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PERSPECTIVES FROM GOLDMAN, SACHS & CO. GLOBAL INVESTMENT RESEARCH DIVISION

Economic Outlook¹

- Summary:** Our overall view of US growth would be best characterized as sluggish. The April nonfarm payroll of 115k was the second consecutive disappointment and broader measures of economic activity point to deceleration. Our Current Activity Indicator has slowed to an implied GDP of 1.8% after averaging around 3.0% earlier in the year. Also, our MAP index shows that US data has begun to deliver modest negative surprises.
- Key Forecasts:** Although the balance of risks has shifted, our views are largely unchanged. We expect a continuation of sub-trend US growth at 2.2%, a flat labor market with the unemployment rate collared near 8.2%, and contained inflation with localized pockets of food, energy, and rental pressure. Given the renewed slowdown in the US economy, the reemergence of turmoil in Europe, and the looming fiscal cliff, we continue to expect some additional monetary easing by the Fed.

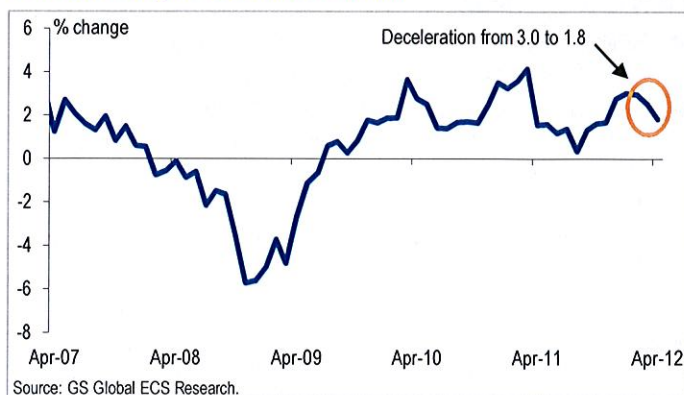
Market Strategy^{3,4,5,6,7}

- Markets:** Global risk assets have come under pressure as investor focus has shifted back to European political and austerity risk and the approaching US election and 2013 "fiscal cliff." These events are the largest source of medium-term risk facing US equity markets due to potential negative consequences for: 1) US economic growth, 2) after-tax investment returns, and 3) the equity risk premium.
- Earnings:** Key takeaways from Q1 results: 1) A divided outlook on the future of profit margins. Some companies saw margins expand to record levels while others struggle to combat input cost inflation and pricing pressure, 2) China slows but continues to drive global growth as executives expect it will remain a leader of future business activity, and 3) corporate leadership identified slow activity and austerity in Europe as a headwind.
- Europe:** Despite a long road ahead, recent election results reveal that public dissatisfaction with sluggish growth and "austerity fatigue" has already risen significantly. Policymakers are shifting their rhetoric towards "growth", but it remains unclear what concrete steps that entails. Developments are now highly path dependent.
- Greece:** Negotiations to form a coalition government have failed; June elections look increasingly likely; the odds that the adjustment program is interrupted have increased; key question becomes whether the ECB will keep backing Greek banks should Greek sovereign payments stop.
- Sector Positioning:** In the very near-term, upside in many risk sectors is attractive, but the prospect of protracted uncertainty has us preferring neutral weights and a high quality bias. On a 12-month view, we maintain our pro-risk allocation with overweights in equities and commodities, neutral weights in cash and corporate credit, and an underweight in government bonds. Valuation, which remains a key reason to favor risky assets, also matters more for performance over this time horizon.
- Rates:** Resurgence in Eurozone uncertainty preempted a budding sell-off in rates. We remain of the view that intermediate real rates in major markets are too low and an opportunity to re-instate shorts will present itself.

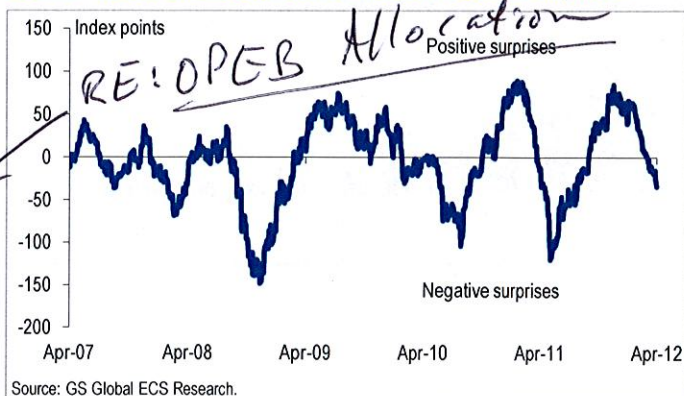
Key Forecasts (Annualized %)

