Global
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The 3-2-1% Rules

Research Investment Committee
MLPF&S

Michael Hartnett
Chief Global Equity Strategist
MLPF&S

Kate Moore
Global Equity Strategist
MLPF&S

See Team Page for Full List of Contributors

The RIC believes asset prices will be higher in 12 months

We believe the ongoing global mix of easy monetary policies, low but positive economic growth and light investor positioning in risk assets suggests the primary trend for financial markets over the next 12 months will continue to be up. By year-end 2012, BofA Merrill Lynch Global Research strategists expect gold prices to rise to $2000/oz, the S&P 500 to reach 1450, and investment grade and high yield bond spreads to narrow by roughly 50bp. Negative returns are expected only in US Treasuries, where the 10-year yield is forecast to rise to 2.3%.

But "Bad Goldilocks" constrains near-term upside

The RIC's short-term view remains "Bad Goldilocks". The 2Q backdrop is neither "cold" enough to provoke the fresh bout of Quantitative Easing that many risk assets so cravenly desire, nor "hot" enough to provoke losses in fixed income markets and inspire a rotation out of bonds and into equities and commodities. Our advice to individual investors in the short term is twofold: 1) Maintain overweight positions in our favored themes of Growth, Yield and Quality; 2) Wait for a better entry point into markets before raising allocations to equities and commodities.

The 3-2-1% Rules

Stepping away from the very short-term view, the RIC would like to frame three scenarios that would affect asset prices in coming quarters and years. In short:

- **The 3% Rule says Buy the Lows.** 3% economic growth would cause US Treasury yields to rise towards 3%. In this scenario, out-of-favor equities, banks, Value stocks, and European assets would outperform.
- **The 2% Rule says Buy the Highs.** 2% economic growth that is accompanied by greater policy stimulus will likely mean low, stable bond yields and a further extension of the narrow bull markets in growth, yield, and quality. US Tech, global best of breed stocks, high yield credit, and EM debt will remain market leaders. Note that this view aligns most closely with the RIC's base case.
- **The 1% Rule says Buy the Vol.** 1% economic growth that causes the US to flirt with a new recession would lead to higher volatility. Investors should shift into a defensive asset allocation that is overweight Treasuries, gold, and defensive equities.

Actionable investment ideas

This month we highlight several new ways to play our favored themes of Growth, Yield and Quality, including telecom equipment companies, RF semis, Korean stocks with global growth exposure, gold miners, and energy stocks levered to oil.

Click the image above to watch the video.

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April 2012 review

Less than stellar macro data and continued stress signals out of Europe led to cautious investor sentiment in April. Safe haven assets such as Treasuries rallied while equities pulled back for the month.

EM equities faltered in April, but performed roughly in line with DM equities as fears of a China hard-landing began to fade.

Within US markets, large caps outperformed small caps for the third consecutive month. And within equity styles, Growth stocks outpaced Value stocks across both market cap segments.

US sector trends displayed a reversal from their 1Q performance, with Telecom (+5.4%) and Utilities (+1.8%) posting the greatest gains. Financials (-2.4%) and Tech (-1.9%) were this months laggards, though still among the top performers year-to-date.

All major fixed income markets rallied in April. Treasuries posted some of the strongest returns, but even riskier areas of the market such as corporate bonds and EM debt fared well.

The Euro (-1.4%) and the US dollar (-1.1%) declined in April amid continued sovereign debt concerns and weak macro data. The Yen rebounded 3.1% in April, countering some of the currency's 1Q decline.

Within commodities, Brent crude oil prices fell to $119/bbl by the end of April, down nearly 5% from its March peak.

Financial markets recap

Table 1: Total return (%)

		As of 30 April 2012			
Asset class	2011	1 mo	3 mo	12 mo	YTD
Equity Indices (%, US dollar terms)					
S&P 500	2.1	-0.6	7.1	4.8	11.9
NASDAQ Comp	-0.8	-1.4	8.6	7.2	17.3
FTSE 100	-2.7	1.2	5.4	-4.3	9.2
TOPIX	-11.9	-3.3	2.1	-2.0	6.8
Hang Seng	-17.3	2.8	3.9	-8.1	15.0
DJ Euro Stoxx 50	-16.7	-6.9	-2.6	-28.9	2.8
MSCI EAFE	-11.7	-1.8	3.4	-12.4	8.9
MSCI Emerging Markets	-18.2	-1.2	1.3	-12.3	12.8
Size & Style (%, US dollar terms)					
Russell 2000	-4.2	-1.5	3.4	-4.3	10.7
S&P 500 Citigroup Growth	4.7	0.0	7.8	8.1	12.2
S&P 500 Citigroup Value	-0.5	-1.3	6.2	1.3	11.5
S&P 600 Citigroup Growth	3.6	-0.7	4.8	0.7	10.4
S&P 600 Citigroup Value	-1.4	-1.8	2.7	1.6	10.8
S&P 500 Sectors (%, US dollar terms)					
Consumer Discretionary	6.1	1.3	10.9	14.5	17.5
Consumer Staples	14.0	0.3	7.5	11.8	5.9
Energy	4.7	-1.0	1.4	-9.1	2.9
Financials	-17.1	-2.4	10.2	-4.1	19.2
Health Care	12.7	-0.2	5.6	9.0	8.8
Industrials	-0.6	-1.1	2.9	-2.0	10.1
Information Technology	2.4	-1.9	10.7	14.6	19.2
Materials	-9.8	-0.9	-0.9	-6.9	10.2
Telecom Services	6.3	5.4	10.6	7.2	7.6
Utilities	19.9	1.8	3.9	12.4	0.2
BofA Merrill Lynch Global Research Bond Indices (%, US dollar terms)					
10-Year Treasury	17.1	2.9	-0.2	18.2	0.6
2-Year Treasury	1.5	0.2	0.0	1.5	0.1
TIPS	14.1	2.2	0.7	15.0	2.9
Municipals*	11.2	1.1	0.6	14.4	3.2
US Corporate Bonds	7.5	1.3	1.5	10.5	3.8
US High Yield Bonds	4.4	1.0	3.2	6.7	6.2
Emerging Market Corporate Bonds	3.8	0.9	4.0	7.9	6.6
Emerging Market Sovereign Bonds	5.8	1.3	4.5	10.5	6.4
Preferreds	4.1	0.5	3.2	7.9	7.3
Foreign Exchange (%, in local currencies)**					
US Dollar	0.5	-1.1	0.4	1.4	-1.1
British Pound	1.6	1.8	2.4	5.7	3.0
Euro	-3.2	-1.4	0.2	-6.9	0.2
Yen	5.9	3.1	-4.1	6.0	-4.1
Commodities (%, US dollar terms)**					
CRB Index	-8.3	-0.8	-2.0	-14.9	0.2
Gold	10.1	-0.2	-4.2	16.2	6.5
WTI Crude Oil	8.2	1.8	6.5	-1.7	6.1
Brent Crude Oil	13.8	-3.7	7.7	1.6	10.7
Alternative Investments† (%, US dollar terms)					
Hedge Fund - CS Tremont[1]	-2.5	0.0	4.0	-0.8	4.0
Hedge Fund - HFRI Fund of Funds[1]	-5.6	0.0	3.4	-3.4	3.4
Private Equity - Cambridge Assoc.[2]	10.8	NA	5.4	10.8	NA
Private Real Estate - NCREIF TR[3]	14.3	NA	2.6	13.4	2.6

Notes: *Not tax adjusted. **BoE calculated effective FX indices. [1]Data as of 3/31/12; CS AUM-weighted, HFRI equal-weighted [2]Quarterly data as of 12/31/2011 [3]Quarterly data as of 3/31/12†AI data not comparable to other asset classes because of reporting delays, lack of standardized reporting, and survivorship and self selection biases. Crude oil prices are spot in USD.
Source: S&P, MSCI, Bloomberg, FactSet, BofAML Bond Indices (US Treasury Current 10yr, Current 2yr, Inflation-Linked; Muni Master, US Corp Master, US HY Master II Index; EM Corporate Plus Index; EM External Debt Sovereign Index; US Preferred Stock, Fixed Rate).

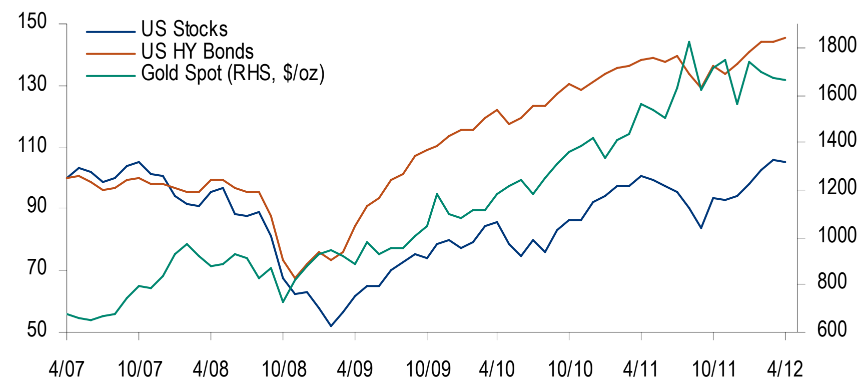
Michael Hartnett
Chief Global Equity Strategist
MLPF&S

Kate Moore
Global Equity Strategist
MLPF&S

The 3-2-1% Rules

The primary trend in most asset prices over the past three years has been higher, as the following chart showing equity, corporate bond and gold prices illustrates (Chart 1).

Chart 1: Asset prices have moved higher over the past three years



Equity (S&P 500) & bond (H0A0 Index) data are total returns, USD.
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

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"Bad Goldilocks" in 2Q

Asset prices have largely defied the bears this year. Government bond yields have been remarkably stable in the US, the UK, Germany and Japan. High yield and investment grade corporate bonds and EM debt have all performed well. In aggregate, fixed income has returned around 2% year-to-date (Table 2). Equity prices have risen 9% in 2012, led by the US and Emerging Markets, while broad measures of commodity prices have been flat.

Table 2: Year-to-date asset returns

	YTD
Global Equities	9%
North America	9%
Europe	6%
UK	7%
Japan	6%
Pacific Rim ex-Japan	12%
Emerging Markets	11%
Global Fixed Income	2%
Government	1%
Quasi-government	3%
Investment Grade Corporate	5%
High Yield Corporate	9%
EM Corporate Debt	7%
Collateralized Debt	3%
Commodities	0%
Energy	1%
Industrial Metals	4%
Precious Metals	5%
Agriculture	-5%
Cash	0%
US Dollar	-1%

Notes: Total returns in USD; Equity returns are MSCI indices; BofA Merrill Lynch Global Bond Indices are: Fixed Income Markets; Government Bond II; Large Cap Quasi-Govt; Large Cap Corporate; High Yield; Emerging Markets Corporate Plus; Large Cap Collateralized; Commodity returns are Merrill Lynch Commodity eXtra TR Indices.
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

The RIC's short-term view remains "Bad Goldilocks". The 2Q backdrop is neither "cold" enough to provoke the fresh bout of Quantitative Easing that many risk assets so cravenly desire, nor "hot" enough to provoke losses in fixed income markets and inspire a rotation out of bonds and into equities and commodities.

Following the strong returns on 4Q11 and 1Q12, the RIC continues to have a cautious stance in 2Q. The RIC's advice to individual investors in the short term is thus twofold:

- Maintain overweight positions in our favored themes of Growth, Yield and Quality.
- Wait for a better entry point into markets before raising allocations to equities and commodities.

