



BNY Mellon

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Light at the End of the Tunnel: New Investment Themes for 2012 and Beyond

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New Investment Themes for 2012

- Four years after onset of Great Recession inception in 2007
- Current environment in September 2011
 - Containment of European contagion
 - Global economic deceleration in asymmetric world: EM versus developed markets
 - Washington political polarization infringing on U.S. fiscal rectitude and economic revival
 - Major policy making and regulatory uncertainty
 - Liquidity concerns
 - Geopolitical: wildcard factors
 - Inflation a concern still in EM; not so in developed market

Pronounced Capital Market Turbulence Mid-2011

Challenging Year: diminishing liquidity and capital commitments

“Risk/On/Off”: high volatility and correlation across asset classes

- FX: Flight-to-safe haven (Yen, Swiss Franc) and EM (Chinese Renminbi)
- Commodities: Precious metal bubble? Agriculture and Energy faltering?
- Equities: Lower economic growth = lower earnings growth
- Bonds: Lowest rates in six decades sharply limit total return potential
- Cash: Coping with 0% and lower rates
- Favored Asset Classes: Gold, investment grade corporates, high-quality, high yield, EM bonds, high-quality commercial real estate

2012 Outlook

Another year of sluggish growth, EM at risk of deceleration

Global economic growth stabilization, but more fiscal drag headwinds

Progress but not full resolution in Europe

Persistence of policy-making and regulatory uncertainty

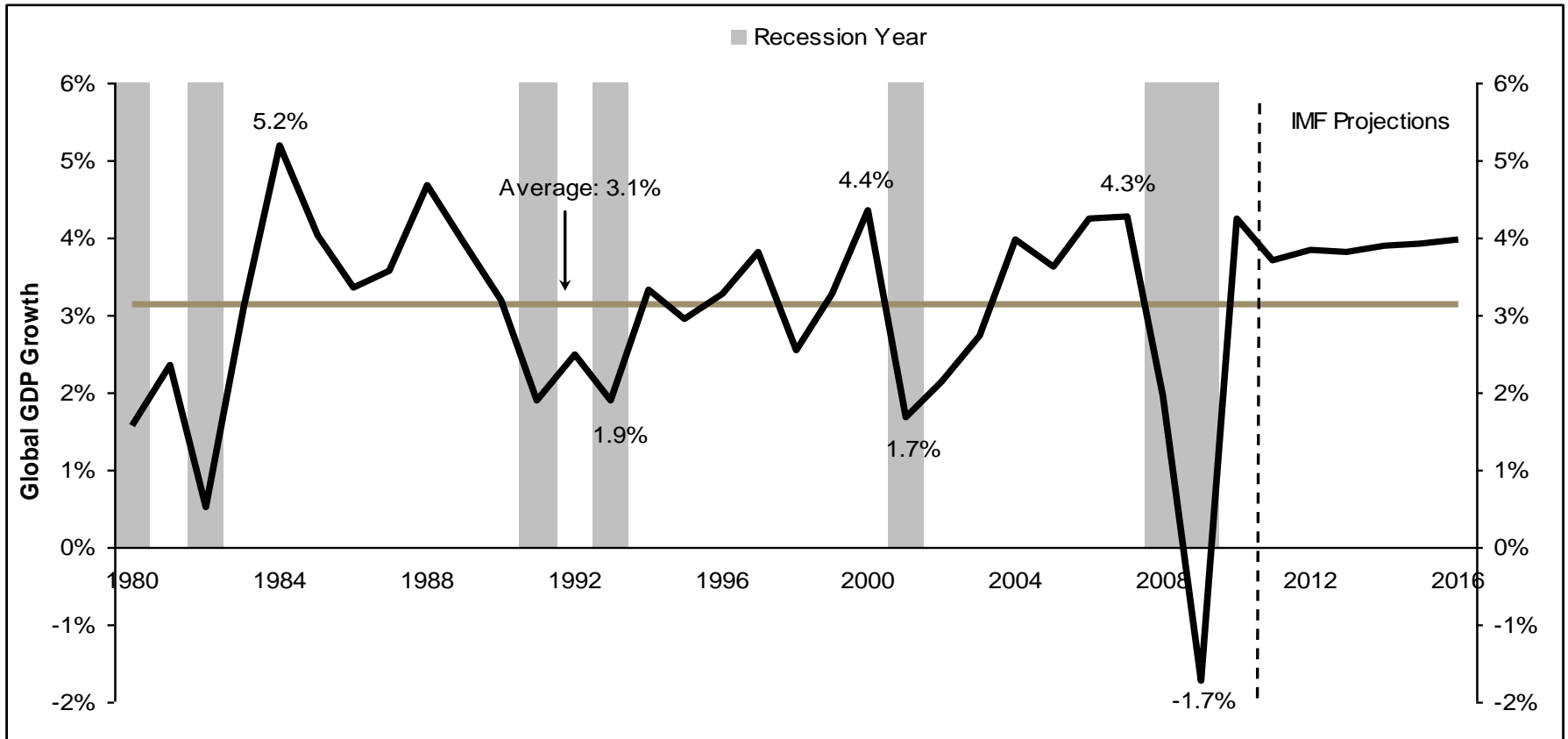
- FX: Asia and EM again favored, dollar drops further
- Commodities: Small climb, 5%-10%
- Equities: Positive year for high-quality high dividend firms, with P/E in 8.5X to 10X range
- Bonds: Potentially negative returns, if inflation on the rise; spread sectors sought over benchmark governments given extra yield
- Cash: Central Banks on hold frustrating income-seeking investors

