market. Since the bubble and bust in housing was the genesis for our Age of Deleveraging, clear signs of a trough in US home prices strongly argue that bond yields and US bank stocks are troughing. US home prices increased 1.9% year-over-year in April, the first year-over-year rise since January 2007 (Chart 5).

Over the next 10 years, our economists forecast a 45% cumulative return for US real estate prices. But Senior US economist Michelle Meyer notes that a clear and sustainable uptrend in US home prices may not begin until 2014 when the large pipeline of distressed inventory has finally started to clear the market. So while the housing market is looking much better, it is currently a necessary but not sufficient catalyst for the Great Rotation from bonds to stocks.

### The bad news: European and US fiscal policies

Central banks have done a good job of stimulating the “animal spirits” of investors in recent years. Both credit and equity prices have soared from their lows. But politicians have done a lousy job of stimulating the animal spirits of businesses. Uncertainty over the future course of government spending, tax policy and regulation have caused US and European companies to hoard well over \$2tn of cash on their balance sheets. As a result, it has been one of the weakest jobs recoveries on record.

**Chart 5: First rise in US home prices since 2007**



Source: BofA Merrill Lynch Global Equity Strategy, CoreLogic

**Chart 6: A third leg down for Financials?**



Source: BofA Merrill Lynch Global Equity Strategy, DataStream, MSCI

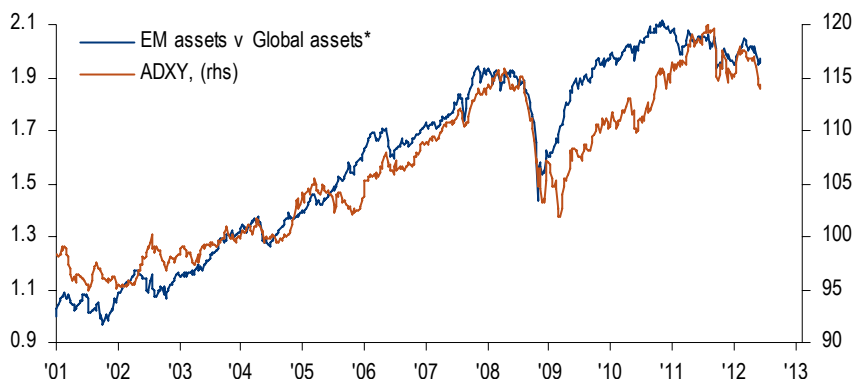
Common sense fiscal consolidation is necessary in both the US and Europe. Businesses and consumers both seem to be on a buyers strike, dooming government attempts to stimulate demand through debt-financed spending (as the public saves to pay for future tax increases to pay off the debt). This impasse can only be broken by a clear framework to reduce government debt in Europe and the US. Politicians in neither region seem currently up to the task.

Until they are, a structural downtrend in peripheral European government bond yields, a sustained downtrend in the US unemployment rate and outperformance from global banks will remain missing ingredients for an equity re-rating. Financials account for close to 20% of the global equity market, so without a bank recovery, there is little chance of a significant re-rating for equities. Unfortunately, Financials are struggling to gain equity market share (Chart 6), investor frustration with Europe is building, and markets remain in the mood to punish bad fiscal policies.

**The wildcard: China and Emerging Markets**

A re-rating of equities would also be boosted by above-trend growth. Deleveraging in the West puts the onus on growth on the East. But niggling doubts over Chinese trend growth and the EM consumer cannot be cast aside. Markets need to see policy easing in China work to stimulate domestic demand. Watch for new highs in Asian FX, which could be indicative of new highs in other EM assets (Chart 7).

**Chart 7: Watch Asian FX**



\* Global and EM assets = equal-weighted index of equities and bonds.

Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

**Short-term: sentiment is bearish, risk assets could rally**

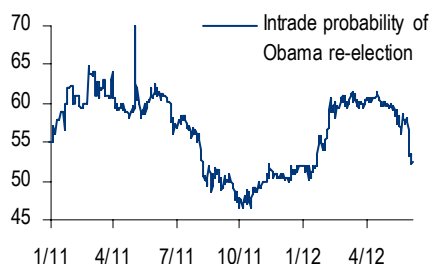
With the exception of traditional safe havens like the US dollar and Treasuries, many asset prices have been hit hard in April and May as a regional debt crisis – this time in Europe – has once again evolved into global market and macro weakness. Equities have dropped 14% peak-to-trough over the last two months, commodities have slumped 16%, and US HY credit spreads have widened by roughly 100bp. Global macro momentum has clearly worsened (Chart 8), and our economists now assign a 30% probability to a new global recession over the next 12 months.

**Chart 8: Biggest downward surprise to global macro in 3 years**



Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

**Chart 9: Probability of Obama winning a second term as calculated by Intrade**



We looked at Intrade data that reflects the aggregate probability of participating investors for a certain outcome of selected events.  
Source: BofA Merrill Lynch Global Equity Strategy, Intrade

**Table 3: Upcoming policy events**

Date	Event
June (TBD)	Greece's IMF/ EU quarterly review
June 17	French Parliamentary elections
June 17	Greek elections
June 18 & 19	G-20 meeting (Mexico)
June 19 & 20	Fed meeting
June 28 & 29	EU Leaders Summit (Brussels)

Source: BofA Merrill Lynch Global Equity Strategy

The good news is that investor sentiment is now extremely bearish and markets are very oversold. In our June [Global Fund Manager Survey](#), the average fund manager cash levels jumped to 5.3%, the highest since January 2009. What's more, 42 of 45 global equity markets recently traded below their 200-day moving average. Historically, such sentiment readings have coincided with a 5-7% equity rally in the following 4-6 weeks.

Moreover, the pressure for policy makers to act is rising. The probability of Obama being re-elected for a second term has declined from 61% to 53% in recent weeks (Chart 9, as calculated by Intrade). We believe June will be "policy month" – the beginning of policy making attempts to cause a "summer of stabilization" (Table 3). Our US economics team expects the Fed to announce another round of QE in either August or September. Aggressive policy moves should ensure a strong floor for the S&P 500 in the 1200-1250 range. But big bang policy coordination is required for a significant move above the 1350-1400 range.

## A word on Europe

Near-term market moves are likely to be heavily correlated with the news flow out of Europe, particularly the outcome of the June 17<sup>th</sup> Greek election. The response to the Spanish bank bailout has been initially very skeptical. The outcome of the Greek election is still highly uncertain, but European Economist Laurence Boone thinks the election will lead to a pro-euro government. Consequently, our base case is that Greece will not exit the euro. Under this [base-line scenario](#), Laurence expects -0.5% GDP growth in the euro-area in 2012.

But in the worst case scenario that Greece does exit, the IMF estimates that it would trigger a 10% contraction in the Greek economy. Market contagion would be intense in such a scenario and risk exposures are unlikely to rise sharply until the Euro bounces and German bund yields start to rise from their current low levels.

## 10 Summer Investment Ideas

While our base case remains that the broad equity market will not break out of its current trading range in the near term, in our opinion the summer will nevertheless provide several compelling investment opportunities.

### 1. Beneficiaries of US real estate

The RIC believes that as the US real estate market recovers, investments tied to the industry will likely offer compelling medium-term returns. MBS/ABS Strategist Chris Flanagan notes that the recent MBS spread widening could provide an [attractive entry point](#) into the market. Additionally, another round of quantitative easing in the US would likely involve MBS purchases, which should also benefit the asset class. Other areas of the market that could benefit from a US housing recovery include [hardline retailers](#), homebuilders, and REITs (which can also provide [attractive portfolio income](#)).

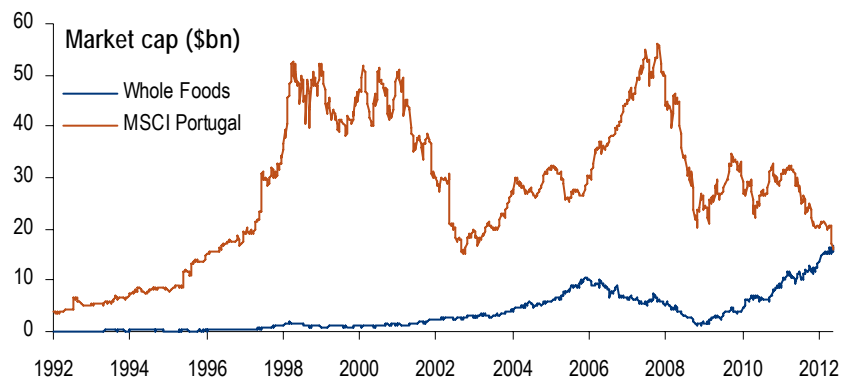
### 2. Dividend growth stocks

Corporate cash return strategies (dividend yield, dividend growth, share repurchases) all outperformed in [2011](#), and we expect this trend to continue as investors continue to search for portfolio income. US Equity and Quant Strategist Savita Subramanian recommends dividend growth stocks over high dividend yielding stocks, as they are trading at attractive valuations, have room to raise payout ratios, and are less negatively impacted by rising interest rates. See [Seeking yields that can grow](#) for four stock screens, including consistent dividend growers and companies with room to increase dividends.

### 3. European Best of Breed

Attractive valuations and depressed prices could lead to short term rallies in European equities. If the European policymakers manage to avoid a full-blown crisis, much of the bad news for Europe may be priced in to the market. But a broad and sustained rally for European equities will start with the banks. Financials still account for close to 20% of the European equity market, and without a big bang policy response, it will be very difficult to own the sector. Note that even after US banks were recapitalized in 2008-09, the sector still struggled for several years. Thus our preference is to stick with high quality, Best of Breed companies in Europe until we see evidence of credible fiscal consolidation.

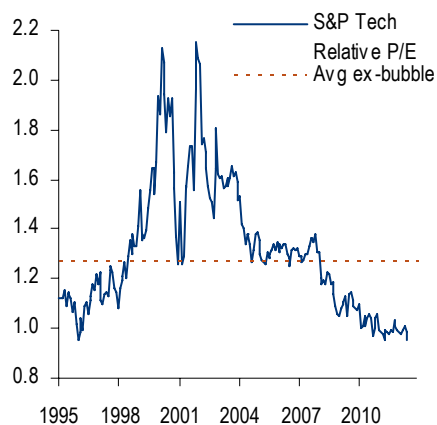
Chart 10: European assets are depressed – Portugal's equity market is now the size of Whole Foods



Source: BofA Merrill Lynch Global Equity Strategy, DataStream, Bloomberg



Chart 11: Relative fwd P/E of Tech versus S&P



Source: BofA Merrill Lynch US Equity & Quant Strategy

#### 4. Secular growth in US Tech

Although [US Tech](#) has been a consensus overweight for some time now, valuations for the sector remain compelling. US Equity and Quant Strategist Savita Subramanian notes that Tech is trading at a discount to the S&P 500 for the first time since 1996 (Chart 11). The sector has high cash balances (leaving room for dividend growth, share buybacks, and capex), and [secular growth prospects](#). Moreover, US Tech has seen the biggest drop in earnings volatility over the last five years.