Investor positioning limits downside for risk assets

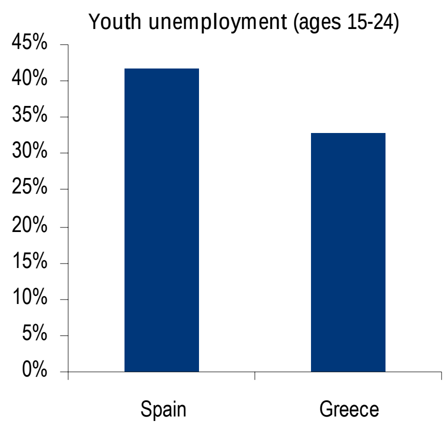
The good news for markets in 2Q is that investors are bearishly positioned, which limits the downside to asset prices. Both private and institutional clients remain very cautious. Flows indicate that investors have strong appetite for taking *some* risks in fixed income via investment grade, high yield and EM debt. But there is little appetite for equities. In the past 12 months, investors have poured $150bn into fixed income funds and have withdrawn $140bn from long-only equity funds. And in early April, our Global Fund Manager Survey revealed a jump in average institutional cash balances to 4.7%, which is historically fairly high.

Policy & profits limits immediate upside for risk assets

The bad news is that neither the policy nor the profit outlook is unambiguously bullish for risk assets.

Policy. Monetary policy has been positive – the ECB, Fed, BoJ and BoE have pumped roughly $360bn of additional liquidity into the markets and 26 central banks have cut rates year-to-date. It will be nearly impossible for central banks to replicate this scale of stimulus over the next few months. In addition, the US "fiscal cliff" is causing uncertainty for consumers and corporations. As the RIC noted last month, Operation Twist is ending in June, and risk assets have struggled towards the end of major quantitative easing programs.

Chart 2: High youth unemployment in Europe

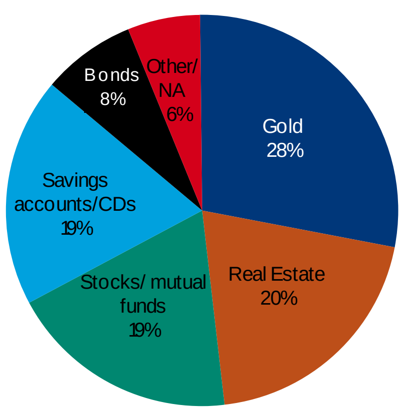


Source: BofA Merrill Lynch Global Equity Strategy, World Bank, Haver

Profits. While the profit outlook has been strong (see 1Q12 earnings) and macro indicators such as the Global Wave have improved, some recent global economic data has surprised on the downside. In particular, the RIC notes that the youth unemployment rates in both Spain and Greece have risen to 30-40%, the UK economy is in a double-dip recession and European bank stocks are close to their lowest levels since 1988. In combination these data points do not paint a picture of robust economic health.

It is little wonder that despite the massive outperformance of gold on both a 5- and 10-year basis, a majority of investors in a recent Gallup survey indicated that they believe gold is still the best long-term investment (Chart 3).

Chart 3: What do Americans think is the best long-term investment? Gold.



Source: BofA Merrill Lynch Global Equity Strategy, Gallup

The 3-2-1% Rules

Stepping away from the very short-term view, the RIC would like to frame three scenarios that would affect asset prices in coming quarters and years. We also suggest the appropriate positioning for each scenario. In short:

- **The 3% Rule says Buy the Lows.** 3% economic growth would cause US Treasury yields to rise towards 3%. In this scenario, out-of-favor equities, banks, Value stocks, and European assets would outperform.

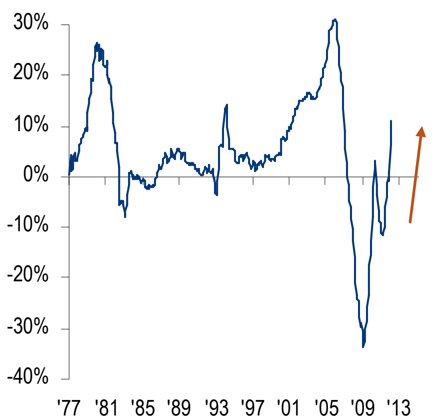
- **The 2% Rule says Buy the Highs.** 2% economic growth that is accompanied by greater policy stimulus will likely mean low, stable bond yields and a further extension of the narrow bull markets in growth, yield, and quality. US Tech, global best of breed stocks, high yield credit, and EM debt will remain market leaders.

- **The 1% Rule says Buy the Vol.** 1% economic growth that causes the US to flirt with a new recession would lead to higher volatility. Investors should shift into a defensive asset allocation that is overweight Treasuries, gold, and defensive equities.

The Great Rotation and The 3% Rule

The Great Rotation remains our favorite long-term scenario. We believe the multi-decade bull market in bonds is slowly coming to an end and will be replaced by a multi-year bull market in equities. However, evidence of an acceleration in the pace of the Great Rotation is still scant. For example, it is great news that real estate prices in the US have troughed. However, a sharp recovery in house prices is only evident in very specific metropolitan areas (see chart of Miami prices). Before the RIC can advise clients to make a massive shift in their asset allocation we need solid evidence that the US economy can grow at 3% and that investors have ended their sellers' strike in US Treasuries. The closer 3% growth becomes a reality, the more that clients should rotate from credit to equity, from Growth to Value, from Tech to Banks, and from US assets to European assets.

Chart 4: Miami home prices (including distressed), YoY %



Source: BofA Merrill Lynch Global Equity Strategy, CoreLogic

Table 3: The Great Rotation

Below-trend growth winners	Above-trend growth winners
Creditors	Debtors
Volatility	Normality
Income	Beta
Credit	Equity
Gold	Cash
US	Europe
Growth	Value
Tech	Banks
Correlation	Dispersion

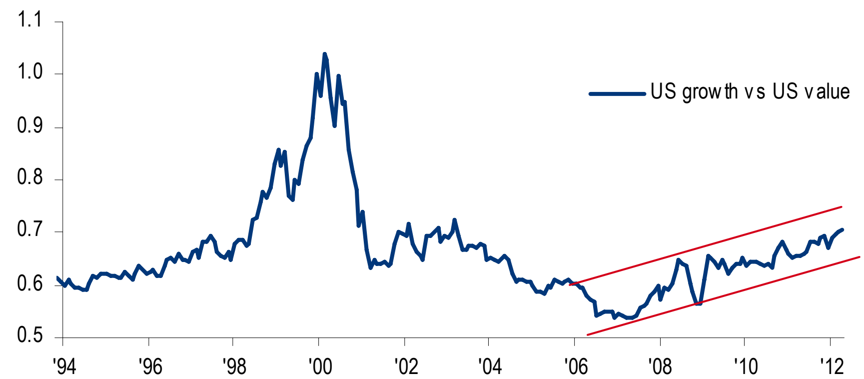
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

The Bad Bull and The 2% Rule

The more likely 2012 scenario in the RIC's view is that both US growth and benchmark US Treasury yields continue to hover around 2%. If we are right, markets will continue to face a tug-of-war between policy stimulus and deleveraging. The probability of tail risks – from Europe, China, the Middle East and the US – would remain high, but so would the probability of another round of aggressive policy response from the IMF, G7 central banks, and China.

The closer growth and yields are to 2%, the more likely narrow bull markets in assets that provide Growth (e.g. US tech), Quality (global best-of-breed stocks, investment grade bonds) and Yield (high yield and EM debt, high dividend paying stocks) continue. And the longer it takes for the economy to fully recover and the more stimuli is required to incite full recovery, the more these themes run the risk of reaching bubble-like valuations. Note European Growth stocks are already at 12-year highs relative to European Value stocks and US Growth stocks also continue to outperform (Chart 5).

Chart 5: US Growth has significantly outperformed US Value in recent years

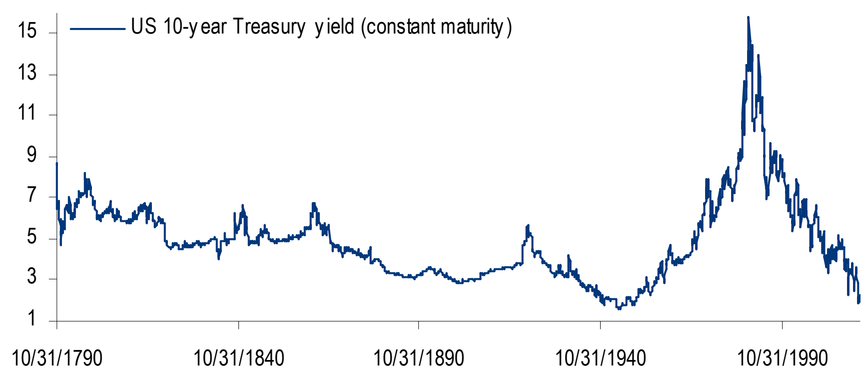


Source: BofA Merrill Lynch Global Equity Strategy, DataStream, MSCI

The Ugly Bear and The 1% Rule

Lastly, a drop in growth and US bond yields to a recessionary 1% or less would be very negative for many assets. Many factors could lead to a sharp reversal in current growth momentum: the impending fiscal cliff in the US causes businesses to drastically reduce spending; inflation dramatically picks up or investors lose faith in governments' ability to repay debt, pushing bonds into a violent bear market; political and social unrest in Europe questions the longevity of the Euro; or, Chinese policy easing fails to arrest the downside of China's real estate bubble. Should growth and yields threaten to decline toward 1% then an uber-defensive asset allocation would be warranted. Note the current 10-year Treasury yield is less than 40bp away from its all-time low of 1.55% in November 1945 (Chart 6).

Chart 6: 10-year Treasury yields since 1790 (%)



Source: BofA Merrill Lynch Global Equity Strategy, Global Financial Data

The RIC's Base Case and Asset Allocation

The "bad bull" view above aligns most closely with the RIC's base case. Our economists and strategists forecast US GDP growth of just 1.9% this year, expect the 10-year Treasury yield to end the year at 2.3%, and do not forecast a Fed rate hike until late 2014. Until central banks in the G7 can normalize monetary policy, the trade in our Age of Deleveraging will be "Quality-On" not "Risk-On". The RIC has been and continues to be overweight Growth over Value. We remain focused on assets that provide high quality and high yield, and continue to look for opportunities to add to "best of breed" stocks and themes.

Fixed Income

Fixed Income Strategist Marty Mauro expects lower quality bonds to outperform Treasuries over the next 12-18 months, and prefers intermediate-term assets to long-term securities or cash. Specifically, Marty is overweight high yield and investment grade corporate bonds, and EM local currency debt. For more detail on our bond market recommendations, please see the latest Fixed Income Digest.

Equities

The RIC is neutral on equities but recommends adding to risk positions on any pullbacks. US Equity Strategist Savita Subramanian recently raised her **S&P 500 target to 1450**, noting that 1) sentiment is very low; 2) cash levels are very high; 3) April's equity outflows were the largest in 16 years; and 4) valuations are compelling.

Growth over Value

US Growth stocks have significantly outperformed US Value stocks since 2007. In a world of scarce economic growth, the RIC believes this outperformance will continue and we maintain an overweight recommendation to Growth over Value.

New ways to invest in growth

For investors interested in new ways to play the growth theme, BofAML analysts have recently highlighted several compelling investment opportunities.

- This networking primer highlights telecom equipment stocks that are well positioned for Data Center growth.
- See here and here for attractive plays in the high growth mobile space.
- This industry report highlights growth opportunities within the global autos space.
- This strategy report highlights a list of small and mid cap secular growth stocks.

