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GUIDE
TO THE
MARKETS

Navigator

Analysis of current issues in markets and investing

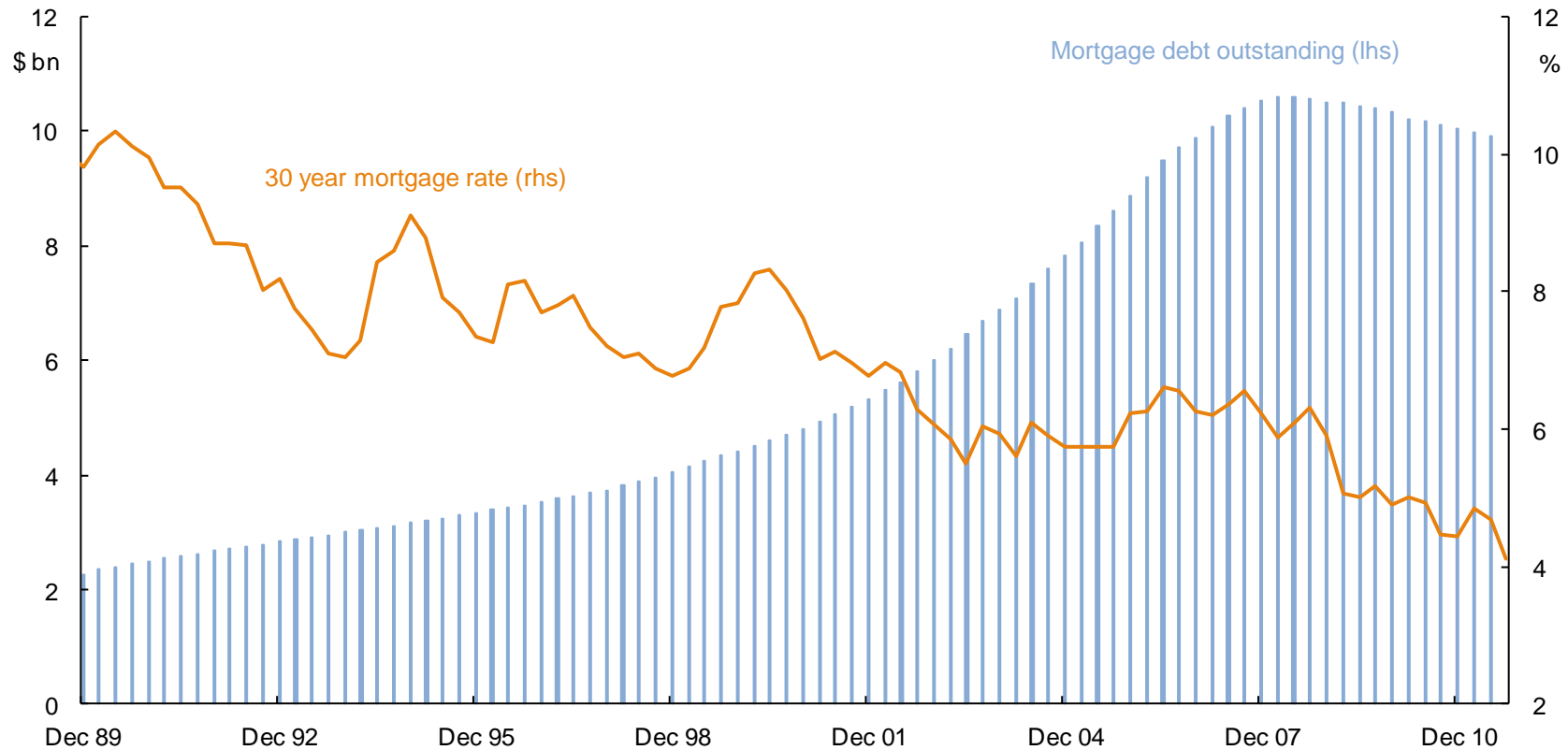
www.jpmorganassetmanagement.com/insight

J.P. Morgan

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Asset Management

As interest rates fell, mortgage debt levels soared

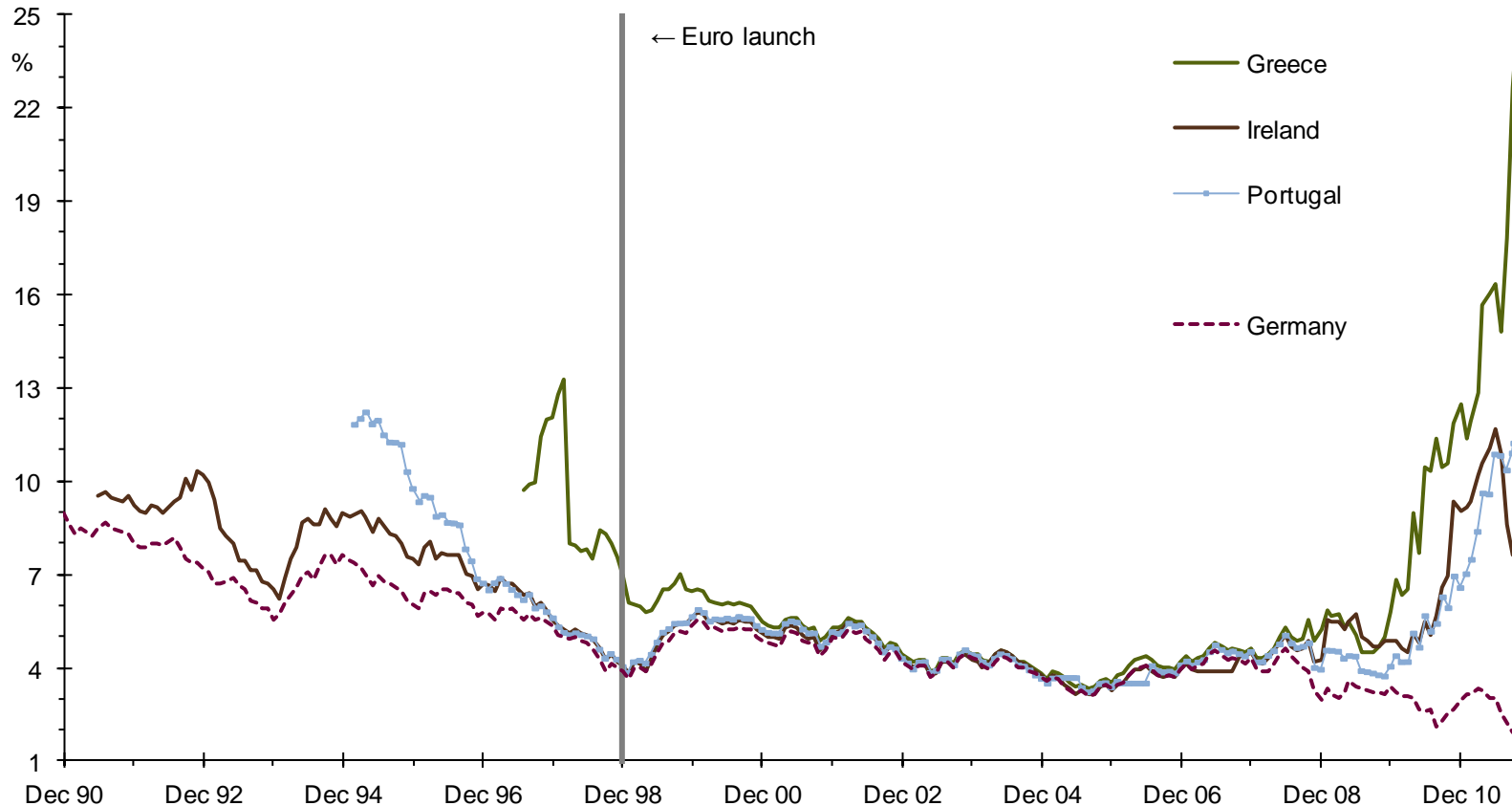
US Mortgage debt outstanding and 30 year mortgage rates



Latest data September 2011. Source: Federal Reserve, Freddie Mac, Danter Company, J.P. Morgan Asset Management.

