



Global weekly

US economy set for a rebound

Research & Strategy
15 March 2013

| Asset allocation | I | | | II | | |
|------------------|-----|-----|-----|-----|-----|-----|
| | Saa | Taa | • | Saa | Taa | • |
| Money | 5 | 18 | 13 | 5 | 4 | -1 |
| Bonds | 90 | 74 | -16 | 70 | 58 | -12 |
| Equities | 0 | 0 | | 15 | 23 | 8 |
| Alternatives | 5 | 8 | 3 | 10 | 15 | 5 |
| Hedge funds | 5 | 8 | 3 | 5 | 8 | 3 |
| Real estate | 0 | 0 | | 3 | 5 | 2 |
| Commodities | 0 | 0 | | 2 | 2 | |

Macro

US economy set for a rebound in Q1

Data during the week suggested that the US economy is in better shape than earlier thought. Indeed, retail sales rose by 1.1% in February, lifted by an increase in gasoline prices and car sales.

There was also surprising strength outside these two categories, with core sales rising by 0.4%, after an upwardly revised 0.3% increase in January. This all suggests that consumers are coping surprisingly well with the recent tax increase.

Business inventories were also stronger than expected, rising by 1% in January. We had expected that companies would rebuild their inventories at a stronger pace in Q1, after Hurricane Sandy had prevented them from adding to their inventories in the fourth quarter of last year. The pace of inventory accumulation, however, was even stronger than we had anticipated.

We now expect that the US economy will grow by around 2.5% in Q1, suggesting a strong rebound in Q1 GDP, after the meagre performance in the final quarter of 2012.

Eurozone industrial production fell by 0.4% in January, although this followed a 0.9% increase the month before. The trend in production, while still negative, is gradually moving upwards. This is in line with our scenario that the recession will end in the first half of this year.

Global Investment Committee (GIC) decisions

The GIC did not meet this week, and there are no changes in the asset allocation.

We are strongly overweight in equities and have an underweight in bonds. Hedge funds are overweight in profiles 1 and 2, neutral in profiles 3 and 4, and underweight in profiles 5 and 6. We are overweight in property and neutral in commodities. Cash is overweight in profile 1 and underweight in all other profiles. For more information, see the individual asset allocation portfolio profiles on the left.

| Asset allocation | III | | | IV | | |
|------------------|-----|-----|-----|-----|-----|-----|
| | Saa | Taa | • | Saa | Taa | • |
| Money markets | 5 | 0 | -5 | 5 | 0 | -5 |
| Bonds | 55 | 44 | -11 | 35 | 23 | -12 |
| Equities | 30 | 44 | 14 | 50 | 65 | 15 |
| Alternatives | 10 | 12 | 2 | 10 | 12 | 2 |
| Hedge funds | 5 | 5 | 0 | 5 | 5 | 0 |
| Real estate | 3 | 5 | 2 | 3 | 5 | 2 |
| Commodities | 2 | 2 | | 2 | 2 | |

| Asset allocation | V | | | VI | | |
|------------------|-----|-----|----|-----|-----|----|
| | Saa | Taa | • | Saa | Taa | • |
| Money | 5 | 0 | -5 | 5 | 0 | -5 |
| Bonds | 15 | 11 | -4 | 0 | 0 | |
| Equities | 70 | 84 | 14 | 85 | 95 | 10 |
| Alternatives | 10 | 5 | -5 | 10 | 5 | -5 |
| Hedge funds | 5 | 0 | -5 | 5 | 0 | -5 |
| Real estate | 3 | 3 | | 3 | 3 | |
| Commodities | 2 | 2 | | 2 | 2 | |

