

BANK OF AMERICA MERRILL LYNCH GLOBAL WEALTH & INVESTMENT MANAGEMENT

Merrill Lynch Outlook 2013
Michael Hartnett

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What are the big themes for the year ahead?

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Assets tied to our three key themes of growth, yield and quality should continue to offer benefits to investors in the coming year.

Well we think a lot of the investment themes that we are recommending for our clients this year is based on our assumption that the backdrop is going to remain one of high liquidity and low-ish growth.

Three Investments Themes for 2013

- **Growth**
- **Yield**
- **Quality**

That backdrop really has been exceptionally beneficial over the last four or five years for any asset that has growth because in a zero growth environment clearly assets that provide growth such as the tech sector will do very well. We think the theme of yield will continue to work because we expect interest rates to stay very low, and this theme of quality which also should continue to do well because even though the U.S. is progressing through the deleveraging cycle clearly it's got some way still to go in Europe.

Themes of growth, themes of yield, themes of quality, some exposure within your portfolios is something we would recommend.

However, in 2012 you also saw the emergence of a new theme. A stealth rotation took place in 2012 and we think that will morph into a great rotation in 2013 whereby the bond market, which has been incredibly strong for the best part of 20, 30 years, that peaks. You start to see people question whether yields can go any lower.

How Low Can Yields Go?



And if you look at this chart where we have a chart of U.S. yields over time. You can see this extraordinary decline that we've seen in yields all the way from 14, 15% back in the early '80s to 1, 2% today. We think that if clients get some belief that yields are not going to go any lower. They're going to start to question those longer term returns that they get from bonds.

That will cause rotation toward the equity markets and the beneficiary of that in particular will be the banking stocks both in the U.S. and elsewhere in the world because they have been the big laggards, and they also are the most correlated with bond yields. We think growth, yield, quality, adding a little bit of spice if you like from the financials, that's the way we would look at 2013.

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