

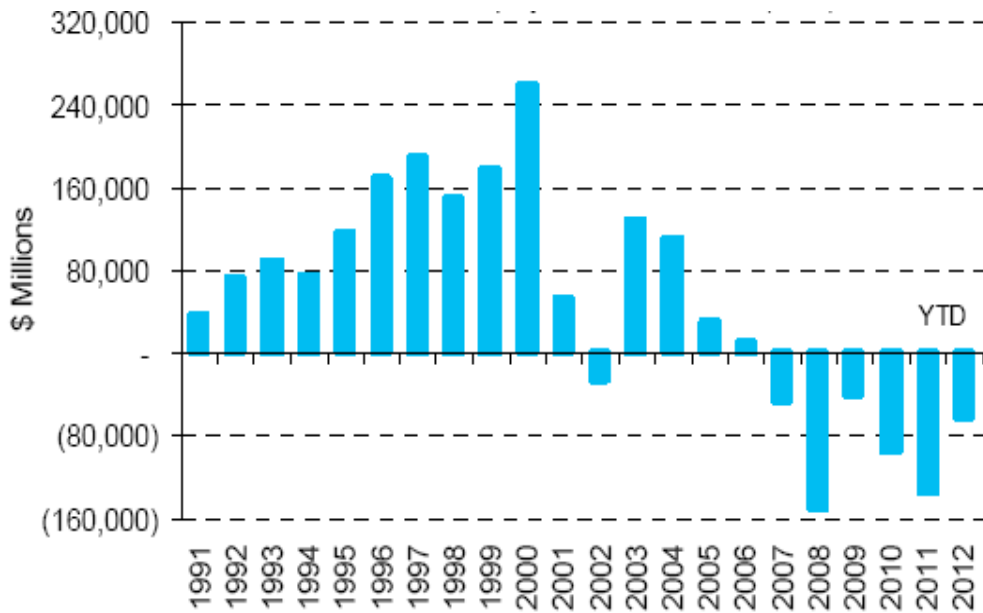
September, 2012

Why we remain positive on the US equities

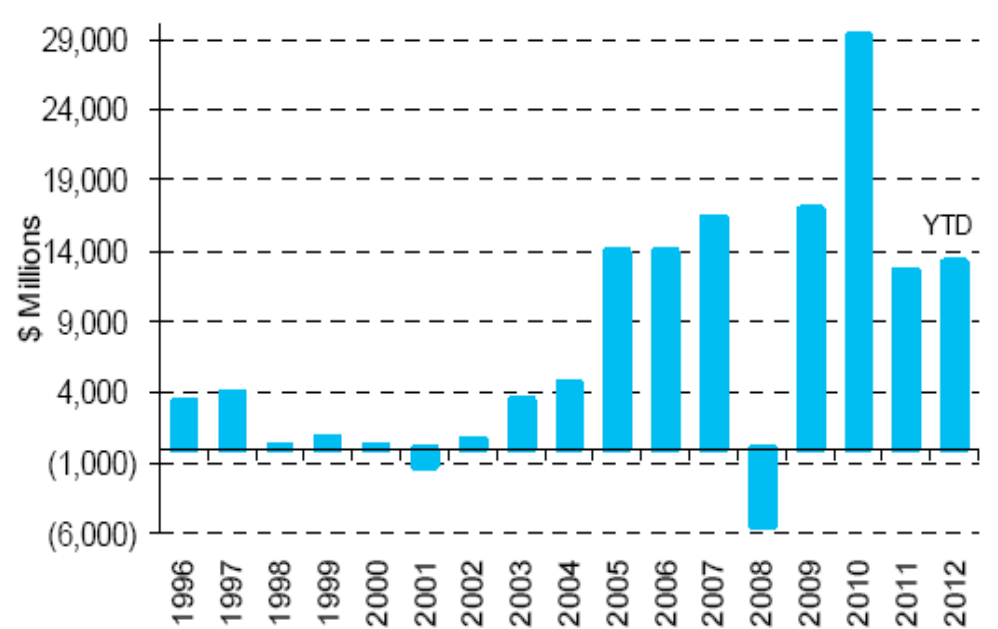
Philippe de Lavalette
Director, Equity Division

For years investors have been selling out of US equities

Annual US Equity Fund Net Inflows (Mil.\$)



Annual Emerging Market Fund Net Inflows (Mil.\$)



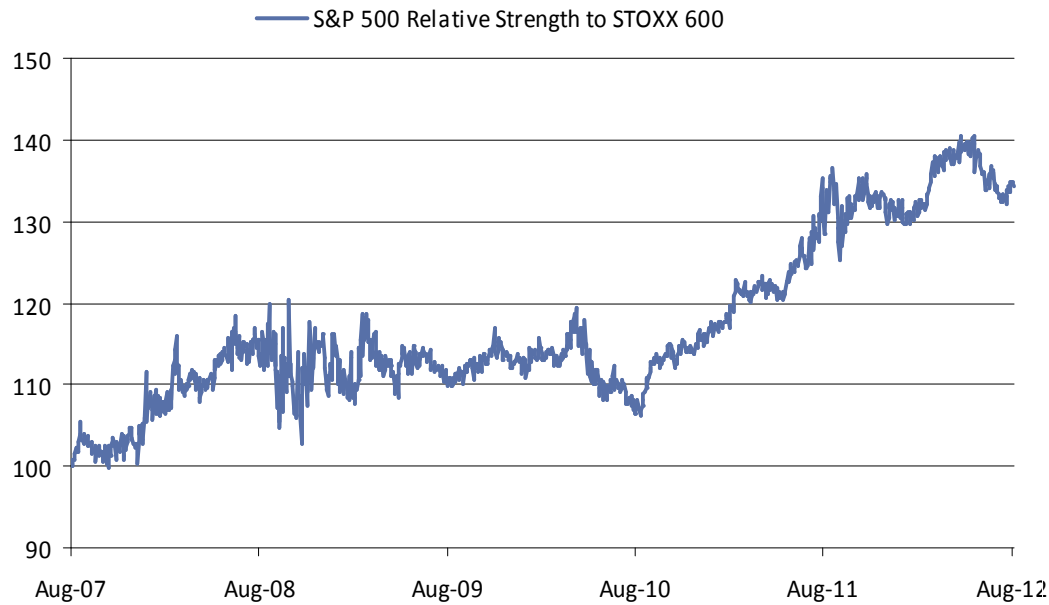
Since 2007, cumulative outflows of - \$520 billion

Since 2007, cumulative inflows of \$81 billion

Source: ICI and Citi Research - US Equity Strategy – 31 August 2012

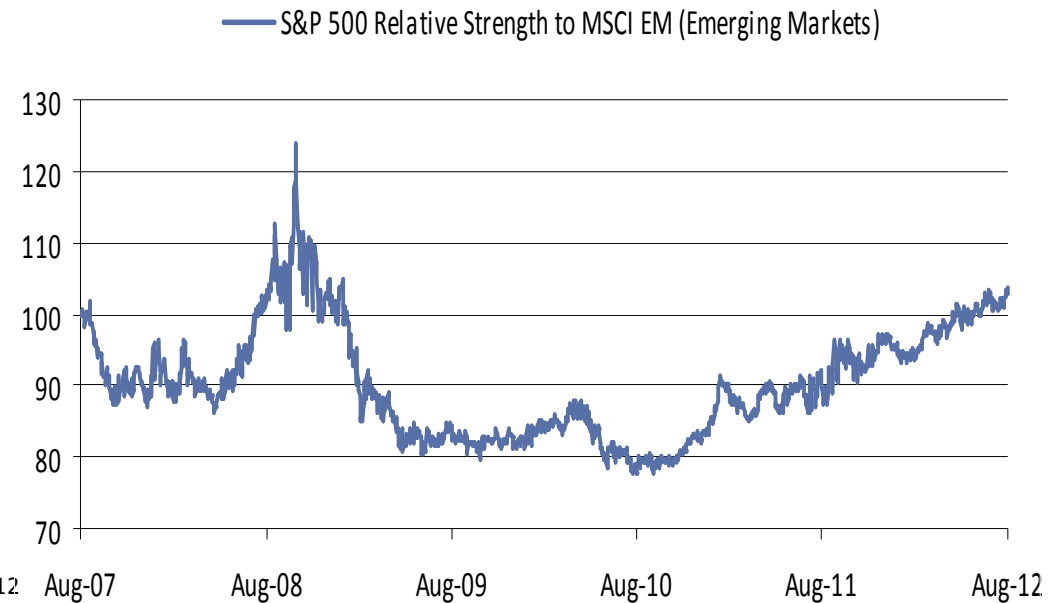
...And yet the US market has outperformed other equity markets