That said, we acknowledge that Tech has the highest European sales exposure of the S&P 500 sectors. For investors worried about the impact of a deteriorating economic backdrop on the industry, our fundamental analysts have highlighted four stocks that are likely to [weather the storm](#).

#### 5. More quantitative easing will support gold

Commodity Strategist Francisco Blanch is cautiously optimistic on gold. While a major rally in risk assets may turn investor interest away from gold, the longer-term backdrop of low growth and additional monetary easing should continue to support prices. Spot gold prices rallied 19% during QE1 and 21% during QE2. An additional round of QE could push gold towards Francisco's \$2,000/oz 12-month price target.

Precious metals analyst Michael Jalonen notes that [gold equities are still undervalued](#), trading at a significant discount to their historic NAV.

#### 6. Companies over countries

US credit spreads have widened in recent weeks (US HY spreads have widened by roughly 100bp since the start of May), which could provide [attractive long-term entry points](#) into the market. Investors will likely continue to seek out safe, high yields in an environment of low interest rates, low growth and high levels of government debt. Note that global high yield corporate bonds have outperformed global sovereign bonds by 95ppts since December 2008 (Chart 12).

While our credit strategists recommend hedging to the downside in the near term, longer term they are overweight higher beta, lower quality and financial high grade bonds. Within high yield, they maintain an up-in-quality recommendation.

#### 7. Focus on Asia over EMEA or LatAm within EM

In the absence of a strong program to turn around Europe's financial system, EM assets will suffer. But EM Asia is better positioned than EMEA (Eastern Europe, Middle East and Africa) or Latin America to withstand even softer demand from the developed markets. Head of GEM fixed income strategy and cohead of global economics Alberto Ades forecasts that EM Asia will grow 6.8% in 2012, nearly twice as fast as LatAm and more than twice as fast as EMEA. And while GDP growth does not necessarily translate into EPS growth, we believe the healthier banking system, lower inflationary pressures from softer commodity prices, and the potential for significant policy easing (especially from China) makes Asia relatively more attractive than other EM regions.

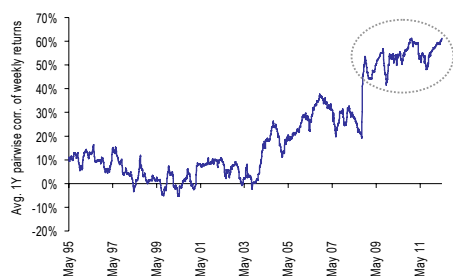
Asia and Global quant strategist Nigel Tupper recommends exposure to [cheap cyclicals within Asia](#).

Chart 12: HY bonds have outperformed government bonds



Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

**Chart 13: Correlations across asset markets are at multi-year highs**



(Daily data from 26-May-95 to 22-May-12. 1Y average pairwise correlation between the weekly returns of the Dollar Index (DXI, inverted), S&P Goldman Sachs Commodity Index (SPGSCITR), MSCI All Country World Index (MXWD) and the BofA Merrill Lynch US High Yield Master II Index (H0A0 Index).

Source: BofA Merrill Lynch Global Research

## 8. DM stocks to play the EM consumer

The Emerging Market consumer has been one of the RIC's favored themes in recent years. While we remain steadfast bulls of this secular growth story, we believe many EM consumer companies are now overvalued, and prefer to play the theme via DM consumer companies. See [Why to invest in DM stocks to play the EM consumer](#) for a list of 29 DM consumer companies with greater than \$10bn market cap and at least 30% of their 2011 sales in EM.

## 9. Dollar stores: a high conviction US consumer play

With or without a consumer recovery, our fundamental analysts think [dollar stores](#) are well positioned to continue to deliver outsized growth through market share gains. They expect the combination of favorable top-down factors (demographics and underpenetrated markets) and company initiatives (expanded cooler doors, tobacco and alcohol) to underpin mid- to high-teen growth through the medium term and beyond.

## 10. Explore hedges

Smart hedging remains an integral part of managing assets in this highly correlated, macro-driven market. Wide valuation gaps between cheap and expensive hedges create alpha opportunities by not overpaying for protection. See this [recent report](#) from Equity-Linked Analyst Ben Bowler for attractively priced hedges across global equity, commodity, FX and credit markets.

# Asset markets: base case, ideas, risks

Table 4: RIC base case for global asset markets

Region/sector	Convictions	Ideas & risks
<b>Global Economics:</b> Ethan Harris Alberto Ades	<ul style="list-style-type: none"> <li>Slowing global growth.</li> <li>An ongoing recession in Europe, with periodic risk events.</li> <li>The US confronts its fiscal crisis at yearend.</li> </ul>	<ul style="list-style-type: none"> <li>Inflation and central bank rates remain low.</li> <li>Continued market volatility.</li> <li>Pressure on risk assets in the second half.</li> </ul>
<b>Global Equities:</b> Michael Hartnett	<ul style="list-style-type: none"> <li>2012 MSCI All-Country World Index target is 330; S&amp;P 500 target is 1450.</li> <li>Global equities stuck in an upward-sloping trading range.</li> <li>Until central banks in the G7 can normalize monetary policy, the secular trade in the Age of Deleveraging will be "Quality-On" not "Risk-On".</li> </ul>	<ul style="list-style-type: none"> <li>Look for opportunities in distressed and under-owned assets.</li> <li>Own growth, yield and high quality Best of Breed stocks.</li> <li>Over the next few years, leadership within markets will likely change, driven by the mega-macro themes of the Great Rotation and the Great Rebalancing.</li> <li>Risks: EU recession spreads to the US or Asia; US fiscal cliff; policy errors including premature tightening; excess of deficits driving up interest rates; weaker EM growth.</li> </ul>
<b>Global Rates:</b> Priya Misra John Wraith	<ul style="list-style-type: none"> <li>10-year US Treasury yield to reach new lows, then rise later in the year as quantitative easing becomes more likely. Strong demand for fixed income, the Fed's late 2014 rate guidance, a weaker US and global economy, the systemic implications of the Eurozone crisis, and a shrinking pool of safe haven assets is likely to keep a bid for Treasury yields.</li> <li>UK: We look for the safe haven demand that has driven yields to record lows along the curve to persist over the coming month. Disappointing domestic growth prospects and the threats emanating from the Eurozone crisis are also bullish for Gilts, and we expect the MPC to respond by endorsing additional asset purchases at their July meeting.</li> </ul>	<ul style="list-style-type: none"> <li>US: The initial move should be a bull flattening move in the yield curve, with narrower TIPS breakevens. As quantitative easing becomes more likely, this should reverse, with a bear steepening and wider breakevens, likely to occur. Volatilities should follow a similar pattern: Neutral for now, but rising higher later in the year to accompany QE.</li> <li>UK: We recommend buying longer dated Gilts on asset swap, as this is the sector of the curve that has reacted most to the ending of the prior bout of QE, and therefore stands to gain the most from its expected resumption.</li> </ul>
<b>Global Commodities:</b> Francisco Blanch	<ul style="list-style-type: none"> <li>As Eurozone crisis contagion spreads from banking woes to economic growth expectations, commodity prices are being infected.</li> <li>For oil, we lowered our 2H12 forecasts for Brent crude oil to \$106/bbl on the back of weakening demand in Europe, softer growth in EMs and the US, and stronger-than-expected supply growth. Weaker balances naturally mean that inventories should build faster than we initially projected.</li> <li>We maintain our 12-month gold target of \$2,000/oz, benefitting from softer US data in 2H12.</li> </ul>	<ul style="list-style-type: none"> <li>Key risks to our outlook include a deeper-than-expected Eurozone recession, increased Middle East tensions, faster-than-expected US fiscal tightening, and a China hard-landing scenario.</li> <li>We forecast 2012 US HH nat gas prices of \$2.40/MMBtu given bearish weather, ongoing production growth, and high stock levels.</li> <li>Given continued cyclical headwinds, we remain only moderately positive on base metals as we expect Chinese economic growth will slow but not melt down.</li> <li>For gold, a faster-than-expected recovery in the US economy is a substantial risk to our view as QE3 will start getting factored out from gold prices.</li> </ul>
<b>Global Credit:</b> Hans Mikkelsen Oleg Melentyev	<ul style="list-style-type: none"> <li>Spreads have widened meaningfully in recent weeks, providing attractive long-term entry points. With high investor pessimism and no clear catalyst for a rally, the ingredients are in place for the market to form a bottom around these levels.</li> <li>Volatility will likely continue over the next few weeks as Greece and Spain play out, but investors should be prepared to start adding risk on any further downside.</li> <li>Our year-end spread targets of 150-160bp in HG and 550bp in HY imply significant tightening. But going forward we expect that increasing interest rates will partially offset the effect of tighter spreads. 2012 total return targets are 6% for HG and 12% for HY.</li> <li>HG: longer term OW higher beta, lower quality and financial bonds - short term we prefer to hedge the downside. HY: we maintain an up-in-quality recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>Bullish on US corporate credit because: 1) Excess demand - negative real yields and low expected growth are just right for corporates as investors reach for yield but are not ready for a rotation into equities; 2) Moderately increasing interest rates bring higher demand for corporate bonds; 3) Stable home prices and extremely well capitalized banks mean that financials should transition to low beta sectors.</li> <li>Risks: The situation in Europe causes negatively impacts consumer and business confidence and causes a US recession. Hard landing in China. US fiscal cliff.</li> </ul>
<b>Global FX:</b> David Woo Alberto Ades	<ul style="list-style-type: none"> <li>We expect the euro to fall further in the short-run, as the crisis continues to deteriorate, before rebounding by year-end. The yen should depreciate into year-end.</li> <li>EMFX could bounce in the near term given oversold levels and the market expecting policy action. However, we remain cautious in the medium term due to slower global growth.</li> </ul>	<ul style="list-style-type: none"> <li>Should recession concerns rise dramatically or deflation concerns gain, the Fed may implement QE3 sooner than expected. This would be USD negative. A lasting solution to the Eurozone crisis would also be USD negative, although we believe this is unlikely to happen before the end of 1H 2012.</li> <li>Europe continues to pose the greatest risks in the medium term. Also, central bank FX intervention in some EM countries could decrease potential upside.</li> </ul>