Portfolio Management Ideas for 2012 and Teens

- Asset allocation “timing” on rise
- Relative value investing to benchmark to give way to absolute return emphasis
- Moving out the risk curve in pursuit of yield and return
- In search of dividend paying stocks – back to the ‘old days’
- Heightened search for new information advantages (new datasets)
- Equity market fragmentation and algorithmic trading questioned
- Toward a Bretton Woods III currency framework
- Consultant model of past four decades rethought
- Government regulation
- Liquidity: corporations, banks, consumers
- Weather importance

Global GDP Growth: 1980 to 2016

Strong Global Growth Preceded the 2007-2009 Great Recession:
V-Shaped Recovery Flattening Out in 2011

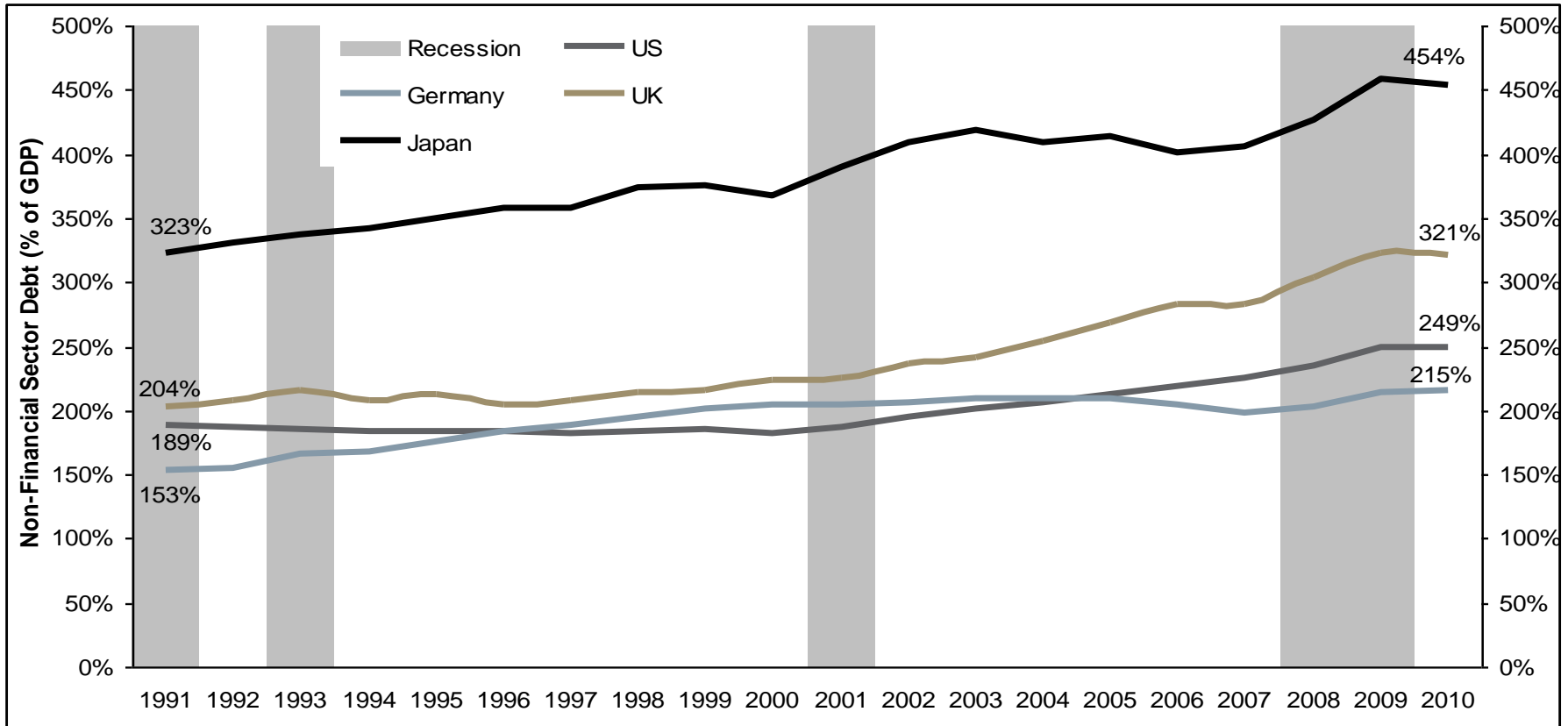


Recession Year: y-o-y world GDP growth less than 2%
Source: IMF; BNY Mellon Asset Management

“The Great Financial Deleveraging Begins”