S&P 500 Relative Strength STOXX 600



Since August 2007, +34.75% vs STOXX 600

S&P 500 Relative Strength to MSCI EM (Emerging Markets)

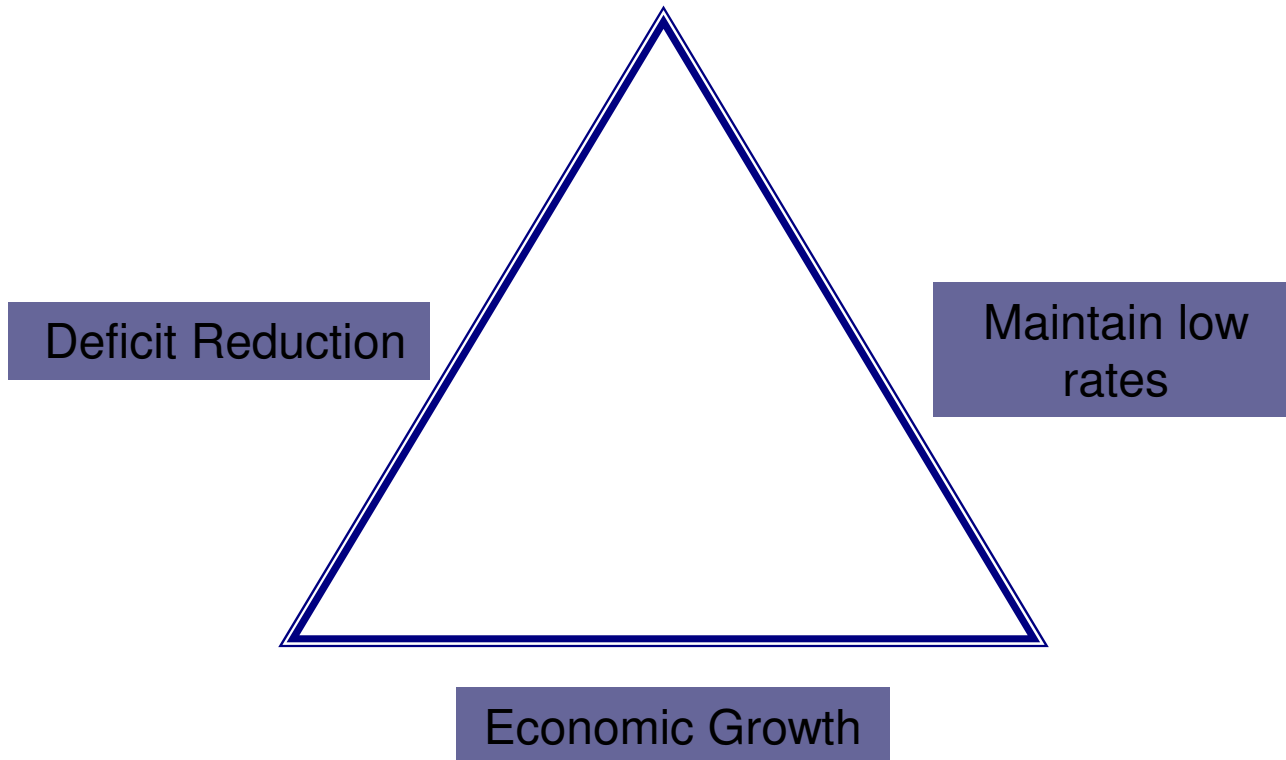


Since August 2009, +22.62% vs MSCI EM

Source : FactSet as at 31 August 2012

How can the US market continue to outperform?

