INVESTMENT STRATEGY

April 13th 2010

April 10

Riding a strong tailwind...

Risky assets continued to perform well over the past few weeks. We believe the current backdrop for financial markets will continue to be favourable for risk appetite over the near term. The global economy is confirming that the recession is over, still very accommodative monetary policies ensure abundant liquidity and offer little return on cash, and firms are also restoring their profits thanks to past restructuring and the current stabilisation of revenue. Our portfolio therefore still has a "long asset" position financed by our cash underweight, which enables us to take advantage of the strength of equity, credit and commodity markets.

... while gradually reducing sail

Yet we believe this "idyllic" situation is artificial in some ways and cannot last long. To begin with, our macroeconomic scenario continues to foresee structural deleveraging in the developed economies. After the current cyclical boom, particularly in their manufacturing sectors, these economies may start running out of fuel in the second half of the year and see their growth rates slump back down. The high levels that leading indicators have reached over the past few months have made investors want to believe in a lasting and self-sustaining recovery scenario, but they may be disappointed when GDP growth rates start to slump. Starting in 2011, this structurally weak recovery is likely to be compounded by the need to reduce public deficits, which will penalize growth.

It should also be noted that although financial markets are still sanguine, risks are growing and sustainable solutions are lacking. The Greek crisis is symptomatic of this situation. Although we still think there is little chance that Greece will default in the near future, an emergency rescue plan will not provide a lasting solution to this sovereign debt problem. Similarly, global trade balances are undergoing turbulence that could have potentially hazardous financial consequences (such as the reduction of Chinese surpluses or euro-area governance issues) yet investors still seem to be paying relatively little attention to these risks.

We are therefore preparing for a significantly less buoyant environment when the second quarter ends or sometime this summer, by gradually reducing our exposure to risky assets. In April we reduced our overweight positions in developed equity markets, investment grade credit and oil.

ASSET ALLOCATION

Allocation decisions

- We are lowering our exposure to the riskier asset classes by reducing our positions in developed equity markets, IG credit and oil.
- Equities – Our positions in developed and emerging equity markets are now balanced (we previously had a relative overweight in developed).
- Bonds – governments bonds are still unattractive and we continue to prefer credit over the near term.
- Commodities – we like base metals and have trimmed our exposure to oil after its recent gains.

Developed equity markets

- Our largest shift was from the euro area to the US, in view of the latter's stronger business cycle.
- We are overweight in the UK market, given sterling's weakness and the market's exposure to global growth.
- Neutral in Japan and underweight in Switzerland, Canada and Australia.

Emerging equity markets

- Return to neutral in China
- Overweight in Korea and Taiwan
- Underweight in South Africa and Brazil

Typical diversified model portfolio – Institutional clients

The model portfolio holdings below are measured against cash and may be transposed into any other portfolio whether benchmarked or not.

MULTI-ASSET CLASS[1]

	Alpha	Current weight	Previous weight
EQUITIES			
Developed Equities	0.08	0.8%	1.1%
Emerging Equities	0.10	0.7%	0.6%
FIXED INCOME			
Government Bonds	0.00	0.0%	0.0%
Investment Grade	0.03	1.0%	1.4%
High Yield	0.06	1.1%	0.9%
COMMODITIES			
Brent Oil	0.05	0.2%	0.4%
Base Metals	0.05	0.5%	0.6%
Gold	0.04	0.3%	0.3%
Agricultural	0.03	0.3%	0.3%
Cash Euro		-5.0%	-5.6%
Module Total		0.0%	0.0%

PORTFOLIO STATISTICS

Target Ex-ante Volatility	1.00%
Real Ex-ante Volatility	0.71%

1-Hedged in Euro, 2-Local Currency

EQUITIES: DEVELOPED COUNTRIES[1]

	Alpha	Current weight	Previous weight
US	0.17	2.5%	2.1%
Canada	-0.02	-0.3%	-0.2%
Euroland	-0.15	-2.6%	-1.7%
Japan	0.02	0.1%	0.0%
UK	0.15	2.5%	1.8%
Switzerland	-0.09	-1.3%	-1.1%
Australia	-0.07	-0.8%	-0.8%
Module Total	0.0	0.0%	0.00%

BOND COUNTRIES SOVEREIGN [1]

	Alpha	Current weight	Previous weight
US	0.2	6.7%	6.6%
Euroland	0.0	-0.5%	-0.5%
Japan	0.0	-0.5%	-0.5%
UK	-0.2	-5.2%	-5.1%
Switzerland	0.0	-0.5%	-0.5%
Module Total	0.0	0.0%	0.00%

EQUITY EMERGING COUNTRIES [2]

	Alpha	Current weight	Previous weight
Brazil	-0.01	-0.5%	-0.4%
China	0.00	0.0%	-0.5%
India	0.00	0.0%	0.0%
South-Korea	0.02	1.2%	1.6%
Taiwan	0.01	0.5%	0.9%
Russia	0.00	0.0%	0.0%
South Africa	-0.03	-1.3%	-1.2%
Turkey	0.00	0.0%	-0.4%
Module Total	0.0	0.0%	0.00%

ECONOMIC OUTLOOK

Viewpoint

No change to our baseline scenario

Manufacturing still accounts for much of the recovery

The latest economic data does not make us more optimistic. Although the manufacturing recovery continues, it is taking much longer than in the past to spread to the rest of the economy in the developed countries. This pick-up in the demand for manufactured products is good for the major G7 exporters, such as Germany and Japan, but is keeping commodity prices high and has not yet boosted investment or employment. Given the very small improvement in hiring intentions, we expect the jobless rate to decline very slowly. According to the NFIB, a US association that represents small businesses (which account for half of private-sector jobs), employment did stop declining in March but small-business owners are showing no desire to resume massive hiring. The labour market may take even longer to strengthen in Europe, further sustaining high unemployment and weighing on consumer confidence and consumption. Developed countries such as Australia and Japan that have greater exposure to robust Asian demand are in a more enviable position.