Joining the euro meant peripheral countries benefited from Germany's stability and could borrow relatively cheaply

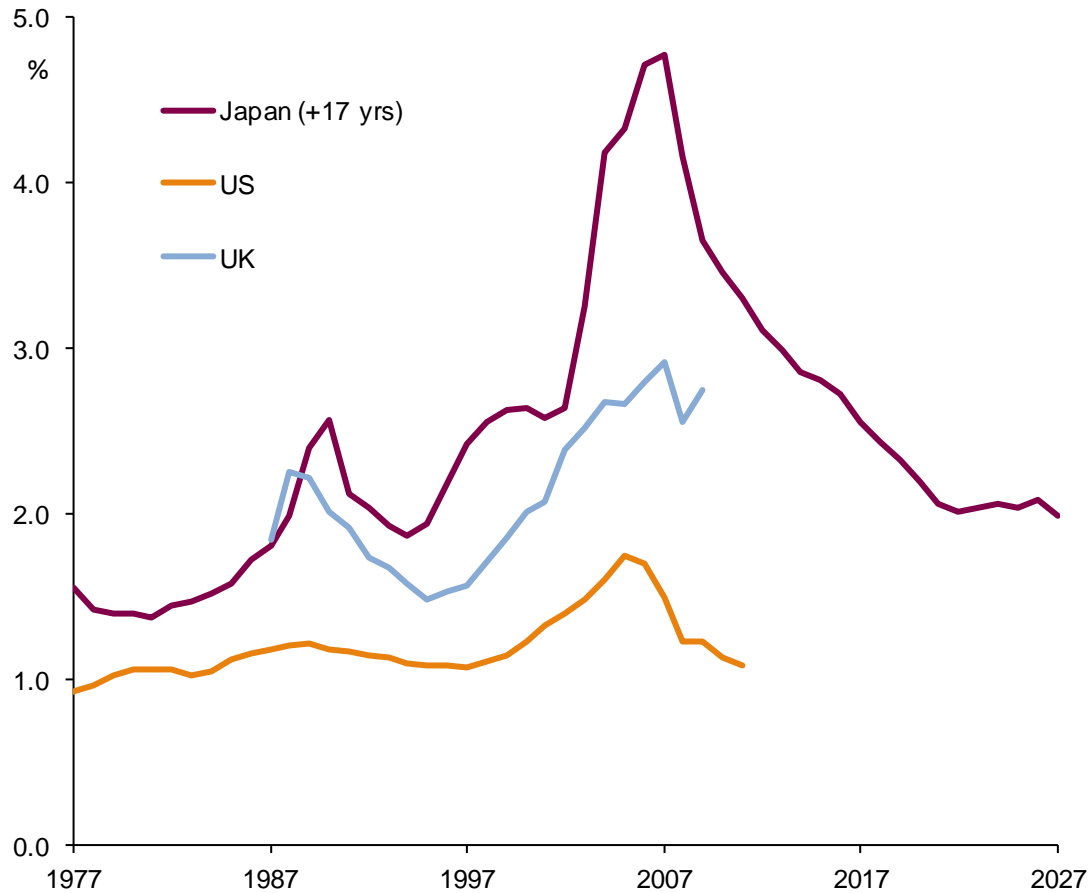
Government 10-year bond yields



Latest data 7 October 2011. Source: Bloomberg, J.P. Morgan Asset Management.

Cheap credit lead to the property boom

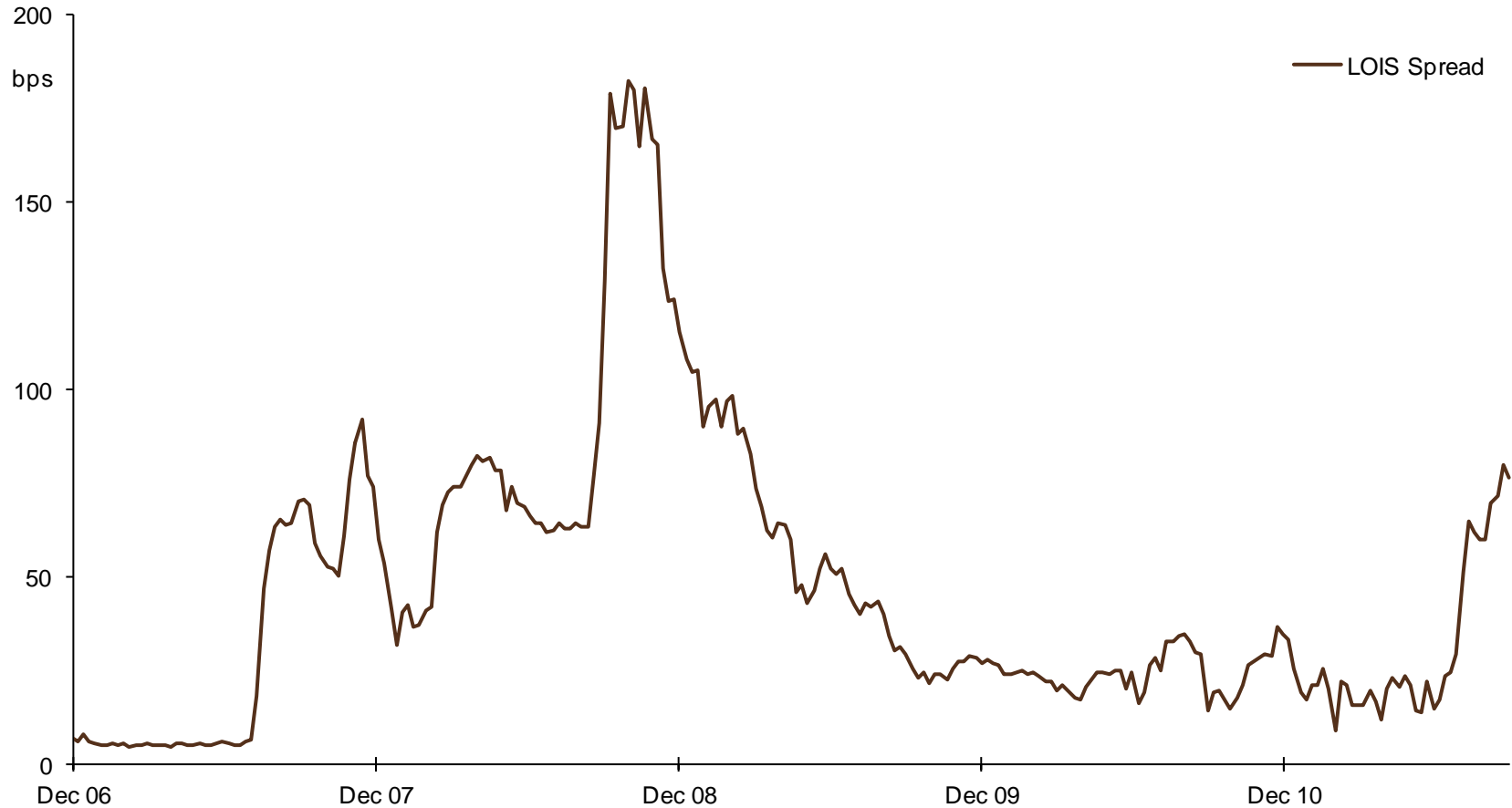
Residential property values* as % of GDP



*Japan: Land Underlying Buildings and Structures; US: Household Real Estate Assets; UK: Residential Buildings; Source: OECD, Japan Land and Water Bureau, Ministry of Land, Infrastructure and Transport, Cabinet Office (Government of Japan), US Federal Reserve, S&P/Case-Shiller, OFHEO, UK Office for National Statistics, Permanent TSB/ESRI, J.P. Morgan Asset Management.

