J.P.Morgan

North America Equity Research
17 June 2011

Circle of Life

Greece creating overhang on markets. But US private savings at record $1.7T, harbinger for hiring & credit growth.

Please join us for a conference call on Friday, June 17th at 10:00am ET to discuss this report and our outlook. Conference call details are shown to the right below.

We remain constructive, but let us be realistic: one can assert the data is going up, or that valuations are cheap, but at the moment the world is seemingly hostage to a binary outcome in Greece (to prevent a wider fallout among peripheral Europe, hence, Euro-area bank system). Still, the S&P 500 is on track to be down for a 7th consecutive week. This has not happened during a bull market since 3/28/80 and is an important reminder to us that significant adjustments in asset prices, investor position, sentiment, and technicals have taken place in the past 7 weeks:

- There is only one instance in a bull market (since '28) of the S&P 500 being down 7 weeks in a row which was 3/28/80 (then interest rates were rising rapidly). The market subsequently rallied 15% over the next 3 months—supports summer bounce and summer of Cyclicals (see Figure 4).
- US corporate and household balance sheets are benefitting from a massive savings level. Current annualized combined HH and corporate savings is running at $1.7T, the largest ever since 1950 (see Figure 10) and well ahead of the prior peak of $1.5T in 4Q05. Household annual savings are at an all-time high of $711b annually while corporates savings of $1.0T are below prior 2005 peak of $1.4T. Because we see continued expansion of corporate margins, this should lead to further increase in savings.
- The outlook for US households should improve in coming months (more than just oil declining) as current corporate profit/employee of $15,610 (Figure 13) (up 16% on average in past 4 qtrs) is historically consistent with payrolls expanding by 240k per month—in other words, we see room for further expansion of payrolls. Moreover, the number of US mortgages are, for the first time since 2007, expanding modestly (up 177k in 1Q, see Figure 20) after falling by nearly 3mm over past 3 years. The latter points to incrementally better credit access for HH, which we believe has hampered a stronger economic recovery.
- Investor positioning is much further along in its adjustment compared to two weeks ago. Consider that mutual fund beta is now 1.03 down from 1.24, and HF beta from 0.47 to 0.16—a rapid adjustment but for those half-empty, not as low as last August when MF beta fell to 0.68, and HF -0.33 (but who says it has to get to those levels?).
- We are adding two additional signals (to three previously cited in past pieces) to argue for a summer bounce (led by Cyclicals). (1) Cyclicals RSI (relative strength) fell to 37 recently (Figure 28) and historically Cyclicals have gained 6-months later 92% of the time with an average gain of 16%. (2) Only 18% of Cyclicals are above their 50-day moving average and historically, Cyclicals gain 6-months later 100% of the time with an average gain of 20%. The others, recall, are (3) EASI turning up; (4) AAII % Bulls less % Bears, and (5) Cyclicals' relative P/E.

MARKET STRATEGY: 13 IDEAS. We have identified 13 ideas using the following criteria: 1) Cyclical sector, 2) Price < 50d mavg, 3) RSI < 33, 4) Rated OW, 5) Upside to target price, 6) Mkt Cap > $3b, 7) P/B < 2.0x, The tickers are: **MAN, NUE, AA, SPLS, RCL, CA, TXT, JEC, SNPS, MHK, IR, GE,** and **RSG**.

US Equity Strategy

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Please join us for a conference call on Friday, June 17 at 10:00am ET to discuss this report and our outlook. Conf call details are below:

• Friday, June 17th, at 10:00am ET

• DIAL IN: 877-917-2514 (US); +1-517-308-9201 (outside US); Passcode: Strategy.

• Replay through 6/24: 866-428-3806 (US); +1-203-369-0907 (outside US); Passcode: 4292. Replay available approximately one hour after the call ends.

See page 62 for analyst certification and important disclosures.

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#1: Reasons the data should turn up in next few months…

Historically, markets do well during the summer...

We analyzed market performance during June through August over the last 111 years (see Figure 1). On average, markets are up by 3% with a win ratio of 60%. If we focus just on bull market years (which applies to the current market), markets are up 5% on average, with a 77% win ratio.

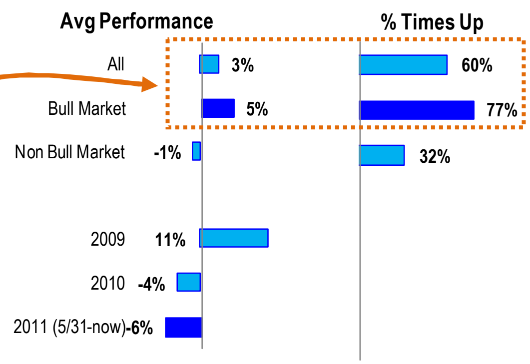
- 2009 saw returns of 11% during June through August. In contrast, 2010 saw negative returns of -4%, which is an exception to the normal historical trend.
- At the current June LTM P/E of 15.0x, markets historically have seen a 6% return during June through August. Since the start of June, the S&P500 is currently down -6%, so we expect to see a rally during the summer.

Figure 1: Performance of S&P 500 June through August

Perf during bull markets from 05/31 to 8/31

Since 1900 (Pre-1928: Dow Jones, Post-1928: S&P500)

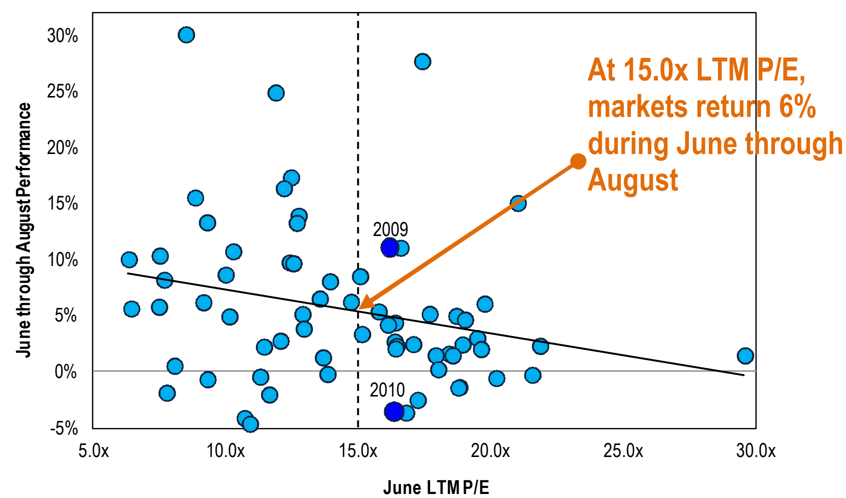
Markets do well during the summer…. Bull markets are up 5% on average with a 77% win ratio



Source: J.P. Morgan and FactSet

Figure 2: June-September S&P 500 Perf vs. P/E as of June

During Bull Markets since 1900



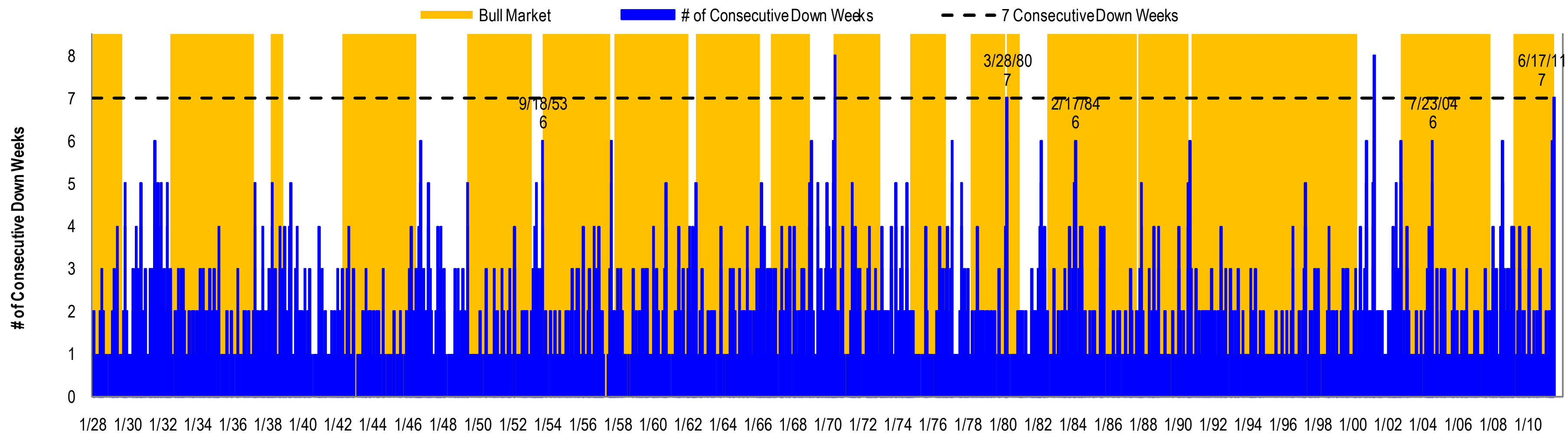
Source: J.P. Morgan and Bloomberg

S&P 500 on track to be down for 7th consecutive week

The S&P 500 is currently on track to be down for a 7th consecutive week. This has not happened during a bull market since 3/28/80 and is an important reminder to us that significant adjustments in asset prices, investor position, sentiment, and technicals have taken place in the past 7 weeks.

Figure 3: # of Consecutive Down Weeks on S&P 500

# of Consecutive Weeks in which S&P 500 is down (Friday to Friday)



Source: J.P. Morgan and Bloomberg

In the one instance of 7 consecutive down weeks during a bull market in March 1980, the market subsequently rallied 15% over the next 3 months—supporting our view of a summer bounce and summer of Cyclicals (see Figure 4).

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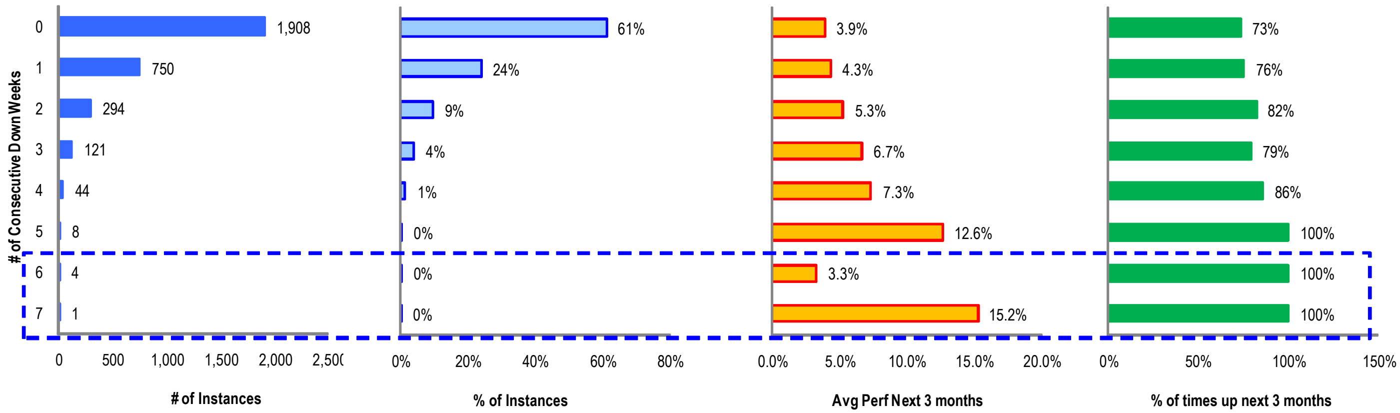
Figure 4: # of Consecutive Down Weeks vs. S&P 500 Fwd 6-Month Performance

During Bull Markets since 1928



Source: J.P. Morgan and Bloomberg.

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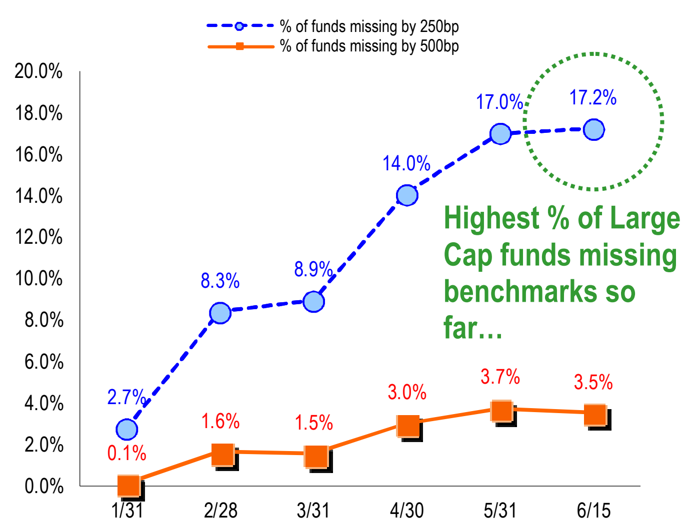
Fund Manager Performance Lagging, but de-risking is only half way there...

Year to date, active managers saw further deterioration in relative performance vs. their benchmarks. As of 6/15, 20% of active managers are missing their benchmarks by 250bp, whereas 7% are missing by 500bp or more. Takeaways:

- **17.2% of Large Cap funds are missing benchmarks by 250bp, the highest percentage so far for the year**. As for funds missing by 500bps, the percentage has dipped slightly (0.2%) since peaking at 3.7% at the end of May.
- **Growth** managers are lagging badly across all sizes. **Value** managers are lagging by smaller margins

Figure 5: More Large Cap Funds are missing benchmarks…



Source: J.P. Morgan, MBA and US Federal Reserve

Figure 6: Fund Manager Performance vs Benchmarks

Benchmark	# of Funds	AUM ($b)	Relative Performance (2011 YTD): % Missing by at least 500bp	% Missing by at least 250bp	% Beating by at least 250bp	% Beating by at least 500bp	Relative Performance (12/31/2007 to Now): % Missing by at least 500bp	% Missing by at least 250bp	% Beating by at least 250bp	% Beating by at least 500bp
			Missing ←		→ *Beating*		*Missing* ←		→ *Beating*	
Large Cap										
Russell 1000	531	$1,146	3%	13%	10%	3%	28%	43%	24%	17%
Russell 1000 Value	336	$633	2%	12%	15%	1%	16%	26%	47%	37%
Russell 1000 Growth	454	$875	5%	26%	6%	2%	54%	67%	19%	14%
Large Cap Total	**1,321**	**$2,654**	**3%**	**17%**	**10%**	**2%**	**34%**	**47%**	**28%**	**21%**
Small & Mid Cap										
Russell 2000	209	$199	4%	11%	21%	4%	34%	38%	40%	33%
Russell 2000 Value	107	$87	4%	7%	20%	6%	16%	19%	61%	53%
Russell 2000 Growth	206	$128	4%	11%	28%	8%	48%	54%	28%	20%
Russell Midcap Value	118	$121	4%	15%	14%	4%	28%	38%	39%	34%
Russell Midcap Growth	225	$208	11%	38%	7%	3%	53%	60%	27%	20%
Russell 3000	11	$13	27%	45%	36%	9%	11%	11%	67%	67%
Small & Mid Cap Total	**876**	**$755**	**6%**	**18%**	**18%**	**5%**	**39%**	**45%**	**37%**	**29%**
MSCI / Other	**712**	**$635**	**13%**	**28%**	**22%**	**9%**	**39%**	**44%**	**44%**	**37%**
All Funds	**2,909**	**$4,043**	**7%**	**20%**	**15%**	**5%**	**37%**	**46%**	**34%**	**27%**

Source: J.P. Morgan, Strategic Insight, and Bloomberg.

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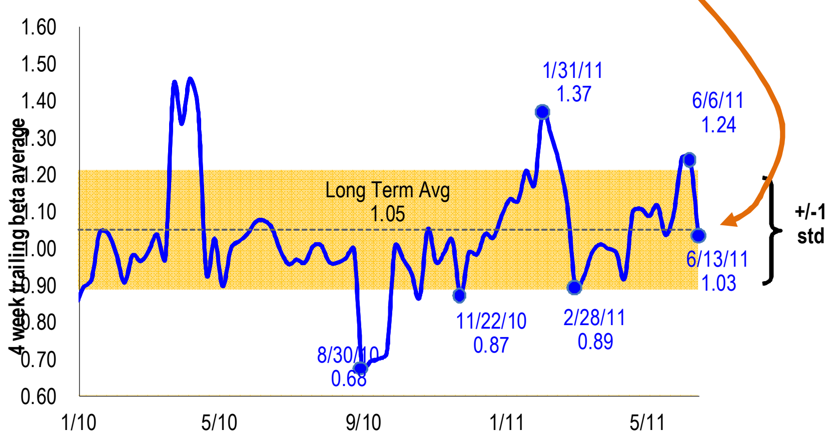
Made Progress in Last month, but Beta is not as low as in August of last year…

Investor positioning is much further along in its adjustment compared to two weeks ago. Active managers and Hedge Funds have made progress in reducing beta (de-risking), however both betas are currently not as low as last August.

- Active fund managers are currently "hugging" benchmarks with an average Beta of 1.03. This follows a 0.21 drop from its recent 1.24 peak last week. Last August, fund managers were positioned much lower, with a 0.68 beta.
- Hedge funds have also reduced beta, falling 0.31 since a month ago. However, the current 0.16 Beta is still in positive territory, and well above the lows seen in August last year which hovered around the -0.1 and -0.3 range.

Figure 7: Rolling Beta of Active Managers

Since 1/1/2010

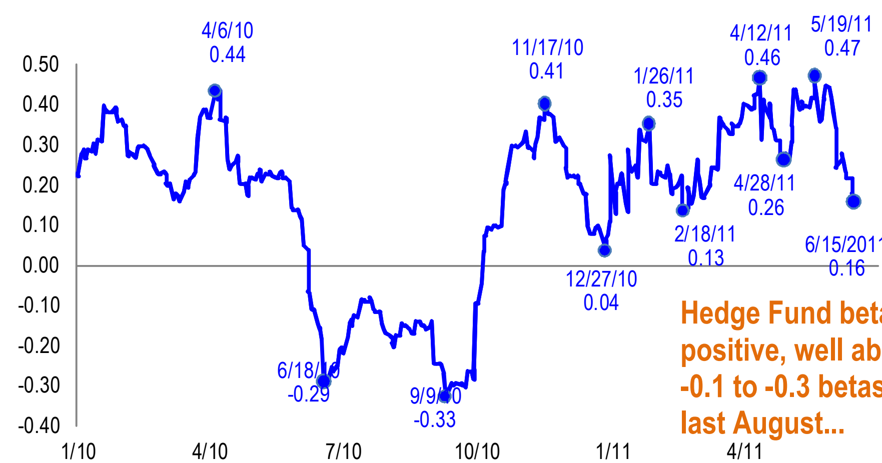


Source: J.P. Morgan and Bloomberg

Active managers have been derisking and are hugging benchmarks with 1.0 Beta, a 0.24 drop from last week but still higher than 0.68 last August.

Figure 8: Hedge Fund Beta is dropping, but still positive at 0.16

21 day trailing Beta of Hedge Funds



Hedge Fund beta is still positive, well above the -0.1 to -0.3 betas seen last August...

Source: J.P. Morgan and Bloomberg, Based on Correlation of HFRX to MSCI World Markets, as calculated by Nikolaos Panigirtzoglou,, JPM Global Strategist

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We are still expecting a bounce in the next few months in incoming economic data for reasons discussed below.

Item	*What happened*	*Why it should bounce...*	*Data*
Global industrial production	Industrial production turned down recently, reflecting both an inventory correction with impacts magnified by Japan quake-induced supply chain disruption.	Global inventory correction should be ending and aided by the ramp in Japan's industry, which is expected to post a V-shaped bounce.	Japan IP for June (6/29) USM ISM June (7/1)
		Per David Hensley, Global Economist: "US Auto is scheduled to rise 7%m/m in June. This would add 0.4% to total mfg output. Thus, non-auto output would have to fall that much or more to wipe out the gain in autos and prevent the total from rising"	US Auto prod June (7/15)
Retail sales	Squeeze from higher oil led to downside reads in recent retail sales.	Brent is off more than $15 recently to $113. Gasoline has since eased falling from a high of $3.985 to $3.685 recently, an 8% drop which is even higher when considering seasonally gasoline normally increases in summer (due to Grade switch). 3AGSREG Index GP <<GO>>.	Euro retail sales May (6/27) Japan retail sales May (6/28) Japan auto registrations June (7/1) US retail sales June (7/14)
US housing is not as weak as suggested by Shiller data	Shiller price indices are showing new lows in price but seem to be distorted by the large proportion of distressed sales in the total mix (est 40% of sales)	Non-distressed prices are beginning to rise and delinquency rates are actually falling and thus tracking the trajectory of non-distressed homes.	Case-Shiller HPI Apr (6/28) Pending home sales May (6/29)
US employment	May payrolls disappointed broadly	End of gas squeeze, Japan's bounce plus end of inventory correction should lift payrolls. Jobless claims could drift below 400k in July due to auto production ramp (when normally factories are retooling)	Weekly claims July US payrolls June (7/8)
Greece	Risk of default if funding package fails	This is a binary event with the risk being a failure of the Greek govt	Fluid….

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Details of upcoming global economic events in coming weeks….