Renewed optimism is a bit premature

The climate has changed. The strong bull run in equity markets since February no doubt explains much of the optimism in response to the most recent economic indicators. It is true that the negative factors that lie ahead (the economic slowdown, the explosion of public debt and the normalisation of refinancing operations) are taking a bit longer than expected to make themselves felt and the manufacturing cycle is resilient.

Solid growth over the near term...

There is still much inventory rebuilding to do, particularly in Europe and this could continue to support manufacturing growth over the near term. Furthermore, the major central banks are very slow to withdraw their exceptional measures to support bank funding and both the US Federal Reserve and the ECB are not planning to raise their policy rates. Lastly, although it would be unfair to say that governments are delaying the inevitable return to fiscal discipline for political reasons, the measures implemented to avoid another Great Depression and then to consolidate the recovery will not be withdrawn until the end of this year at least. Plunging the developed world back into another recession just to demonstrate fiscal virtue would certainly not be a good idea. Moreover, the countries that have implemented a fiscal discipline programme (Ireland, Greece and Portugal) have only done so under market pressure. The gradual transition toward a more restrictive fiscal policy worldwide does seem inevitable however and will limit growth.

...but a slowdown is coming

Consensus Forecasts: Growth & Inflation

	GDP y.o.y %									Inflation y.o.y %								
	2009	2010				2011				2009	2010				2011			
M= Mean; H= High; L=Low		M	H	L	-1M	M	H	L	-1M		M	H	L	-1M	M	H	L	-1M
Developed Economies																		
USA	-2.4	**3.1**	4.0	2.5	[3.1]	**3.0**	4.5	1.4	[3.0]	-0.3	**2.2**	3.0	1.5	[2.3]	**1.9**	3.9	0.5	[2.0]
Canada	-2.6	**2.9**	3.2	2.5	[2.7]	**3.2**	3.9	2.8	[3.2]	0.3	**1.8**	2.1	1.4	[1.8]	**2.2**	2.9	1.8	[2.2]
Euro zone	-3.9	**1.1**	1.7	0.6	[1.3]	**1.5**	2.6	1.1	[1.5]	0.3	**1.1**	1.5	0.8	[1.2]	**1.4**	1.9	0.8	[1.5]
UK	-5.0	**1.4**	2.2	0.8	[1.4]	**2.3**	3.4	1.2	[2.2]	2.2	**2.6**	3.2	1.8	[2.6]	**1.7**	3.6	0.3	[1.7]
Switzerland	-1.5	**1.5**	2.5	-0.4	[1.3]	**1.8**	2.8	0.9	[1.8]	-0.5	**0.8**	1.2	0.4	[0.7]	**1.1**	1.7	0.8	[1.0]
Japan	-5.2	**1.9**	2.6	1.0	[1.5]	**1.6**	2.7	0.7	[1.5]	-1.4	**-1.1**	-0.8	-1.6	-[1.0]	**-0.3**	0.6	-0.8	-[0.3]
Australia	1.3	**3.1**	3.8	2.3	[3.0]	**3.4**	4.1	2.6	[3.3]	1.8	**2.5**	2.8	2.2	[2.5]	**2.7**	3.3	2.3	[2.8]

Source: Consensus Forecasts as of 08/03/2010

ECONOMIC OUTLOOK

Developed economies

Robust growth early in the year

US private consumption remains solid for now

The 162,000 jobs created in March have sparked a lot of comment but the real good surprise is the rise in private consumption, despite poor weather and its negative impact on travel and shopping. We expect consumption to have grown at an annualised rate of 3% to 3.5% in the 1st quarter (after 1.7% in Q4). The robustness of consumer spending early in the year may be partly attributed to gift certificates received during the year-end holidays and which do not enter statistics until spent. The government's 787 billion dollar fiscal stimulus programme is also underpinning consumption by reducing cuts. We expect consumer spending to slow however over the next few quarters, since it does not look like employment (and therefore salaries) will be able to take up the slack any time soon.