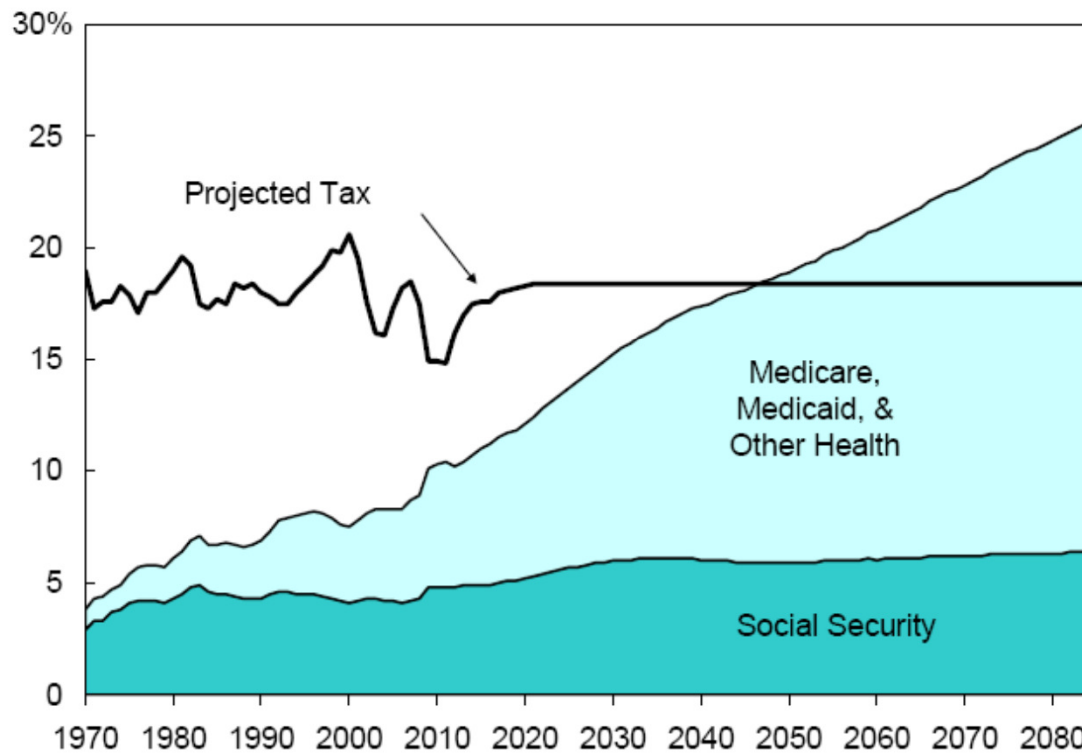
The challenge



The challenge : Reduce the deficit while keeping the economy growing

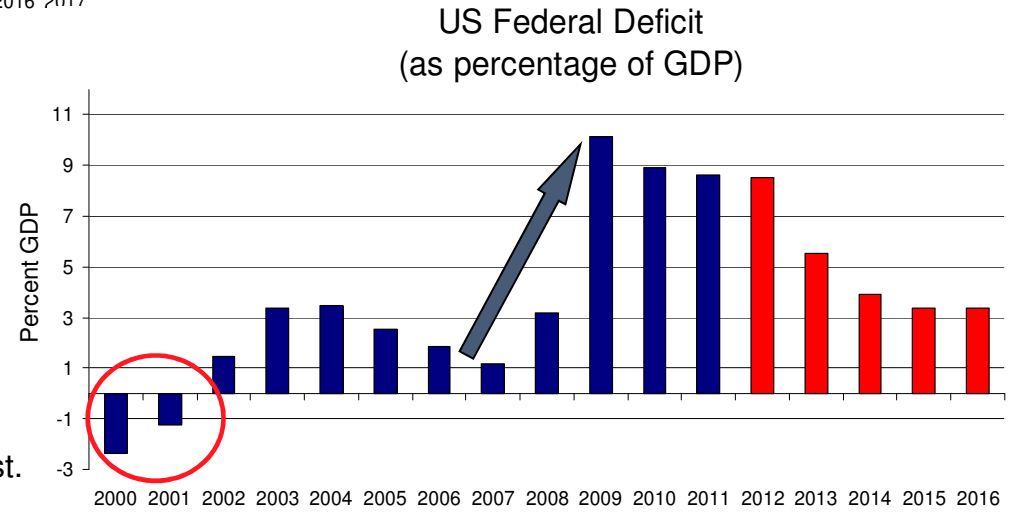
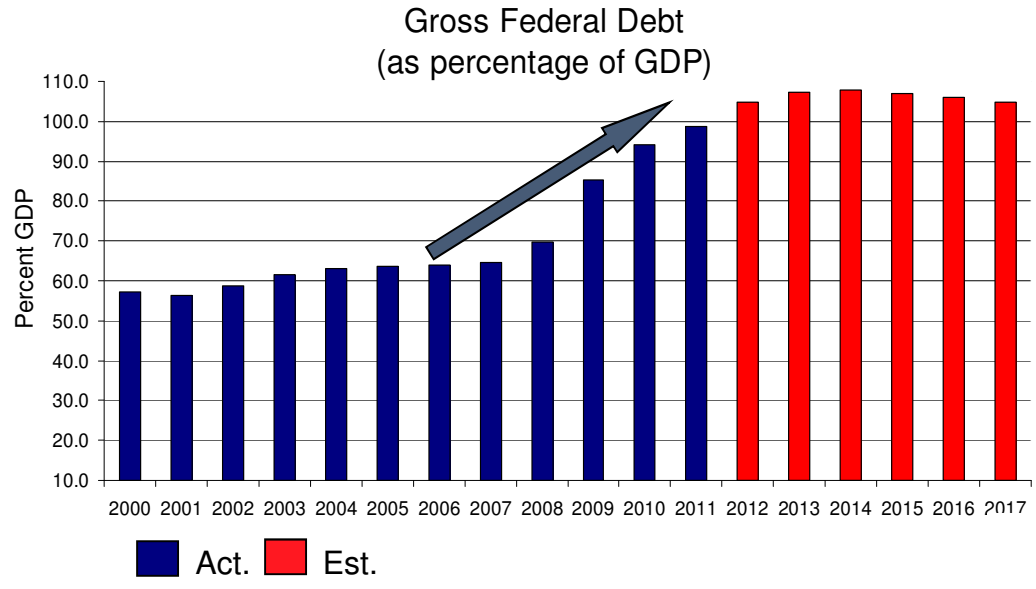
There are long term issues requiring adjustments

Figure 29. Revenues and Primary Spending, By Category, Under CBO's Long-Term Budget Scenario Through 2085 (Alternative Fiscal Scenario)



Source: CBO

But what interests markets is much more short term



Source : US Government website – March 2012

There are various ways to reduce the deficit

- **Cut Spending**

Difficult and will hurt growth

2012 federal budget

Defense 24%,

Health Care 22%

Pensions 22%.

- **Increase Taxes**

Unpopular and will hurt growth

- **Boost GDP's growth**

Painless and popular

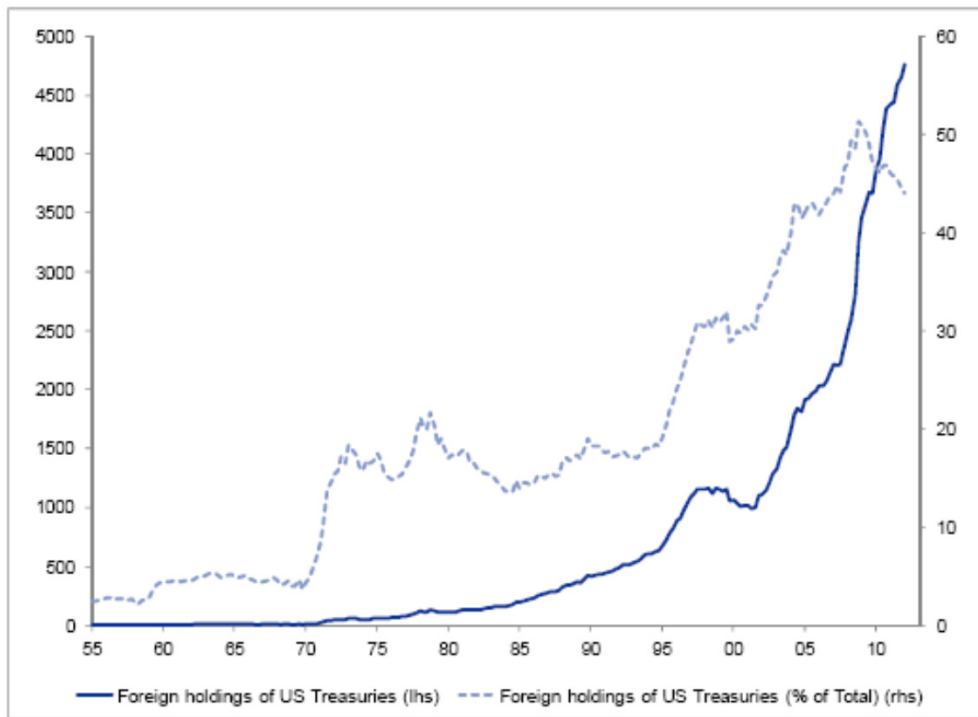
Boosting growth is the path chosen by the US

We believe that all the components are in place for this to work

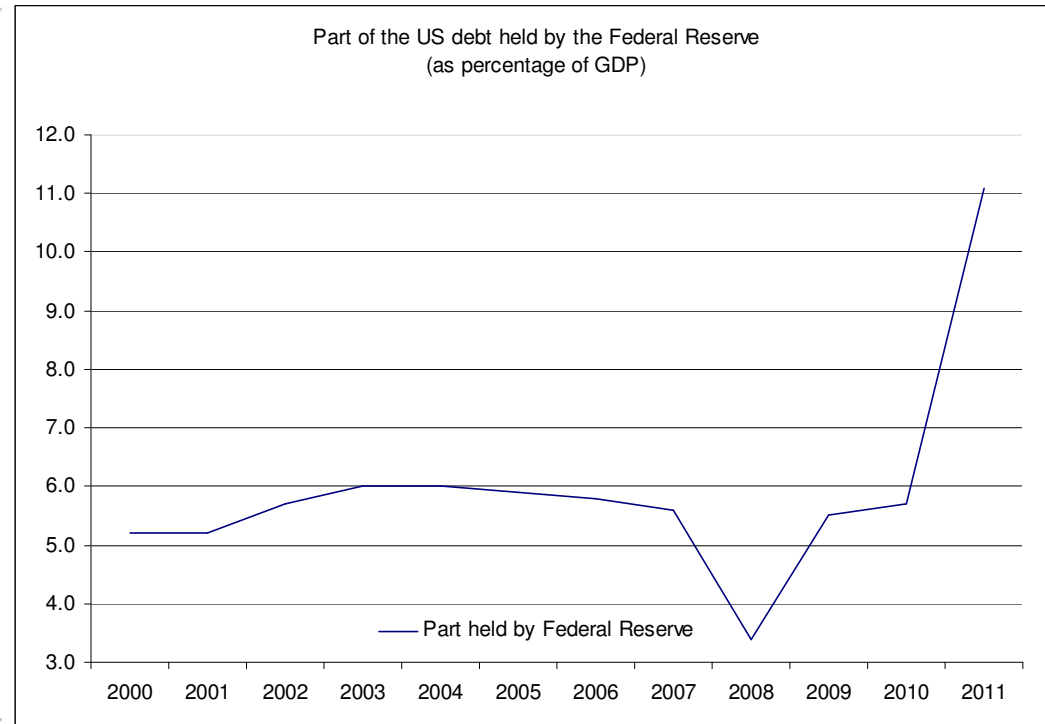
Objective : keep rates low

- Foreign trust and active Fed...

