Morgan Stanley

Equity Research
Global Equity Strategy

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The 2010 Global Outlook

Global Strategy

MORGAN STANLEY RESEARCH

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Top 10 Focus List

Company Name	Country	Sector	Price (LC)	Price Target (LC)*
Vedanta Resources PLC	UK	Materials	24.32	31.68
Danone S.A.	France	Cons Staples	41.56	50.00
Japan Tobacco Inc.	Japan	Cons Staples	283000	405000
Centennial Coal Co. Ltd.	Australia	Energy	3.41	3.93
Union Pacific Corp.	US	Industrials	65.28	80.00
Macquarie Group Ltd.	Australia	Financials	47.60	63.80
Roche Holding AG	Switzerland	Health Care	169.30	200.00
Amgen Inc.	US	Health Care	56.86	76.00
SMC Corp.	Japan	Industrials	10590	13000
Microsoft Corp.	US	Tech	30.11	36.00

* Morgan Stanley Analyst target

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We acknowledge the contributions of Bijit Maji, Ankush Agrawal and Aishorjyo Ghosh in compiling this report

10 Trades for 2010

Overweight Equities vs. Credit vs. Government Bonds

Trajectory matters in 2010 and relative returns will too. Equities to outperform credit and government bonds (risk adjusted returns favor equities), but the path will be volatile. Expect an early growth scare to end the equity rally and for a short-term flow back to low risk assets. We remain positive on credit, but think equity-like returns are over given large normalization within the asset class. Risk of UST bond bear market is rising.

Overweight Large Cap Growth (QARP – Quality at a Reasonable Price)

Remains the biggest valuation disconnect across global equity markets. As the markets shift from buying an earnings recovery to delivering on embedded expectations, we think *"quality"* will begin to differentiate itself again. This is not a defensive trade and is not a trade that only works in a down market. Stocks with consistent earnings growth, strong balance sheets and good dividend policy deserve a valuation premium in an uncertain growth world.

Overweight Non-Ferrous vs. Ferrous Commodity Equities / Overweight Agri Chemicals

Upside risk to contract negotiations in bulk commodities – iron ore, coking & thermal coal – will underpin bulk material and coal stocks through 2010. Chinese restocking to resume, adding downside support if growth disappoints or the USD rallies (a quinquennial upward GDP revision may also raise comfort on commodity growth sustainability in 2010). We like the lower risk/volatility nature of non-ferrous markets despite lower YE price forecasts vs. base metals (Zinc, Lead). Long term structural overweight in agriculture chemicals. BUY: Vedanta, Xstrata, Centennial, Newcrest and Monsanto.

Overweight Global Tobacco – Japan, US & Europe

In 2010 global tobacco manufacturers should benefit from the carryover of 2009's significant price increases, ongoing cost savings, a generally static competitive and regulatory environment, and stable volumes in most developed markets with faster recovery in emerging markets. Consumer spending on tobacco is significantly more resilient than spending on almost all other consumer goods, according to a Morgan Stanley survey. Regulatory threats (e.g.: display ban, plain packaging) should prove manageable. BUY: Japan Tobacco, Philip Morris, Imperial Tobacco, British American Tobacco.

Overweight Japanese Industrials & Exporters

A weaker yen should translate into a better outlook for Japanese equities. Fears of deflation in 2010, a BoJ that is out of step with the rest of the developed world, and an uncertain political climate keep us focused on areas that will benefit without needing to have all the stars aligned. We like Japanese Industrials – early cycle, access/proximity to faster growing Asian/EM markets, and relative value attraction. BUY: SMC Corp, East Japan Railway, Fanuc, Komatsu, Makita, Sony, Tokyo Electron.

Buy Euro Pharma over US Pharma

We like the Pharma industry for its resilient earnings and feel it has been overly discounted for risks that are reasonably well documented, especially pipeline. We like European Pharma (Roche, Sanofi) over US Pharma, as exposure to faster growing markets is greater. European Pharma valuations have historically expanded versus US valuations when relative long-term growth expectations have risen vis-à-vis US. We like aggressive growth (healthcare equipment and biotech exposure) in the US (Baxter, Amgen, Thermo Fisher).

Overweight Consumer Non-Cyclical vs. Cyclical (Staples over Discretionary)

Consumer noncyclicals fit 3 of our 5 equity investment themes for 2010 – QARP, pricing power (price takers over price makers) and Asia/EM exposure. They have significantly lagged consumer cyclical sectors in the 2009 rally, are less sensitive to rising bond yields (which we expect to be a major risk in 2010), and do not suffer the consumer deleveraging risk of the more cyclical consumer sectors. BUY: Danone, Diageo, Kellogg, Wal-Mart, Fosters, Kirin Holdings.

Overweight US Large vs. Small Caps

Small caps offer few of the traditional reasons why you overweight them as growth recovers. They are not at a discount to large, they are 100% domestically driven (no offshore earnings exposure and no weak USD translation benefits), they are overweight financials (greater long tailed NPL risk), they have less access to non-traditional funding sources (credit availability still tight) and balance sheet strength favors large caps.

Overweight Global Autos/Auto Components

Despite a strong 2009 recovery (driven largely by incentive-supported developed markets), we still like automakers and component manufacturers given potential for further volume normalization and global revenue exposure. Environmental regulations, stricter norms on fuel efficiency and growing consumer appetite for green technology is game-changer for many. We like growth names in the auto space with significant or rising EM exposure (Toyota, Fiat, Peugeot, Nissan, Valeo) or with pricing power/ technology leadership (Bridgestone, BorgWarner).

Underweight Financials – (European & UK)

Many of the sector's upside earnings surprise drivers are unlikely to get better in coming quarters, and expectations for pre-tax/pre-prevision earnings are not consistent with sub-par growth recovery. The sector faces regulatory risks, potential new capital adequacy requirements, and commercial real estate weakness. We like capital markets and prefer US to European/UK banks, *but* European insurers over US insurers.

Summary

Asset Allocation:

- **We like equities, but can see risks rising.** We are overweight equities, but are reducing beta and cyclical exposure. Headwinds for equities are rising but are not sufficient to kill the rally yet. We think the year will start strong -- we see 10-15% upside in equities from here – but think that markets will have overshot fair value. We expect only single-digit return for global developed equities for the full year (MSCI World), but the risks are slanted to a worse outcome. For now, we prefer equities over corporate credit.

Regional Allocation:

- **Overweight Asia ex Japan:** Valuations are neutral, excess liquidity plentiful, growth recovery strong, corporate and consumer fundamentals (balance sheets and leverage) solid and currencies remain competitive. Despite acting as the high beta trade in 2009, the region remains heavily leveraged into a global growth rebound, with added support of highly accommodative policy (Chinese style growth rates and US style interest rates).

- **Overweight Japan:** We're overweight Japan, and have been since mid-2009. So far, this has been a costly error. But we remain attracted to the structural bottom-up improvements seen in corporate Japan over the past decade, and the fact the market is now a reasonable value (in part due to 2009's material underperformance). The catalyst for outperformance will be either policy action or a weaker yen. Valuations are no longer a reason to avoid the market. Japan has the highest cyclical weighting of the developed regions at 60% and has historically proved the most leveraged global growth play. The performance of the MSCI Japan Index has largely tracked the fortunes of the yen, which is especially true in recent years, with 5-year rolling correlation peaking in Nov-09 at 92%. Fundamentally, corporate Japan and key cyclical sectors (Autos, Tech Hardware and Capital Goods) are reasonably well positioned to leverage a global growth rebound. Recent BoJ "QE-esque" measures are positive, as is the weakening of the yen.

- **Neutral North America:** Wall Street has lagged despite earnings growth comparable to major developed peers and a lower dollar. Looking ahead, US equities are arguably less vulnerable to sovereign stress and banks now less leveraged than European counterparts. The market will benefit from a style rotation into "large cap growth" and from outflows to fixed income and other money market instruments. While historically viewed as a low-operating-leverage market (Europe has been higher beta on recovery), its low operating utilization rates and a lean cost base support better leverage going forward. High cash levels provide some protection if growth fears resurface and/or funding markets dry up. Valuations and technical indicators are not flashing any early warning signs.

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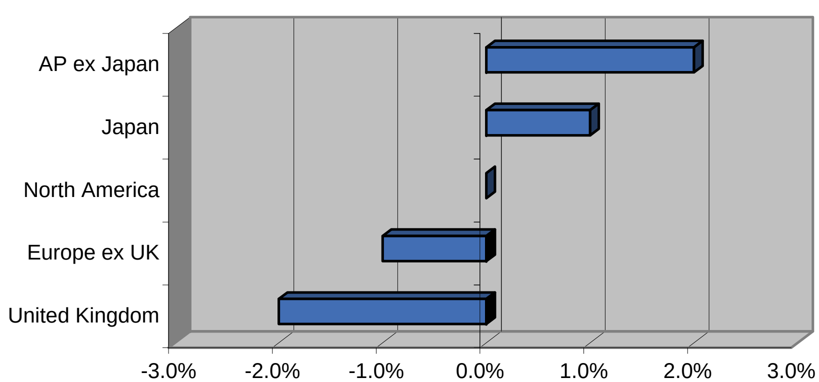
Summary

Regional Allocation continued:

- **Underweight Europe:** Currency adjusted, Europe significantly outperformed US in 2009 despite similar local currency returns. In 2010, we expect Europe will underperform the US on both a local and currency adjusted basis as the euro reverses course. We do not think a large negative bet on Europe is warranted given our expectation of a strong earnings rebound and valuations which are not stretched. However, on a relative basis, we think US corporates are slightly ahead of their European counterparts in the restructuring cycle, with the latter now facing the dual headwinds of a stronger euro (a lagged impact from 2009) and less flexibility in reducing variable costs. On a sector-neutral basis there is no strong valuation bias for Europe, although equally it is not expensive. Historically Europe has been the high beta on a growth recovery vis-à-vis the US, but more aggressive cost cutting by the latter may have evened out the operating leverage upside. We would rather play a global growth surprise via an overweight on European Industrials rather than at a regional level.

- **Underweight United Kingdom:** Suffers from weak macro and micro fundamentals, although it will receive some offset from a weaker GBP, with 65% foreign revenue contribution. At a macro level, a poor government fiscal position, elevated consumer debt levels, a weak growth recovery, and 2010 election uncertainty will act as broad based headwinds. At a micro level, a lack of equity market cyclicality, large weighting in a fragile banking system, and limited relative valuation attraction reinforce the weak macro backdrop. Under a bull case growth outcome, we would rather be overweight Europe relative to UK as the latter performs in line with its low-beta (defensive) status. Under a bear case growth outcome, we would rather be overweight US relative to UK as defensive flows shift back towards the former. Currency risk adds to poor USD return potential.

Regional Allocation - Deviation from Benchmark (MSCI World)



Global Regional Allocations	MSCI World Weights	Strategist 2010 Retn Expectation (USD)	Weighted Retn
North America	52.9%	10.6%	5.6%
Europe ex UK	21.8%	0.4%	0.1%
United Kingdom	10.3%	-1.5%	-0.2%
AP ex Japan	5.6%	18.2%	1.0%
Japan	9.3%	8.3%	0.8%
MSCI World Equity Expected 2010 Return			**7.4%**

Source: MSCI, Morgan Stanley Research

Summary

US Equities: S&P 500 Earnings

- **2010 and 2011 operating earnings of $77 and $85.** Earnings deliverability will be the single most important differentiating factor across stocks and sectors in 1H10. Thereafter, we expect the focus will shift to sustainability of earnings (particularly margins) as cost growth begins to rise in line with revenue growth.

- **In 2009, upside earnings surprise came via margins. In 2010, earnings growth will have to be sales driven.** The downside risks are that either margins disappoint or that fears of a double-dip become widespread, threatening top-line expectations. Consensus expectations have margins rising from a 3Q09 cycle trough of 3.4% back to near peak levels of 7.7% by 4Q10. This is possible, but we have limited clarity on the magnitude of operating leverage and worry that COGS growth is expected to remain low relative to sales growth – a symptomatic feature of analyst forecasts at the bottom of the cycle. We worry less about sales expectations. Consensus has 8% revenue growth in 2010. Historically this would equate to around 2.0-2.5% real GDP growth, slightly below what our economics team is forecasting in 2010.

- **We think Financial and IT sector earning estimates are too high, but Energy and Industrial earnings too low.** We see the risk to earning estimates in cyclical versus defensive terms, with more risk in Financials and less in Energy.