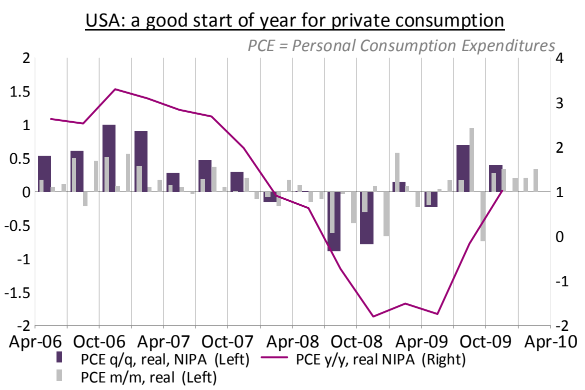
Except for a possible near-term pick-up, the euro-area economy is sluggish

In the euro area, the GDP estimate for the 4th quarter was lowered. Private consumption was flat, GFCF continued to contract, inventories made a modest 0.1 pp contribution to growth and net exports added 0.3 pp. Moreover, the rebound in the IFO business climate index reflects German business confidence in the outlook for exports. According to the European Commission's survey, business sentiment has improved throughout the euro area. However, the services and retail sectors and consumer confidence are still near historical lows. Although the manufacturing rebound could continue and spark a recovery in investment that would temporarily boost growth, the other areas of the economy show no signs of improving. After a very disappointing fourth quarter, the euro area is bringing up the rear among the major developed regions.

Central banks are not in "tightening" mode. Normalisation has barely begun

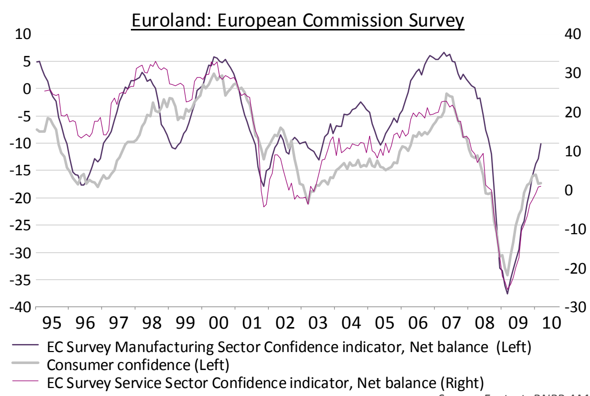
Given the lack of durable inflationary pressure, we are likely to see the refi rate remain at 1% for quite some time and unconventional monetary measures will only be withdrawn when the ECB is certain that this will not destabilize the interbank market. The BoE has also decided to maintain the status quo as the upcoming elections draw near, and has been careful not to make any explicit comments. An increase in the asset purchase programme, from 190 billion GBP at end-2009 to 200 billion, remains a possibility. As for the BoJ, although its most recent statements give the impression that it wants to assert its independence from the government, it has left the door open for measures to support credit.

USA – consumption is solid early in year



Source: Factset, BNPP AM

Euro area – manufacturing boosts confidence



Source: Factset, BNPP AM

ECONOMIC OUTLOOK

Emerging markets

Overall growth rates are revised upward

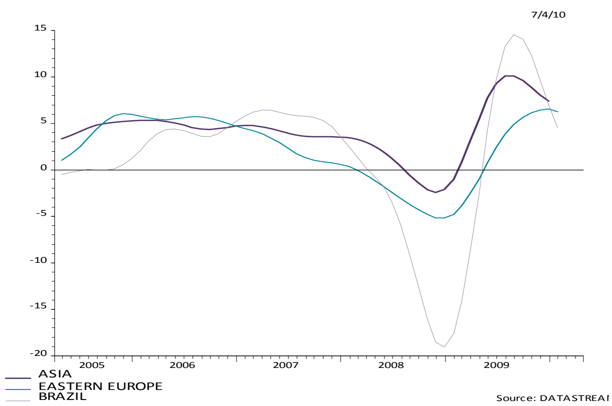
Strong growth is expected for the second quarter of 2010

Emerging economies are gathering momentum and so are inflationary pressures. The purchasing manager indices of the major emerging countries are tending to stabilize at very high levels and the sharp rise in the US ISM index is a good early indicator of rising exports. We therefore expect robust growth in the second quarter of 2010. However, higher energy and food prices are putting upward pressure on inflation in many Asian countries. Inflation is also being fuelled by excessive liquidity and upward pressure on wages from strong labour markets (particularly in China and Brazil).

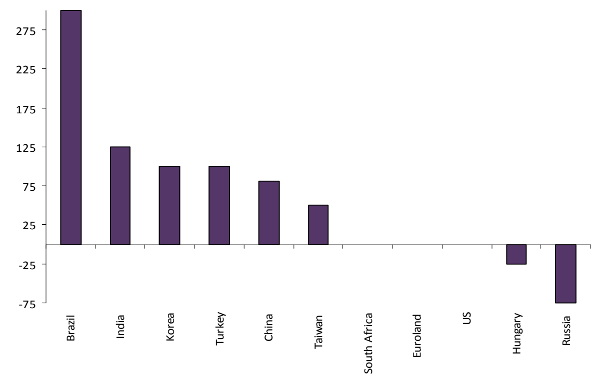
China becomes a net importer in March

Despite the general consensus that most emerging countries would start tightening monetary policy in the first quarter of 2010, very little has been seen yet. The main changes in policy interest rates have occurred in Emerging Europe and Africa, where inflation has subsided. As a result, real interest rates are negative in most emerging countries. Asian economies are particularly reluctant to raise interest rates. For example, when India became one of the first countries to raise its policy rates this attracted an influx of foreign capital that caused the rupee to strengthen and consequently exports to drop. This is a dilemma that many emerging central bankers must face. The interest rate gap caused by early monetary tightening in Asia may exacerbate these capital flows, thus strengthening their currencies considerably and effectively tightening their monetary conditions.
The Chinese trade balance showed a deficit in March for the first time in six years, despite the global recovery. This reflects vigorous domestic demand that is becoming a major component of growth, which for the 1st quarter is estimated at 11.5%. This may also be attributed to the government's desire to reduce the trade surplus and thus alleviate international pressure to revalue the yuan. Even though the abandoning of the yuan's effective peg to the dollar will eventually help bring the global economy back into balance, authorities will not act until they are certain China's economy has stabilised and probably sometime this summer.