When markets collapsed, the cost of bank lending spiked. Costs are rising again on fears of exposure to periphery

Interbank lending spread



Latest data 29 September 2011. Note: LOIS = Libor (euro) less Overnight Index Swap. Source: Bloomberg, J.P. Morgan Asset Management.

ECB has stepped in to provide liquidity for financial markets; levels for Italy and Spain continue to grow

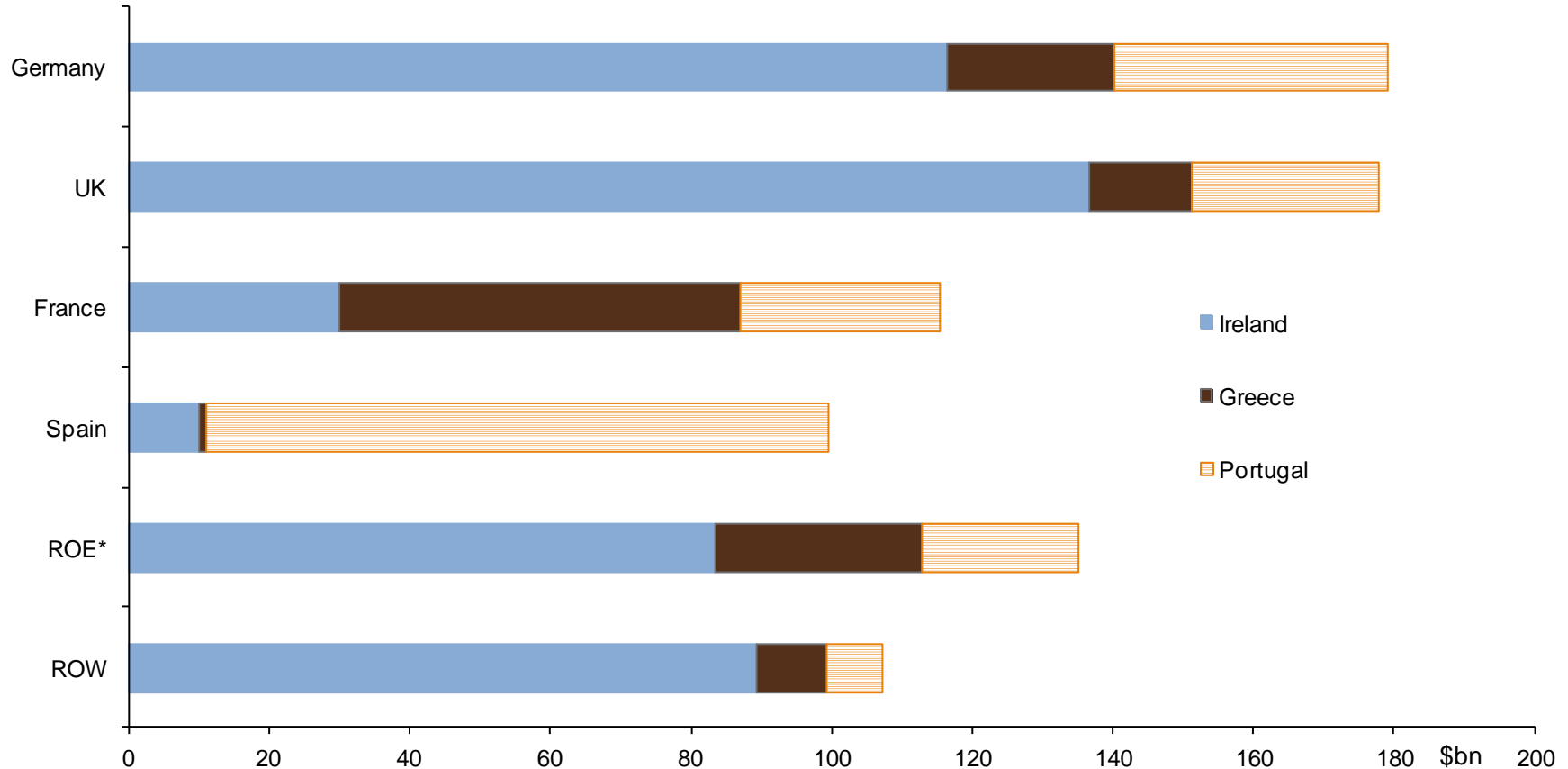
ECB net lending to credit institutions



Latest data August 2011 for Spain, Portugal, Ireland and Italy, July 2011 for Greece. Source: Central Bank of Ireland, Bank of Portugal, Bank of Greece, Bank of Spain, Bank of Italy, J.P. Morgan Asset Management.

