# ING Global Perspectives January 2011

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# Broad Global Acceleration Delivers in January

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Driven by record corporate earnings growth, accelerating manufacturing activity and renewed personal consumption, the positive momentum of U.S. and global economic growth continues unabated.

Almost midway through the all-important fourth quarter earnings season, S&P 500 releases continue to please; of the companies that have reported thus far, 70% have met or beat consensus earnings expectations. Aggregate earnings for 2010 are on track to be the highest since 2006; should this trend persist throughout 2011, our forecast for record annual earnings may prove too conservative. The stock market has responded in kind, returning the first positive January in four years and the best January in fourteen. The Dow Jones Industrial Average was up 2.85%, led by the technology, energy and industrials sectors.

But it's not just strong earnings that have filled us with confidence.

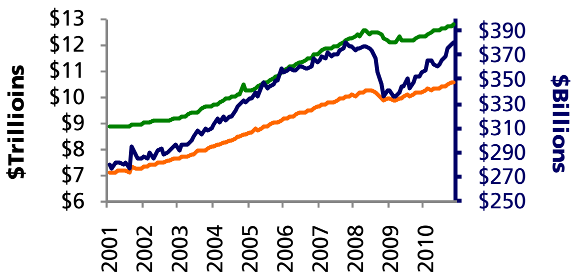
- Manufacturing started off the year in gangbuster fashion; the ISM purchasing managers' index rose to its highest level since 2004, while the index's employment component reached highs not seen since the early-1970s. Recent manufacturing numbers out of China, the U.K. and Germany have been equally compelling.
- As we have previously reported, the U.S. consumer, which comprises 70% of GDP, is a game changer. And the consumer is back with bells on; the 5.5% increase in holiday sales gave us the best holiday season in five years, and December was the best month of retail sales ever in dollar terms. And it wasn't just a rogue holiday shopping spree — fourth quarter sales levels were the highest on record.
- GDP levels in the U.S. are now officially in the expansion stage, with economic output at a record level. China, the world's second-largest economy and an important driver of global growth, reported an astounding 9.8% leap in GDP despite fears of a marked slowdown.

**U.S. domestic equities dominate; bonds falter**

| Index | Jan-11 | 2010 | 2009 | 2008 | 2007 | 2006 | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity** | | | | | | | | | | |
| S&P 500 | 2.4 | 15.1 | 26.5 | (37.0) | 5.5 | 15.8 | 22.2 | (0.1) | 2.2 | 1.3 |
| S&P 400 Midcap | 1.9 | 24.9 | 35.0 | (37.3) | 6.7 | 9.0 | 31.6 | 4.7 | 3.4 | 5.8 |
| S&P 600 Smallcap | 0.1 | 25.0 | 23.8 | (32.0) | (1.2) | 14.1 | 29.6 | 3.5 | 1.8 | 6.2 |
| U.S. REIT | 3.1 | 23.5 | 21.0 | (41.5) | (20.2) | 30.2 | 34.9 | (3.2) | (2.7) | 7.9 |
| EAFE | 2.4 | 8.2 | 32.5 | (43.1) | 11.6 | 26.9 | 15.9 | (2.7) | 2.2 | 4.2 |
| BRIC | (3.2) | 9.8 | 93.5 | (59.3) | 59.1 | 56.6 | 14.8 | (0.4) | 12.1 | 16.2 |
| Average | 1.1 | 17.7 | 38.7 | (41.7) | 10.2 | 25.4 | 24.8 | 0.3 | 3.2 | 6.9 |
| **Fixed Income** | | | | | | | | | | |
| Corporate | 0.2 | 9.0 | 18.7 | (4.9) | 4.6 | 4.3 | 7.5 | 6.8 | 6.1 | 6.3 |
| U.S. Treasury 20+ | (3.1) | 9.4 | (21.4) | 33.7 | 10.2 | 0.9 | 3.3 | 3.0 | 4.6 | 6.1 |
| Global Aggregate | 0.2 | 5.5 | 6.9 | 4.8 | 9.5 | 6.6 | 5.3 | 4.9 | 6.4 | 6.7 |
| High Yield | 2.2 | 15.1 | 58.2 | (26.2) | 1.9 | 11.8 | 16.2 | 11.7 | 9.0 | 8.3 |
| Average | (0.1) | 9.8 | 15.6 | 1.9 | 6.5 | 5.9 | 8.1 | 6.6 | 6.6 | 6.9 |
| **60/40 Portfolio** | **0.6** | **14.5** | **29.5** | **-24.3** | **8.8** | **17.6** | **18.1** | **2.8** | **4.5** | **6.9** |