Non-Financial Sector Debt (% of GDP): 1991 to 2010

Deleveraging is likely to Restrain Spending Growth

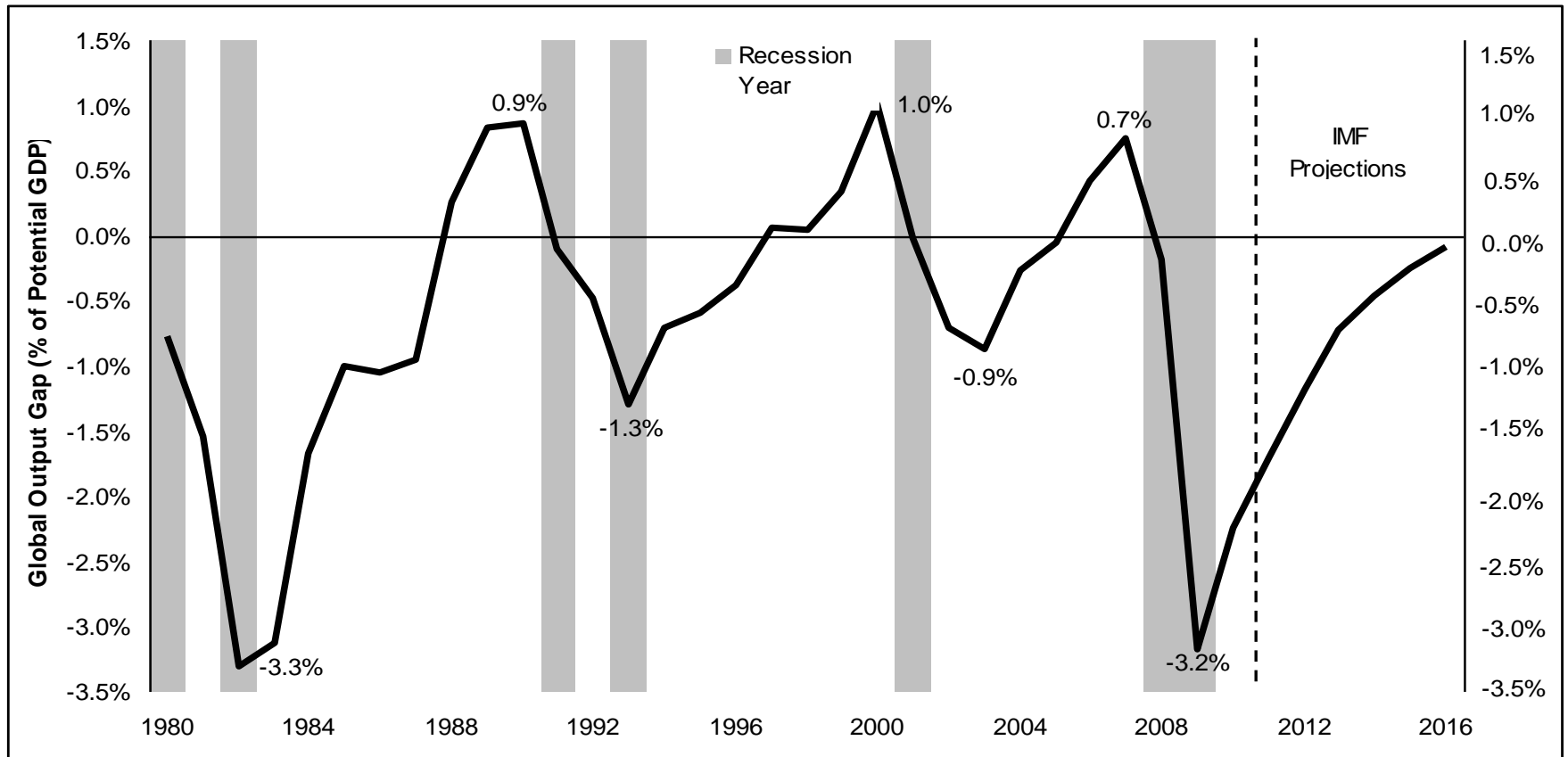


Recession Year: y-o-y world GDP growth less than 2%

Source: IMF; Bundesbank; Federal Statistics Office of Germany; U.S. Bureau of Economic Analysis; Federal Reserve Board of Governors; U.K. Office of National Statistics; Cabinet Office-Government of Japan; Bank of Japan; BNY Mellon Asset Management