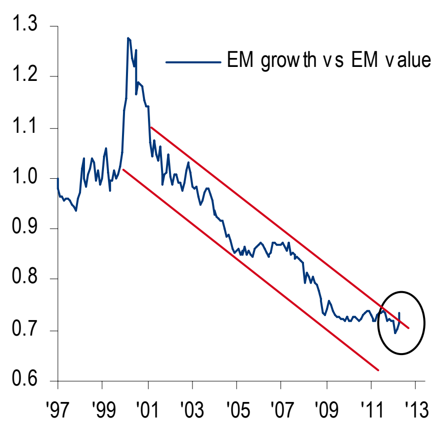
Opportunities in Emerging Markets

Interestingly, EM Growth is starting to outperform EM Value for the first time in 13 years (Chart 7). This marks a subtle shift away from EM as a high beta play on global growth (Energy, Materials) and toward EM as a domestic demand story (Consumer sectors).

Emerging Markets provide access to scarce growth. Now that the **worst is over for China**, our favorite tactical trade for the second quarter is long China consumer, short US consumer. And for other ways to play the China recovery, see reports here and here.

For investors interested in other regional plays within Asia, we note that our strategists expect **Korean equities to outperform Japanese equities** over the long-term. In this report, they highlight specific Korean stocks with global market share that our analysts believe are poised to achieve long-term earnings growth.

Chart 7: EM Growth has started to break out relative to Value



Source: BofA Merrill Lynch Global Equity Strategy, DataStream, MSCI

Commodities

Commodity Strategist Francisco Blanch remains broadly positive on precious metal and oil prices over the next 12-18 months.

Stay long gold and gold miners

Francisco maintains a gold forecast of $2,000/oz, and points out that the gold price depends on the outcome of macro decisions (like QE) around the world. **Gold and precious metals miners have potential for multiple expansion** in this environment. Our Canadian research analysts analyze which companies they believe are best-positioned to win.

Oil over Natural Gas

Although oil prices have fallen 10% since their peak in 1Q12, Francisco believes China's energy shortfall will support oil prices over the medium-term. He maintains a $118/bbl forecast for Brent crude in 2012 and $120/ bbl in 2013. Although we expect natural gas prices are nearing a floor, they should nonetheless remain weak until 2013 on high supply and lower demand.

Given these forecasts, BofAML analysts prefer **energy stocks that are levered to oil**, rather than natural gas. Our analysts also believe we are entering the **sweet spot of the offshore drilling cycle**. But the energy story is more than just oil and natural gas: our analysts recently **reinstated coverage of US coal stocks**. See this report for their favorite names within the industry.

Politics and asset markets

With just six months left before the 2012 US presidential election, we often get questions regarding how we believe the election outcome will impact asset returns. The RIC's view is that asset prices are driven primarily by fundamentals. Unless those fundamentals are drastically altered by the outcome of the election, we do not believe it will have a meaningful impact on asset prices. We will address the election in coming months but as a reference, on page 9 we list the change in 10-year Treasury yields and the price return of large-cap US stocks under each of the 44 presidents from George Washington onward.

Table 4: US presidents & asset markets

President	Party	Change in 10yr Treasury yield (bp)*	US equity price return
George Washington**		-151	-0.9%
John Adams	Federalist	-24	9.7%
Thomas Jefferson	Democratic-Republican	-92	-1.3%
James Madison	Democratic-Republican	35	-20.3%
James Monroe	Democratic-Republican	-178	12.4%
John Quincy Adams	Democratic-Republican	34	-10.5%
Andrew Jackson	Democratic	14	5.5%
Martin Van Buren	Democratic	54	-9.8%
William Henry Harrison	Whig	72	-7.4%
John Tyler	Whig	-138	36.0%
James K. Polk	Democratic	28	-11.9%
Zachary Taylor	Whig	-12	7.5%
Millard Fillmore	Whig	1	20.9%
Franklin Pierce	Democratic	12	-31.7%
James Buchanan	Democratic	107	-12.7%
Abraham Lincoln	Republican	-59	73.9%
Andrew Johnson	Democratic	-108	32.1%
Ulysses S. Grant	Republican	5	-22.3%
Rutherford B. Hayes	Republican	-104	84.4%
James A. Garfield	Republican	-7	0.6%
Chester A. Arthur	Republican	-18	-29.6%
Grover Cleveland	Democratic	-16	21.3%
Benjamin Harrison	Republican	43	4.0%
Grover Cleveland	Democratic	-28	-24.1%
William McKinley	Republican	-35	92.3%
Theodore Roosevelt	Republican	39	9.5%
William Howard Taft	Republican	20	1.9%
Woodrow Wilson	Democratic	177	-21.6%
Warren G. Harding	Republican	-94	16.2%
Calvin Coolidge	Republican	-72	213.0%
Herbert Hoover	Republican	-31	-77.9%
Franklin D. Roosevelt	Democratic	-146	141.2%
Harry S. Truman	Democratic	78	93.4%
Dwight D. Eisenhower	Republican	121	134.2%
John F. Kennedy	Democratic	24	18.5%
Lyndon B. Johnson	Democratic	211	40.7%
Richard Nixon	Republican	170	-23.0%
Gerald Ford	Republican	-49	28.6%
Jimmy Carter	Democratic	528	27.0%
Ronald Reagan	Republican	-367	129.6%
George H. W. Bush	Republican	-262	47.5%
Bill Clinton	Democratic	-120	211.3%
George W. Bush	Republican	-232	-39.5%
Barack Obama***	Democratic	-92	69.3%

*Constant maturity 10 year Treasury yield, monthly data.
**Yield data starts in October 1790, equity data starts in August 1791.
***Through end of April 2012.
Source: BofA Merrill Lynch Global Equity Strategy, Global Financial Data, Bloomberg

Asset markets: base case, ideas, risks

Table 5: RIC base case for global asset markets

Region/sector Analyst(s)	Convictions	Ideas & risks
Global Economics: Ethan Harris Alberto Ades	■ Slowing global growth. ■ An ongoing recession in Europe, with periodic risk events. ■ The US confronts its fiscal crisis at yearend.	■ Inflation and central bank rates remain low. ■ Continued market volatility. ■ Pressure on risk assets in the second half.
Global Equities: Michael Hartnett	■ 2012 MSCI All-Country World Index target is 330; S&P 500 target is 1450. ■ Global equities stuck in an upward-sloping trading range. ■ Until central banks in the G7 can normalize monetary policy, the secular trade in the Age of Deleveraging will be "Quality-On" not "Risk-On".	■ Look for opportunities in distressed and under-owned assets. ■ Own growth, yield & high quality Best of Breed stocks. ■ Over the next few years, leadership within markets will likely change, driven by the mega-macro themes of the Great Rotation and the Great Rebalancing. ■ Risks: European recession spreads to the US or Asia; US fiscal cliff; policy errors including premature tightening; excess of deficits driving up interest rates; weaker EM growth.
Global Rates: Priya Misra Ralf Preusser John Wraith	■ 10-year US Treasury yield to stay range bound through the year. Strong demand for fixed income, the Fed's late 2014 rate guidance and a shrinking pool of safe haven assets is likely to keep a bid for Treasury yields. ■ European rates are likely to remain well supported in the face of looming further deceleration in economic activity, irrespective of the continued volatility in peripheral politics. ■ UK: We expect the current program of Quantitative Easing to end in May, with the Monetary Policy Committee prioritizing the slightly more upbeat sentiment and survey evidence over the disappointing hard empirical readings relating to 1Q. Gilt yields are likely to stay very subdued nevertheless, with risks of further setbacks still abounding.	■ US: Offsetting risks should keep rates in a range. A significant rally is unlikely given that the market is already pricing in the first Fed hike 24 months out and a significant flight to quality premium from Europe. On the other hand, the late 2014 rate guidance, impending fiscal cliff, demand for fixed income assets and a Fed that is ready to ease if the economy weakens should prevent any significant rise in rates. ■ Europe: We like receiving front-end forwards in Euribor-based products (eg, 1y->2y), positioning for either further ECB rate cuts or the ECB on-hold for longer. ■ UK: We would look to counter any significant adverse reaction from Gilts to the end of QE, as we expect the prospect of renewed asset purchases to remain close to the surface, while the MPC is likely to strike a cautious and dovish tone to deliberately limit the possibility of sharply higher yields.
Global Commodities: Francisco Blanch	■ The ECB's implementation of the LTRO set the stage for a rally in risky assets, helping prevent a deep recession in the EU periphery and stabilizing commodity demand. ■ For oil, we forecast 2012 Brent crude oil prices of $118/bbl on the back of improved demand, tight supplies and high liquidity. Although we see oil prices temporarily hitting $140/bbl at some point this year, we also believe any additional gains will prove unsustainable and create risks to the economy. ■ We maintain our 12-month gold target of $2,000/oz, as the likelihood of the US reaching the debt ceiling and/or facing a debt downgrade by early 2013 increases.	■ Key risks to our outlook include a deeper-than-expected Eurozone recession, increased Middle East tensions, faster-than-expected US fiscal tightening, and a China hard-landing scenario. ■ We lowered our 2012 US HH nat gas price forecasts to $2.40/MMBtu given bearish weather, ongoing production growth, and high stock levels. ■ Given continued cyclical headwinds, we remain only moderately positive on base metals as we expect Chinese economic growth will slow but not melt down. ■ For gold, a faster-than-expected recovery in the US economy is a substantial risk to our view as QE3 will start getting factored out from gold prices.
Global Credit: Hans Mikkelsen Oleg Melentyev	■ With a slowly expanding US economy we expect that favorable excess demand conditions in the credit market will resume. Our 2012 year-end spread targets of 150-160 bp in HG and 550bp in HY imply significant tightening. ■ Increasing interest rates partially offset the effect of tighter spreads, and we expect total returns for HG and HY in 2012 of 6% and 12%, respectively. ■ HG: OW higher beta, lower quality and financial bonds. HY: As a significant proportion of bonds are now trading to call prices, particularly in the higher quality segments, we see most value in single-Bs at these levels.	■ Bullish on US corporate credit because: 1) Excess demand - negative real yields and low expected growth are just right for corporates as investors reach for yield but are not ready for a rotation into equities, especially with corporate bonds as the only fixed income asset class with both attractive yields and a meaningful amount of supply; 2) Moderately increasing interest rates bring higher demand for corporate bonds; 3) Stable home prices and extremely well capitalized banks mean that financials should transition to low beta sectors. ■ Risks: The conflict with Iran escalates causing a major spike in oil prices – which could be recessionary. The situation in Europe causes a US recession.
Global FX: David Woo Alberto Ades	■ We expect the euro to be range-bound throughout most of the year versus the dollar, although downside risks remain. We expect the yen to continue to depreciate. ■ EMFX could rally from these levels as the US remains steady and activity in GEMs accelerates from the 4Q11/1Q12 trough.	■ Should recession concerns rise dramatically or deflation concerns gain, the Fed may implement QE3 sooner than expected. This would be USD negative. A lasting solution to the Eurozone crisis would also be USD negative, although we believe this is unlikely to happen before the end of 1H 2012. ■ Europe continues to pose the greatest risks in the medium term. Also, central bank FX intervention in some EM countries could decrease potential upside.