Saa = Strategic asset allocation Taa = Tactical asset allocation • = Deviation

| Macro forecasts for 2013 (%) | | | | |
|------------------------------|-----------------|--------|-----------|--------|
| | Real GDP Growth | | Inflation | |
| | ABN AMRO | Market | ABN AMRO | Market |
| US | 2.0 | 2.0 | 1.7 | 1.9 |
| Eurozone | -0.2 | -0.1 | 1.5 | 1.9 |
| UK | 0.8 | 1.0 | 2.2 | 2.6 |
| Japan | 2.3 | 0.7 | 0.3 | -0.2 |
| Other countries* | 2.0 | 2.1 | 1.8 | 1.5 |
| EM Asia | 6.6 | 6.8 | 4.6 | 4.3 |
| Latin America | 3.8 | 3.5 | 6.4 | 6.4 |
| EEMEA** | 2.6 | 2.8 | 5.0 | 5.9 |
| World | 3.3 | 3.2 | 3.7 | 3.4 |

All Forecasts are annual averages of quarterly year-on-year changes.

*Australia, Canada, Denmark, New Zealand, Norway, Sweden and Switzerland **EEMEA: Eastern Europe, Middle East and Africa.

Source: ABN AMRO Group Economics, Consensus Economics, EIU

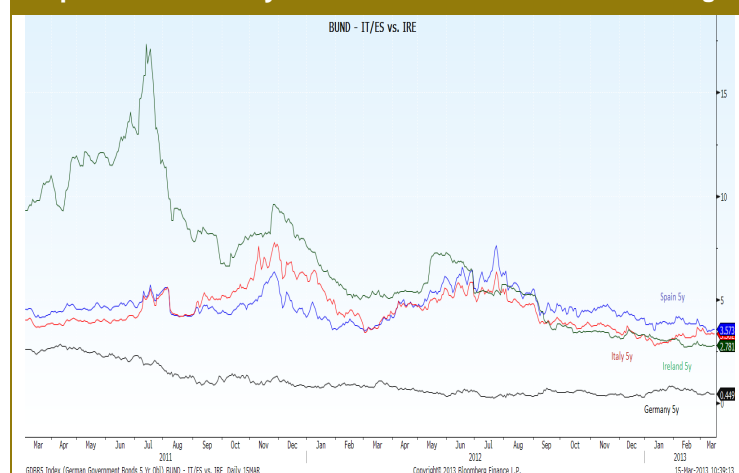
Government bond yields

| | 10-2yr (bp) | 2-yr (%) | 10-yr(%) |
|------------------|-------------|----------|----------|
| US Treasuries | 177 | 0.26 | 2.03 |
| German Bunds | 141 | 0.06 | 1.47 |
| Gilts | 174 | 0.22 | 1.96 |
| JGB | 58 | 0.04 | 0.62 |
| EMBI+ | 272 | ----- | ----- |
| iTraxx Euro 5-yr | 104 | ----- | ----- |

Central banks watch

| | Current | Date | Expectation |
|-----|----------|---------------|-------------|
| ECB | 0.75 | 04 April 2013 | No change |
| Fed | 0.0-0.25 | 20 March 2013 | No change |

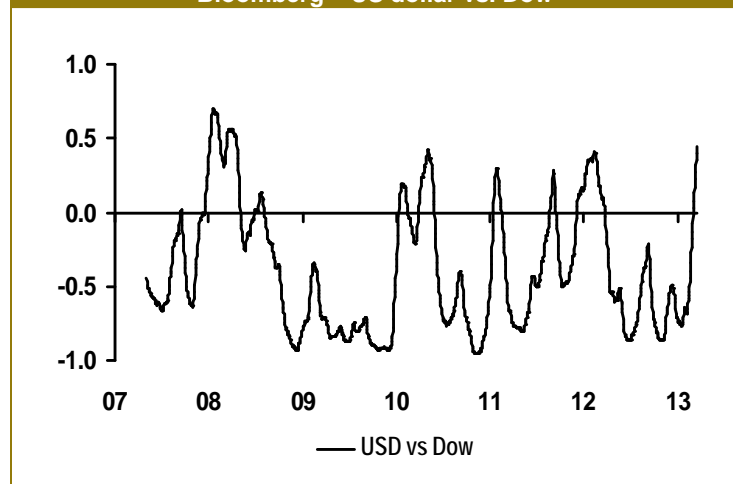
Spanish & Italian yields vs. German Bund - Bloomberg