Foreign holdings of US Treasuries; \$bn (lhs), % of Total (rhs)



Source: Haver Analytics, Goldman Sachs Global ECS Research.



Source: US Treasury, Goldman Sachs - August 2012

Objective : keep rates low

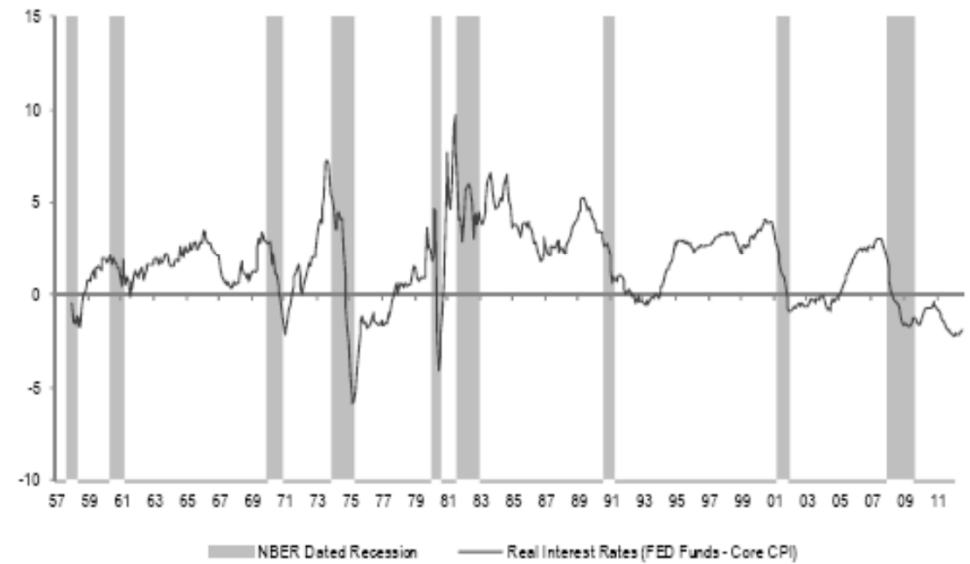
...Means low interest rates

US/UK/German 10Y Government Yields



Source: Datastream

US Real Policy Rates (%) vs Recessions

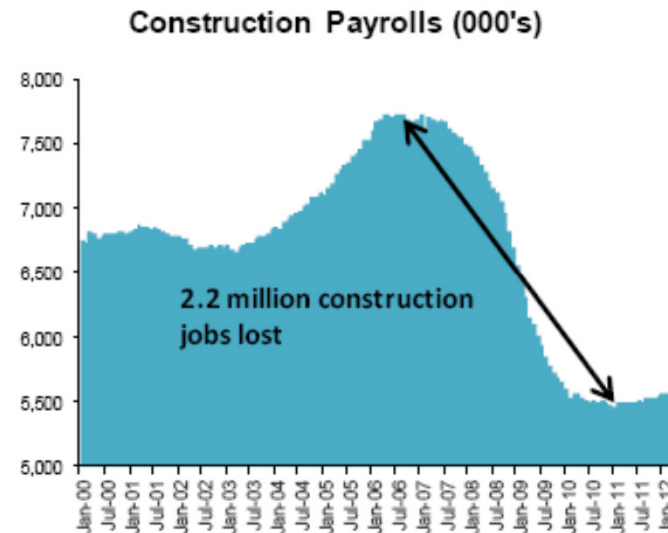
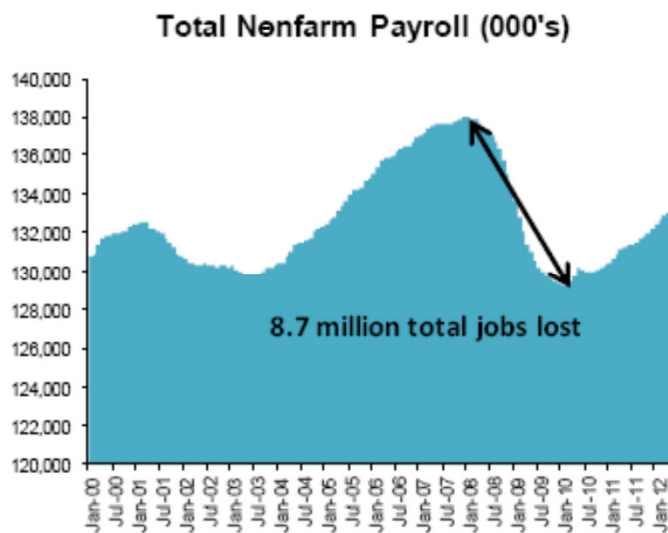


Source: FRA, BEA, Bloomberg

Source : JP Morgan August 2012

Objective : create jobs

- Construction a big contributor to the current crisis...