Figure 9: Global Economic Data Releases in next few weeks

Date of Release, Consensus Estimate, and Prior Actual

Region	Event	Date	Survey	Prior	Inventory Correction Ending	Japan V-Shaped Rebound	Ease from Squeeze of Gasoline	US Auto Production Amps Up
Euro	EC: Foreign Trade (Apr)	6/17	-2.7B	-0.9B				
Euro	GE: PPI (May)	6/20	-	1%	●			
Japan	Trade Balance (May)	6/20		¥ -496.40	●	●		
US	Existing Home Sales (May)	6/21	-4.00%	-0.80%			●	
Euro	EC:Industrial New Orders (Apr)	6/22	-	-1.80%	●			
Euro	EC: Cons. Conf. Prelim (Jun A)	6/22	-	-9.8			●	
US	FHFA HPI (Apr)	6/22	-	-0.30%			●	
US	FOMC (Jun 22)	6/22	0.25%	0.25%				
Euro	EC: PMI Composite (Jun A)	6/23	-	55.8	●			
Euro	EC: PMI Manufacturing (Jun A)	6/23	-	54.6	●			
Euro	EC: PMI Services (Jun A)	6/23	-	56	●			
Euro	FR: INSEE Bus. Conf. (Jun)	6/23	-	107	●	●		
Euro	BE: BNS Bus. Conf. (Jun)	6/23	-	-0.5	●	●		
US	New Home Sales (May)	6/23	-4%	7.30%			●	
Euro	GE: IFO Bus. Survey (Jun)	6/24	-	114.2	●	●		
Euro	FR: INSEE Cons. Conf. (Jun)	6/24	-	84			●	
US	Durable Goods (May)	6/24	2%	-3.60%	●			
US	Real GDP (1Q T)	6/24	2.00%	1.80%				
Euro	GE: Retail Sales (May)	6/27	-	0.60%			●	
US	Personal Income (May)	6/27	-	0.40%			●	
Euro	GE: CPI 6 States & Prelim (Jun I	6/28	-	0%			●	

Region	Event	Date	Survey	Prior	Inventory Correction Ending	Japan V-Shaped Rebound	Ease from Squeeze of Gasoline	US Auto Production Amps Up
Japan	Total Retail Sales (May)	6/28		4.10%		●	●	
US	S&P/Case Shiller HPI (Apr)	6/28	-	138.16			●	
US	Consumer Confidence (Jun)	6/28	-	60.8			●	
Euro	EC: Business Conf. (Jun)	6/29	-	3.9	●			
Japan	IP Preliminary (May P)	6/29		1.60%		●		
US	Pending Home Sales (May)	6/29	-	-11.60%			●	
Euro	GE: Unemployment Δ (000's) (Jun)	6/30	-	-8K	●		●	
Euro	GE: Unemployment Rate (Jun)	6/30	-	7%	●			
Japan	PMI Manufacturing (Jun)	6/30		51.3	●	●		
China	PMI Flash (Jun)	7/1	-	52	●			
Euro	EC: Unemployment Rate (May)	7/1	-	9.90%			●	
Japan	Nationwide Core CPI (May)	7/1		0.30%		●		
Japan	All Household Spending (May)	7/1		-3%		●	●	
Japan	Unemployment Rate (May)	7/1		4.70%		●		
Japan	Auto Registrations (Jun)	7/1		-38%		●		
US	ISM Manufacturing (Jun)	7/1	-	53.5	●	●		
US	Construction Spending (May)	7/1	-	0.40%	●			
US	Light Vehicle Sales (Jun)	7/1	-	9.22M		●		●
US	Retail Sales Ex Auto (Jun)	7/14	-	0.30%			●	
US	Auto Production (Jun)	7/15	8.4	7.88				●

Source: J.P. Morgan and Bloomberg

#2: US Private Sector funneling a record $1.7T in annual savings

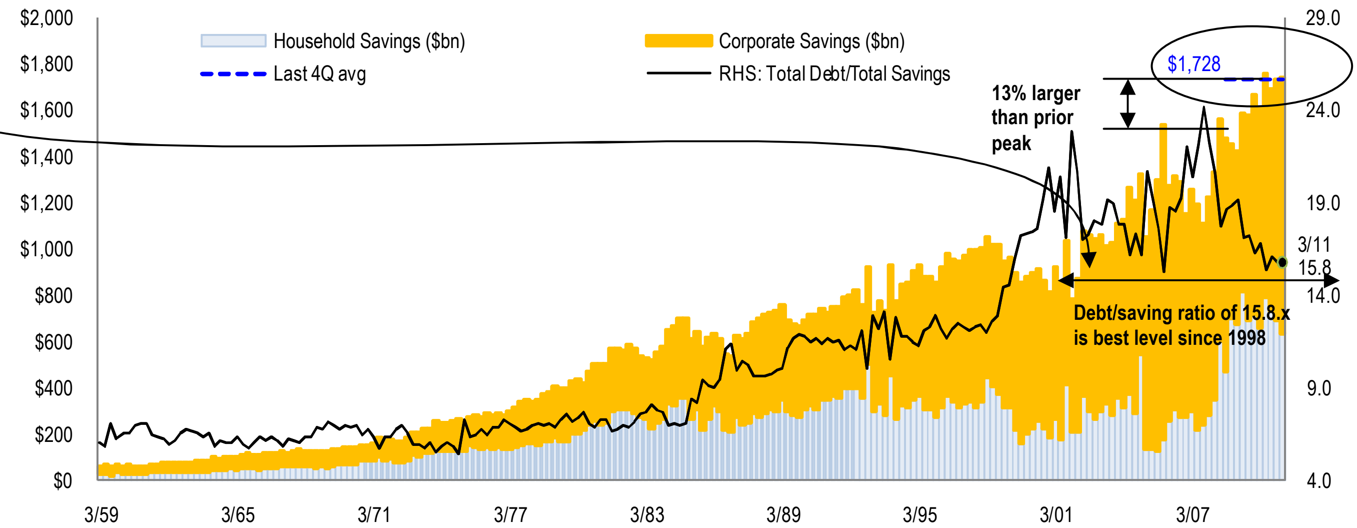
Corporate and HH Savings at highest levels ever

While not quite a savings glut, consider the magnitude of combined household and corporate savings today, which as shown below on Figure 10 is running at about $1.7T annually currently. This is the highest ever level of private sector savings (which is defined as household savings plus NIPA profits before capex). ***This near a peak as corporate savings has room to expand…***

- In fact, this exceeds the $1.5T by 13% seen in 2005 and reflects the substantial increase in liquidity for both the household and corporate sector;
- The debt to savings ratio stands at 15.8x, which is basically the lowest level since 1998 and is a measure of the level of the private sector to payoff its liabilities.
- Sure, one can be critical and say that this level was even lower, averaging around 10x in the 80s and 90s but conversely note that the "saver" market, or size of "real money buyers" of debt suggests that there is not necessarily too much debt out there.

Figure 10: Annualized Total Household and Corporate Savings - $ billions per year

Since 1Q70



Source: J.P Morgan and US Federal Reserve

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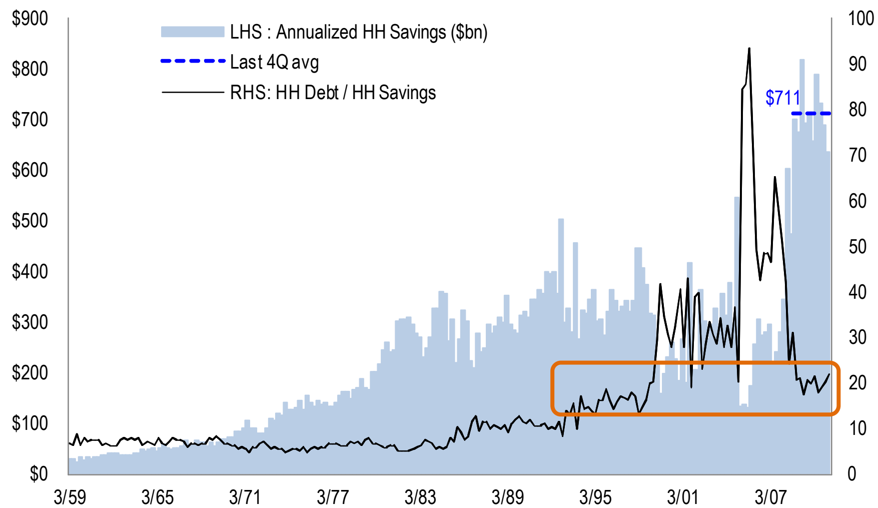
Savings for households at the highest levels EVER but corporate savings has room to further expand…

Below we provide a breakdown of the savings between households and corporates.

- Note below on Figure 11 that household savings has averaged $711b annually recently, the highest $ level of savings ever and has pushed household leverage ratios to levels seen in the 90s—approximately 21.8x.
- Corporate savings at around $1.0T are below the prior peak of $1.4T seen in 2005. We believe corporate profit savings rates have room to further expand, reflecting belief in continued margin expansion.

Figure 11: Annualized Household Saving - $billions per year

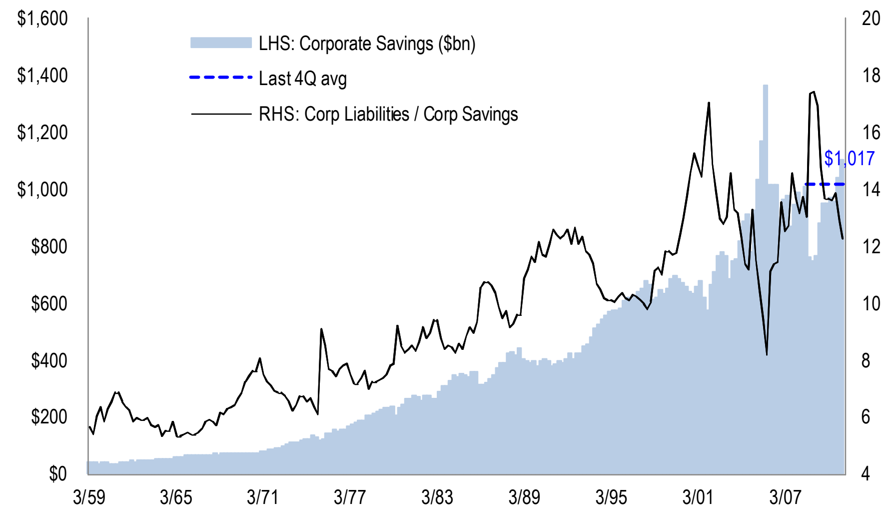
Since 1Q70



Source: J.P. Morgan and US Federal Reserve. HH Annualized Savings is calculated by multiplying Personal Income and Savings Rate (both from BEA). HH Debt is obtained from table L100, line 24 (Total liabilities

Figure 12: Domestic Annualized Corporate Savings - $billions per year

Since 1Q70



Source: J.P. Morgan and US Federal Reserve. Corporate Savings is from table F102 from the Federal Reserve Flow of Funds report , line 5 (US Internal funds, book). Corporate Liabilities are from table L102, line 22 (Total liabilities)

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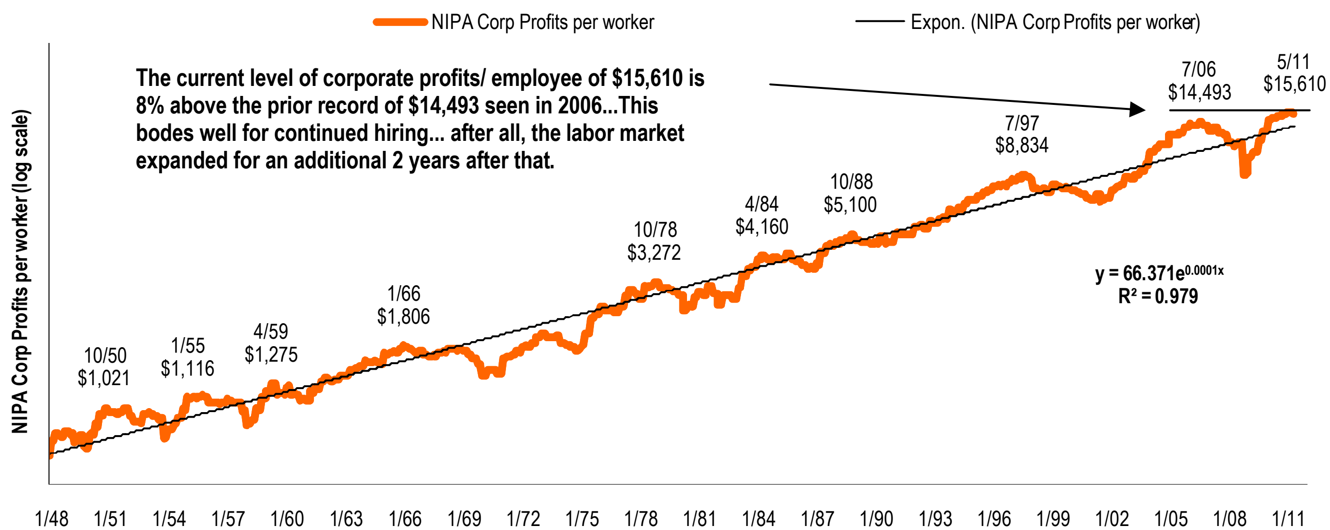
Hiring: Record Corporate Profits per employee bodes well for future hiring

The economic recovery has clearly favored corporates over consumers so far, as highlighted by the sharp recovery in corporate profits over the past few years while employment growth has remained tepid.

- NIPA Corporate Profits per worker have risen sharply since 2009, with the current level of $15,610 per worker well above the level implied by the long-term trend (see Figure 13).
- The trend-line shown below shows how NIPA Corporate Profits per worker fell sharply below the trend-line when corporate profits collapsed in late 2008, but have since surged as corporate profits have rebounded strongly while employment growth has remained weak.

Figure 13: NIPA Corporate Profits per worker well above long-term trend

NIPA Corp Profits per worker = NIPA Corporate Profits / Nonfarm Private Payrolls; Trend-line based on data since 1948



Source: J.P. Morgan and Bloomberg

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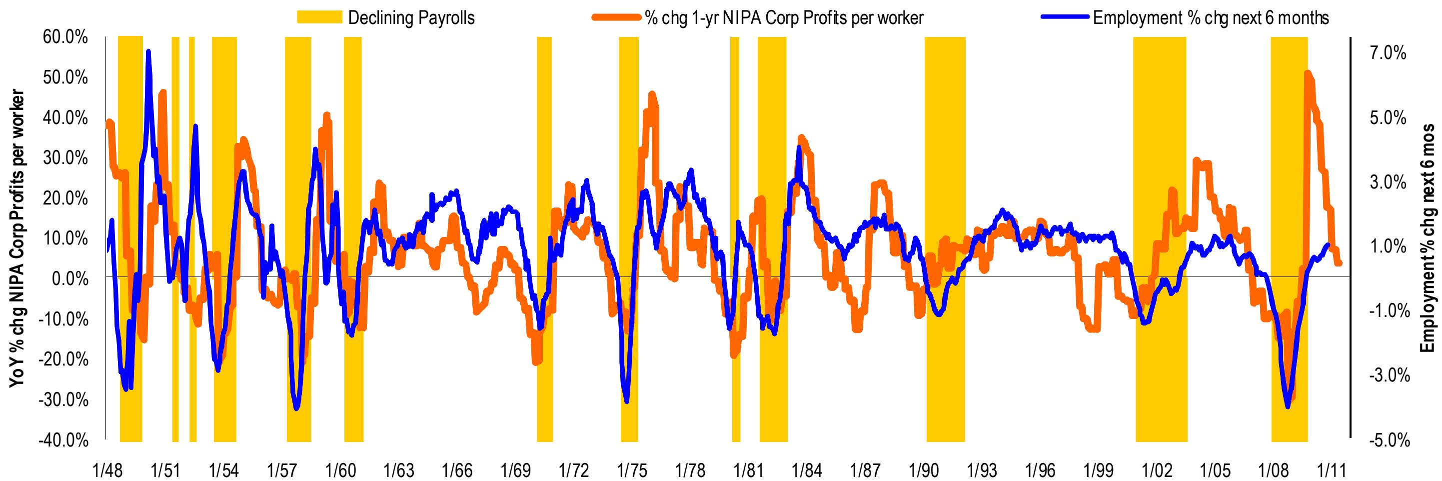
Hiring: Historically, Corporate Profit Growth/ Employee Leads Employment Growth

Growth in NIPA Corporate Profits per worker has historically been a good indicator of future employment growth, as strong growth in profits per worker generally implies stronger employment growth over the next six months.

- This relationship did not hold true over the past few years, however, as the yoy growth in NIPA Corporate Profits per worker surged to an all-time high in 2009-10, but private payrolls never saw a significant pick up in growth. This suggests companies have been under-hiring over the past few years, likely because they continue to remain cautious about the sustainability of the economic recovery. However, if the recovery continues and picks up speed over the next few quarters, companies may need to catch up over the coming year if corporate profits growth remains strong.

Figure 14: Growth in NIPA Profits per worker vs. Private Payrolls

NIPA Profits per worker = NIPA Corporate Profits / Nonfarm Private Payrolls



Source: J.P. Morgan and Bloomberg

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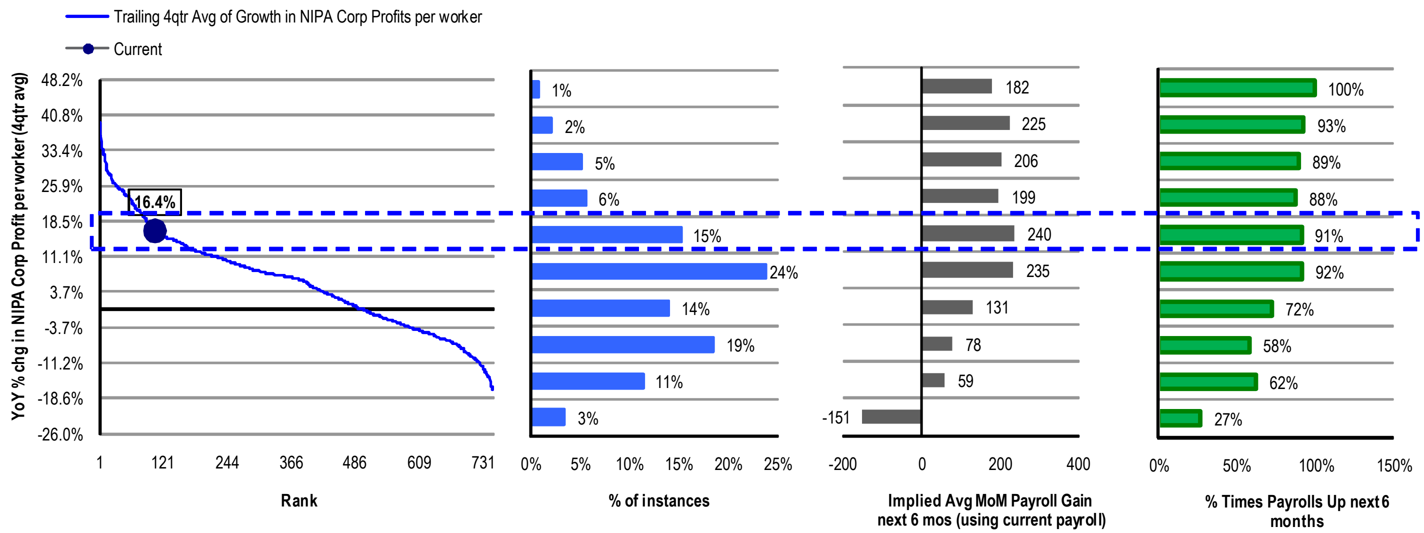
Hiring: Current profit growth per worker more consistent with 240k jobs added per month

Figure 15 below shows the distribution of growth in corporate profits per worker (using trailing 4qtr avg) and the implications for growth in private payrolls over the next six months.

- As shown below, corporate profits per worker have grown by 16.4% on average over the past four quarters, implying private payrolls should grow by 240k per month over the next six months. This would be a clear acceleration vs. the 179k growth per month we have seen over the past six months.

Figure 15: Distribution of Forward 6-month Employment Gains based on 4qtr Avg of YoY Growth in NIPA Corp Profits per worker

Since 1948



Source: J.P. Morgan and Bloomberg

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#3: Credit should soon begin expanding for the Household sector

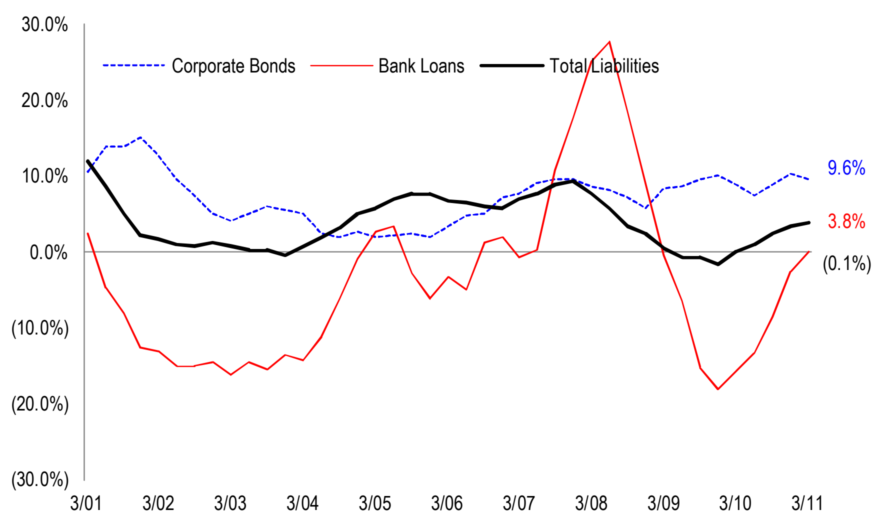
Credit growth is unconstrained for corporates and beginning to ease for households

In our view, one of the constraints of this recovery has been the lack of credit expansion taking place in the household sector (see Figure 17). Negative credit growth has been taking place since 4Q08 and has continued to contract. While one can debate causality (due to lower demand or is it availability of credit), in our view, the charts below highlight the differences in fortunes for corporates vs. households:

- Corporate credit has been expanding since 1Q10, led by the 9.6% growth in corporate bonds;
- Household credit growth has been slowly flattening and could turn positive this year. The exception is mortgages.