- **Our bull case for 2010 earnings is $83** and is driven by additional margin gains (+50 bp) via a better than expected pricing environment and 2-3% upside to sales (equivalent to 0.50-0.75% improvement in real GDP). In this scenario, we continue to experience improvement in financial conditions (credit growth begins to rise faster than expected), and domestic cyclical earnings (particularly consumer discretionary) rebound to within 10% of their 2006 peak. Energy earnings are back to 2006/07 levels (a rise of around 140% on 2009, but on an oil price that remains in the low $90 range). Ex-financials ROE reaches a new high of 20% versus the old high of 17.8% in 1Q97.

- **Our 2010 bear case earnings outcome is $65** and is driven by margin disappointment (50-75 bp) and a 2% decline in sales growth. Further growth weakness alone is not enough to drive this outcome. Our bear case scenario is based on 2.0-2.5% GDP plus renewed fears of a double dip into 2011, which results in significant revisions to 2011 earnings expectations (currently at $93). Under this scenario, we see oil averaging $50-60/bbl, and while financial earnings continue to recover (as write-downs fade and peak provisioning levels pass), a flatter yield curve drives net interest margins lower and house prices remain weak. Both cyclical and non-cyclical sector earnings are flat on 2009, with the decline in the oil price not enough to drive a major recovery in consumer earnings.

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Summary

US Equities: S&P 500 Valuation & Target

- **Limited multiple expansion with a forward operating P/E ratio of ~14.5x** by year-end 2010, giving a year-end target of ~1200. We expect the S&P 500 to peak early in the year, trough sometime in 2Q or 3Q, before staging a comeback towards year-end.
- If growth sustainability is established, the combination of rising asset allocation flows (out of fixed income) and greater retail participation could see the market trading up to 15-16x and as high as 1300 early in 2010.
- Alternatively, if fears of double-dip reassert themselves through 2010, the market is likely to view the situation as broadly similar to Japan. The S&P 500 will most likely then trade at sub 2x book (a 30% discount to the average from 2001-2007 but above the 2008 lows of 1.5x) and as low as 900.
- Multiple expansion is traditionally driven by growth sectors (IT, Healthcare and Staples). Ex-Healthcare, we see limited scope for higher multiples across these sectors. After 8 years of de-rating Technology, we doubt the market is now prepared to re-rate multiples, especially in a rising rate environment, irrespective of secular and cyclical earnings tailwinds.
- An aggressive selloff in long bonds poses an underappreciated risk for equities and valuations. Historically equities have generally risen during periods of rising bond yields and Fed tightening - significantly outperforming bonds. But multiples almost always contract. Equities are not cheap relative to bonds on our trend-adjusted EY/BY model. We fear both a higher level and the speed of ascent in bond yields from this point on.

S&P 500 Fair Value

	Market NTM Operating P/E	Market 2010 Operating EPS	Market 2011 Operating EPS	Market Fair Value	Probability	Weighted Fair Value
Bull	15.5	83.0	90.0	1395	20%	279
Base	14.5	77.0	85.0	1233	50%	616
Bear	12.0	65.0	76.0	912	30%	274
Weighted S&P500 Fair Value						**1169**

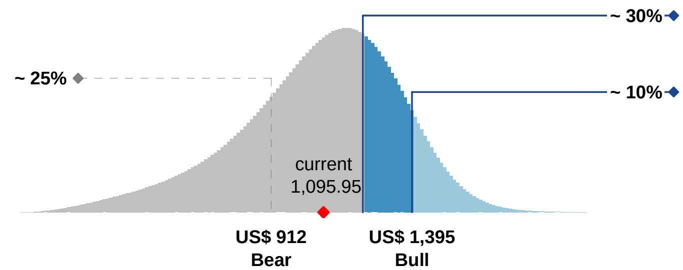
Summary

US Equities: S&P 500 Fair Values & Implied Probabilities

Morgan Stanley's scenario probability analyzer assigns probabilities to our bull, base and bear case S&P 500 fair values using implied volatility data from the options market. The model shows a 70% probability currently priced into the options market that the S&P 500 ends below our base value of 1233.

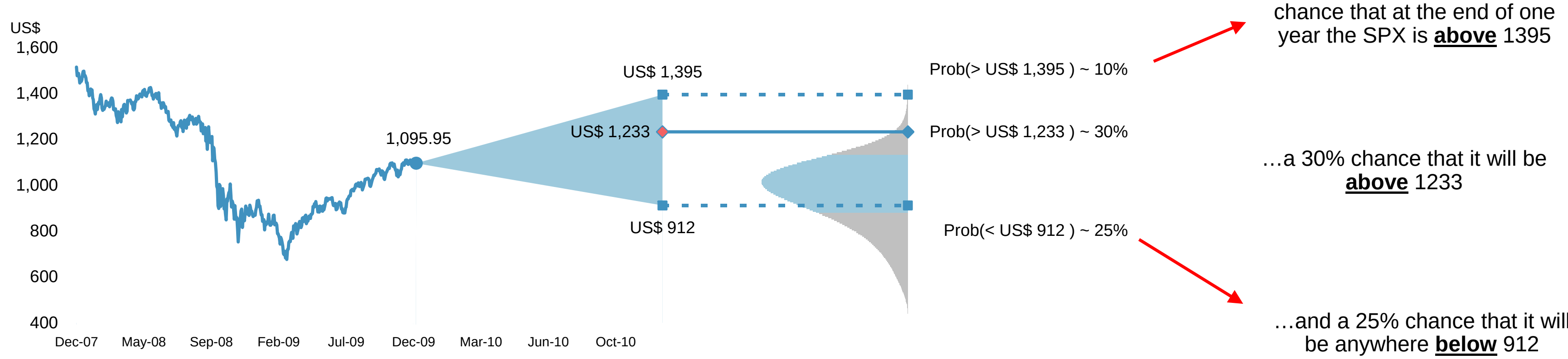
In contrast, the potential for equities to reach our 1395 bull value remains a reasonably small-tailed event at only 10%, less than half the probability that the market ends below our 912 bear case (i.e., the fat tail is on the downside in 2010. There is a 45% probability that the market ends 2010 somewhere between our bear case of 912 and our central case of 1233.

~ 30% probability the stock will reach above US$ 1,233 price target in 12



The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of Dec 9,2009. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in one-year's time.

~ 30% probability the stock will reach above US$ 1,233 price target in 12 months



The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of Dec 9,2009. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in one-year's time.

Source: Morgan Stanley Research

Summary

Global Sector Allocation:

- **No strong Cyclical vs. Non-Cyclical tilt:** A combination of factors cause us to recommend a balanced cyclical versus non-cyclical sector allocation into 2010. These include: 1) size of the equity rally to date; 2) moderate valuation dispersion between cyclical and defensive sectors: 3) moderate valuation dispersion between low versus high quality stocks; 4) deteriorating momentum in leading economic indicators; 5) changing leadership equity market; and 6) proximity to rate tightening cycle.

- **We expect to see a much tighter return spread across sectors in 2010.** We expect this to occur against a backdrop where both regional and industry correlations fall from record high levels. Sector performance will be determined by a combination of factors driving earnings deliverability and the shape of the yield curve. We are not simply overweighting the traditional defensive sectors, but are minimizing exposure to sectors which contain downside earnings risk relative to expectations (i.e., Financials and Consumer Discretionary) and where the market has not yet discounted this risk from a valuation perspective. Relative earnings outperformance will not only come from Defensive sectors. We think a number of cyclical sectors – Capital Goods, Autos and Media – all offer absolute and relative earnings upside versus the market.

Sector	Allocation	
Healthcare	o/w	Dividend growers but not a P/E re-rating story. Buy Euro over US Pharma but US Biotech and Healthcare Equipment
Materials	o/w	Avoid pure commodity plays. Buy large cap bulk material exposure - coal & iron ore. Positive on Agribusines. Not gold bugs
Cons Staples	o/w	Buyers of US and Euro global FBT brands with strong pricing power, growing EM share and established market positions.
Energy	e/w	Structural bulls but tactically cautious. 1Q10 growth risk + stronger USD headwinds. Buy US E&P/OSX and European Oil & Gas
Industrials	e/w	Capex surprise coming in 2010 but too early to position now. Buy Japanese Industrials and US Transport (Rail & Parcel)
Info Technology	e/w	Sellers of semicon; software and hardware is a stock picker's space. Buy size, proven growth and franchise value
Telecoms	e/w	No regional preference, looking for yield and dividend growers at a reasonable multiple.
Utilities	u/w	No valuation headwind but rising bond yields pose a significant valuation risk in 2010. Dividend yield exposure via Telco's and Healthcare
Cons Discretionary	u/w	Buy Autos/Componants and selected stocks with EM exposure/operational turnaround potential. Avoiding retail, restaurants, durables
Financials	u/w	Prefer capital markets and corporate over consumer banks. Buy US over Euro over UK banks and Euro over US Insurers

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Summary

Global Stock Allocation:

At the broadest market level our portfolio is allocated in the following way:

1. **Cyclicals** – Long the producer over consumer cyclicals, including Bulks (Asia & UK) and Agribusiness (US) within Materials, Transport (US) and Autos/Auto Components (Global) within Discretionary, and selected Technology over Retail;

2. **Defensives** – Long stocks with pricing power plus high/sustainable dividend yield, dividend growth, and attractive valuation. This includes Food, Beverage & Tobacco within Staples (Europe & US), Healthcare Equipment (US) and Biotech (US);

3. **Financials** – Long corporate/capital markets over consumer related with a strong bias against UK (and to a lesser extent against European and Australian Banks). But European over US insurance;

4. **Energy** – High over low beta. Our Energy call is absolute (we are not prepared to hold defensive Energy if we are negative the sector outlook). We prefer to play relative returns outside the sector and are overweight E&P and OSX over Integrated Oils.

Our Top 10 Global Focus List is shown below:

Company Name	Country	Sector	Industry Group	Current Price (Local Currency)	Price Target (Local Currency)	Large Cap Quality	Exposure to Asia and EM	Producer over Consumer	Buy Pricing Power	Takeoff Catalysts: Turnaround / High O/L
Vedanta Resources PLC	United Kingdom	Materials	Materials	24.3	31.7		✓	✓	✓	✓
Danone S.A.	France	Cons Staples	Food Beverage & Tobacco	41.6	50.0	✓				✓
Japan Tobacco Inc.	Japan	Cons Staples	Food Beverage & Tobacco	283,000.0	405,000.0	✓	✓		✓	
Centennial Coal Co. Ltd.	Australia	Energy	Energy	3.4	3.9		✓	✓	✓	
Union Pacific Corp.	United States	Industrials	Transportation	65.3	80.0	✓			✓	✓
Macquarie Group Ltd.	Australia	Financials	Diversified Financials	47.6	63.8		✓			✓
Roche Holding AG	Switzerland	Health Care	Pharma Biotech & LS	169.3	200.0	✓			✓	
Amgen Inc.	United States	Health Care	Pharma Biotech & LS	56.9	76.0	✓				
SMC Corp.	Japan	Industrials	Capital Goods	10,590.0	13,000.0		✓	✓		
Microsoft Corp.	United States	Tech	Software & Services	30.1	36.0	✓			✓	

Source: MSCI, Morgan Stanley Research

Part I – Macro Backdrop

Macro Backdrop: Triple 'A' Liquidity Cycle + Triple 'B' Recovery

We don't believe we have entered a multi-year cyclical bull market for developed equity markets. We think equities remain in a broad range-trading environment (potentially between 850-1350 for the S&P 500 and 850-1250 for MSCI Europe) that may persist for an extended period of time.

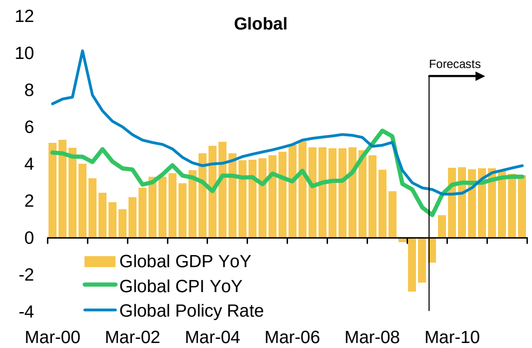
There will be a strong global profit recovery in 2010 – both Asia ex-Japan and US consensus earnings are already forecast to be roughly 95% of their 2007 prior cycle peak. However, we think developed equities will remain hampered by structural headwinds that for now are more than offset by extreme policy actions, which have made the current rally from trough look like the start of any "normal" cyclical cycle.