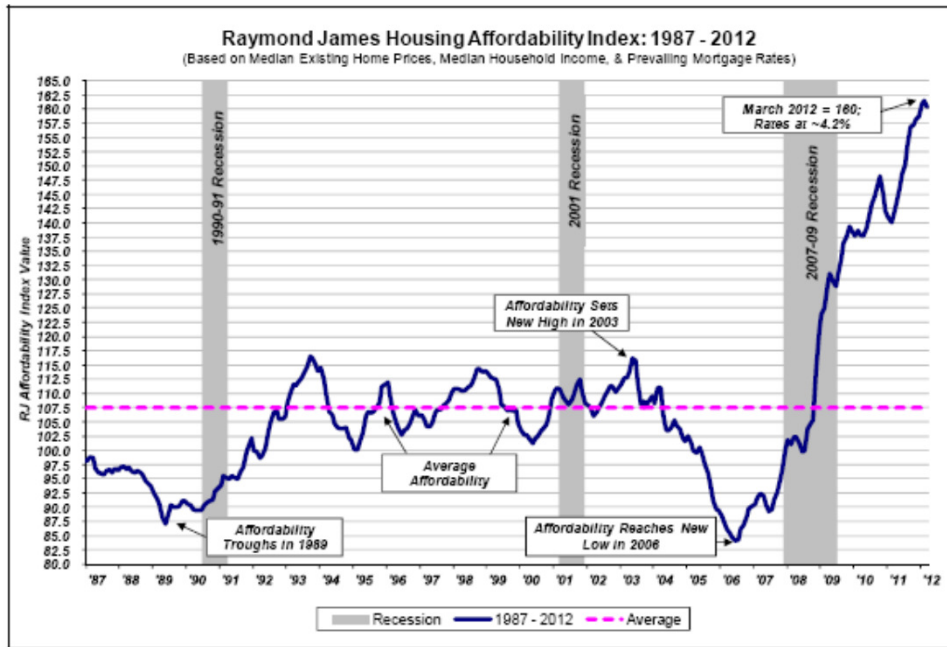


25% of lost jobs were construction related

Source : Raymond James, May 2012

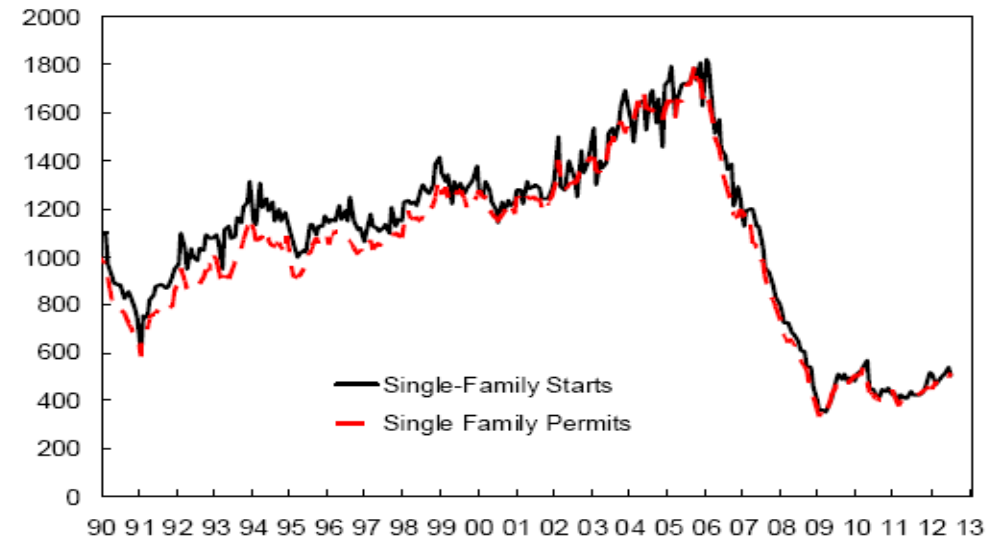
Objective : create jobs

...Is improving



Source: National Association of Realtors, Federal Housing Finance Board, Mortgage Bankers Association, and Raymond James research.
Data as of March 2012.

Single-Family Housing Starts and Permits (SAAR, Thous.)

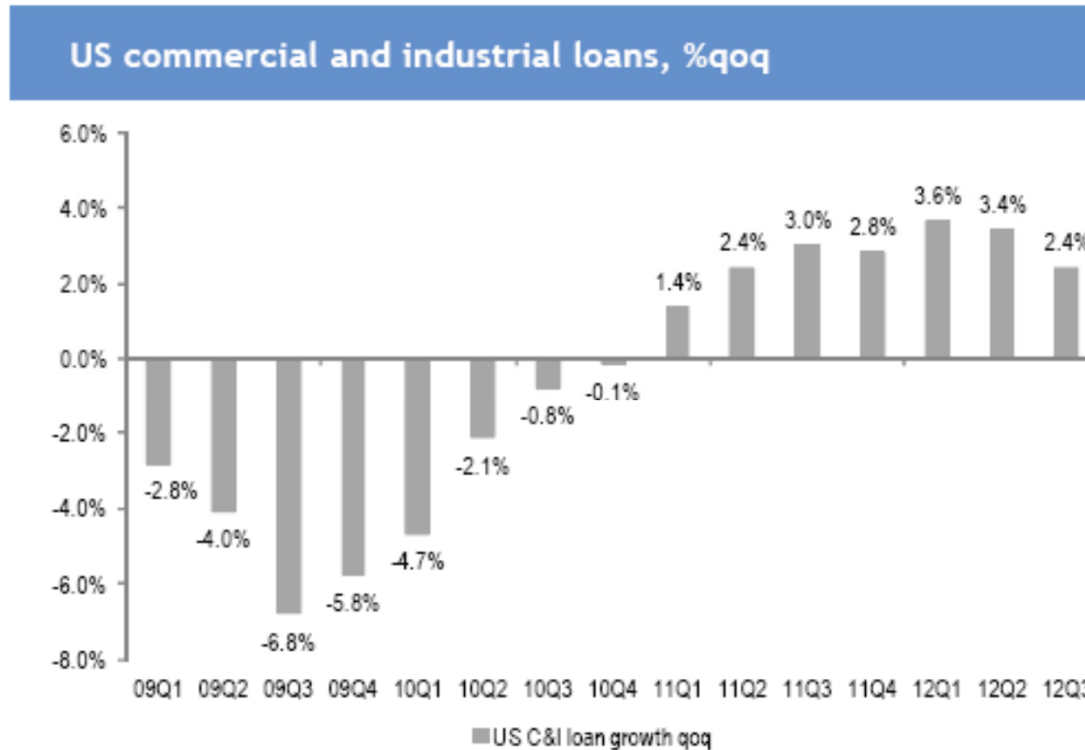


Source: Census Bureau

US residential construction represents only 2.2% of US GDP in July 2012 (vs 6.5% pre crisis)

Objective : keep consumption alive

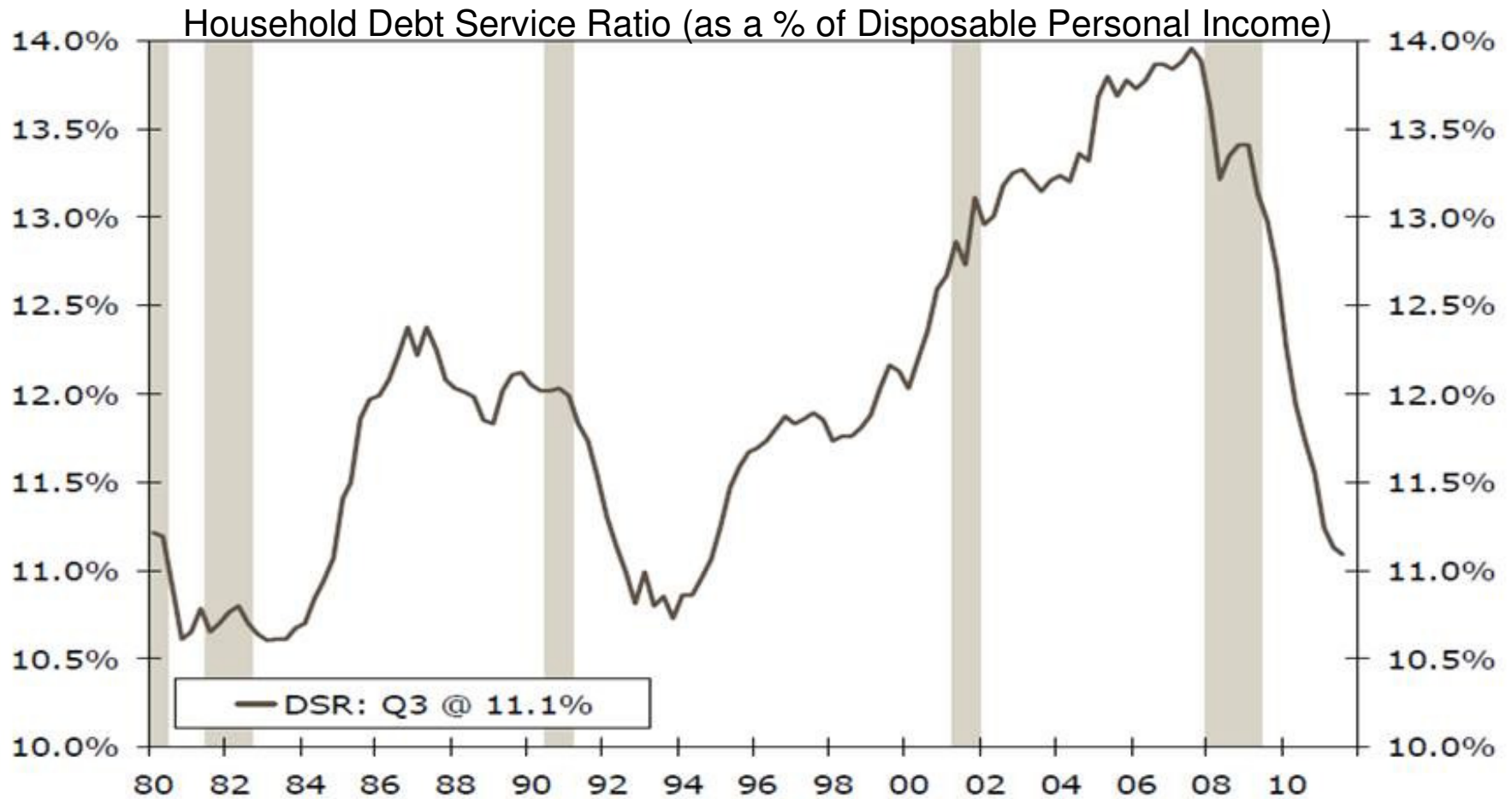
- Banks are once again willing to lend...