Currency forecasts

| | Jun. 13 | Sep. 13 | Dec. 13 | Dec.14 |
|---------|---------|---------|---------|--------|
| EUR/USD | 1.30 | 1.25 | 1.20 | 1.10 |
| GBP/USD | 1.49 | 1.45 | 1.41 | 1.38 |
| USD/JPY | 90 | 92 | 95 | 105 |

Bloomberg – US dollar vs. Dow



Bonds

Last week's highlights (11 - 15 March)

Despite the continuing rally in equity markets, German bonds also gained over the week. Two-year German yields declined, despite the EUR 4.3 bln auction of two-year notes. US Treasuries were broadly unchanged on the back of USD 21 bln issuance of ten-year notes last week. Peripheral yields moved up because of ongoing political uncertainty. Italy tapped the markets for EUR 7 bln and Spain issued EUR 800 mln through an unscheduled auction for primary dealers.

This week's focus (18 - 22 March)

This week bond markets will focus on the FOMC meeting and press conference on Wednesday. In Europe, markets will closely watch the ZEW index to be released on Tuesday and the Ifo business climate index on Friday. In addition, further communication could be expected about the outcome of last week's EU summit.

Topic of the week: Ireland returns to the market

Last week, Ireland successfully sold its first public issuance of ten-year government bonds since the country was rescued in 2010. The Treasury initially expected to sell EUR 3 bln, but the market actually absorbed a EUR 5 bln issue. Ireland's return to the bond market is being closely watched, as the sovereign would probably qualify for the ECB's OMT programme should it be locked out of the capital markets again. If Ireland can maintain the current momentum, it would certainly be positive for other troubled nations and could enable them to also benefit from strengthening market confidence.

Foreign exchange

From risk-on and risk-off to searching for growth

We see increasing signs that a seismic shift is underway in the currency markets. Risk appetite is growing, with the VIX hitting a six-year low earlier this week. At the same time, a moderate recovery in global growth is taking shape. Indeed, there are continuing signs that the US private sector is coping rather well with the fiscal drag. The change in environment is leading to a rotation of the currency markets' key drivers. The shift from a risk-on to a risk-off mode and back again, which dominated the currency markets - and indeed global markets - for so long, is now much less prevalent. This means that the focus is moving towards returns and economic growth and, therefore, cyclical differences.

The revival of the dollar

The most visible sign of a reviving dollar is its reaction to positive US data. The dollar fell on the unwinding of safe-haven demand. It is now strengthening again on the view that US assets will generate higher returns. This is reflected in the correlation between the US dollar and the VIX turning negative.

The correlation between the greenback and the US equity markets is also becoming sharply positive. This supports our view that the relative strength of the US economy in the coming quarters will drive the dollar higher against other advanced economies' currencies.

The expectation that the Fed will raise its benchmark rate in 2015 should lead to broad-based dollar strength in 2014. Shale oil & gas as well as fiscal consolidation bode well for the country's external imbalances.

| Sector indices | | | | |
|--------------------|--------|---------|---------|------|
| Index | Level | P/E '13 | Div (%) | %YTD |
| S&P 500 | 1'563 | 14.1x | 2.2% | 10.1 |
| Euro Stoxx | 2'735 | 11.4x | 4.2% | 4.5 |
| Nikkei 225 | 12'561 | 24.1x | 1.6% | 19.2 |
| FTSE100 | 6'526 | 12.0x | 3.8% | 11.7 |
| AEX | 355.5 | 12.0x | 3.1% | 4.1 |