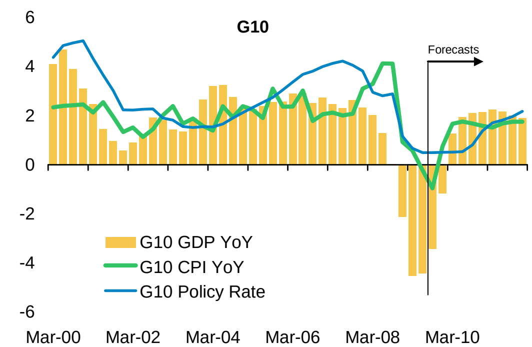
The Backdrop: We expect the environment for equities to be broadly characterized by the following factors as we head into 2010:

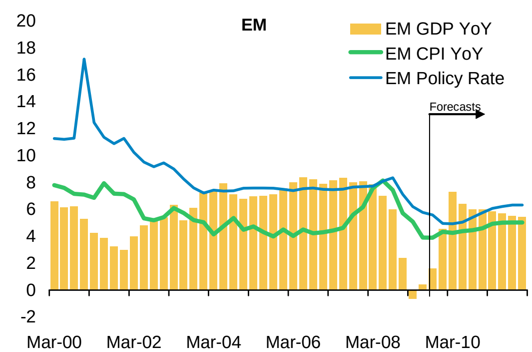
- **Sub-trend global growth:** Our economists call the coming G10 recovery bumpy, below-par, and boring (triple B). They forecast 4% global GDP growth, but comprised of a tepid recovery in developed economies (2% average growth in G10) but 6.5% for emerging markets. Within the G3, growth will be led by the US (+2.8%) with the Euro area less than half this rate at 1.2% and Japan further behind at only 0.4%;
- **Weak consumption growth** and final demand (sales), driven by continued consumer deleveraging, weak but improving labor markets, and further declines in household wealth (house prices);
- **Core inflation well behaved but inflation expectations to drift higher:** Headline inflation will remain well behaved but will gradually creep higher as the impact of declining commodity prices unwinds. Concerns surrounding long-term fiscal sustainability will push inflation premia higher (not helped by a normalization in volatility post the removal of volatility-dampening QE measures.
- **Triple-A liquidity cycle remains intact:** Our macroeconomic team expects monetary policy to transition from super-expansionary to still pretty expansionary (ample, abundant and augmenting) through 2010, with policy exit/tightening likely to be done in a cautious, gradual and transparent manner. They expect excess liquidity (narrow money/nominal GDP) will continue to rise through 2010, although at a much slower pace.
- **Broad trend towards higher bond yields/steepening yield curve:** Bond yields will act as a self-regulating growth thermostat, potentially doing some of the tightening work for central banks. Our US rates team think UST 10y yields will rise to 4.50% and the UST 2s10s curve will steepen to 325 bp by late 1Q/early 2Q 2010, before ending 2010 as high as 5.5%;
- **Elevated political/policy uncertainty** pertaining to tax, financial sector regulation, healthcare and energy initiatives, in particular, but not exclusively.

Macro Backdrop: Quarterly GDP Profile (%YoY)

	2009				2010				2011			
	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
GLOBAL	**-2.8**	**-2.2**	**-1.1**	**1.5**	**4.2**	**4.1**	**4.0**	**4.0**	**4.1**	**4.0**	**3.8**	**3.7**
G10	**-4.5**	**-4.3**	**-3.4**	**-1.2**	**1.3**	**1.9**	**2.1**	**2.2**	**2.2**	**2.2**	**2.0**	**1.9**
United States	-3.3	-3.8	-2.5	-0.4	1.9	3.0	3.1	3.2	3.2	3.0	2.7	2.5
Euro Area	-5.0	-4.8	-4.1	-1.9	0.9	1.4	1.3	1.2	1.2	1.2	1.1	1.0
Japan	-8.9	-5.8	-5.1	-1.7	0.7	0.2	0.4	0.4	1.2	1.7	1.5	1.5
United Kingdom	-5.0	-5.5	-4.9	-2.8	0.0	1.2	1.7	1.6	1.6	1.2	1.1	1.6
Canada	-2.3	-3.2	-3.2	-1.2	1.3	3.1	4.0	3.7	3.4	3.3	3.1	3.2
Sweden	-3.2	1.2	0.7	1.2	1.8	1.6	1.6	2.0	2.4	2.4	2.0	1.6
Australia	0.3	0.6	0.5	1.3	1.2	1.4	2.3	3.5	4.6	4.8	4.6	4.3
Emerging Markets	**-0.7**	**0.3**	**1.6**	**4.7**	**7.5**	**6.5**	**6.0**	**6.0**	**6.0**	**5.9**	**5.8**	**5.7**
CEEMEA	**-8.5**	**-7.9**	**-6.7**	**-1.8**	**4.2**	**4.4**	**4.0**	**3.2**	**3.6**	**3.0**	**2.4**	**2.4**
Russia	-9.8	-10.9	-8.9	-5.7	5.3	6.7	5.7	4.0	2.9	2.6	2.6	2.6
Poland	0.8	1.1	1.7	2.3	2.3	1.9	3.8	3.9	2.8	2.7	2.4	2.2
Czech Republic	-4.2	-5.0	-4.7	-1.0	2.6	2.2	2.0	2.3	2.8	2.7	2.9	2.6
Hungary	-6.7	-7.5	-7.1	-7.3	0.1	0.4	2.6	0.2	1.1	1.6	1.8	1.9
Romania	-6.2	-8.7	-7.1	-5.0	0.7	-0.2	1.4	2.7	2.1	2.3	2.9	3.9
Ukraine	-20.1	-17.8	-16.0	-5.8	7.9	4.5	3.1	1.6	1.8	2.2	2.6	2.8
Turkey	-14.3	-7.0	-6.8	7.9	5.7	4.3	2.3	2.2	9.3	5.7	2.3	1.7
South Africa	-0.4	-2.4	-2.5	-1.5	1.1	2.7	3.6	3.3	3.6	3.4	3.3	3.8
Asia ex Japan	**2.8**	**4.7**	**6.1**	**8.2**	**9.5**	**7.9**	**7.6**	**7.8**	**7.6**	**7.6**	**7.5**	**7.4**
China	6.1	7.9	8.9	12.1	12.5	10.2	9.2	8.7	8.5	8.5	8.5	8.3
India	4.1	6.0	6.7	4.5	7.0	7.6	7.7	8.6	7.9	7.6	7.5	7.5
Hong Kong	-7.8	-3.6	-2.4	1.1	5.8	3.3	3.2	3.1	3.4	3.5	3.5	3.6
Korea	-4.2	-2.2	0.6	6.9	7.1	5.0	4.8	3.2	3.1	4.2	4.7	5.2
Taiwan	-9.1	-6.9	-1.3	3.1	5.6	-0.2	2.3	9.9	4.7	5.0	2.4	2.7
Singapore	-9.5	-3.3	0.6	2.4	6.5	2.1	2.4	5.1	5.0	4.8	4.2	4.2
Indonesia	4.4	4.0	4.2	4.9	5.0	5.3	5.8	5.8	6.0	6.0	6.5	6.5
Malaysia	-6.2	-3.9	-1.2	0.0	3.8	4.1	4.2	4.9	5.0	5.0	4.6	4.6
Thailand	-7.1	-4.9	-2.8	1.1	4.3	3.1	4.1	5.5	5.0	5.0	4.5	4.5
Latin America	**-3.4**	**-4.5**	**-3.2**	**0.5**	**4.8**	**4.5**	**3.5**	**3.6**	**3.6**	**3.6**	**3.7**	**3.6**
Brazil	-1.8	-1.2	-1.1	3.8	5.9	5.1	4.5	4.0	3.9	3.8	4.0	4.1
Mexico	-8.0	-10.2	-6.2	-3.4	3.9	5.1	2.8	3.1	3.1	2.9	3.1	2.7
Chile	-2.4	-4.7	-1.6	2.7	6.6	4.4	4.5	4.4	5.6	5.0	3.5	3.6
Peru	2.0	-1.1	-0.4	0.8	4.4	6.6	4.2	4.3	4.6	5.4	5.8	6.1
Colombia	-0.4	-0.5	0.3	2.7	3.8	4.2	4.1	4.2	3.5	3.7	4.3	3.9
Argentina	-4.5	-6.7	-6.4	-2.6	1.2	2.8	3.9	5.1	4.8	4.4	4.0	3.6
Venezuela	0.5	-2.4	-4.5	-0.8	8.4	0.8	-2.2	-0.9	0.3	1.7	2.6	2.8







Source: Morgan Stanley Global Economics Team

Global Equity Market Price Targets (Local Currency)

Index Target	Published Date	Forecast Period	Current Index Level	Bull Case	Base Case	Bear Case	Expected Return Over Forecast Period	Region/ Country	Strategist
World Equities									
MSCI World	Dec-09	Dec-10	1,165		1,251		7.4% *	Dev. World	G. Minack/J. Todd
United States									
S&P 500	Dec-09	Dec-10	1114	1,395	1,233	912	10.6%	US	G. Minack/J. Todd
Europe									
MSCI Europe	Nov-09	Dec-10	1,103	1,400	1,030	750	-6.6%	Europe	Teun Draaisma
FTSE 100	Nov-09	Dec-10	5,315	6,500	5,000	3,600	-5.9%	UK	Graham Secker
Japan									
TOPIX	Dec-10	Dec-10	885		1,100		24.3%	Japan	Alexander Kinmont
Asia Pacific/EM									
MSCI EM	Nov-09	Dec-10	979	1,650	1,120	605	22.5% **	GEM/Asia	Jonathan Garner
MSCI APxJ	Nov-09	Dec-10	410	615	472	278	18.7% **	GEM/Asia	Jonathan Garner
KOSPI	Dec-09	Dec-10	1,665	2,300	1,900	1,400	14.1%	S. Korea	Chanik Park
S&P/ASX 200	Sep-09	Dec-10	4,654	6,332	4,923	4,012	11.0% **	Australia	Toby Walker
BSE Sensex	Oct-09	Dec-10	17,098	23,647	18,570	14,393	13.5% **	India	Ridham Desai
Taiex	Oct-09	Dec-10	7,819	9,400	8,500	6,700	8.7%	Taiwan	Jesse Wang
MSCI China	Dec-09	Dec-10	66	94	82	50	24.4%	China	Jerry Lou
HS Index	Dec-09	Dec-10	22,086	30,883	25,716	17,161	16.4%	Hong Kong	Jerry Lou
MSCI HK	Dec-09	Dec-10	7,346	10,145	8,073	6,001	9.9%	Hong Kong	Jerry Lou

*Regionally weighted USD return based on Morgan Stanley strategists' return estimates. **Scenario Weighted Return
Source: MSCI, Morgan Stanley Research

Macro Backdrop: Triple 'C' Equity Expectation – Cautious, Convergence, Capricious

Modest Returns in 2010: We expect developed world equities to post a modest (7%) return in 2010 - peaking sometime early in the year but finishing down from their highs. Earnings deliverability versus expectations will be a key differentiator of returns, particularly as cyclical sectors are already priced for a V-shaped earnings recovery (despite a more modest recovery in GDP expectations).

Equity Tailwinds still Evident: Equities remain supported short term with valuations broadly neutral, fundamentals still improving and sentiment not particularly bullish. But risks are rising (Leading Economic Indicators are losing momentum, market leadership broadening, sovereign stress appearing, P/E expansion slowing), and we think the current rally is nearing an end. On this basis, we are trying to de-emphasize the directional call on the market and to be overweight themes that look through the volatility of the cycle. This is consistent with a view that equities can trade higher from here, but we think the final leg up will take leadership from both cyclical and non-cyclical sectors.

Risk of Growth Scare Rising: We think a growth scare, rather than a rate scare (policy makers nudging up official rates), is the larger threat to the rally in equities. Bigger-picture, we expect developed world growth to disappoint next year, although we are not seeing signals that the disappointment is imminent. An addition risk – not widely expected by the market (or us) – would be an aggressive sell-off in long bonds. If rising rates go hand-in-hand with better growth, then this may not be an insurmountable headwind. But the combination of rising long-end yields and tepid growth would be unambiguously negative for stocks. Our rates team expects just such an unpleasant rise in bond yields, driven by factors other than rising growth. But we are less concerned that it is necessary to position for an anti-Goldilocks scenario – weak growth and rising rates – at present.

USD Rally…A Pain Trade for Many: The big theme in currency markets this year has been to punish the printers, according to Stephen Hull, our co-head of global FX research (see *G4: Time To Fund In Yen Instead Of Dollars?*, 4 December). For the four most liquid currencies, selling the profligate (dollar and pound) and buying the prudent (euro and yen) has provided handsome returns. There has been much talk about a reversal in the inverse correlation between equities and the dollar. We think *if* growth disappoints, then the correlation may remain positive and dollar strength would go hand-in-hand with softer equities. This would represent a pain trade not only in currency markets but regionally (investors are short Japan and long EM's) and at a sector level (investors are long commodities, commodity equities and high foreign earnings stocks).