Figure 16: Corporate Liabilities

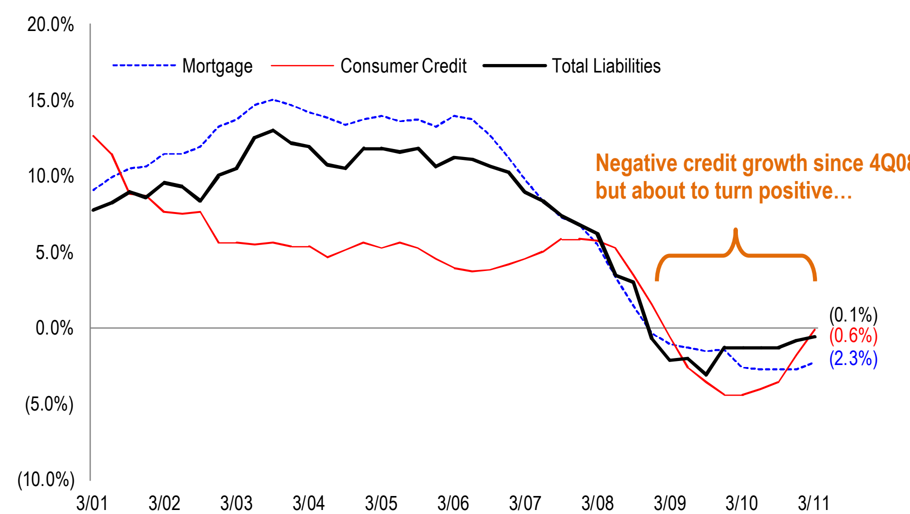
YoY % Change



Source: J.P. Morgan and US Federal Reserve

Figure 17: Household Liabilities

YoY % Change



Source: J.P. Morgan and US Federal Reserve

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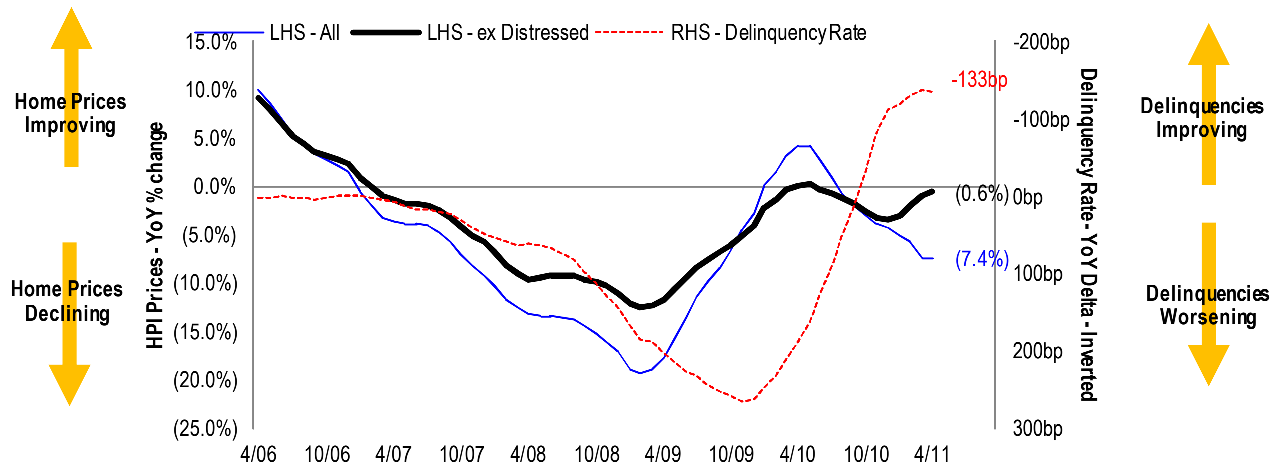
"Double-dip" in home prices is exaggerated and seemingly distorted: Housing is not as bad as suggested by the headline price indices…as distressed is distorting price indices

Recently there has been a lot of talk about home prices "double-dipping" and indeed, major home price indices (Shiller, Corelogic, etc) are falling again (see "all" on Figure 18). That said, we believe the home price indices are becoming misleading:

- Note that the non-distressed prices are actually flat YoY (rising on 6m/6m basis) and as discussed later, reflect many markets starting to show increases in non-distressed home prices;
- Moreover, note how delinquencies continue to fall and we believe, are tracking non-distressed home price trends rather than distressed;
- One reason for discounting distressed price trends is that increasingly, distressed prices reflect homes in inferior condition or inferior location;
- The majority of homes (130mm) are non-distressed and therefore, the "wealth" effect, etc, should track non-distressed trends.

Figure 18: Delinquency Rates are Tracking YoY Change in Home Price Ex Distressed...

HPI are tracked to 04.06 prices (peak), Delinquency rates shown are for 90+ due loans



Source: J.P. Morgan, CoreLogic, McDash

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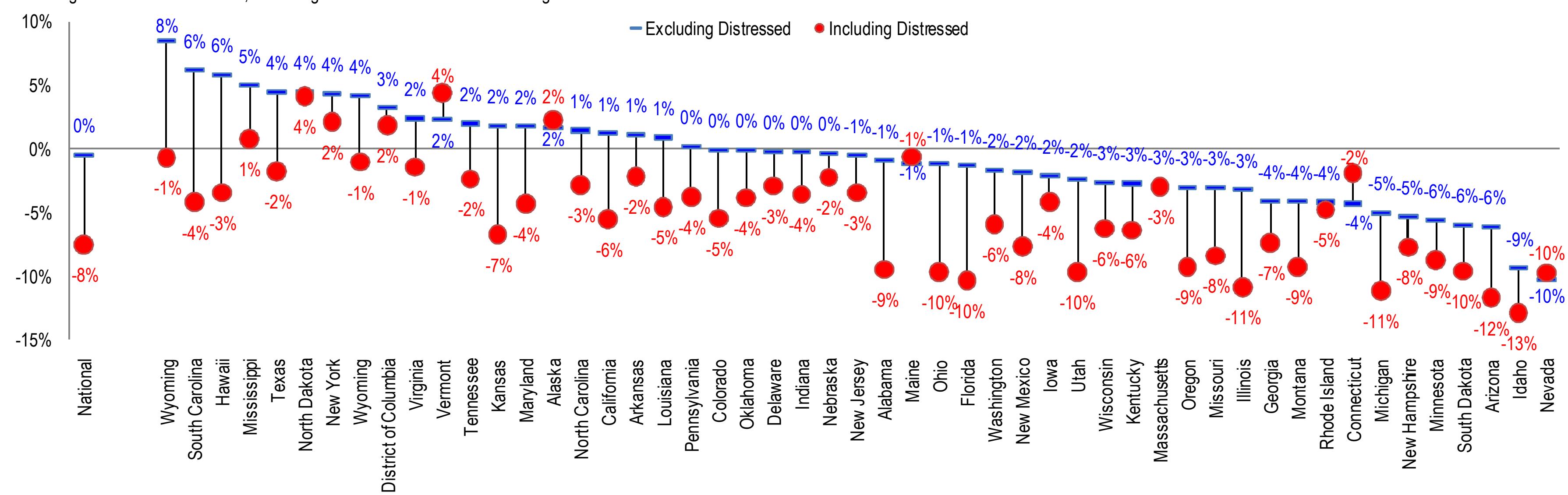
Home prices for “non-distressed" homes are rising in most markets

As shown below, home prices for non-distressed homes are performing very differently than those of distressed. In fact, there are only six markets where distressed properties are outperforming non-distressed (those are: Vermont, Alaska, Maine, Massachusetts, Connecticut, and Nevada).

What is surprising is that the YoY growth rates for some markets of non-distressed homes are in solid single digits--consider the positive wealth effect this is creating. Moreover, this suggests that the declines posted by the headline indices (Shiller, etc) are somewhat misleading.

Figure 19: YoY Home Price Index Changes

YoY % chg in Home Price Indices, including distressed sales and excluding distressed sales



Source: J.P. Morgan, CoreLogic,

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After contracting sharply, it also looks like the mortgage market is starting to expand

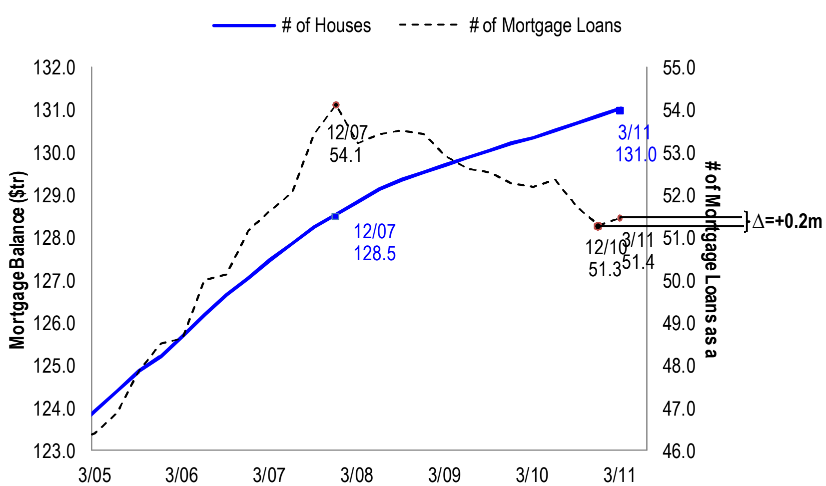
Note how much the mortgage market has contracted since 2007. As shown in Figure 20 below, the number of mortgages has contracted from 54.1mm to 51.3mm, or down 6%. By comparison, the # of houses has increased from 128.5 to 131mm.

- In other words, the number of homes has increased by 2.5mm while the number of mortgages fell by 2.8mm.
- The percentage of homeowners with mortgages has fallen from 42% to 39%, or 300bp. In other words, from 2007-2010, we saw a contraction in the mortgage market.
- Since the start of 2011, the mortgage market has begun to expand, with the number of mortgages rising by 177,000 since the start of year.

This is a bit early, but encouraging that the mortgage market has started to expand and along with the house pricing trends noted above suggest healthier housing market.

Figure 20: # of Mortgage Loans are picking up

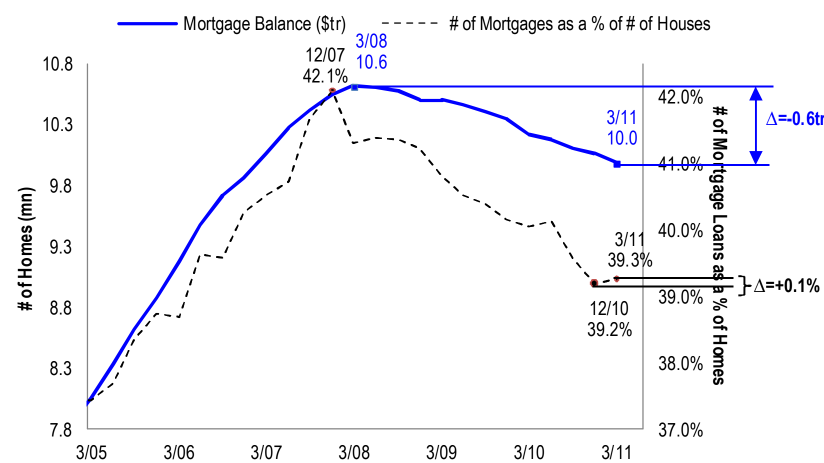
YoY % Change



Source: J.P. Morgan, MBA and US Federal Reserve

Figure 21: # of Mortgages as a % of # of Houses are also picking up…

YoY % Change



Source: J.P. Morgan, MBA and US Federal Reserve

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#4: Summer Bounce led by Cyclicals….

We are adding two additional signals (to three previously cited in past pieces) to argue for a summer bounce (led by Cyclicals). The following table summarizes the key points for each of the five signals:

5 Reasons Cyclicals Bounce this Summer

Figure 22: 5 Signals suggesting outperformance for Cyclicals

Item	*Current Reading*	*Description of Signal*	*% times up next 6 months*	*Avg Fwd 6mth performance*
CESI (Citigroup Economic Surprise Index)	-97.7	CESI which is mean reverting, is at a negative level of -97.7 and has been recovering since its extreme low (-117 on 6/3). Upturns in Economic Surprise bode well for the relative performance of Cyclicals and coincide with outperformance of Cyclicals vs. Defensives.	86%	2.2%
AAII (% bulls minus % bears)	-14	Bearish AAII sentiment reading is generally a strong contrarian indicator (particularly during bull markets), suggesting outlook for stocks has become more attractive from a sentiment perspective.	87%	9.0%
Cyclicals RSI	37	Relative strength measures the momentum of stocks by measuring the magnitude of recent gains and losses. 37 is an extremely oversold level that is typically associated with market troughs.	92%	16.3%
Cyclicals % of stocks above 50-day moving average	18%	Only 18% of Cyclicals stocks have a price greater than the 50-day moving average, indicating the sell-off has been widespread.	100%	20.3%
Relative P/E Valuation (Cyclicals/Defensives))	97%	Cyclicals P/E is currently 97% of Defensives P/E, a 3% discount. This is well below the long-term average of 114% and points to Cyclicals outperformance over the next six months.	72%	5.1%

Source: J.P. Morgan, Bloomberg, Datastream, and FactSet. Note: Methodology of % times up and avg forward performance varies for each signal.

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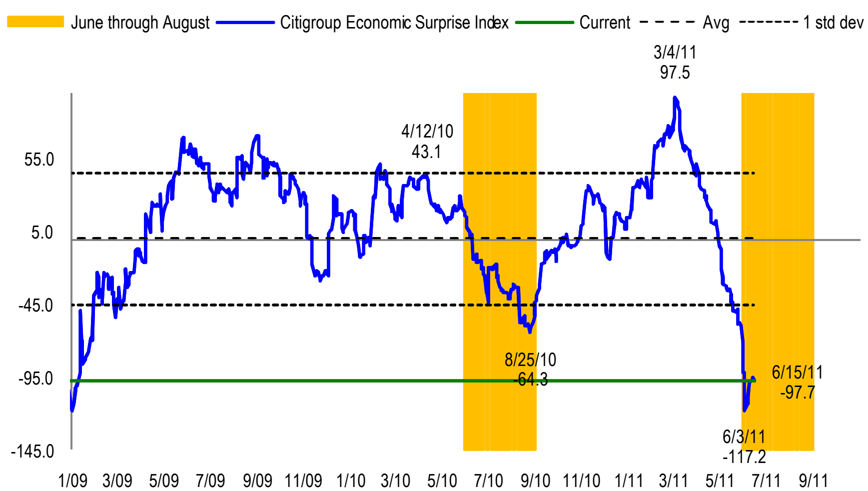
Reason #1: CESI turning up…supporting outperformance for Cyclicals

As we have highlighted several times recently, economic surprise (CESIUSD Index) reached an extreme negative level of -117 recently, the lowest level since 2004 (ex-recessions), highlighting the consistently disappointing economic data over the past few months. This index is mean reverting, however, and has begun to recover over the past two weeks.

- The expected upturn in Economic Surprise bodes well for the relative performance of Cyclicals over the next few months. As shown below, an upturn in the economic momentum, in this case, the Citigroup Economic Surprise Index (CESIUSD Index <<GO>>), has generally coincided with outperformance of Cyclicals vs. Defensives.
- As we highlighted a few weeks ago (see "Constructive on sell-off" . . . dated 6/1/11), Cyclicals have outperformed Defensives 86% of the time by 220bp over the next six months following a trough in the CESI index, thus supporting our view of a "Summer of Cyclicals" outperformance over the next few months.

Figure 23: Economic Surprise Index has turned down sharply . . . now at levels associated with recalibration to upside

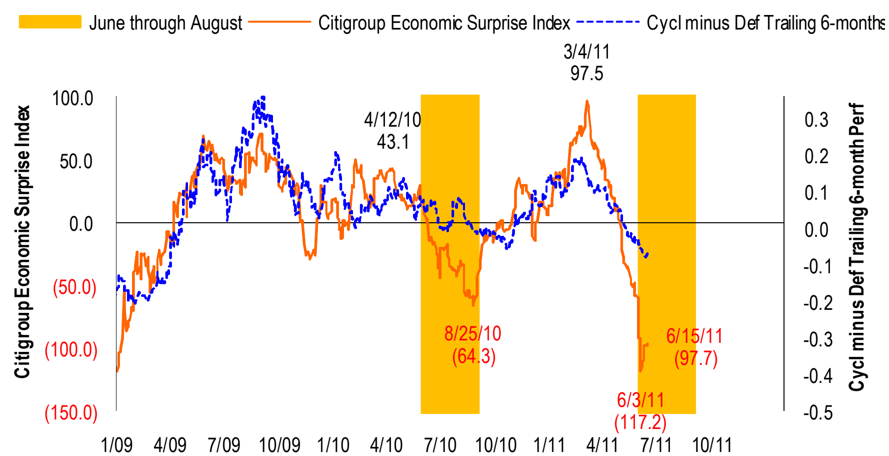
Citigroup Economic Surprise Index (CESIUSD Index GP <<GO>>)



Source: J.P. Morgan and Bloomberg.

Figure 24: Economic Surprise Index has likely troughed, suggesting outperformance for Cyclicals over next 6 months

Economic Surprise Index (CESIUSD Index <<GO>>) vs. Cyclicals Fwd 6mos Perf



Source: J.P. Morgan and Bloomberg

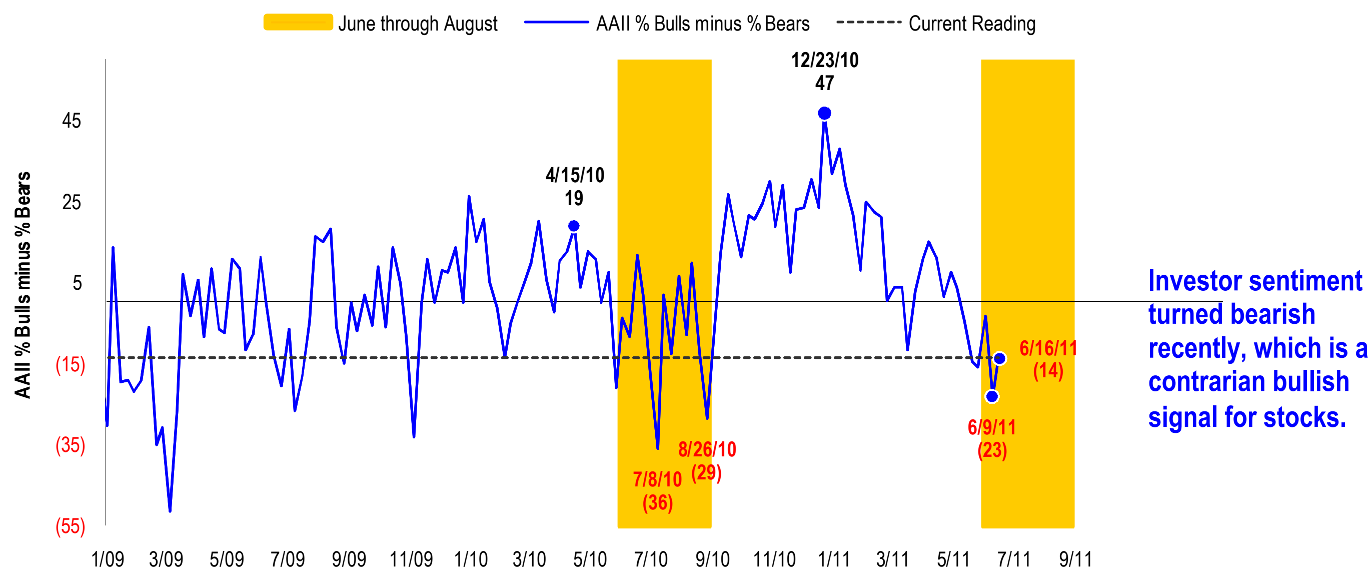
Reason #2: AAII at extreme contrarian Buy levels . . .

Investor sentiment also reached an extreme negative level last week as evidenced by the AAII survey (% Bulls minus % Bears), which fell to -23.

- This is one of the lowest readings since the start of this bull market and a level that has been associated with a near-term rally in stocks.
- As we have highlighted many times in the past, a bearish AAII sentiment reading is generally a strong contrarian indicator (particularly during bull markets), suggesting the outlook for stocks has become more attractive from a sentiment perspective.

Figure 25: AAII % Bulls minus % Bears indicates sentiment has turned more bearish

AAII % Bulls minus % Bears since 2009



Source: J.P. Morgan and Bloomberg

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AAII Contrarian Indicator suggests upside for stocks over next 6 months

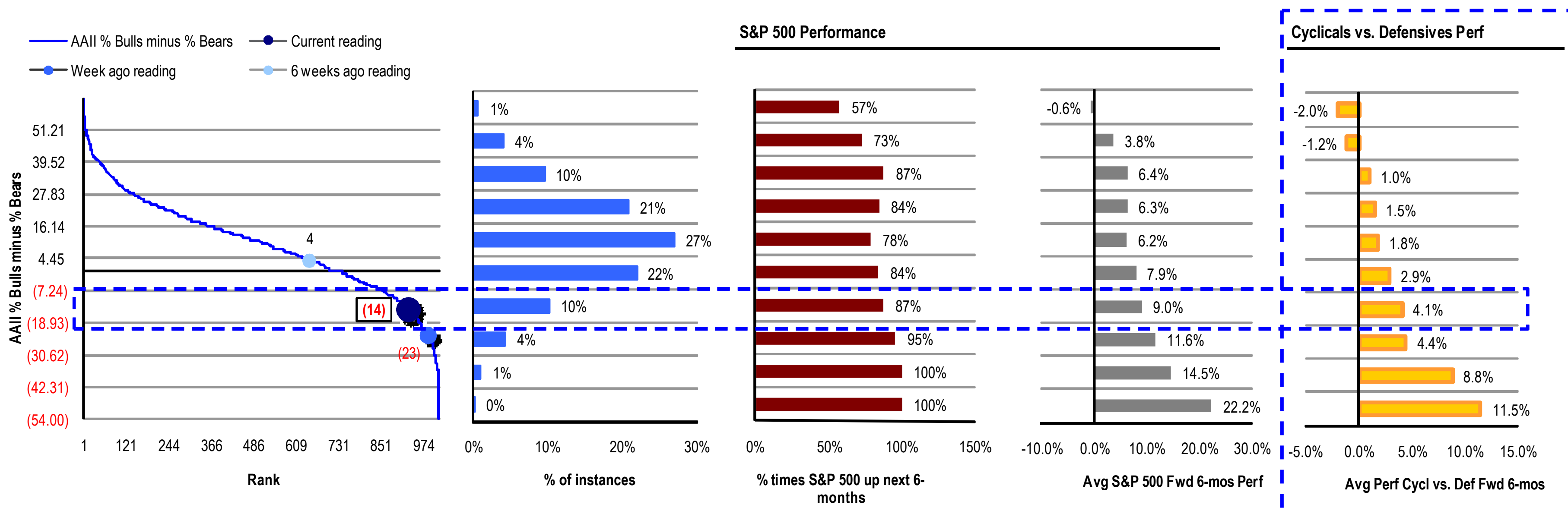
The behavior of sentiment, in this case the AAII, varies during bull markets and bear markets. Sentiment tends to send a stronger contrarian signal during bull markets. In fact, the more bearish investors have been, the more positive the short-term outlook. As a result, the current negative sentiment is actually a strong contrarian indicator for stocks over the next 6 months.

- As shown in Figure 26 below, the S&P 500 has historically risen by 9.0% over the next 6 months following similar sentiment readings, with a win ratio of 87%.

- Cyclicals have also historically outperformed Defensives by 4.1% over the next six months when the AAII is at such a bearish level during a bull market.

Figure 26: AAII (% Bulls minus % Bears) vs. S&P 500 Fwd 6-Month Performance

During Bull Markets since 1987



Source: J.P. Morgan and Bloomberg.

