HIGHLIGHTS OF THIS ISSUE

In this issue we look ahead and opine on the 2012 backdrop. We have been heavy proponents of a muddle-through for both our 2010 and 2011 outlook. No more.

- **E**xceptional Year**:** We believe this year will be a year of strong asset **trends**.
- **S**pecifically, we believe that the trend is up. We are thus **bullish** for **2012** and, against the current consensus, we would characterize ourselves as very bullish.
- **C**ontrolling Risk. Being bullish is not tantamount to being reckless. We also like **tail-event risk** trades, which, indeed, allow us to be structurally bullish.
- **A**dmittedly, the year starts with rock-bottom **sentiment** peppered with several cliff-hanger constraints: the Greek restructuring, the European recession, the Chinese economic landing, the US fiscal debate and the Iranian geopolitical face-off, among others. We believe most of the doomsday is priced in, while the cliff-hangers will be resolved or diplomatically postponed into another year.
- **Positioning** is heavily skewed to the downside, whether in underweight equity exposure, overweight safe-haven government paper, or short the euro, inter alia.
- **E**asy **monetary** policy globally is a key component of 2012 and still largely underappreciated. Moreover, easier —than 2011— **fiscal** policy is an additional positive kick to the cycle.
- Key for equities, real GDP for G7 countries is finally back at 2008 levels.
- **V**aluation and profit levels provide unequivocal downside support for global equities. The cycle and positioning render it a preferred asset class for 2012.
- **E**merging markets are again the 'promised land' in equities. Aside from the **BRICs**, which are the natural choice, demographics and the emerging consumer likely render **health care in EM** a preferred sectoral bet for 2012 and beyond.
- **L**iquidity enhancement and debt level improvements, attractive price levels and the promise of a stable housing market render the **US homebuilder** and related sectors very attractive. **Global large caps** continue to be a core defensive choice.
- **O**verweighing **core government bonds** as a safe haven allocation is now very expensive. **Senior European financial debt** stands out.
- **C**orporates vs. Sovereigns in **EM** and select sectors in **High Yield** are preferred.
- **I**n currencies, long **USD** is an occasional hedge, not a core position. We prefer long **EUR-CHF** and long **Asian FX** against the USD; we dislike the **GBP**.
- **T**urkish assets, by now, are a mystery to most. We think that the **Lira** is the key to the 2012 Turkish outlook. It will likely recover against dramatically split views.
- **Y**ellow (**gold**) is for trading; red (**copper**) is for keeps. **Commodities** on neutral.

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