Source: BofA Merrill Lynch Research Investment Committee

Global equity market convictions: ideas & risks

Table 6: Global equity weightings by region

Region/sector Analyst(s)	Recommendation*	Convictions	Ideas & risks
US: Savita Subramanian	Overweight	■ 2012 year-end S&P 500 target is 1450, which is 14x our 2012E EPS of $103.50. ■ OW Staples and Tech; UW Materials and Financials. ■ Macro market continues into 2012 with 1) the European crisis, 2) US policy, 3) risks of material slowdown in China/Emerging Markets, and 4) financial regulatory reform.	■ Expect a structurally higher equity risk premium over next several years given increased macro risk, but expect healthy 2012 EPS growth. ■ Favor yield, quality and growth over beta. ■ Europe, government and consumer exposure are key risks. ■ Focus on sectors/industries with more stock picking opportunity.
UK: Gary Baker	Neutral	■ Disappointing macro data suggest UK re-entered recession in 1Q, despite protestations from Bank of England that underlying growth was stronger than advertised. ■ Within a generally positive 1Q reporting season, strong results from financials have been a notable feature. Earnings revisions trends continue to be positive.	■ A supportive central bank, benign bond market and corporates in robust health are all fighting against negative economic headwinds in a range bound market. ■ OW Banks, Energy, Basic Resources, Telecoms. UW Consumer Staples. FTSE trading on 9.9x forward PER.
Europe ex-UK: Gary Baker	Underweight	■ April PMI manufacturing data were gloomy, led down by Germany, which to this point has been a bastion of stability. This is in stark contrast to a positive 1Q reporting season and rising EPS revision ratios. ■ The political cycle in Europe is reinvigorating a growth-austerity debate against which bond markets have remained surprisingly calm. ■ Against very pessimistic consensus, potential positive catalysts are a more ambitious recap of Spanish bank balance sheets and an easing in stubbornly high oil prices in the run up to May 23 talks between Iran and Sextet countries.	■ The extent of high quality stock outperformance looks increasingly stretched. OW Banks, Basic Resources, Energy and Telecom. UW Consumer Staples. ■ Consensus 2012E EPS 6% growth vs. our 0% top down estimate. Market trading on 10.7x PER. 258 Y/E target for Stoxx600 implies flat performance from here.
Japan: Masatoshi Kikuchi	Neutral	■ We maintain our estimate of fair-value TOPIX in FY3/13 at 950 to reflect the weaker yen and a higher forecast of TOPIX EPS, although OPIX may fluctuate at around 800 in the short term. ■ The driver for higher stock prices toward the summer should be the prospect of a sustained recovery in Japan's economy and corporate earnings in FY3/13 as well as =increasing weighting of global investment portfolios to Japanese equities. ■ We expect the market to flatten from the autumn on the forecast of fiscal tightening around the world in 2013 and the prospect of slower profit growth in Japan in FY3/14.	■ We raise construction/real estate to overweight from neutral as they benefit from BoJ easing while reducing transport which benefits less from the monetary easing. ■ We remain overweight large exporters in trading houses, precisions/electronic components, machinery and auto/rubber. ■ In terms of regional exposure, our top pick is China (still the subject of widespread bearishness), followed in order by US and Europe.
Asia-Pac ex-Japan: Nigel Tupper	Neutral	■ Global macro data has improved enough recently to suggest investors position for an economic upturn. ■ Inflation pressures continue to abate in Asia and monetary policy is being eased across the region.	■ We recommend shifting toward cyclical assets in general given that our global macro indicator has troughed. ■ OW Banks, Energy, Autos and Real Estate in the region. ■ In terms of style positioning, we prefer Value, Cyclical Growth, Momentum, and Small Size.
Emerging Markets: Michael Hartnett	Overweight	■ High growth, infant credit cycles and abundant global liquidity remain secular positives for EM, but China's growth is set to moderate over the next 5 years. ■ Easy long-term money in EM has already been made. Going forward a more nuanced approach is necessary.	■ Continue to favor Best of Breed and high yielding Emerging Market stocks. ■ While inflation is not a near term risk, watch for signs of rising inflation and margin compression across EMs. ■ Risks: major banking and debt crisis in Europe that triggers a recession in the US and a hard-landing in China.

*Recommendations are relative to regional weightings in the MSCI All Country World Index.

Source: BofA Merrill Lynch Research Investment Committee

Asset allocation for individual investors

- These tables represent our asset allocation recommendations by investor profile (Conservative – Aggressive).
- Strategic models are long-term, 20-30 year benchmarks developed by Merrill Lynch Global Wealth Management.
- Tactical models have a 12-18 month horizon, and are provided by the Research Investment Committee (RIC).

Asset allocation for US clients

Tier 0 (highest liquidity):
Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

Table 7: Strategic and tactical allocations without alternative assets (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
Traditional Assets										
Stocks	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Bonds	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Cash	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%
Alternative Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Tier 1 (higher liquidity):
Up to 10% of the portfolio may be unavailable for 3-5 years.

Table 8: Strategic allocations with alternative assets (Tier 1 liquidity)

	Conservative	Moderately conservative	Moderate	Moderately aggressive	Aggressive
Traditional Assets					
Stocks	20%	40%	55%	65%	70%
Bonds	50%	45%	30%	20%	10%
Cash	25%	10%	5%	5%	5%
Alternative Assets					
Real Assets*	1%	1%	2%	2%	6%
Hedge Funds	4%	4%	8%	8%	9%
Private Equity	0%	0%	0%	0%	0%

* *"Real Assets" defined to include commodities, TIPs and Real estate, including REITS.*; Figures may not sum to 100 because of rounding.

Tier 2 (moderate liquidity):
Up to 20% of the portfolio may be unavailable for 3-5 years.

Table 9: Strategic allocations with alternative assets (Tier 2 liquidity)

	Conservative	Moderately conservative	Moderate	Moderately aggressive	Aggressive
Traditional Assets					
Stocks	15%	35%	50%	55%	55%
Bonds	50%	45%	25%	20%	10%
Cash	25%	10%	5%	5%	5%
Alternative Assets					
Real Assets*	3%	3%	7%	7%	10%
Hedge Funds	6%	6%	8%	8%	8%
Private Equity	1%	1%	5%	5%	12%

* *"Real Assets" defined to include commodities, TIPs and Real estate, including REITS.*; Figures may not sum to 100 because of rounding.

Tier 3 (lower liquidity)
Up to 30% of the portfolio may be unavailable for 3-5 years.

Table 10: Strategic allocations with alternative assets (Tier 3 liquidity)

	Conservative	Moderately conservative	Moderate	Moderately aggressive	Aggressive
Traditional Assets					
Stocks	15%	35%	40%	50%	40%
Bonds	45%	40%	25%	15%	10%
Cash	25%	10%	5%	5%	5%
Alternative Assets					
Real Assets*	3%	3%	9%	9%	11%
Hedge Funds	10%	10%	14%	14%	14%
Private Equity	2%	2%	7%	7%	20%

* *"Real Assets" defined to include commodities, TIPs and Real estate, including REITS.*; Figures may not sum to 100 because of rounding.

Notes: The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy group and are designed to serve as guidelines for a 20-30 year investment horizon. The models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. We define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Additional information regarding the liquidity tiers is available in the full disclosure section of the report. Given the less-liquid nature of alternative assets, BofA Merrill Lynch does not make Tactical allocation recommendations for portfolios that include these asset classes.

A closer look at asset allocation for US clients: size, style and international

The tables below present in-depth size and style recommendations for US clients using the stocks, bonds and cash weights from the most liquid (Tier 0) liquidity profile on the previous page.

Table 11: Strategic and tactical allocations without alternatives

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Stocks	20%	20%	40%	40%	60%	60%	70%	70%	80%	85%
Lg. Cap Growth	8%	9%	16%	18%	23%	25%	25%	27%	27%	32%
Lg. Cap Value	12%	10%	16%	15%	23%	21%	25%	22%	21%	20%
Small Growth	0%	0%	2%	2%	2%	2%	3%	3%	6%	6%
Small Value	0%	0%	2%	1%	2%	1%	3%	2%	6%	3%
Intl: Developed	0%	1%	3%	3%	8%	7%	11%	11%	16%	16%
Intl: Emerging	0%	0%	1%	1%	2%	4%	3%	5%	4%	8%
Bonds	55%	55%	50%	50%	35%	35%	25%	25%	15%	15%
Tsys, CDs & GSEs	35%	43%	27%	16%	13%	11%	6%	8%	2%	5%
Mortgage Backeds	14%	1%	13%	12%	9%	9%	6%	6%	4%	3%
IG Corp & Preferred	6%	11%	10%	13%	9%	9%	9%	6%	5%	4%
High Yield	0%	0%	0%	3%	2%	2%	1%	2%	2%	1%
International	0%	0%	0%	6%	2%	4%	3%	3%	2%	2%
Cash	25%	25%	10%	10%	5%	5%	5%	5%	5%	0%

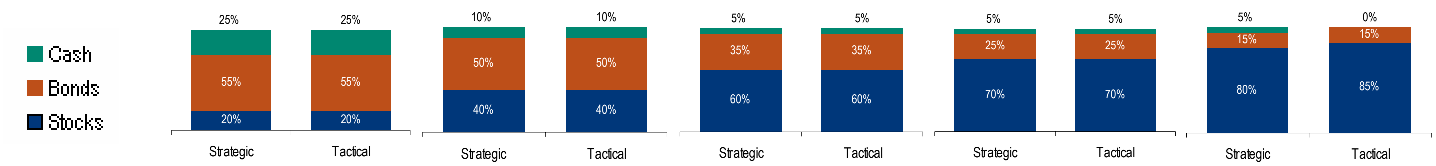


Table 12: Stocks – by size and style

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Large cap growth	40%	42%	40%	44%	38%	42%	35%	39%	33%	37%
Large cap value	60%	53%	40%	38%	38%	35%	35%	32%	26%	24%
Small growth	0%	0%	4%	4%	4%	4%	4%	4%	8%	8%
Small value	0%	0%	4%	2%	4%	2%	4%	2%	8%	4%
International: Developed	0%	5%	10%	9%	13%	12%	18%	16%	20%	19%
International: Emerging	0%	0%	2%	3%	3%	5%	4%	7%	5%	8%

Table 13: Bonds -- by sector

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical	Strategic	Tactical
Tsys, CDs & GSEs	65%	78%	55%	32%	40%	32%	25%	32%	15%	29%
Mortgage Backeds	25%	2%	25%	25%	25%	25%	25%	25%	25%	21%
IG Corp & Preferred	10%	20%	20%	26%	25%	26%	35%	26%	40%	27%
High yield	0%	0%	0%	6%	5%	6%	5%	6%	10%	8%
International	0%	0%	0%	11%	5%	11%	10%	11%	10%	15%

Notes: Further information regarding liquidity assumptions is available in the disclosure section; Figures may not sum to 100 because of rounding
The Investor Profile Asset Allocation Model was developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy Group and are designed to serve as guidelines for a 20-30-year investment horizon. The Tactical allocations are provided by the Global Research Investment Strategy Group and reflect the group's outlook over the next 12-18 months.

See here for additional disclosures for US allocation models.

Asset allocation for global clients

The Asset Allocation for Global Clients is designed to reduce "home country bias" and introduce a currency perspective. Tactical recommendations are based on qualitative views from our BofAML Global Research strategists, translated into recommendations with a quantitative optimization model. Strategic allocations are based on market cap weights for the MSCI All-Country World and BofAML Global Fixed Income Markets Indices (12/31/2010). Both allocations are for individual investors.**

Tier 0 (highest liquidity):
Highest liquidity needs with none of the portfolio invested in less liquid alternative asset categories.