*Source: MSCI, Standard & Poor's, FactSet*

**Record consumer levels of income, spending and retail sales**



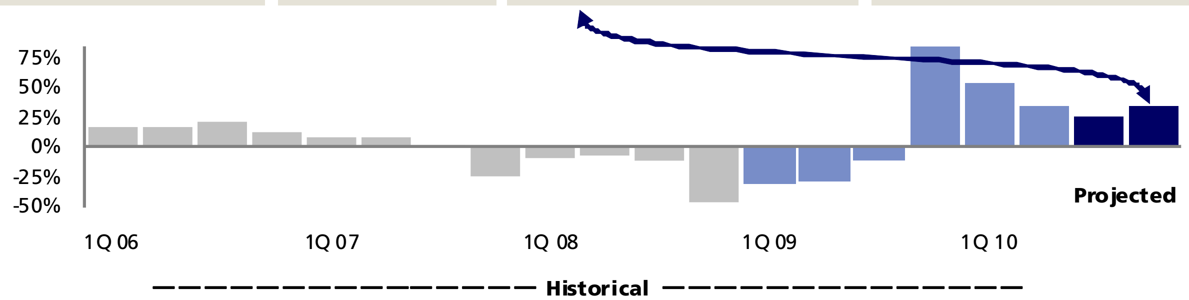

*Source: Institute of Supply Management, Federal Reserve, FactSet*

In a sea change from 2010's Chicken Little-esque pessimism, positive fundamentals have dominated all signs of risk — whether financial or geopolitical — thus far in 2011. Even the toppling of Middle Eastern governments elicited little more than a yawn from investors despite the risk such destabilization represents to oil prices. Sure, it is prudent to respect risk. But more and more market participants appear to have come around to our belief that the U.S. economy is strong enough to withstand a certain amount of strain; it is robust and accelerating, and all indications are that jobs are going to make a commanding comeback.

How did the U.S. economy turn into an unstoppable force overnight? It didn't. Signs of renewal were evident throughout 2010, most notably the success U.S. corporations were having in the emerging markets. However, this was largely overlooked given the generally pessimistic atmosphere and the media's

**Fourth quarter 2010 earnings season is off to a strong start**

| Sector | Reported | | | Earnings Growth | | | Earnings Surprise | | |
|---|---|---|---|---|---|---|---|---|---|
| | Actual | / | Total | Percent | Positive | Negative | Percent | Positive | Negative |
| Consumer Discretionary | 27 | / | 78 | 5.2% | 20 | 5 | (4.5%) | 21 | 6 |
| Consumer Staples | 13 | / | 41 | -10.7% | 10 | 3 | 3.9% | 9 | 4 |
| Energy | 23 | / | 41 | 46.7% | 19 | 4 | 9.4% | 20 | 3 |
| Financials | 55 | / | 81 | 564.9% | 42 | 12 | 3.2% | 35 | 19 |
| Health Care | 29 | / | 51 | 5.9% | 24 | 4 | 3.8% | 24 | 5 |
| Industrials | 40 | / | 58 | 22.4% | 36 | 4 | 5.9% | 30 | 10 |
| Information Technology | 47 | / | 76 | 32.6% | 38 | 5 | 14.9% | 38 | 9 |
| Materials | 21 | / | 30 | 49.3% | 16 | 5 | 39.4% | 15 | 6 |
| Telecommunication | 2 | / | 9 | 5.3% | 1 | 0 | 1.0% | 1 | 1 |
| Utilities | 9 | / | 34 | -6.1% | 4 | 4 | (1.6%) | 2 | 7 |
| S&P 500 | 266 | / | 499 | 41.0% | 210 | 46 | 7.4% | 195 | 70 |




*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.*

*Source: Bloomberg, Standard & Poor's*

Western-focused view of the world economy. A global perspective on U.S. corporate activity in China, Brazil and India would have provided an investor a front-row view of the expansion that was underway. The danger now is becoming complacent and missing the next opportunity unfolding right in front of us. With the BRIC countries having emerged, it is time to consider the newly emerging "frontier markets".