Global Output Gap (% of Potential GDP): 1980 to 2016

Substantial Resource Slack to Keep Inflation in Check

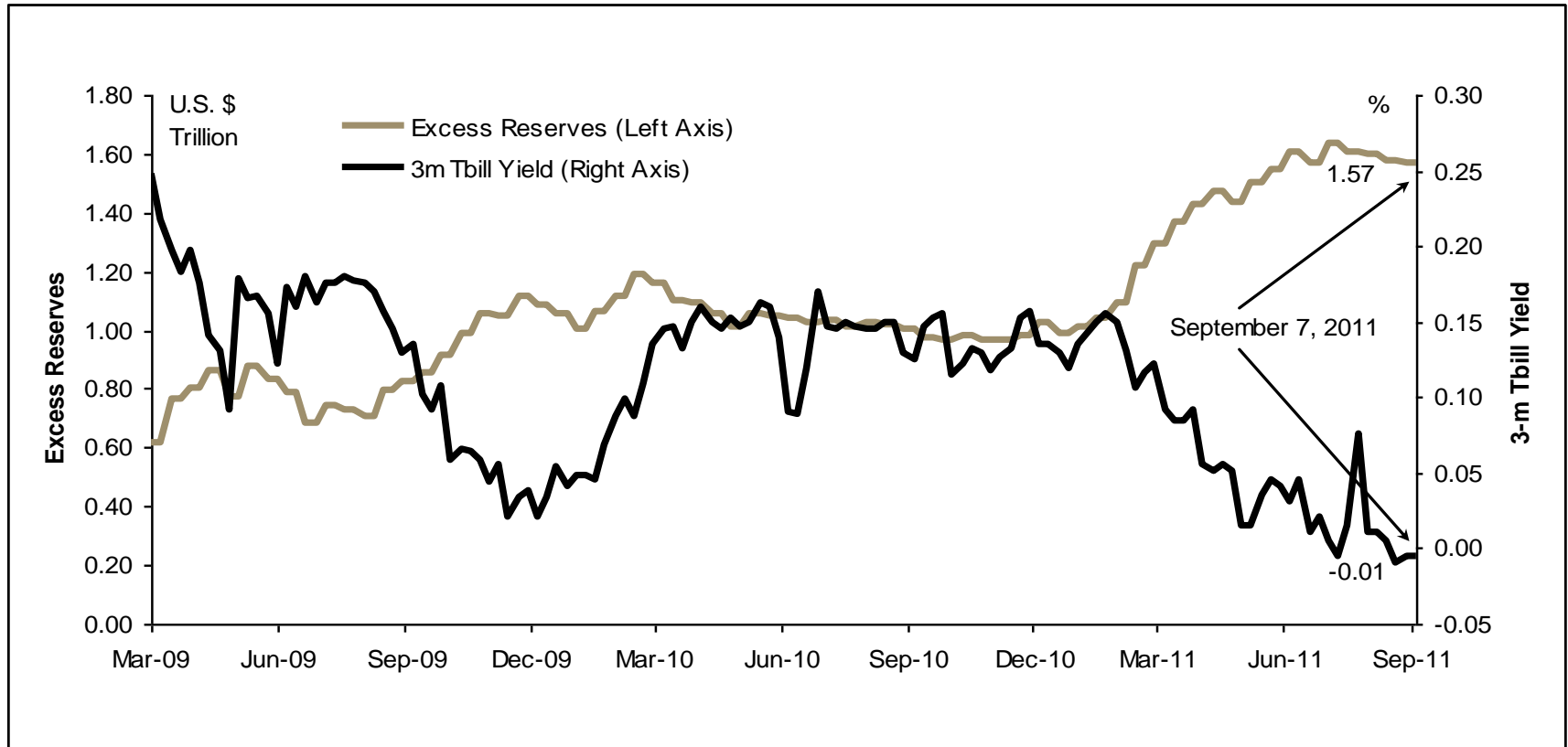


Recession Year: y-o-y world GDP growth less than 2%

Source: IMF; BNY Mellon Asset Management

Quantitative Easing

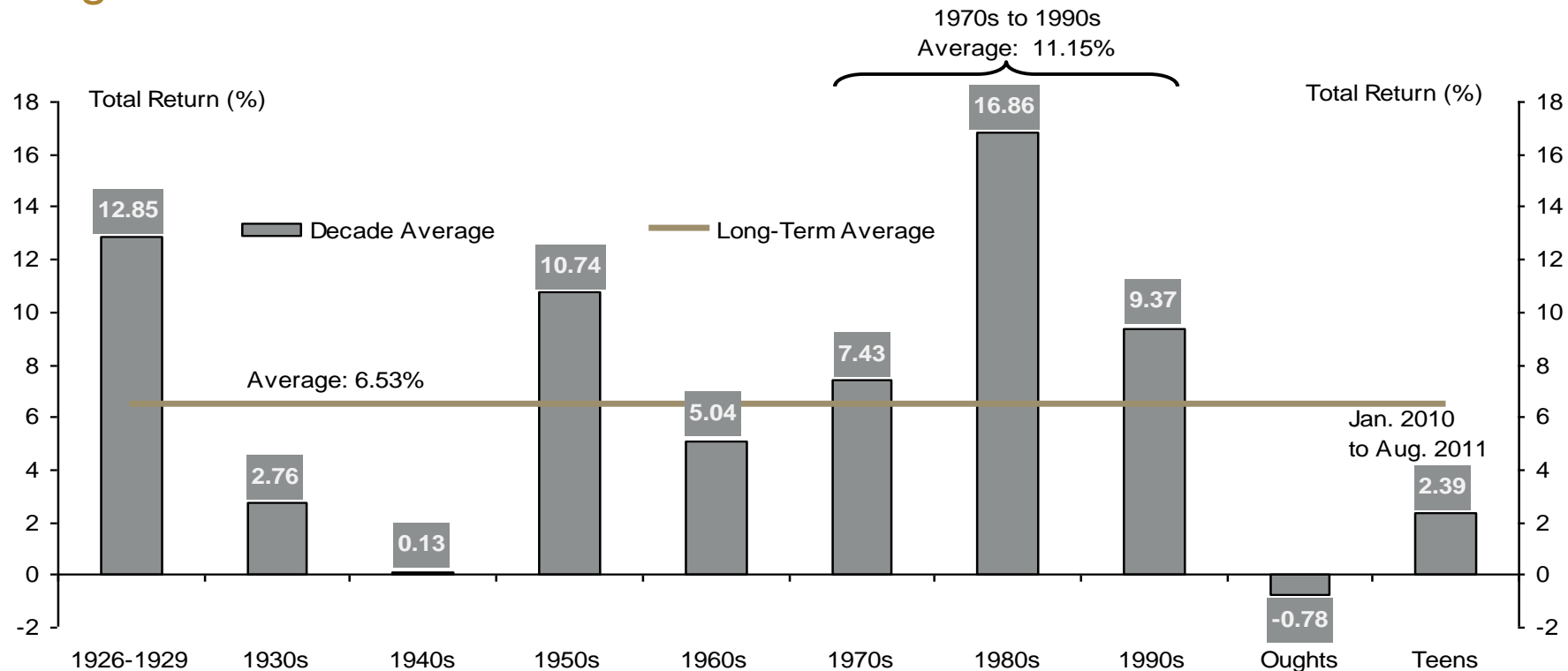
Excess Reserves of Depository Institutions in the U.S.: March 2009 to September 2011
Liquidity Flood May Propel Search for Yield



Source: Bloomberg; BNY Mellon Asset Management

Global Financial Asset Returns By Decade

Oughts Lowest in at Least Nine Decades



Periodic Compound Average Annual Growth Rates (%)

	<u>1926 - 1999</u>	<u>1946 - 1999</u>	<u>1970-1999</u>	<u>1990s</u>	<u>Oughts</u>
MSCI	9.64	11.19	12.11	9.09	-2.60
Multiverse Plus	4.84	5.56	9.22	8.08	5.86
GFA	7.64	8.75	11.15	9.37	-0.78

	<u>1950 - 1999</u>	<u>1980-2002</u>	<u>1950 - 1999</u>
MSCI	12.45	10.02	<u>Return/Stdev.</u>
Multiverse Plus	6.39	10.02	GFA
GFA	9.82	10.23	0.53

Source: Global Financial Data; OECD; MSCI; BNY Mellon Asset Management

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