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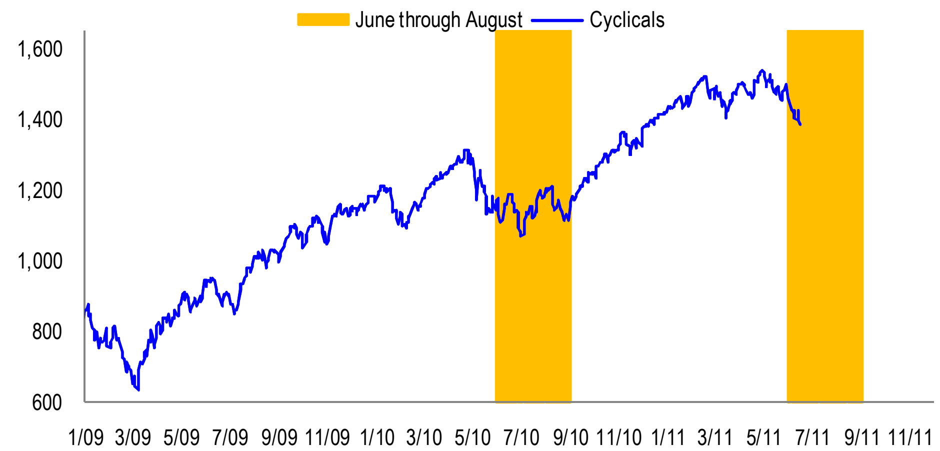
Reason #3: Cyclicals RSI at oversold level

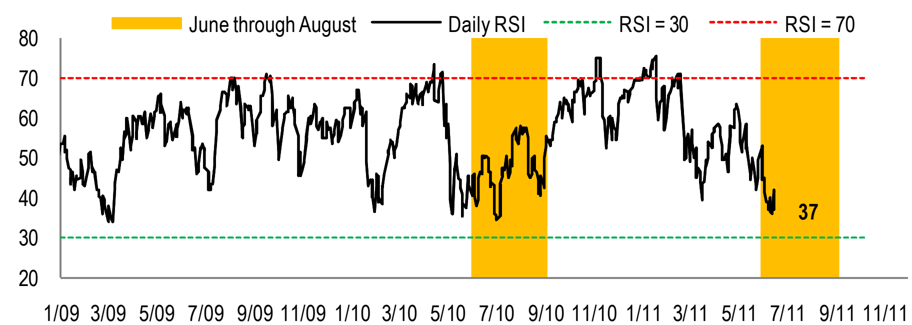
The sharp sell-off in stocks over the past few weeks has led stocks to an extreme oversold level, particularly for Cyclicals. The relative strength (RSI) of Cyclicals fell to 37 recently (Figure 27), an extremely oversold level not seen since last July.

Figure 27: Cyclicals Price Performance and Daily RSI

Price Performance



Daily Relative Strength Index



Source: J.P. Morgan and Bloomberg

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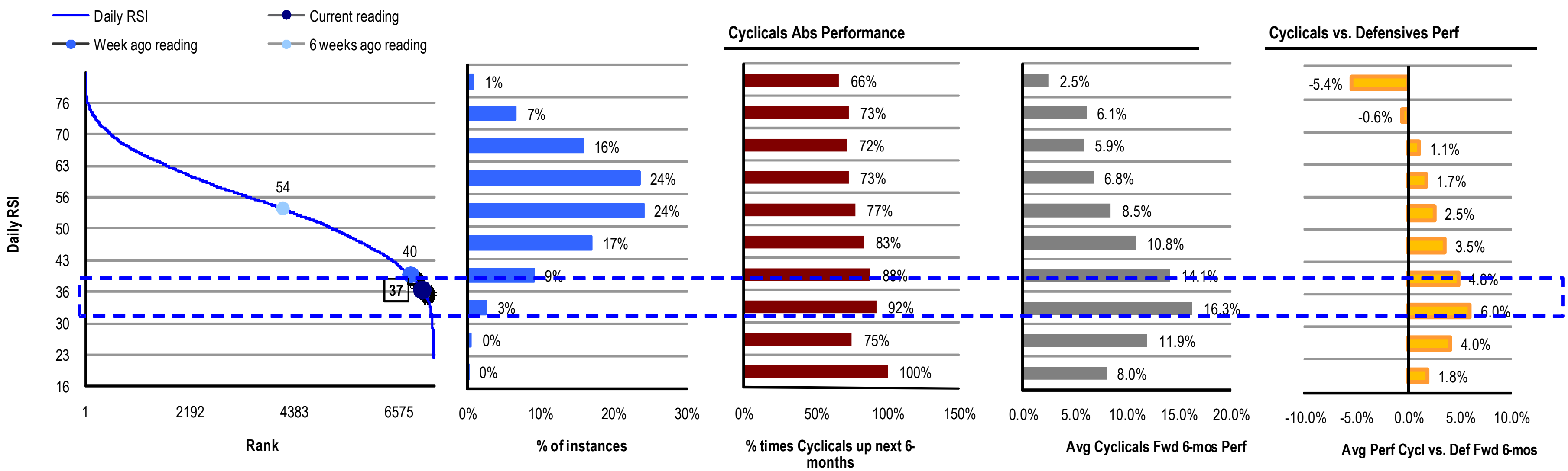
From an oversold RSI level of 37, Cyclicals have historically have gained by 16.3% over the next six months, with a win ratio of 92%. This bodes well for our view of a "Summer of Cyclicals".

Figure 28: Cyclicals Daily RSI vs. Cyclicals Fwd 6-Month Performance and Cyclicals vs. Defensives Relative Performance

During Bull Markets since 1973



Source: J.P. Morgan and Bloomberg.

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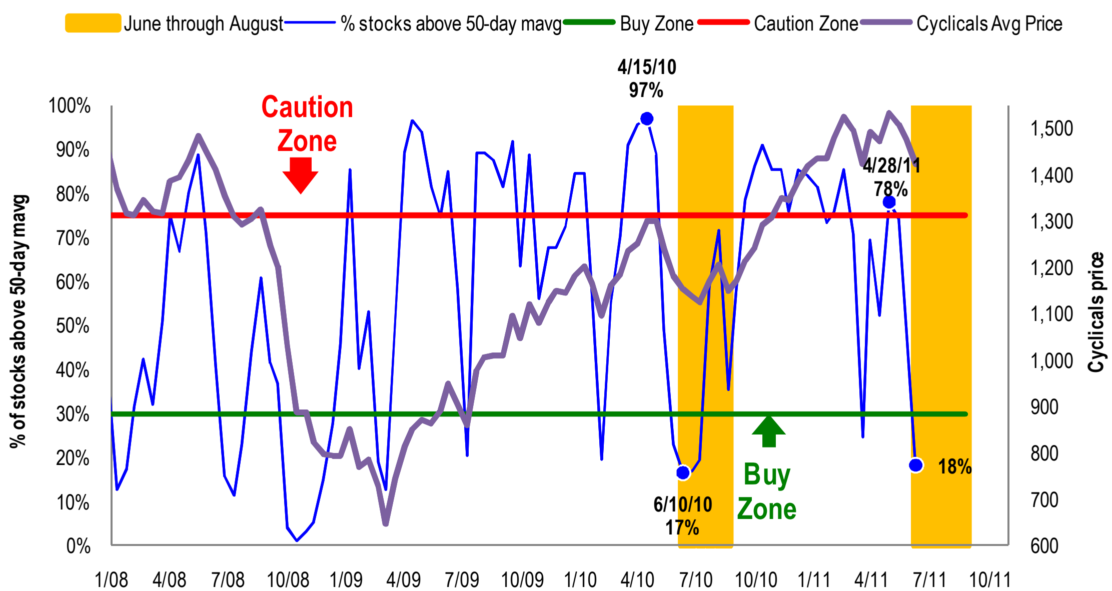
Reason #4: Only 18% of Cyclicals above 50-day moving average

The sharp sell-off has also been widespread, with only 18% of Cyclicals currently above their 50-day moving average. This is a sharp decline from the 78% of Cyclicals above their 50-day moving average as of late April when the market reached its recent peak for the year. The current level is also in-line with the 16% level seen last summer, indicating we are likely nearing a trough on this metric.

Figure 29: % of S&P 500 stocks above 50-day moving average — Cyclicals

% stocks above 50-day mavg



Source: J.P. Morgan and Bloomberg

At a level of only 18% of stocks above their 50-day moving average, Cyclicals have historically gained 20% on average over the next six months, with a win rate of 100%.

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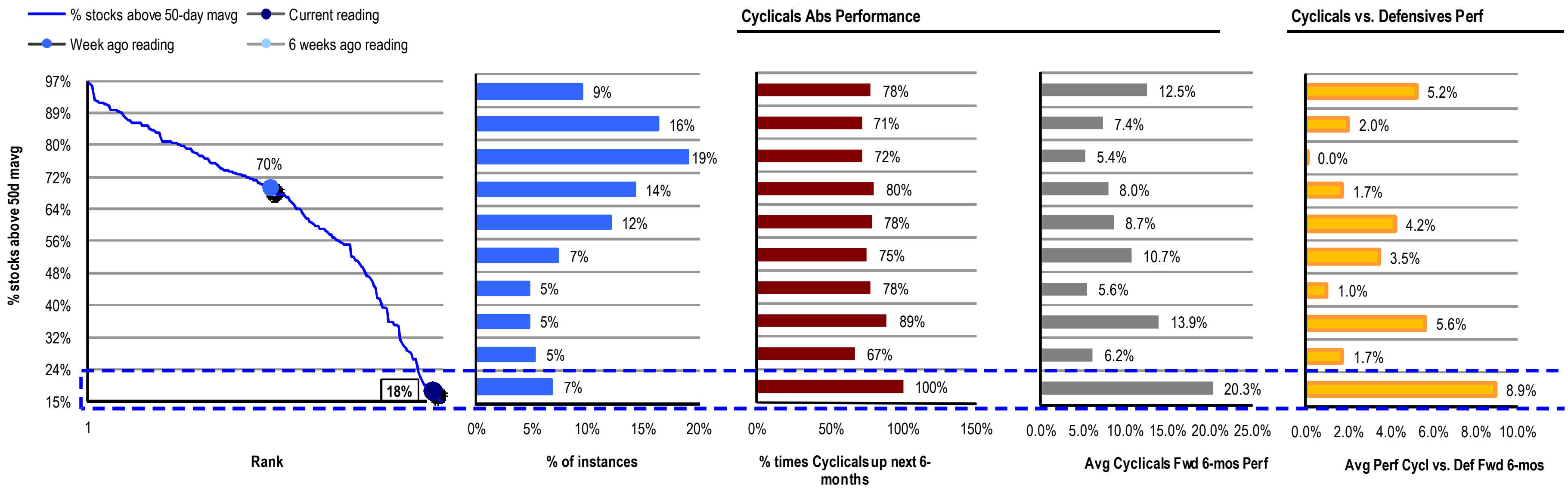
Figure 30: Cyclicals% of Stocks above 50-day moving average vs. Cyclicals Fwd 6-Month Performance and Cyclicals vs. Defensives Relative Performance

During Bull Markets since 2001



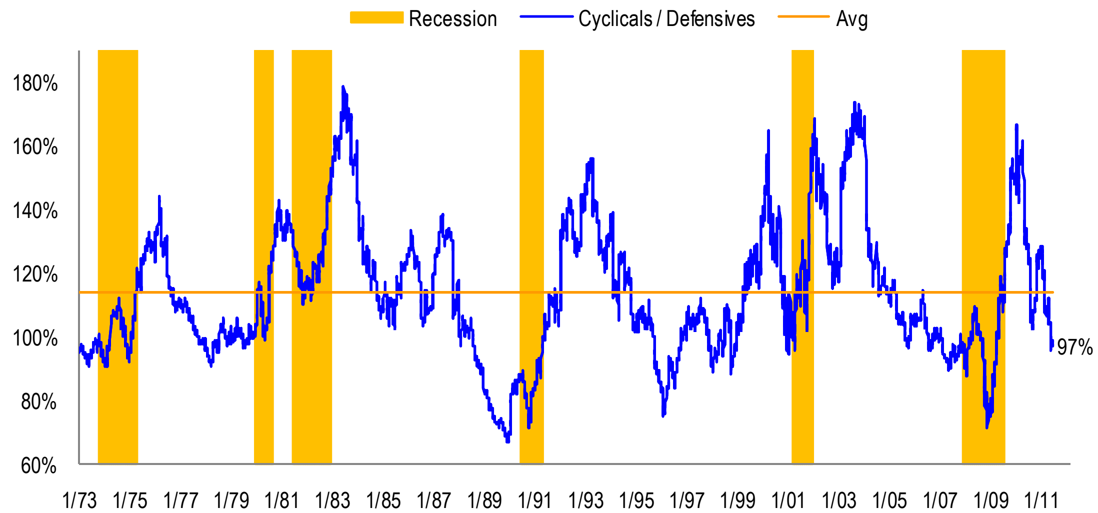
Source: J.P. Morgan and Bloomberg.

Reason # 5: Cyclicals P/E is now lower than Defensives P/E

The recent sell-off has also pushed the relative P/E of Cyclicals to 97% of Defensives, a 3% discount. This is well below the long-term average of 114%.

Figure 31: Relative P/E of Cyclicals vs. Defensives

Cyclicals P/E divided by Defensives P/E



Source: J.P. Morgan and Datastream

As the distribution chart below shows, at this relative P/E, Cyclicals tend to outperform Defensives by 510bp over the next six months, with a 72% win rate, again a positive sign for Cyclicals this summer.

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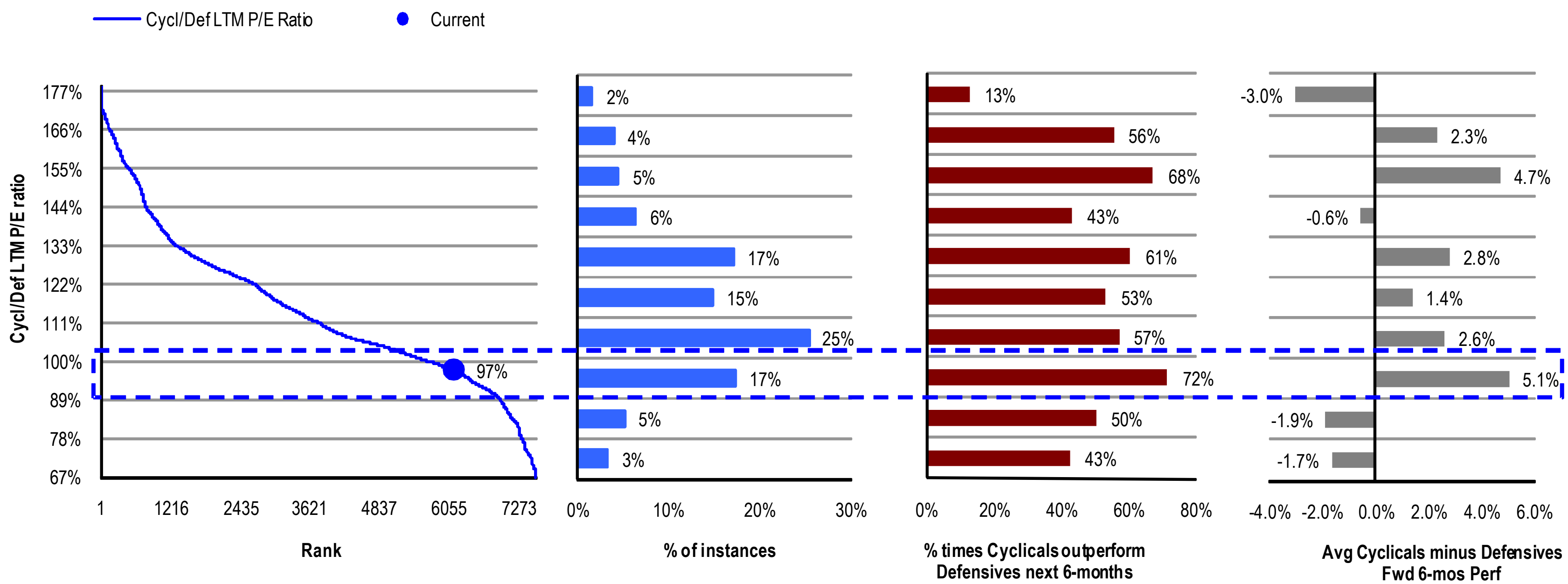
Figure 32: P/E Distribution Curve: Cyclicals relative P/E to Defensives points to outperformance over next six months

During Bull Markets since 1973



Source: J.P. Morgan and Bloomberg.

J.P. Morgan analysts remain constructive on their industries…

We have compiled updated views by J.P. Morgan Equity Analysts for their views on their respective industries in Figure 33 and Figure 34. The majority of JPM analysts remain constructive on their respective groups, with 7 out of 8 seeing the recent sell-off as a good buying opportunity.

Figure 33: J.P. Morgan Analyst Outlook

Industry	JPM Analyst	Analyst View	Non-Consensus View
Airfreight & Surface Transportation	Thomas Wadewitz	Constructive	Transport demand trends have decelerated on a y/y basis in 2Q11 but recent conversations with truckload carriers and railroad companies have been constructive. Truckload carriers have indicated that demand has improved sequentially in June and the railroads are anticipating modest y/y volume growth in 2H11. We believe that a combination of weather, Japan related supply chain impact on automotive production, and a different seasonal pattern in 2011 all should support improvement in volumes in 3Q11. Given our modestly favorable view on transport demand, we believe that pullback in the market provides an attractive entry point for FDX and UPS and the truckload carriers SWFT and WERN. For the truckload names we believe that supply constraints (regulatory issues for drivers and underinvestment in the tractor fleet over 07-10) should support strong pricing even if the economy and growth in freight demand is only modest.
Airlines	Jamie Baker	Constructive	Airlines stocks have trended down over the past few weeks despite a recent drop in crude oil prices. Macro factors, in particular fears of a double dip recession, and Europe & Middle East concerns continue to weigh on airline stocks, cautioning investors from adding positions. At current oil prices, we estimate the industry makes over $8bn in operating profit. We continue to expect revenue momentum and demand trends to come in ahead of expectations given currently available monthly revenue and traffic reports. Summer bookings have been strong and we foresee a profitable second quarter. As such, we believe the recent sell-off to be overdone. Although the fall months tends to be a weaker for airlines, third quarter demand trends appear relatively in-line with expectations and with announced capacity reductions earlier in the year taking place, we don't foresee any changes, absent
Base Metals & Steel	Michael Gambardella	Constructive	Recent over selling in stocks present an attractive buying opportunity and states that investors should start buying these stocks now. A significant slow down in China's economy and strengthening in the USD are the main risks for their 3Q estimates. Aside from these risks, current conditions offer favorable investment opportunities.
Chemicals	Jeffrey Zekauskas	Constructive	Integrated North American commodity chemical producers have benefited from low natural gas values relative to offshore oil prices. An uncertain economic outlook for the second half of 2011, and a pause in Asian purchasing stemming from tighter credit, has led to a selloff in the chemical markets in recent weeks. We remain optimistic about the medium-term outlook for commodity chemical producers, noting that margins remain robust despite recent declines in product pricing. We are constructive on the fertilizer sector due to tight domestic supply/demand balances for row crops, and especially corn.We believe that agricultural fundamentals remain favorable, crop prices are strong, and that farm economics are likely to support fertilizer pricing into the fall 2011 selling season.

Source: J.P. Morgan

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Figure 34: J.P. Morgan Analyst Outlook…. continued

Industry	JPM Analyst	Analyst View	Non-Consensus View
Gaming & Lodging / Leisure	Joseph Greff	Constructive	Stocks are currently oversold and we believe that now is a good buying opportunity before 2Q earning reports in mid July. For the majority of our companies we see no particular downside risk to our 3Q estimates. The best opportunitites for earnings momentum in the gaming sectors are the companies with Asia exposure.
SMid Semiconductors	Harlan Sur	Constructive	Demand fundamentals in our companies' end markets (enterprise, service provider, mobile/wireless, broadband, and automotive/industrial), with the exception of PCs, appear to be tracking within expectations for a better 2H. Overall book-to-bill is tracking slightly ahead of one for most of our companies...which suggests further growth in 3Q. From a valuation perspective, our group is trading close to historical trough valuations and, similar to last year, we would expect our stocks to start to discount better demand fundamentals in the 2H of this year and we would be buyers of semiconductor stocks now in anticipation of a move higher in our group
Precious Metals & Coal SMid Cap	John Bridges	Constructive	Stocks are oversold and this is a good buying opportunity. However, we are concerned about the current global macro economy and the risk it delvers. Note that Gold and Copper are trading at good multiples and commodity prices are still strong. Assuming the macro situation stabilizes, 3Q is a favorable entry point for gold and that 4Q is the time to buy coal.
IT Hardware	Mark Moskowitz	Neutral	Tech stocks appear to be oversold, but a remedy is likely deferred to the fall at the earliest. We recommend treading lightly over the next 45-60 days. In our view, investors are de-risking this summer. There are macro (China, EMEA challenges, US consumer...) and secular specific reasons behind the weakness in technology stocks. In tech, growth, or lack thereof, is likely to become a bigger issue. The PC market is being hit by slowing growth due to the end of the consumer refresh. Meanwhile, the printer market is returning to the anemic 2-4% growth profile, and this profile likely comes under incremental pressure over time as customers rely more and more on electronic soft copy. The only segments to shine bright in our coverage have been storage, servers, security, and software. In these segments, customers are looking to optimize their IT infrastructures, driving greater efficiency with more virtualization and automation.

Source: J.P. Morgan

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TRADE IDEA: 13 Stocks for a Summer Bounce led by Cyclicals

In order to leverage our view that stocks are likely nearing a trough and should rebound strongly this summer, led by Cyclicals, we identified 13 Cyclicals stocks for the summer bounce. Specifically, we used the following criteria:

- Stock is in a Cyclical sector (Technology, Materials, Industrials, Discretionary);
- Price < 50d mavg;
- RSI < 33;
- Rated OW by J.P. Morgan;
- Upside to J.P. Morgan target price
- Market Cap > $3b; and
- P/B < 2.0x.

The 13 stocks have 36% upside implied by J.P. Morgan target prices, Relative Strength (RSI) of 29, and an average P/E (2012E) of only 11.1x.