Risky and untested, emerging markets investing was the new frontier not so long ago. But for intrepid investors, the risk was well worth it; the MSCI BRIC Index, for example, delivered an annualized ten-year return of 18% (or a cumulative return of over 400%) compared to the 1.4% annualized return of the S&P 500 over the same period. Now, frontier markets like Vietnam, South Africa, Turkey, Kuwait, Kazakhstan and Kenya are taking part in the global synchronized march to expansion and will help fuel the world's GDP growth going forward.

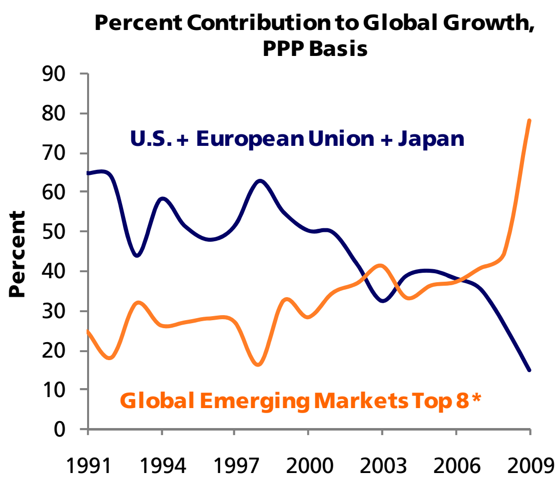
Of course, there are investment risks; illiquidity, lack of transparency, currency fluctuation and political instability (as we've seen in the Middle East) are among them. But the rewards can be lucrative:

- The S&P/IFC Frontier Index has an average annual return of 37% over the past five years.
- Frontier markets like Vietnam — with its tech-savvy, highly literate, rapidly growing workforce — not only offer the potential for attractive returns (the Vietnam stock exchange doubled in value last year), they are less correlated with the returns of more developed countries and thus offer valuable diversification benefits.
- The frontier countries typically have younger populations, higher birth rates, higher GDP growth and less oppressive government debt burdens. These potential up-and-coming middle-class consumers are uncharted but promising territory.

The largest and most successful U.S. corporations have seen the value in these new markets and are vying to gain a foothold in them by acquiring existing companies and operations in their target regions. It would be wise to follow their research efforts and business expertise. But if frontier investing feels a bit too bleeding edge, note that U.S. corporations currently attribute around 50% of their sales to countries outside of the U.S. Domestic markets will inevitably benefit from these globalization trends, and these new emerging/frontier markets will serve as catalysts for growth for years to come.

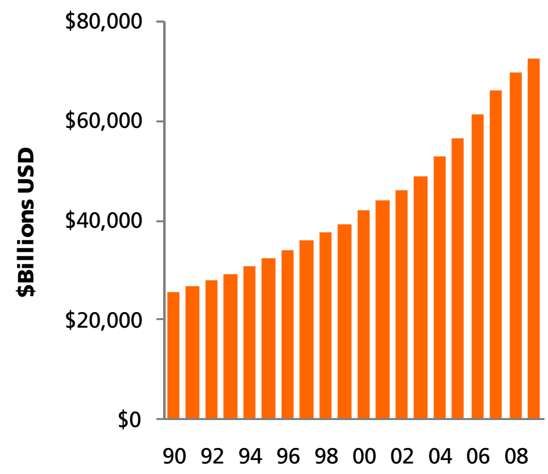
The banner year we expect for 2011 is being driven by a broadening global economy. U.S. businesses already understand this and are profiting from it. Investors simply need to get back into the markets to get their piece of the expanding global pie.

**Global emerging markets continue to lead the march to expansion**




*Source: The World Bank Group*
** China, India, Russia, Brazil, Mexico, Korea, Indonesia and Taiwan*

**World GDP increased in 2008 despite the Great Recession**




*Source: International Monetary Fund*