Source: BofA Merrill Lynch Research Investment Committee

## Global equity market convictions: ideas & risks

Table 5: Global equity weightings by region

Region/sector	Analyst(s)	Recommendation*	Convictions	Ideas & risks
US:	Savita Subramanian	Overweight	<ul style="list-style-type: none"> <li>2012 year-end S&amp;P 500 target is 1450, which is 14x our 2012E EPS of \$103.50.</li> <li>OW Staples and Tech; UW Materials and Financials.</li> <li>Macro market continues into 2012 with 1) the European crisis, 2) US policy, 3) risks of material slowdown in China/Emerging Markets, and 4) financial regulatory reform.</li> </ul>	<ul style="list-style-type: none"> <li>Expect a structurally higher equity risk premium over next several years given increased macro risk, but expect healthy 2012 EPS growth.</li> <li>Favor yield, quality and growth over beta.</li> <li>Europe, government and consumer exposure are key risks.</li> <li>Focus on sectors/industries with more stock picking opportunity.</li> </ul>
UK:	Gary Baker	Neutral	<ul style="list-style-type: none"> <li>Macro data have continued to disappoint as EU infection has spread, but the Bank of England remains on hold, citing inflation concerns.</li> <li>Earnings revisions trends are still positive but FX headwinds could now start to become a factor.</li> </ul>	<ul style="list-style-type: none"> <li>Despite the negative China sentiment dragging down the resources sector, the UK market has remained range bound, strongly outperforming Europe.</li> <li>OW Telecoms, Banks, Energy, Basic Resources. UW Consumer Staples. FTSE trading on 9.3x forward PER.</li> </ul>
Europe ex-UK:	Gary Baker	Underweight	<ul style="list-style-type: none"> <li>Poor economic data continue to sap investor confidence as recession projections intensify.</li> <li>The ECB is pushing politicians to take the lead in policy response and a surprisingly large commitment to Spanish bank recap has resulted, on which we await further details to judge impact.</li> <li>Greek re-re-election can still surprise but the EU leaders meeting at month-end is the real focus for advancing the debate on greater union.</li> </ul>	<ul style="list-style-type: none"> <li>The recent sharp rally on speculation of a more ambitious policy response is adding to investor nervousness given consensus defensive positioning. OW Banks, Basic Resources, Energy and Telecom. UW Consumer Staples.</li> <li>Market trading on 9.3x PER. Consensus 2012E EPS 4% growth vs. our 0% top down estimate. 258 Y/E target for Stoxx600 implies modest upside.</li> </ul>
Asia-Pac ex-Japan:	Nigel Tupper	Neutral	<ul style="list-style-type: none"> <li>Monetary policy continues to be ease across the region.</li> <li>Valuations are attractive and analysts downgrades are slowing (which is usually an early signal of a trough).</li> </ul>	<ul style="list-style-type: none"> <li>We recommend positioning towards assets that usually perform well when Asia bounces.</li> <li>OW selected Property and Banks, and underweight expensive defensives including Consumer Staples.</li> <li>The major risk is growth in USA, Europe or China surprises on the downside.</li> </ul>
Emerging Markets:	Michael Hartnett	Overweight	<ul style="list-style-type: none"> <li>High growth, infant credit cycles and abundant global liquidity remain secular positives for EM, but China's growth is set to moderate over the next 5 years.</li> <li>Easy long-term money in EM has already been made. Going forward a more nuanced approach is necessary.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to favor Best of Breed and high yielding Emerging Market stocks.</li> <li>While inflation is not a near term risk, watch for signs of rising inflation and margin compression across EMs.</li> <li>Risks: major banking and debt crisis in Europe that triggers a recession in the US and a hard-landing in China.</li> </ul>

Note: We have suspended our publication of Japan equity strategy recommendations and will resume them upon initiation of our new strategist's views. \*Recommendations are relative to regional weightings in the MSCI All Country World Index. Source: BofA Merrill Lynch Research Investment Committee

## Asset allocation for individual investors

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

### Tier 0 (highest liquidity):

Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

### Asset allocation for US clients

Table 6: Strategic and tactical allocations without alternative assets (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Bonds	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Cash	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%
<b>Alternative Assets</b>										
	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

### Tier 1 (higher liquidity):

Up to 10% of the portfolio may be unavailable for 3-5 years.

Table 7: Strategic allocations with alternative assets (Tier 1 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks	20%		40%		55%		65%		70%	
Bonds	50%		45%		30%		20%		10%	
Cash	25%		10%		5%		5%		5%	
<b>Alternative Assets</b>										
Real Assets*	1%		1%		2%		2%		6%	
Hedge Funds	4%		4%		8%		8%		9%	
Private Equity	0%		0%		0%		0%		0%	

\*Real Assets\* defined to include commodities, TIPS and Real estate, including REITs. Figures may not sum to 100 because of rounding.

### Tier 2 (moderate liquidity):

Up to 20% of the portfolio may be unavailable for 3-5 years.

Table 8: Strategic allocations with alternative assets (Tier 2 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks	15%		35%		50%		55%		55%	
Bonds	50%		45%		25%		20%		10%	
Cash	25%		10%		5%		5%		5%	
<b>Alternative Assets</b>										
Real Assets*	3%		3%		7%		7%		10%	
Hedge Funds	6%		6%		8%		8%		8%	
Private Equity	1%		1%		5%		5%		12%	

\*Real Assets\* defined to include commodities, TIPS and Real estate, including REITs. Figures may not sum to 100 because of rounding.

### Tier 3 (lower liquidity)

Up to 30% of the portfolio may be unavailable for 3-5 years.

Table 9: Strategic allocations with alternative assets (Tier 3 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
<b>Traditional Assets</b>										
Stocks	15%		35%		40%		50%		40%	
Bonds	45%		40%		25%		15%		10%	
Cash	25%		10%		5%		5%		5%	
<b>Alternative Assets</b>										
Real Assets*	3%		3%		9%		9%		11%	
Hedge Funds	10%		10%		14%		14%		14%	
Private Equity	2%		2%		7%		7%		20%	

\*Real Assets\* defined to include commodities, TIPS and Real estate, including REITs. Figures may not sum to 100 because of rounding.

Notes: The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy group and are designed to serve as guidelines for a 20-30 year investment horizon. The models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. We define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Additional information regarding the liquidity tiers is available in the full disclosure section of the report. Given the less-liquid nature of alternative assets, BofA Merrill Lynch does not make Tactical allocation recommendations for portfolios that include these asset classes.

## A closer look at asset allocation for US clients: size, style and international

The tables below present in-depth size and style recommendations for US clients using the stocks, bonds and cash weights from the most liquid (Tier 0) liquidity profile on the previous page.

Table 10: Strategic and tactical allocations without alternatives

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
<b>Stocks</b>	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Lg. Cap Growth	8%	9%	16%	18%	23%	25%	25%	27%	27%	32%
Lg. Cap Value	12%	10%	16%	15%	23%	21%	25%	22%	21%	20%
Small Growth	0%	0%	2%	2%	2%	2%	3%	3%	6%	6%
Small Value	0%	0%	2%	1%	2%	1%	3%	2%	6%	3%
Intl: Developed	0%	1%	3%	3%	8%	7%	11%	11%	16%	16%
Intl: Emerging	0%	0%	1%	1%	2%	4%	3%	5%	4%	8%
<b>Bonds</b>	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Tsys, CDs & GSEs	35%	43%	27%	16%	13%	11%	6%	8%	2%	5%
Mortgage Backeds	14%	1%	13%	12%	9%	9%	6%	6%	4%	3%
IG Corp & Preferred	6%	11%	10%	13%	9%	9%	9%	6%	5%	4%
High Yield	0%	0%	0%	3%	2%	2%	1%	2%	2%	1%
International	0%	0%	0%	6%	2%	4%	3%	3%	2%	2%
<b>Cash</b>	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%

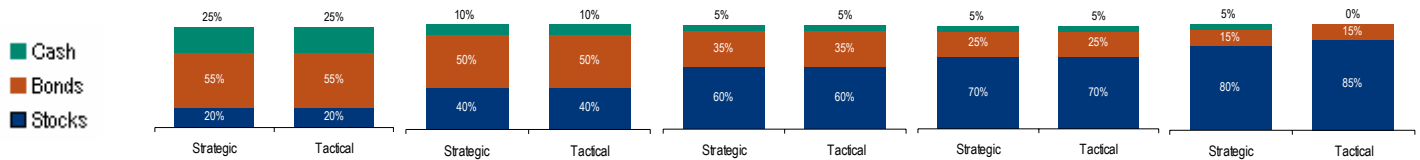


Table 11: Stocks – by size and style

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Large cap growth	40%	42%	40%	44%	38%	42%	35%	39%	33%	37%
Large cap value	60%	53%	40%	38%	38%	35%	35%	32%	26%	24%
Small growth	0%	0%	4%	4%	4%	4%	4%	4%	8%	8%
Small value	0%	0%	4%	2%	4%	2%	4%	2%	8%	4%
International: Developed	0%	5%	10%	9%	13%	12%	18%	16%	20%	19%
International: Emerging	0%	0%	2%	3%	3%	5%	4%	7%	5%	8%

Table 12: Bonds -- by sector

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Tsys, CDs & GSEs	65%	78%	55%	32%	40%	32%	25%	32%	15%	29%
Mortgage Backeds	25%	2%	25%	25%	25%	25%	25%	25%	25%	21%
IG Corp & Preferred	10%	20%	20%	26%	25%	26%	35%	26%	40%	27%
High yield	0%	0%	0%	6%	5%	6%	5%	6%	10%	8%
International	0%	0%	0%	11%	5%	11%	10%	11%	10%	15%

Notes: Further information regarding liquidity assumptions is available in the disclosure section; Figures may not sum to 100 because of rounding

The Investor Profile Asset Allocation Model was developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy Group and are designed to serve as guidelines for a 20-30-year investment horizon. The Tactical allocations are provided by the Global Research Investment Strategy Group and reflect the group's outlook over the next 12-18 months.

See [here](#) for additional disclosures for US allocation models.