Output growth momentum slows



Expected changes in policy interest rates in 2010 (in basis points)



BOND MARKETS

Government bonds

Pressure on US yields

Greece is still the euro area's main concern

The relatively upbeat tone of recent economic statistics has put some **upward pressure on governments bonds and on US yields in particular**. Although the economy has indeed improved, we do not believe this will be sustained, although we do exclude the possibility of a major recession relapse. We have also observed less enthusiasm at bond auctions, particularly from foreign investors. This theme, which we have already mentioned, is rather complex and depends on non-economic factors. For the time being, **we do not believe the dollar will be abandoned** and therefore that foreign demand for US securities will collapse, even though foreign investors are seeking more geographical diversification. The ultimate impact on yields will be limited, since downward pressures resulting from weaker growth and very low core inflation will be offset by expectations of higher policy rates later in the year.

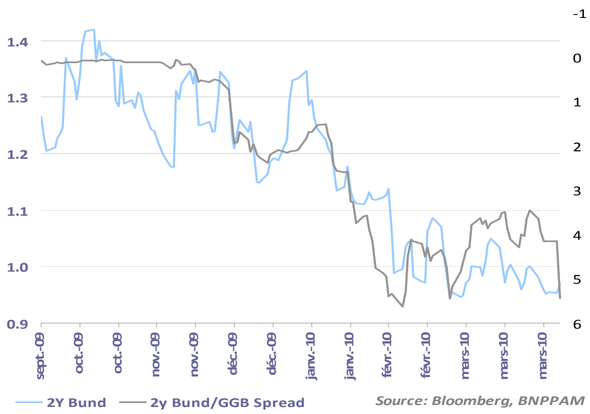
European government bond markets are affected by other factors. In the euro area, **all eyes are on Greece's tribulations**, with speculation and official statements pushing spreads up to new highs. Confirmation of a joint aid package from the other EU member states and the IMF should calm things down a bit, even though the problem is far from solved.

This has clearly affected German bund yields, whose decrease mirrors the rise in Greek spreads. As a result, the spread between US T-notes and bunds seems far too wide on the basis of current fundamentals. It is not easy to take advantage of this however, particularly since we do not favour US bonds over the medium term.

We continue to prefer the US to the UK

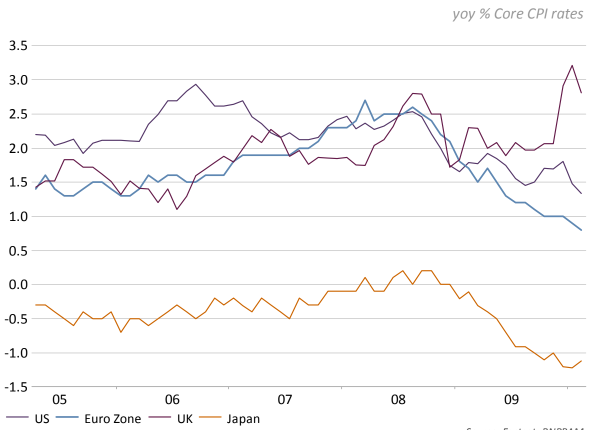
We have renewed our near-term position in favour of the United States and against the United Kingdom. The UK's fiscal situation in the run-up to the highly uncertain outcome of the upcoming elections and the issuance scheduled for the coming weeks suggest that gilts will underperform.

Greek crisis affects bunds



Source: Bloomberg, BNPPAM

Core inflation continues to decline



Source: Factset, BNPPAM

BOND MARKETS

IG and HY credit

The market is doing well but…

Environment is favourable for credit, but some problems still remain

The credit market continued to strengthen over the past few weeks, pushing spreads, and also yields, to new lows. This may be attributed to the general improvement in fundamentals and the economic recovery. The Federal Reserve's quarterly Flow of Funds report confirms that the general trend for non-financial firms is higher earnings and less debt. These factors are still supporting credit. **For now we expect this market to continue to attract investors** looking for yield, something that is becoming increasingly difficult to find at current levels. Although this could push demand toward lesser rated paper over the near term, it also heightens investor discrimination.

