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iShares 2012 Investment Outlook

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2012 scenarios:

Core view: Great Idle - Slow but positive growth – probability 60%

- Developed and emerging markets stabilize to below trend level growth
- Europe goes through a recession with banking sector deleveraging and austerity

Risk view: Global recession – probability 35%

- Risk of a full-blown European banking crisis and Eurozone breakup back in focus
- In the US the fragile consumer risks being hurt by premature fiscal austerity
- Escalation of tensions between Israel and Iran or unrest in Nigeria could see energy prices rise again

Growth accelerates – probability 5%

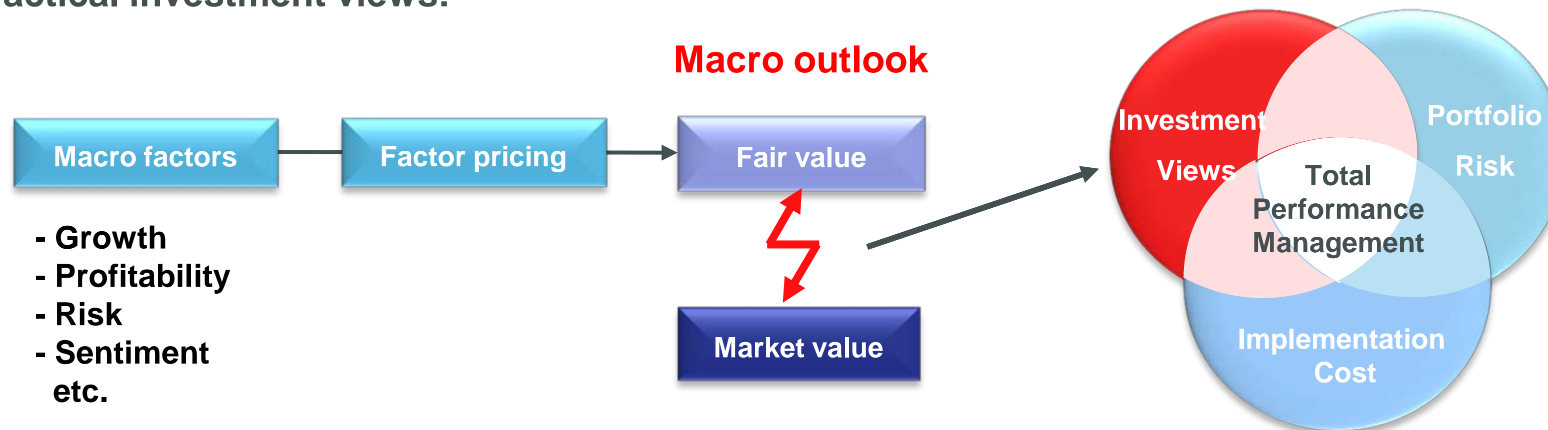
- Emerging markets resume stellar growth, developed world reverts back to trend growth

iShares Investment Process

Investment philosophy:

- Market valuations that materially deviate from levels justified by broad macroeconomic conditions tend to revert

Tactical investment views:



- Also consider political developments, policy, and risk-on-risk-off environment short-term distortive effects

Thematic investment views:

- Longer-term: fundamentals to be reflected in macro factors over a longer horizon, e.g. debt levels on growth
- Behavioral: e.g. risk-insensitive quest for income

Equities: Long-term value but stay defensive

Equities performance currently driven by growth and sovereign debt concerns; with uncertainty over policy and loss of market momentum, expect markets to remain volatile in the near term

Regional / country views:

- DM: Favor CASSH countries and Northern Europe

- **C**anada, **A**ustralia, **S**witzerland, **S**ingapore and **H**ong Kong: robust growth, few debt and fiscal issues
- Germany, the Netherlands and Norway: good value for decent growth & low risk

- EM as the "New Defensives:" Prefer Asia and LatAm to EMEA

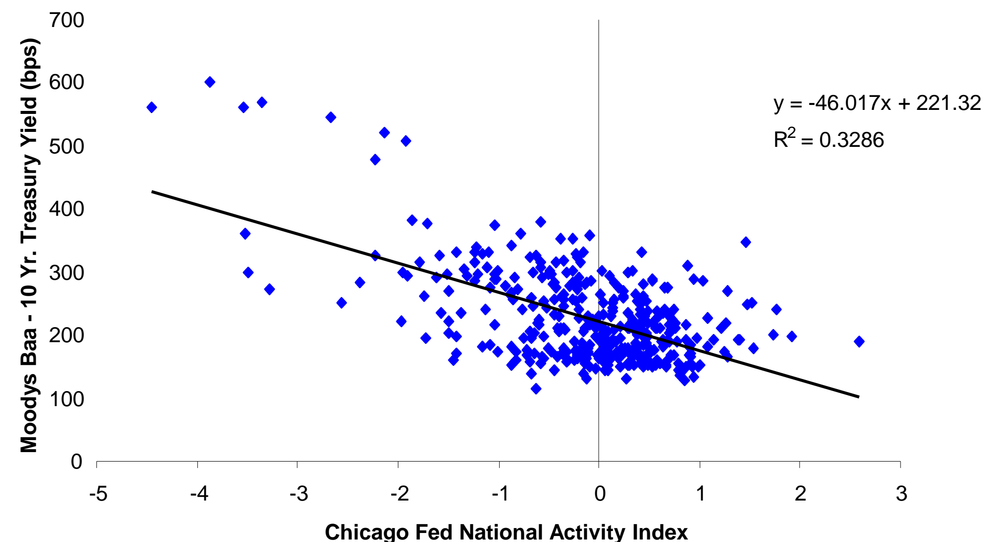
- Favor China, Taiwan and Brazil, Russia for aggressive investors; avoid India, South Korea and Mexico

