



# Standpoint

Global market analysis from the Global Consumer Group

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## Turning down the tempo

Even with the generous returns enjoyed by many asset classes since March last year, it would be grossly unfair to suggest that investors have had an easy ride in 2009. For anyone to have invested more heavily in equities or corporate bonds over the last year required nerves of steel and a high degree of confidence in the actions of policymakers around the world. The likely reality for many investors is that they have merely managed to recoup some of their losses from 2008.

### A patchy global recovery

Citi analysts attribute the impressive economic bounceback seen so far to a swift rebuild of inventories following the severe cutbacks at the height of economic uncertainty, and the various fiscal stimulus measures and ultra-loose monetary policies implemented by many countries. However, they only see tentative signs of a sustainable, long-term recovery in many parts of the world. They believe that the global macroeconomic outlook will be patchy,

with robust growth in some countries being offset by fundamental weakness and economic relapse elsewhere.

First, according to International Monetary Fund (IMF) estimates, many banks have yet to recognise losses on bad loans, particularly in Europe, and this could continue to stymie the flow of credit as troubled banks look to shore up their balance sheets rather than lend to households and businesses.

Second, Citi analysts estimate that eight economies had fiscal deficits of 10% or more in 2009: the US, Japan, UK, Spain, Greece, Ireland, Iceland and India. In their view, these governments will have to significantly curtail their spending in order to bring budget deficits down to sustainable levels.

Opinions, forecasts, and weightings expressed by Citigroup Global Consumer Group Investments may not be attained or suitable for all investors. Past performance is no guarantee of future results. There are additional risks associated with international investments, including foreign, political, currency and economic factors to consider. Please contact your financial professional to determine what is suitable for your individual situation



# Citi outlook

A snapshot of Citi's global market views across a select group of asset classes, regions and currencies over the next six to twelve months.

Our Market Outlook reflects our assessment of each asset class independently of other asset classes. Our Portfolio Allocation reflects our relative assessment of each asset class in the context of a portfolio. Citi analysts believe that the global economic recovery will continue over 2010, albeit in an uneven manner with the economy of some countries and regions strengthening whilst others continue to stagnate or even deteriorate. They forecast a more robust pace of GDP growth among Asian economies and other emerging markets and tepid growth prospects for developed economies. As such, they believe that financial markets may continue to reward financial assets with exposure to emerging markets over the coming year, such as emerging market equities, sovereign bonds and multinational corporate securities with significant revenues sourced from emerging economies. In terms of developed markets, Citi analysts believe that the robust rally in equity markets in the second half of 2009 reflects, to a large extent, expectations of a profit recovery in 2010. With developed equity market valuations, such as price to forward earnings ratios, near to or above their 20-year averages, developed equities may appreciate more slowly going forward, in the view of Citi analysts. That said, they expect developed market equities to outperform government bonds, which may come under pressure as central banks contemplate interest rate hikes and cause bond yields to rise.

## Global equities

Market	Market outlook	Portfolio allocation
	Positive	Overweight
US	Neutral	Neutral
Europe	Neutral	Neutral
Japan	Neutral	Neutral
Latin America	Positive	Overweight
Asia Pacific	Positive	Overweight
Eastern Europe	Positive	Overweight

## Global fixed income

Market	Market outlook	Portfolio allocation
	Negative	Underweight
US Treasuries	Negative	Underweight
US High Grade Corporate	Neutral	Neutral
Euro Government Bonds	Negative	Underweight
Euro High Grade Corporate	Neutral	Neutral
Japan Investment Grade	Negative	Underweight
High Yield	Positive	Neutral
Emerging Market Debt	Positive	Neutral

Data Source: Citi Global Markets Inc. Weightings provided by Citi Global Wealth Management Investment Strategy Committee and Citi Global Consumer Investments as of December 2009.

In contrast, many countries in Asia were relatively unscathed by the credit crunch and their economic prospects are somewhat more robust. The resumption of global trade, coupled with massive government spending injections in China, has aided the swift recovery of many of these economies. Furthermore, there remains plenty of potential for consumer demand growth in China, given the high household savings ratio and the pent-up spending potential of the huge emerging middle class.

## Steady policy reversal

Looking forward to 2010, Citi analysts believe that financial markets will gradually stabilise, although returns may be less spectacular than those witnessed over the last year. Whilst the ramp up of monetary and fiscal intervention was important in averting catastrophic economic and financial conditions last year, Citi analysts believe that a cautious withdrawal of government support is warranted in a manner that any threat of future inflationary pressures is avoided, on the one hand, without putting the recovery process at risk, on the other hand. In the view of Citi analysts, most central banks in most developed economies can afford to take their time in removing monetary stimulus since acceleration in inflation is unlikely in the near term. Price pressures are held down by the large degree of resource slack, i.e. unemployment and underemployed capital, and household

inflation expectations appear to be held in check according to consumer surveys. Citi analysts expect to see policy interest rate hikes in China and the UK in the third quarter of this year, in the fourth quarter this year in the US and in the first quarter of 2011 in the Euro Area. As a result of these interest rate increases, Citi analysts envisage higher yields, and therefore underperformance, among developed market government bonds. They believe that emerging market government bonds may offer better returns over the coming year, as their economies perform more strongly and risk aversion continues to recede

## Equity market gains supported by profit growth

Turning to the equity markets, Citi analysts believe that global corporations are well positioned to recover their profit levels due to proactive cost-cutting and overall fiscal discipline. However, it may be that much of that recovery has already been reflected in last year's market rally. As such, the profit recovery will have to meet or exceed expectations in order to realise further price appreciation in risky corporate assets. Therefore, Citi analysts believe that total returns may be somewhat more subdued than in the last three quarters of 2009, and vulnerable to the occasional setback or disappointment, as global equity markets and corporate bonds slowly grind higher.