	2011	4/30/2012	F2012	F2013
Real GDP Growth ¹	1.7%	2.2% (Q1) ↓	2.2%	2.2%
Unemployment Rate ¹	8.5%	8.1% ↓	8.2%	8.2%
Headline CPI ¹	3.1%	2.3% ↓	2.3%	1.7%
Core CPI ¹	1.7%	2.3%	1.9%	1.5%
Fed Funds Rate ¹	0.10%	0.10%	0.10%	0.10%
2-Year Note Yield ¹	0.24%	0.26% ↓	0.50%	1.00%
10-Year Note Yield ¹	1.88%	1.92% ↓	2.50%	3.25%
S&P 500 ³	1258	1398 ↓	1250	n/a
WTI Crude Oil ²	\$99	\$105 ↑	\$125*	n/a
Brent Crude Oil ²	\$108	\$120 ↓	\$129*	n/a
Gold ²	\$1564	\$1665 ↓	\$1940*	n/a
Copper ²	\$7601	\$8407 ↓	\$9000*	n/a
Dollar/Euro ¹	1.30	1.32 ↓	1.41 ↓	1.45
Yen/Dollar ¹	77	80 ↓	75	74

Current Activity Indicator: Deceleration



US MAP Index: Starting to Deliver Modest Negative Surprises



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PERSPECTIVES FROM GOLDMAN SACHS ASSET MANAGEMENT

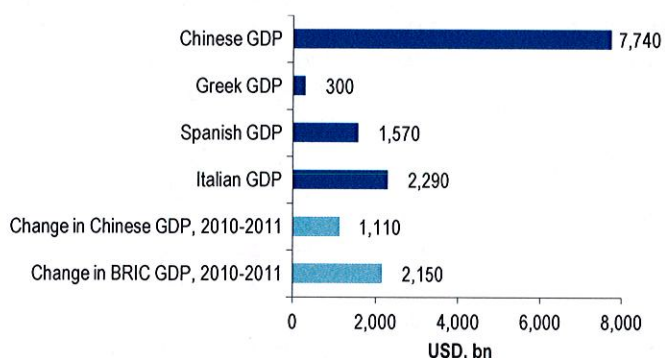
Growth Markets: Economic Reality May Trump Global Political Uncertainty

- **Every Three Months:** While market sentiment can be dominated by the political and fiscal afflictions of developed markets, strategic investors should remember that China has created the economic equivalent of one Greek economy every three months, a Spanish economy in a little more than a year, and an Italian economy every two years.
- **Consumption:** As detailed in the second chart, growth and emerging market consumption has been not only resilient, but robust during the last

five years. The magnitude of EM consumption meaningfully influences global economic trends and provides a driver of economic recovery.

- **Implications:** As volatility reemerges, risk-off may resonate. However, given the prospects of economic expansion in growth and emerging markets, we see strategic value in: 1) Pro-cyclical commodities, 2) Direct EM equity and debt allocations, and 3) High quality multinationals with EM distribution.

China versus Europe



Source: IMF, GSAM. As of calendar year-end 2011.

EM Consumerism is Real

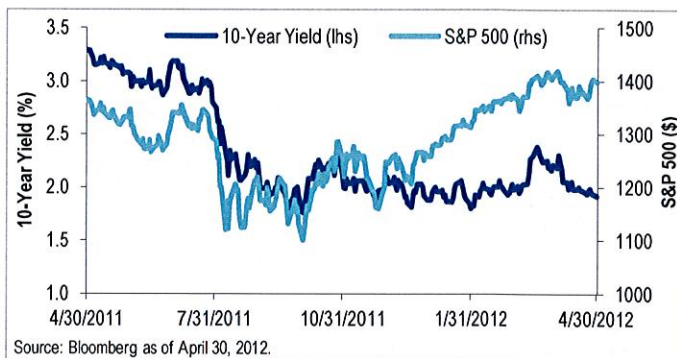


Source: National Sources, GSAM.