## Asset allocation for global clients

The Asset Allocation for Global Clients is designed to reduce “home country bias” and introduce a currency perspective. Tactical recommendations are based on qualitative views from our BofAML Global Research strategists, translated into recommendations with a quantitative optimization model. Strategic allocations are based on market cap weights for the MSCI All-Country World and BofAML Global Fixed Income Markets Indices (12/31/2010). Both allocations are for individual investors.\*\*

### Tier 0 (highest liquidity):

Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

Table 13: Strategic and tactical allocations without alternatives (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately Aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
	Global Equities	20%	20%	40%	40%	60%	60%	70%	70%	80%
North America	8%	9%	19%	20%	28%	29%	32%	33%	37%	38%
Europe (ex UK)	4%	3%	7%	6%	11%	10%	13%	12%	15%	14%
UK	2%	2%	4%	4%	5%	5%	6%	6%	7%	7%
Japan	2%	2%	3%	3%	5%	5%	6%	6%	7%	7%
Pac Rim (ex Japan)	1%	1%	2%	2%	3%	3%	4%	4%	4%	4%
Emerging Markets	3%	3%	5%	5%	8%	8%	9%	9%	10%	10%
Global Fixed Income	55%	58%	50%	53%	38%	39%	28%	29%	18%	19%
Govt Bonds	34%	35%	30%	29%	24%	18%	18%	12%	10%	6%
Inv. Grade Credit	8%	9%	8%	10%	6%	11%	4%	8%	3%	6%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	1%	2%
Collateralized Debt	11%	11%	10%	10%	7%	8%	5%	7%	4%	5%
Cash (USD)	25%	22%	10%	7%	2%	1%	2%	1%	2%	1%
Global Real Assets*	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Hedge Funds	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Private Equity	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

\*Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

### Tier 1 (higher liquidity):

Up to 10% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 14: Strategic and tactical allocations with alternatives (Tier 1 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
	Global Equities	18%	18%	38%	38%	56%	56%	66%	66%	73%
North America	8%	9%	18%	19%	26%	27%	30%	31%	34%	35%
Europe (ex UK)	3%	2%	7%	6%	10%	9%	12%	11%	14%	13%
UK	2%	2%	3%	3%	5%	5%	6%	6%	6%	6%
Japan	2%	2%	3%	3%	5%	5%	6%	6%	6%	6%
Pac Rim (ex Japan)	1%	1%	2%	2%	3%	3%	3%	3%	4%	4%
Emerging Markets	2%	2%	5%	5%	7%	7%	9%	9%	9%	9%
Global Fixed Income	52%	55%	50%	53%	32%	33%	22%	23%	10%	11%
Govt Bonds	32%	33%	30%	29%	20%	14%	14%	8%	6%	5%
Inv. Grade Credit	8%	9%	8%	10%	5%	10%	3%	7%	2%	3%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	0%	2%
Collateralized Debt	10%	10%	10%	10%	6%	7%	4%	6%	2%	1%
Cash (USD)	25%	22%	7%	4%	2%	1%	2%	1%	2%	1%
Global Real Assets^*	1%	1%	1%	1%	2%	2%	6%	6%	12%	12%
Global Hedge Funds^	4%	4%	4%	4%	8%	8%	4%	4%	3%	3%
Global Private Equity^	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

\*The RIC does not make tactical allocations to these categories due to their long term, less liquid nature. Strategic benchmark weights are reflected in both columns

^Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Notes: The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy group and are designed to serve as guidelines for a 20-30 year investment horizon. The models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. We define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Additional information regarding the liquidity tiers is available in the full disclosure section of the report. Given the less-liquid nature of alternative assets, BofA Merrill Lynch does not make Tactical allocation recommendations for portfolios that include these asset classes.

\*\*BofAML Global Research also publishes a tactical Global Asset Allocation for institutional investors, distinct from the RIC's tactical Asset Allocation for Global Clients, published herein. The institutional tactical Global Asset Allocation, published quarterly, is based on the same views and methodology, but is designed for institutional investors with a 3-6 month time horizon.

## Asset allocation for global clients (continued)

Table 15: Strategic and tactical allocations with alternatives (Tier 2 liquidity)

Tier 2 (moderate liquidity):  
Up to 20% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
	Global Equities	14%	14%	35%	35%	45%	45%	51%	51%	53%
North America	6%	7%	16%	17%	21%	22%	24%	25%	24%	25%
Europe (ex UK)	3%	2%	6%	5%	8%	7%	9%	8%	10%	9%
UK	1%	1%	3%	3%	4%	4%	4%	4%	5%	5%
Japan	1%	1%	3%	3%	4%	4%	4%	4%	4%	4%
Pac Rim (ex Japan)	1%	1%	2%	2%	2%	2%	3%	3%	3%	3%
Emerging Markets	2%	2%	5%	5%	6%	6%	7%	7%	7%	7%
Global Fixed Income	51%	54%	48%	51%	33%	34%	27%	28%	15%	16%
Govt Bonds	31%	32%	30%	29%	21%	15%	17%	11%	9%	8%
Inv. Grade Credit	8%	9%	7%	9%	5%	10%	4%	8%	2%	4%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	1%	2%
Collateralized Debt	10%	10%	9%	9%	6%	7%	5%	7%	3%	2%
Cash (USD)	25%	22%	7%	4%	2%	1%	2%	1%	2%	1%
Global Real Assets <sup>^*</sup>	2%	2%	2%	2%	4%	4%	4%	4%	8%	8%
Global Hedge Funds <sup>^</sup>	6%	6%	6%	6%	9%	9%	4%	4%	6%	6%
Global Private Equity <sup>^</sup>	2%	2%	2%	2%	7%	7%	12%	12%	16%	16%

<sup>^</sup>The RIC does not make tactical allocations to these categories due to their long term, less liquid nature. Strategic benchmark weights are reflected in both columns.

<sup>\*</sup>Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Table 16: Strategic and tactical allocations with alternatives (Tier 3 liquidity)

Tier 3 (lower liquidity):  
Up to 30% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
	Global Equities	12%	12%	32%	32%	41%	41%	47%	47%	46%
North America	5%	6%	14%	15%	19%	20%	22%	23%	21%	22%
Europe (ex UK)	2%	1%	6%	5%	8%	7%	9%	8%	9%	8%
UK	1%	1%	3%	3%	4%	4%	4%	4%	4%	4%
Japan	1%	1%	3%	3%	3%	3%	4%	4%	4%	4%
Pac Rim (ex Japan)	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%
Emerging Markets	2%	2%	4%	4%	5%	5%	6%	6%	6%	6%
Global Fixed Income	48%	51%	48%	51%	27%	28%	21%	22%	7%	8%
Govt Bonds	30%	31%	30%	29%	17%	11%	13%	10%	5%	4%
Inv. Grade Credit	7%	8%	7%	9%	4%	8%	3%	6%	1%	2%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	0%	1%
Collateralized Debt	9%	9%	9%	9%	5%	7%	4%	4%	1%	1%
Cash (USD)	25%	22%	5%	2%	2%	1%	2%	1%	2%	1%
Global Real Assets <sup>^*</sup>	3%	3%	3%	3%	6%	6%	7%	7%	15%	15%
Global Hedge Funds <sup>^</sup>	9%	9%	9%	9%	16%	16%	11%	11%	14%	14%
Global Private Equity <sup>^</sup>	3%	3%	3%	3%	8%	8%	12%	12%	16%	16%

<sup>^</sup>The RIC does not make tactical allocations to these categories due to their long term, less liquid nature. Strategic benchmark weights are reflected in both columns.

<sup>\*</sup>Real Assets include commodities, TIPS, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Notes: Further information regarding liquidity assumptions is available in the disclosure section. The Investor Profile Asset Allocation Model was developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy Group and are designed to serve as guidelines for a 20-30 year investment horizon. The Tactical allocations are provided by the Global Research Investment Strategy Group and reflect their outlook over the next 12-18 months. Numbers highlighted in bold signify changes.



## Fixed-income allocation models for US clients

Yields on Treasury securities of virtually all maturities are near all time lows, as the flight to quality took to a new level during May. Preferreds and high yield both lost ground during May, but they still show good returns for the year to date.

The exchange value of the U.S. dollar has benefitted from the flight to quality as well, which has hurt non-dollar denominated assets. Local debt in EM lost 5.9% in total return during May, reversing almost all of the gains for the year through April. We still see good longer-term prospects in these bond markets, but they will likely struggle for as long as uncertainties about China and Europe remain.

Treasuries, especially long-term, will likely continue to benefit while investors are concerned about economic and financial turmoil emanating from Europe or elsewhere. But Treasuries are not the place we would go for income, and that's what many individual investors are seeking. What's more, prices on these securities could tumble when these concerns begin to fade.

We are comfortable in taking some credit risk because we think that the U.S. economy will grow modestly, and the Fed will probably embark upon a third round of Quantitative Easing. For conservative investors, we recommend investment grade corporate bonds. For more aggressive investors, we recommend an allocation of up to 20% of the bond portfolio to high yield bonds and EM debt.

As for maturity, we recommend a middle ground: five-to-10 year maturities in the taxable market, and a bit longer in the municipal market. The Federal Reserve plans to keep short-term rates near zero until at least the end of 2014, so cash is likely to provide virtually no return for a long while.

Table 17: Combined municipal and taxable recommended sector allocations by Investor Profile

Sector	Conservative			Moderate**			Aggressive		
	Federal tax bracket								
	<25%*	28%	35%	<25%*	28%	35%	<25%*	28%	35%
Munis	0%	45%	50%	0%	58%	63%	0%	75%	80%
Treasuries & CDs	40%	22%	20%	25%	10%	9%	23%	5%	4%
TIPS	3%	2%	2%	4%	2%	2%	4%	1%	1%
Agencies (GSEs)	35%	19%	17%	3%	1%	1%	2%	1%	0%
Mortgages	2%	1%	1%	25%	11%	9%	21%	5%	4%
Corporates	20%	11%	10%	24%	10%	9%	24%	6%	5%
Preferreds	0%	0%	0%	2%	1%	1%	3%	1%	1%
High Yield*	0%	0%	0%	6%	3%	2%	8%	2%	2%
International: Developed Markets	0%	0%	0%	3%	1%	1%	3%	1%	1%
International: Emerging Markets USD	0%	0%	0%	3%	1%	1%	5%	1%	1%
International: Emerging Markets Local	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>5%</u>	<u>2%</u>	<u>2%</u>	<u>7%</u>	<u>2%</u>	<u>1%</u>
TOTALS	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>TAXABLE-Maturity</b>									
1-4.99 years	100%	100%	100%	52%	52%	52%	53%	53%	53%
5-14.99 years	0%	0%	0%	41%	41%	41%	38%	38%	38%
15+ years	<u>0%</u>	<u>0%</u>	<u>0%</u>	7%	7%	7%	9%	9%	9%
TOTALS	100%	100%	100%	100%	100%	58%	100%	100%	100%
<b>TAX EXEMPT-Maturity</b>									
1-4.99 years	100%	100%	100%	10%	10%	10%	5%	5%	5%
5-9.99 years				30%	30%	30%	25%	25%	25%
10-14.99 years				30%	30%	30%	35%	35%	35%
15+ years				<u>30%</u>	<u>30%</u>	<u>30%</u>	<u>35%</u>	<u>35%</u>	<u>35%</u>
TOTALS	100%	100%	100%	100%	100%	100%	100%	100%	100%

\* Including tax-deferred accounts like IRAs and 401(k)s. \*\* The Moderate Category applies to the "Moderately Conservative", "Moderate", and "Moderately Aggressive" Profiles.