How will companies spend excess cash? M&A, Shareholder Distribution, Capex? Corporate cash levels have exploded through the downturn (cash/assets are 10%) with internal cash flows positive relative to debt and capex obligations. With leverage low and the relative cost of debt attractive compared to equity, we doubt debt repayment will be a key priority. Instead, we think M&A activity, followed by shareholder distribution (dividends and buybacks), and then capital spending will be the course taken through 2010.

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Part II – Valuation & Target

United States: Multiple Expansion Over, Time for Earnings Delivery

Key Valuation Assumptions Underpinning our View:

- Limited multiple expansion with a forward operating P/E ratio of ~14.5x by year-end 2010;
- Sustainability of recovery into 2011 rather than a cyclical earnings improvement will be the major driver of the market's willingness to re-rate the P/E multiple further than 14-15x. Additional valuation headwinds likely if bond yields rise above 4.5%.
- If growth sustainability is established, the combination of rising asset allocation flows (out of fixed income) and greater retail participation could see the market trading up to 15-16x and above our year-end 2010 fair value estimate. Alternatively, if fears of double-dip reassert themselves through 2010, the market is likely to view the situation as broadly similar to Japan. The S&P 500 will most likely then trade at sub 2x book (a 30% discount to the average from 2001-2007 but above the 2008 lows of 1.5x).
- Multiple expansion is traditionally driven by Growth sectors (IT, Healthcare and Staples). Ex-Healthcare, we see limited scope for higher multiples across these sectors. After 8 years of de-rating Technology, we doubt the market is now prepared to re-rate multiples, especially in a rising rate environment, irrespective of secular and cyclical tailwinds.
- Alternatively, if we see growth and earnings begin to deteriorate into 2010 as stimulus efforts begin to fade, there is little sustainable improvement in employment, housing turns down, and/or financial and credit markets deteriorate, then the market could trade back down to 12x.

S&P 500 Fair Value

	Market NTM Operating P/E	Market 2010 Operating EPS	Market 2011 Operating EPS	Market Fair Value	Probability	Weighted Fair Value
Bull	15.5	83.0	90.0	1395	20%	279
Base	14.5	77.0	85.0	1233	50%	616
Bear	12.0	65.0	76.0	912	30%	274
Weighted S&P500 Fair Value						**1169**

United States: S&P 500 Valuations – Close to Long Term Averages

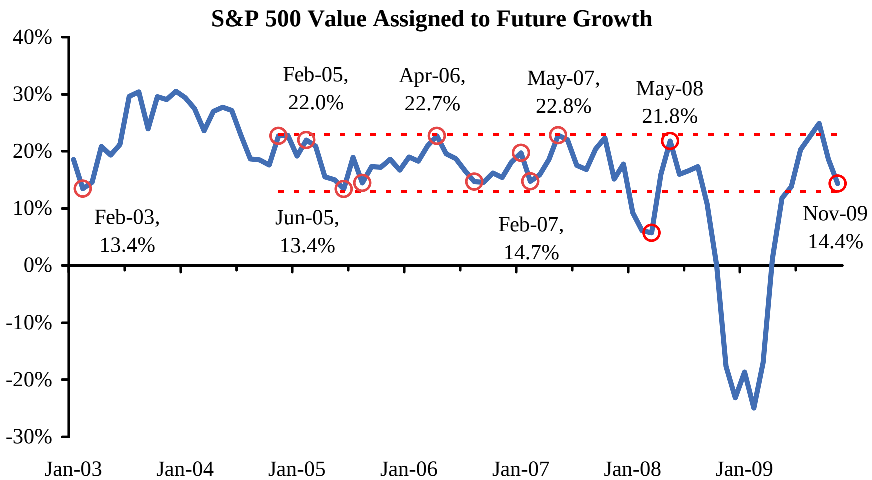
Equity valuations are neutral / slightly cheap across a broad range of metrics. The Graham-Dodd P/E is at 17.3 (long-term average is 17.7) and our Current Operations Value (COV) model is suggesting 14% of value is being driven by future earnings - in line with what we have seen post the TMT bubble.

As shown in the table, the return spread to get the S&P 500 trading back to the long-term average valuation ranges from 20% upside to around 5% downside. Overall, the metrics show upside of around 10% from current levels.

Near 10% Upside in S&P Valuations

Valuation Metric	Latest	Long-Term Average	Upside (Downside)	Implied S&P Level
Trailing P/E ex-Financials	17.2x	17.8x	3.6%	1146
Forward P/E	14.5x	14.9x	3.0%	1139
Forward P/E ex-Financials	14.3x	15.8x	10.5%	1222
Graham-Dodd P/E	17.3x	17.7x	2.0%	1128
Price-to-Book Value	2.18x	2.09x	-4.2%	1060
Price-to-Sales	1.24x	1.18x	-5.1%	1049
Dividend Yield	2.0%	2.5%	26.6%	1401
Div Yield / Real 10yr Tr.	0.62	0.75	20.4%	1331
ROE	11.0%	13.6%	23.8%	1369
ROE ex-Financials	10.9%	13.6%	24.7%	1379
COV Model	14.4%	16.4%	14.3%	1265
Average			**10.9%**	**1226**
Median			**10.5%**	**1222**

COV Model In-Line with Post-Tech Bubble Levels



Sentiment Indicators Showing No Clear Signal

Technical/Sentiment Indicators		=
AAII Bullish minus Bearish Sentiment	=	
Net speculative Positions on Nasdaq Index	✓	
22-day Average CBOE Equity Put/Call Ratio	=	
Consensus Inc. Weekly % Bullish Stocks	✗	
Insider Sell to Buy Ratio (Vickers)	✓	
% of S&P 500 Co's outperforming the S&P 500	✗	
GRDI (Morgan Stanley Global Risk Demand)	✓	
Valuation		=
Fundamentals		✓
Conference Board Consumer Confidence Index	✓	
ISM Manufacturing Index	✓	
ECRI LI Momentum	=	
3mo Earnings Revisions - S&P 500	✓	

Source: Factset, MSCI, Morgan Stanley Research

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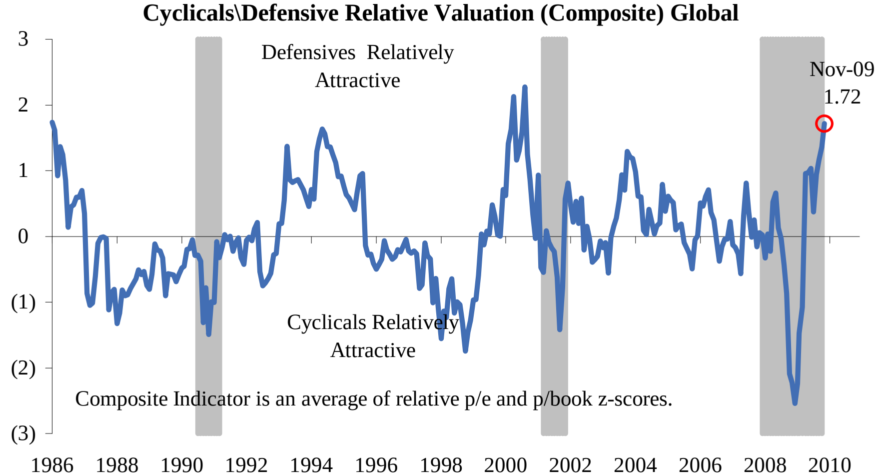
Global: Where is the Value? Non-Cyclicals over Cyclicals

We expect sector performance to be more balanced between cyclical and non-cyclical sectors in 2010. While global growth will continue to improve, portfolio allocations are already aligned with the reflation trade. Cyclical sectors already appear relatively expensive. From here, performance will be more about stock- and sector-specific growth and earnings and less about the macro recovery. This year has been a macro growth story, next year will be a micro one.

2010 could look like 2004 in terms of cyclical versus non-cyclical sector performance. There was little consistent market leadership over the first half of 2004: MSCI World Equities were up only 3%, following a 27% return in 2003. This was not because returns were dragged lower by cyclicals, but because we saw a significant compression in the dispersion of sector returns, with cyclicals losing their 12-month leadership as interest rates increased. However, the start of the 2004 tightening cycle did not mark the end of the cyclical bull market. The first hike never ends a bull market. Equities followed what has now become a typical playbook around the start of tightening: a period of indigestion, strong sector rotation, an end to multiple expansion, but not a signal to cut equity allocations.

Absolute valuations for global cyclicals are not expensive, but they have limited upside to mid-cycle levels – particularly in the US. As a group, Global Cyclicals currently trade at a 15% discount to trend P/E – not expensive, but it is early in the cycle to have reached these levels. There is a strong region skew (generally East over West) to cyclical valuations, with Japanese (27% discount to mid-cycle P/E), European (-16%) and Asia-ex Japan (-11%) cyclicals all reasonably attractive relative to the US (-8%). It is on a relative basis that the disconnect for cyclicals begins to break down. Relative to defensive sectors, the valuation attraction that was strongly in favor of Global Cyclicals has now been removed.

Relative Cyclical Valuation Re-Rating not Likely in 2010



Cyclical Sector Valuations Broadly Unattractive in the US

	Most Attractive Region:	Least Attractive Region:
	Japan	United States
	Most Attractive Cyclical Sectors:	**Least Attractive Cyclical Sectors:**
Consumer Cyclicals	Asia Ex-Japan	United States
Industrials	Japan	Asia Ex-Japan
Technology	Asia Ex-Japan	United States
Materials	Japan	United States

Source: Factset, MSCI, Morgan Stanley Research

United States: Rising Long Bond Yields…How Much Risk for Equities?

Our US interest rate strategy team forecasts bond yields to reach 4.5% early in 2010 and 5.5% by year-end 2010 – over 200 bp above the current level. If this occurs, we doubt equities have the capacity to absorb such a sell-off. We would expect to see significant multiple contraction accompanied by a strong rotation back towards defensive sectors.

The long-end yield rising to 5.5% would be a downside risk factor for equities. Even a sell-off that takes yields above 4.5% - at a rapid pace - poses a substantial risk for equities, especially as higher bond yields are expected to be largely driven by technical (duration extension and pending supply) rather than by an improving growth outlook.

It is true that equities have historically performed reasonably well during episodes of rising long bond yields within a Fed tightening cycle. The table shows that over the past 8 episodes since the early 1970s, equities have on average risen 9% and outperformed bonds by a massive 17% during periods of rising yields.

However, we think the current backdrop is not normal. Equities are not starting from a point where there is significant valuation cushion for higher yields. While a simple earnings/real bond yield ratio would suggest equities remain cheap, this relationship is quickly bought back into balance by a 100 bp rise in real bond yields. A 200 bp rise would require a 3x point contraction in the forward P/E to restore the historical EY-BY relationship (equivalent to a 20% de-rating).

Historical Bond / Equity Performance and P/E Change when Bonds Sell Off Around Fed Tightening

Bond Yield Rises	10yr Yield	S&P 500 % (Total Return)	S&P 500 P/E % Change	10yr Bonds (Total Return)	Relative Return Equities over Bonds
11/5/1971	5.72	-25.8%	-53.6%	-2.7%	-23.1%
8/26/1974	8.16				
12/30/1976	6.80	18.2%	-29.0%	-14.4%	32.6%
2/26/1980	13.65				
6/17/1980	9.49	13.9%	1.8%	-13.8%	27.7%
9/30/1981					
5/4/1983	10.12	-1.0%	-16.9%	-7.9%	6.9%
5/30/1984	13.99				
12/4/1986	7.01	-2.0%	22.9%	-13.3%	11.3%
10/16/1987	10.23				
2/10/1988	8.11	20.4%	-22.2%	1.9%	18.5%
4/13/1989	9.34				
10/15/1993	5.19	1.6%	-22.5%	-13.1%	14.8%
11/7/1994	8.05				
1/29/1999	4.66	14.4%	1.5%	-10.5%	24.8%
1/20/2000	6.79				
3/16/2004	3.70	42.6%	-20.5%	0.3%	42.3%
6/12/2007	5.26				
Median		**13.9%**	**-20.5%**	**-10.5%**	**24.3%**
Average		**9.2%**	**-15.4%**	**-8.2%**	**17.3%**

Source: Haver, DataStream, Morgan Stanley Research

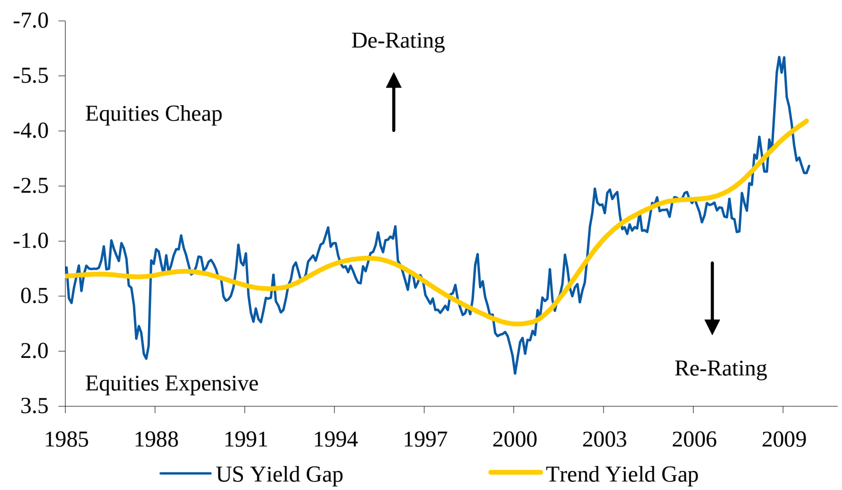
United States: Rising Long Bond Yields…How Much Risk for Equities?