Fixed Income Strategy

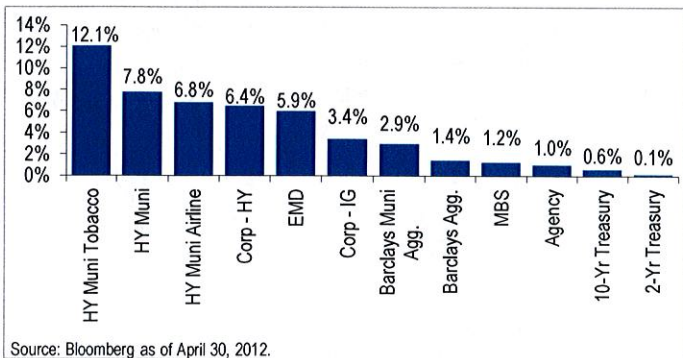
- **Duration:** Longer-term rates offer little value, but yields on short term risk could move even lower. We are now modestly long US duration.
- **Currency:** We maintain a preference for growth-sensitive currencies versus shorts in the euro and central European currencies. The Mexican peso is still our highest conviction trade.
- **MBS:** We are substantially overweight non-agency MBS and are modestly long agency MBS with a down-in-coupon bias. Technicals remain favorable.
- **Credit:** We reduced our exposures to corporate credit and are now generally flat investment-grade and high-yield sectors.
- **Muni:** Ratios grinding lower as most deals are oversubscribed. The technical imbalance could persist through August with -\$20B net supply expected.

10-Year vs. S&P 500



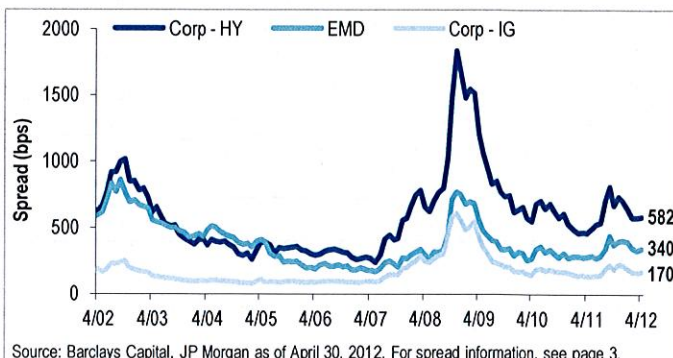
Source: Bloomberg as of April 30, 2012.

Fixed Income Returns: Year-to-Date 2012



Source: Bloomberg as of April 30, 2012.

Credit Spreads



Source: Barclays Capital, JP Morgan as of April 30, 2012. For spread information, see page 3.

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Special risks are inherent in international investing including those related to currency fluctuations and foreign, political, and economic events.

All investing involves risk. Equity securities are more volatile than bonds and subject to greater risks. Small and mid-sized company stocks involve greater risks than those customarily associated with larger companies. Bonds are subject to interest rate, price and credit risks. Prices tend to be inversely affected by changes in interest rates. High yield fixed income securities are considered speculative, involve greater risk of default, and tend to be more volatile than investment grade fixed income securities. Investments in foreign securities entail special risks such as currency, political, economic, and market risks. These risks are heightened in emerging markets. An investment in real estate securities is subject to greater price volatility and the special risks associated with direct ownership of real estate. Investments in commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity. Corporate bonds offer a high yield compared to some other investments, but is subject to the risk the corporate issuer will default on its debt obligations.

- ¹ Source: 2012 and 2013 estimates – "US Economics Analyst" Issue 12/19– May 11, 2012. Under 2012 and 2013 Forecasts, GDP Growth and CPI are expected averages for the entire year. All other numbers are year-end forecasts.
 - ² Source: "Commodity Watch: Staying Neutral as DM downside risks leave us cautious" – Global Economics, Commodities and Strategy Research – April 24, 2012.
 - ³ Source: "US Weekly Kickstart: Election cycles return political and austerity risks to the forefront" – Global Economics, Commodities and Strategy Research – May 11, 2012.
 - ⁴ Source: "S&P 500 Beige Book: Three key themes from 1Q 2012 earnings conference calls" – Global Economics, Commodities and Strategy Research – May 9, 2012.
 - ⁵ Source: "GOAL: Our Macro Outlook: Three key drivers of performance" – Global Economics, Commodities and Strategy Research – April 20, 2012.
 - ⁵ Source: "Fixed Income Monthly" – Global Economics, Commodities and Strategy Research – April 30, 2012.
 - ⁷ Source: "Global Markets Daily : Greece: ECB Dilemmas the Day After a Stop in Payments to Greece " – Global Economics, Commodities and Strategy Research – May 15, 2012.
- 2012 price targets for select commodities represent the 12-month forecasts as of May 2012.

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