# Europe

## Fixed income

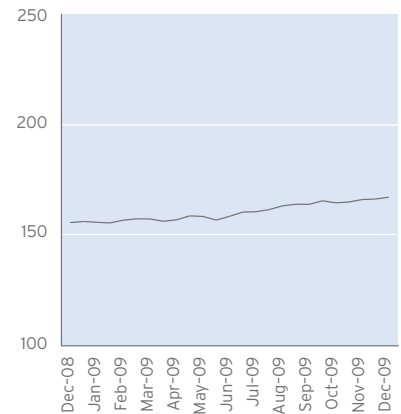
### Facing the deficits

The sustainability of the Euro Area economic recovery should be confirmed in 2010, according to Citi analysts, as temporary factors like the scrapping bonus for cars and other fiscal stimulus measures and the rebuilding of inventories begin to fade out over the year. However, they forecast slower economic momentum as monetary stimulus measures are progressively removed. Furthermore, Citi analysts estimate that the deleveraging of European banks will continue to be a drag for private sector demand, while the expected strengthening of the Euro is likely to weigh on export demand, which largely contributed to support the rebound of activity during the second half of 2009.

Citi analysts believe that the Euro Area governments will go ahead

with the agreed fiscal stimulus packages in 2010 and then start fiscal consolidation in 2011, unless the economic situation deteriorates again. In their view, the task of reigning in spending is likely to be extremely difficult for the currently high-budget deficit (and high debt) countries, i.e. France, Italy, Ireland, Spain and Greece, to hit this deadline. For 2010, Citi analysts forecast a GDP growth of 1.4% in the Euro Area and stable interest rates as a consequence of limited inflation.

Euro Area government bonds could be vulnerable to a sell-off, according to Citi analysts, as 10-year German government bond yields are trading near historical lows while several European countries are running record deficits. Citi analysts believe that Euro corporate bonds are likely to outperform government bonds



Citi Euro BIG (EUR)

Data source: Bloomberg as of 30 September 2009

as earnings growth coupled with continued costs controls should further improve companies' cash positions.

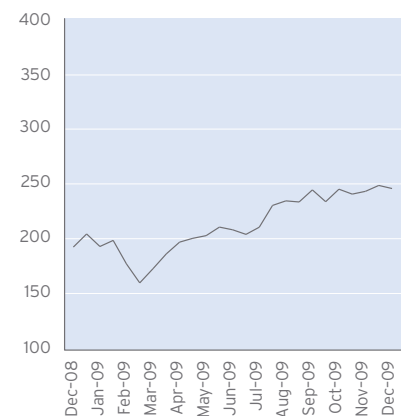
## Equities

### The business cycle turns up

Citi analysts observe that the recent profit results for the third quarter 2009 for European companies have confirmed the turn in operating environment. Twice the number of companies managed to post profit results that beat the consensus of analysts' expectations than the number that missed. Citi analysts believe that this was largely a consequence of disciplined cost control measures among companies. Going forward, they expect that the acceleration in economic activity generated by expansive government spending, combined with improved export demand, is likely to support the revenues of European companies. According to Citi analysts' forecast, the profits of European corporations, represented by the DJ Stoxx 600, are likely to grow by over 20% during the next two years.

Citi analysts consider that European equities appear more attractively valued than local government bonds. Although the dividend yield on the DJ Stoxx 600 has fallen relative to the yield on 10-year German bunds over the course of the recent rally, the ratio of the dividend yield on European equities in relation to the 10-year bund yield is currently at around the same level as it was back in March 2003 when stock markets troughed after the technology bubble and the beginning of the war in Iraq.

From a style perspective, Citi analysts note that value stocks tend to historically do well in the early months of a recovery. However, they also believe that European growth stocks appear more attractively priced than value stocks. Furthermore, they think that the larger exposure to international



DJ Stoxx 600

Data source: Bloomberg as of 30 September 2009

trade among growth stocks, particularly to emerging markets, is likely to provide more revenue growth support.

# North America

## Fixed income

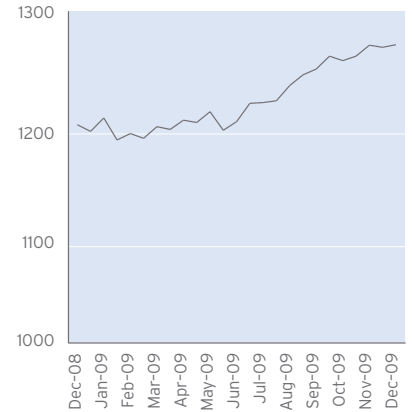
### Federal Reserve expected to tighten monetary policy in late 2010

As the US economy continues to show further signs of recovery, fixed income investors are likely to keep a close watch on the timing of the first interest rate hike by the US Federal Reserve and the gradual withdrawal of central bank liquidity from the US financial system. Citi analysts expect the central bank to start raising the federal funds rate in the fourth quarter of 2010. Even in an environment of loose monetary policy, a weaker US dollar, rising commodity prices and massive fiscal deficits, they anticipate only benign inflation in 2010.