We use a trend-adjusted Earnings-Bond Yield model that already indicates that the valuation attraction for equities has been removed vis-à-vis bonds. A sell-off in bonds to 4.5% would push equities to their most overvalued level since 2000 (all else equal). Not since the late 1990s/early 2000 period have equities had to deal with 5%+ bond yields (other than 2 brief periods in 2002 & 2006). While corporates are better positioned to absorb a rising cost of capital given lower debt levels (even a 200 bp increase leaves the ROE spread at ~10%), the valuation impacts are non-trivial.

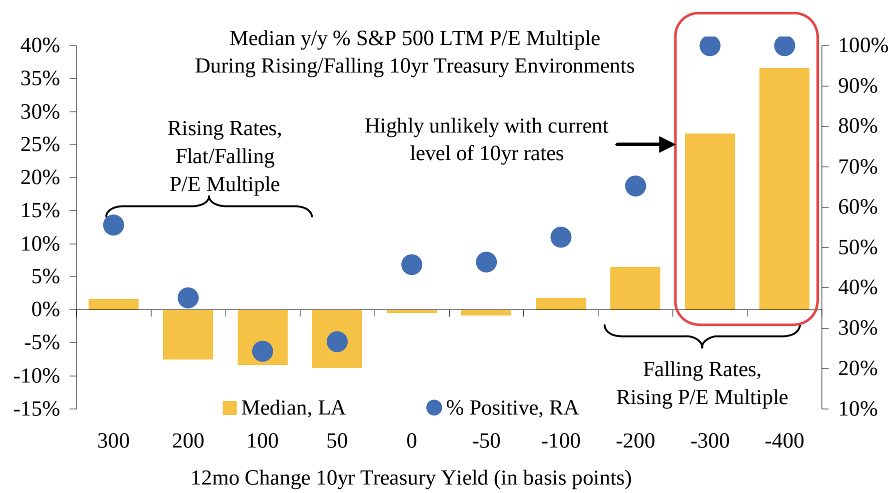
Rising long bond yields and policy tightening almost always lead to multiple contraction. The average P/E de-rating over the past 9 cycles has been 15%. Only once (1986-87) has the P/E materially expanded (+22%), with the next best outcome one where the P/E has remained broadly flat (1980-81 and 1999-2000). The common feature during these periods has been above-average earnings growth. We do expect this in 2010, but a more leveraged economy raises the sensitivity of growth to higher rates.

Historically, defensive sector valuations tend to perform best during periods of rising bond yields. Staples, Healthcare and Telecom all have single-digit median de-rating during these time frames. On the other hand, growth sectors, particularly Discretionary and Materials, see sharper P/E contraction on average. Consistent with the sector's interest rate exposure, Financial valuations contract roughly 15%. Regardless of the Fed cycle, the median P/E multiple has fallen 8.3% for every 100 basis point rise in the 10-year yield.

Equities not Cheap on Trend-Adjusted EY/BY Model



Multiple Expansion Unusual when Rates Rising



Source: Haver, DataStream, Morgan Stanley Research

United States: Rising Long Bond Yields…How Much Risk for Equities?

Historical P/E Change when Bonds Sell Off Around Fed Tightening Cycle

	S&P 500 P/E % Change										
Date	**S&P 500**	**Discretionary**	**Staples**	**Energy**	**Financials**	**Health Care**	**Industrials**	**Technology**	**Materials**	**Telecom**	**Utilities**
11/5/1971 8/26/1974	-54%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
12/30/1976 2/26/1980	-29%	-49%	-36%	-13%	-43%	-38%	-30%	-32%	-43%	-42%	-30%
6/17/1980 9/30/1981	2%	7%	81%	-14%	8%	-4%	-4%	-6%	7%	1%	-19%
5/4/1983 5/30/1984	-17%	-28%	-64%	-6%	-11%	-19%	-28%	-30%	-39%	-7%	-25%
12/4/1986 10/16/1987	23%	-19%	11%	55%	1%	-7%	7%	38%	-27%	-18%	-17%
2/10/1988 4/13/1989	-22%	7%	-17%	-18%	-16%	0%	-12%	-12%	-18%	33%	23%
10/15/1993 11/7/1994	-22%	-17%	-80%	17%	-25%	-1%	-20%	-20%	-17%	-33%	-19%
1/29/1999 1/20/2000	1%	10%	9%	48%	-23%	-8%	36%	15%	3%	-6%	-11%
3/16/2004 6/12/2007	-21%	-22%	17%	-19%	-15%	-3%	-17%	-31%	-34%	13%	-3%
Median	**-19%**	**-18%**	**-4%**	**-10%**	**-15%**	**-6%**	**-14%**	**-16%**	**-22%**	**-6%**	**-18%**
Average	**-11%**	**-14%**	**-10%**	**6%**	**-15%**	**-10%**	**-8%**	**-10%**	**-21%**	**-7%**	**-13%**

Note: Including 1971-74 Period, S&P 500 Median = -20.5% and Average = -15.4%.

Multiples nearly always decline, with defensive sectors outperforming cyclical sectors. Financial sector valuations are amongst the hardest hit

Source: Haver, DataStream, Morgan Stanley Research

Part III - Earnings

United States: Earnings – Near-Term Deliverability vs. Long-Term Sustainability

Earnings deliverability will be the single most important differentiating factor across stocks and sectors in 1H10. Thereafter, we expect the focus will shift to sustainability of earnings (particularly margins) as cost growth begins to rise in line with revenue growth. In 2009 the upside earnings surprise came via margins. In 2010 the upside earnings surprise is more likely to be sales driven.

Bottom-up earnings estimates may be a little low for 2010. If earnings end 2010 close to current expectations (consensus forecasts are for $76 operating EPS in 2010 and $93 in 2011), it is highly likely that developed market equities finish the year at or above where they started, irrespective of growth or interest rate developments. In 23 of the past 25 years (2005 and 2006 have been the only exceptions), earnings have finished the year below analyst expectations at the start of the year. Thus, to bet that 2010 expectations are currently too low is to take a bet against history — but we think there is a rising possibility that this could be the case in 2010, based on two of our three earnings forecast models (see below).

Global Earnings Forecast Back to Peak in 2011

$ EPS	Prior Peak	2007	2008	2009	2010	2011
MSCI World	102	102	86	65	83	100
%Chg			*-16%*	*-25%*	*28%*	*21%*
Nth America	88	82	49	56	76	93
%Chg			*-40%*	*14%*	*36%*	*22%*
Europe	156	156	125	93	116	139
%Chg			*-20%*	*-26%*	*25%*	*20%*
UK	297	297	228	179	213	257
%Chg			*-23%*	*-22%*	*19%*	*21%*
Asia ex JP	36	36	26	27	34	40
%Chg			*-26%*	*2%*	*26%*	*17%*
Japan	0.47	0.47	0.09	0.13	0.32	0.43
%Chg			*-82%*	*45%*	*154%*	*33%*

2010 Earnings Forecast Models (U.S)

Model	2010 Growth	2010 EPS ($)
1. Bottom Up Sector Analysis	37.9%	80.00
2. 12-Month Leading Indicator Growth Model	26.1%	73.14
3. Top Down Multi-factor Regression Model	32.0%	76.56
Average 2010 Operating EPS estimate	**32.0%**	**76.57**

Source: MSCI, DataStream, Morgan Stanley Research

United States: Earnings – Margins the Key to 2010 Earnings

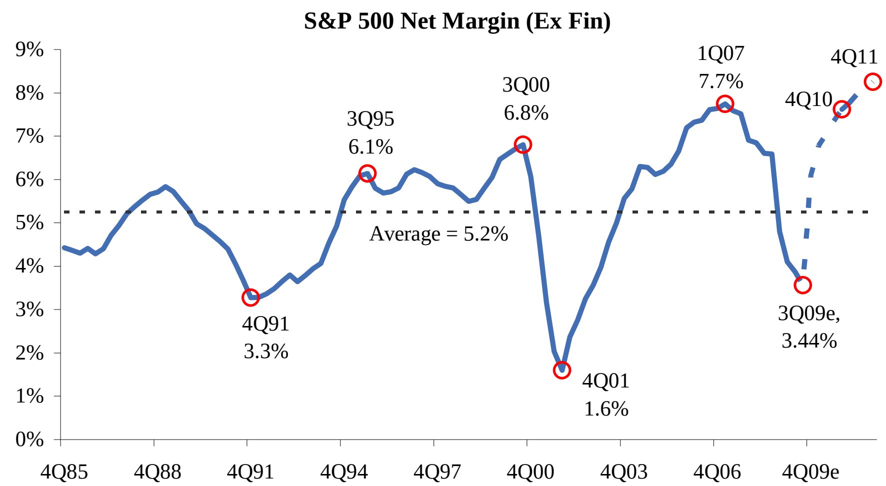
Our concern over 2010/11 analyst earnings expectations has focused on margins, not sales. Historically, there has been a tendency to underestimate the cyclicality in costs and to overestimate operating leverage and hence earnings as growth recovers.

Macro data is now warning that we may have been too cautious on the margin story. Nominal unit labor costs fell by 1.5% over the four quarters to September. What matters for margins is the spread between costs and selling prices. Selling prices are slowing, but remain well above labor costs. The gap between unit labor costs and corporate selling prices is real unit labor costs. This is the single bigger driver of margins, and hence profits. The decline in real unit labor costs signals a robust rise – 20% – in the macro measure of earnings.

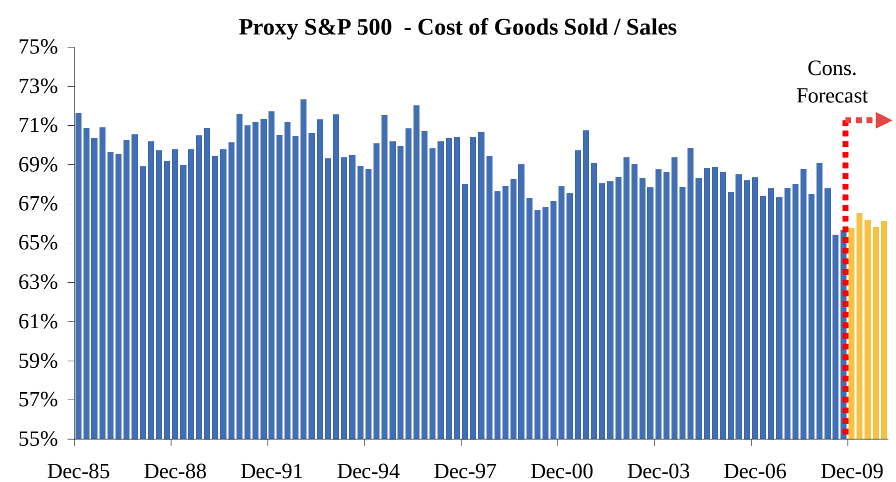
But 2010 margins are not likely to beat bottom-up expectations. Our economists are forecasting nominal GDP to exceed its 2007 peak by year-end 2010. This would be consistent with ex financials margins reaching their prior peak level, particularly given the unprecedented cost control through the current cycle. But corporates have been quick to cut costs, and we think at least 80% of the cost out story is done. The surprise on margins is that current expectations are achieved (rather than significant upside relative to expectations). 2010 will be about top line surprise, if any.

Upside to Sales in 4Q10? Over the past 10 years there has been a reasonably close relationship between real GDP growth and revenue growth (ex financials). Every 1% change in GDP equates to around 4% revenue growth. In 2010, bottom-up forecasts are for 8% revenue growth. This is reasonably consistent with our macro team's forecast for 2.0-2.5% real GDP growth. On a quarterly basis (1Q10 through 4Q10), bottom-up sales expectations appear to be in line with what the historical GDP vs. Sales growth relationship suggests, with the exception of 4Q10, which looks low.