Source : JP Morgan Research Center. As at April 2012

Objective : keep consumption alive

..And consumers have some fire power

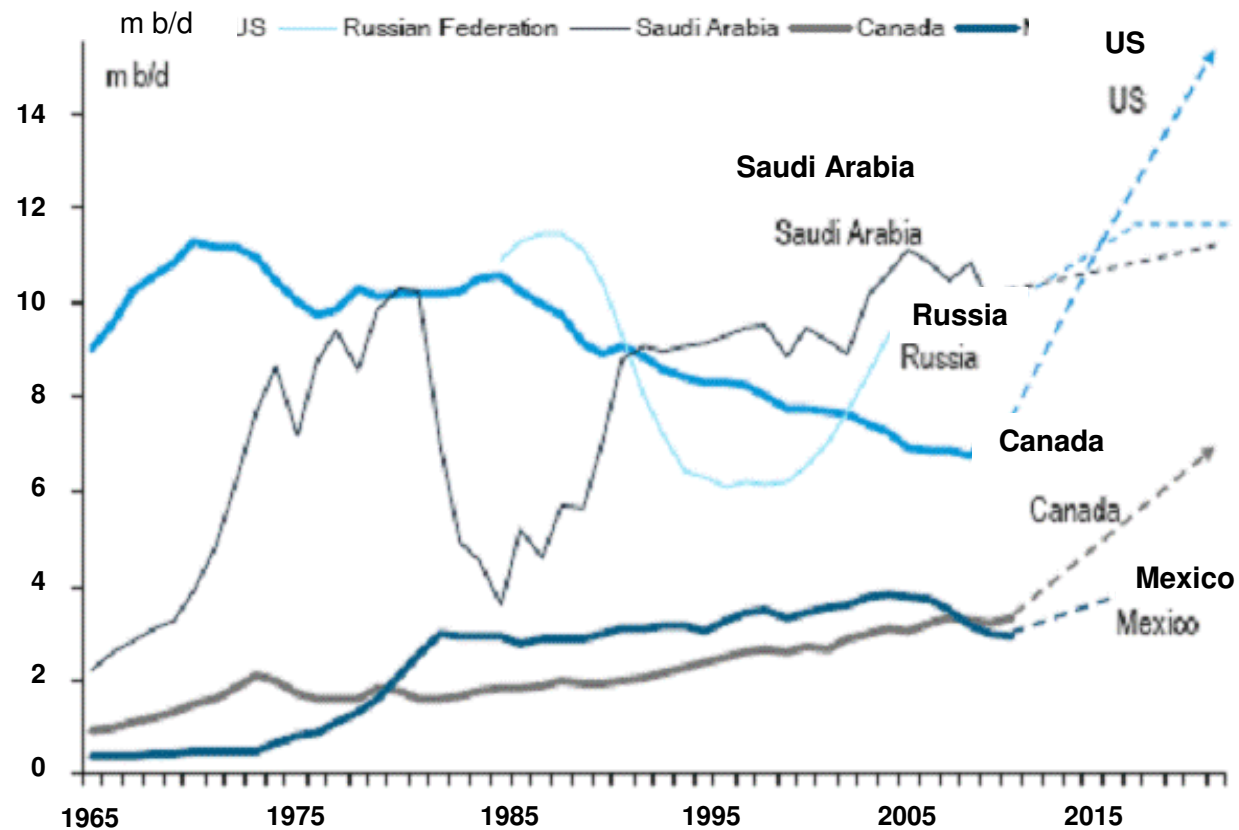


Source: U.S. Census Bureau , Raymond James. As at April 2012.

Innovation : the US Secret Weapon

- Oil a Game changer

US production could overtake Saudi Arabia and Russia this decade



Source: BP, Citi Investment Research and Analysis. As at April 2012

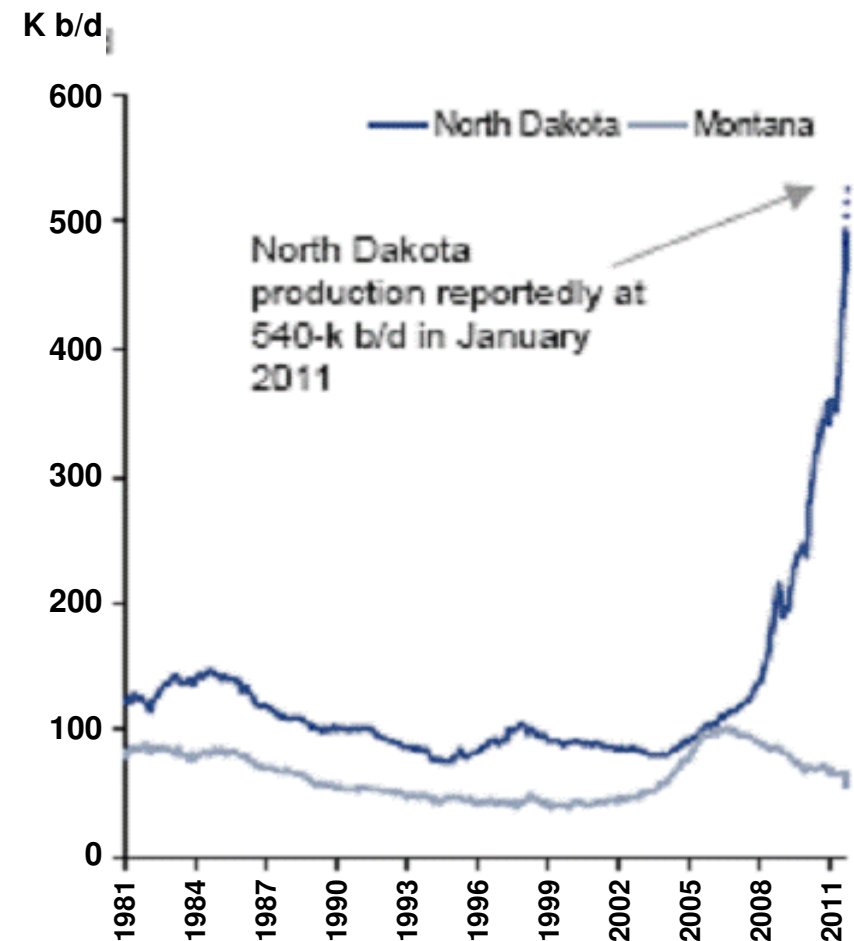
North Dakota shale oil example

■ Booming North Dakota production is a case in point

- As Bakken oil production has surged (up 153-k b/d y-o-y to 510-k b/d in November 2011), economic activity in the state has burgeoned:
 - **State GDP growth was 7.1% in 2010**
 - **As well as drilling and producing jobs, auxiliary employment has also been stimulated (see table below)**
 - **State unemployment was at 2.9%, versus 8.6% nationwide**