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Figure 35: 13 Stock Ideas for a Summer Bounce led by Cyclicals

Priced as of 6/15/11

	Name	Industry	Ticker	Current Price	Market Cap	JPM Coverage: JPM Rtg	JPM Analyst	Target Price	Implied Upside	Sentiment: FC Rating (1=buy, 5=sell)	Short Int % of Float	EPS and Valuation: 2012E EPS	P/E ('12E)	P/B	Screen Metrics: Price/ 50d mavg	RSI
1	ManpowerGroup	Professional Services	MAN	$53.33	$4,383	OW	Andrew C. Steinerma	$80.00	50%	1.90	1.6%	$4.24	12.6x	1.75x	86%	25
2	Nucor Corp.	Metals & Mining	NUE	$39.80	$12,579	OW	Michael F. Gambarde	$59.00	48%	2.50	4.3%	$3.84	10.4x	1.73x	91%	33
3	Alcoa Inc.	Metals & Mining	AA	$14.96	$15,881	OW	Michael F. Gambarde	$22.00	47%	2.60	5.8%	$1.52	9.9x	1.08x	90%	31
4	Staples Inc.	Specialty Retail	SPLS	$14.99	$10,690	OW	Christopher Horvers,	$22.00	47%	2.30	3.4%	$1.57	9.5x	1.47x	80%	20
5	Royal Caribbean Cruises Ltd.	Hotels Restaurants & Leisu	RCL	$33.80	$7,334	OW	Kevin Milota	$48.00	42%	1.80	6.3%	$3.84	8.8x	0.89x	88%	27
6	CA Inc.	Software	CA	$21.37	$10,840	OW	John DiFucci	$30.00	40%	2.40	2.6%	$2.36	9.1x	1.91x	91%	32
7	Textron Inc.	Aerospace & Defense	TXT	$21.38	$5,904	OW	C. Stephen Tusa, Jr (	$30.00	40%	2.10	7.4%	$1.83	11.7x	1.94x	88%	31
8	Jacobs Engineering Group Inc.	Construction & Engineering	JEC	$41.18	$5,222	OW	Scott Levine	$57.50	40%	2.10	3.3%	$3.00	13.7x	1.72x	88%	33
9	Synopsys Inc.	Software	SNPS	$25.07	$3,677	OW	Sterling Auty, CFA	$33.00	32%	1.40	1.3%	$1.91	13.1x	1.71x	93%	32
10	Mohawk Industries Inc.	Household Durables	MHK	$58.28	$4,006	OW	Michael Rehaut, CFA	$74.00	27%	2.60	7.9%	$4.09	14.2x	1.17x	93%	28
11	Ingersoll-Rand Plc	Machinery	IR	$43.00	$14,242	OW	C. Stephen Tusa, Jr (	$52.00	21%	2.30	3.9%	$3.97	10.8x	1.75x	89%	30
12	General Electric Co.	Industrial Conglomerates	GE	$18.39	$195,034	OW	C. Stephen Tusa, Jr (	$22.00	20%	2.10	0.7%	$1.66	11.1x	1.58x	93%	33
13	Republic Services Inc.	Commercial Services & Su	RSG	$29.90	$11,340	OW	Scott Levine	$35.50	19%	1.60	1.4%	$2.16	13.9x	1.45x	97%	26
	Average								**36%**	**2.13**	**3.8%**		**11.1x**	**1.71x**	**90%**	**29**

Source: J.P. Morgan and FactSet.

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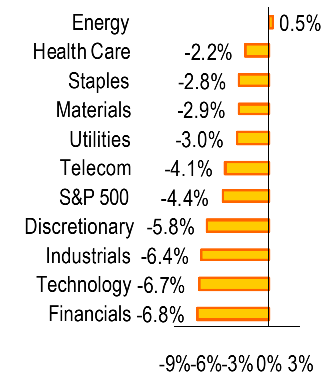
Cyclicals Outrank Defensives. But Defensives gaining

Figure 37: % Change since 5/12/11



Source: FactSet.

Our subjective ranking of the 10 economic sectors based on fundamentals, credit profile, valuation, investor flow, and analyst ratings is below. The net change column on the right of the table shows the accumulated delta compared to the last Circle of Life publication for each of the 10 sectors, and the net change row at the bottom shows the accumulated delta for each of the metrics.

- Cyclicals are still stronger overall than Defensives, with Energy being the most attractive while Discretionary continues to be the weakest of the Cyclicals.
- **Defensives continued to gain this month (+3) due to stronger price performance, credit spreads, and fund flows.**

Figure 36: Overall Subjective Ranking of Ten Economic Sectors

Fundamental, Technical, and Sentiment Metrics (Relative to S&P 500)

Sectors	Strategy Rating	Price Perf	Price/50d mavg	Sales Revision	Sales Momentum	Earnings Revision	Earnings Momentum	JULI Spreads	FC Mean Rating	Short Interest	ETF Fund Flows	P/10Yr EPS	Composite Score	Net Change
Energy	OW	G	G	G	G	G	G	G	G	N	U from N	G	G	-
Materials	OW	G	G from N	G	G	G	G	G	G	G	N	U	G	+1
Industrials	OW	N from G	G from N	G	N	G	G	N from G	N	G	G	G	G	-1
HealthCare	OW	G from N	N	G	N	G	G	N	N	N	G	G	G from N	+1
Telecom	N	N	G	G	N	N	N	N	G	G	G from N	G	G from N	+1
Technology	OW	N	G from N	G	G	G	G	N	N	U from N	G	N	N	
Staples	UW	G from N	N	G	U	G	N	G from N	N	N	G	G	N	+2
Financials	OW	U from N	G from N	N	U	G	G	N from G	G	N	N from G	G	N	-2
Discretionary	N	N	G from N	G	N	G	G	N	N from G	N	N	U	N	
Utilities	UW	N	N	N	N	N	N	N	U from N	N	N	U	N	-1
10 Sectors		N	G from N	G	N	G	G	N	N from G	N	N from G	N	N	
10 Sectors			+5					-1	-2	-1	-1			+0
Cyclicals		N from G	G from N	G	G	G	G	N from G	N from G	N from G	G	N	G	
Cyclicals		-1	+4					-1	-1	-1				+0
Defensives		G from N	N	G	N	G	N	N	N	N	G	G	N	
Defensives		+2						+1	-1		+1			+3
Near-Cyclicals		N from G	G	G	N	G	G	G	G	N	U from G	G	G	
Near-Cyclicals		-1	+1					-1			-2			-3

Source: J.P. Morgan. G=Good, N=Neutral, U=Unattractive

Reading the Table

The overall rankings, as shown earlier, should be viewed as a "conviction" measure, separate but generally consistent with our "Strategy ratings."

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Defensives saw a reversal of structural momentum in the past few months

Below is a timeline for the improvements in the 11 metrics followed by our Circle of Life model, broken down by Cyclicals, Near Cyclicals, and Defensives.

- Note the recent improvement in the attractiveness of **Defensives** in the past few months. This is similar to the improvement we saw in mid-2010.

Figure 38: Circle of Life Metrics Monthly Changes — Cyclicals, Near-Cyclicals, and Defensives

Cyclicals: Materials, Industrials, Discretionary, & Tech

	8/10	10/10	11/10	2/11	4/11	5/11	6/11
Price Performance	-1		+2	-1	-1		-1
Price/50d mavg	+1	-2		-1	+2	-2	+4
Sales Revision							
Sales Momentum		+1					
Earnings Revision		+1					
Earnings Momentum							
JULI Spreads	-2		+1		+1		-1
FC Mean Rating			-1				-1
Short Interest						-1	-1
ETF Fund Flows			-1	+2			
P/10Yr EPS					-1		
Total Delta	-2		+1		+1	-3	
Composite Score	0.5	0.5	0.6	0.6	0.6	0.5	0.5

Near-Cyclicals: Energy & Financials

	8/10	10/10	11/10	2/11	4/11	5/11	6/11
Price Performance			+1				-1
Price/50d mavg	+1	-1		-1		+1	+1
Sales Revision				-1			
Sales Momentum					-1		
Earnings Revision	-1				+2		
Earnings Momentum							
JULI Spreads	-1	+1			+1		-1
FC Mean Rating		+1					
Short Interest	+1			-1			
ETF Fund Flows	-1		+1	+1			-2
P/10Yr EPS							
Total Delta	-1	+1	+2	-2	+2	+1	-3
Composite Score	0.4	0.5	0.5	0.5	0.5	0.6	0.5

Defensives: Staples, HealthCare, Telecom, & Utilitiees

	8/10	10/10	11/10	2/11	4/11	5/11	6/11
Price Performance	+4		-4		+4		+2
Price/50d mavg	-1	-3		+2	+1		
Sales Revision				+1		+1	
Sales Momentum		-1			-1	+1	
Earnings Revision	-1	-1		+1	+1		
Earnings Momentum							
JULI Spreads		-2	-1	+1			+1
FC Mean Rating		+1		+2		+1	-1
Short Interest				+1			
ETF Fund Flows	+3		-1	-2		+2	+1
P/10Yr EPS					+1		
Total Delta	+5	-6	-6	+6	+6	+5	+3
Composite Score	0.2	0.0	(0.1)	0.0	0.2	0.3	0.3

Similar to mid-2010

Source: J.P. Morgan.

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Circle of Life Metrics Monthly Changes

Figure 39: Circle of Life Metrics Monthly Changes — Sectors

Energy

	11/10	2/11	4/11	5/11	6/11
Price Performance	↑				
Price/50d mavg		↓		↑	
Sales Revision					
Sales Momentum					
Earnings Revision			↑		
Earnings Momentum					
JULI Spreads					
FC Mean Rating					
Short Interest		↓			
ETF Fund Flows					↓
P/10Yr EPS					
Total Delta	1	-2	1	1	-1
Composite Score	0.7	0.5	0.6	0.8	0.7

Materials

	11/10	2/11	4/11	5/11	6/11
Price Performance	↑				
Price/50d mavg			↑	↓	↑
Sales Revision					
Sales Momentum					
Earnings Revision					
Earnings Momentum					
JULI Spreads	↑				
FC Mean Rating					
Short Interest					
ETF Fund Flows					
P/10Yr EPS					
Total Delta	2	0	1	-1	1
Composite Score	0.6	0.6	0.7	0.6	0.7

Industrials

	11/10	2/11	4/11	5/11	6/11
Price Performance					↓
Price/50d mavg		↓	↑	↓	↑
Sales Revision					
Sales Momentum					
Earnings Revision					
Earnings Momentum					
JULI Spreads			↑		↓
FC Mean Rating	↓				
Short Interest					
ETF Fund Flows	↓	↑			
P/10Yr EPS					
Total Delta	-2	0	2	-1	-1
Composite Score	0.5	0.5	0.8	0.7	0.6

Technology

	11/10	2/11	4/11	5/11	6/11
Price Performance	↑		↓		
Price/50d mavg					↑
Sales Revision					
Sales Momentum					
Earnings Revision					
Earnings Momentum					
JULI Spreads					
FC Mean Rating					
Short Interest					↓
ETF Fund Flows	↑	↑			
P/10Yr EPS					
Total Delta	2	1	-1	0	0
Composite Score	0.5	0.5	0.5	0.5	0.5

Staples

	11/10	2/11	4/11	5/11	6/11
Price Performance	↓		↑		↑
Price/50d mavg					
Sales Revision					
Sales Momentum					
Earnings Revision			↑		
Earnings Momentum					
JULI Spreads					↑
FC Mean Rating		↑			
Short Interest					
ETF Fund Flows	↓			↑	
P/10Yr EPS			↑		
Total Delta	-2	1	3	1	2
Composite Score	(0.3)	(0.2)	0.2	0.3	0.5

HealthCare

	11/10	2/11	4/11	5/11	6/11
Price Performance	↓		↑		↑
Price/50d mavg					
Sales Revision					
Sales Momentum			↓		
Earnings Revision		↑			
Earnings Momentum					
JULI Spreads	↓	↑			
FC Mean Rating					
Short Interest					
ETF Fund Flows				↑	
P/10Yr EPS					
Total Delta	-2	2	0	1	1
Composite Score	0.2	0.4	0.4	0.5	0.5

Telecom

	11/10	2/11	4/11	5/11	6/11
Price Performance	↓		↑		
Price/50d mavg		↑	↑		
Sales Revision				↑	
Sales Momentum				↑	
Earnings Revision					
Earnings Momentum					
JULI Spreads					
FC Mean Rating				↑	
Short Interest		↑			
ETF Fund Flows		↓			↑
P/10Yr EPS					
Total Delta	-1	1	2	3	1
Composite Score	(0.1)	0.0	0.2	0.5	0.5

Utilities

	11/10	2/11	4/11	5/11	6/11
Price Performance	↓		↑		
Price/50d mavg		↑			
Sales Revision		↑			
Sales Momentum					
Earnings Revision					
Earnings Momentum					
JULI Spreads					
FC Mean Rating		↑			↓
Short Interest					
ETF Fund Flows		↓			
P/10Yr EPS					
Total Delta	-1	2	1	0	-1
Composite Score	(0.4)	(0.2)	(0.1)	(0.1)	(0.2)

Financials

	11/10	2/11	4/11	5/11	6/11
Price Performance					↓
Price/50d mavg					↑
Sales Revision		↓			
Sales Momentum			↓		
Earnings Revision			↑		
Earnings Momentum					
JULI Spreads			↑		↓
FC Mean Rating					
Short Interest					
ETF Fund Flows	↑	↑			↓
P/10Yr EPS					
Total Delta	1	0	1	0	-2
Composite Score	0.4	0.4	0.5	0.5	0.3

Discretionary

	11/10	2/11	4/11	5/11	6/11
Price Performance		↓			
Price/50d mavg					↑
Sales Revision					
Sales Momentum					
Earnings Revision					
Earnings Momentum					
JULI Spreads					
FC Mean Rating					↓
Short Interest				↓	
ETF Fund Flows	↓				
P/10Yr EPS			↓		
Total Delta	-1	-1	-1	-1	0
Composite Score	0.6	0.5	0.4	0.3	0.3

Source: J.P. Morgan.

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Quarterly Price Performance

Figure 40: Sector Quarterly Price Performance

Shaded box highlights performance of sector, Bold/Italics highlights S&P 500 performance

Energy

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Materials

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Industrials

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Technology

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Staples

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

HealthCare

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Telecom

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Utilities

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Financials

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Discretionary

2Q10	3Q10	4Q10	1Q11	QTD
-5%	19%	21%	16%	7%
-6%	17%	18%	8%	4%
-9%	15%	12%	***5%***	3%
-11%	14%	11%	5%	-1%
-12%	12%	11%	4%	-2%
-12%	11%	***10%***	4%	***-3%***
-12%	11%	10%	4%	-4%
-13%	***11%***	6%	3%	-5%
-13%	10%	5%	3%	-5%
-14%	8%	3%	2%	-6%
-16%	4%	0%	2%	-9%

Source: J.P. Morgan and FactSet.

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Update on HealthCare Trade Idea

We are keeping our HealthCare trade open this month. As a reminder, this trade identified 18 top HealthCare stock ideas from J.P. Morgan's fundamental research analysts.

Figure 41: 18 HealthCare Top Ideas from J.P. Morgan analysts

Initiated on 5/12/2011

5/12/2011 — 6/16/2011 (Open Trade): 18 HealthCare Top Ideas

Name	Stock Ticker	JPM Rating Current	JPM Rating as of 5/12/11	Trade Initiated Date	Trade Initiated Price	Trade Initiated $ Value	As of 6/16/2011 Date	As of 6/16/2011 Price	As of 6/16/2011 $ Value	Profit (Loss) $ Chg	Profit (Loss) % Chg
Dendreon Corp.	DNDN	OW	OW	5/12/11	$37.80	$556	6/16/11	$38.99	$573	$17	3.1%
United Therapeutics Corp.	UTHR	OW	OW	5/12/11	$67.40	$556	6/16/11	$54.83	$452	($104)	-18.6%
Allscripts Healthcare Solutions Inc.	MDRX	OW	OW	5/12/11	$20.31	$556	6/16/11	$18.61	$509	($47)	-8.4%
Pfizer Inc.	PFE	OW	OW	5/12/11	$20.89	$556	6/16/11	$20.24	$538	($17)	-3.1%
Mylan Inc.	MYL	OW	OW	5/12/11	$24.09	$556	6/16/11	$22.15	$511	($45)	-8.1%
McKesson Corp.	MCK	OW	OW	5/12/11	$85.02	$556	6/16/11	$82.49	$539	($17)	-3.0%
Express Scripts Inc.	ESRX	OW	OW	5/12/11	$59.79	$556	6/16/11	$55.54	$516	($39)	-7.1%
Life Technologies Corp.	LIFE	OW	OW	5/12/11	$56.35	$556	6/16/11	$51.58	$509	($47)	-8.5%
CIGNA Corp.	CI	OW	OW	5/12/11	$48.05	$556	6/16/11	$49.04	$567	$11	2.1%
Accretive Health Inc.	AH	OW	OW	5/12/11	$26.36	$556	6/16/11	$23.46	$494	($61)	-11.0%
Covidien PLC	COV	OW	OW	5/12/11	$56.13	$556	6/16/11	$52.01	$515	($41)	-7.3%
Gilead Sciences Inc.	GILD	OW	OW	5/12/11	$41.29	$556	6/16/11	$39.65	$533	($22)	-4.0%
St. Jude Medical Inc.	STJ	OW	OW	5/12/11	$52.17	$556	6/16/11	$47.98	$511	($45)	-8.0%
WellPoint Inc.	WLP	OW	OW	5/12/11	$80.00	$556	6/16/11	$76.27	$530	($26)	-4.7%
Illumina Inc.	ILMN	OW	OW	5/12/11	$75.23	$556	6/16/11	$71.02	$524	($31)	-5.6%
Onyx Pharmaceuticals Inc.	ONXX	OW	OW	5/12/11	$43.60	$556	6/16/11	$35.42	$451	($104)	-18.8%
UnitedHealth Group Inc.	UNH	OW	OW	5/12/11	$50.08	$556	6/16/11	$49.66	$551	($5)	-0.8%
Alkermes Inc.	ALKS	OW	OW	5/12/11	$17.02	$556	6/16/11	$16.69	$545	($11)	-1.9%
									Sub-Total	($631)	-6.3%
S&P 500	SP50			5/12/11	1,349	$10,000	6/16/11	1,268	$9,399	($601)	-6.0%
Long: 18 HealthCare Top Ideas				5/12/11		$10,000	6/16/11		$9,369	($631)	-6.3%
Trade vs. S&P 500										***($31)***	***-0.3%***

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of a hypothetical trade assuming an investor bought and sold all the stocks shown on the dates shown.

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Closing post-Oil spike Trade Idea

We are closing our post-Oil spike trade this month. As a reminder, this trade identified 18 stocks to long and 6 stocks to avoid following the spike in oil prices. Specifically, we used the following criteria:

Long Criteria:

- Stock is in one of the top 25 industries in the three months following a 2-standard-deviation spike in oil prices;
- Upside implied by J.P. Morgan target price > 4%;
- P/E (2011E) < 15x; and
- Rated OW by J.P. Morgan.

Avoid Criteria:

- Stock is in one of the bottom 25 industries in the three months following a 2-standard-deviation spike in oil prices; and
- Rated UW by J.P. Morgan.

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Figure 42: 18 Long and 6 Avoid Stocks post-Oil spike

Initiated on 3/31/2011; Closed on 6/16/2011

3/31/2011 - 6/16/2011: 18 Long Stock Ideas and 6 Short Stock Ideas

		JPM Rating		Trade Initiated			As of 6/16/2011			Profit (Loss)	
S&P 500 Sub-Industries	Index	Current	as of 3/31/11	Date	Price	$ Value	Date	Price	$ Value	$ Chg	% Chg
Long											
Delta Air Lines Inc.	DAL	OW	OW	3/31/11	$9.80	$556	6/16/11	$9.40	$533	($23)	-4.1%
United Continental Holdings Inc.	UAL	OW	OW	3/31/11	$22.99	$556	6/16/11	$22.72	$549	($7)	-1.2%
Medco Health Solutions Inc.	MHS	OW	OW	3/31/11	$56.16	$556	6/16/11	$55.76	$552	($4)	-0.7%
Royal Caribbean Cruises Ltd.	RCL	OW	OW	3/31/11	$41.26	$556	6/16/11	$33.70	$454	($102)	-18.3%
Life Technologies Corp.	LIFE	OW	OW	3/31/11	$52.42	$556	6/16/11	$51.58	$547	($9)	-1.6%
Amgen Inc.	AMGN	OW	OW	3/31/11	$53.45	$556	6/16/11	$58.34	$606	$51	9.1%
Molson Coors Brewing Co. (Cl B)	TAP	N	OW	3/31/11	$46.89	$556	6/16/11	$44.18	$523	($32)	-5.8%
Home Depot Inc.	HD	OW	OW	3/31/11	$37.06	$556	6/16/11	$34.50	$517	($38)	-6.9%
Aetna Inc.	AET	OW	OW	3/31/11	$37.43	$556	6/16/11	$43.35	$643	$88	15.8%
CIGNA Corp.	CI	OW	OW	3/31/11	$44.28	$556	6/16/11	$49.04	$615	$60	10.7%
Endurance Specialty Holdings Ltd.	ENH	OW	OW	3/31/11	$48.82	$556	6/16/11	$40.67	$463	($93)	-16.7%
Kohl's Corp.	KSS		OW	3/31/11	$53.04	$556	6/16/11	$49.98	$524	($32)	-5.8%
WellPoint Inc.	WLP	OW	OW	3/31/11	$69.79	$556	6/16/11	$76.27	$607	$52	9.3%
Arch Coal Inc.	ACI	OW	OW	3/31/11	$36.04	$556	6/16/11	$24.59	$379	($177)	-31.8%
Apache Corp.	APA	OW	OW	3/31/11	$130.92	$556	6/16/11	$117.00	$496	($59)	-10.6%
Chesapeake Energy Corp.	CHK	OW	OW	3/31/11	$33.52	$556	6/16/11	$28.17	$467	($89)	-16.0%
Gilead Sciences Inc.	GILD	OW	OW	3/31/11	$42.47	$556	6/16/11	$39.65	$519	($37)	-6.6%
Reinsurance Group of America Inc.	RGA	OW	OW	3/31/11	$62.78	$556	6/16/11	$59.98	$531	($25)	-4.5%
									Long Sub-Total	($475)	-4.8%
Avoid											
Navistar International Corp.	NAV	N	UW	3/31/11	$69.33	($1,667)	6/16/11	$53.12	($1,277)	$390	23.4%
Principal Financial Group Inc.	PFG	UW	UW	3/31/11	$32.11	($1,667)	6/16/11	$28.55	($1,482)	$185	11.1%
Valley National Bancorp	VLY	N	UW	3/31/11	$13.30	($1,667)	6/16/11	$13.27	($1,664)	$3	0.2%
Domtar Corp.	UFS	UW	UW	3/31/11	$91.78	($1,667)	6/16/11	$91.84	($1,668)	($1)	-0.1%
Eli Lilly & Co.	LLY	UW	UW	3/31/11	$35.17	($1,667)	6/16/11	$37.22	($1,764)	($97)	-5.8%
Genpact Ltd.	G	N	UW	3/31/11	$14.48	($1,667)	6/16/11	$15.49	($1,783)	($116)	-7.0%
									Avoid Sub-Total	$363	3.6%
									Trade Sub-Total	($112)	-0.6%
S&P 500	SP50			3/31/11	1,326	$10,000	6/16/11	$1,268	$9,561	($439)	-4.4%
Trade vs. S&P 500										***$327***	***3.8%***

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of a hypothetical trade assuming an investor bought and sold all the stocks shown on the dates shown.

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Update on Large-Cap/Low P/E Stocks Trade Idea

We are keeping our Large-Cap/Low P/E trade open this month. As a reminder, this screen was intended to identify stocks that would provide investors with some defensiveness as we approached a potential correction. We identified 15 stock ideas that were in one of two attractive styles (Large Cap or Low P/E) and that also had support from Street analysts through rating and EPS upgrades and target prices. Specifically, we used the following criteria: 1) Large Cap (>$10.2b) or Low P/E (<12.9x); 2) Positive EPS revisions (2011E) in past 3 months; 3) FC mean rating upgrades in past 3 months; 4) Rated OW by J.P. Morgan; 5) 10% upside implied by Street consensus target price; and 6) J.P. Morgan target price is higher than Street consensus target price.