France much more exposed than German to write down of Greek debt

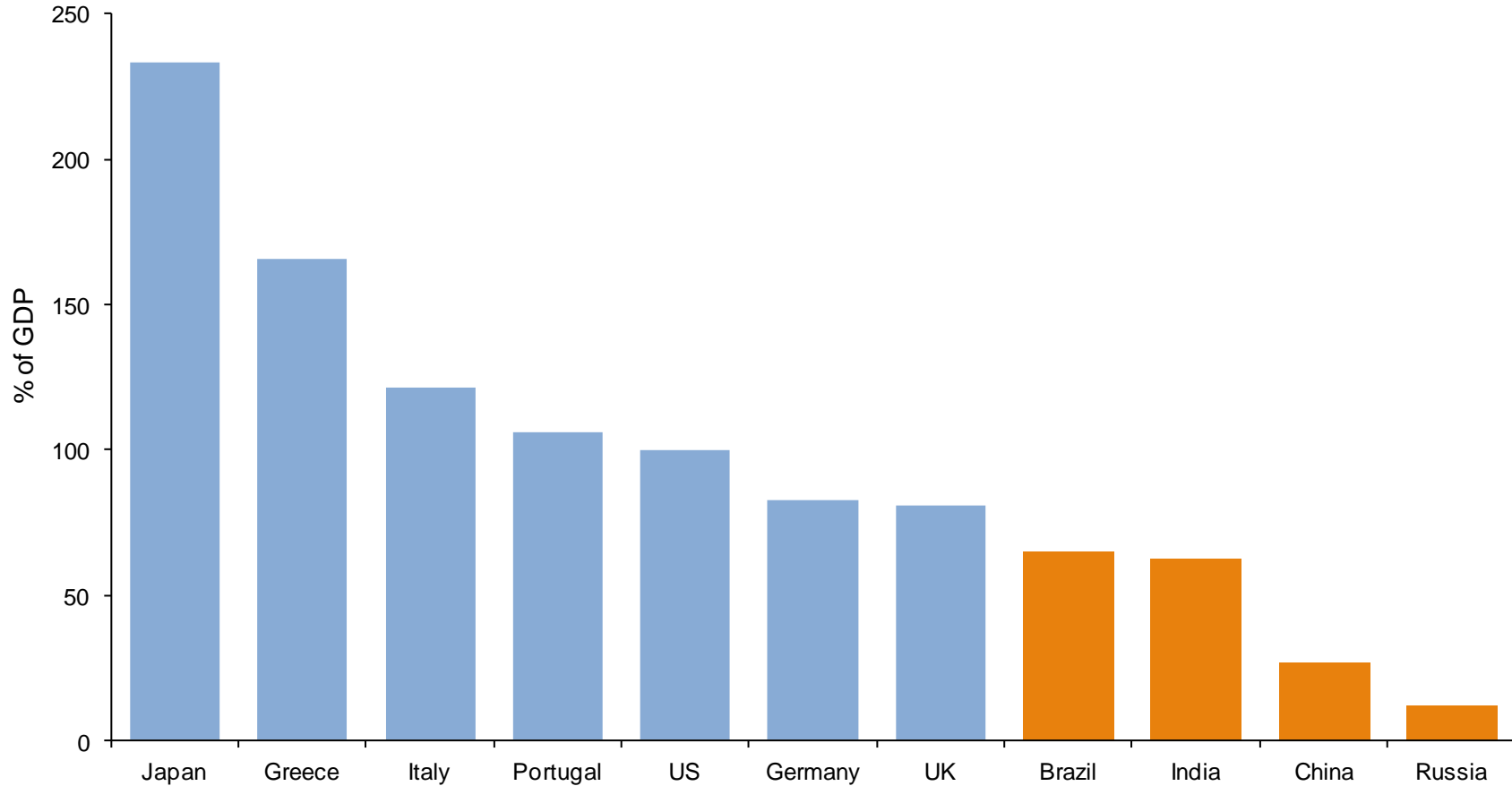
Bank peripheral debt exposure



*Rest of Europe. Last data 1q2011. Source: BIS, J.P. Morgan Asset Management.

Government debt mainly a developed market problem

