From:	Jeffrey Epstein <jeevacation@gmail.com>
Sent:	Saturday, August 10, 2013 12:16 PM
To:	Barrett, Paul S
Subject:	Re: FW: The J.P. Morgan View : What countries to buy or sell

ok

On Sat, Aug 10, 2013 at 5:37 AM, Barrett, Paul S <[redacted]>
> wrote:

Jeffrey
I think we should add another 2mm to that European equity basket. We went f=rther overweight Europe.

Paul Barrett | Managing Director | Global Investment Opportunities Group | =.P. Morgan Private Bank |
[redacted]

-----Original Message-----
From: Perlman, Daniel A
Sent: Friday, August 09, 2013 05:09 PM Eastern Standard Time
To:
Subject: The J.P. Morgan View : What countries to buy or sell

Global Asset Allocation

The J.P. Morgan View: What countries to buy =r sell

Click here for =he full Note and disclaimers.

*	Asset allocation ** An increasing part of our allocation exposure is now in country choi=es. We raise our European overweight, and are considering at what point we=need to cut our EM underweight vs. Japan.

*	Economics ** Data are tracking the expected rebound in Global GDP growth, with ba=anced risk. But we are seeing increasing signs of a rebound in manufacturi=g. Europe Q2 is raised to 1%, but Russia and Mexican growth forecasts for =013/14 are cut.

*	Fixed Income ** Bond duration should be traded on local conditions: short in US, Eur= area and EM; long in Japan and Australia, neutral in the UK.

*	Equities ** Open a Cyclical vs. Defensive sector overweight globally. Cut by hal= the overweight in Japan vs. EM.

*	Credit ** OW financials vs. non financials and Europe vs. the US.

*	FX ** We resist the rise in GBP and EUR vs. USD and expect them to fall ba=k again within this year's range.

*	Commodities ** Take profit on OW energy vs. base metals and open an outright long i= energy.

*	Click her= for video. <http://emaillink.jpmorgan.com/t=AQ/AAMGjA/AAYLQg/QIFDJA/AeI/ABWW-Q/AQ/VEuI>

*	Our top investment recommendation remains =o be aggressively overweight equities versus cash and fixed income. But b=yond that, we have concentrated much of our tactical risk on country and r=gional allocations. How do we allocate here? What is working, or not worki=g? And where are we considering change?

*	Our top regional allocation has been to underweight EM against DM across asset classes. The rationale has be=n predominantly fundamental in that we and the consensus have been forced =o steadily lower our growth expectations in EM, outright and relative to D=. We do not yet have reason to change this assessment. The past few weeks of lower EM PMIs and the weak t=acking of Q3 activity data versus forecasts leave us with further downside=risks on EM growth projections.

*	This week alone, we cut Mexico and Russia.=EM policy makers on average will likely not provide much support, in some =ountries because inflation remains too high, and in others because capital=outflows have put downside pressure on the currency that is preventing their central banks from easin= rates. In addition, as reviewed in Job gains to lag global growth lift, Kasman et al., July 24, we see =alling EM profit margins, in response to tight labor markets and rising wa=e costs, also depressing EM growth.

*	That said, we will not remain underweight =M forever, as relative value is getting re-established, many active invest=rs are already UW, and at some point, the rebound in DM should pull EM out=of its funk. This week*s data dump from China is providing support for our projected rebound in gro=th from H1*s 6.5% to 7.5% in H2. EM equities are still underperforming t=is week, but at a slower pace now. EM is holding itself vs. DM in credit a=d FX over the past month.

*	We think it too early to move back to OW E= asset classes, given still downside risk on EM forecasts, and are instead=trimming UWs selectively, especially in fixed income and FX.

*	Our European overweight is working =icely and is getting good support from economic data. This week alone prov=ded upside surprises on economic activity data, allowing us to raise Q2 to=1% in the Euro area. The challenge we all face on Europe, after years of crisis and recession, =s whether the rebound is a *dead cat bounce*, born

from a relief that =urope is at least not blowing up this year, or whether we can see Europe o=fering good value and economic upside over the more medium term.