| Important rating changes | | |
|--------------------------|--------|--------|
| Company | From | To |
| Syngenta | Buy/RL | Hold |
| Unibail-Rodamco | Buy | Hold |
| Merck | Hold | Sell |
| American Express | Buy/RL | Hold |
| Apple | Hold | Buy/RL |
| Linde | Hold | Sell |
| Bureau Veritas | Hold | Sell |
| Qiagen | Hold | Buy/RL |
| Teva Pharma | Hold | Buy/RL |
| Coca Cola | Buy/RL | Hold |
| Emerson Electric | Buy/RL | Hold |
| BASF | Buy/RL | Hold |
| DaVita | Buy | Hold |
| Allianz | Buy/RL | Hold |
| Agrium | Buy/RL | Hold |

Equities

Last week's highlights (11 - 15 March)

Last week was a very good one for global equity investors, with most indices ending the week 1-2% higher. The US job report, retail sales and inflation have convinced many investors that the recovery of the world's largest economy is gaining momentum, despite tax increases and government spending cuts.

This week's focus (18 - 22 March)

With the earnings season nearly finished, investor focus will move back to macro and political factors. In particular, there are issues in Italy, where the Parliament is trying to find a way out of the election gridlock, and Japan, where the Bank of Japan could announce further easing measures as early as its next meeting on 3-4 April.

Topic of the week – Overweight equities further increased

Last week, we further raised our overweight position in equities, for the following reasons:

- u A stronger conviction of a gradual broadening of the global economic recovery.
- u The relative attractiveness of equities versus other asset classes, and, in particular, cash and bonds.
- u The magnitude and duration of central banks' monetary easing.
- u The progressive increase in equity fund inflows.
- u The belief that potential market setbacks will be short-lived, with equity markets showing strong resilience to negative news.

Commodities

Shale gas revolution

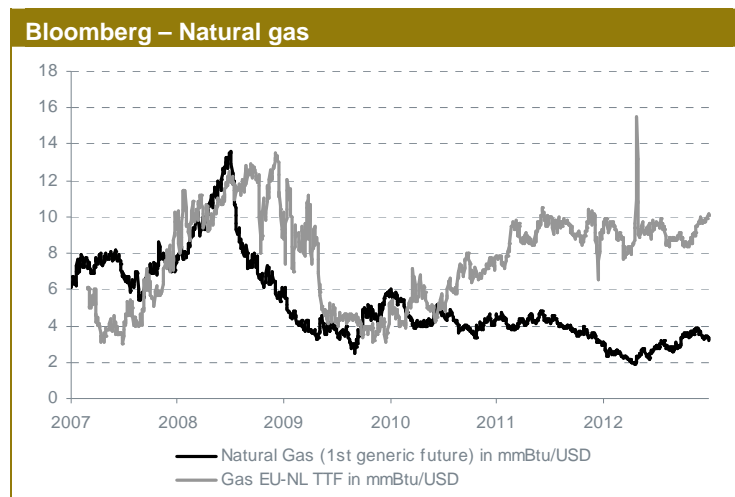
New technology has driven the production of shale gas, which has grown tremendously, especially in the US. This is having a major impact on the global energy markets (not just the US market) and on geopolitical relations.

The impact of shale technology on the US economy can already be seen, and further development of shale gas extraction will continue for many years. New policies, however, will have to be implemented to overcome the problems that the energy sector faces if shale technology continues to spread across the globe.

The drive for energy independence and interest in shale technology is not limited to the US. But due to political and social discussions about the environmental impact of shale extraction in Europe, and the lack of infrastructure and knowledge in Asia, a similar revolution will not likely take place elsewhere in the coming decade.

We believe that US shale gas will be used much more, and especially for electricity production. Although the share of natural gas in the overall energy mix will likely increase significantly, it will take massive investments and many years before this will be achieved.

