ING Global Perspectives December 2011

Market Update • December 2, 2011

Black Friday and Cyber Monday Light Up the Markets Like a Christmas Tree

Douglas Coté, CFA
Chief Market Strategist

It should not have been a surprise to the markets, but it was. Black Friday — the first holiday shopping day after Thanksgiving — was a blockbuster, and its online analog Cyber Monday extended the trend. One needed only look back a few months to the strong "back to school" shopping period for a clue that we were primed for a robust start to the 2011 holiday shopping season.

This holiday retail activity is more evidence that the consumer is not only a "game changer", but one that has consistently confounded a market that underestimates its ability to spend. Moreover, given that the recent spree was supported by higher personal income and a normal savings rate, we have confidence that this trend can continue. The consumer is prudent and strong, and is getting stronger as the employment picture gradually brightens. The number of jobs added to the economy was marked up significantly in August, September and October, while November's report drove the unemployment rate down to its lowest level since March 2009. Meanwhile, the four-week moving average of weekly unemployment claims appears locked in below the psychologically important 400,000 level.

However, the consumer is not alone. The generally strong real economy continues to march forward, supported by a benign inflation environment in which the consumer price index has posted a year-over-year decline to 3.5% from 3.9%.

Executive Summary

- The holiday shopping season has gotten off to a strong start.
- Our "ABCDs" of market fundamentals continue to impress.
- Trade within the emerging markets is transforming the economic landscape.
- Europe remains the primary risk to global growth.

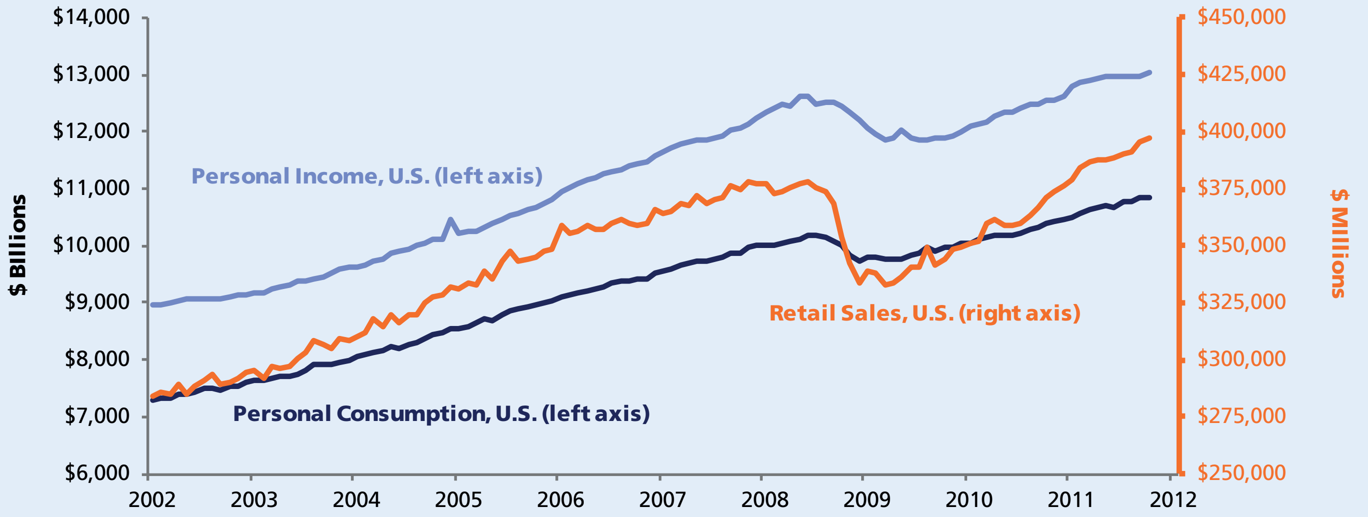
Investors who ignored the noise of global risks were rewarded with a late-November equity rally

The S&P 500 rallied 7.69% in the last three days of the month to salvage what would have been the worst November in 11 years.