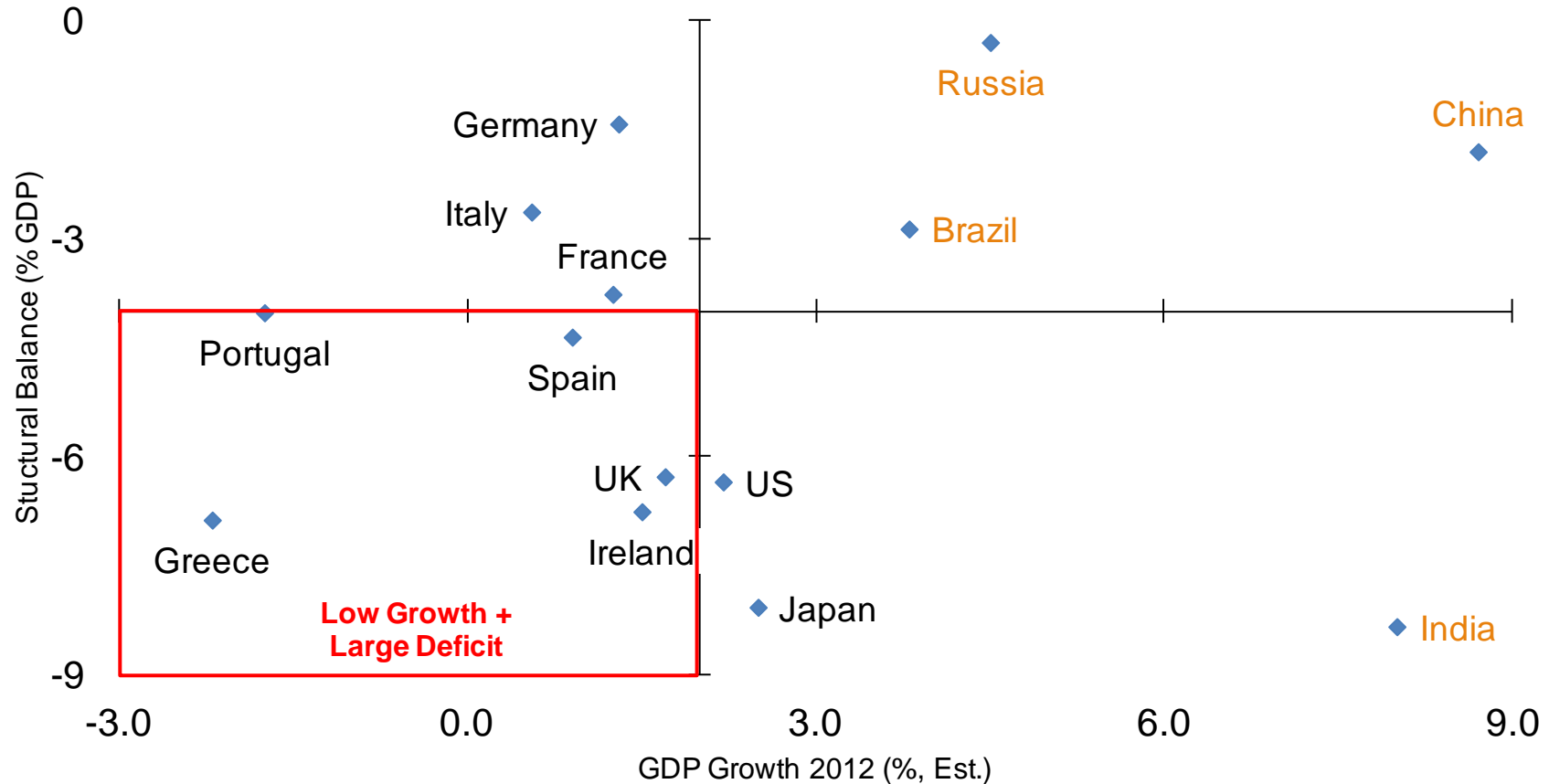
Estimated 2011 gross debt as % of GDP



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

It is not only the amount of debt that matters, but growth too

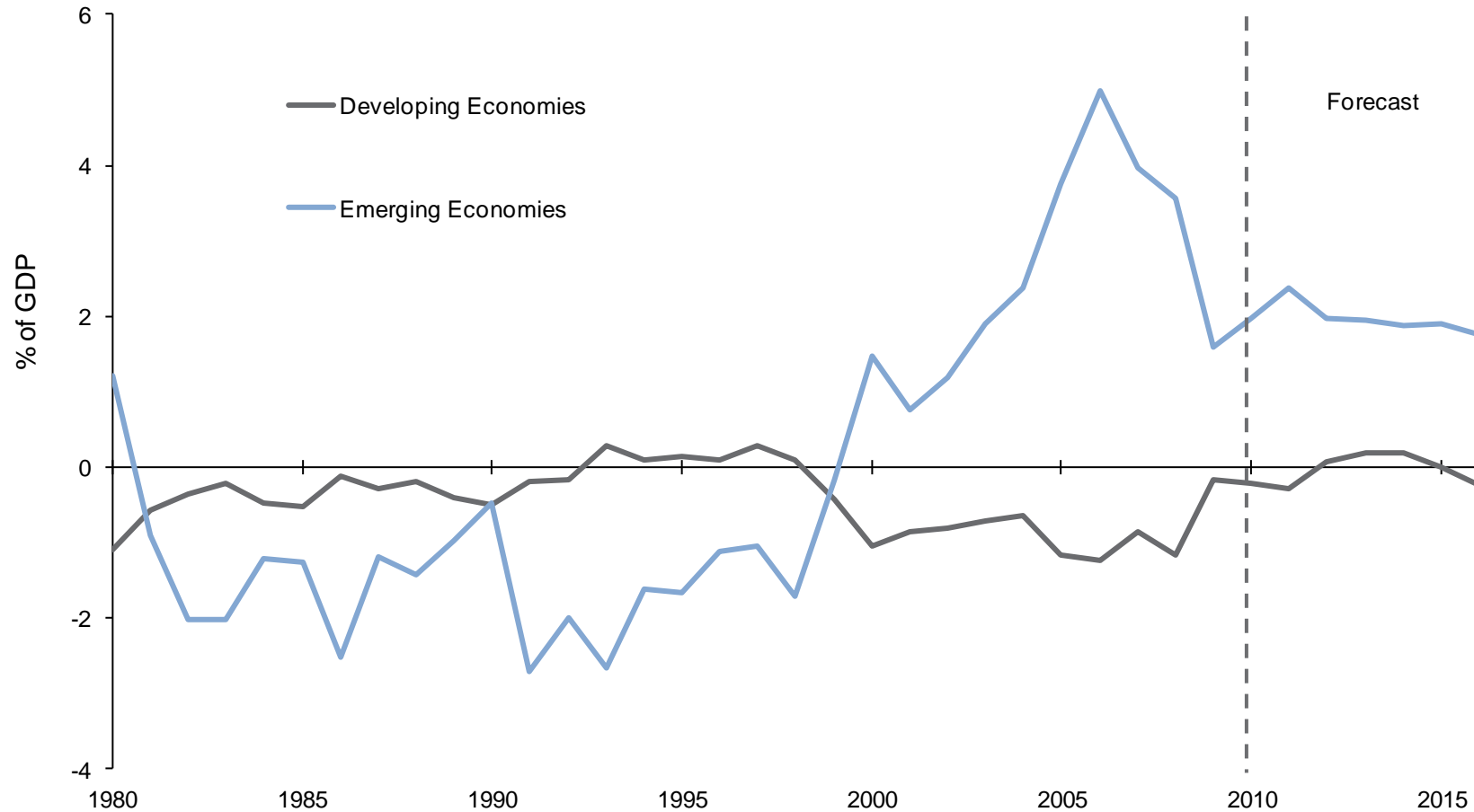
Structural Balance vs. Expected GDP Growth