Table 14: Strategic and tactical allocations without alternatives (Tier 0 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately Aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
Global Equities	20%	20%	40%	40%	60%	60%	70%	70%	80%	80%
North America	8%	9%	19%	20%	28%	29%	32%	33%	37%	38%
Europe (ex UK)	4%	3%	7%	6%	11%	10%	13%	12%	15%	14%
UK	2%	2%	4%	4%	5%	5%	6%	6%	7%	7%
Japan	2%	2%	3%	3%	5%	5%	6%	6%	7%	7%
Pac Rim (ex Japan)	1%	1%	2%	2%	3%	3%	4%	4%	4%	4%
Emerging Markets	3%	3%	5%	5%	8%	8%	9%	9%	10%	10%
Global Fixed Income	55%	58%	50%	53%	38%	39%	28%	29%	18%	19%
Govt Bonds	34%	35%	30%	29%	24%	18%	18%	12%	10%	6%
Inv. Grade Credit	8%	9%	8%	10%	6%	11%	4%	8%	3%	6%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	1%	2%
Collateralized Debt	11%	11%	10%	10%	7%	8%	5%	7%	4%	5%
Cash (USD)	25%	22%	10%	7%	2%	1%	2%	1%	2%	1%
Global Real Assets*	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Hedge Funds	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Private Equity	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Real Assets include commodities, TIPs, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Tier 1 (higher liquidity):
Up to 10% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 15: Strategic and tactical allocations with alternatives (Tier 1 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
Global Equities	18%	18%	38%	38%	56%	56%	66%	66%	73%	73%
North America	8%	9%	18%	19%	26%	27%	30%	31%	34%	35%
Europe (ex UK)	3%	2%	7%	6%	10%	9%	12%	11%	14%	13%
UK	2%	2%	3%	3%	5%	5%	6%	6%	6%	6%
Japan	2%	2%	3%	3%	5%	5%	6%	6%	6%	6%
Pac Rim (ex Japan)	1%	1%	2%	2%	3%	3%	3%	3%	4%	4%
Emerging Markets	2%	2%	5%	5%	7%	7%	9%	9%	9%	9%
Global Fixed Income	52%	55%	50%	53%	32%	33%	22%	23%	10%	11%
Govt Bonds	32%	33%	30%	29%	20%	14%	14%	8%	6%	5%
Inv. Grade Credit	8%	9%	8%	10%	5%	10%	3%	7%	2%	3%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	0%	2%
Collateralized Debt	10%	10%	10%	10%	6%	7%	4%	6%	2%	1%
Cash (USD)	25%	22%	7%	4%	2%	1%	2%	1%	2%	1%
Global Real Assets^*	1%	1%	1%	1%	2%	2%	6%	6%	12%	12%
Global Hedge Funds^	4%	4%	4%	4%	8%	8%	4%	4%	3%	3%
Global Private Equity^	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

^The RIC does not make tactical allocations to these categories due to their long term, less liquid nature Strategic benchmark weights are reflected in both columns
Real Assets include commodities, TIPs, Real estate, incl. REITS; Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Notes: The Strategic Profile Asset Allocation Models with Alternative Assets were developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy group and are designed to serve as guidelines for a 20-30 year investment horizon. The models allocate assets among specified asset classes and, within each class, reflect broad investment diversification. The models offer benchmarks for traditional asset class allocation (stocks, bonds and cash), as well as models for allocations among traditional and alternative asset classes reflecting portfolios targeting varying liquidity levels. The models are designed to provide allocation benchmarks based on risk/return profiles. We define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given time duration under typical market conditions. Additional information regarding the liquidity tiers is available in the full disclosure section of the report. Given the less-liquid nature of alternative assets, BofA Merrill Lynch does not make Tactical allocation recommendations for portfolios that include these asset classes.
**BofAML Global Research also publishes a tactical Global Asset Allocation for institutional investors, distinct from the RIC's tactical Asset Allocation for Global Clients, published herein. The institutional tactical Global Asset Allocation, published quarterly, is based on the same views and methodology, but is designed for institutional investors with a 3-6 month time horizon.

Asset allocation for global clients (continued)

Tier 2 (moderate liquidity):
Up to 20% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 16: Strategic and tactical allocations with alternatives (Tier 2 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
Global Equities	14%	14%	35%	35%	45%	45%	51%	51%	53%	53%
North America	6%	7%	16%	17%	21%	22%	24%	25%	24%	25%
Europe (ex UK)	3%	2%	6%	5%	8%	7%	9%	8%	10%	9%
UK	1%	1%	3%	3%	4%	4%	4%	4%	5%	5%
Japan	1%	1%	3%	3%	4%	4%	4%	4%	4%	4%
Pac Rim (ex Japan)	1%	1%	2%	2%	2%	2%	3%	3%	3%	3%
Emerging Markets	2%	2%	5%	5%	6%	6%	7%	7%	7%	7%
Global Fixed Income	51%	54%	48%	51%	33%	34%	27%	28%	15%	16%
Govt Bonds	31%	32%	30%	29%	21%	15%	17%	11%	9%	8%
Inv. Grade Credit	8%	9%	7%	9%	5%	10%	4%	8%	2%	4%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	1%	2%
Collateralized Debt	10%	10%	9%	9%	6%	7%	5%	7%	3%	2%
Cash (USD)	25%	22%	7%	4%	2%	1%	2%	1%	2%	1%
Global Real Assets^*	2%	2%	2%	2%	4%	4%	4%	4%	8%	8%
Global Hedge Funds^	6%	6%	6%	6%	9%	9%	4%	4%	6%	6%
Global Private Equity^	2%	2%	2%	2%	7%	7%	12%	12%	16%	16%

^The RIC does not make tactical allocations to these categories due to their long term, less liquid nature Strategic benchmark weights are reflected in both columns.
**Real Assets include commodities, TIPs, Real estate, incl. REITS;* Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Tier 3 (lower liquidity):
Up to 30% of the portfolio may be unavailable for 3-5 years.

Note: The RIC does not provide tactical allocations to Alternative Investments due to their less liquid nature. Recommended allocations in these categories reflect strategic allocations.

Table 17: Strategic and tactical allocations with alternatives (Tier 3 liquidity)

	Conservative		Moderately conservative		Moderate		Moderately aggressive		Aggressive	
	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.	Strat.	Tact.
Global Equities	12%	12%	32%	32%	41%	41%	47%	47%	46%	46%
North America	5%	6%	14%	15%	19%	20%	22%	23%	21%	22%
Europe (ex UK)	2%	1%	6%	5%	8%	7%	9%	8%	9%	8%
UK	1%	1%	3%	3%	4%	4%	4%	4%	4%	4%
Japan	1%	1%	3%	3%	3%	3%	4%	4%	4%	4%
Pac Rim (ex Japan)	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%
Emerging Markets	2%	2%	4%	4%	5%	5%	6%	6%	6%	6%
Global Fixed Income	48%	51%	48%	51%	27%	28%	21%	22%	7%	8%
Govt Bonds	30%	31%	30%	29%	17%	11%	13%	10%	5%	4%
Inv. Grade Credit	7%	8%	7%	9%	4%	8%	3%	6%	1%	2%
High Yield Credit	2%	3%	2%	4%	1%	2%	1%	2%	0%	1%
Collateralized Debt	9%	9%	9%	9%	5%	7%	4%	4%	1%	1%
Cash (USD)	25%	22%	5%	2%	2%	1%	2%	1%	2%	1%
Global Real Assets^*	3%	3%	3%	3%	6%	6%	7%	7%	15%	15%
Global Hedge Funds^	9%	9%	9%	9%	16%	16%	11%	11%	14%	14%
Global Private Equity^	3%	3%	3%	3%	8%	8%	12%	12%	16%	16%

^The RIC does not make tactical allocations to these categories due to their long term, less liquid nature Strategic benchmark weights are reflected in both columns.
**Real Assets include commodities, TIPs, Real estate, incl. REITS;* Figures may not sum to 100 because of rounding; collateralized debt includes MBS

Notes: Further information regarding liquidity assumptions is available in the disclosure section. The Investor Profile Asset Allocation Model was developed by Merrill Lynch Global Wealth Management for private clients. The Strategic allocations are identified by Merrill Lynch Global Wealth Management in collaboration with the Global Research Investment Strategy Group and are designed to serve as guidelines for a 20-30 year investment horizon. The Tactical allocations are provided by the Global Research Investment Strategy Group and reflect their outlook over the next 12-18 months. Numbers highlighted in bold signify changes.

Fixed-income allocation models for US clients

We believe that lower quality bonds will outperform Treasury securities during the next 12-to-18 months, and that investors would be better off in intermediate-term securities than in long-term securities or cash. For Conservative investors we favor investment grade corporate bonds. For the Moderate and Aggressive risk profiles, we are overweight both high yield and Emerging Market debt.

We're keeping a close eye on the potential for changes in the federal tax treatment of municipal bonds. President Obama has proposed that the tax exemption for munis and other tax preference items be valued at a 28% rate. Investors in higher federal marginal tax brackets would face a federal tax on municipal interest income equal to the difference between their marginal tax rate and 28% (i.e., the federal tax rate on municipal income would be 7% for someone in the 35% federal bracket.) This tax would apply to all outstanding municipal bonds, not just newly-issued bonds.

Table 18: Combined municipal and taxable recommended sector allocations by Investor Profile

	Conservative			Moderate**			Aggressive		
	Federal tax bracket								
Sector	<25%*	28%	35%	<25%*	28%	35%	<25%*	28%	35%
Munis	0%	45%	50%	0%	58%	63%	0%	75%	80%
Treasuries & CDs	40%	22%	20%	25%	10%	9%	23%	5%	4%
TIPS	3%	2%	2%	4%	2%	2%	4%	1%	1%
Agencies (GSEs)	35%	19%	17%	3%	1%	1%	2%	1%	0%
Mortgages	2%	1%	1%	25%	11%	9%	21%	5%	4%
Corporates	20%	11%	10%	24%	10%	9%	24%	6%	5%
Preferreds	0%	0%	0%	2%	1%	1%	3%	1%	1%
High Yield*	0%	0%	0%	6%	3%	2%	8%	2%	2%
International: Developed Markets	0%	0%	0%	3%	1%	1%	3%	1%	1%
International: Emerging Markets USD	0%	0%	0%	3%	1%	1%	5%	1%	1%
International: Emerging Markets Local	0%	0%	0%	5%	2%	2%	7%	2%	1%
TOTALS	100%	100%	100%	100%	100%	100%	100%	100%	100%
TAXABLE-Maturity									
1-4.99 years	100%	100%	100%	52%	52%	52%	53%	53%	53%
5-14.99 years	0%	0%	0%	41%	41%	41%	38%	38%	38%
15+ years	0%	0%	0%	7%	7%	7%	9%	9%	9%
TOTALS	100%	100%	100%	100%	100%	58%	100%	100%	100%
TAX EXEMPT-Maturity									
1-4.99 years	100%	100%	100%	10%	10%	10%	5%	5%	5%
5-9.99 years				30%	30%	30%	25%	25%	25%
10-14.99 years				30%	30%	30%	35%	35%	35%
15+ years				30%	30%	30%	35%	35%	35%
TOTALS	100%	100%	100%	100%	100%	100%	100%	100%	100%

* Including tax-deferred accounts like IRAs and 401(k)s. ** The Moderate Category applies to the "Moderately Conservative", "Moderate", and "Moderately Aggressive" Profiles.
Changes from last month are highlighted in bold.
Source: BofA Merrill Lynch Global Research

US Equity sector allocation models

Table 19: Portfolio Strategy team's US equity sector weightings by investor profile

	Weight in S&P 500	Conservative	Moderately conservative	Moderate	Moderately aggressive	Aggressive
Consumer Discretionary	11.2%	10.0%	6.0%	11.0%	12.0%	10.0%
Consumer Staples	10.9%	22.0%	15.0%	12.0%	8.0%	6.0%
Energy	11.2%	12.0%	12.0%	10.0%	12.0%	12.0%
Financials	14.7%	12.0%	12.0%	13.0%	7.0%	7.0%
Health Care	11.4%	12.0%	9.0%	11.0%	17.0%	18.0%
Industrials	10.5%	14.0%	12.0%	16.0%	18.0%	16.0%
Info Technology	20.3%	6.0%	8.0%	16.0%	23.0%	25.0%
Materials	3.5%	0.0%	4.0%	2.0%	3.0%	3.0%
Telecom Services	2.9%	3.0%	10.0%	3.0%	0.0%	3.0%
Utilities	3.5%	9.0%	12.0%	6.0%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: BofA Merrill Lynch Research Portfolios, S&P; S&P 500 Sector Weights are as of 30 April 2012; weights may not add up to 100% due to rounding.