Changes from last month are highlighted in bold.

Source: BofA Merrill Lynch Global Research

## US Equity sector allocation models

Table 18: Portfolio Strategy team's US equity sector weightings by investor profile

	Weight in S&P 500	Conservative	Moderately conservative	Moderate	Moderately aggressive	Aggressive
Consumer Discretionary	11.3%	10.0%	6.0%	11.0%	12.0%	10.0%
Consumer Staples	11.4%	22.0%	15.0%	12.0%	8.0%	6.0%
Energy	10.6%	12.0%	12.0%	10.0%	12.0%	12.0%
Financials	14.3%	12.0%	12.0%	13.0%	7.0%	7.0%
Health Care	11.8%	12.0%	9.0%	11.0%	17.0%	18.0%
Industrials	10.5%	14.0%	12.0%	16.0%	18.0%	16.0%
Info Technology	19.8%	6.0%	8.0%	16.0%	23.0%	25.0%
Materials	3.4%	0.0%	4.0%	2.0%	3.0%	3.0%
Telecom Services	3.2%	3.0%	10.0%	3.0%	0.0%	3.0%
Utilities	3.7%	9.0%	12.0%	6.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: BofA Merrill Lynch Research Portfolios, S&P; S&P 500 Sector Weights are as of 31 May 2012; weights may not add up to 100% due to rounding.

Table 19: US Equity Strategy team's sector weightings in rank order of preference

Sector	S&P 500 Weight	BofAML Weight (+ / = / -)	Comments	Favored Industries/Sub- industries
Consumer Staples	11.4%	++	Best performing sector historically when profits decelerate Contrarian: under owned by fund managers – Health Care is favored defensive play Quality, dividend yield and dividend growth Risks: inflation, upside surprise to profits growth	Food & Staples Retailing, Tobacco
Information Technology	19.8%	+	Ranks highest in our quant model on valuation, momentum and estimate revisions Sector has strong secular growth segments, and its cyclical segments are already in a downturn and discounting the worst Cash rich – yield, buyback, capex play Risks: consensus long, global recession, highest European exposure, gov't cuts for Comm. Equipment	IT Services, Software
Consumer Discretionary	11.3%	=	Media a beneficiary of ad spend (2012 elections & Olympics) Stock pickers industries: Restaurants and Retail Hedge against a global slowdown, as sector is domestically focused Risks: Higher oil prices, consumer deleveraging, employment, housing	Media, Restaurants
Health Care	11.8%	=	Performs well historically when profits decelerate Large-cap Pharmaceuticals – cheap, strong yield and unloved Risk: most government spending exposure of any sector	Pharmaceuticals for yield, Health Care Equipment & Services
Industrials	10.5%	=	B2B spending exposure Ranks well in our quant model on valuation, price momentum, and estimate revisions International exposure – Europe more of a concern than EM Defense names at risk from government spending cuts	Air Freight & Logistics, Electrical Equipment, Road & Rail
Energy	10.6%	=	Sector earnings currently reflect oil price of \$92/bbl WTI – well below our forecast But oil price volatility since 2008 suggests higher risk premium is warranted Risks: global slowdown / recession	Energy Equipment & Services
Telecommunication Services	3.2%	=	Eclipses Utilities as sector with the highest dividend yield Good sector for stock pickers – low intra-stock correlations Crisis hedge – three periods of best performance were Lehman crisis, Greek crisis and US debt downgrade. Risks: poor quant model rank, protracted downward revision cycle	Diversified Telecom
Utilities	3.7%	=	Most expensive sector, no growth Deregulated Utilities pricing could benefit from EPA regulation if Democratic leadership Hedge against global macroeconomic uncertainty and weak equity market returns – yield play, purely domestic, and least correlated with the equity market	Regulated Utilities
Financials	14.3%	--	High risk due to regulatory reform, litigation, further declines in home prices, stress in the European financial system, and slow US growth Old leadership rarely becomes new leadership 2012 dividend growth likely to eclipse earnings growth Secular growth theme: electronic payment systems	Insurance
Materials	3.4%	--	Ranks poorly in Quant model (weak estimate trends and price momentum) All risk, no reward: highest beta among non-Financial cyclical sectors but lowest long term growth prospects	Chemicals

\*Weights in S&P 500 as of 5/31/12 \*Note: Financials growth is also expected to accelerate in 2012 but this is due to large writedowns in 2011 rather than real earnings power.

Source: BofA Merrill Lynch US Equity & US Quant Strategy

12 June 2012

## Core portfolio

The Core is a sector-driven US equity portfolio whose target sector weightings and selected industry representation are reflective of our US Equity Strategy team's current recommendations. Individual stocks are chosen based on their potential to deliver above average earnings growth, yet have attractive valuations based on P/E-to-EPS growth rate. Sector weights are benchmarked to the S&P 500.

Table 20: Core Portfolio

Sectors/Target Weights	Symbol	Proposed Weight	Price		Yield †	QRQ Rating	EPS Growth	P/E Ratio	Footnote
			Close 6/8/2012	When added					
<i>Consumer Discretionary (11%)</i>									
priceline.com	PCLN	3%	644.36	\$476.18	0.00%	C-1-9	20.0	20.55	Bbgjopsvw
Yum Brands Inc	YUM	3%	64.59	\$38.52	1.76%	B-1-7	13.0	19.28	Bbijopsvw
Viacom (Cl. B)	VIAB	2%	47.64	\$47.89	2.31%	B-1-7	19.2	11.05	#BObgjopsvw
Tiffany & Co.	TIF	3%	55.28	\$49.34	2.32%	B-1-7	12.0	15.02	Bbijopsvw
<i>Consumer Staples (15%)</i>									
Green Mountain	GMCR	2%	23.13	\$43.90	0.00%	C-2-9	30.8	33.04	Bbijopsv
Wal*Mart Stores	WMT	4%	68.22	\$48.74	2.33%	A-1-7	9.0	18.64	BObjopsv
CVS/Caremark	CVS	3%	44.89	\$37.97	1.45%	B-1-7	14.0	17.96	Bbijopsvw
AB InBev	BUD	4%	68.13	\$55.80	2.29%	A-1-7	8.7	21.78	Bbgjopsv
PM	PM	2%	83.97	\$71.52	3.67%	B-1-7	8.9	21.70	Bbijpsw
<i>Energy (12%)</i>									
Halliburton	HAL	3%	27.96	\$32.29	1.29%	C-1-7	16.0	13.51	Bbijopsv
Schlumberger	SLB	3%	64.54	\$70.11	1.70%	B-1-7	16.0	22.81	Bbijopv
Occidental	OXY	3%	85.05	\$98.60	2.54%	B-1-7	-2.0	14.97	Bbgjopsvw
Chesapeake	CHK	3%	18.36	\$21.60	1.91%	C-1-7	10.6	6.22	BObgjopsvw
<i>Financials (10%)</i>									
ACE Limited	ACE	2%	72.85	\$44.47	2.69%	B-1-7	10.0	9.36	Bbijopsvw
Amer Express	AXP	3%	55.86	\$41.75	1.43%	B-1-7	10.0	16.63	Bbijopsv
BlackRock, Inc.	BLK	3%	173.91	\$159.18	3.45%	B-1-7	12.0	15.97	Bbgjopsvw
JP Morgan Chase	JPM	2%	33.68	\$43.62	3.56%	B-1-7	8.0	8.51	#BObjopsvw
<i>Health Care (11%)</i>									
Express Scripts	ESRX	2%	53.19	\$26.28	0.00%	B-1-9	20.0	22.93	BObjopsvw
Agilent	A	4%	39.60	\$43.74	1.01%	B-1-7	10.0	19.80	Bbijopsvw
Baxter	BAX	3%	50.62	\$55.56	2.65%	B-1-7	12.0	12.72	Bbgjopsv
Gilead	GILD	2%	49.64	\$52.02	0.00%	B-1-9	11.2	13.45	Bbgjopsvw
<i>Industrials (10%)</i>									
Dover Corp	DOV	3%	56.68	\$66.30	2.22%	B-1-7	15.0	16.72	Bbijopsvw
Fluor Corp	FLR	3%	48.53	\$63.35	1.32%	B-1-7	15.0	24.51	Bbgjopsvw
Honeywell Intl.	HON	2%	55.99	\$37.82	2.66%	B-1-7	13.0	19.51	Bbijopsv
Boeing	BA	2%	69.94	\$55.47	2.52%	B-1-7	16.0	15.75	BObjopsv
<i>Information Technology (22%)</i>									
QUALCOMM	QCOM	3%	58.76	\$43.25	1.70%	C-1-7	13.0	27.46	Bbijopsv
Microsoft Corp	MSFT	3%	29.65	\$22.65	2.70%	B-1-7	12.0	14.05	Bbijopsvw
Visa	V	4%	116.58	\$119.85	0.75%	B-1-7	N/A	30.05	Bbijopvw
EMC Corp	EMC	3%	24.64	\$28.84	0.00%	C-1-9	N/A	19.56	Bbijopsvw
Apple	AAPL	3%	580.32	\$259.69	1.83%	C-1-7	15.0	38.30	Bbijopsvw
Google	GOOG	3%	580.45	\$407.98	0.00%	C-1-9	16.9	19.60	#Bbijopsvw
Broadcom	BRCM	3%	34.06	\$39.76	1.17%	C-1-7	15.0	12.52	Bbgjopsvw
<i>Materials (2%)</i>									
FMC Corp	FMC	2%	51.93	\$59.66	0.69%	B-1-7	9.0	21.46	Bbgjopsvw
<i>Telecom Services (3%)</i>									
Vodafone Group	VOD	3%	26.58	\$28.25	5.60%	B-1-7	8.6	8.96	BObjopsv
<i>Utilities (4%)</i>									
Edison Int'l	EIX	4%	46.04	\$40.68	2.82%	B-1-7	-3.0	13.23	Bbijopsv
<i>Cash (0%)</i>									
		0%							
		100%			1.84%				

†: Investors should be aware that foreign governments sometimes withhold a percentage of dividends paid to US shareholders, which may adversely impact an investor who is following the portfolio. This may affect the yield received when compared to the stated yield for the Research Portfolios.