Figure 43: Large-Cap/Low P/E Trade Performance

Initiated on 2/3/11

2/3/2011 — 6/16/2011 (Open Trade): 15 Street Momentum Stock Ideas

		JPM Rating		Trade Initiated			As of 6/16/2011			Profit (Loss)	
Name	Stock Ticker	Current	as of 2/3/11	Date	Price	$ Value	Date	Price	$ Value	$ Chg	% Chg
Kinross Gold Corp.	KGC	OW	OW	2/03/11	$17.31	$667	6/16/11	$14.94	$575	($91)	-13.7%
Delta Air Lines Inc.	DAL	OW	OW	2/03/11	$11.53	$667	6/16/11	$9.40	$544	($123)	-18.5%
Newmont Mining Corp.	NEM	OW	OW	2/03/11	$57.33	$667	6/16/11	$51.69	$601	($66)	-9.8%
Barrick Gold Corp.	ABX	OW	OW	2/03/11	$48.67	$667	6/16/11	$43.08	$590	($77)	-11.5%
Symantec Corp.	SYMC	OW	OW	2/03/11	$17.95	$667	6/16/11	$18.62	$692	$25	3.7%
Hospira Inc.	HSP	OW	OW	2/03/11	$51.97	$667	6/16/11	$54.14	$695	$28	4.2%
DHT Holdings Inc.	DHT		OW	2/03/11	$5.08	$667	6/16/11	$3.75	$492	($175)	-26.2%
Baker Hughes Inc.	BHI	OW	OW	2/03/11	$68.53	$667	6/16/11	$69.84	$679	$13	1.9%
Nu Skin Enterprises Inc. (Cl A)	NUS	OW	OW	2/03/11	$30.35	$667	6/16/11	$36.28	$797	$130	19.5%
CA Inc.	CA	OW	OW	2/03/11	$24.69	$667	6/16/11	$21.35	$576	($90)	-13.5%
Freeport-McMoRan Copper & Gold Inc.	FCX	OW	OW	2/03/11	$56.89	$667	6/16/11	$47.85	$561	($106)	-15.9%
United Parcel Service Inc. (Cl B)	UPS	OW	OW	2/03/11	$74.29	$667	6/16/11	$69.05	$620	($47)	-7.1%
Gilead Sciences Inc.	GILD	OW	OW	2/03/11	$38.73	$667	6/16/11	$39.65	$683	$16	2.4%
CSX Corp.	CSX	OW	OW	2/03/11	$23.17	$667	6/16/11	$24.30	$699	$33	4.9%
QUALCOMM Inc.	QCOM	OW	OW	2/03/11	$54.98	$667	6/16/11	$52.99	$643	($24)	-3.6%
									Sub-Total	($554)	-5.5%
S&P 500	SP50			2/03/11	1,307	$10,000	6/16/11	1,268	$9,698	($302)	-3.0%
Long: 15 Street Momentum Stock Ideas				2/03/11		$10,000	6/16/11		$9,446	($554)	-5.5%
Trade vs. S&P 500										***($252)***	***-2.5%***

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of a hypothetical trade assuming an investor bought and sold all the stocks shown on the dates shown.

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Update on Energy Top Ideas Trade Idea

We are keeping our Energy top ideas trade open this month. To create this screen, we asked each of J.P. Morgan's fundamental Energy equity analysts for their top stock idea. The five analysts we surveyed were: Joseph Allman, Oil & Gas E&P; David Anderson, Oil Services & Equipment; Katherine Lucas Minyard, Integrated Oils; John Bridges, Coal; and Chris Blansett, Alternative Energy.

Figure 44: 5 Top Stock Ideas from JPM Energy Analysts Trade Performance

Initiated on 11/11/10

11/11/2010 — 6/16/2011 (Open Trade): 5 Top Stock Ideas from JPM Energy Analysts

		JPM Rating		Trade Initiated			As of 6/16/2011			Profit (Loss)	
Name	Stock Ticker	Current	as of 11/11/10	Date	Price	$ Value	Date	Price	$ Value	$ Chg	% Chg
National Oilwell Varco Inc.	NOV	OW	OW	11/11/10	$59.56	$2,000	6/16/11	$69.98	$2,350	$350	17.5%
Arch Coal Inc.	ACI	OW	OW	11/11/10	$30.24	$2,000	6/16/11	$24.59	$1,626	($374)	-18.7%
Cenovus Energy Inc.	CVE CT	OW	OW	11/11/10	C$30.26	$2,000	6/16/11	C$33.16	$2,192	$192	9.6%
Cree Inc.	CREE	OW	OW	11/11/10	$53.91	$2,000	6/16/11	$35.60	$1,321	($679)	-34.0%
EOG Resources Inc.	EOG	OW	OW	11/11/10	$94.11	$2,000	6/16/11	$101.61	$2,159	$159	8.0%
									Sub-Total	($352)	-3.5%
S&P 500	SP50			11/11/10	1,214	$10,000	6/16/11	1,268	$10,446	$446	4.5%
Long: 5 Top Stock Ideas from JPM Energy Analysts				11/11/10		$10,000	6/16/11		$9,648	($352)	-3.5%
Trade vs. S&P 500										***($798)***	***-8.0%***

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of a hypothetical trade assuming an investor bought and sold all the stocks shown on the dates shown.

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Update on Residential Construction and Inventory Correlation Trade Idea

We are keeping open our trade of stocks with a strong correlation to Residential Construction or Inventory, which we opened in August. As a reminder, for this trade we identified 19 stocks that met the following criteria: 1) In an industry that had positive relative strength; 2) In an industry that has historically had a strong correlation with either Residential Construction (as % of GDP) or Inventory (as % of GDP); 3) Earnings Yield at least 100bp greater than Bond Yield; 4) Free Cash Flow Yield at least 100bp greater than Bond Yield; and 5) Rated Overweight by J.P. Morgan.

Figure 45: Residential Construction and Inventory Correlation Stocks Trade Performance

Initiated on 8/19/10

8/19/2010 — 6/16/2011 (Open Trade): 19 Stocks Correlated with Recovery in Residential Construction or Inventory

Name	Stock Ticker	JPM Rating Current	JPM Rating as of 8/19/10	Trade Initiated Date	Trade Initiated Price	Trade Initiated $ Value	As of 6/16/2011 Date	As of 6/16/2011 Price	As of 6/16/2011 $ Value	Profit (Loss) $ Chg	Profit (Loss) % Chg
Goldman Sachs Group Inc.	GS	OW	OW	8/19/10	$147.05	$526	6/16/11	$136.09	$487	($39)	-7.5%
Bank of New York Mellon Corp.	BK	OW	OW	8/19/10	$24.59	$526	6/16/11	$26.23	$561	$35	6.7%
E.I. DuPont de Nemours & Co.	DD	OW	OW	8/19/10	$40.59	$526	6/16/11	$49.34	$640	$113	21.6%
Morgan Stanley	MS	OW	OW	8/19/10	$25.99	$526	6/16/11	$22.14	$448	($78)	-14.8%
Entergy Corp.	ETR	N	OW	8/19/10	$77.86	$526	6/16/11	$68.61	$464	($63)	-11.9%
Freeport-McMoRan Copper & Gold Inc.	FCX	OW	OW	8/19/10	$36.05	$526	6/16/11	$47.85	$699	$172	32.8%
McGraw-Hill Cos.	MHP	OW	OW	8/19/10	$28.77	$526	6/16/11	$41.08	$752	$225	42.8%
Illinois Tool Works Inc.	ITW	N	OW	8/19/10	$42.04	$526	6/16/11	$54.64	$684	$158	30.0%
Deere & Co.	DE	OW	OW	8/19/10	$65.71	$526	6/16/11	$79.27	$635	$109	20.6%
CMS Energy Corp.	CMS	OW	OW	8/19/10	$17.04	$526	6/16/11	$19.43	$600	$74	14.0%
DISH Network Corp. (Cl A)	DISH		OW	8/19/10	$17.80	$526	6/16/11	$27.77	$821	$295	56.0%
Omnicom Group Inc.	OMC	OW	OW	8/19/10	$36.39	$526	6/16/11	$45.01	$651	$125	23.7%
Ingersoll-Rand Plc	IR	OW	OW	8/19/10	$35.55	$526	6/16/11	$43.63	$646	$120	22.7%
Danaher Corp.	DHR	OW	OW	8/19/10	$36.36	$526	6/16/11	$51.61	$747	$221	41.9%
Time Warner Cable Inc.	TWC		OW	8/19/10	$54.05	$526	6/16/11	$73.18	$713	$186	35.4%
Ashland Inc.	ASH	N	OW	8/19/10	$48.79	$526	6/16/11	$60.14	$649	$122	23.3%
CBS Corp (Cl B)	CBS	OW	OW	8/19/10	$13.76	$526	6/16/11	$25.36	$970	$444	84.3%
Newmont Mining Corp.	NEM	OW	OW	8/19/10	$58.44	$526	6/16/11	$51.69	$466	($61)	-11.6%
Caterpillar Inc.	CAT		OW	8/19/10	$69.29	$526	6/16/11	$95.46	$725	$199	37.8%
									Sub-Total	$2,357	23.6%
S&P 500	SP50			8/19/10	1,076	$10,000	6/16/11	1,268	$11,785	$1,785	17.9%
Long: 19 Stocks Correlated with Residential Construction or Inventory				8/19/10		$10,000	6/16/11		$12,357	$2,357	23.6%
Trade vs. S&P 500										***$572***	***5.7%***

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of a hypothetical trade assuming an investor bought and sold all the stocks shown on the dates shown.

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Update on Pro-Cyclical Stocks Trade Idea

We are keeping our Pro-Cyclicals trade open, in which we compiled a list of 25 Pro-Cyclical stock ideas, since we continue to favor Cyclicals in the near term. The list identified stocks with a "pro-Cyclical" tilt, and for which our analysts had a forecast above Street consensus. More specifically, we used the following criteria: 1) In the **Energy, Materials, Industrials, Discretionary, Technology,** or **Telecom** sectors, since we saw the most upside in these sectors into year-end; 2) J.P. Morgan EPS estimate for 2010 at least 10% above Street consensus estimate for 2010; 3) Rated Neutral or Overweight by J.P. Morgan to ensure there was a strong fundamental story; and 4) Market Cap > $4 billion.

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Figure 46: Pro-Cyclical Stocks Trade Performance

Initiated on 11/19/09

11/19/2009 — 6/16/2011 (Open Trade): 25 Pro-Cyclical Stocks

		JPM Rating		Trade Initiated			As of 6/16/2011			Profit (Loss)	
Name	Stock Ticker	Current	as of 11/19/09	Date	Price	$ Value	Date	Price	$ Value	$ Chg	% Chg
United States Steel Corp.	X	OW	OW	11/19/09	$41.28	$400	6/16/11	$41.66	$404	$4	0.9%
Alcoa Inc.	AA	OW	OW	11/19/09	$13.22	$400	6/16/11	$14.79	$448	$48	11.9%
Crown Castle International Corp.	CCI	OW	N	11/19/09	$36.99	$400	6/16/11	$39.87	$431	$31	7.8%
Kinder Morgan Energy Partners L.P.	KMP	OW	OW	11/19/09	$56.22	$400	6/16/11	$70.62	$502	$102	25.6%
Delta Air Lines Inc.	DAL	OW	OW	11/19/09	$7.59	$400	6/16/11	$9.40	$495	$95	23.8%
Ford Motor Co.	F	N	N	11/19/09	$8.73	$400	6/16/11	$12.83	$588	$188	47.0%
Magna International Inc.	MGA	OW	OW	11/19/09	$24.97	$400	6/16/11	$45.91	$736	$336	83.9%
Cabot Oil & Gas Corp.	COG	N	OW	11/19/09	$38.80	$400	6/16/11	$60.43	$623	$223	55.7%
Southwestern Energy Co.	SWN	OW	OW	11/19/09	$41.49	$400	6/16/11	$41.32	$398	($2)	-0.4%
Hertz Global Holdings Inc.	HTZ		N	11/19/09	$9.89	$400	6/16/11	$15.01	$607	$207	51.8%
Vulcan Materials Co.	VMC	N	OW	11/19/09	$49.50	$400	6/16/11	$38.00	$307	($93)	-23.2%
Pioneer Natural Resources Co.	PXD	OW	OW	11/19/09	$41.31	$400	6/16/11	$84.80	$821	$421	105.3%
Las Vegas Sands Corp.	LVS	OW	OW	11/19/09	$16.95	$400	6/16/11	$38.55	$910	$510	127.4%
XTO Energy Inc	XTO		OW	11/19/09	$41.63	$400	**	$41.81	$402	$2	0.4%
Petrohawk Energy Corp.	HK	OW	OW	11/19/09	$21.18	$400	6/16/11	$23.68	$447	$47	11.8%
MeadWestvaco Corp.	MWV	N	OW	11/19/09	$26.37	$400	6/16/11	$30.96	$470	$70	17.4%
Cree Inc.	CREE	OW	OW	11/19/09	$46.72	$400	6/16/11	$35.60	$305	($95)	-23.8%
Wynn Resorts Ltd.	WYNN	OW	N	11/19/09	$64.14	$400	6/16/11	$129.95	$810	$410	102.6%
International Paper Co.	IP	N	N	11/19/09	$24.96	$400	6/16/11	$26.63	$427	$27	6.7%
ArcelorMittal SA (NY Reg Sh)	MT	OW	OW	11/19/09	$38.00	$400	6/16/11	$31.58	$332	($68)	-16.9%
Paccar Inc.	PCAR	OW	OW	11/19/09	$38.87	$400	6/16/11	$46.12	$475	$75	18.7%
Liberty Media Holding Corp. Interactive (Serie	LINTA	OW	OW	11/19/09	$10.74	$400	6/16/11	$15.97	$595	$195	48.6%
J.C. Penney Co. Inc.	JCP		OW	11/19/09	$29.39	$400	6/16/11	$34.27	$466	$66	16.6%
Williams Cos.	WMB		OW	11/19/09	$19.82	$400	6/16/11	$28.31	$571	$171	42.8%
Chesapeake Energy Corp.	CHK	OW	OW	11/19/09	$23.38	$400	6/16/11	$28.17	$482	$82	20.5%
									Sub-Total	$3,052	30.5%
S&P 500	SP50			11/19/09	1,095	$10,000	6/16/11	1,268	$11,578	$1,578	15.8%
Long: 25 Pro-Cyclical Stocks				11/19/09		$10,000	6/16/11		$13,052	$3,052	30.5%
Trade vs. S&P 500										***$1,474***	***14.7%***

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of a hypothetical trade assuming an investor bought and sold all the stocks on the dates shown. Note: XTO acquired by XOM on 6/28/10.

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Figure 47: Circle of Life Trades since Launch of Publication

Performance of trades

Publication Dates: Trade Open		Trade Close	Pair Trade Re-Cap: Long Short Sector	Long/Short Performance: Perf		+ or -	% chg	Long REL Perf vs S&P 500	Short REL Perf vs S&P 500	Sector rating changes: Upgrade/ Downgrade	Sector	
5/12/2011	-	Open	Long: 18 HealthCare Top Ideas	-6.3%	x	+100.0%	-6.3%	-0.3%		Upgrade	HealthCare	N ---> OW
3/31/2011	-	6/16/2011	Long: 18 Stocks post-Oil spike	-4.8%	x	+100.0%	-4.8%	-0.4%		Downgrade	Discretionary	OW ---> N
			Avoid: 6 Stocks post-Oil spike	-3.6%	x	-100.0%	3.6%	8.0%				
2/3/2011	-	Open	Long: 15 Street Momentum Ideas	-5.5%	x	+100.0%	-5.5%	-2.5%				
11/11/2010	-	Open	Long: 5 Energy Top Ideas	-3.5%	x	+100.0%	-3.5%	-8.0%		Upgrade	Energy	N ---> OW
10/7/2010	-	2/3/2011	Long: 25 Stocks Attractive on Circle of Life Metrics	15.7%	x	+100.0%	15.7%	2.9%				
8/19/2010	-	Open	Long: 19 Stocks Correlated with Res. Constr. or Inventory	23.6%	x	+100.0%	23.6%	5.7%				
6/3/2010	-	10/7/2010	Long 25 Clobbered Stocks with FCF Yld > BY	3.7%	x	+100.0%	3.7%	-1.3%		Downgrade	Energy	OW ---> N
4/22/2010	-	10/7/2010	Long 25 Employment Demographics Stocks	-12.0%	x	+100.0%	-12.0%	-7.8%				
3/25/2010	-	10/7/2010	Long 23 Price Target Upgrade Stocks	4.2%	x	+100.0%	4.2%	4.8%				
2/11/2010	-	3/25/2010	Long 24 Correction Stocks	11.4%	x	+100.0%	11.4%	3.3%				
1/14/2010	-	10/7/2010	Long 19 Financials Stocks	5.8%	x	+100.0%	5.8%	5.0%				
11/19/2009	-	Open	Long 25 Pro-Cyclical Stocks	30.5%	x	+100.0%	30.5%	14.7%				
12/11/2009										Upgrade	Health Care	UW ---> N
10/22/2009	-	11/19/2009	Long 25 High Debt Stocks	-2.0%	x	+100.0%	-2.0%	-2.2%				
9/18/2009	-	10/22/2009	Long 26 Cyclical Stocks for the Next Leg of the Recovery	-2.5%	x	+100.0%	-2.5%	-4.8%				

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of hypothetical trades assuming an investor bought and sold on the dates shown above, according to the trade parameters highlighted in each of our past Circle of Life reports.

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Figure 48: Circle of Life Trades Since Launch of Publication (Continued)

Performance of trades

Publication Dates			Pair Trade Re-Cap			Long/Short Performance						Sector rating changes		
Trade Open		Trade Close	Long	Short	Sector	Perf		+ or -	% chg	Long REL Perf vs S&P 500	Short REL Perf vs S&P 500	Upgrade/ Downgrade	Sector	
8/5/2009	-	1/14/2010	Long Top 15 Energy Stks (Composite Score)			19.2%	x	+100.0%	19.2%	4.7%		Upgrade	Energy	N ---> OW
												Downgrade	Health Care	N ---> UW
7/1/2009	-	8/5/2009	Long 15 Top Smoke Stackey Industries			14.7%	x	+100.0%	14.7%	6.1%				
6/25/2009												Upgrade	Industrials	N ---> OW
												Upgrade	Materials	N ---> OW
6/4/2009	-	7/1/2009	Long 6 Sub-Industries			-1.9%	x	+100.0%	-1.9%	0.1%				
				Short 5 Sub-Industries		-6.6%	x	-100.0%	6.6%		4.6%			
4/29/2009	-	6/4/2009	Long Consumer Ideas			-0.3%	x	+100.0%	-0.3%	-8.2%				
				Short Consumer Ideas		-1.2%	x	-100.0%	1.2%		9.1%			
4/29/2009	-	6/4/2009	Long		Discretionary	4.5%	x	+100.0%	4.5%	-3.4%		Upgrade	Energy	UW ---> N
				Short	Staples	8.0%	x	-100.0%	-8.0%		-0.1%			
3/30/2009	-	4/29/2009	Long		Materials	12.6%	x	+100.0%	12.6%	1.7%		Upgrade	Industrials	UW ---> N
			Long		Industrials	18.2%	x	+100.0%	18.2%	7.3%		Downgrade	Health Care	OW ---> N
				Short	Utilities	2.4%	x	-100.0%	-2.4%		8.6%			
2/19/2009	-	3/30/2009	Long		Materials	8.0%	x	+100.0%	8.0%	6.9%		Upgrade	Materials	UW ---> N
				Short	Telecom Svcs	8.4%	x	-100.0%	-8.4%		-7.3%	Downgrade	Telecom	OW ---> N
1/16/2009	-	2/19/2009	Long		Health Care	0.0%	x	+100.0%	0.0%	8.3%		Upgrade	Health Care	N ---> OW
				Short	Energy	-7.3%	x	-100.0%	7.3%		-1.1%	Downgrade	Energy	N ---> UW

Source: J.P. Morgan and FactSet. Note: The table above shows the performance of hypothetical trades assuming an investor bought and sold on the dates shown above, according to the trade parameters highlighted in each of our past Circle of Life reports.

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Sector Comparative

Relative Price Performance
Price vs. 50-Day Moving Avg
Monthly Relative Sales Revision
Relative Sales Growth (vs. S&P 500)
Monthly Relative Earnings Revision
Relative Earnings Momentum
JULI Spreads (Relative to All Industries' Average)
First Call Mean Rating (Relative to S&P 500)
Short Interest (Relative to S&P 500)
ETF Fund Flows
Price/10-Yr EPS (Relative to S&P 500)

Circle of Life Metrics Monthly Changes
Quarterly Price Performance

Sector Comparative

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Trailing 1-Month Relative Price Performance – Sectors

Figure 49: Resources: Energy

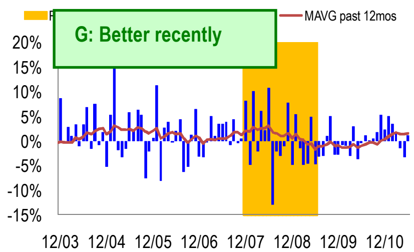


Figure 50: Resources: Materials

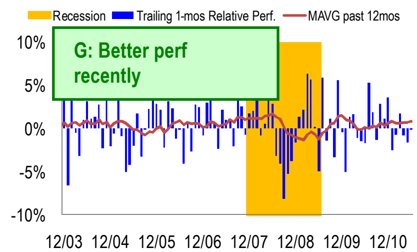


Figure 51: Exports: Industrials

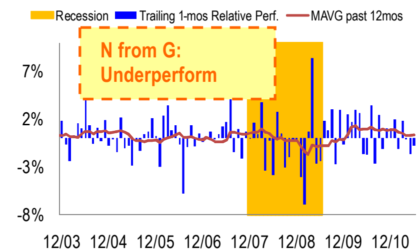


Figure 52: Exports: Technology

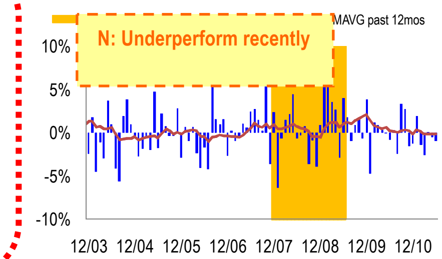


Figure 53: Defensives: Staples

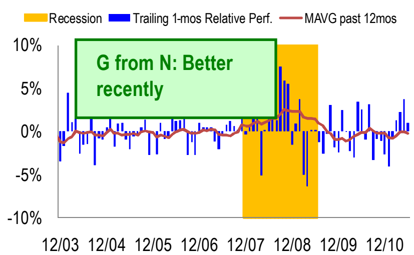


Figure 54: Defensives: Health Care

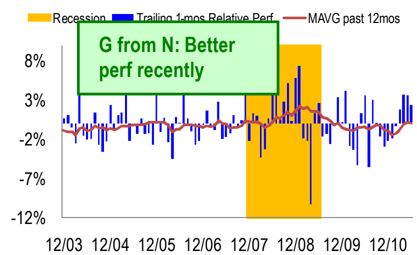


Figure 55: Defensives: Telecom

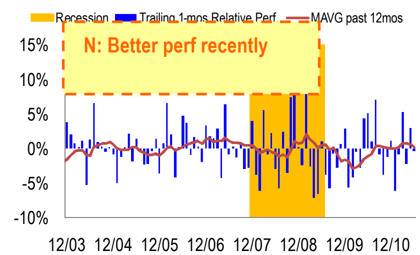
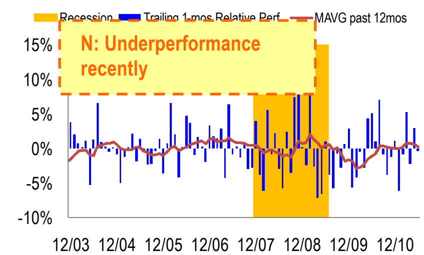


Figure 56: Defensives: Utilities



Relative Price Performance:

Trailing 1-mo price performance of sector minus trailing 1-mo price performance of S&P 500.

