

Potential Market Environment (Global)		Economic Decline	Slow Growth	Robust Growth	Rapid Inflation
Current Probability		Less Likely	Most Likely	Unlikely	Unlikely – Near Term
Potential Signals	United States	Declining disposable income leading to a sharp decrease in consumer spending; Falling business sentiment prompts a decline in fixed investment	Slow deleveraging; Slow employment gains; Moderate rate of consumer spending	Rising business and consumer demand; Material improvements in housing and employment	Prolonged increase in commodity prices; Increase in the velocity of money combined with low interest rates
	Europe	Rapidly rising interest rates; Declining manufacturing activity and exports; Contagion of credit crisis throughout and beyond Europe	Effective containment of credit crisis; Stable euro; Steady or expanding manufacturing activity in Germany	Moderation in the dispersion of economic growth rates among European Union nations; Resolution of growth issues underlying credit crisis	Low cost of capital; Relaxation of austerity initiatives; Significant gains in exports
	Emerging Markets	Spikes in commodity prices; Moderate to severe recessions in developed markets	Stable disposable income; Stable commodity prices	Improved global demand; Few trade restrictions	Much improved global demand; Expanding middle class consumer base
	Japan	Deflation; Decrease in pace of rebuilding efforts; Sharp increase in value of the yen	Maintain rebuilding pace	Strong improvement in exports	Loss of significant manufacturing capability in export-intensive industries
Portfolio Implications	Fixed Income	U.S. bonds may generate positive returns while other sovereign bond markets will likely lag	Low but positive returns in markets with stable interest rates	Weak performance	Negative returns adjusted for inflation
	Equities	Low returns; Defensive sectors will likely lead the market	Moderate returns	Strong returns; Cyclical sectors are likely to lead the market; Growth stocks will likely outperform value	Moderate/low returns adjusted for inflation
	Other	Managed futures may outperform equities; Real assets could perform well if the decline in growth stems from credit-related issues	Directional and absolute hedge funds should be able to find opportunities to add value	Corporate bonds should benefit from rising revenue; Commodities should benefit from rising demand	Real assets and commodities attractive relative to traditional assets