North Dakota increases in total employment over 2011

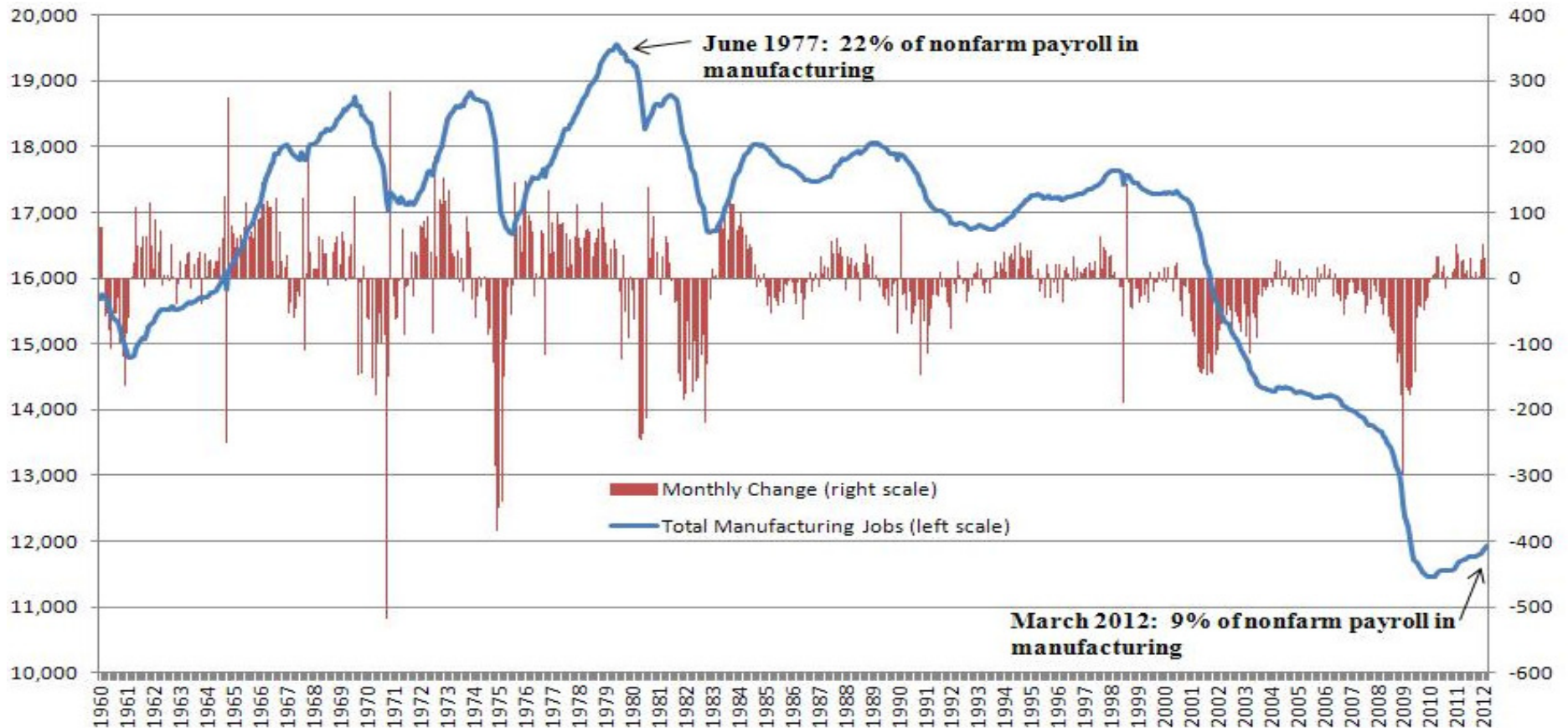
Sector	Jobs created in 2011
Mining and minerals	4,900
Construction	3,800
Professional and business services	2,600
Transportation, warehousing and utilities	2,100
Retailing	2,000
Other	2,000
Total	17,400



Source: North Dakota State Government, Reuters, CIRA. As at April 2012.

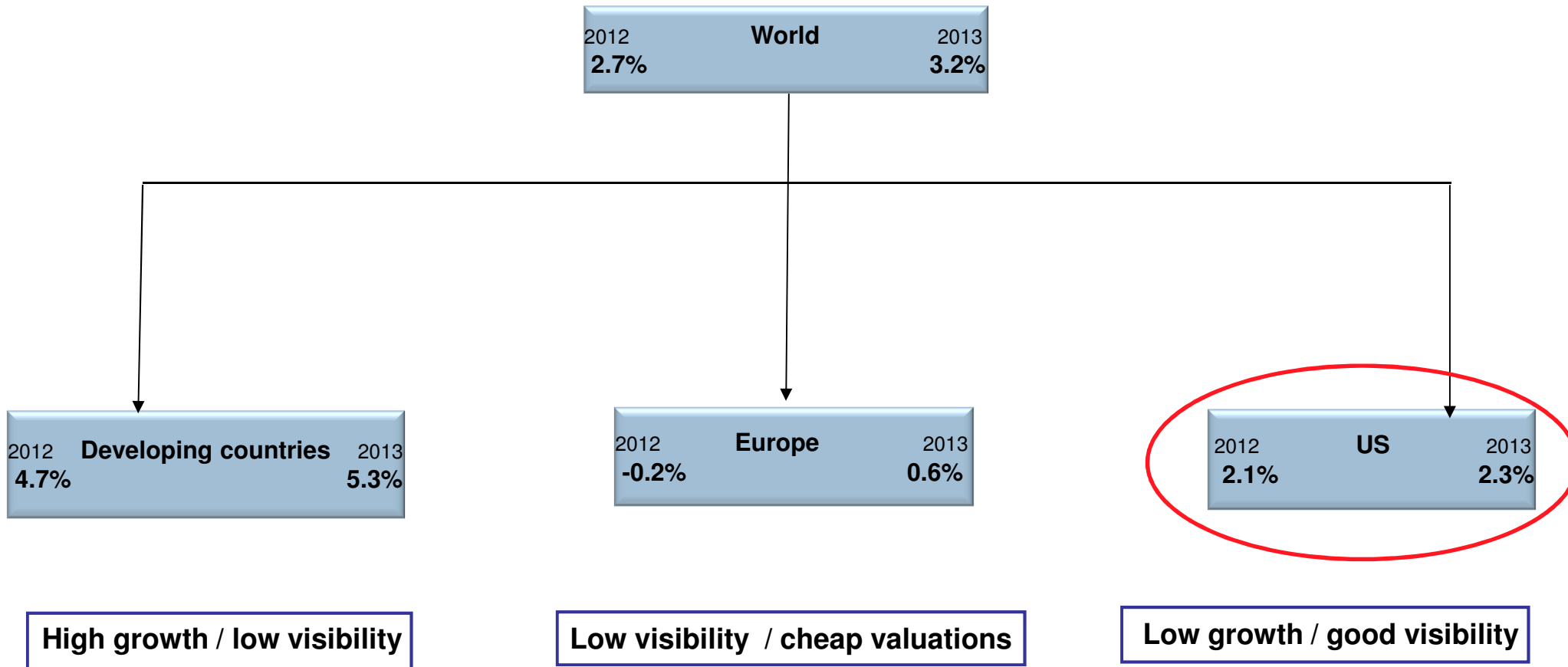
- Oil & Gas : low prices leading to a manufacturing renaissance

US Employment in Manufacturing (thousands)