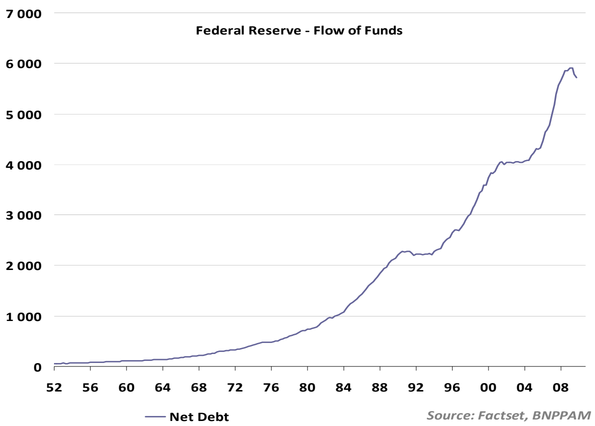
Although the scenario of sluggish growth is a good compromise between earnings and deleveraging, there is still much uncertainty as to whether growth can be sustained after the acceleration we are currently seeing. Furthermore, many problems stemming from the financial and economic crisis are far from being resolved and any disruption to the economy, the financial system or sovereign debt risk would of course be bad for credit, as it would for any other risky asset.

HY issuance is at record levels

From a technical perspective, **investment flows to high-yield funds continue to rise** and to finance the many new bond issues. Indeed, the latter have reached record levels without this apparently weighing on the market. This once again shows that investor appetite for credit risk is not weakening. We therefore intend to take advantage of these trends while knowing that they may reverse relatively soon and that the potential return is no longer that attractive relative to risk anyway.

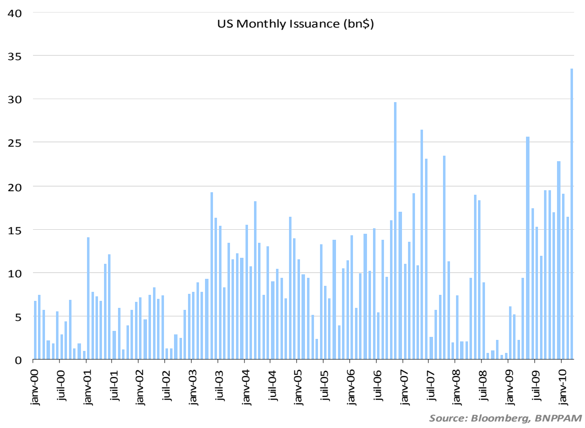
We therefore are maintaining our small overweight in the credit market, by shifting a small bit of our IG allocation to high-yield issues, which offer a higher carry yield.

Net debt has decreased



Source: Factset, BNPPAM

HY issuance near record levels



Source: Bloomberg, BNPPAM

CURRENCY MARKET

Stronger near-term euro and weaker long-term yen

Greece still casts shadow over euro

The EUR/USD exchange rate has moved erratically in reaction to news about Greece, economic statistics and monetary policy expectations. For example, Angela Merkel's statement before the German parliament on the possibility of excluding a country if it fails to meet euro-area criteria contributed to the euro's fall back below 1.35, after its recovery to above 1.38 on March 17 subsequent to the FOMC's confirmation that the fed funds target would not be raised right away. Concerns about Greece's situation, discordance between European leaders and uncertainty about the rescue plan until early this month have all weighed on the euro. Traders were ultimately reassured however and pushed the exchange rate above 1.36, from below 1.33 on March 25. **We believe the euro may continue to strengthen over the coming weeks** as fears about European sovereign debt risk dissipate. Its appreciation will remain limited however. In the second half of the year, we expect the dollar to recover on the strength of the US economy's growth-gap advantage.

Toward a welcome depreciation of the yen

The yen's decline, which began on March 24 and brought USD/JPY to a year-to-date high of almost 95 in early April, is in response to the ministry of finance's desire and the Bank of Japan's decision to double the 0.1% emergency 3-month credit line to be made available to banks. Early in the month, the BoJ also revealed that it was increasing its budget for currency market intervention to 145 billion yen. The yen has a good chance of declining further, albeit certainly at a slower pace than over the past few weeks (-6.5% from early March to early April). **Toward the end of the year**, we expect the interest-rate differential between Japan and the other major countries to **trigger a resurgence of yen-financed carry trades**. Indeed, given the ongoing threat of deflation, we think the BoJ will maintain its highly accommodative monetary policy for quite some time, and perhaps even intensify it.

Outlook looks good for CAD and AUD, but not for sterling

CAD and AUD strengthen. These "growth" currencies could continue to benefit from robust global demand, high commodity prices and attractive valuations. In contrast, the British pound may suffer from the uncertain outcome of the election on May 6.

FX Rate Forecast Summary (Major Currencies)

End of Period		2009	09-Apr-10	2Q 2010 Min	2Q 2010 Max	3Q 2010 Min	3Q 2010 Max	4Q 2010 Min	4Q 2010 Max
USD Block	EUR / USD	1.43	1.3395	1.35	1.40	1.33	1.38	1.30	1.35
	USD / JPY	93	93.72	95	100	95	100	100	105
	USD / CAD	1.05	0.9997	0.95	1.05	0.95	1.05	1.00	1.10
	AUD / USD	0.90	0.9310	0.87	0.92	0.85	0.90	0.85	0.90
	GBP / USD	1.61	1.5377	1.50	1.60	1.55	1.65	1.55	1.65
	USD / CHF	1.03	1.0707	1.07	1.11	1.08	1.13	1.11	1.15
EUR Block	EUR / JPY	134	125.53	131	138	129	136	133	139
	EUR / GBP	0.89	0.8711	0.85	0.90	0.83	0.88	0.83	0.88
	EUR / CHF	1.48	1.4342	1.47	1.53	1.47	1.53	1.47	1.53