Index	Wgt	Nov-11	QTD	YTD	2010	2009	2008	2007	1 year	3 years	5 years	10 years
Equity												
S&P 500	10%	(0.2)	10.7	1.1	15.1	26.5	(37.0)	5.5	7.8	14.1	(0.2)	2.9
S&P MidCap 400	10%	(0.5)	13.1	(2.6)	24.9	35.0	(37.3)	6.7	3.7	19.8	1.8	6.2
S&P SmallCap 600	10%	0.5	15.5	(1.3)	25.0	23.8	(32.0)	(1.2)	6.2	17.4	0.5	6.6
U.S. REITs	10%	(4.1)	9.6	0.6	23.5	21.0	(41.5)	(20.2)	4.7	20.4	(7.3)	6.6
EAFE	10%	(4.8)	4.4	(10.9)	8.2	32.5	(43.1)	11.6	(3.7)	10.6	(3.5)	5.3
Emerging Markets	10%	(8.0)	6.7	(20.9)	9.8	93.5	(59.3)	59.1	(17.2)	20.8	3.2	17.8
Average		(2.8)	10.0	(5.7)	17.7	38.7	(41.7)	10.2	0.2	17.2	(0.9)	7.6
Fixed Income												
Corporate	10%	(2.0)	(0.2)	5.9	9.0	18.7	(4.9)	4.6	4.9	13.5	6.2	6.1
U.S. Treasury 20+	10%	3.1	(1.5)	29.4	9.4	(21.4)	33.7	10.2	24.7	8.1	9.8	8.6
Global Aggregate	10%	(1.7)	(0.4)	4.9	5.5	6.9	4.8	9.5	6.3	7.9	6.0	6.9
High Yield	10%	(2.2)	3.7	2.3	15.1	58.2	(26.2)	1.9	4.1	26.1	7.2	8.5
Average		(0.7)	0.4	10.6	9.8	15.6	1.9	6.5	10.0	13.9	7.3	7.5
60/40 Portfolio		**(2.0)**	**6.2**	**0.8**	**14.5**	**29.5**	**(24.3)**	**8.8**	**4.2**	**15.9**	**2.4**	**7.5**

Source: MSCI, Standard & Poor's, FactSet

Recent acceleration in Retail Sales bodes well for a blockbuster holiday season



Source: FactSet

Fundamentals Show No Signs of Letting Up

Despite significant headwinds, market fundamentals continue to forge ahead. Taken in the context of our "ABCDs" of market fundamentals, the trends are quite compelling.

Accelerating corporate profits. In each of the past ten quarters, more than 70% of S&P 500 companies have delivered positive earnings surprises. The third quarter earnings season, now 98% complete, boasted 15.8% overall earnings growth and 11.3% top-line sales growth. For full-year 2011, S&P 500 companies are on track to deliver record earnings.

Booming manufacturing. The U.S. is re-emerging as a global manufacturing powerhouse, with stable wages and strong productivity driving a competitive and sustainable advantage over China and its rising wages, civil unrest and expensive transportation costs. The U.S. ISM manufacturing index has expanded for 27 consecutive months, driven by global trade — and demand from emerging markets, in particular. As a result, U.S. exports surged to an all-time high of $180 billion in September.

Consumer strength underestimated. With a 7.2% year-over-year jump in October, retail sales posted their eighth consecutive increase to reach their highest level ever. Black Friday sales rose an astounding 6.6% from a year ago (according to retail data and consulting firm ShopperTrak), and Cyber Monday online sales rose 33% (according to IBM). New jobs added in August were restated to 104,000 from an initial reading of zero, while September's number was upgraded to 210,000 from 100,000 and October's to 100,000 from 80,000. The 120,000 jobs added in November drove the unemployment rate down to 8.6%, its lowest level since March 2009.

Developing economies driving global growth. Emerging markets are a key catalyst for U.S. corporate revenue. China reported third quarter GDP growth of 9.1%, disappointing for China but ridiculous by any other country's standards, and its imports increased 30% year-over-year in August.

While China tends to dominate the discussion, global trade in general will be the key economic factor driving the world economy forward as we head into 2012. New trade routes between Asian and Latin American countries — i.e., intra-emerging market trade — are shaping the economic landscape; it is estimated that by 2025 Asia will overtake Europe as the world's largest trading region.

Evidence of this pivotal transformation in global trade abound:

- The expansion of the Panama Canal — including the opening of a new lane that can accommodate ships with three times the current maximum capacity — will significantly increase transport speed and capacity and trigger a flurry of activity to the ports of the U.S. east coast.
- The Trans-Pacific Partnership — a planned trade coalition between the U.S. and eight Asian and South American countries accounting for 40% of global trade — could prove to be a model for future free trade agreements among multiple nations.
- Africa — apparently undeterred by problems in the euro zone — is seeking to create its own version of a common economic union to achieve greater integration and spur economic growth, albeit without a common currency.

Europe Remains Center of Global Risks

The most prevalent headwinds continue to emanate from Europe. While the seemingly inexorable debt crisis took down the leaders of three nations in November, German Chancellor Angela Merkel has only tightened her grip on continental leadership. With its robust balance sheet and sustained economic growth — recently bolstered by a stronger-than-expected business climate index, decent third quarter GDP and unemployment at post-reunification lows — Germany calls the shots for the region, and it is clear that southern Europe is in no position to negotiate.

Most recently, Germany flexed its muscles by backing an unprecedented plan that would legally centralize control of all 17 euro zone members' national budgets. Tighter fiscal bonds within the currency bloc appear to be Germany's precondition for supporting the issuance of euro bonds, which it had previously resisted due to the perceived moral hazard of bailouts. Given Germany's enthusiasm for the measure, northern Europe — under less debt duress that their southern brethren and with much to lose should the euro zone collapse — will likely fall in line. Should an agreement be reached, it would probably be announced at the December European summit and take effect in early 2012.

Meanwhile, a recent coordinated effort by the world's major central banks — including the Federal Reserve and the European Central Bank — to provide low-cost U.S. dollar loans to global banks should help ease some of the pressure on the financial system and promote lending to businesses and consumers. Equity markets worldwide staged a massive rally on the news.