Source: BLS/Global Macro Monitor. As at May 2012

- US Growth will be slow but sustainable



Source: UBS Research Center – June 2012

When it comes to equities

- Prefer growth to value

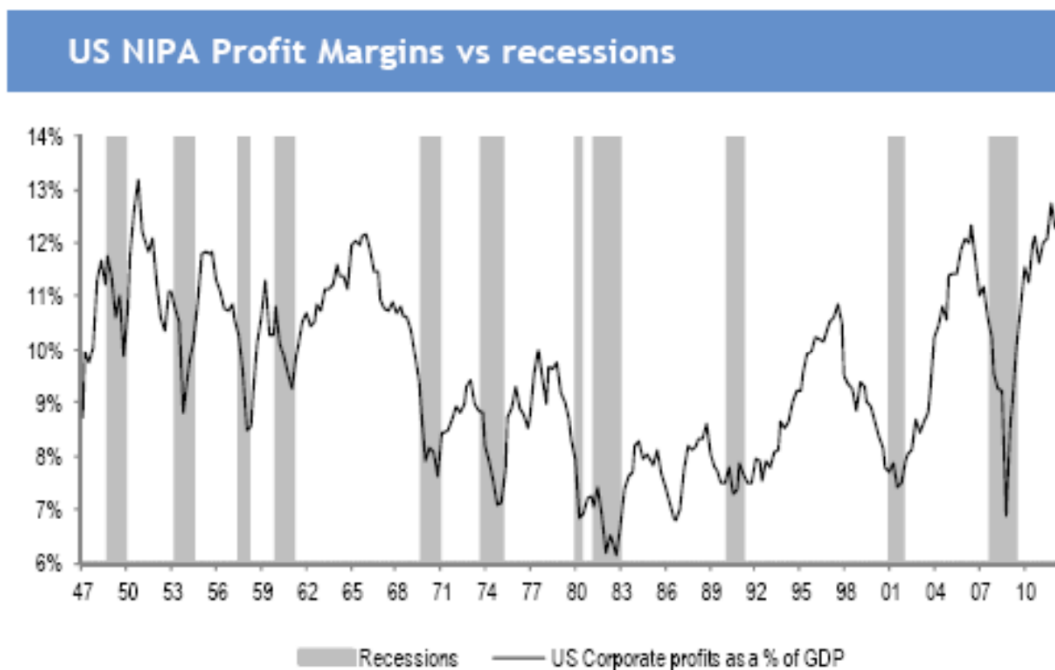
Russell 1000 Growth vs Russell 1000 Value



Source: FactSet as at 30 May 2012

When it comes to equities

- Prefer top line growth to margin expansion



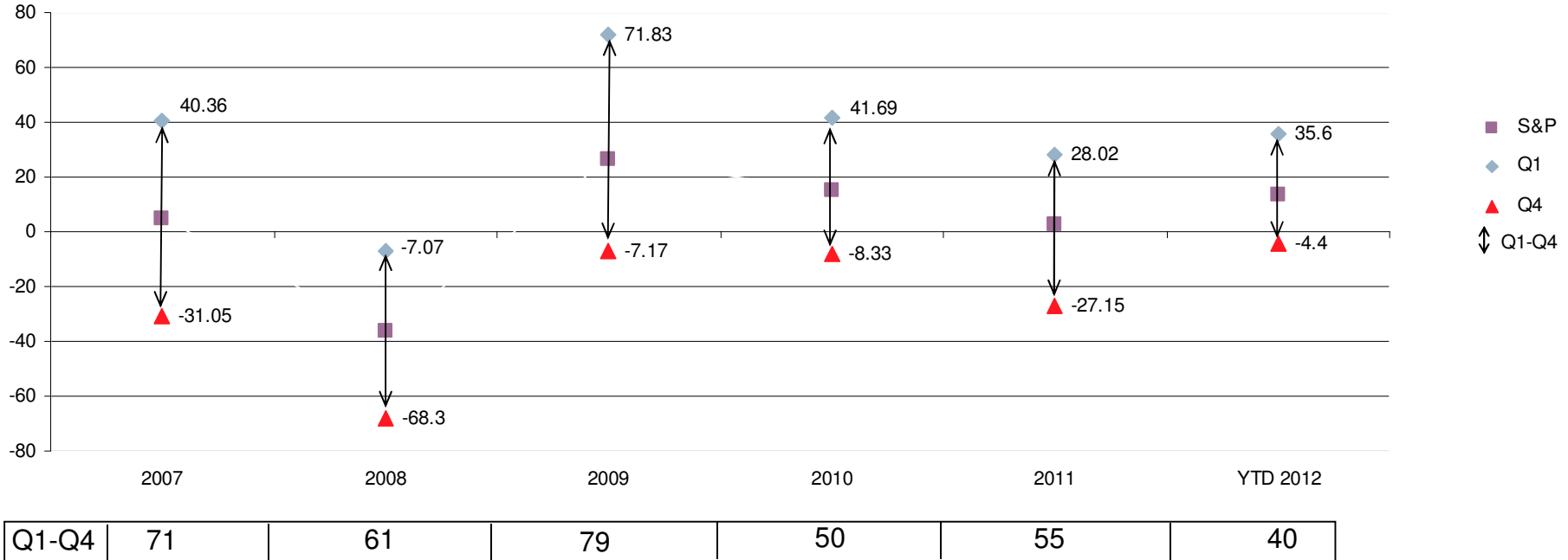
Source: BEA, NBER

With margins back to 1960's level, upside is limited

When it comes to equities

- Stock picking is key

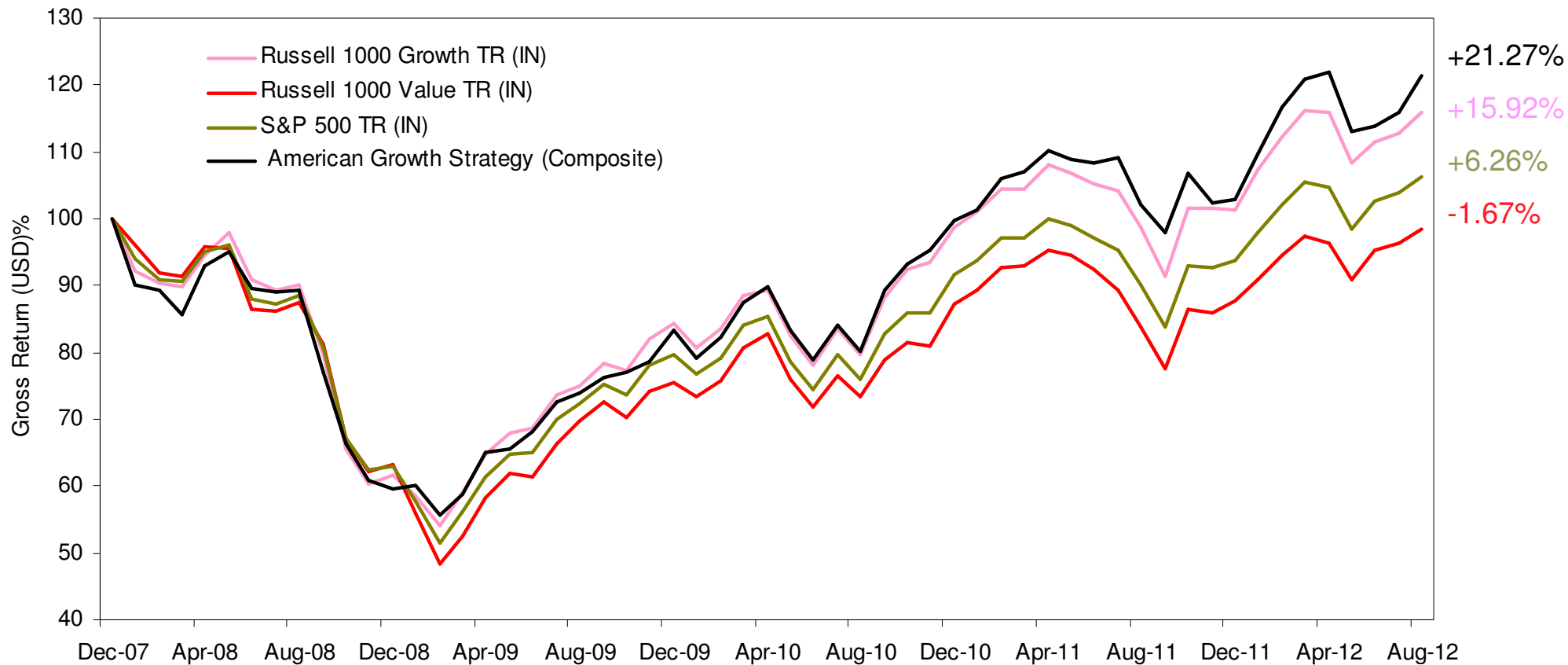
Total Return : Winners versus Losers



Source : Lipper, AXA IM as at 31 August 2012

When it comes to equities

- Growth style and quality stock picking : a winning combination



Source : Lipper, AXA IM as at 31 August 2012

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