Record Profit Margins Embedded in Forecast



Still depressed levels of COGS/Sales Ratio Expected



Source: Factset, Morgan Stanley Research

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United States: Earnings – Sales Growth the Upside Surprise Driver in 2010

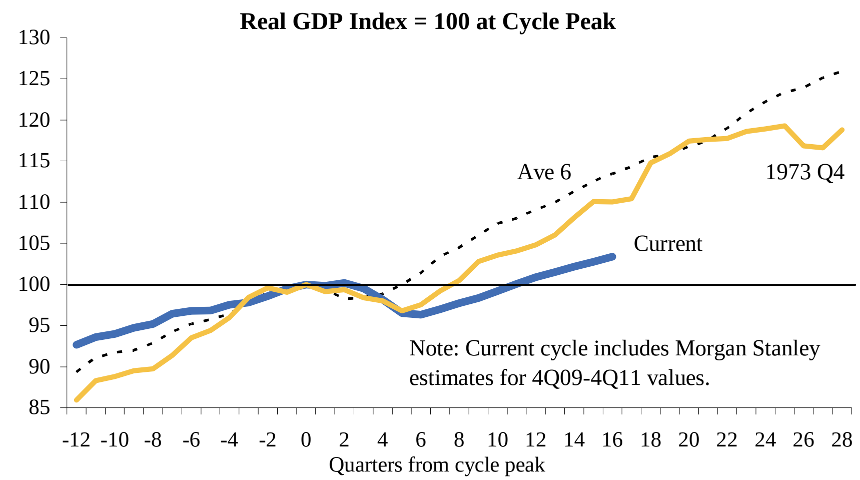
0.5% Margin Miss = 5% Earnings Miss

S&P 500 EPS Estimates given Sales Growth and Net Margin Assumptions

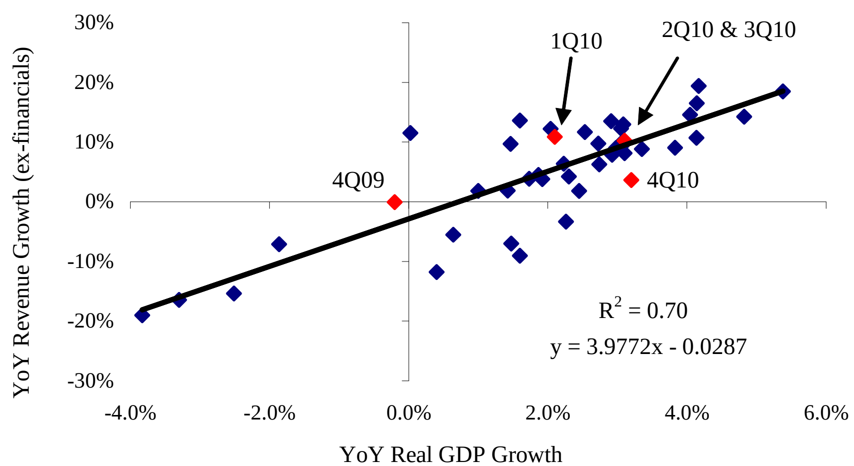
	Sales Growth	5.0%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%
Net Margin	5.7%	58.2	58.6	59.1	59.5	60.0	60.5	60.9
	6.7%	66.6	67.1	67.6	68.2	68.7	69.2	69.8
	7.2%	70.7	71.3	71.9	72.5	73.0	73.6	74.2
	7.7%	74.9	75.5	76.2	76.8	77.4	78.0	78.6
	8.2%	79.1	79.8	80.4	81.1	81.7	82.4	83.0
	8.7%	83.3	84.0	84.7	85.4	86.1	86.8	87.5
	9.2%	87.5	88.2	89.0	89.7	90.4	91.2	91.9

Bear Case **Bull Case**

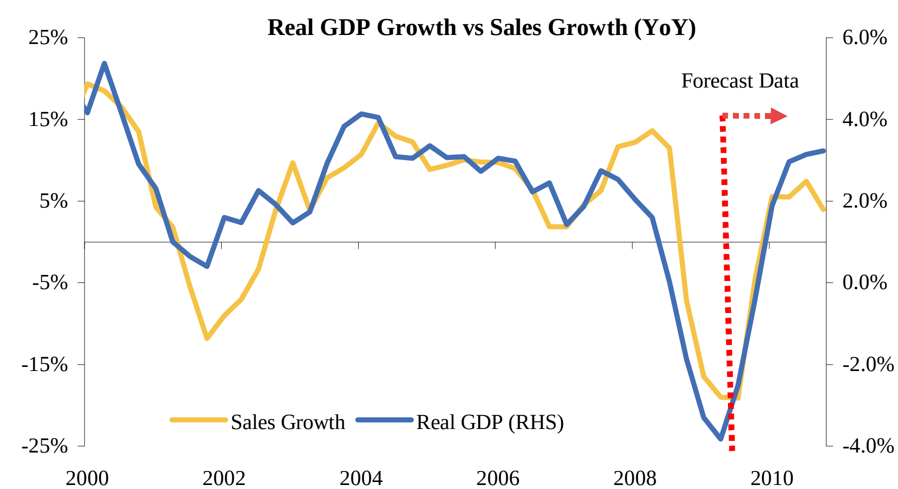
Real GDP back to Prior Peak by 4Q10



2010 Revenue Growth consistent with GDP Expectations



Upside to Sales in 4Q10 given Historical Relationships?



Source: Fact Set, Haver, Compustat, Morgan Stanley Research

United States: Earnings – 2010 Operating EPS averaging $77

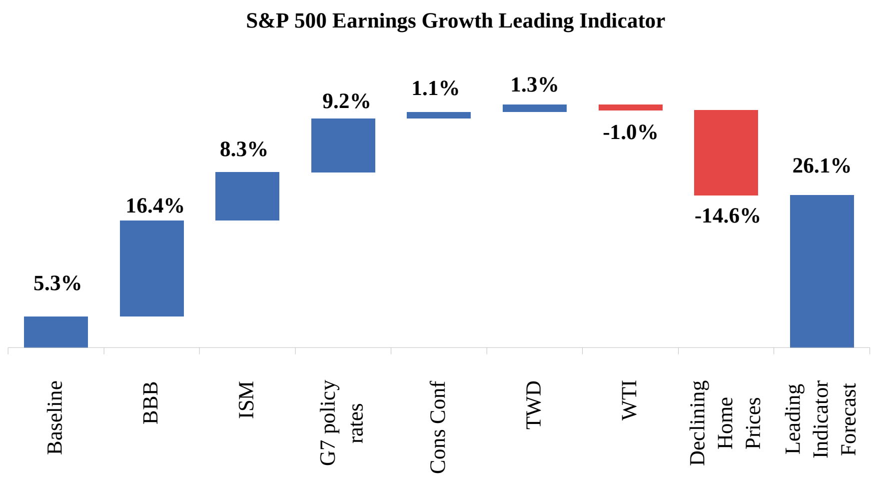
Model 1: Our EGLI forecasts earnings to rise 26% in 2010 – equivalent to $73 operating EPS - with the largest positive contributions coming from further improvements in credit spreads, continued low policy rates, and year-on-year improvements in the ISM. The biggest drag is still coming from house prices, where a 7-month lag continues to subtract significantly from profit growth.

Model 2: Our second macro earnings model[1] is forecasting a similar growth outlook. This model forecasts earnings growth as a function of profit margins (GDP deflator less ULC's), the trade-weighted dollar and the yield curve, the change in the yield curve and the oil price.

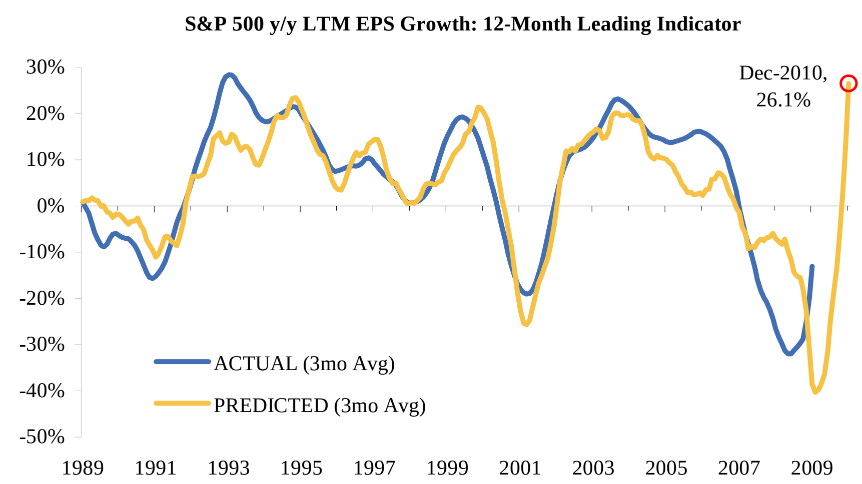
In a ~3% GDP growth world with productivity growth of ~4%, ULC's are expected to fall a further 1% in 2010 (on top of a 1.5% decline in 2009). With the corporate deflator likely to be in the range of 2%, our model forecasts profit margins will average 4% higher than in 2009, adding ~16% to earnings growth alone. A steepening of the yield curve adds another 8% to profit growth (primarily via financials), but the largest swing factor is likely to come via the Energy sector, with our commodity team forecasting oil to average $85 in 2010 – a year-average over year-average rise of ~40%. The trade weighted dollar, even if it were to stay where it is, would still be down 5% year-average over year-average, subtracting around 2% from earnings. Overall, our second macro earnings model points to operating earnings growth of 32%, taking S&P 500 EPS up to $76.56.

[1] S&P 500 EPS 'g' = 6.0% + 3.6*(∆Margin proxy) - 0.3*(∆Trade weighted dollar) + 1.3*(yield curve) + 1.4*(∆Yield curve) + 0.28*(∆Oil Price)

U.S EGLI Model forecasting 26% EPS 'g' in 2010



U.S EGLI Model forecasting 26% EPS 'g' in 2010

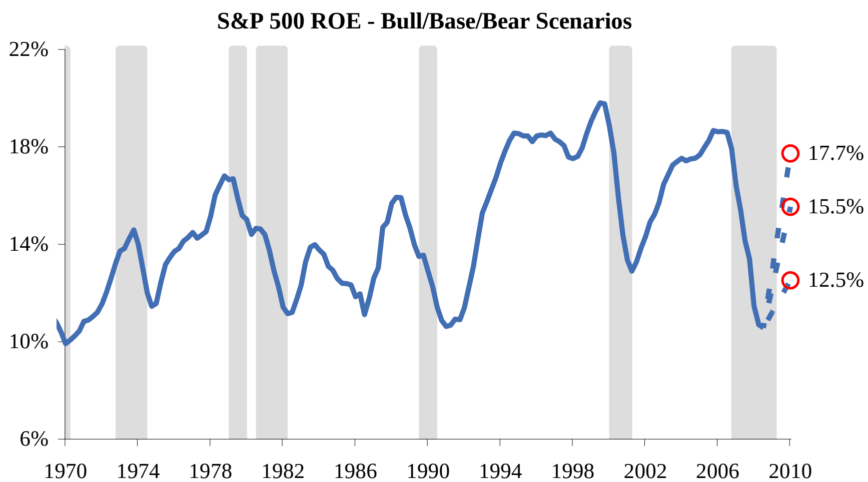


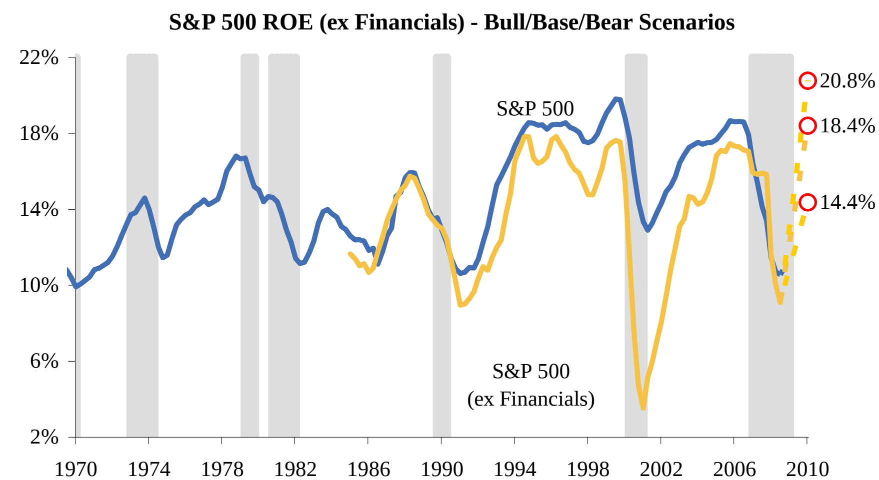
Source: Factset, Morgan Stanley Research

United States: Earnings – The Bull ($82) and Bear ($65) EPS Case

Our bull case US earnings scenario is one where 2010 operating EPS rises to $83 ($736bn and 1% above the 2007 peak). We place a 30% probability on this scenario occurring. It is one where margins come in around 50 bp above expectation, but sales growth rises significantly above the 8% built into expectations. Growth recovers more strongly (4%+), we continue to experience improvement in financial conditions (credit growth – demand – begins to rise faster than expected), and domestic cyclical earnings (particularly consumer discretionary) rebound to within 10% of their 2006 peak. Energy earnings are back to 2006/07 levels (a rise of around 140% on 2009, but on an oil price that remains in the low $90 range). This would represent a reduction in spare capacity without a large rise in operating costs for the Energy sector. This outcome comes with a year-over-year 30-40% increase in refining margins from 2009 levels. Tech earnings meet current expectations, but Industrial earnings (Capital Goods) rise a further 15-20% as capex returns earlier than expected. Under this scenario, ROE rises from 15.3% to 16.4% (versus the long-term average of 13.4%). Ex financials ROE reaches a new high of 20% versus the old high of 17.8% in 1Q97.