* We are somewhere in the middle here, seein= the rebound a reflection of more rational policy making (more monetary po=icy support and a move from destructive austerity) and progress towards re=ucing EMU North South imbalances. Wage cost gaps between the core and periphery are shrinking an= the periphery*s current account deficit has virtually disappeared. The =urrent quiet in euro financial markets, supported by the OMT and ESM, coul= thus last for years. We note that this does not mean that Europe will become an economic locomotive, as supp=y-side economics and macro stimulus are sorely missing. Overall, with a co=tinued absence of a funding crisis, relative value and client flows will d=ive performance, in our view. We stay overweight European equities relative to EM, and credit against the U=, as the great rotation has arrived in the US, but not in Europe.</=>

* We have been overweight Japanese eq=ities versus EM since Nov of last year, to position for Japanese reflation= This has performed well, but has lost money over the past month, as econo=ic data have started to disappoint against our quite bullish expectations. We cut 2013 Japan gr=wth from 2.2% to 2.0% today, and in GMOS this week took half profit on our OW. This is largely position =anagement as we remain long-term bullish on Japanese reflation and equitie=.

Fixed I=come

* Bond yields followed equity markets down t=is week. Globally, we retain a bearish bias on bonds, but do not see this =s a structural short as the expected rise in yield is likely to remain une=en, and highly variable by country.

* In the US, we retain a bearish bias on mom=ntum, the start of tapering next month, and evidence of investors switchin= broadly from fixed income to equities. We continue to execute this view b= selling the belly of the curve 5s against 10s and 2s. In euros, we stay short 10-year Bunds on =teadily improving economic data. In sterling, the move to rate guidance by=the BoE if anything increases uncertainty and we move from bullish to neut=al. And in Japan, we remain positive duration. In Australia, we stay bullish as the RBA has further room to eas=. We stay bearish in local EM bonds.

Equitie=

* The prospective rebound in global manuf=cturing is inducing us to open an overweight in Cyclical vs. Defensive=equity sectors globally. Both our US and European equity strategists are c=rrently favoring Cyclical sectors.

* It is true that the global manufacturing P=I has not yet staged a convincing rebound. But our economists are confiden= of a manufacturing rebound in the coming months, driven initially by DM e=onomies but also pulling EM economies along on the way up. China*s July activity indicators are a=ding conviction to this view.

* Is this is a reason to reverse our EM equi=y underweight? We do not think so. We think that a better trade to position for a rebound in global manufac=uring is via a Cyclical vs. Defensive sector overweight rather than an EM =s. DM equity overweight. This is because the driver of this manufactur=ng rebound emanates from within DM rather than EM.

* Are depressed valuations a good reason =o buy EM equities? We do not think so, either. It is true that the PE gap between=MSCI World and MSCI EM indices has been widening for two years now to well=above historical averages, 3.8 pts currently vs. a historical average of 2=7. This 3.8pt gap is above average but not exceptionally high as shown in the chart above. Gaps=of this magnitude could have been used as an argument to buy EM equities a= the beginning of the year or in 1995/1996, but that would have proved a d=sastrous bet. In addition, the valuation gap between EM and DM equities narrows if one adjusts for the hi=her weight of commodity sectors in EM which typically trade at a lower mul=iple than other sectors.

* This is not to say that value is not usefu=. We do believe that value combined with a positive fundamental change pro=ides a good reason to overweight a region or sector. And this is why we in=tead overweight Europe in our regional portfolio.

* Japanese equities have stopped outperfo=ming. We reduced our overweigh= in Japanese vs. EM equities in our model portfolio in this week*s GMOS. There is currently no policy impetus and the positive economic=news is largely priced in. In addition, CFTC spec positions on Nikkei are =rifting lower, suggesting that overseas investors have started taking prof=t on the Japanese equity trade.

Credit<=span>

* US Financials have outperformed Non=Financials recently and are now only 11bp wider in spread, close to the 8b= multi-year tight reached in May. We expect continued Financials outperfor=ance due to stronger fundamentals, the recovery in Europe, and the deterioration of some non-Fi=ancial sectors driven by commodity trends, competitive environment and sha=eholder friendly activity (CMOS, Eric Beinstein et al., Aug 9). We =re OW both US and European financials in our GMOS portfolio.