Source: Bloomberg, BofA Merrill Lynch Global Research

12 June 2012

## Global stock lists

### US 1 List (methodology)

Table 21: US 1 List (as of 7 June 2012)

Ticker	Company	Rating	Date added	Price when added	Price as of 7 Jun	Footnotes
APC	Anadarko Petro	C-1-7	6/21/2011	72.15	63.84	BObijopsw
PLCE	The Children's Place	C-1-9	5/14/2012	45.16	45.75	Bbijopsw
C	Citigroup	C-1-7	7/6/2011	42.01	27.77	BObijopsv
CNH	CNH Global	C-1-9	2/6/2012	43.38	39.35	Bbijopsv
CMCSA	Comcast Corp	B-1-7	6/28/2011	24.76	30.27	#BObijopsv
COV	Covidien	B-1-7	8/16/2011	49.90	52.27	Bbijopsvw
CSX	CSX Corporation	B-1-7	4/2/2012	22.12	21.08	BObijopv
DAL	Delta Air	C-1-9	5/14/2012	11.43	10.38	Bbijopsv
DKS	Dick's	C-1-7	5/2/2011	40.61	47.22	Bbijopsv
DG	Dollar General	C-1-9	4/2/2012	46.76	50.29	BObgijpsv
EQIX	Equinix	B-1-9	1/31/2011	88.42	167.03	BObgijopsv
ESRX	Express Scripts	B-1-9	9/12/2011	44.43	53.19	BObijopsvw
F	Ford Motor	C-1-7	8/9/2011	10.91	10.66	BObijopsv
HMSY	HMS	C-1-9	11/7/2011	28.73	28.01	Bbijopsvw
HSP	Hospira Inc.	C-1-9	1/17/2012	32.15	32.79	Bbijopsv
KLAC	KLA-Tencor	C-1-7	9/26/2011	39.69	47.33	Bbijopsv
KFT	Kraft Foods Inc.	B-1-7	10/31/2011	35.18	38.24	BObgijopsvw
LVS	Las Vegas Sands	C-1-7	9/12/2011	47.54	46.13	Bbijopsvw
MRO	Marathon	B-1-7	6/30/2011	31.98	25.03	BObgijopsw
MET	MetLife Inc.	B-1-7	3/5/2012	38.67	29.75	BObijopsvw
NEE	NextEra Energy	B-1-7	4/2/2012	61.83	66.94	Bbgijopsvw
ORCL	Oracle	B-1-7	7/6/2011	33.21	27.16	Bbijopsv
QCOM	QUALCOMM	C-1-7	10/31/2011	51.60	58.76	Bbijopsv
REGN	Regeneron Pharma	C-1-9	3/12/2012	110.15	129.62	Bbijopv
TDC	Teradata	B-1-9	12/27/2011	49.56	68.66	Bbijopvw
UTX	United Tech	B-1-7	2/13/2012	84.88	75.50	BObgijopsvw
WMT	Wal-Mart Stores	A-1-7	9/12/2011	51.82	68.22	BObijopsv
WCRX	Warner Chilcott	C-1-9	5/7/2012	21.71	19.19	Bbijpsv

Note: We last modified this portfolio on 7 June 2012. Please see the [original report](#) for details, including price objectives and investment rationale. Please see [Footnote Key](#) at the back of this report. One or more members of the US 1 Committee (or a household member) owns stock of one or more companies on the US 1 list. Source: BofA Merrill Lynch Global Research

## Endeavor, the Small Cap US Buy List (methodology)

Table 22: Endeavor stocks (as of 8 June 2012)

GICS sector	Company	Symbol	BofAML opinion	Price as of 8 Jun (US\$)	Mkt value (US\$ mn)	MLSCR Model scores (100=best; 1=worst)		Date added	Footnotes
						Aurora	Enhanced contrarian		
Consumer Discretionary	AMERICAN AXLE & MFG HOLDINGS	AXL	C-1-9	9.65	689	44	92	8/9/2010	Bbgijopsvw
Consumer Discretionary	EXPRESS INC	EXPR	C-1-9	18.43	1,614	74	68	9/19/2011	Bbgijopsvw
Consumer Discretionary	RED ROBIN GOURMET BURGERS	RRGB	C-1-9	30.60	456	53	69	5/14/2012	Bb
Consumer Discretionary	SONIC AUTOMOTIVE INC -CL A	SAH	C-1-7	14.59	770	98	91	10/10/2011	Bbijopsvw
Consumer Staples	SUSSER HOLDINGS CORP	SUSS	C-1-9	31.86	662	99	84	7/5/2011	Bbijopsvw
Financials	SIGNATURE BANK/NY	SBNY	B-1-9	60.33	2,778	29	17	8/8/2011	Bbgijosv
Financials	CORESITE REALTY CORP	COR	C-1-7	24.62	503	96	94	5/14/2012	Bbijpvw
Health Care	HEALTH MANAGEMENT ASSOC	HMA	C-1-9	6.55	1,625	48	92	7/14/2009	BObijopsw
Health Care	PHARMERICA CORP	PMC	C-1-9	9.76	287	71	96	1/20/2009	Bbijpvw
Health Care	WELLCARE HEALTH PLANS INC	WCG	C-1-9	57.04	2,349	99	99	3/9/2012	Bbjp
Industrials	TAL INTERNATIONAL GROUP INC	TAL	B-2-7	33.80	1,115	77	91	9/19/2011	Bbgijopsvw
Industrials	ALASKA AIR GROUP INC	ALK	C-1-9	34.73	2,406	55	76	10/10/2011	Bbijopsv
Industrials	TRIUMPH GROUP INC	TGI	C-1-7	59.87	2,914	100	100	10/16/2007	Bbijopsv
Information Technology	ANCESTRY.COM INC	ACOM	C-1-9	26.31	1,068	43	85	10/12/2010	Bbijopsvw
Information Technology	FEI CO	FEIC	C-1-7	48.31	1,785	83	84	5/14/2012	Bbijopsv
Information Technology	MENTOR GRAPHICS CORP	MENT	C-1-9	14.33	1,557	98	98	5/14/2012	Bbijops
Information Technology	CADENCE DESIGN SYSTEMS INC	CDNS	C-1-9	10.54	2,875	69	80	7/5/2011	Bbijopsv
Materials	GRAPHIC PACKAGING HOLDING CO	GPK	C-1-9	5.07	1,968	52	89	5/18/2011	Bbijopsv
Materials	NORANDA ALUMINUM HOLDING CP	NOR	C-1-7	7.91	553	66	93	4/16/2012	Bbijopsvw
Telecomm. Services	LEAP WIRELESS INTL INC	LEAP	C-1-9	5.02	402	12	81	3/9/2012	Bbijpsv

Please see [Footnote Key](#) at the back of this report. Source: BofA Merrill Lynch Small Cap Research

12 June 2012

## US High Quality & Dividend Yield Screen (methodology)

Table 23: High Quality and Dividend Yield Screen (as of June 2012)

Date								Market value	Cost	Price			
Added	Ticker	Name	Sector	ROE (%)	Debt/equity	Yield (%)	Quality	(US\$ mn)	Price	(US\$)	QRO	FCF/DIV	Footnotes
10/1/2010	ABT	Abbott Labs	Health Care	20.4	0.65	3.3	A	97,156	52.24	61.79	A-2-7	2.1	Bbijopsw
4/1/2012	ADP	ADP	Information Technology	21.7	0.01	3.0	A	25,584	55.19	52.15	B-1-7	2.0	Bbijopsw
4/1/2011	APD	Air Products	Materials	19.0	0.76	3.2	A	16,646	90.18	79.04	B-1-7	1.1	Bbijopsw
11/1/2011	BAX	Baxter	Health Care	33.3	0.77	2.6	A	28,365	54.98	50.62	B-1-7	2.5	Bbgjopsw
12/1/2010	CVX	Chevron	Energy	23.1	0.07	3.7	A+	194,356	80.97	98.31	A-2-7	1.8	Bbijopsv
12/1/2010	EMR	Emerson	Industrials	22.1	0.56	3.4	A+	34,350	55.07	46.77	B-2-7	2.1	Bbijopsw
11/1/2011	ETN	Eaton Corp	Industrials	17.5	0.47	3.6	A	14,278	44.82	42.66	B-1-7	2.6	BObgijopsw
12/1/2010	GD	General Dynamics	Industrials	18.0	0.28	3.2	A+	22,840	66.09	64.01	B-1-7	3.5	Bbgjopsw
4/1/2012	GIS	General Mills	Consumer Staples	24.4	1.10	3.2	A+	24,677	39.45	38.28	B-1-7	1.8	Bbgjopsw
1/3/2012	HD	The Home Depot	Consumer Discretionary	22.7	0.60	2.4	A	76,061	42.04	49.34	B-1-7	2.5	BObijopsv
3/1/2011	HON	Honeywell Intl.	Industrials	17.0	0.67	2.7	A-	43,157	57.91	55.66	B-1-7	2.0	Bbijopsw
2/1/2012	ITW	Illinois Tool	Industrials	18.4	0.47	2.6	A	27,164	53.03	56.15	B-1-7	3.1	Bbgjopsw
2/2/2009	JNJ	Johnson & Johnson	Health Care	16.7	0.32	3.9	A+	171,375	57.69	62.43	A-2-7	1.5	Bbijopsv
1/3/2012	KO	Coca Cola	Consumer Staples	26.8	0.95	2.7	A+	169,129	69.97	74.73	A-1-7	1.7	Bbgjopsv
2/2/2009	MCD	McDonald's Corp	Consumer Discretionary	38.2	0.87	3.1	A	90,998	58.02	89.34	B-1-7	1.5	Bbgjopsw
5/3/2010	MDT	Medtronic	Health Care	20.6	0.62	2.6	A	38,335	43.69	36.84	A-1-7	3.9	BObgijopsw
8/1/2011	MSFT	Microsoft Corp	Information Technology	38.2	0.17	2.7	A-	217,985	27.40	29.19	B-1-7	3.6	Bbijopsw
4/1/2012	OXY	Occidental	Energy	18.8	0.15	2.7	A-	64,292	95.23	79.27	B-1-7	2.9	Bbgjopsw
4/1/2012	PAYX	PAYX	Information Technology	35.5	0.00	4.3	A	9,667	30.99	29.97	C-2-7	1.3	Bbjopw
3/1/2012	RTN	Raytheon Co.	Industrials	21.2	0.55	4.0	A-	17,103	50.52	50.32	A-1-7	2.9	Bbgjopsw
6/1/2012	TIF	Tiffany & Co.	Consumer Discretionary	18.9	0.35	2.3	A-	7,032	55.39	55.39	B-1-7	2.2	Bbijopsw
12/1/2010	UTX	United Tech	Industrials	23.1	0.44	2.6	A+	67,452	75.27	74.11	B-1-7	2.7	BObgijopsw
12/1/2010	WMT	Wal-Mart Stores	Consumer Staples	24.0	0.79	2.4	A+	114,961	54.09	65.82	A-1-7	2.0	BObijopsv
2/1/2012	XOM	ExxonMobil	Energy	25.8	0.10	2.9	A+	370,601	83.74	78.63	A-1-7	2.1	Bbijopsw
		<b>Average</b>		<b>23.6</b>	<b>0.5</b>	<b>3.0</b>		<b>80,982</b>					<b>2.3</b>
		<b>S&amp;P 500 benchmarks:</b>		<b>16.4</b>	<b>1.2</b>	<b>2.3</b>							