Figure 57: Discretionary

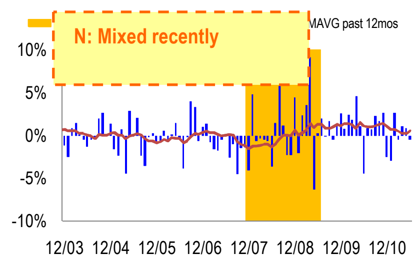
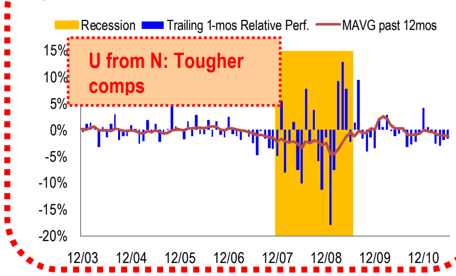


Figure 58: Financials



Source: J.P. Morgan and Datastream.

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Price vs. 50-Day Moving Avg – Sectors (best is low and rising)

Figure 59: Resources: Energy

G

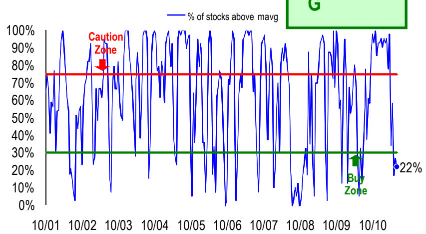


Figure 60: Resources: Materials

G from N

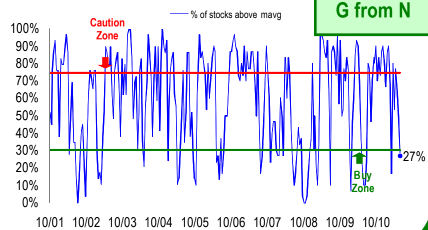


Figure 61: Exports: Industrials

G from N

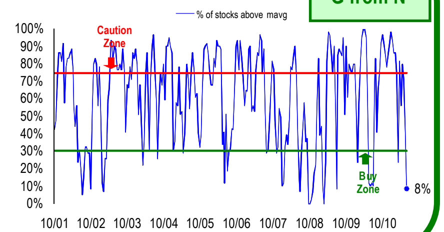


Figure 62: Exports: Technology

G from N

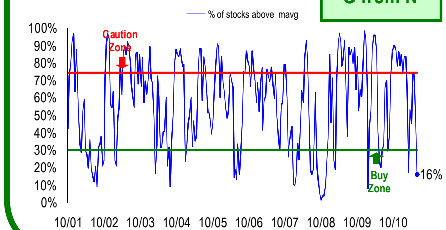


Figure 63: Defensives: Staples

N

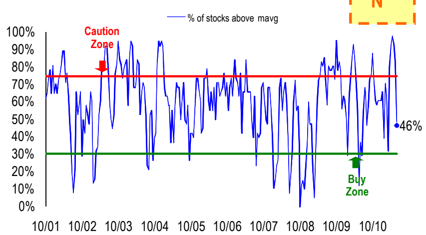


Figure 64: Defensives: Health Care

N

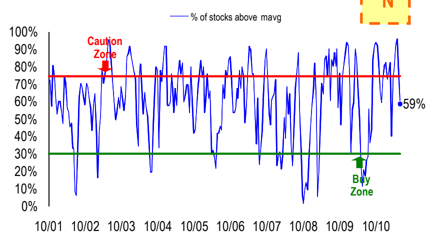


Figure 65: Defensives: Telecom

G

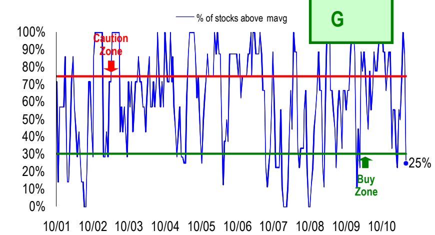
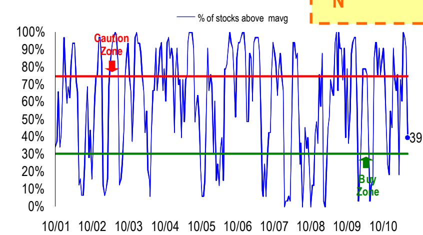


Figure 66: Defensives: Utilities

N



Price Momentum:

% of stocks in sector above 50-day moving average.

Figure 67: Discretionary

G from N

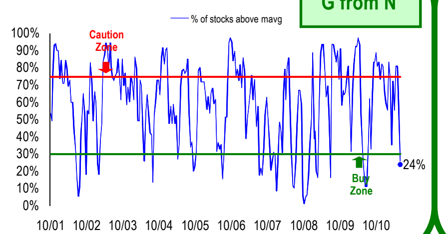
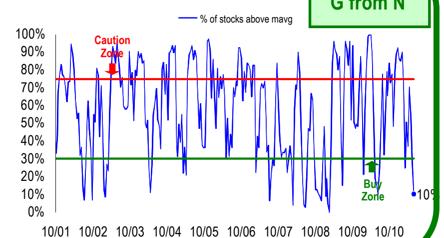


Figure 68: Financials

G from N



Source: J.P. Morgan and FactSet.

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Monthly Sales Revision – Sectors

Figure 69: Resources: Energy

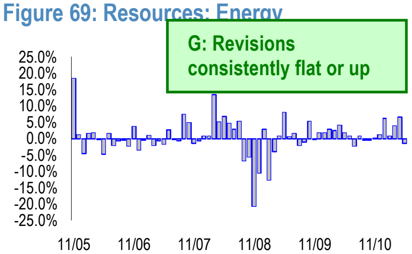


Figure 70: Resources: Materials

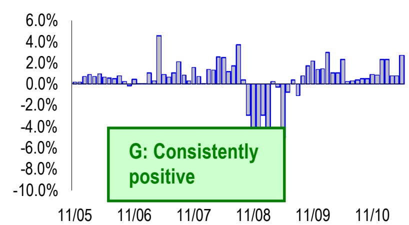


Figure 71: Exports: Industrials

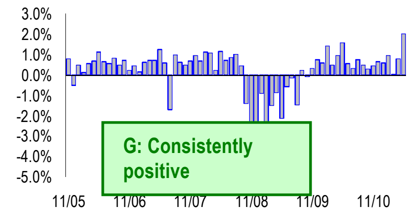


Figure 72: Exports: Technology

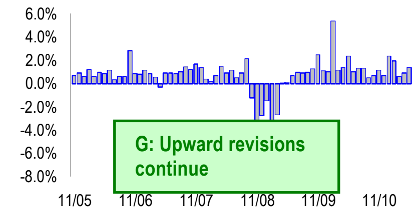


Figure 73: Defensives: Staples

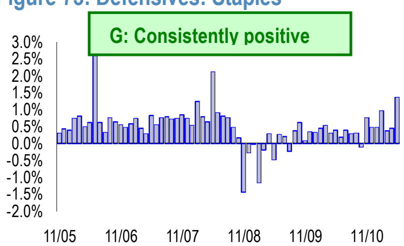


Figure 74: Defensives: Health Care

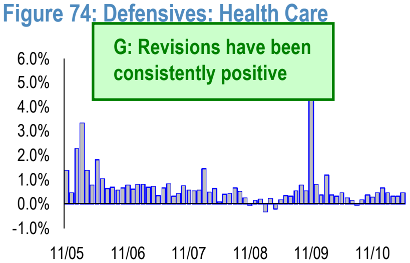


Figure 75: Defensives: Telecom

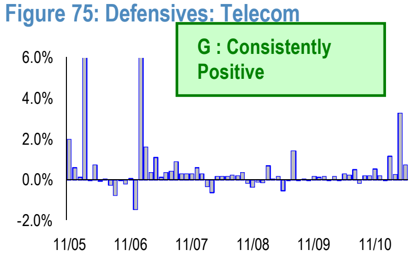
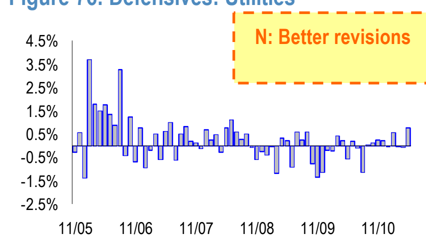


Figure 76: Defensives: Utilities



Sales Revisions:

Change in sales NTM (current vs. 1 month ago) divided by sector sales (1 month ago).

Based on bottom-up consensus sales of current S&P 500 constituents.

Figure 77: Discretionary

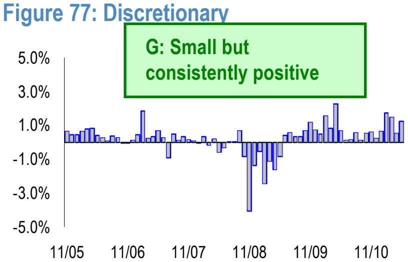
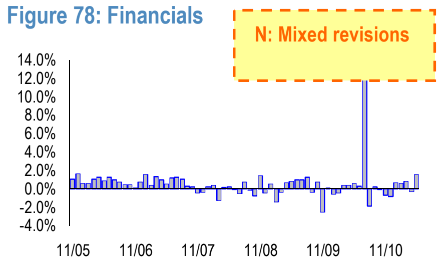


Figure 78: Financials



Source: J.P. Morgan and Datastream. Change in Sales (NTM) as compared to one month ago divided by total sales of the sector.

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Relative Sales Growth (vs. S&P 500) – Sectors (best if tail is rising)

Figure 79: Resources: Energy

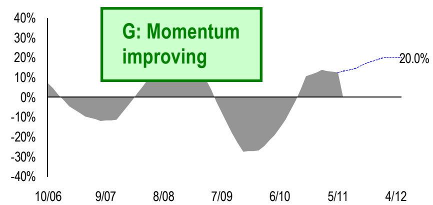


Figure 80: Resources: Materials

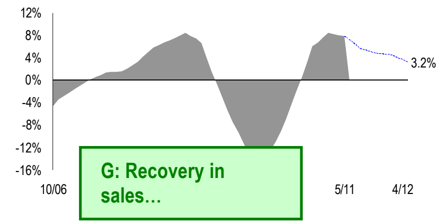


Figure 81: Exports: Industrials

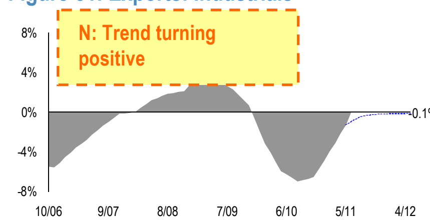


Figure 82: Exports: Technology

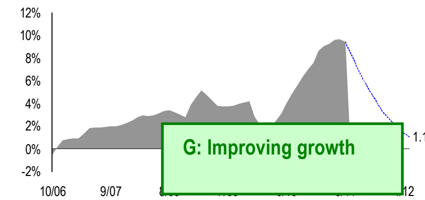


Figure 83: Defensives: Staples

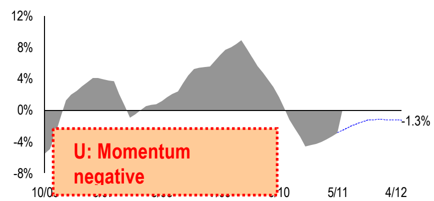


Figure 84: Defensives: Health Care

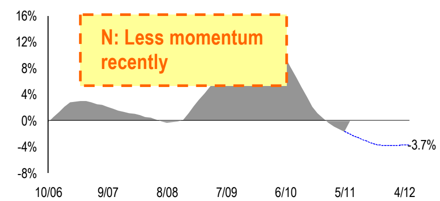


Figure 85: Defensives: Telecom

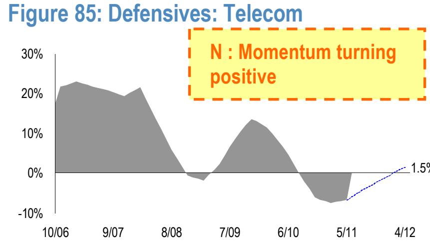
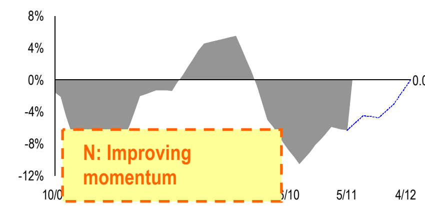


Figure 86: Defensives: Utilities



Relative Sales Growth NTM:

Sales growth NTM of sector less sales growth NTM of S&P 500.

Based on bottom-up results of current S&P 500 constituents.

Historical data reflect actual growth.

Dashed line reflects First Call bottom-up consensus.

Up or down trend of line is most important indicator for determining sector momentum.

Figure 87: Discretionary

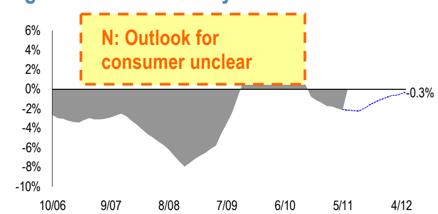
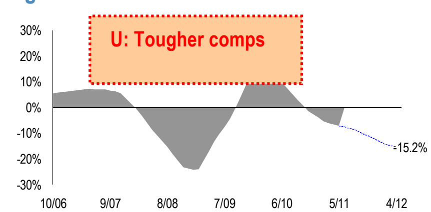


Figure 88: Financials



Source: J.P. Morgan and Datastream.

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Monthly Earnings Revision – Sectors

Figure 89: Resources: Energy

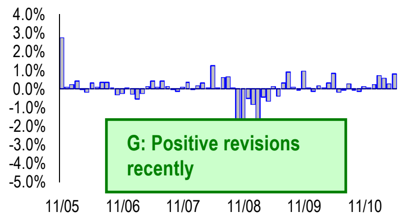


Figure 90: Resources: Materials

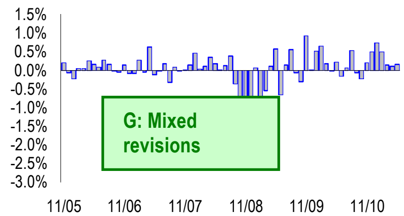


Figure 91: Exports: Industrials

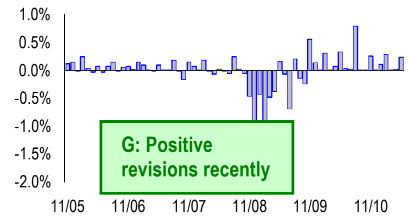


Figure 92: Exports: Technology

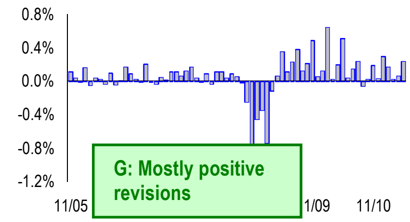


Figure 93: Defensives: Staples

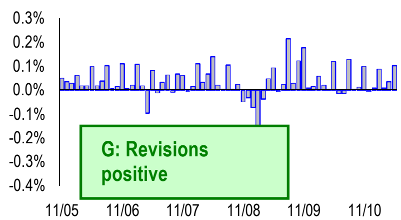


Figure 94: Defensives: Health Care

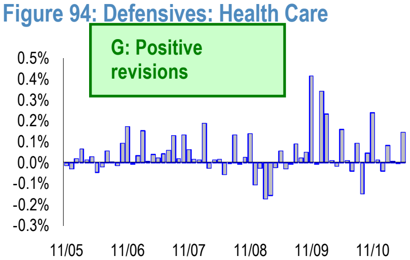


Figure 95: Defensives: Telecom

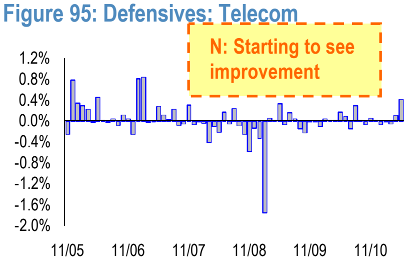
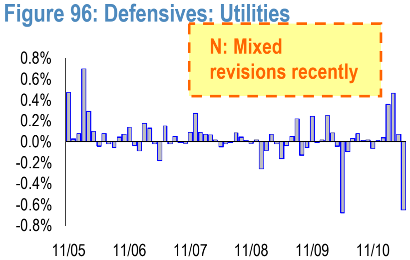


Figure 96: Defensives: Utilities



Earnings Revisions:

Change in net income NTM (current vs. 1 month ago) divided by sector market cap.

Based on bottom-up consensus net income of current S&P 500 constituents.

Figure 97: Discretionary

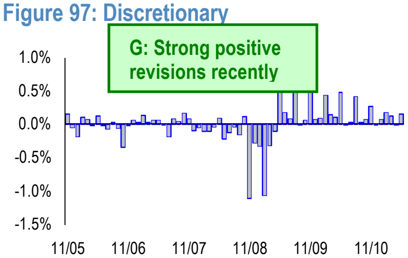
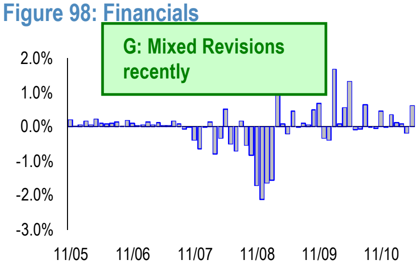


Figure 98: Financials



Source: J.P. Morgan and Datastream. Change in Net Income (NTM) as compared to one month ago divided by market cap.

Relative Earnings Momentum – Sectors (best if tail is rising)

Figure 99: Resources: Energy

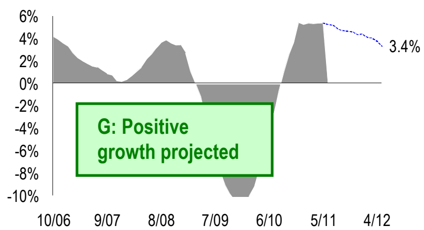


Figure 100: Resources: Materials

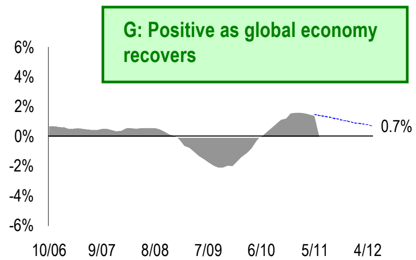


Figure 101: Exports: Industrials

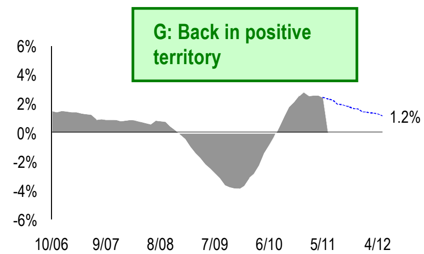


Figure 102: Exports: Technology

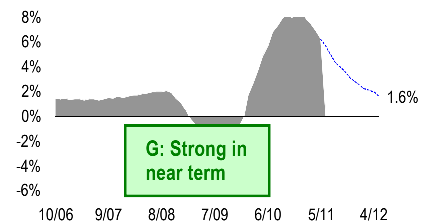


Figure 103: Defensives: Staples

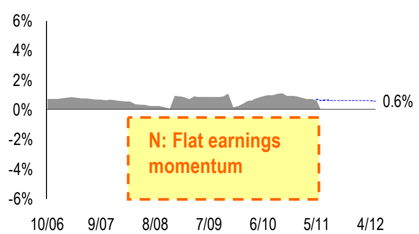


Figure 104: Defensives: Health Care

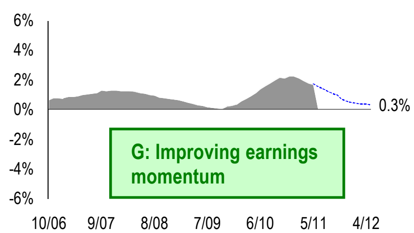


Figure 105: Defensives: Telecom

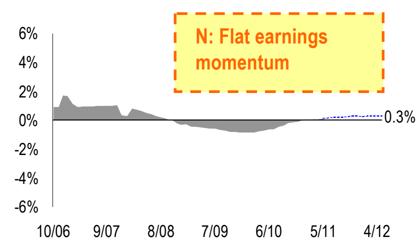
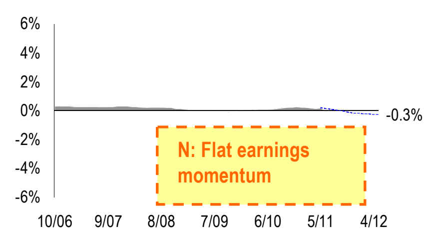


Figure 106: Defensives: Utilities



Relative Earnings Momentum:

Contribution of growth by sector to S&P 500 EPS. Change in net income (NTM vs. year ago) divided by S&P 500 net income.

Based on bottom-up results of current S&P 500 constituents.

Historical data reflect actual growth.

Dashed line reflects First Call bottom-up consensus.

Figure 107: Discretionary

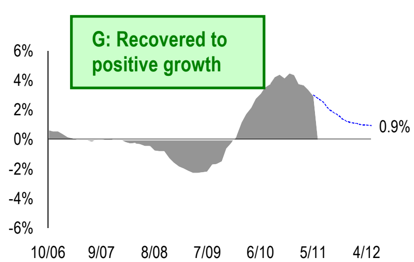
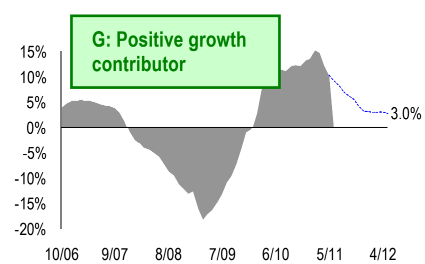


Figure 108: Financials



Source: J.P. Morgan and Datastream. Area portion of the chart is actual relative earnings and the line is based on consensus NTM.