Sector / style views:

- Stay defensive

- Quality, mega cap and international high-dividend stocks
- Favor energy; avoid consumer discretionary and financials

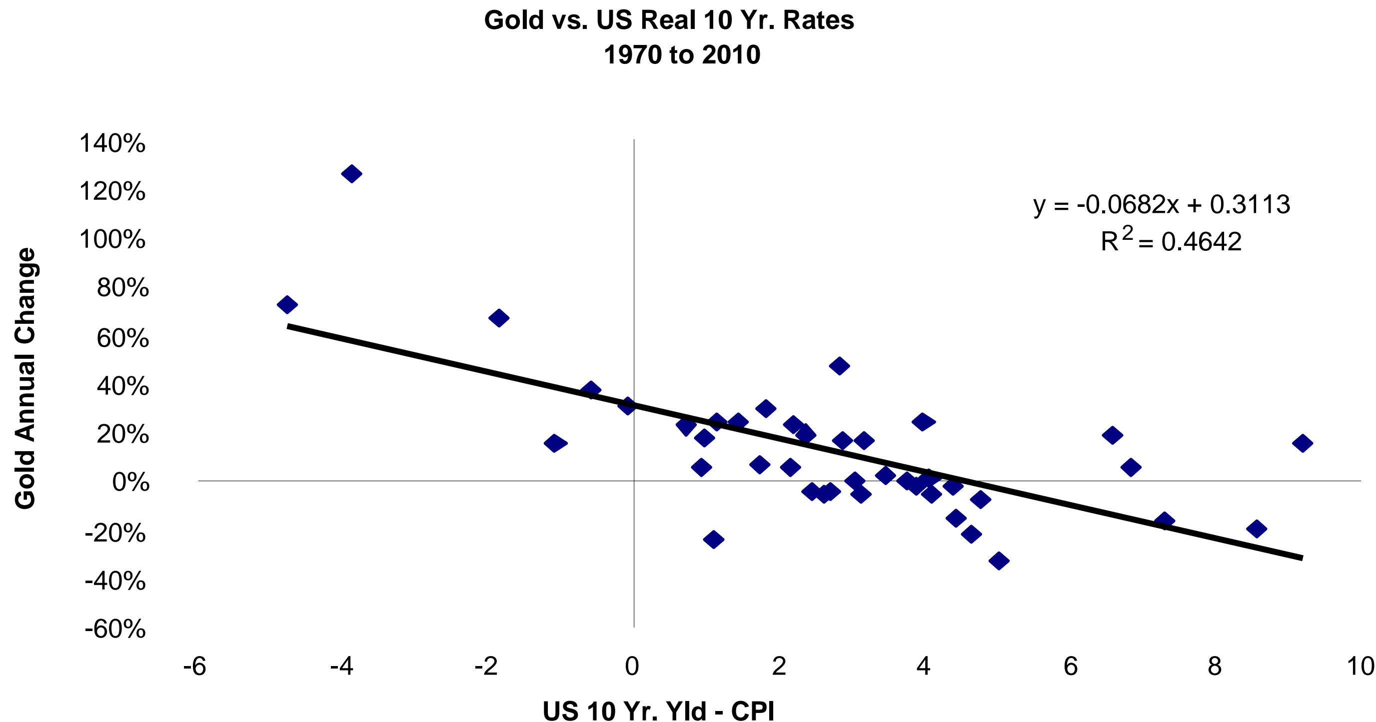
Fixed income: Prefer Corporate Bonds to Treasuries



The spread between an index of Baa corporate bonds and the 10-year Treasury is around 320 bps, nearly twice the historical average, and wide also relative to growth expectations.