Source: BNPP AM as of 9/4/2010

EQUITY MARKETS

Developed markets

Slight overweight as market conditions remain buoyant near term

The current cyclical rebound is still supportive…

…but won't last long

The continued improvement in leading indicators, which are near historical highs, confirms that output growth is likely to be robust in the first two quarters of 2010. Yet some very early indicators, such as the ECRI's, are beginning to foresee a slowdown in the second half of the year. Although we do not expect a relapse into recession, the medium-term outlook for growth is still dimmer than it was during the past decade, due in large part to the fact that governments and consumers must wind down the large debts they have accumulated. The increase in fiscal pressure (i.e. less public spending and higher taxes) will no doubt begin to offset the exceptional measures taken to stimulate the economy. Furthermore, the factors currently supporting the manufacturing rebound –particular inventory rebuilding and some indispensable investments that had been postponed before the crisis– are likely to start fading away in the second half of the year.

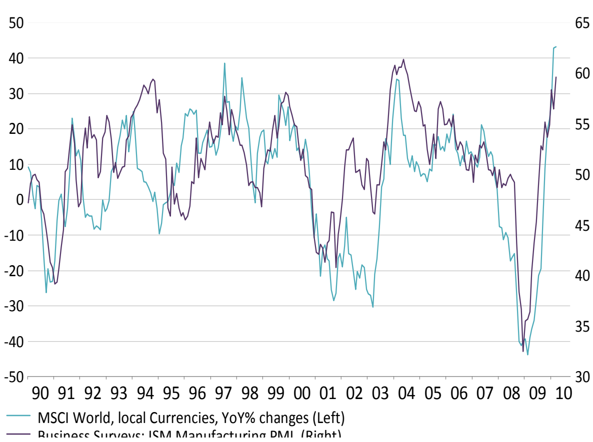
Earnings growth forecasts continue to provide near-term support to the market….

Against the current background of robust cyclical recovery, still buoyant earnings growth forecasts and revision momentum continues to be one of the equity market's main supports. Although the forecast of 30% earnings growth for the S&P 500 index in 2010 seems realistic –given the base effect and the cyclical rebound– we are more sceptical about the 20% growth expected by these same bottom-up analysts in 2011. Indeed, future fiscal tightening is likely to gradually weigh on sales and there is less and less potential to improve operating margins any further.

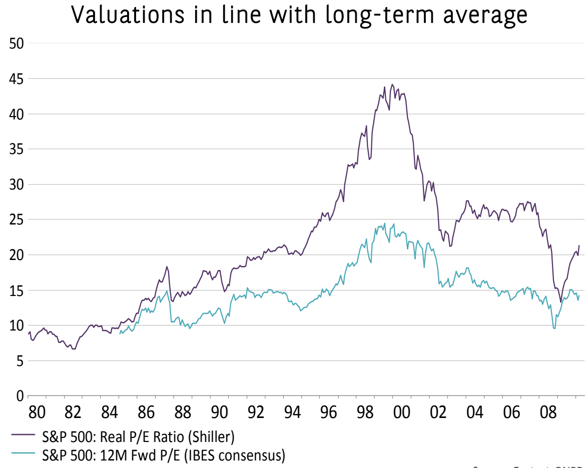
…and valuations are still reasonable

In absolute terms, equity valuations are near their long-term average. Compared to other asset classes, equities seem to be a bit more attractively valued. Overall, current equity valuations are therefore not yet a burden. Nonetheless, when investors begin to focus more on growth prospects for 2011 and beyond, these valuations may appear to be less reasonable. These considerations are still a bit premature for now however.

ISM manufacturing and MSCI World indices



Valuations in line with long-term average



Source: Factset, BNPP AM

EQUITY MARKETS

Developed markets

Although investor sentiment surveys have yet to show extreme levels of optimism, we are closely monitoring their recent strengthening, particularly since some indicators (VIX and Put/Call ratios) are already sending a caution signal. Longer term trend indicators continue to be favourable, but recent equity market gains have been made under light trading.

Further gradual reduction of equity exposure

In conclusion, our outlook for developed equity markets for the next few months is still positive, in consideration of the recovery in economic activity and earnings, still reasonable valuations and the lack of monetary tightening by the Fed and other major central banks before 2011. However, since the stock market rally is over a year old, we expect equity markets to at least consolidate around the middle of the year as investors anticipate slower growth and, to a lesser extent, fiscal and monetary tightening in 2011. With this in mind, we continue to gradually reduce our exposure to equities.