Regarding the US Treasury market, Citi analysts believe that this environment may keep short-term interest rates well-anchored and long-term government yields range-bound in the early part of 2010. However, as

the market begins to discount the first increase in the Fed Funds rate as the year progresses, they expect shorter-term US Treasury bond yields to rise relative to longer-term bond yields. They expect the massive fiscal burden and the unwinding of quantitative easing measures to be dominant themes for US bond investors this year.

Demand for corporate and asset-backed bonds remains supported by low short-term interest rates and still-accommodative monetary policies. Citi analysts continue to favour high-yield (non-investment grade) debt as default rates are expected to moderate. Among investment-grade corporate bonds, they forecast further narrowing of the spread between corporate bond yields and Treasury bond yields, as corporate performances improve and risk aversion recedes, but they believe that this beneficial development may



Citi US BIG

Data source: Bloomberg as of 30 September 2009

be largely offset by higher government bond yields. Overall, Citi analysts therefore hold a neutral outlook for investment grade corporate bonds.

## Equities

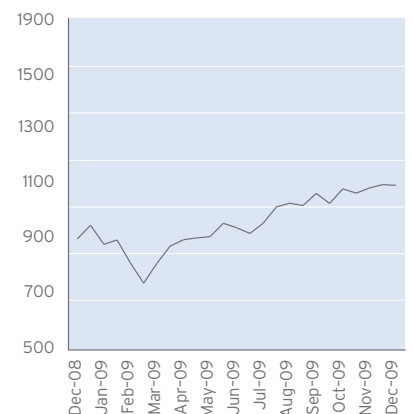
### Better economic and market performance to become mutually reinforcing

The US economy is stabilizing as key drags are fading and financial headwinds restraining the economy have also diminished. Citi analysts anticipate the recovery to be sustained and forecast moderate economic growth of 2.7% in 2010. In the year ahead, they anticipate further, albeit modest, gains in the US equity market as better economic performance and higher markets likely become mutually reinforcing.

US equities should benefit from the earnings recovery, in Citi analysts' opinion, as expectations for stronger industrial activity in 2010 are supportive of additional upside. Moreover, US stocks, represented by the S&P500 index, appear to

be trading at reasonable levels in comparison to analyst expectations of the coming 12-months' profit levels. However, Citi analysts caution that gains are likely to be uneven and the S&P 500 could even overshoot early in the year and then back off. Given their positive fundamental outlook on US equities, any stock market weakness may present a good buying opportunity for investors, in their view.

With regard to capitalization, Citi analysts have now eliminated their more favourable outlook for small- and mid-cap stocks over large-cap stocks, as larger companies have better access to capital and tend to source more of their revenues from higher growth markets in other countries. In terms of investment style, they maintain their balanced allocation view between value and growth because value stocks



S&P 500 Index

Data source: Bloomberg as of 30 September 2009

historically outperform during recovery periods, but are currently trading expensively relative to growth stocks.

# Japan and Asia Pacific

## Japan equities

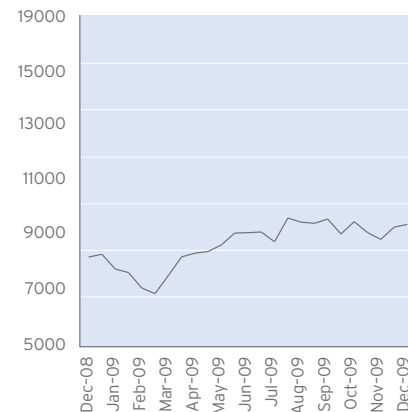
### Capital raising continues to weigh on Japanese stock market

While global equity markets have continued on their steady ascent, against a backdrop of global monetary easing and aggressive measures to stimulate the economy, Japanese equities (measured by the MSCI Japan index) have underperformed substantially versus overseas equity markets (measured by the MSCI Kokusai index) over the second half of last year.

There are numerous reasons why Japanese equities slipped back but we consider the most prominent to be the recent increase in large equity issuances. Citi analysts estimate that Japanese companies raised more than three times more in equity finance deals in 2009 than they did in 2008. The peak in equity issuance came in the fourth quarter of 2009, when a

major banking corporation needed to raise capital. The motivation for this activity, in the view of Citi analysts, was simply the need of banks and corporations to replenish depleted shareholders' equity and little of it was thought to be used for pursuing growth strategies. As such, Citi analysts believe that this dilution of shareholders' power may be rewarded with continued underperformance of the Japanese equity market. That said, Citi analysts believe that the rush to raise funds may be over by the summer or thereabouts.

Citi analysts have recently revised down their expectations for the Japanese stock market owing to concerns about the earnings of auto manufacturers and other exporters amid Japanese yen strength. Among the longer-term investment themes that may outperform, in their view,



NIKKEI 225 Index

Data source: Bloomberg as of 30 September 2009

and are prominently positioned in the Japanese stock market are environmental technologies, global infrastructure investment and low-priced consumables.