Total energy-independence for the US, from an oil perspective, seems very unlikely. US demand (18.5 million barrels per day) will remain much higher than local production, meaning that the deficit will have to be imported. Nevertheless, the dependence of the US on the geopolitical-sensitive Middle East could be significantly reduced.



| Commodity prices - Bloomberg | | |
|------------------------------|----------|---------|
| | 14 March | 7 March |
| Gold | 1590 | 1578 |
| Brent | 109.42 | 111.15 |
| Copper | 7800 | 7765 |
| Wheat | 724 | 695 |

Disclaimer

© Copyright 2013 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"), Gustav Mahlerlaan 10, 1082 PP Amsterdam / P.O. box 283, 1000 EA Amsterdam, The Netherlands. All rights reserved. This material was prepared by the Investment Advisory Centre (IAC) of ABN AMRO. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to in this material may not be appropriate or suitable for the specific investment objectives, financial situation, knowledge, experience, or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO or its officers, directors, employee benefit programs or co-workers, including persons which were involved in preparing or issuing this material, may from time to time hold long- or short-positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may offer and render at any time investment banking-, commercial banking-, credit-, advice-, and other services to the issuer of any security referred to in this material. Pursuant to offering and rendering such services, ABN AMRO may come into possession of information not included in this material and ABN AMRO may prior or immediately after publication thereof have acted based on such information. In the past year, ABN AMRO may have acted as lead manager or co-lead manager with regard to a public offering of securities from issuers as mentioned in this material. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. This document is solely intended for dissemination amongst private/retail customers in a PC country. Distribution to private/retail customers in any jurisdiction that would require registration or licensing of the distributor which the distributor does not currently have, is not permitted. Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

US Securities Law

ABN AMRO Bank N.V. is not a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 Act") and under applicable state laws in the United States. In addition, ABN AMRO Bank N.V. is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, absent specific exemption under the Acts, any brokerage and investment advisory services provided by ABN AMRO Bank N.V., including (without limitation) the products and services described herein are not intended for U.S. persons. Neither this document, nor any copy thereof may be sent to or taken into the United States or distributed in the United States or to a US person.

Other jurisdictions

Without limiting the generality of the foregoing, the offering, sale and/or distribution of the products or services described herein is not intended in any jurisdiction to any person to whom it is unlawful to make such an offer, sale and/or distribution. Persons into whose possession this document or any copy thereof may come, must inform themselves about, and observe, any legal restrictions on the distribution of this document and the offering, sale and/or distribution of the products and services described herein. ABN AMRO cannot be held responsible for any damages or losses that occur from transactions and/or services in defiance with the restrictions aforementioned.

Sustainability Indicator Disclaimer

ABN AMRO Bank N.V. has taken all reasonable care to ensure the indicators are reliable, however, the information is unaudited and subject to amendment. ABN AMRO Bank is not liable for any damage that constitute from the (direct or indirect) use of the indicators. The indicators alone do not constitute a recommendation in relation to a specific company or an offer to buy or sell investments. It should be noted that the indicators represent an opinion at a specific period of time considering a number of different sustainability considerations. The sustainability indicator is only an indication regarding the sustainability of a company within its own sector.

Company disclosures

ABN AMRO may beneficially hold a major shareholding or a significant financial interest of the debt of this company. ABN AMRO currently maintains a market in the security of this company and otherwise purchases and sells securities of this company as principal. ABN AMRO has received compensation for investment banking services from this company, its subsidiaries or affiliates during the previous 12 months. All disclosures made herein refer to ABN AMRO and its affiliates, including ABN AMRO Incorporated, which is regulated in the United States by the NYSE, NASD and SIPC.

Personal disclosures

The information in this opinion is not intended as individual investment advice or as a recommendation to invest in certain investments products. The opinion is based on investment research of ABN AMRO IAC. The analysts have no personal interest in the companies included in this publication'. Their remuneration for this work is not, was not and will not be related directly or indirectly to the specific recommendations or views expressed in this opinion.

This is an international ABN AMRO publication. For further information and contact details, visit our website:
www.abnamroprivatebanking.com