The question remains: Are fundamentals or global risks driving the markets? We believe the real economy — aka fundamentals — will prevail and that the doom-and-gloom scenarios are greatly exaggerated. Black Friday's blockbuster sales bode well for economic growth, holiday cheer and markets lit up like a Christmas tree. ■

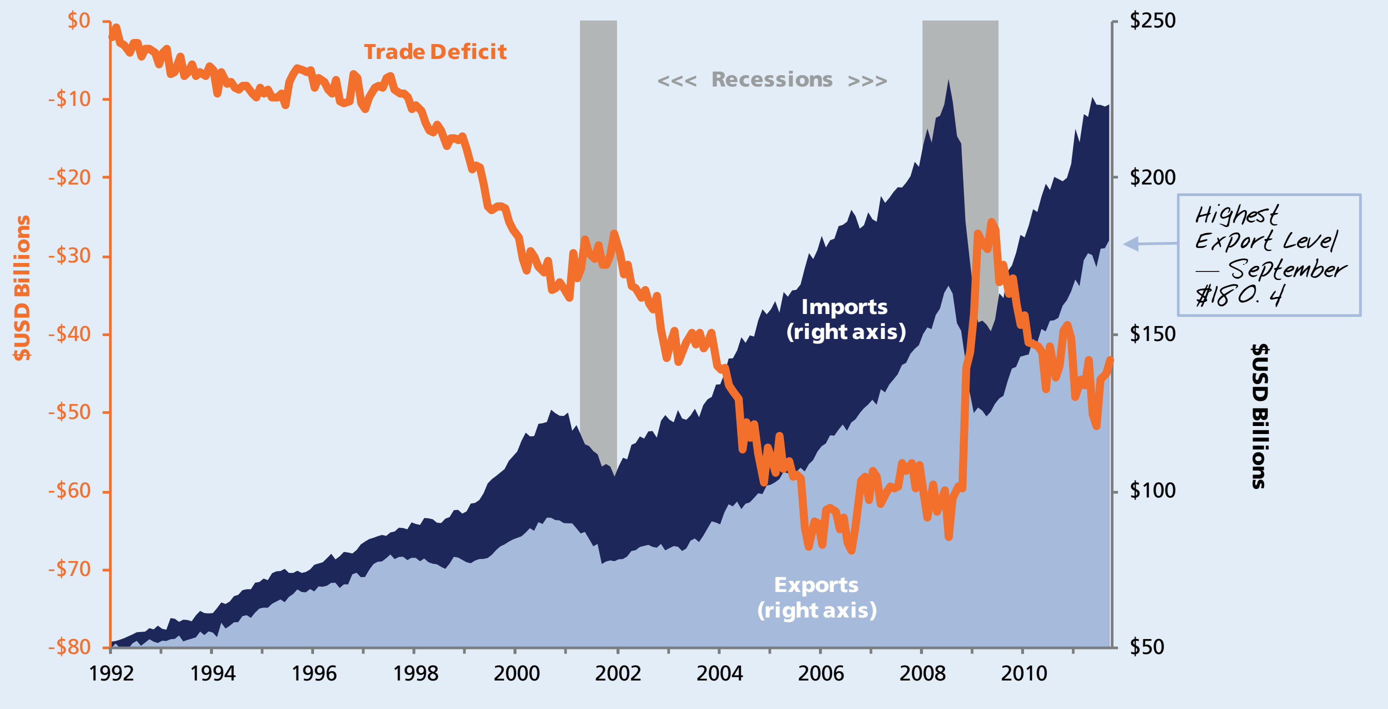
Earnings on record pace in 2011; should be even better in 2012

Sector	Reported			Earnings Growth			Earnings Surprise		
	Actual	/	Total	Percent	Positive	Negative	Percent	Positive	Negative
Energy	42	/	42	51.8%	34	7	6.2%	27	12
Materials	31	/	31	34.8%	23	5	3.8%	21	9
Industrials	58	/	60	18.7%	49	8	4.9%	44	6
Consumer Discretionary	76	/	78	17.6%	56	17	2.3%	51	20
Consumer Staples	39	/	41	6.3%	27	12	1.3%	23	13
Health Care	51	/	52	7.2%	40	10	4.8%	39	9
Financials	81	/	81	8.4%	50	28	11.9%	47	30
Information Technology	73	/	74	10.2%	44	28	3.0%	57	9
Telecommunication	8	/	8	17.2%	3	4	4.4%	3	3
Utilities	33	/	33	4.6%	23	10	3.8%	25	6
S&P 500	492	/	500	15.8%	349	129	5.1%	337	117

Source: Bloomberg, Standard and Poor's, FactSet

Note: Earnings Growth is the percentage change in the cumulative share weighted EPS Earnings from that of a year ago. Surprise Percent is the share weighted average of the ratio of actual company earnings vs. the consensus estimate.

Global trade is the way forward for the economy



Source: FactSet