Table 20: US Equity Strategy team's sector weightings in rank order of preference

Sector	S&P 500 Weight	BofAML Weight (+ / = / -)	Comments	Favored Industries/Sub-industries
Consumer Staples	10.9%	++	The only major sector* with no significant deceleration in expected earnings growth in 2012 Best performing sector historically when profits decelerate Contrarian: under owned by fund managers – Health Care is favored defensive play Quality, dividend yield and dividend growth Risks: inflation, upside surprise to profits growth	Food & Staples Retailing, Tobacco
Information Technology	20.3%	+	Ranks highest in our quant model on valuation, momentum and estimate revisions Sector has strong secular growth segments, and its cyclical segments are already in a downturn and discounting the worst Cash rich – yield, buyback, capex play Risks: consensus long, global recession, highest European exposure, gov't cuts for Comm. Equipment	IT Services, Software
Consumer Discretionary	11.2%	=	Media a beneficiary of ad spend (2012 elections & Olympics) Stock pickers industries: Restaurants and Retail Hedge against a global slowdown, as sector is domestically focused Risks: Higher oil prices, consumer deleveraging, employment, housing	Media, Restaurants
Health Care	11.4%	=	Performs well historically when profits decelerate Large-cap Pharmaceuticals – cheap, strong yield and unloved Risk: most government spending exposure of any sector	Pharmaceuticals for yield, Health Care Equipment & Services
Industrials	10.5%	=	B2B spending exposure Ranks well in our quant model on valuation, price momentum, and estimate revisions International exposure – Europe more of a concern than EM Defense names at risk from government spending cuts	Air Freight & Logistics, Electrical Equipment, Road & Rail
Energy	11.2%	=	Sector earnings currently reflect oil price of $91/bbl WTI – well below our forecast But oil price volatility since 2008 suggests higher risk premium is warranted Risks: global slowdown / recession	Energy Equipment & Services
Telecommunication Services	2.9%	=	Eclipses Utilities as sector with the highest dividend yield Good sector for stock pickers – low intra-stock correlations Crisis hedge – three periods of best performance were Lehman crisis, Greek crisis and US debt downgrade. Risks: poor quant model rank, protracted downward revision cycle	Diversified Telecom
Utilities	3.5%	=	Most expensive sector, no growth Deregulated Utilities pricing could benefit from EPA regulation if Democratic leadership Hedge against global macroeconomic uncertainty and weak equity market returns – yield play, purely domestic, and least correlated with the equity market	Regulated Utilities
Financials	14.7%	- -	High risk due to regulatory reform, litigation, further declines in home prices, stress in the European financial system, and slow US growth Old leadership rarely becomes new leadership 2012 dividend growth likely to eclipse earnings growth Secular growth theme: electronic payment systems	Insurance
Materials	3.4%	- -	Ranks poorly in Quant model (weak estimate trends and price momentum) All risk, no reward: highest beta among non-Financial cyclical sectors but lowest long term growth prospects	Chemicals

*Weights in S&P 500 as of 4/30/12 *Note: Financials growth is also expected to accelerate in 2012 but this is due to large writedowns in 2011 rather than real earnings power.
Source: BofA Merrill Lynch US Equity & US Quant Strategy

Core portfolio

The Core is a sector-driven US equity portfolio whose target sector weightings and selected industry representation are reflective of our US Equity Strategy team's current recommendations. Individual stocks are chosen based on their potential to deliver above average earnings growth, yet have attractive valuations based on P/E-to-EPS growth rate. Sector weights are benchmarked to the S&P 500.

Table 21: Core

			Price						
Sectors/Target Weights	Symbol	Proposed Weight	Close 5/4/2012	When added	Yield †	QRQ Rating	EPS Growth	P/E Ratio	Footnote
Consumer Discretionary (11%)									
priceline.com	PCLN	3%	736.07	$476.18	0.00%	C-1-9	20.0	23.91	Bbgijopsvw
Yum Brands Inc	YUM	3%	71.15	$38.52	1.60%	B-1-7	13.0	21.24	Bbijopsvw
Viacom (Cl. B)	VIAB	2%	48.25	$47.89	2.07%	B-1-7	19.2	11.19	#Bbgijopsv
Tiffany & Co.	TIF	3%	65.95	$49.34	1.76%	B-1-7	12.0	16.49	Bbijopsvw
Consumer Staples (15%)									
Green Mountain	GMCR	2%	25.10	$43.90	0.00%	C-2-9	30.8	35.86	Bbgijopsvw
Wal*Mart Stores	WMT	4%	58.70	$48.74	2.71%	A-1-7	9.0	16.04	Bbijopsv
CVS/Caremark	CVS	3%	45.42	$37.97	1.43%	B-1-7	14.0	18.17	Bbgijoprsvw
AB InBev	BUD	4%	73.56	$55.80	2.14%	A-1-7	9.6	23.51	Bbgijopsv
PM	PM	2%	89.13	$71.52	3.46%	B-1-7	9.7	23.03	Bbijpsw
Energy (12%)									
Halliburton	HAL	3%	32.53	$32.29	1.11%	C-1-7	16.0	15.71	Bbijopsvw
Schlumberger	SLB	3%	69.96	$70.11	1.57%	B-1-7	16.0	24.72	Bbijopvw
Occidental	OXY	3%	87.88	$98.60	2.46%	B-1-7	-0.8	15.47	Bbgijopsvw
Chesapeake	CHK	3%	17.39	$21.60	2.01%	C-1-7	9.9	5.89	BObgijopsvw
Financials (10%)									
ACE Limited	ACE	2%	76.44	$44.47	2.56%	B-1-7	10.0	9.83	Bbijopsvw
Amer Express	AXP	3%	60.10	$41.75	1.33%	B-1-7	10.0	17.89	BObijopsvw
BlackRock, Inc.	BLK	3%	183.17	$159.18	3.28%	B-1-7	12.0	16.82	Bbgijoprsvw
JP Morgan Chase	JPM	2%	41.75	$43.62	2.87%	B-1-7	8.0	10.54	#BObijopsvw
Health Care (11%)									
Express Scripts	ESRX	2%	54.23	$26.28	0.00%	B-1-9	20.0	23.38	BObijopsvw
Agilent	A	4%	41.01	$43.74	0.98%	B-1-7	16.5	20.51	Bbijopsv
Baxter	BAX	3%	54.65	$55.56	2.45%	B-1-7	12.0	13.73	Bbgijopsvw
Gilead	GILD	2%	50.27	$52.02	0.00%	B-1-9	11.2	13.62	BObgijopsvw
Industrials (10%)									
Dover Corp	DOV	3%	60.03	$66.30	2.10%	B-1-7	15.0	17.71	Bbijopsvw
Fluor Corp	FLR	3%	56.93	$63.35	1.12%	B-1-7	15.0	28.75	Bbgijopsvw
Honeywell Intl.	HON	2%	59.31	$37.82	2.51%	B-1-7	13.0	20.67	BObijopsvw
Boeing	BA	2%	75.84	$55.47	2.32%	B-1-7	16.0	17.08	BObijopsvw
Information Technology (22%)									
QUALCOMM	QCOM	3%	61.91	$43.25	1.62%	C-1-7	13.0	28.93	Bbijopsvw
Microsoft Corp	MSFT	3%	30.98	$22.65	2.58%	B-1-7	12.0	14.68	Bbijoprsvw
Visa	V	4%	117.79	$119.85	0.75%	B-1-7	N/A	30.36	Bbijopvw
EMC Corp	EMC	3%	27.80	$28.84	0.00%	C-1-9	N/A	22.06	Bbijopsvw
Apple	AAPL	3%	565.25	$259.69	1.88%	C-1-7	15.0	37.31	Bbijopsv
Google	GOOG	3%	596.97	$407.98	0.00%	C-1-9	17.3	20.16	#Bbgijopsv
Broadcom	BRCM	3%	34.63	$39.76	1.16%	C-1-7	15.0	12.73	Bbgijopsv
Materials (2%)									
FMC Corp	FMC	2%	106.07	$59.66	0.68%	B-1-7	9.0	21.92	Bbgijopsvw
Telecom Services (3%)									
Vodafone Group	VOD	3%	27.79	$28.25	5.97%	B-1-7	12.5	9.36	BObijopsv
Utilities (4%)									
Edison Int'l	EIX	4%	43.76	$40.68	2.97%	B-1-7	-3.0	12.57	Bbijopsv
Cash (0%)		*0%*							
		100%			1.77%				

†: Investors should be aware that foreign governments sometimes withhold a percentage of dividends paid to US shareholders, which may adversely impact an investor who is following the portfolio. This may affect the yield received when compared to the stated yield for the Research Portfolios.

Source: Bloomberg, BofA Merrill Lynch Global Research

Global stock lists

US 1 List (methodology)

Table 22: US 1 List (as of 7 May 2012)

Ticker	Company	Rating	Date added	Price when added	Price as of 4 May	Footnotes
ANF	Abercrombie	C-1-7	05/31/11	75.77	50.52	Bbijopsv
APC	Anadarko Petro	C-1-7	06/21/11	72.15	69.01	BObijopsvw
C	Citigroup	C-1-7	07/06/11	42.01	31.60	BObijopsvw
CNH	CNH Global	C-1-9	02/06/12	43.38	45.25	Bbijopsv
CMCSA	Comcast Corp	B-1-7	06/28/11	24.76	29.45	#BObijopsv
COV	Covidien	B-1-7	08/16/11	49.90	54.16	Bbijopsvw
CSX	CSX Corporation	B-1-7	04/02/12	22.12	22.15	BObijopv
DRI	Darden	C-1-7	03/05/12	50.80	50.62	Bbgijopsvw
DKS	Dick's	C-1-7	05/02/11	40.61	50.22	Bbijopsv
DG	Dollar General	C-1-9	04/02/12	46.76	47.56	BObgijpsv
EQIX	Equinix	B-1-9	04/23/12	151.34	158.94	Bbgijopsv
ESRX	Express Scripts	B-1-9	09/12/11	44.43	54.23	BObijopsvw
F	Ford Motor	C-1-7	08/09/11	10.91	10.67	BObijopsvw
HMSY	HMS	C-1-9	11/07/11	28.73	23.71	Bbijpsvw
HSP	Hospira Inc.	C-1-9	01/17/12	32.15	33.88	Bbijopsv
KLAC	KLA-Tencor	C-1-7	09/26/11	39.69	49.86	Bbijopsv
KFT	Kraft Foods Inc.	B-1-7	10/31/11	35.18	39.25	BObgijopsvw
LVS	Las Vegas Sands	C-1-7	09/12/11	47.54	54.13	Bbijopsvw
MRO	Marathon	B-1-7	06/30/11	31.98	26.80	BObgijopsvw
MET	MetLife Inc.	B-1-7	03/05/12	38.67	34.24	BObijopsvw
NEE	NextEra Energy	B-1-7	04/02/12	61.83	63.57	Bbgijopsvw
ORCL	Oracle	B-1-7	07/06/11	33.21	28.41	Bbijopsv
QCOM	QUALCOMM	C-1-7	10/31/11	51.60	61.91	Bbijopsvw
REGN	Regeneron Pharma	C-1-9	03/12/12	110.15	131.40	Bbijopv
SEE	Sealed Air Corp	B-1-7	01/23/12	19.40	17.69	BObgijopsvw
SPR	Spirit AeroSys-A	C-1-9	11/14/11	19.72	25.23	Bbijopsv
TDC	Teradata	B-1-9	12/27/11	49.56	73.14	Bbijpv
UTX	United Tech	B-1-7	02/13/12	84.88	79.48	BObijopsvw
WMT	Wal*Mart Stores	A-1-7	09/12/11	51.82	58.70	Bbijopsv
WCRX	Warner Chilcott	C-1-9	05/07/12		21.55	Bbijpsv