Note: The structural budget balance refers to the general government cyclically adjusted balance adjusted for non-structural elements beyond the economic cycle. These include temporary financial sector and asset price movements as well as one-off, or temporary, revenue or expenditure items. The cyclically adjusted balance is the fiscal balance adjusted for the effects of the economic cycle. Estimates for 2011. GDP forecasts as at 5 October 2011. Source: IMF, Bloomberg, J.P. Morgan Asset Management.

Global imbalances remain in place; emerging market current account balances grew dramatically from 2000

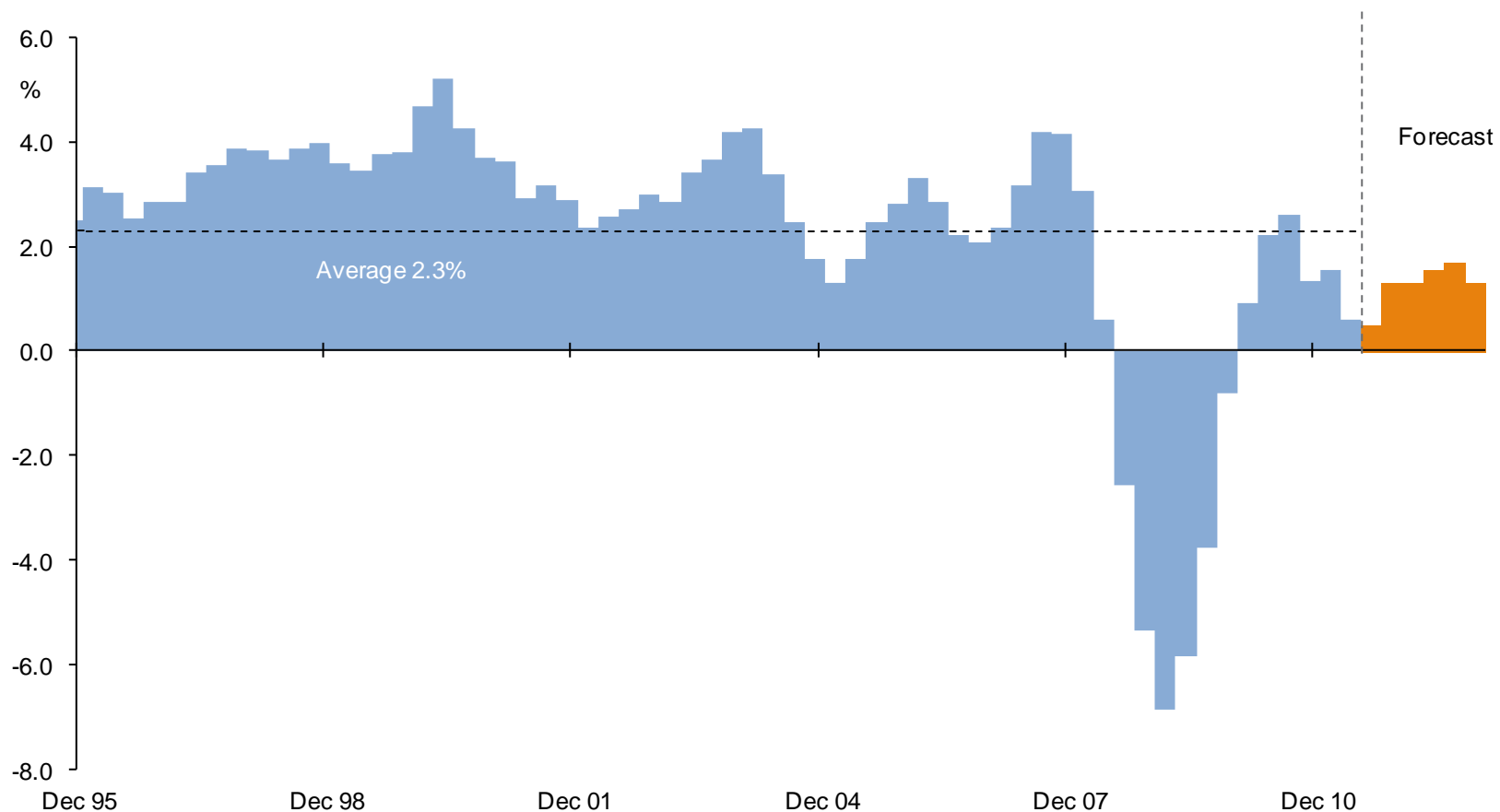
Current account balances



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

UK growth slowed down over H2 2011, 2012 growth expected to be weak

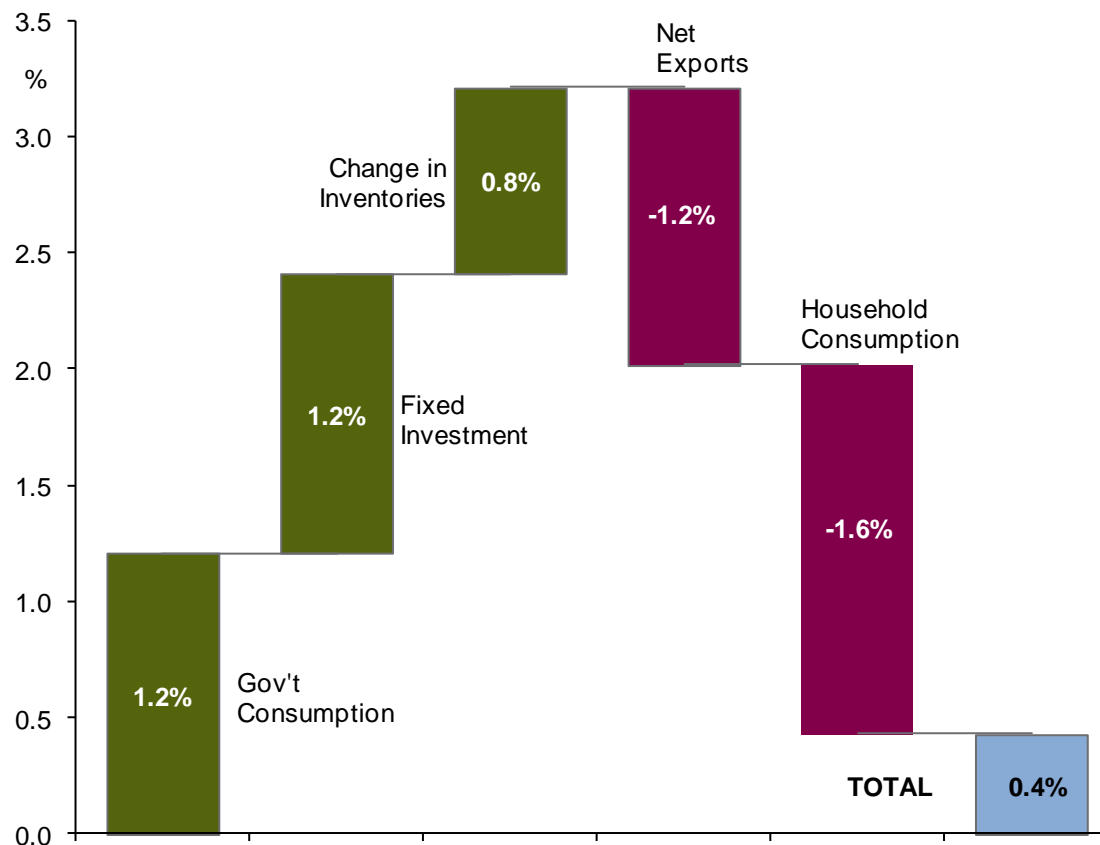
UK GDP (y/y)



Latest data GDP Q2 2011, consensus forecasts 6 October 2011. Source: Bloomberg, ONS, J.P. Morgan Asset Management.

Households deleveraging is a drag on growth, austerity measures mean can't rely on government spending

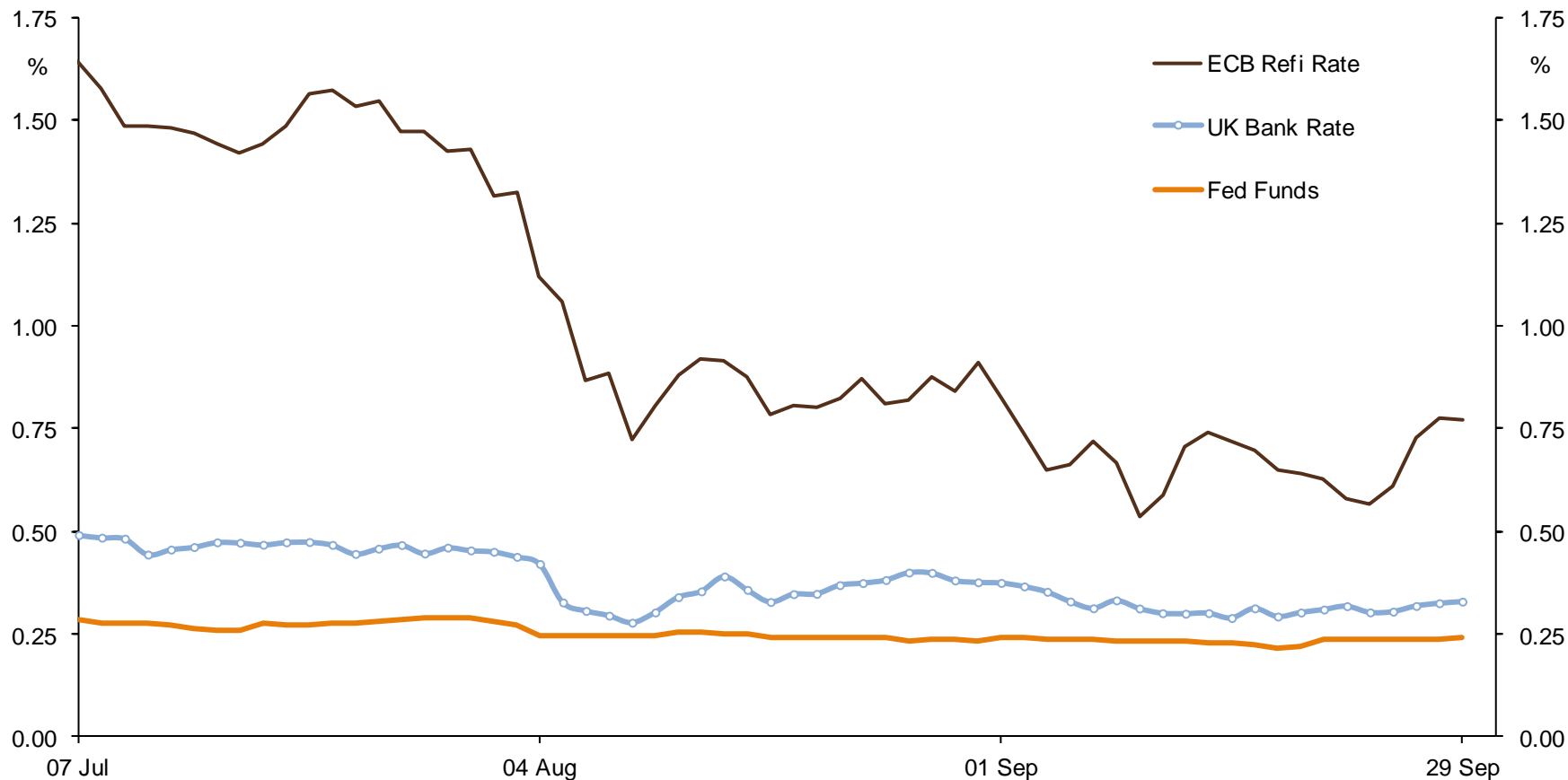
UK second quarter 2011 GDP contribution (seasonally adjusted annualised rate)



Latest data Q2 2011. Source: ONS, J.P. Morgan Asset Management

Markets are expecting the ECB to have to more than reverse its July hike in rates