Our bear case earnings scenario is one where 2010 operating EPS falls to $65 ($576bn). We place a 20% probability on this scenario occurring, and it is primarily driven by much weaker growth and an outright deflationary environment. Under this scenario corporate profit margins disappoint significantly (50-75 bp) and sales growth is around 6% rather than 8% as forecast. In our view, further growth weakness alone is not enough to drive this outcome. Our bear case scenario is based on 2.0-2.5% GDP, plus renewed fears of a double-dip into 2011 which result in significant revisions to 2011 earnings expectations (currently at $93). Under this scenario, we see oil averaging $50-60/bbl, and while earnings for the financial sector continue to recover (as write-downs fade and peak provisioning levels pass), a flatter yield curve drives lower net interest margins and house prices remain weak. Both cyclical and non-cyclical sector earnings are flat on 2009, with the decline in the oil price not enough to drive a major recovery in consumer earnings.





Source: Factset, Morgan Stanley Research

Part IV - Regional Allocation

Buy: **Asia Ex Japan**
Japan

Sell: **United Kingdom**

Regional Allocation

More room for regional differentiation in 2010. At a regional level, 2009 was about being long developed Asia and short Japan. The US vs. Europe vs. UK allocation was primarily a sideshow to a weakening USD call. We expect Asia will once again lead performance in 2010, followed by Japan. We expect UK to be the laggard.

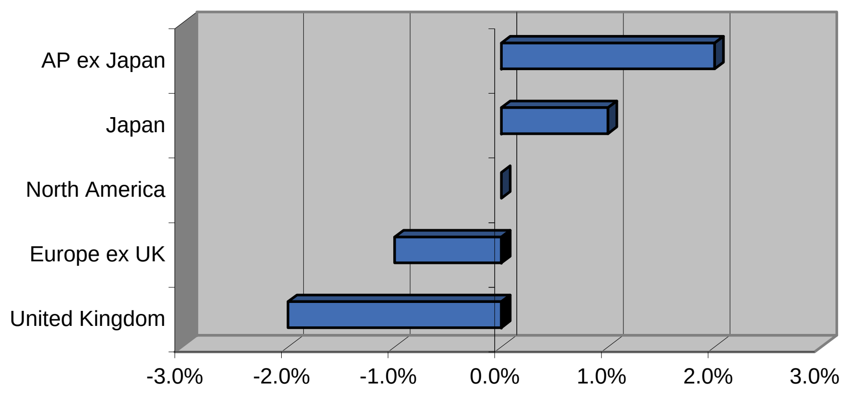
Unlike 2009 where a set-and-forget strategy was enough, we expect greater scope for tactical allocation amongst developed regions as return dispersion contracts and the one-way risk trade – long equities, cyclicals, commodities and beta markets – becomes more evenly balanced.

Long Asia-Ex / Short UK

Global Regional Allocations	MSCI World Weights	MS Allocation	Deviation	Recommendation
North America	54%	54%	0.0%	Neutral
Europe ex UK	22%	21%	-1.0%	Underweight
United Kingdom	10%	8%	-2.0%	Underweight
AP ex Japan	4%	6%	2.0%	Overweight
Japan	10%	11%	1.0%	Overweight

*Percentage of MSCI AC World

Regional Allocation - Deviation from Benchmark (MSCI World)



Large-Cap Growth favors US over Europe

	US	Europe	UK	AxJ (DM)	Japan
Earnings Growth	+	=	=	+	+
Earnings Risk (“+” = Upside)	+	+	=	+	=
Policy Outlook Surprise	=	=	=	=	+
Yield Curve	-	=	-	=	-
Currency	-	+	+	+	+
Style & Size & Composition	+	-	-	=	-
Valuations	=	=	=	=	=
Performance ("+" = Underperformance)	=	=	=	-	+
Positioning (Contarian)	=	=	=	-	+
Total	**Neutral**	**Under-weight**	**Under-weight**	**Over-weight**	**Over-weight**

Source: MSCI, Morgan Stanley Research

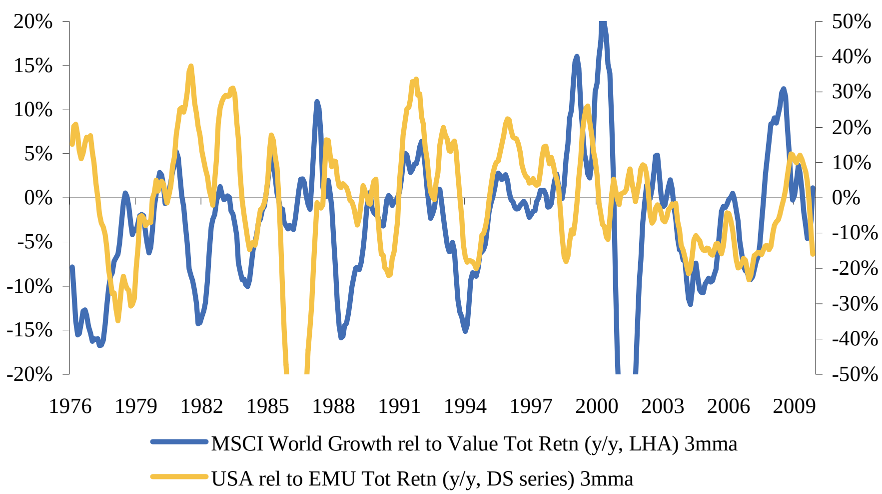
US - A Stronger Relative vs. Absolute Call

We favor Asia over the US, but US over both Europe and the UK from a risk-reward perspective. We expect US earnings will continue to gain support from the lagged effects of a weak USD, with corporates still in cost cutting / strong cost control mode. Style rotation into large-cap growth has historically been a key relative driver of US outperformance vis-à-vis Europe (bottom left), and rising bond yields will support a stronger rotation in the US out of bonds and into stocks. In addition, we think US corporates are slightly ahead of their European counterparts in the restructuring cycle, with the latter now facing the dual headwinds of a stronger euro (even if the USD reverses course near term) and less flexibility in reducing variable costs.

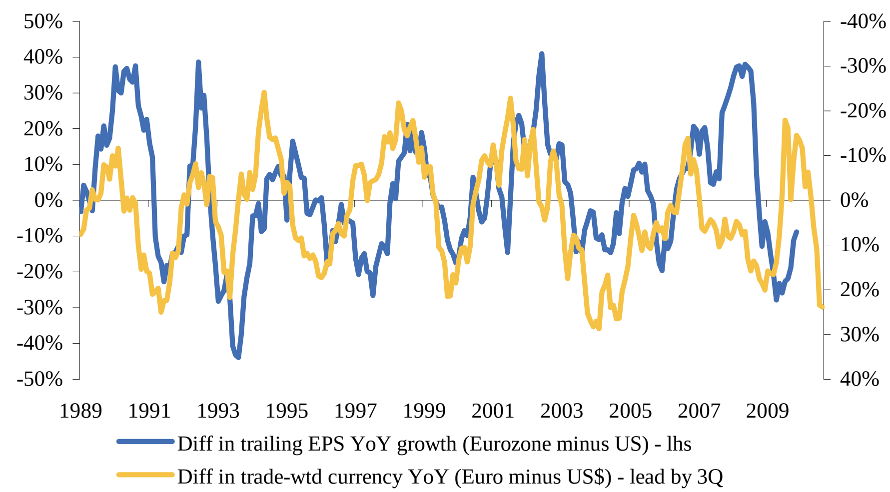
Liquidity less of a factor. With policy tightening likely to be reasonably well coordinated in 2010, there is little that differentiates on this front. Our economics team expects the ECB and the Fed to be closely aligned in starting their 2010 rate tightening cycle (3Q10). While the view of many (including some of our colleagues) is that the key to risk assets is the liquidity provided by central banks, we are not sure (see "DuD: Ending on a High" - Nov 16, 2009) and think a growth scare is the more likely trigger.

A growth scare would favor US. Historically, the first move to tighten almost never ends a rally in equities. The start of tightening can cause a correction; it certainly signals sector rotation; but equities almost always go on to make fresh highs after the first tightening (for more details on the historical patterns around tightening, see *End Of Easing*, 1 September.) Although a turn to tighter policy would cause some turbulence, we think a more potent threat to equities would be a growth scare. To the extent that equities have followed the lead of robust, but unrepresentative, ISM-type measures, we think that they will provide the best guide to a potential setback. Such an outcome further supports a US over Europe (and ROW Developed Equities) allocation as risk flows potentially dry up (USD rallies and US equities outperform).

Large-Cap Growth favors US over Europe



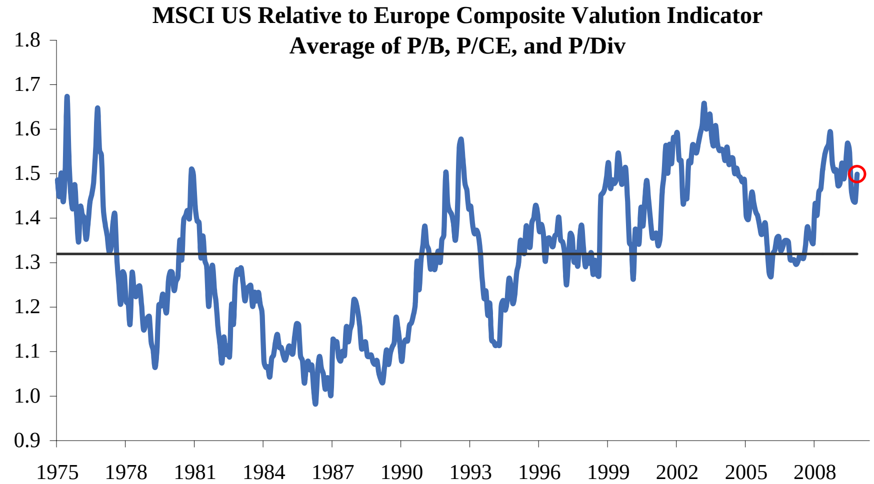
Stronger Euro adding to Relative Profit Risk



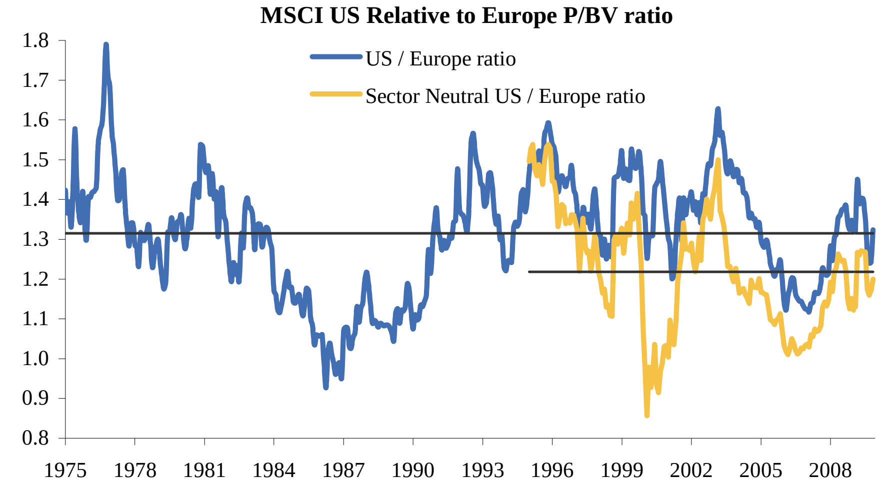
Source: Datastream, Morgan Stanley Research