Note: Prices and data as of 5/31/2012; ratings as of publication on 6/1/2012. Calculations are based on data from the last 12 months. Financials stocks are excluded because they typically have very high Debt/Equity ratios that have nothing to do with their capital structure. We calculated the Return on Equity (ROE) of the S&P 500 after excluding companies with ROEs that were greater than two standard deviations above the mean. Disclaimer: These stocks have been selected according to the specified screening criteria and do not constitute a recommended list. Investors looking for a high quality dividend yield oriented investment can consider this analysis as one part of their decision making process, but should also consider other factors including fundamental opinions, financial risk, investment risk, management strategies and operating and financial outlooks.

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

## International High Quality & Dividend Yield Screen (methodology)

Table 24: Global Non-US High Quality and High Dividend Yield Screen (as of 7 June 2012)

Ticker	ADR symbol	Company	Country	Sector	MCAP	Quality	Dividend yield (%)	BofAML Opinion	Price (US\$)	ADR price (US\$)
BHPBF	BBL	BHP BILLITON PLC	United Kingdom	Materials	55,085	A-	4.2%	B-2-7	28.35	56.30
SCBFF	-	STANDARD CHARTERED	United Kingdom	Banks	47,978	A-	3.8%	B-2-7	21.54	-
CMPGF	CMPGY	COMPASS GROUP	United Kingdom	Auto, Dur, Services	18,597	A-	3.1%	B-1-7	9.94	9.94
MEGGF	MEGGY	MEGGITT	United Kingdom	Industrials	4,522	A-	2.8%	C-2-7	5.88	11.77
AZNCF	AZN	ASTRAZENECA	United Kingdom	Health Care	52,502	A	6.9%	B-2-7	41.17	40.99
IAPLF	IAPLY	ICAP	United Kingdom	Div Financials	3,397	A-	6.5%	B-1-7	5.29	10.59
SMAWF	SI	SIEMENS	Germany	Industrials	75,181	A-	4.5%	B-2-7	81.70	81.62
BHPLF	BHP	BHP BILLITON LTD	Australia	Materials	99,586	A-	3.2%	B-2-7	31.38	64.42
JCYCF	JCYGY	JARDINE CYCLE & CARRIAGE	Singapore	Retailing	11,625	A-	3.8%	C-1-7	34.19	68.37
MPFRF	MPFRY	MAPFRE	Spain	Insurance	5,963	A	9.6%	B-1-7	2.01	4.02
XWPPF	WPPGY	WPP	United Kingdom	Media	15,031	A	3.2%	A-1-7	11.94	59.54

Note: Dividend yields are gross of taxes.

Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES, S&P

Note: Please be aware that links on this page are directed to lists that are updated as of the date of this publication. There may have been updates to one or more lists. Financial Advisors should check for the latest available constituents.

## Research portfolios and stock lists

### Stock lists

Regional Focus or 1 Lists are best investment ideas chosen from among our Buy-rated stocks.

[US](#)  
[Europe](#)

[Asia-Pacific](#)

#### [Most Attractive Buy \(MAB\)](#)

Designed to identify common stocks that are attractive based on technical analysis, the objective of this list is to capture short to intermediate-term (3-6 month) price appreciation, but positions can be held longer term.

#### [Growth10 / Value10](#)

Consist of 10 stocks each, chosen by the highest five-year EPS growth rate (Growth 10) or lowest trailing 12-month P/E ratio (Value 10) after quantitative screening criteria.

## Stock portfolios

### US Large Cap Equity

Five portfolios offerings are available to match each of the client profiles of Capital Preservation, Income, Income & Growth, Growth and Aggressive Growth. These match the risk profiles of conservative, moderately conservative, moderate, moderately aggressive and aggressive, respectively. A sixth portfolio called the Core Portfolio is designed to reflect weighting decisions of our US equity strategy team. Each of these portfolios employs a combination of top-down sector weightings and bottom-up stock selection focusing on the 10 GICS sectors.

[Holdings](#)

[Primer](#)

### US Mid-Cap Equity

Launched in April 2010, this portfolio invests in stocks between \$2-12 billion that are selected using a combination of fundamental, quantitative and portfolio management tools, and is built on the GICS sector framework.

[Holdings](#)

[Primer](#)

### International Equity

This portfolio consists of ADRs and US-listed shares of non-US companies representing all major regions outside the US: Europe/Middle East/Africa, Asia, Latin America and Canada, and is built on the GICS sector framework.

[Holdings](#)

[Primer](#)

## Global economic, interest rate, FX forecast summaries

Table 25: Global economic forecasts (as of 7 June 2012)

	GDP growth, %				CPI inflation*, %				ST interest rates**, %				Exchange rate***				
	2009	2010	2011F	2012F	2009	2010	2011F	2012F	Current	2010	2011	2012F	CCY pair	Spot rate	2010	2011	2012F
<b>Global and Regional Aggregates</b>																	
Global	-0.8	5.1	3.8	3.2	1.7	3.2	4.3	-0.8	3.1	2.6	3.0	2.83					
Global ex US	0.0	5.7	4.3	3.6	2.2	3.7	4.6	0.0	3.9	3.3	3.8	3.52					
Developed Markets	-3.8	2.9	1.5	1.2	0.0	1.5	2.7	-3.8	0.6	0.6	0.6	0.60					
G5	-4.0	2.8	1.3	1.2	-0.1	1.4	2.7	-4.0	0.5	0.5	0.5	0.48					
Emerging Markets	2.7	7.6	6.3	5.4	3.6	5.2	6.1	2.7	6.1	4.9	5.6	5.20					
Europe, Middle East and Africa (EMEA)	-4.1	3.1	2.9	1.1	3.3	3.5	4.4	-4.1	2.6	2.6	2.7	2.59					
European Union	-3.9	2.0	1.6	-0.1	0.2	2.0	3.1	-3.9	1.3	1.2	1.3	1.19					
Emerging EMEA	-3.4	4.7	5.0	3.1	7.9	6.0	6.4	-3.4	5.4	5.3	5.4	5.12					
PacRim	4.1	8.1	5.7	5.8	0.6	3.5	4.7	4.1	4.6	2.9	3.6	3.27					
PacRim ex Japan	6.2	8.9	7.0	6.5	1.0	4.4	5.7	6.2	5.6	3.5	4.3	3.91					
Emerging Asia	6.7	9.2	7.3	6.8	0.9	4.6	5.7	6.7	5.9	3.5	4.4	4.00					
Americas	-3.1	3.9	2.6	2.4	1.4	2.9	4.1	-3.1	2.2	2.5	2.9	2.70					
Latin America	-2.0	6.3	4.5	3.5	6.4	6.3	6.7	-2.0	7.6	8.9	9.9	9.42					
<b>G5</b>																	
US	-3.5	3.0	1.8	2.1	-0.3	1.6	3.2	-3.5	0.3	0.1	0.3	0.25					
Euro area	-4.2	1.9	1.5	-0.5	0.3	1.6	2.7	-4.2	1.0	1.0	1.0	1.00	EUR-USD	1.25	1.34	1.30	1.30
Japan	-5.5	4.4	-0.7	2.4	-1.3	-1.0	-0.3	-5.5	0.1	0.1	0.1	0.05	USD-JPY	79	81	77	81
UK	-4.4	2.1	0.7	0.6	2.2	3.3	4.5	-4.4	0.5	0.5	0.5	0.50	EUR-GBP	0.81	0.86	0.83	0.83
Canada	-2.8	3.2	2.4	1.6	0.3	1.8	2.9	-2.8	1.0	1.0	1.0	0.25	USD-CAD	1.03	1.00	1.02	1.03

Notes: Global and regional aggregates are based on the IMF PPP weights unless stated otherwise. Countries within each region are ordered according to these weights.

\* Annual averages. The HICP measure of inflation is used for Euro area economies. \*\* Central bank target rate, year-end, where available, short-term rates elsewhere.

Note: US short-term rate forecast for 2012 year-end is 0-0.25%. Midpoint used in table above for global and regional aggregation purposes.

Source: BofA Merrill Lynch Global Research

## Additional disclosure: [US allocation models](#)

Merrill Lynch Global Wealth Management provides Strategic asset allocation models, with and without alternative investments, to help provide investors with a range of investment solutions. Asset allocation models that include alternative investments are segmented into three liquidity tiers to provide additional flexibility and transparency when considering investment exposure to alternative investments. Under our classification scheme, alternative investments include Hedge Funds, Private Equity and Real Assets. Real Assets represent tangible non-traditional assets and other assets, which tend to offer inflation protection. For the model portfolio we include real estate (public and private), commodities and other inflation protection investments (eg, TIPS) in Real Assets. Historically, each asset class has had different return characteristics and varying correlations with other asset classes over different time periods. From an overall portfolio standpoint, it is beneficial for an investor to own non-correlated assets, which may help smooth return patterns over a longer time period. Commodities, for example, may perform differently than Equities. While correlation results vary over time and under different market conditions, the underlying theme of portfolio diversification has historically been critical.

Given that alternative investments tend to be less liquid investments, we do not provide Tactical recommendations for allocations to these asset classes. Investors should carefully evaluate with their Financial Advisor how best to implement allocation recommendations to alternative assets.

