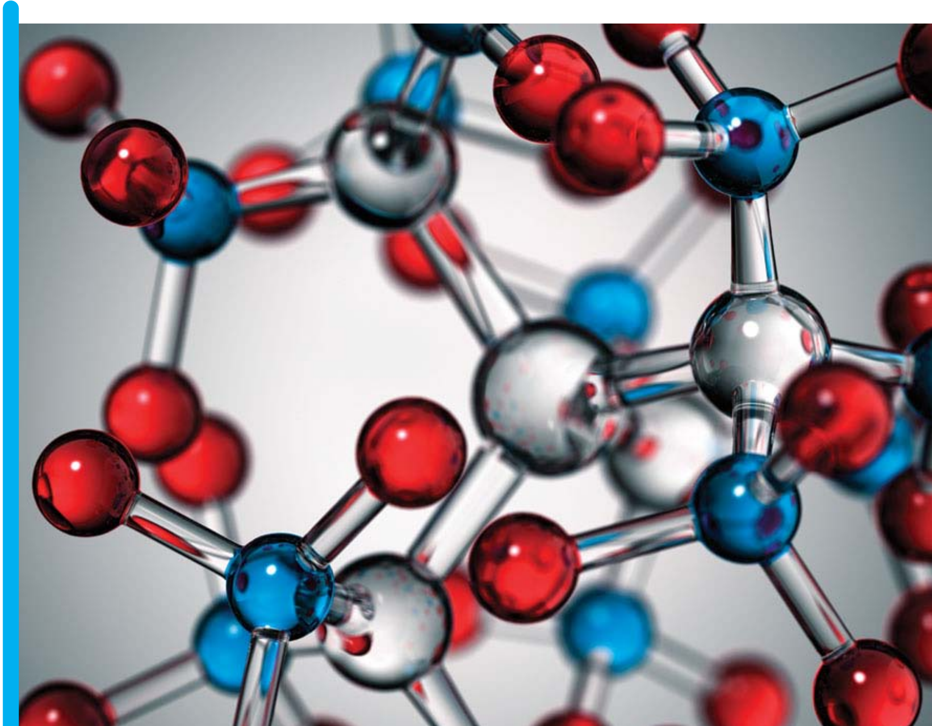
2013 Market Outlook



Funds and Advisory at Barclays | January 2013

Overview


Market
Risks
Our View
In terms of valuation, European equities cheapest in almost four decades; Domestic Chinese equities also very attractive
WTI's price likely to remain subdued as increasing supply from fracking continues
Weaker JPY and USD due to more aggressive easing compared to other countries
European fundamentals weak, expected to rebound. China uncertainty decreases and expected to resume expansion
More quantitative easing in both developed and emerging markets
Our Story
Long Chinese equity, particularly domestic market
European equity to outperform US
Medium-term safe assets could suffer
Markets likely to be vulnerable to event risks
Key Risks
Fiscal cliff/debt ceiling
Germany delays action on Spain & Greece
Lack of progress on structural reforms,
Developed Equities
European equities to outperform US
Pro-Fed stocks like housing, financials, manufacturing and consumers to do well
EM Equities
China to outperform India, neutral on rest of Asia and LatAm EM, no allocation to European EM
Developed Fixed Income
Long European peripheral debt
Favour long-term 30Yr UST over Medium-term 10Yr UST
EM Debt
Overweight local currency EM debt relative to hard currency debt

Funds and Advisory
2013 Market Outlook

Developed fixed income

European peripheral and US high yield bonds offer value

- Peripheral bonds in Spain and Italy offer attractive yields
- ECB and fiscal reforms to support peripheral bonds
- The hunt for yield should see money move into longer duration US Treasuries
- US high yield bonds will be a low volatility alternative to enhance yield

Developed equities

European equities undervalued compared to US

- US housing equities are attractive as mortgage rates remain low and home building surveys look positive
- Other sectors of interest include financials, manufacturing and consumers
- European equities are undervalued and will outperform the US
- Sentiment towards Europe is too bearish

Emerging market fixed income

Local currency emerging market debt attractive

- EM debt is a lower risk alternative to EM equities
- US investors see it as a suitable 'risky' investment
- Local currency debt looks more attractive as the US dollar weakens
- Loose Fed policy is likely to weaken the dollar further

Emerging market equities

Chinese equities will outperform

- Chinese equities are valued too cheaply
- New Chinese leadership will liberate the markets encouraging investment inflows
- China is likely outperform India and emerging Europe

FX and commodities

Crude falling, USD weakening

- JPY and USD is likely to weaken due to relatively more aggressive monetary policies in these two countries
- WTI price is under pressure due to increasing supply from fracking

Key fundamentals

- More quantitative easing in developed and emerging markets
- Valuation of European equity cheapest in four decades
- China expected to resume expansion
- Markets likely to remain volatile

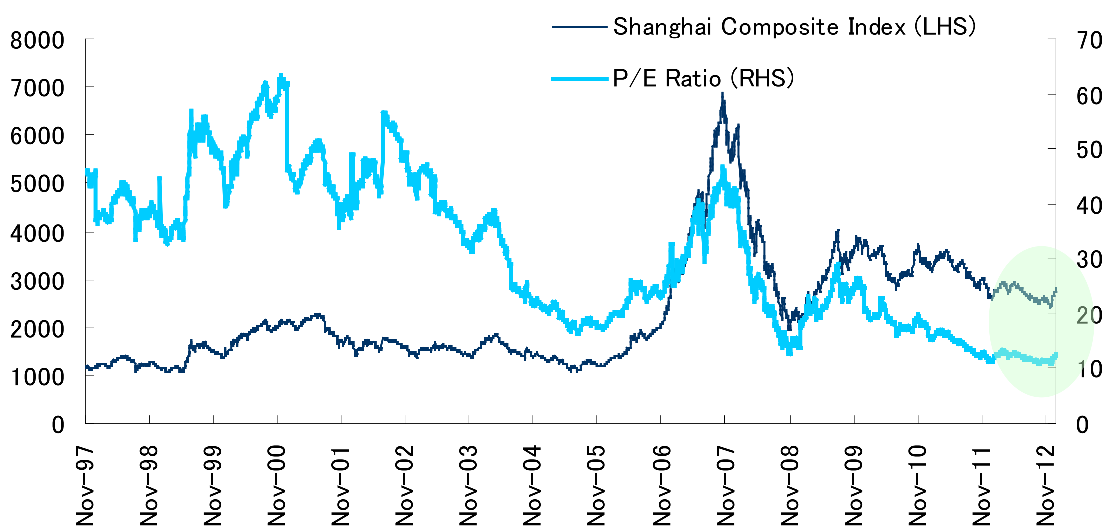
Key risks

- Ongoing discussion around the US ‘fiscal cliff’
- Lack of progress on European structural reforms
- German uncertainty on the position of Spain and Greece in the eurozone
- Weak external demand affecting Chinese growth

The Chinese growth story in 2013

- The average price/earnings ratio of Chinese shares is the lowest since 1999, cheaper than valuations at the bottom of 2008
- The Shanghai Composite has lost 52.8% since December 2007 as end of 2012
- Recovery has been slower than other EM countries due to restrictive domestic policy
- Chinese equities should respond strongly to market liberating measures introduced by the new leadership
- Renewed economic growth in 2013, driven by domestic demand

Attractive valuation of Chinese domestic equity market



Source: Barclays, Past performance is no indication of future performance.

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