Source Bloomberg 10/31/2011

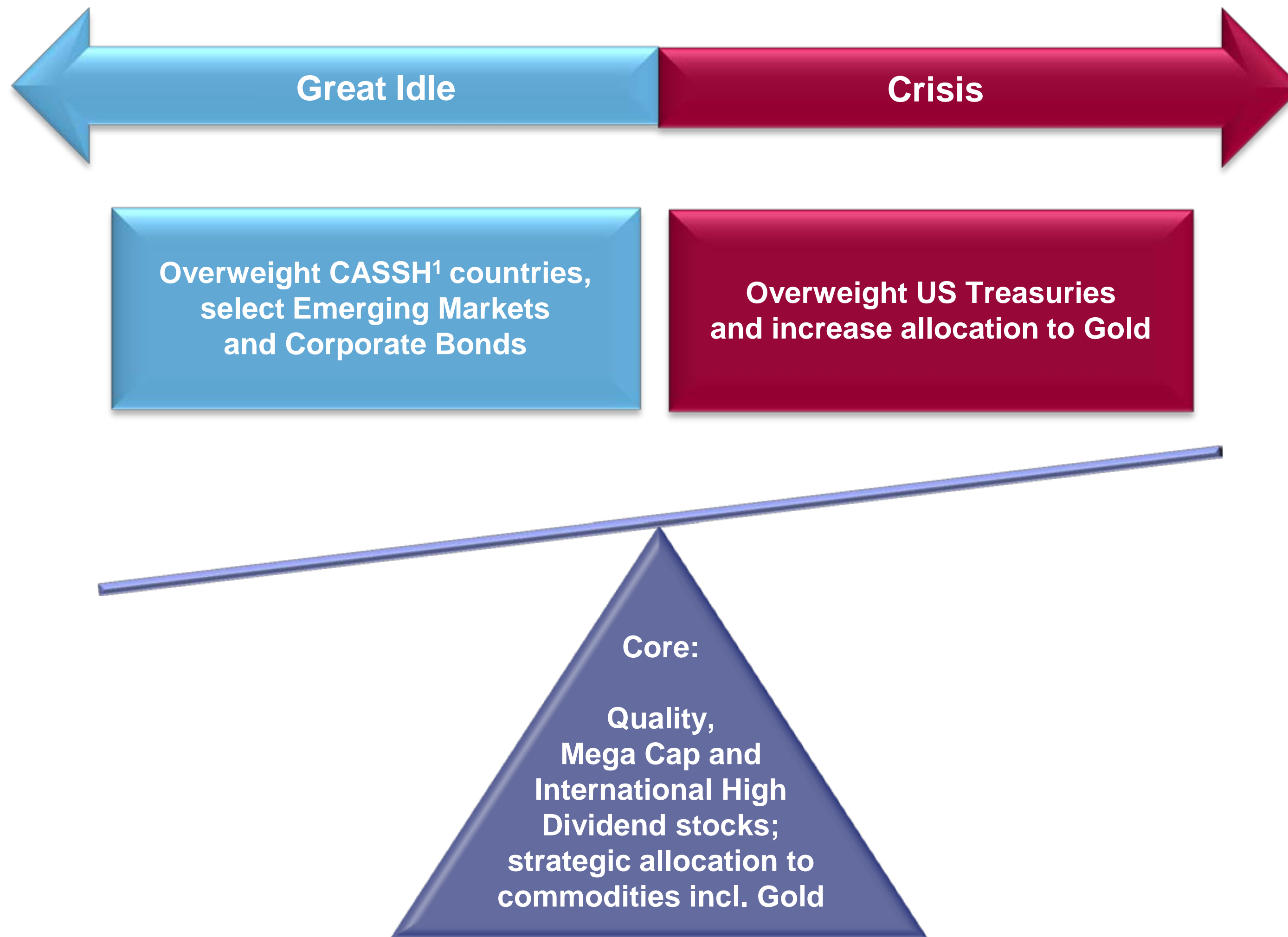
Commodities: Maintain a strategic allocation, incl. Gold



Historically, the level of real rates has been a more important determinant of the performance of commodities in general, and gold in particular, than either the dollar or inflation. Over the last forty years, the level of real rates has explained roughly 45% of the annual variation in gold returns.

Source Bloomberg 8/31/2011

2012 Investment Outlook Summary



1. Note: CASSH includes Canada, Australia, Switzerland, Singapore, Hong Kong

iShares Global Investment Strategy Team Resources

Weekly, bi-weekly and monthly investment views and research:

- Weekly investment strategy call: new or revised country / sector / asset class views
- iShares blog: country / sector / asset class views in more depth; thematic calls
- Investment Directions: monthly country, sector and fixed income views recap
- Bi-weeklies: tactical market research
- Market Perspectives “white papers” together with the iShares Global Investment Research team: strategic thought leadership
- Strategic, tactical and thematic model portfolios, in collaboration with the iShares Global Investment Research team

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In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Securities focusing on a single country or narrowly focused investments may be subject to higher volatility. Bonds and bond funds will decrease in value as interest rates rise.

Past performance does not guarantee future results. **Investing involves risk, including possible loss of principal**.

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