## Asia Pacific equities

### Modest returns anticipated in 2010

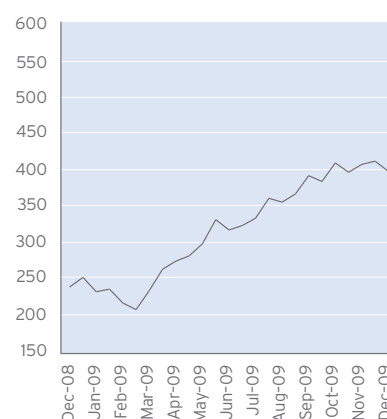
With Asian economies leading the global recovery in 2009, Citi analysts likewise expect Asian and many emerging market governments to lead the removal of crisis-related stimulus packages through much of 2010. As a result, Citi analysts expect more moderate equity returns in 2010, in the region of a 9-14% rise for the MSCI Asia-Pacific ex-Japan index.

They expect the first half of 2010 to fare better than the second half as economic growth indicators remain strong while year-on-year comparisons remain attractive against the challenging backdrop of the first half of 2009. The North Asian markets of Hong Kong, Korea and Taiwan are likely to be the region's leaders over this time, while South East Asian markets are broadly expected to lag. Although

growth appears strong in China and India, high equity markets valuations remain the key challenge for investors.

This more cautious outlook for 2010 is also driven largely by the expensiveness of Asian stocks. As of the end of November, the underlying companies in the MSCI Asia-Pacific ex-Japan index were trading at a level 2.1 times higher than the accounting value of their assets (book value). Indeed, since 1974, Asian equity markets have tended to reach such high valuation levels after 3 to 5 years of recovery.

Citi analysts also note the growing discussion over the prospect of a coming emerging market/Asian asset bubble. Their analysis of bubbles experienced around the world over the past 35 years showed that they tend to occur only after 2+ years of the



MSCI F Asia Pacific ex-Japan

Data source: Bloomberg as of 30 September 2009

recovery. Consequently, they believe the probability of seeing it occur in 2010 is very slight.



# CEEMEA and Latin America

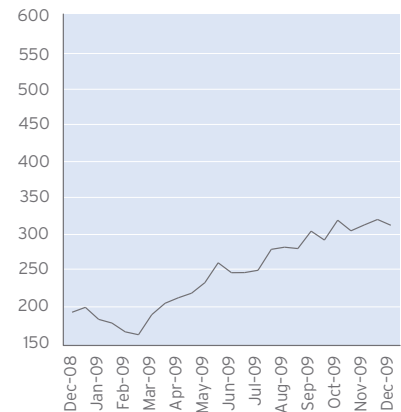
## CEEMEA equities

### Absence of growth driver

Citi analysts believe that the absence of a strong and sustainable engine for GDP growth in the CEEMEA region may become more obvious in 2010. They observe that the ready availability of credit, particularly from Western Europe lenders, was a major pre-crisis driver of region's economic expansion. Citi analysts think that these banks may be cautious about expanding their local balance sheets in most CEEMEA economies, which is likely to dampen credit availability and domestic spending. Furthermore, muted import demand in Western Europe and the limited depreciation of CEEMEA currencies may limit the potential for an acceleration in CEEMEA exports. In the forecasts of Citi analysts, monetary policy in the CEEMEA region may remain decoupled from other emerging markets. In the

run-up to the crisis, many CEEMEA countries kept high interest rates to encourage foreign capital to stay and minimise the risk of exchange rate collapse. Citi analysts expect now broad rate cuts in early 2010, as a result of greater financial stability, at a time when a number of Asian and Latin American central banks are beginning to hike interest rates.

Citi analysts estimate that fund flows into emerging market equities could drive emerging market valuations higher. Furthermore, stocks in the MSCI CEEMEA index were valued at just 9 times the coming year's expected profit levels compared to 13 times higher for the MSCI Asia-Pacific ex-Japan index at the end of November. While this affords room for CEEMEA equities to move higher, Citi analysts note that disappointment on the economic



MSCI EM EMEA

Data source: Bloomberg as of 30 September 2009

recovery, monetary policy or commodity prices could weigh on the performance of the region.

## Latin America equities

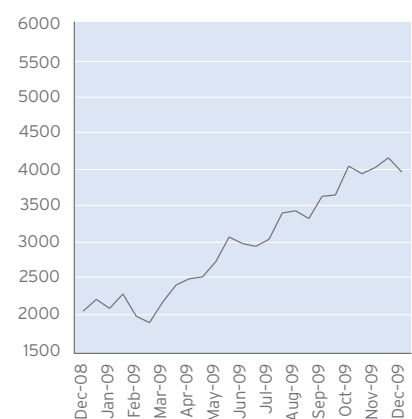
### 2010 to mark the second year of a multi-year bull market

Economic recovery in Latin America is expected to continue in 2010, with Citi analysts forecasting 3.5% GDP growth, led by strong expansion in market-friendly countries like Brazil, Chile and Peru. Following 2009, which saw the highest returns on the MSCI Emerging Markets (EM) Latin America index since 1991, Citi analysts anticipate further gains in 2010, supported by confirmation of global economic recovery, solid regional earnings growth and inflation held in check by moderately higher interest rates. However, they estimate that gains may slow in the second year of this bull market, consistent with history.