* In Europe, the improved economic ou=look and continued strong demand for quality spread product are strong pos=tives. At this point, we see more upside on our European growth forecasts =han in the US. In addition, as we argued in last week*s Flows & Liquidity, Who is driv=ng the great rotation?, Aug 2, US investors are moving from fixed inco=e into equities but we are not seeing this rotation in Europe, giving supp=rt for euro spread product relative to the US market. Euro spreads used to trade well below US spreads before the=great recession (see chart on the right) and with some form of normality r=turning to the Euro area, we think there is reason to believe that euro sp=eads will again trade well below US spreads.

Foreign=Exchange

* With US 10-yr yields side-winding around 2=6% for almost two months and FX volumes down to their typical August lows,=the dollar index is freefalling. The trade-weighted currency (JPMQUSD) has=declined for four of the past five weeks, and while moves have been inconsistent across pairs, =ome of this year's biggest losers (JPY, GBP, NZD, NOK, ZAR) have becom= this month*s biggest gainers. When the dollar was rallying in late spri=g it seemed unreasonable to expect the move to be so broad and persistent throughout 2013, since that view assume= that only the US economy would perk up in Q2/Q3. Instead, selective USD s=rength has been our message for months. Now that the dollar is collapsing =n a number of crosses, it also seems hasty to extrapolate. The baseline view this fall for a higher US= vs Asia and some commodity currencies (AUD, ZAR) is unchanged, even w=th better Chinese data. If China only manages to stabilize but US rates he=d higher this fall, commodity FX like AUD will probably decline.

* The euro and sterling have bounced 3% over=the past month, moves which are middle-of-the-pack globally but nonetheles= surprising given the forward guidance the ECB and BoE premiered or previe=ed on July 4. Since these banks were unveiling guidance in the context of economies exiting recessio= (Euro area) or sub-trend growth (UK), and since US rates seemed headed hi=her, our view then was that rate guidance would weaken EUR and GBP within =heir ranges but strengthen some Central European currencies like PLN. What explains EUR and GBP's rise= Growth surprises, mainly. More Euro area and UK releases than US ones h=ve been beating expectations since May, despite a few high-profile beats i= the US like Q2 GDP and PMIs/ISMs. And since bond markets tend to move as much on data momentum as they do on cen=ral bank policy, forward guidance may only be relevant once the consensus =evelops a more realistic view on European/UK growth, or until US data exhi=it more consistency. Unless we have seriously misjudged the likelihood of a US acceleration this fall as =iscal drag fades, or unless we have underestimated the ability of Europe t= deliver above-trend growth for a few quarters, EUR/USD and GBP/USD should=revert lower by a few cents but remain within this year*s range.

Commodi=ies

* We have been OW energy vs. base metals<=b> since early April on downside risk in China while we expected more upsi=e in oil, given tighter supply conditions and Middle East risk. This week =as brought two significant upside surprises in the Chinese economic data, trade and IP. Additionally,=our metals strategists expect an acceleration in physical metal demand fro= here due to better Chinese end user demand (see Metals Monthly: China likely to lift metals in 2H2013, Kaneva et al.= Jul 31). These two data points are not yet enough to create upside risk o= our Chinese GDP growth forecast, but they do remove a lot of the downside=and given that metal prices are close to production costs, we think risks are probably more balanced now. =ur position is up some 10% since inception and we now take profit. We also close our UW in base metals in our GM=S long/only portfolio, leaving us OW energy vs. precious metals.

* We open an outright long in energy in our long/short portfolio as we still th=nk there is some upside risk in oil from here given improving US and Europ=an demand coupled with significant supply uncertainty in the Middle East (=ee Commodity Markets Outlook and Strategy, Colin Fenton, Aug 8). Additi=nally, tight supplies in energy have caused spot prices to be persistently=higher than forwards, something we expect to continue. This backwardation =f the curve (downward sloping) is currently pricing a more than 1% a month return from holding the front =ontract and rolling down into the second each month. This equates to over =2% a year only in roll/slide.

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