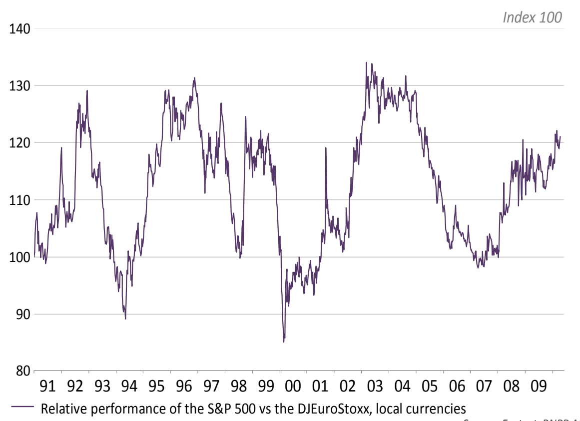
Our main relative bets continue to be the US and UK against the euro area, due to concerns about fiscal consolidation

We still prefer the US market, which is enjoying a solid industrial recovery, a sharp rebound in the earnings outlook (although the dollar's appreciation could dampen this a bit) and still accommodative monetary policy. We are also overweight in the UK, despite the fragility of its economy, given the weak pound's positive impact on exports and earnings and the BoE's expansionary monetary policy. In contrast, we are still a bit wary of the euro-area market. Despite the latter's relatively attractive valuations, its exposure to global trade (particularly Germany) and the weaker euro's favourable impact on earnings, the dim outlook for domestic growth and concerns about fiscal consolidation are likely to continue to weigh on this market. We are maintaining a neutral position in Japan in light of its deflationary environment. However, fiscal stimulus, exposure to Asia, the yen's recent weakening and upward revisions in earnings forecasts will support the market over the near term.

MSCI World 200-day moving average

Source: Thomson Datastream

S&P500 vs. EuroStoxx



Source: Factset, BNPP AM

EQUITY MARKETS

Emerging markets

Trend is upward for interest rates...and equities

Technical factors and valuations suggest somewhat better prospects

Emerging markets now in line with developed. The underperformance of emerging relative to developed markets, in local currency terms, and slightly higher earnings forecasts have increased the relative appeal of emerging equity markets. The earnings growth forecasts for these markets for 2010 and 2011 are 30.4% and 17.9% respectively, while P/E ratios are 12.6 and 14.3. This is interesting since emerging markets offer a higher return on equity than their developed counterparts. This situation has encouraged us to raise our exposure to emerging equities slightly, making it equivalent to our developed market position. Technical factors are also very supportive. Both trend and sentiment indicators are positive, while greater certainty about the economy continues to increase investor appetite, which may be seen by the large flow of foreign funds into emerging markets.

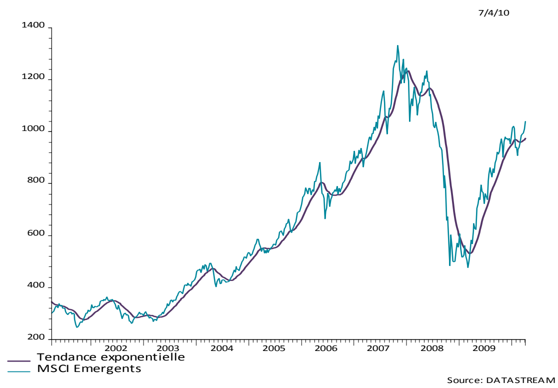
The return of inflation and the normalisation of interest rates will lower valuation multiples

Inflation and interest-rate normalisation are main obstacles. The emerging economies will offer much greater economic growth and momentum than the developed countries in 2010 and 2011. Inflation is back already, mainly as a result of the 100% rebound in commodity prices. In response to this, some central banks have already started to tighten (India, Malaysia, the Philippines and Israel) and others will follow. As for China, government authorities have preferred to apply administrative measures, since the yuan's peg to the dollar reduces the effectiveness of higher interest rates. These measures explain the underperformance of Chinese equities and our more cautious attitude toward this market since the end of 2009.

Higher input prices and interest rates will of course starting chipping away at profit margins, reduce earnings growth and the risk premium, and ultimately lower valuation multiples. The earnings revision ratio is already declining and is approaching 1. Furthermore, the current phase of monetary tightening has historically been unfavourable to market performance.

Emerging discount now less justified in light of strong fundamentals

Emerging market trend again positive



EQUITY MARKETS

Emerging markets

Cyclical caution, but structural optimism

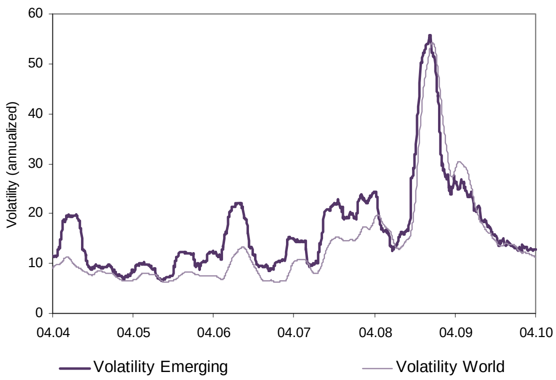
Discount still justified despite strong growth and good fundamentals. The MSCI Emerging Asia index (in USD) is approaching a major resistance level. Judging from fundamentals and the outlook for growth, this level will no doubt be breached, but not until the second half of the year. By then, the interest rate tightening cycle will be well underway and equity prices will reflect this fear. Furthermore, excess production capacity in Asia can justify no more than a normalization of interest rates, which will still preserve abundant liquidity. But even more importantly, the yuan will have abandoned its peg with the US dollar and resume its upward trend within a tight trading range that should reduce the currently very high risk premium in Asia and improve performance in USD terms.