Positioning for 2010, Citi analysts continue to favour the outlook for Brazilian equities on expectations

for strong recovery in economic activity. They now also hold a positive view on Chile due to solid economic growth prospects and record low interest rates. While concerns about government finances weigh on the outlook for Mexico, the risk of a stronger-than-expected US economic recovery, however, leads Citi analysts to hold a neutral stance. With regard to the North Andean markets, they are also neutral in their outlook for Colombia, while expensive valuations make them negative on Peru.

Citi analysts anticipate that the year ahead may be punctuated by corrections, which in their view, would present opportunities to buy into the market. In their assessment, a correction is likely ahead of the first US interest rate hike, as the prospect of the rising cost of capital poses a headwind



MSCI EM Latin America

Data source: Bloomberg as of 30 September 2009

for equities. Nevertheless, they expect the rally in equities to carry on through the tightening cycle and they maintain their long-term bullish stance on Latin American equities.

# Global REITs and commodities

## Global real estate investment trusts

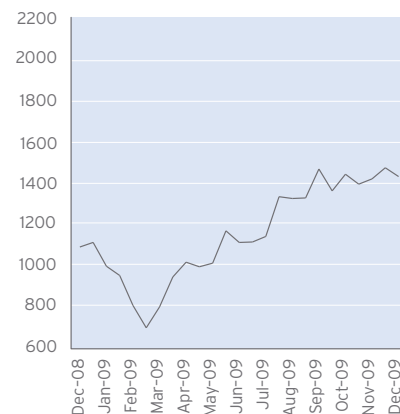
### Fragile conditions call for a cautious stance

Global REITs, represented by the FTSE EPRA/NAREIT Global REIT total return index, gained 4,4% in the fourth quarter of 2009 in US dollar terms and was up 39,8% over 2009.

While the yields on real estate investments demanded by investors appear to have moderated after a sharp rise earlier in 2009, Citi analysts expect that investors may become more demanding again this year as more deals are expected to hit the market. Furthermore, they believe that the full impact of the credit crisis and the repricing of risk should also become more evident in the months to come once (and if) transaction volumes increase to more normalised levels. They note that the anticipated flood of distressed property sales has yet to come to fruition, which has so

far avoided a more severe collapse in commercial property values. However, this may become evident over the next 12-24 months given the significant amount of leverage and debt maturities within the market, rising delinquencies from weaker fundamentals and a lack of desire by landlords to deleverage.

Citi analysts also note that following significant equity raises and debt financings in the last year, the US REIT sector is now sitting on the highest level of cash as a percentage of total real estate assets over the last 13 years. While the sector as a whole remains more levered than Citi analysts would like, REITs have raised significant cash to delever and now have capital for pending maturities and some ability to go on the offense. But in the interim, low interest rates on cash deposits may dilute the earnings of the overall sector.



EPRA/NAREIT Global Index

Data source: Bloomberg as of 30 September 2009

## Commodities

### Macroeconomic backdrop remains constructive for commodity prices

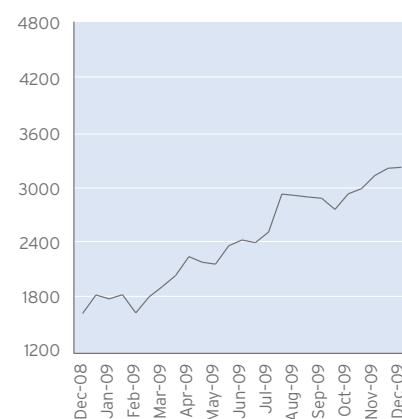
Upward revisions to global (especially emerging market) economic growth and subdued inflation and hence low interest rates, combined with an overall weak USD view, provide a constructive backdrop for commodities in 2010, Citi analysts believe.

Citi analysts remain positive on the outlook for oil and are forecasting for the West Texas Intermediate (WTI) crude oil price to average at US\$80.50/bbl in 2010. They believe prices are likely to be driven by recovering demand, appropriate production restraint by the Organisation of the Petroleum Exporting Countries (OPEC) and increasing investment inflows.

Meanwhile, continued US dollar weakness, as well as fears that the monetary expansion programmes of

various central banks may debase their currencies, is likely to remain the main drivers of investor gold demand. China has been increasing its gold reserves and is viewed by Citi analysts as a potentially important source of longer-term support for gold. Citi analysts expect gold prices to average US\$1,162/oz in 2010. Silver prices continue to track gold driven by the key factors in common to both markets - jewellery and investor demand. Citi analysts, however, see potential for silver to outperform gold given its wider industrial applications and their forecasts of accelerating global industrial production. They forecast silver prices to average US\$18.50/oz in 2010.

Chinese demand also continues to be strong for metals, particularly from the auto sector. At the same time, accumulated inventory remains at elevated levels. Potential catalysts for



LME Index

Data source: Bloomberg as of 30 September 2009

base metals to move higher include (1) a surge in ex-China demand as advanced industrial economies gain traction and/ or (2) production cutbacks to reduce inventory levels, particularly in aluminium, zinc and nickel..