Note: We last modified this portfolio on 7 May 2012. Please see the original report for details, including price objectives and investment rationale. Please see Footnote Key at the back of this report. One or more members of the US 1 Committee (or a household member) owns stock of one or more companies on the US 1 list. Source: BofA Merrill Lynch Global Research

Endeavor, the Small Cap US Buy List (methodology)

Table 23: Endeavor stocks (as of 4 May 2012)

GICS sector	Company	Symbol	BofAML opinion	Price as of 4 May (US$)	Mkt value (US$ mn)	MLSCR Model scores (100=best; 1=worst) Aurora	Enhanced contrarian	Date added	Footnotes
Consumer Discretionary	AMERICAN AXLE & MFG HOLDINGS	AXL	C-1-9	9.50	701	80	97	8/9/2010	Bbgijopsvw
Consumer Discretionary	EXPRESS INC	EXPR	C-1-9	23.59	2,097	66	50	9/19/2011	Bbgijopsvw
Consumer Discretionary	FINISH LINE INC -CL A	FINL	C-1-7	22.66	1,164	38	42	7/13/2010	Bbjpw
Consumer Discretionary	SONIC AUTOMOTIVE INC -CL A	SAH	C-1-7	15.69	826	96	86	10/10/2011	Bbijopsvw
Consumer Staples	SUSSER HOLDINGS CORP	SUSS	C-1-9	27.50	572	97	89	7/5/2011	Bbijopsvw
Financials	SIGNATURE BANK/NY	SBNY	B-1-9	64.19	2,979	54	23	8/8/2011	Bbgijosv
Health Care	HEALTH MANAGEMENT ASSOC	HMA	C-1-9	6.80	1,728	72	95	7/14/2009	BObijpsw
Health Care	VIROPHARMA INC	VPHM	C-2-9	19.58	1,382	36	80	8/8/2011	Bbijopsvw
Health Care	PHARMERICA CORP	PMC	C-1-9	11.60	342	82	96	1/20/2009	Bbijpvw
Health Care	WELLCARE HEALTH PLANS INC	WCG	C-1-9	59.69	2,572	99	96	3/9/2012	Bbjp
Industrials	TAL INTERNATIONAL GROUP INC	TAL	B-2-7	38.21	1,283	80	90	9/19/2011	Bbgijopsvw
Industrials	ALASKA AIR GROUP INC	ALK	C-1-9	33.13	2,365	75	87	10/10/2011	Bbijopsv
Industrials	TRIUMPH GROUP INC	TGI	C-1-7	63.89	3,165	87	95	10/16/2007	Bbijopsv
Information Technology	ANCESTRY.COM INC	ACOM	C-1-9	25.20	1,074	77	80	10/12/2010	Bbgijopsv
Information Technology	KEMET CORP	KEM	C-1-9	8.22	367	18	86	9/19/2011	Bbgijopsvw
Information Technology	GT ADVANCED TECHNOLOGIES INC	GTAT	C-2-9	6.40	766	27	89	1/6/2011	Bbijopsv
Information Technology	CADENCE DESIGN SYSTEMS INC	CDNS	C-1-9	11.20	3,076	97	80	7/5/2011	Bbijopsv
Materials	GRAPHIC PACKAGING HOLDING CO	GPK	C-1-9	5.16	2,027	61	92	5/18/2011	Bbijopsv
Materials	NORANDA ALUMINUM HOLDING CP	NOR	C-1-7	9.03	609	91	96	4/16/2012	Bbijopsvw
Telecomm. Services	LEAP WIRELESS INTL INC	LEAP	C-1-9	4.78	379	76	94	3/9/2012	Bbijpsvw

Please see Footnote Key at the back of this report. Source: BofA Merrill Lynch Small Cap Research

US High Quality & Dividend Yield Screen (methodology)

Table 24: High Quality and Dividend Yield Screen (as of May 2012)

Date Added	Ticker	Name	Sector	ROE (%)	Debt/ equity	Yield (%)	Quality	Market value (US$ mn)	Cost Price	Price (US$)	QRQ	FCF/ DIV	Footnotes
10/1/2010	ABT	Abbott Labs	Health Care	20.2	0.63	3.3	A	97,580	52.24	62.06	A-2-7	2.1	BObijopsvw
4/1/2012	ADP	ADP	Information Technology	22.5	0.01	2.8	A	27,286	55.19	55.62	B-1-7	1.9	Bbijopsvw
4/1/2011	APD	Air Products	Materials	19.0	0.76	3.0	A	18,005	90.18	85.49	B-1-7	1.1	Bbijopsvw
11/1/2011	BAX	Baxter	Health Care	33.8	0.79	2.4	A	31,049	54.98	55.41	B-1-7	2.5	Bbgijopsvw
4/1/2012	CAG	ConAgra	Consumer Staples	16.3	0.58	3.7	A-	10,653	26.26	25.82	B-1-7	2.0	Bbijopsv
5/1/2012	CHRW	C.H. Robinson	Industrials	35.6	0.00	2.2	A+	9,758	59.74	59.74	B-2-7	2.0	Bbijopsvw
12/1/2010	CVX	Chevron	Energy	23.1	0.08	3.4	A+	210,666	80.97	106.56	A-2-7	2.0	Bbijopsvw
12/1/2010	EMR	Emerson	Industrials	23.0	0.55	3.0	A+	38,587	55.07	52.54	B-2-7	2.1	BObgijopsvw
11/1/2011	ETN	Eaton Corp	Industrials	17.5	0.47	3.2	A	16,126	44.82	48.18	B-1-7	2.6	Bbgijopsvw
12/1/2010	GD	General Dynamics	Industrials	18.0	0.28	3.0	A+	24,085	66.09	67.5	B-1-7	3.5	Bbgijopsvw
4/1/2012	GIS	General Mills	Consumer Staples	24.4	1.10	3.1	A+	25,070	39.45	38.89	B-1-7	1.8	Bbijopsvw
1/3/2012	HD	The Home Depot	Consumer Discretionary	21.1	0.60	2.2	A	79,838	42.04	51.79	B-1-7	2.4	BObijopsvw
3/1/2011	HON	Honeywell Intl.	Industrials	17.0	0.67	2.5	A-	47,034	57.91	60.66	B-1-7	2.0	Bbgijopsvw
2/1/2012	ITW	Illinois Tool	Industrials	18.4	0.47	2.5	A	27,759	53.03	57.38	B-1-7	3.1	Bbgijopsvw
2/2/2009	JNJ	Johnson & Johnson	Health Care	17.0	0.34	3.7	A+	178,677	57.69	65.1	A-2-7	1.5	BObgijopsvw
1/3/2012	KO	Coca Cola	Consumer Staples	26.8	0.95	2.7	A+	172,728	69.97	76.32	A-1-7	1.7	BObijopsvw
2/2/2009	MCD	McDonald's Corp	Consumer Discretionary	37.9	0.87	2.9	A	99,258	58.02	97.45	B-1-7	1.5	Bbgijopsvw
5/3/2010	MDT	Medtronic	Health Care	20.3	0.60	2.5	A	39,751	43.69	38.2	A-1-7	3.7	BObgijopsvw
8/1/2011	MSFT	Microsoft Corp	Information Technology	38.2	0.17	2.5	A-	239,119	27.40	32.015	B-1-7	3.6	Bbijoprsvw
4/1/2012	OXY	Occidental	Energy	18.9	0.16	2.4	A-	73,985	95.23	91.22	B-1-7	1.7	Bbgijopsvw
4/1/2012	PAYX	PAYX	Information Technology	35.5	0.00	4.1	A	9,993	30.99	30.98	C-2-7	1.3	Bbijopvw
3/1/2012	RTN	Raytheon Co.	Industrials	21.2	0.55	3.7	A-	18,401	50.52	54.14	A-1-7	2.9	Bbgijopsvw
3/1/2012	UNP	Union Pacific	Industrials	19.1	0.47	2.1	A	53,979	110.25	112.44	B-1-7	1.5	Bbgijopsvw
12/1/2010	UTX	United Tech	Industrials	23.1	0.44	2.4	A+	74,306	75.27	81.64	B-1-7	2.7	BObijopsvw
12/1/2010	WMT	Wal*Mart Stores	Consumer Staples	22.5	0.75	2.7	A+	102,892	54.09	58.91	A-1-7	1.9	BObgijopsv
2/1/2012	XOM	ExxonMobil	Energy	25.8	0.10	2.6	A+	406,940	83.74	86.34	A-1-7	2.2	Bbijopsvw
			Average	23.7	0.5	2.9		82,059				2.2	
			S&P 500 benchmarks:	16.1	1.1	2.1							

Note: Prices as of 4/30/12 and ratings as of publication date on 5/1/12. Calculations are based on data from the last 12 months. Financials stocks are excluded because they typically have very high Debt/Equity ratios that have nothing to do with their capital structure. We calculated the Return on Equity (ROE) of the S&P 500 after excluding companies with ROEs that were greater than two standard deviations above the mean. Disclaimer: These stocks have been selected according to the specified screening criteria and do not constitute a recommended list. Investors looking for a high quality dividend yield oriented investment can consider this analysis as one part of their decision making process, but should also consider other factors including fundamental opinions, financial risk, investment risk, management strategies and operating and financial outlooks.

Source: BofA Merrill Lynch Global Research, BofA Merrill Lynch US Quantitative Strategy, FactSet, S&P

International High Quality & Dividend Yield Screen (methodology)

Table 25: Global Non-US High Quality and High Dividend Yield Screen (as of May 2012)

Ticker symbol	ADR symbol	Company	Country	Sector	MCAP	Quality	Dividend yield (%)	BofAML Opinion	Price as of 3 May(US$)
BHPBF	BBL	BHP BILLITON PLC	United Kingdom	Materials	67,719	A-	3.4%	B-2-7	32.34
SCBFF	–	STANDARD CHARTERED	United Kingdom	Banks	58,237	A-	3.1%	B-2-7	23.57
CMPGF	CMPGY	COMPASS GROUP	United Kingdom	Auto, Dur, Services	19,867	A-	3.0%	B-1-7	10.55
MEGGF	MEGGY	MEGGITT	United Kingdom	Industrials	5,162	A-	2.6%	C-2-7	6.69
AZNCF	AZN	ASTRAZENECA	United Kingdom	Health Care	57,116	A	6.4%	B-2-7	44.19
IAPLF	IAPLY	ICAP	United Kingdom	Div Financials	3,998	A-	5.4%	B-1-7	6.08
SMAWF	SI	SIEMENS	Germany	Industrials	84,663	A-	4.3%	B-2-7	90.73
BHPLF	BHP	BHP BILLITON LTD	Australia	Materials	118,855	A-	2.9%	B-2-7	37.22
SNPHF	SNPHY	SANTEN PHARMACEUTICAL CO	Japan	Health Care	3,639	A-	3.0%	B-1-7	42.24
MPFRF	MPFRY	MAPFRE	Spain	Insurance	8,898	A	6.9%	B-1-7	2.82
BHPBF	BBL	BHP BILLITON PLC	United Kingdom	Materials	67,719	A-	3.4%	B-2-7	32.34

Note: Dividend yields are gross of taxes.