On a purely structural level, the discount of the emerging relative to the developed markets will no longer be justified since the stabilization of inflation and stronger macroeconomic fundamentals will lower interest rates and strengthen currencies. Robust corporate earnings and low debt-to-equity ratios should justify higher multiples. Lastly, given the size of the emerging world's output (31% of global GDP), their populations (70% of the global total) and their potential for strong growth (5.5%), they should account for more than only 14% of the MSCI World index.

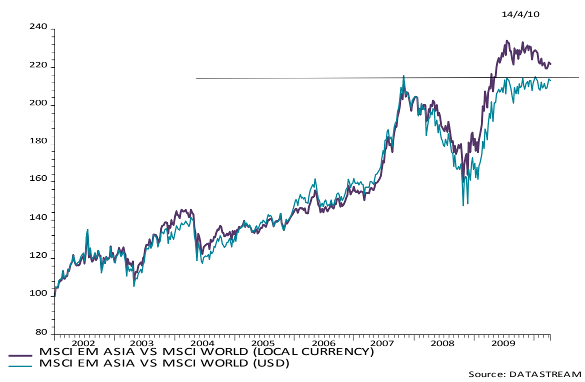
Few significant relative bets. Back to neutral exposure to China

Back to neutral in China, but underweight in Brazil is maintained. Since there has been little difference between returns in the major emerging markets in USD terms, we have made few changes within our emerging market portfolio. This may be attributed to the major role that exchange-traded funds (ETFs) play in emerging markets. We have increased our exposure to China to neutral. After several months of underperformance, valuations are once again attractive, while technical indicators and the economic outlook are now positive. Administrative measures have stabilized over-investment and drained liquidity, while domestic consumption remains robust and will strengthen further when the yuan is revalued. We have also increased our exposure to Turkey from underweight to neutral. Fears of a political crisis after the arrest of certain military officers have proven to be unfounded.

MSCI World as volatile as MSCI Emerging



MSCI Emerging Asia vs. MSCI World



ALTERNATIVE STRATEGIES

Commodities

We maintain our overweight

Oil and base metals have returned to 2008 highs

The past few weeks have seen the price of crude oil rise to a new high of more than $85 a barrel. After macroeconomic concerns in the wake of the Greek sovereign debt crisis, investors were reassured about the demand for oil products as data was very strong in emerging Asia and encouraging in North America. However as US oil imports are gradually returning to their usual level, oil inventories remain high and OPEC still has considerable spare production capacity. Since this is likely to limit the upside in prices in the near term **we are reducing our overweight position**.

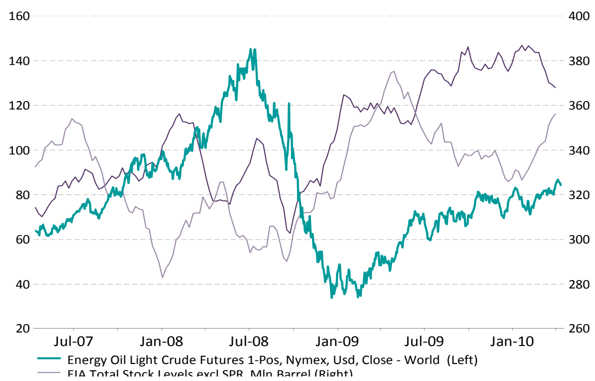
We are maintaining our overweight in base metals, which should continue to benefit from very strong physical demand, as manufacturers rebuild their stocks and fiscal stimulus plans strongly support the demand for construction materials. This demand has resulted in decreases of metal inventories, both in advanced economies and in non-OECD Asia. Although some metal prices are starting to seem a bit high relative to stock levels, we expect the price trend to continue to be positive as long as global demand remains firm.

Investors continue to like gold

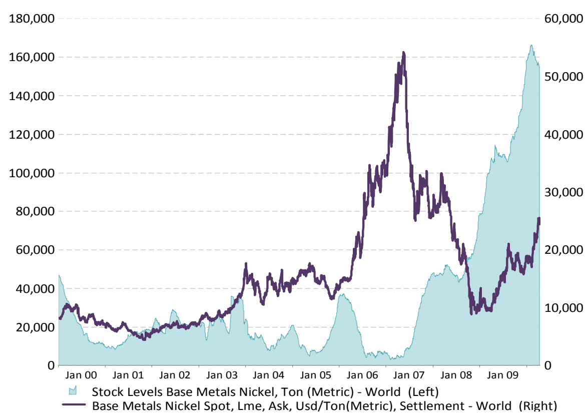
Since a relatively small amount of gold demand comes from industrial uses, the yellow metal fails to benefit from the manufacturing rebound as much as the more cyclical metals. Gold has also had to face heightened competition as an investment vehicle from the platinum group metals. Considering these factors, it is interesting to note how resilient the physical demand for gold is, even though the yellow metal is reaching record prices. The dollar's recent stabilization and the still favourable monetary environment should mean a "sweet spot" for gold that will enable further near-term gains. **We are therefore maintaining an overweight** in gold and other precious metals.

As for grains, although medium-term fundamentals are still favourable (particularly the expected increase in the demand for biofuels as oil prices rise), this market continues to be depressed by the large harvests of the past few years, which have brought grain stocks back up to comfortable levels. **We are maintaining a small overweight position**.

Refined product inventories down, crude oil stocks up



Metal stock levels now declining



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