# Currencies

## Euro

The euro continued to steadily strengthen against the US dollar during the last quarter of 2009. In light of the sluggish economic activity and the absence of large current account surpluses in the Euro Area, Citi analysts note that the euro trades somewhat higher than their estimate of its long term fair value (\$1.31/€). According to them, the major factor behind the strength of the euro is that it is almost certainly the largest beneficiary of central banks seeking to diversify their reserves away from US dollars. Citi analysts also point out that actual Euro Area economic data has recently turned out better than the consensus of analysts' forecasts more frequently than in the US economy. As a result, they remain sceptical about calls for a US dollar rally based on a stronger US economic recovery. They forecast US dollar weakness during second quarter of this year, with the euro possibly reaching beyond 2008 highs of around \$1.60/€.

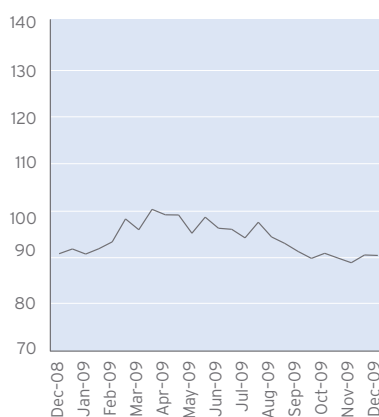


**Euro-Dollar (USD/EUR)**

Data source: Bloomberg as of 30 September 2009

## Yen

Citi analysts expect the Japanese yen to appreciate versus the US dollar, along with most other currencies, but to be somewhat better protected in any periods of risk aversion when other currencies may experience short-term setbacks. Counter-intuitively, when looking at past history, they observe that the yen has seldom lost value against the US dollar during previous US economic recoveries or episodes of Fed interest rate tightening. Furthermore, the yen is no longer the only major funding currency, borrowed by speculators to build positions in higher yielding emerging market, commodity or other "growth" assets. This should also take some of the previous pressure off the yen, according to Citi analysts. Overall, they expect a gentle appreciation of the yen, with the exchange rate reaching ¥85/\$ over the next 12 months.

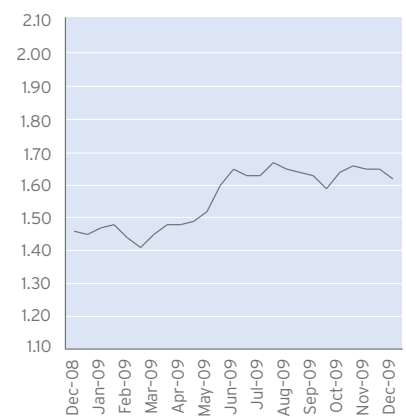


**Dollar-Yen (JPY/USD)**

Data source: Bloomberg as of 30 September 2009

## Pound sterling

Citi analysts believe that the rally in the British pound against the euro during the last quarter of 2009 had more to do with positioning for yield than fundamentals, with short-term sterling interbank interest rates moving slightly higher relative to euro interest rates. As such, they believe that this recent pound strength may be short lived. According to Citi analysts, one factor not yet impacting the currency is the significant fiscal tightening that an incoming Conservative government would likely undertake from next spring. This would have a negative impact on economic activity short term and thus require monetary policy to be kept easy for longer (low interest rates and/ or extension of the Bank of England's monetary expansion programme). They still expect further significant downside for the pound against the euro over the medium term, forecasting parity between the two currencies sometime over the next 6 to 12 months, implying an exchange rate of US\$1.59/£ against the US dollar.



**Pound-Dollar (USD/GBP)**

Data source: Bloomberg as of 30 September 2009

# Alternative View: Bulging Inventories Key Risk to Mining Sector

By Jon H Bergtheil, European Mining Analyst

We have repeatedly stressed our 'caution' on the mining sector and our European Strategists recently downgraded it from Overweight to Neutral. In that sense, we are in rough agreement that the UK Miners have 'run ahead' of an ongoing industrial production (IP) uptrend and need to pause while IP cements its upward momentum. We take a look at the upside and downside risks presented by our 'harmonious' outlook.

Upside risks include: 1) A substantially weaker dollar; 2) a more rapid uptrend in global growth; 3) greater speculation in physical metal; 4) strike-related disruptions to metal supply.

Of some concern to us is that some or all of the above factors are seemingly taken for granted in the current pricing of metals, many of which have risen 75% off their base despite data points still reflecting dire metal demand conditions.

Conversely, a view which saw the 75% rise in metal prices as being fuelled by excessive and premature speculation is unlikely to be well received. Metal hoarding does not seem to be viewed as 'gambling-type' speculation but a careful assessment of the raw material shortages we face once global economies return to strong growth.

This would appear to be why oil tankers are moored off the world's coasts and copper is being stored in China's factories and farms. Aluminium's more transparent inventory, held in bulging LME warehouses, is dismissed as no threat as it is tied up in financing deals. However, we can't see aluminium inventories 'magically' disappearing.