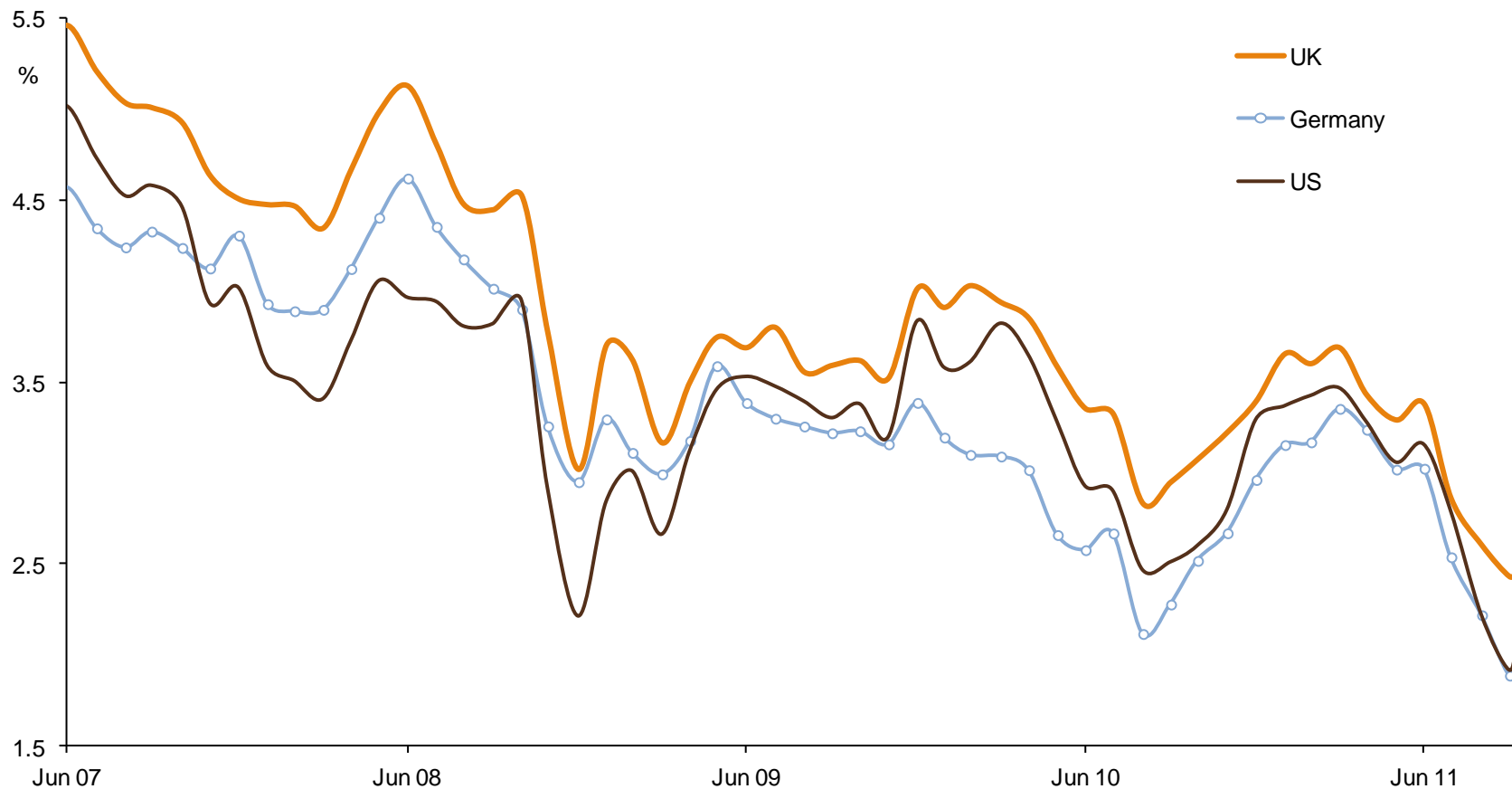
Market expectations of future bank rate



Latest data 29 September 2011. Source: Bloomberg, J.P. Morgan Asset Management

Eurozone crisis pushing yields even lower. Impact of new rounds of QE by the Fed and BoE

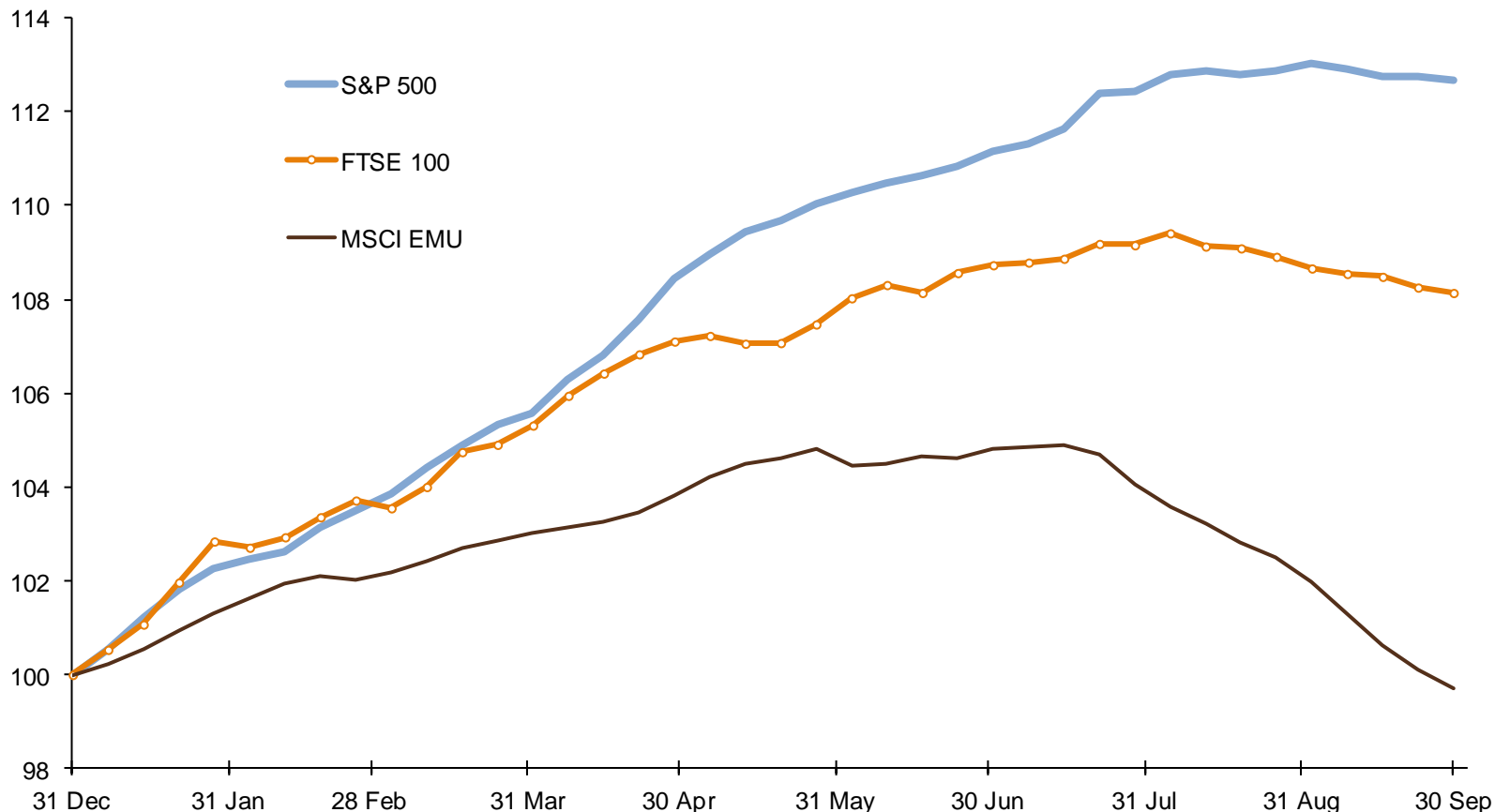
Government bond yields (10-year)



Latest data 8 October 2011. Source: Bloomberg, J.P. Morgan Asset Management

Earnings revisions have levelled out in the US but have turned sharply negative in Europe