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JULI Spreads (Relative to All Industries' Averages) – Sectors (best is high and narrowing)

Figure 109: Resources: Energy

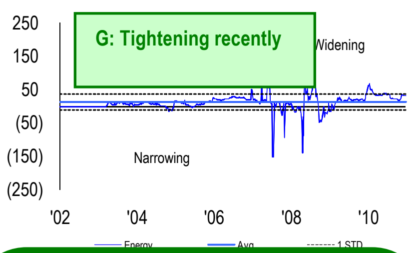


Figure 110: Resources: Materials

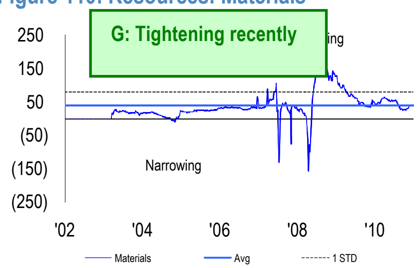


Figure 111: Exports: Industrials

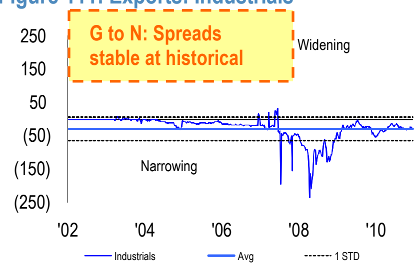


Figure 112: Exports: Technology

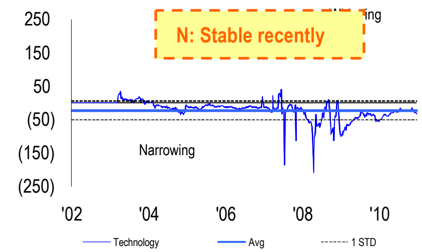


Figure 113: Defensives: Staples

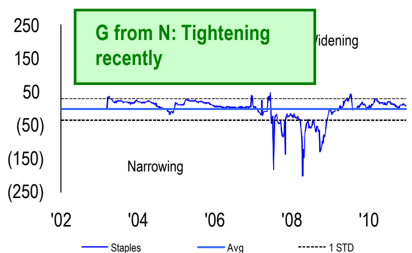


Figure 114: Defensives: Health Care

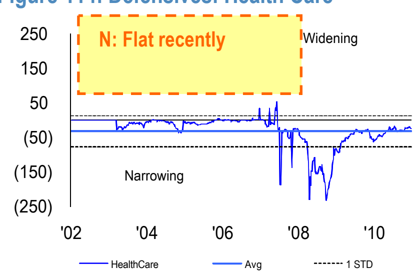


Figure 115: Defensives: Telecom

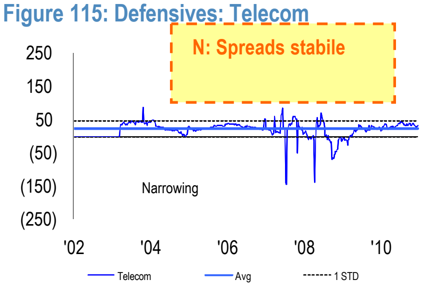
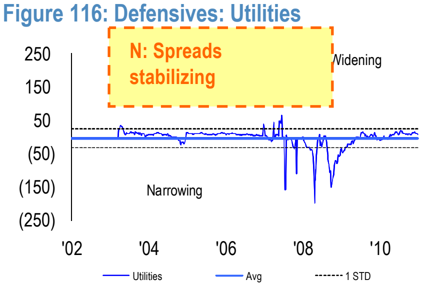


Figure 116: Defensives: Utilities



Relative JULI Spreads:
Calculated as spread of sector less avg. spread of ten sectors.

A figure above zero means sector has higher yields (relative).

When line is falling, it means spreads are tightening on a relative basis.

Figure 117: Discretionary

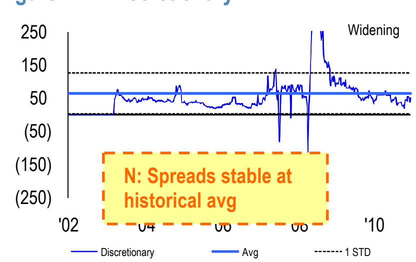
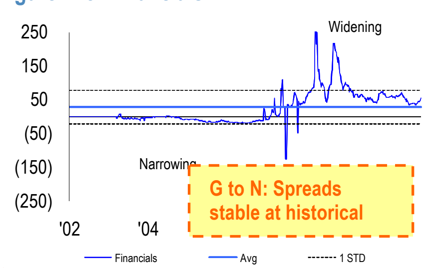


Figure 118: Financials



Source: J.P. Morgan and Datastream.

First Call Mean Rating (Relative to S&P 500) – Sectors (best is low and rising)

Figure 119: Resources: Energy

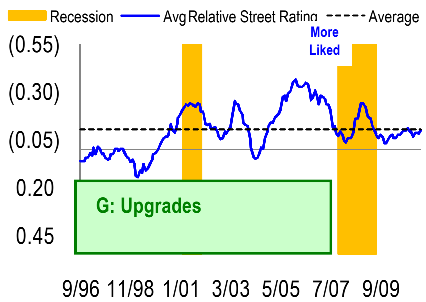


Figure 120: Resources: Materials

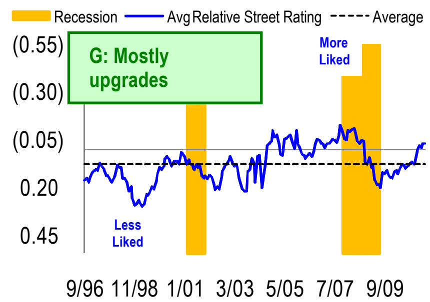


Figure 121: Exports: Industrials

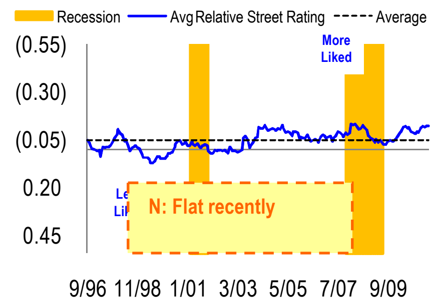


Figure 122: Exports: Technology

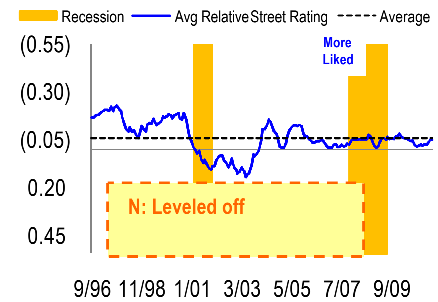


Figure 123: Defensives: Staples

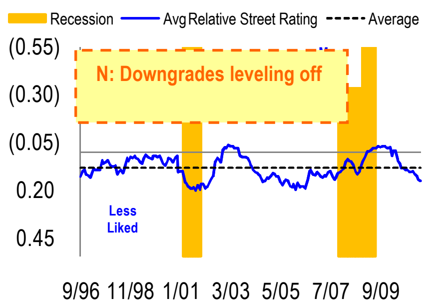


Figure 124: Defensives: Health Care

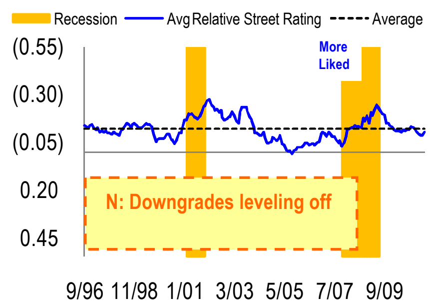


Figure 125: Defensives: Telecom

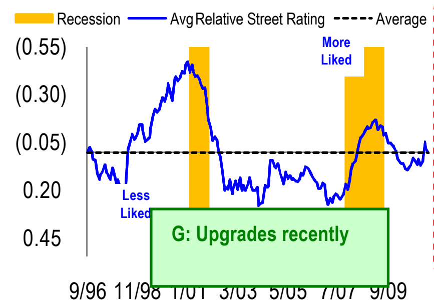
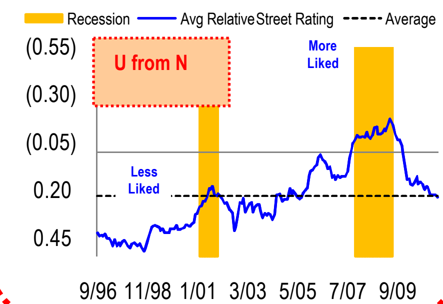


Figure 126: Defensives: Utilities



Relative FC Mean Rating:

Bottom-up FC mean rating of Street for sector less S&P 500 overall.

Negative "relative" value means Street has more Buys on sector vs. S&P 500.

When line is rising, it means Street is upgrading….

Figure 127: Discretionary

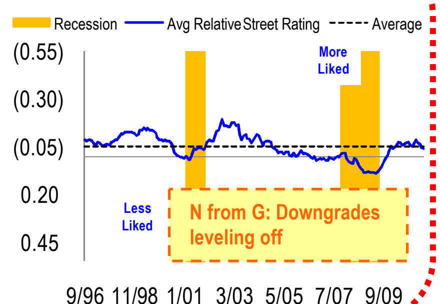
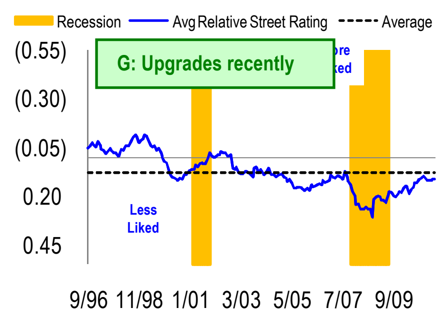


Figure 128: Financials



Source: J.P. Morgan and FactSet

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Short Interest (Relative to S&P 500) – Sectors (best is high and falling)

Figure 129: Resources: Energy

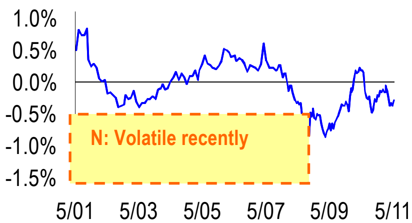


Figure 130: Resources: Materials

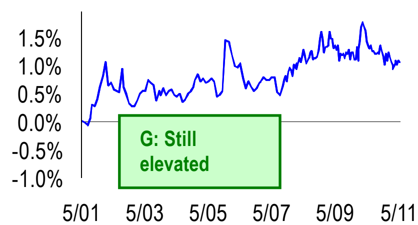


Figure 131: Exports: Industrials

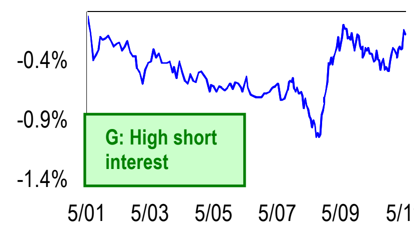


Figure 132: Exports: Technology

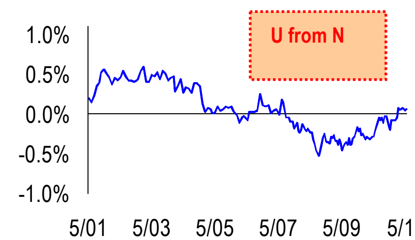


Figure 133: Defensives: Staples

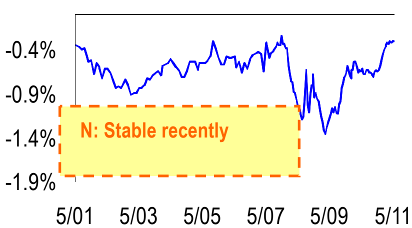


Figure 134: Defensives: Health Care

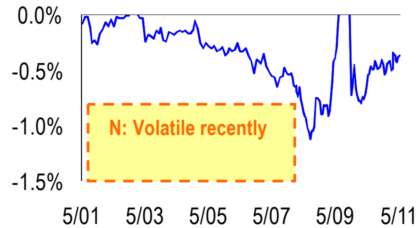


Figure 135: Defensives: Telecom

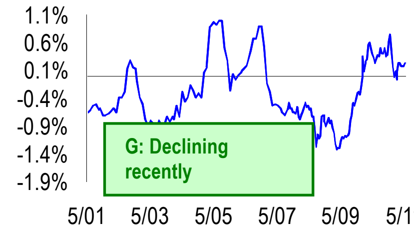
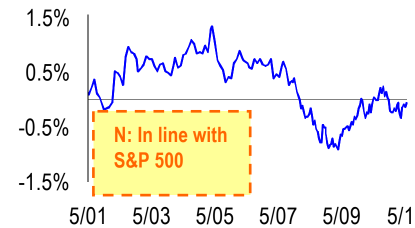


Figure 136: Defensives: Utilities



Relative Short Interest:

Calculated as sector short interest (as % shares outstanding) less average for S&P 500.

Calculated bi-weekly.

At extremes, we see short interest as a useful potential contrarian indicator, i.e., if relative short interest is high, we see the sector as vulnerable to any disappointments….

Figure 137: Discretionary

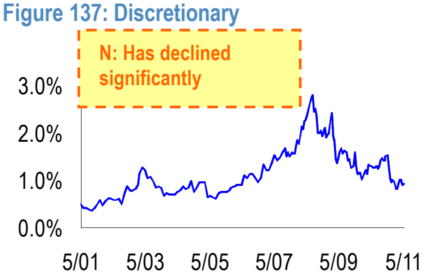
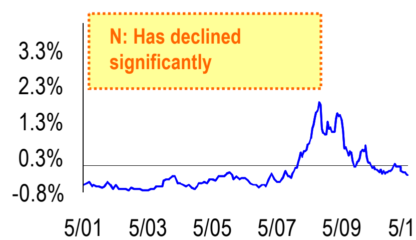


Figure 138: Financials



Source: J.P. Morgan and FactSet. Note: Calculated as shares sold short as % of shares outstanding in each sector minus shares sold short as % of shares outstanding for S&P 500.

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ETF Fund Flows – Sectors

Figure 139: Resources: Energy

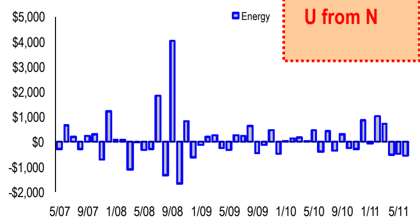


Figure 140: Resources: Materials

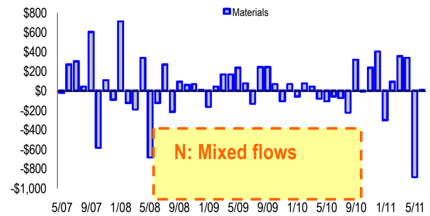


Figure 141: Exports: Industrials

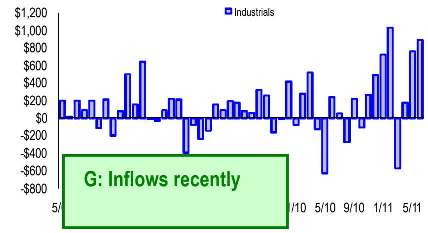


Figure 142: Exports: Technology

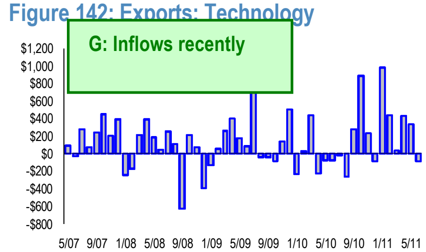


Figure 143: Defensives: Staples

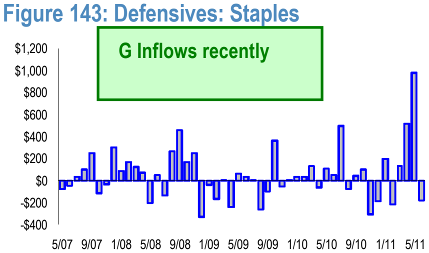


Figure 144: Defensives: HealthCare

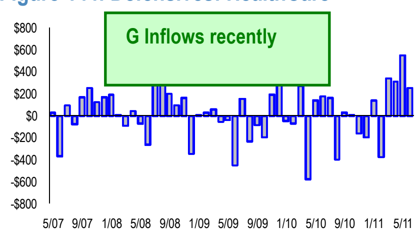


Figure 145: Defensives: Telecom

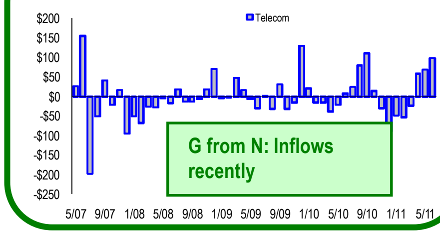
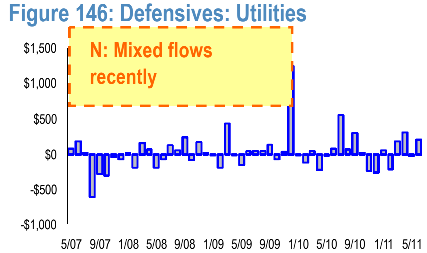


Figure 146: Defensives: Utilities



ETF Fund Flows:

Monthly fund flows for five largest ETFs (based on AUM) in each sector.

Figure 147: Discretionary

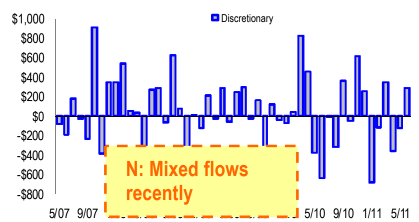
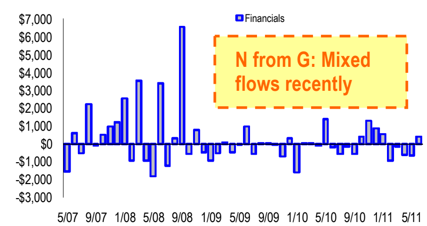


Figure 148: Financials



Source: J.P. Morgan and EPFR Global.

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Price/10-Yr EPS (Relative to S&P 500) – Sectors (best if low and rising)

Figure 149: Resources: Energy

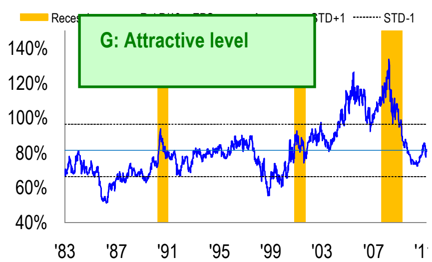


Figure 150: Resources: Materials

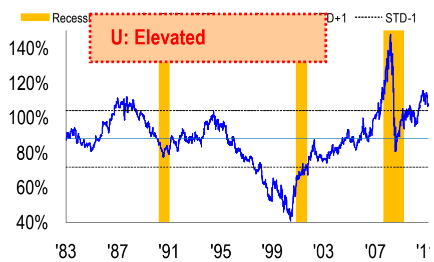


Figure 151: Exports: Industrials

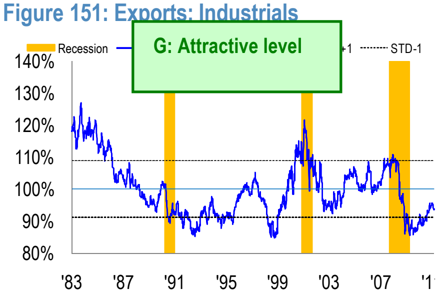


Figure 152: Exports: Technology

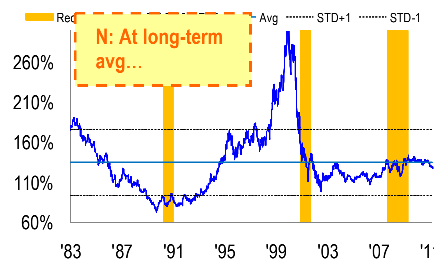


Figure 153: Defensives: Staples

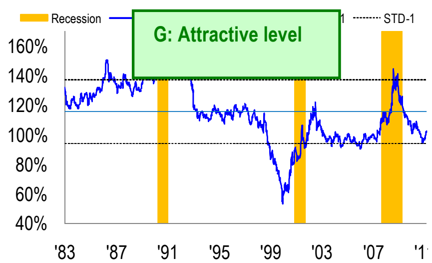


Figure 154: Defensives: Health Care

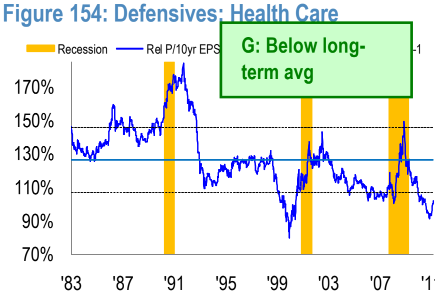


Figure 155: Defensives: Telecom

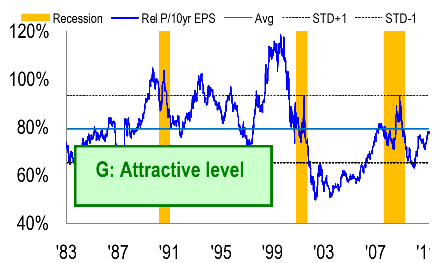
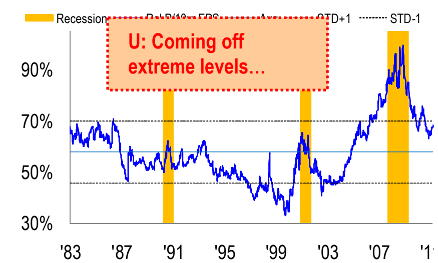


Figure 156: Defensives: Utilities



Relative P/10-Yr EPS:

Calculated as sector P/10-yr EPS divided by S&P 500 P/10-yr EPS.

The lower the line, the greater the relative discount.

Figure 157: Discretionary

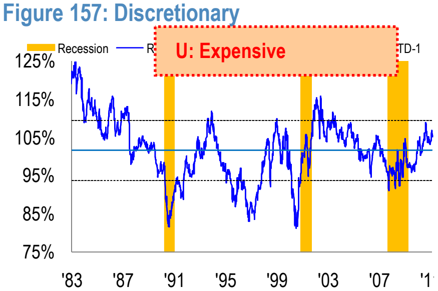
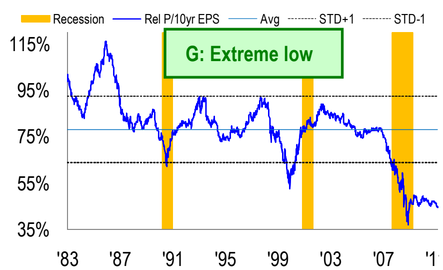


Figure 158: Financials



Source: J.P. Morgan and Datastream.

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JPMS Equity Research Coverage	43%	49%	8%
IB clients*	70%	62%	56%

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