Playing Devil's Advocate, we outline our worst case scenario, which we hope will not happen:

Many seasoned investors have accumulated the biggest-ever speculative physical raw material positions, believing that either the dollar will collapse or an ongoing global 'supercycle' will shake off the credit crunch. This is being funded by low interest rates. The threats to this thesis are:

1. Governments, having pumped money into the system, start running out of firepower while the recovery is still nascent. Some find that their bonds are considered 'toxic' and a far higher interest rate is demanded.
2. The global economy experiences a slower upturn than the consensus view and after recent inventory-restocking ends, it relapses into a W-shaped recession. More jobs are lost and unemployed people who have been able to pay their mortgages (because of low rates) start defaulting. Banks write down these assets and housing markets are flooded with new inventory. New-build ceases. Consumer goods orders, on which metals depend for demand, freeze.
3. The global commercial property market halts. High-rises that started 18 months ago are completed but few new buildings begin.
4. China. It is either a vibrant economy that will continue to strengthen, or it has constantly rewarded over-investment because demand growth justified it. There has been substantial over-investment in recent times and the question now is can domestic

and export demand belatedly justify it. Demand has regularly done this over the past 10 years. However, has the credit crisis changed the demand profile such that over-investment results in ongoing medium-term overcapacity and the resulting shockwave freezes new investment? We will have to wait to see.

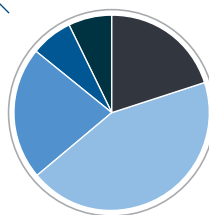
Often little thought is given to when de-financing decrees the aluminium must come back to the market, when the tankers finally berth and when China unburdened the farms from their copper. If these threats did come to pass, the sector could see our worst case fears realised and while we don't believe this will be the case, we'll be watching to see that it does not become more than that.

## Asset allocations

### Euro tactical model portfolios

#### Income

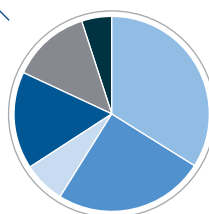
Seeking primarily capital preservation over time and only willing to accept very minor portfolio value fluctuations from month to month.



- EUR Cash **20%**
- EUR Government Bonds **44%**
- EUR Corporate Bonds **22%**
- European Equities **7%**
- Global Equities **7%**

#### Conservative

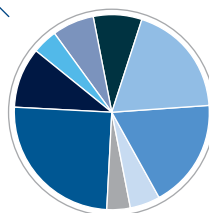
Seeking growth of wealth over time but unwilling to accept significant fluctuations in the value of portfolio from month to month.



- EUR Government Bonds **34%**
- EUR Corporate Bonds **25%**
- EUR High Yield Bonds **7%**
- European Equities **16%**
- Global Equities **13%**
- Global REITs **5%**

#### Balanced

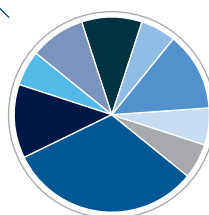
Seeking long-term capital growth foremost but unwilling to accept significant losses on value of portfolio over the medium term.



- EUR Government Bonds **19%**
- EUR Corporate Bonds **18%**
- EUR High Yield Bonds **5%**
- Emerging Market Debt **4%**
- European Equities **25%**
- US Equities **10%**
- Pacific Equities **4%**
- Emerging Markets Equities **7%**
- Global REITs **8%**

#### Growth

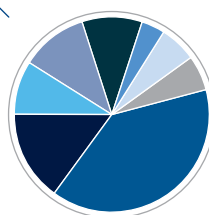
Seeking long-term capital appreciation and willing to tolerate measured medium-term volatility in order to enhance longer-term performance.



- EUR Government Bonds **6%**
- EUR Corporate Bonds **13%**
- EUR High Yield Bonds **6%**
- Emerging Market Debt **6%**
- European Equities **32%**
- US Equities **12%**
- Pacific Equities **6%**
- Emerging Markets Equities **9%**
- Global REITs **10%**

#### Opportunity

Seeking long-term capital appreciation and can accept potentially large losses on portfolio over the near-to-medium term in order to maximise long-term performance.



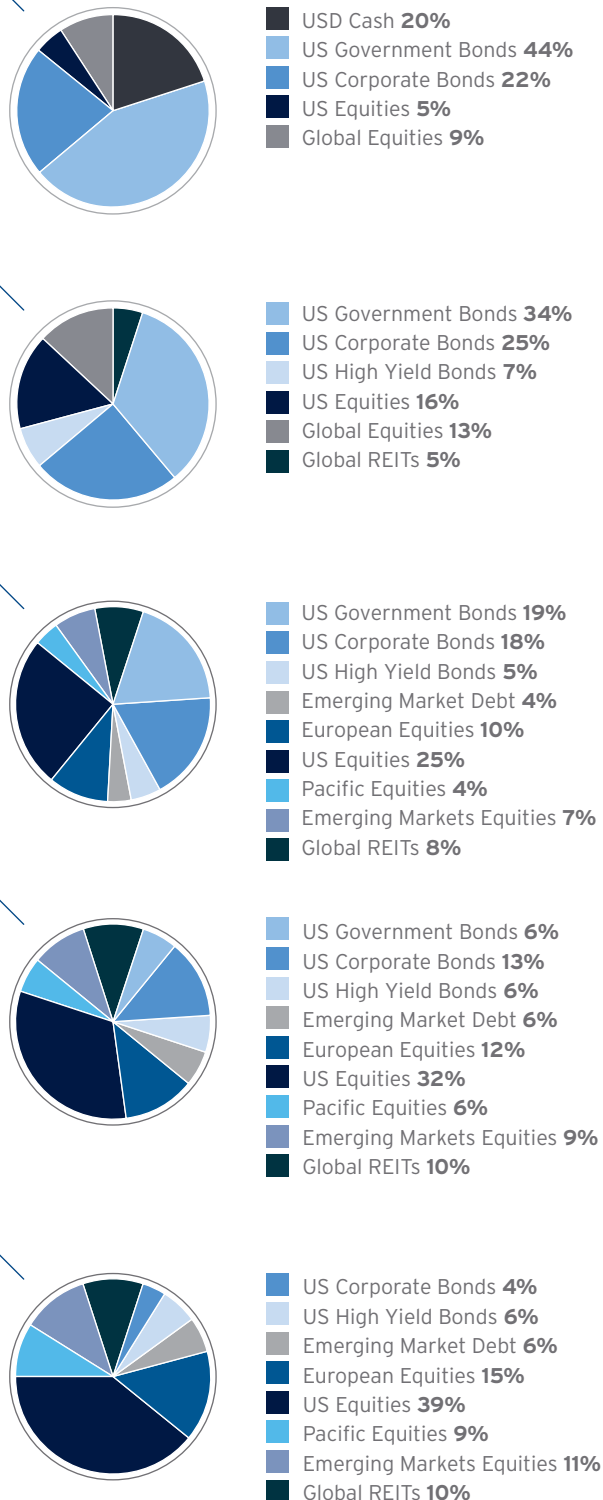
- EUR Corporate Bonds **4%**
- EUR High Yield Bonds **6%**
- Emerging Market Debt **6%**
- European Equities **39%**
- US Equities **15%**
- Pacific Equities **9%**
- Emerging Markets Equities **11%**
- Global REITs **10%**