For asset allocation models including alternative investments, we define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given duration of time under typical market conditions. The asset allocation models were developed based on the following guidelines. The actual liquidity of a given portfolio may vary considerably depending on assets held in the portfolio and market conditions.

- **Tier 1 (Higher Liquidity):** Up to 10 of the portfolio may be unavailable for 3-5 years.
- **Tier 2 (Moderate Liquidity):** Up to 20 of the portfolio may be unavailable for 3-5 years.
- **Tier 3 (Lower Liquidity):** Up to 30 of the portfolio may be unavailable for 3-5 years.

The Strategic allocation models provide long term (20 years or more) benchmarks and are relevant to developing a long term investment strategy. The Tactical asset allocation models, which reflect a 12-18 month horizon, are intended to help investors evaluate shorter term market opportunities and risks for their portfolio. Investors should work with their Financial Advisor to discuss their personal financial situation and goals, and determine which asset allocation strategy is appropriate. With any investment strategy, investors should also consider liquidity needs, taxes, and transactions costs. These factors may be given even more weight in making Tactical decisions within portfolios.

It is important to note that liquidity and other investment characteristics of an investor's portfolio may vary significantly from the models based upon the actual investments selected and market conditions. Investors should communicate with their Financial Advisors to determine the appropriateness and alignment of their chosen asset allocation with their tolerance for risk, need for liquidity, and alignment with their financial goals and other specific circumstances.

## Methodology: [US 1 List](#)

The US 1 List represents a collection of our best investment ideas that are drawn primarily from US fundamental equity research analysts' "Buy" recommendations. To be included in the list, stocks must be listed in the US and must have an average daily trading volume of at least \$5mn in the six months preceding their selection for the list. Once selected, a stock will remain on the list for 12 months unless the US 1 Committee removes the stock in connection with a downgrade or otherwise. At the end of the 12-month period, the Committee may extend a company's inclusion on the list for another 12 months if it continues to meet the US 1 criteria.

The list will generally consist of between 20 and 30 equally weighted stocks, but not fewer than 15 stocks. It will be rebalanced to achieve equal weighting in connection with the addition and deletion of any stock. Sector weighting in the selection process is considered. However, the US 1 list is not required to reflect the weights of the S&P 500 or any other index.

A US 1 Index will be established to track the performance of the list. The Index will be calculated on both a price-return (without the reinvestment of dividends) and a total-return basis and will be available on Bloomberg at (MLUS1PR <Index>) and (MLUS1TR <Index>), respectively.



## **Methodology: Endeavor List**

Endeavor is a concentrated list of approximately 15 to 20 smaller cap stocks that represents the strategic views of BofA Merrill Lynch Small Cap Research. The Endeavor list includes those smaller cap stocks that are most compelling using a multi-disciplinary process. Candidates for the Endeavor buy list carry a favorable view by a BofA Merrill Lynch Fundamental Analyst and are attractively ranked by our Aurora (growth) or Enhanced Contrarian (value) quantitative models.

## **Methodology: US High Quality & Dividend Yield Screen**

We list a screen of preferred securities that meet specified selection criteria and have relatively high yields for their credit rating and industry sector. The US High Quality & Dividend Yield Screen is not a recommended list.

### **Screening criteria**

We combined our two secular themes through the following criteria. In our view, these screening factors were likely to uncover higher-quality companies that offered relatively secure dividend yield. The stocks are selected from the S&P 500.

- S&P Common Stock Rank of A+, A, or A-. The S&P Common Stock Rankings are our main measure of quality. These rankings are based primarily on the growth and stability of earnings and dividends over a 10-year period.
- Return on Equity (ROE) greater than the average S&P 500 ROE.
- Debt/Equity lower than the S&P 500.
- Dividend yield greater than the S&P 500.
- BofA Merrill Lynch Research Investment Opinion indicates Buy or Neutral as well as the likelihood that the dividend will remain the same or be increased (ie, a dividend rating of "7").
- The ratio of the last 12 months' free cash flow to dividends must be greater than 1.0.

## **Methodology: International High Quality & Dividend Yield Screen**

We list a screen of preferred securities that meet specified selection criteria and have relatively high yields for their credit rating and industry sector. The International High Quality & Dividend Yield Screen is not a recommended list.

This monthly screen selects high quality and high dividend yield stocks from the MSCI AC World ex-USA Index covered by BofA Merrill Lynch Global Research. The screen uses the following criteria to uncover higher quality companies that offer relatively secure dividend yield.

- S&P Common Stock Rank (quality rank) of A+, A, or A-. The S&P Common Stock rankings are our main measure of quality. These rankings are based on the stability and growth in earnings and dividends over a seven-year period for non-US companies.
- Return on Equity (ROE) greater than the MSCI Index.
- Debt/Equity lower than the MSCI Index.
- Dividend yield greater than the MSCI Index.
- BofAML Investment Opinion indicates Buy or Neutral, as well as the likelihood that the dividend will remain the same or be increased (ie, a dividend rating of 7).
- The ratio of the past 12 months' free cash flow to dividends is greater than 1.0.

12 June 2012

## Footnote key

- /#/* One or more analysts responsible for covering the securities in this report owns such securities.
- /b/* MLPF&S or one of its affiliates acts as a market maker for the equity securities recommended in the report.
- /g/* MLPF&S or an affiliate was a manager of a public offering of securities of this company within the last 12 months.
- /i/* The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates.
- /j/* MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months.
- /o/* The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates.
- /p/* The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates.
- /q/* In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale.
- /r/* An officer, director or employee of MLPF&S or one of its affiliates is an officer or director of this company.
- /s/* MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months.
- /v/* MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company or an affiliate of the company within the next three months.
- /w/* MLPF&S together with its affiliates beneficially owns one percent or more of the common stock of this company. If this report was issued on or after the 10th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 10th day of a month reflect the ownership position at the end of the second month preceding the date of the report.
- /x/* Customers of MLPF&S in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at <http://www.ml.com/independentresearch> or can call 1-800-637-7455 to request a copy of this research.
- /z/* The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries.
- /A/* One of the analysts covering the company is a former employee of the company and, in that capacity, received compensation from the company within the past 12 months.
- /B/* MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis.
- /C/* Merrill Lynch is affiliated with an NYSE specialist organization that specializes in one or more securities issued by the subject companies. This affiliated NYSE specialist organization makes a market in, and may maintain a long or short position in or be on the opposite side of orders executed on the Floor of the NYSE in connection with one or more of the securities issued by these companies.
- /N/* The company is a corporate broking client of Merrill Lynch International in the United Kingdom.
- /O/* MLPF&S or one of its affiliates has a significant financial interest in the fixed income instruments of the issuer. If this report was issued on or after the 10th day of a month, it reflects a significant financial interest on the last day of the previous month. Reports issued before the 10th day of a month reflect a significant financial interest at the end of the second month preceding the date of the report.

## **Link to Definitions**

### **Macro**

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

## **Analyst Certification**

We, Arjun Mehra (AJ), Cheryl Rowan and Steven G. DeSanctis, CFA, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject equity securities and issuers. We also certify that no part of our compensation as, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

## Important Disclosures

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

*INCOME RATINGS*, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch Comment referencing the stock.

Due to the nature of strategic analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

BofA Merrill Lynch Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

## Other Important Disclosures

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

"BofA Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report.

Information relating to Non-US affiliates of BofA Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd., Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd.; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLI (UK): Merrill Lynch International; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd.; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd.; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey I.B.): Merrill Lynch Yatirim Bank A.S.; Merrill Lynch (Turkey Broker): Merrill Lynch Menkul Değerler A.Ş.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zurich rep. office): MLPF&S Incorporated Zurich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Multiplo S.A.

This research report has been approved for publication and is distributed in the United Kingdom to professional clients and eligible counterparties (as each is defined in the rules of the Financial Services Authority) by Merrill Lynch International and Banc of America Securities Limited (BASL), which are authorized and regulated by the Financial Services Authority and has been approved for publication and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Services Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorized by the Central Bank of Ireland and is subject to limited regulation by the Financial Services Authority – details about the extent of its regulation by the Financial Services Authority are available from it on request; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co., Ltd., a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 provides this report in Australia in accordance with section 911B of the Corporations Act 2001 and neither it nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil. Merrill Lynch (Dubai) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (Dubai) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

**General Investment Related Disclosures:**

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

**Copyright and General Information regarding Research Reports:**

Copyright 2012 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc. This research report is prepared for the use of BofA Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BofA Merrill Lynch. BofA Merrill Lynch Global Research reports are distributed simultaneously to internal and client websites and other portals by BofA Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BofA Merrill Lynch.

Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Merrill Lynch Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

12 June 2012

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

## Team Page

### Research Investment Committee (RIC)

**Alberto Ades**

GEM FI Strategist, Economist  
MLPF&S

**Gary Baker, CFA >>**

European Equity Strategist  
MLI (UK)

**Mary Ann Bartels**

Technical Research Analyst  
MLPF&S

**Francisco Blanch**

Global Investment Strategist  
MLPF&S

**Steven G. DeSanctis, CFA**

Small-Cap Strategist  
MLPF&S

**John Hallacy**

Municipal Research Strategist  
MLPF&S

**Ethan S. Harris**

North American Economist  
MLPF&S

**Michael Hartnett**

Chief Global Equity Strategist  
MLPF&S

**Martin Mauro**

Fixed Income Strategist  
MLPF&S

**Arjun Mehra (AJ)**

Multi-Asset Analyst  
MLPF&S

**Oleg Melentyev, CFA**

Credit Strategist  
MLPF&S

**Hans Mikkelsen**

Credit Strategist  
MLPF&S

**Priya Misra**

Rates Strategist  
MLPF&S

Kate Moore

Global Equity Strategist  
MLPF&S

**Ralf Preusser, CFA**

Rates Strategist  
MLI (UK)

**Savita Subramanian**

Equity & Quant Strategist  
MLPF&S

**Nigel Tupper >>**

Strategist  
Merrill Lynch (Hong Kong)

**David Woo**

FX and Rates Strategist  
MLPF&S

### RIC Report

**Christina Giannini, CFA**

Small-Cap Strategist  
MLPF&S

**Brian Leung**

Global Equity Strategist  
MLPF&S

**Swathi Putcha**

Global Equity Strategist  
MLPF&S

**Cheryl Rowan**

Portfolio Strategist  
MLPF&S

**Carrie Zhao**

Strategist  
MLPF&S

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules. Refer to "Other Important Disclosures" for information on certain BofA Merrill Lynch entities that take responsibility for this report in particular jurisdictions.