Source: BofA Merrill Lynch Global Quantitative Strategy, MSCI, IBES, S&P

Note: Please be aware that links on this page are directed to lists that are updated as of the date of this publication. There may have been updates to one or more lists. Financial Advisors should check for the latest available constituents.

Research portfolios and stock lists

Stock lists

Regional Focus or 1 Lists are best investment ideas chosen from among our Buy-rated stocks.

US
Asia-Pacific
Europe
Japan

Most Attractive Buy (MAB)

Designed to identify common stocks that are attractive based on technical analysis, the objective of this list is to capture short to intermediate-term (3-6 month) price appreciation, but positions can be held longer term.

Growth10 / Value10

Consist of 10 stocks each, chosen by the highest five-year EPS growth rate (Growth 10) or lowest trailing 12-month P/E ratio (Value 10) after quantitative screening criteria.

Stock portfolios

US Large Cap Equity

Five portfolios offerings are available to match each of the client profiles of Capital Preservation, Income, Income & Growth, Growth and Aggressive Growth. These match the risk profiles of conservative, moderately conservative, moderate, moderately aggressive and aggressive, respectively. A sixth portfolio called the Core Portfolio is designed to reflect weighting decisions of our US equity strategy team. Each of these portfolios employs a combination of top-down sector weightings and bottom-up stock selection focusing on the 10 GICS sectors.

Holdings
Primer

US Mid-Cap Equity

Launched in April 2010, this portfolio invests in stocks between $2-12 billion that are selected using a combination of fundamental, quantitative and portfolio management tools, and is built on the GICS sector framework.

Holdings
Primer

International Equity

This portfolio consists of ADRs and US-listed shares of non-US companies representing all major regions outside the US: Europe/Middle East/Africa, Asia, Latin America and Canada, and is built on the GICS sector framework.

Holdings
Primer

Global economic, interest rate, FX forecast summaries

Table 26: Global economic forecasts (as of 4 May 2012)

	GDP growth, %				CPI inflation*, %				ST interest rates**, %				Exchange rate***				
	2009	2010	2011F	2012F	2009	2010	2011F	2012F	Current	2010	2011	2012F	CCY pair	Spot rate	2010	2011	2012F
Global and Regional Aggregates																	
Global	-0.1	5.1	3.8	3.6	1.5	3.2	4.3	3.6	3.10	2.60	2.98	2.96					
Global ex US	0.8	5.7	4.3	4.1	2.0	3.7	4.6	4.0	3.92	3.27	3.74	3.76					
Developed Markets	-2.6	2.9	1.4	1.2	-0.3	1.4	2.7	1.9	0.61	0.57	0.58	0.54					
G5	-2.7	2.8	1.3	1.1	-0.4	1.4	2.7	1.9	0.52	0.46	0.46	0.43					
Emerging Markets	2.7	7.5	6.3	5.6	3.5	5.2	6.0	4.9	6.15	4.83	5.51	5.09					
Europe, Middle East and Africa (EMEA)	-2.0	2.7	2.4	0.8	2.5	3.2	4.1	3.3	2.68	2.54	2.63	2.59					
European Union	-1.0	2.0	1.6	0.0	0.1	2.0	3.1	2.4	1.26	1.20	1.28	1.29					
Emerging EMEA	-3.4	4.5	4.8	3.1	7.7	5.8	6.2	5.2	6.63	6.09	6.24	6.03					
PacRim	4.1	8.1	5.8	6.2	0.5	3.5	4.6	3.5	4.45	2.86	3.55	3.21					
PacRim ex Japan	6.2	8.9	7.1	6.9	1.0	4.4	5.6	4.2	5.54	3.45	4.23	3.80					
Emerging Asia	6.7	9.1	7.4	7.2	0.9	4.6	5.7	4.3	5.81	3.52	4.34	3.90					
Americas	-3.1	3.9	2.5	2.3	1.4	2.9	4.1	3.3	2.27	2.50	2.81	2.64					
Latin America	-2.0	6.3	4.5	3.5	6.4	6.3	6.7	6.7	7.94	8.88	9.92	9.40					
G5																	
US	-3.5	3.0	1.7	1.9	-0.4	1.6	3.2	2.1	0.250	0.130	0.125	0.125					
Euro area		1.9	1.5	-0.5		1.6	2.7	2.2	1.00	1.00	1.00	1.00	EUR-USD	1.31	1.34	1.30	1.33
Japan	-5.5	4.4	-0.7	2.4	-1.4	-1.0	-0.3	-0.2	0.10	0.05	0.05	0.05	USD-JPY	80	81	77	82
UK	-5.5	2.1	0.7	0.6	-1.4	3.3	4.5	2.8	0.50	0.50	0.50	0.50	EUR-GBP	0.81	0.86	0.83	0.83
Canada	-2.8	3.2	2.4	1.6	0.3	1.8	2.9	2.0	1.00	1.00	1.00	0.25	USD-CAD	0.99	1.00	1.02	1.03

Notes: Global and regional aggregates are based on the IMF PPP weights unless stated otherwise. Countries within each region are ordered according to these weights.

* Annual averages. The HICP measure of inflation is used for Euro area economies. ** Central bank target rate, year-end, where available, short-term rates elsewhere.

Note: US short-term rate forecast for 2012 year-end is 0-0.25%. Midpoint used in table above for global and regional aggregation purposes.

Source: BofA Merrill Lynch Global Research

Additional disclosure: US allocation models

Merrill Lynch Global Wealth Management provides Strategic asset allocation models, with and without alternative investments, to help provide investors with a range of investment solutions. Asset allocation models that include alternative investments are segmented into three liquidity tiers to provide additional flexibility and transparency when considering investment exposure to alternative investments. Under our classification scheme, alternative investments include Hedge Funds, Private Equity and Real Assets. Real Assets represent tangible non-traditional assets and other assets, which tend to offer inflation protection. For the model portfolio we include real estate (public and private), commodities and other inflation protection investments (eg, TIPS) in Real Assets. Historically, each asset class has had different return characteristics and varying correlations with other asset classes over different time periods. From an overall portfolio standpoint, it is beneficial for an investor to own non-correlated assets, which may help smooth return patterns over a longer time period. Commodities, for example, may perform differently than Equities. While correlation results vary over time and under different market conditions, the underlying theme of portfolio diversification has historically been critical.

Given that alternative investments tend to be less liquid investments, we do not provide Tactical recommendations for allocations to these asset classes. Investors should carefully evaluate with their Financial Advisor how best to implement allocation recommendations to alternative assets.

For asset allocation models including alternative investments, we define liquidity as the percentage of assets, by invested value, within a portfolio that can be reasonably expected to be liquidated within a given duration of time under typical market conditions. The asset allocation models were developed based on the following guidelines. The actual liquidity of a given portfolio may vary considerable depending on assets held it the portfolio and market conditions.

- **Tier 1 (Higher Liquidity):** Up to 10 of the portfolio may be unavailable for 3-5 years.
- **Tier 2 (Moderate Liquidity):** Up to 20 of the portfolio may be unavailable for 3-5 years.
- **Tier 3 (Lower Liquidity):** Up to 30 of the portfolio may be unavailable for 3-5 years.

The Strategic allocation models provide long term (20 years or more) benchmarks and are relevant to developing a long term investment strategy. The Tactical asset allocation models, which reflect a 12-18 month horizon, are intended to help investors evaluate shorter term market opportunities and risks for their portfolio. Investors should work with their Financial Advisor to discuss their personal financial situation and goals, and determine which asset allocation strategy is appropriate. With any investment strategy, investors should also consider liquidity needs, taxes, and transactions costs. These factors may be given even more weight in making Tactical decisions within portfolios.

It is important to note that liquidity and other investment characteristics of an investor's portfolio may vary significantly from the models based upon the actual investments selected and market conditions. Investors should communicate with their Financial Advisors to determine the appropriateness and alignment of their chosen asset allocation with their tolerance for risk, need for liquidity, and alignment with their financial goals and other specific circumstances.

Methodology: US 1 List

The US 1 List represents a collection of our best investment ideas that are drawn primarily from US fundamental equity research analysts' "Buy" recommendations. To be included in the list, stocks must be listed in the US and must have an average daily trading volume of at least $5mn in the six months preceding their selection for the list. Once selected, a stock will remain on the list for 12 months unless the US 1 Committee removes the stock in connection with a downgrade or otherwise. At the end of the 12-month period, the Committee may extend a company's inclusion on the list for another 12 months if it continues to meet the US 1 criteria.

The list will generally consist of between 20 and 30 equally weighted stocks, but not fewer than 15 stocks. It will be rebalanced to achieve equal weighting in connection with the addition and deletion of any stock. Sector weighting in the selection process is considered. However, the US 1 list is not required to reflect the weights of the S&P 500 or any other index.

A US 1 Index will be established to track the performance of the list. The Index will be calculated on both a price-return (without the reinvestment of dividends) and a total-return basis and will be available on Bloomberg at (MLUS1PR <Index>) and (MLUS1TR <Index>), respectively.

Methodology: Endeavor List

Endeavor is a concentrated list of approximately 15 to 20 smaller cap stocks that represents the strategic views of BofA Merrill Lynch Small Cap Research. The Endeavor list includes those smaller cap stocks that are most compelling using a multi-disciplinary process. Candidates for the Endeavor buy list carry a favorable view by a BofA Merrill Lynch Fundamental Analyst and are attractively ranked by our Aurora (growth) or Enhanced Contrarian (value) quantitative models.

Methodology: US High Quality & Dividend Yield Screen

We list a screen of preferred securities that meet specified selection criteria and have relatively high yields for their credit rating and industry sector. The US High Quality & Dividend Yield Screen is not a recommended list.

Screening criteria

We combined our two secular themes through the following criteria. In our view, these screening factors were likely to uncover higher-quality companies that offered relatively secure dividend yield. The stocks are selected from the S&P 500.

- S&P Common Stock Rank of A+, A, or A-. The S&P Common Stock Rankings are our main measure of quality. These rankings are based primarily on the growth and stability of earnings and dividends over a 10-year period.
- Return on Equity (ROE) greater than the average S&P 500 ROE.
- Debt/Equity lower than the S&P 500.
- Dividend yield greater than the S&P 500.
- BofA Merrill Lynch Research Investment Opinion indicates Buy or Neutral as well as the likelihood that the dividend will remain the same or be increased (ie, a dividend rating of “7”).
- The ratio of the last 12 months’ free cash flow to dividends must be greater than 1.0.

Methodology: International High Quality & Dividend Yield Screen

We list a screen of preferred securities that meet specified selection criteria and have relatively high yields for their credit rating and industry sector. The International High Quality & Dividend Yield Screen is not a recommended list.

This monthly screen selects high quality and high dividend yield stocks from the MSCI AC World ex-USA Index covered by BofA Merrill Lynch Global Research. The screen uses the following criteria to uncover higher quality companies that offer relatively secure dividend yield.

- S&P Common Stock Rank (quality rank) of A+, A, or A-. The S&P Common Stock rankings are our main measure of quality. These rankings are based on the stability and growth in earnings and dividends over a seven-year period for non-US companies.
- Return on Equity (ROE) greater than the MSCI Index.
- Debt/Equity lower than the MSCI Index.
- Dividend yield greater than the MSCI Index.
- BofAML Investment Opinion indicates Buy or Neutral, as well as the likelihood that the dividend will remain the same or be increased (ie, a dividend rating of 7).
- The ratio of the past 12 months’ free cash flow to dividends is greater than 1.0.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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FX and Rates Strategist
MLPF&S

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MLPF&S

Brian Leung
Global Equity Strategist
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