# Spotlight on allocations

The suggested allocations are intended to be general in nature and are not to be construed as specific investment advice. Investors are encouraged to consult with their Financial Professional to determine their allocation needs based on their risk tolerance, suitability and goals. [Note that there are additional risks associated with hedge funds, as such funds are speculative. Please refer to page 12 for important information about hedge funds.]

Data Source: Citibank NA as of December 2009

## USD tactical model portfolios



Forecasts may not be attained. Past performance is no guarantee of future results. There are additional risks associated with foreign investments.

### About the Citi asset allocation process

The Citibank tactical portfolio allocations are based on the work of the Global Investment Strategy Committee (GISC) and the Global Portfolio Committee (GPC) of Citi Private Bank. The membership of both committees is comprised of experienced investment specialists from across Citi. The GISC deliberates on the macroeconomic and financial market environment in order to formulate an outlook across multiple asset classes. The GPC is responsible for creating strategic model portfolios for Citi Private Bank and maintaining tactical model portfolios, which are based on the conclusions of the GISC. The tactical weights that are applied to the Citibank portfolios are aligned to the decisions of the GPC.

### Allocation to bond and equity markets

- We have maintained our preference for global equities relative to global bonds, but to a lesser extent than in the previous quarter.

Although Citi analysts do not forecast a repeat of the powerful rebound rally over the last three quarters of 2009, they nevertheless do expect global stock markets to grind higher this year albeit at a more gradual pace and with some bumps along the way. They believe we are now entering a multi-year cycle of corporate earnings growth, underpinned by a strengthening of the global economy. In contrast, Citi analysts believe that significant components of the global bond market may struggle this year as market expectations of eventual interest rate tightening around the world intensify. As such, Citi analysts forecast a rise in developed government bond yields, implying below-average returns in this asset class. Accordingly, they maintain their preference for global equities over global bonds, but have eased from a full to a partial overweight allocation.

### Allocation to regional equity markets

- We have maintained our overweight allocation to emerging market equities and our neutral allocation to European, US and Japanese equities.

Given the mixed and uncertain outlook for economic activity among some developed countries and the more robust and resilient recovery exhibited by emerging economies, Citi analysts therefore have a strong preference for the outlook of emerging market equities over developed market equities. From a valuation perspective, they note that certain regional equity markets, such as the US and Japan, are not trading on particularly attractive valuations and therefore believe that they may struggle to keep pace with other regional markets.

### Allocation to government and credit markets

- We have maintained an underweight position in developed government bonds and a neutral position in investment-grade corporate bonds, high-yield corporate bonds and emerging market debt.

Citi analysts believe that developed government bond markets may come under pressure this year from growing expectations of central bank interest rate hikes in the US, Euro Area, UK and other countries. Although they believe that better corporate performance may help to further narrow the spread between yields on investment grade corporate bonds and government bonds, this narrowing is likely to be considerable less than seen in 2009, and largely offset by the rise in government bond yields. Consequently, Citi analysts believe that investment grade corporate bonds may offer total return in 2010 more in line with their long term average. Given their expectations of significantly lower corporate default rates this year and the scope for high yield bond spreads to narrow somewhat further than investment grade spreads, Citi analysts see more potential for high yield corporate bonds to continue to appreciate.

### **Important Disclosure**

"Citi analysts" refers to investment professionals within Citi Investment Research, Citi Global Markets and voting members of the GWM Global Investment Committee and Global Portfolio Committee.

"We" refers to Citi Global Consumer Group Wealth Management.

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Subject to the nature and contents of the document, the investments described herein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested. Certain investments contained in the document may have tax implications for private customers whereby levels and basis of taxation may be subject to change. Citibank does not provide tax advice and investors should seek advice from a tax adviser.

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