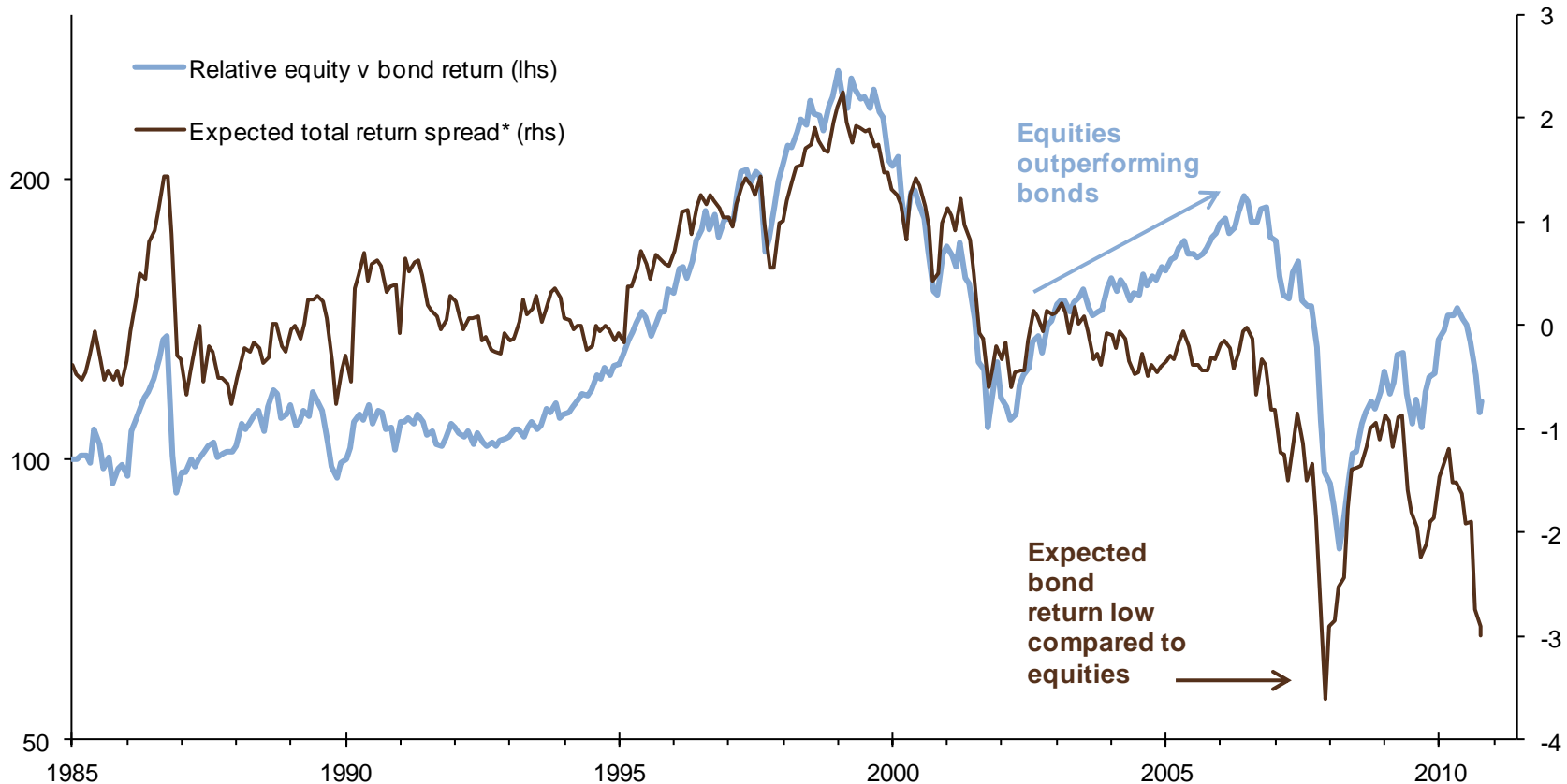
Earnings revisions



Latest data 29 September 2011. Note: Revisions for next-twelve month earnings estimates. Source: IBES, J.P. Morgan Asset Management

Relative equity valuations near historic lows

Bond and equity valuation and returns

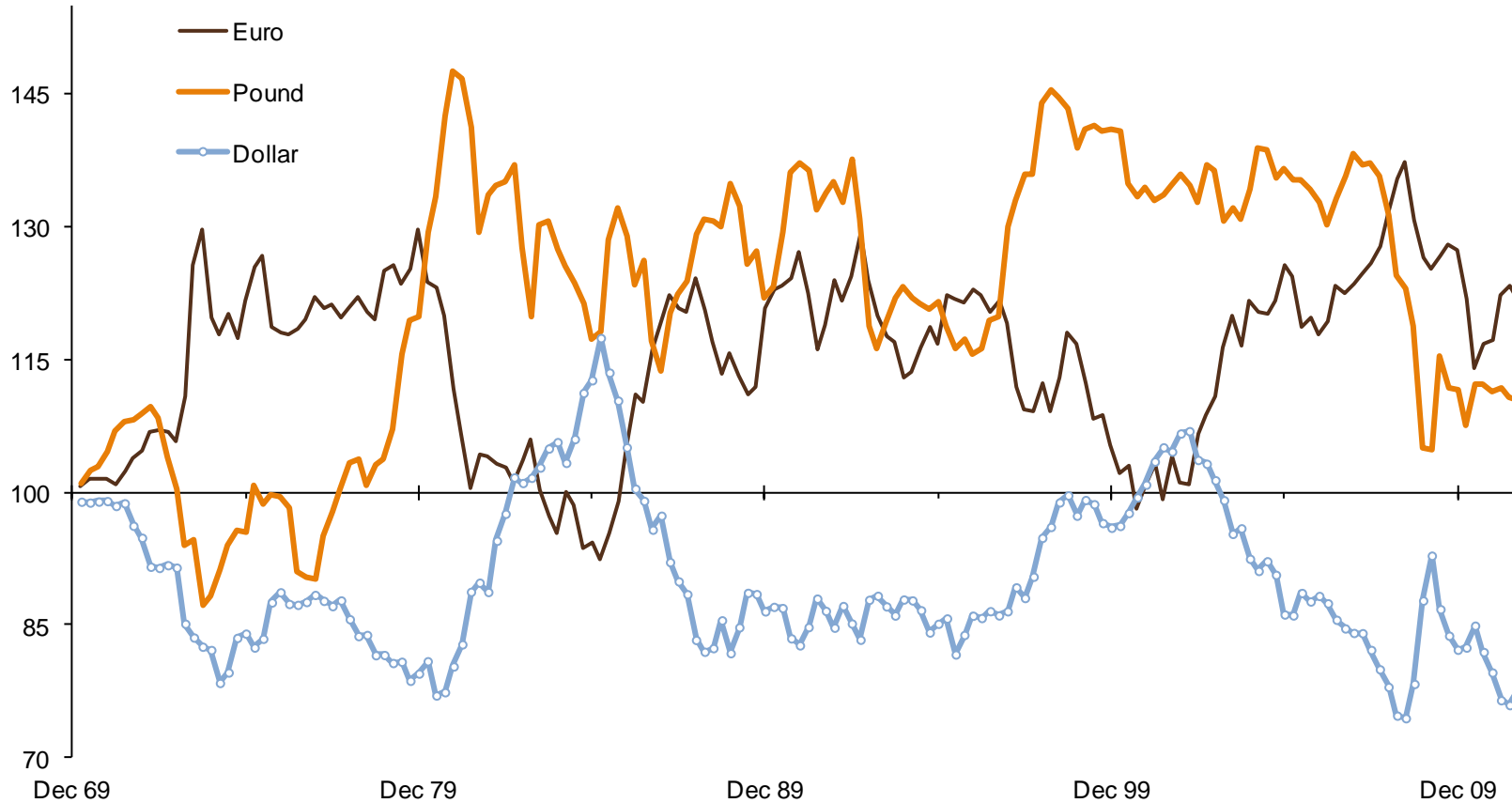


Last data 7 October 2011. *S&P 500 estimated earnings yield plus dividend yield less bond yield (US Treasury 10 year), normalised.

Source: IBES, Barclays, Bloomberg, J.P. Morgan Asset Management.

On a trade weighted basis the euro is still the strongest currency

Real effective exchange rate



Latest data 8 October 2011. Source: J.P. Morgan, J.P. Morgan Asset Management

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