Europe – Neutral Based on Sector Neutral Valuation, Yield Curve, and Margins

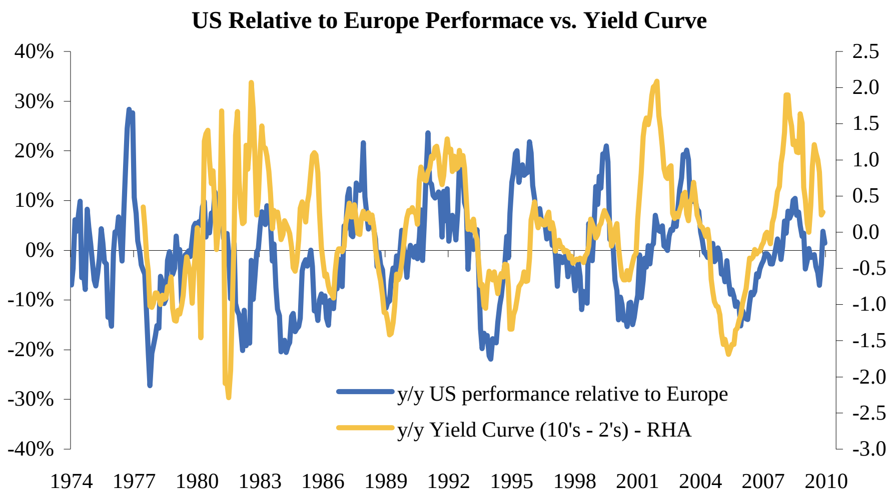
Europe Still at a Discount



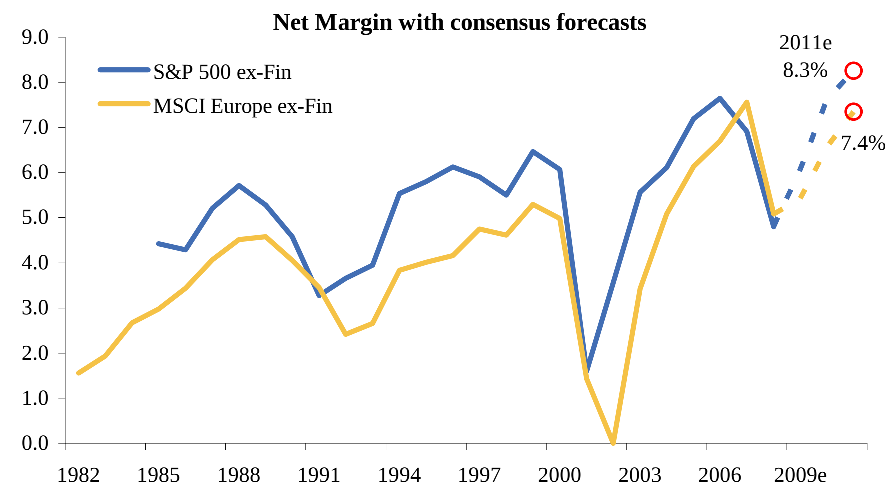
...But Back in Line with Average on Sector Neutral Basis



Curve steepening positive for US equities



…And Margins to Rebound Faster in the US



Source: Factset, MSCI, Morgan Stanley Research

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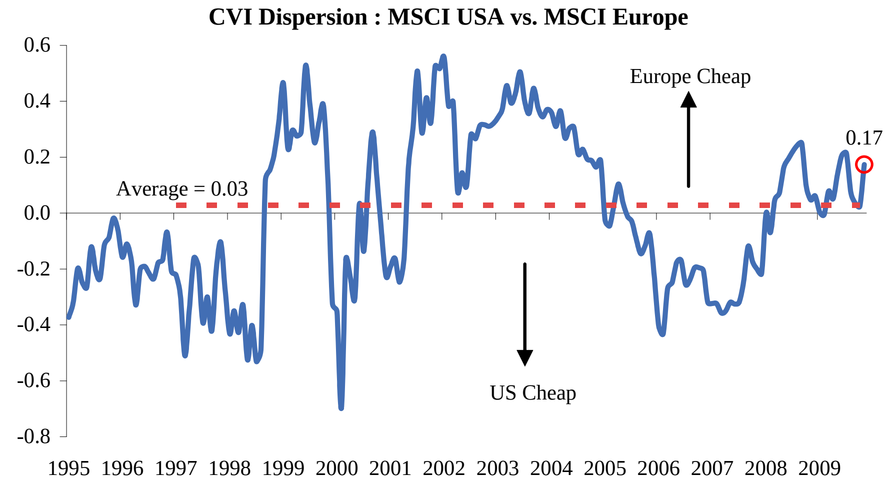
US - A Stronger Relative vs. Absolute Call

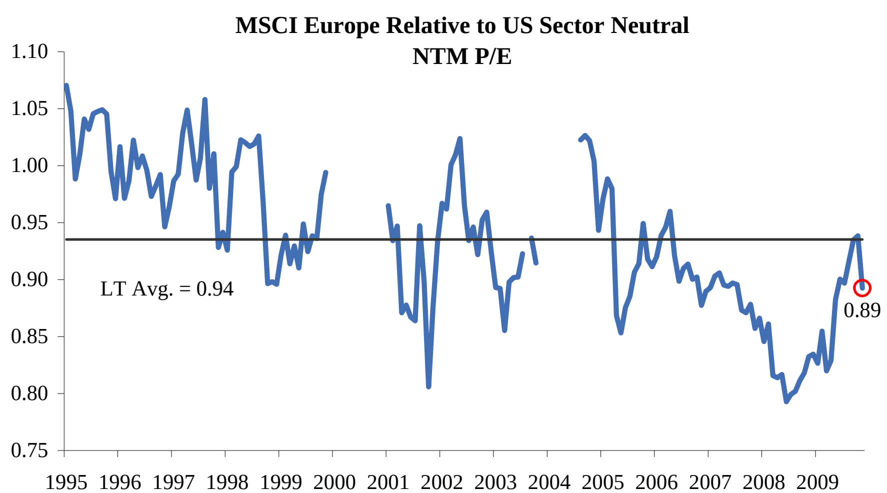
US/Europe valuation convergence. The valuation attraction that favored both Europe and the UK in early/mid 2009 has to some extent been neutralized, but still remains in favor of both regions. The reduction in the valuation discount has not been the result of relative outperformance, but rather a more substantial improvement in relative fundamentals for the US. Our composite valuation indicator (P/B, P/CF, DY) remains in favor of Europe (top right) as does our sector-neutral P/E measure. However, on P/B there is little to distinguish between regions.

The potential for a significant US bear yield curve steepening is a notable valuation risk, especially as the majority of corporate restructuring/cost out is now complete. However, the equity risk premium remains elevated relative to history, potentially providing some offset to a minor increase in bond yields (at least below 4.5%, but certainly not if our house rate forecast of 5.5% by YE 2010 is correct). And corporate America (ex Financials) is now reasonably well capitalized courtesy of record bond issuance throughout 2H09, which will also provide some offset to a rising cost of capital.

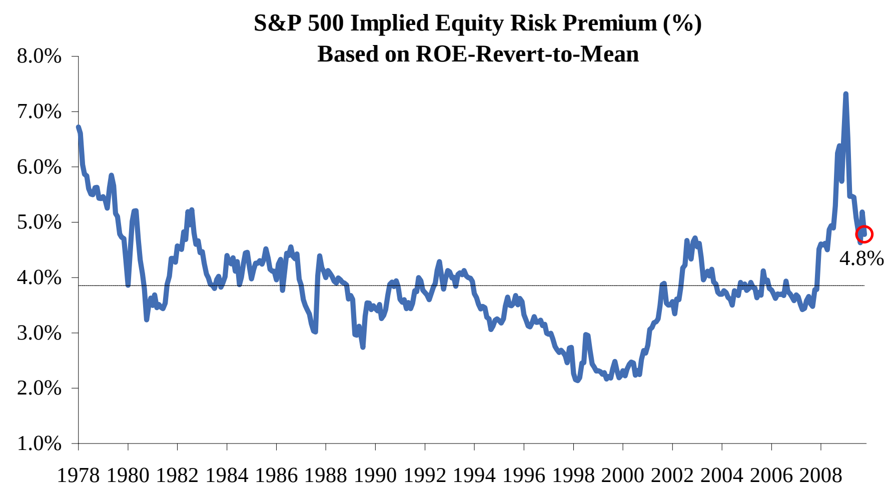
Composite Valuation Metrics – Back to Neutral



Sector Neutral Valuation Convergence



US Equity Risk Premium still Elevated



Source: Factset, MSCI, Morgan Stanley Research

Japan - Sticking with a 2009 “Pain” Trade

We are overweight Japan and have been since mid-2009. So far, this has been a costly error. But we remain attracted to the structural bottom-up improvements seen in corporate Japan over the past decade, and the fact the market is now reasonably valued (in part due to 2009’s material underperformance). The catalyst for outperformance could be either policy action or a weaker yen.

For Japan, valuations are no longer a reason to avoid the market. It has the highest cyclical weighting of the developed regions at 60% (bottom left) and has historically proved the most leveraged global growth play on an IP recovery. Cyclically, Japan’s underperformance through 2009 offers the potential for the market to play some catch-up in 2010 as global growth continues to improve and the yen weakens. However, the risk is that Japan remains a stock picker’s market until we see greater transparency on:

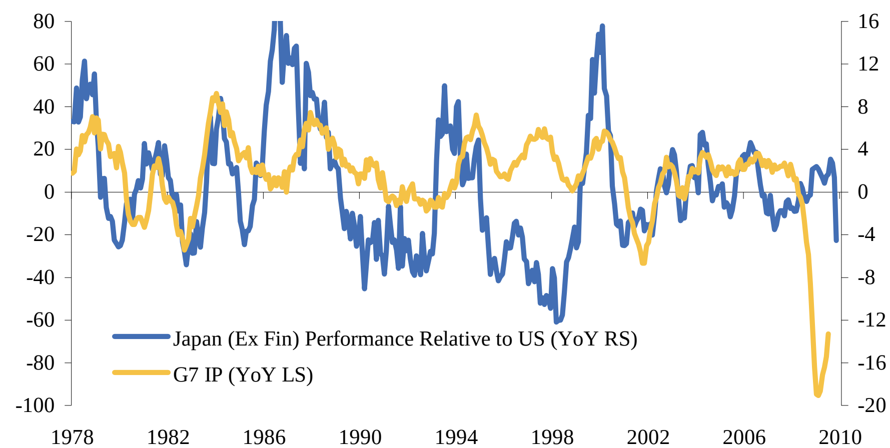
1. fiscal sustainability - contrary to expectations, the budget deficit may not decline significantly in 2010 and could remain around 10% of GDP;
2. the DPJ’s proposed policies; and
3. the BoJ’s response to growing deflation pressures, which are now snowballing into a major political issue (the domestic demand deflator is at its lowest level since 1958) and have the potential to force the government to maintain easy liquidity, through purchasing JGB’s or cutting rates.

Japan Remains the Global Cyclical Play

Market Cap Weights

	US	Europe	UK	Japan	World
Cyclicals	42%	31%	22%	60%	39%
Defensives	29%	36%	34%	21%	29%
Energy	14%	7%	21%	1%	11%
Financials	16%	26%	23%	17%	21%

Japan Looking for an IP Recovery



Source: Factset, Datastream, MSCI, Morgan Stanley Research

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Japan - Buy Exporters and not Japan on a weaker Yen

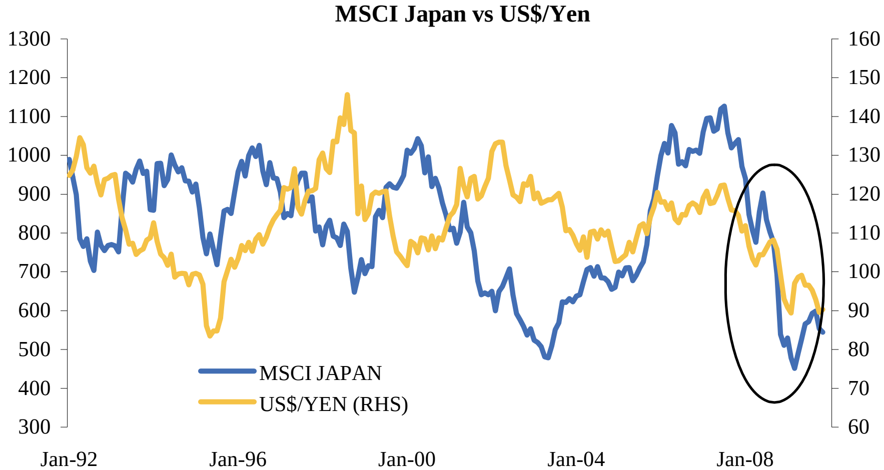
At some stage, most likely within 1Q10 according to our Japanese economics team, the BoJ will undertake further QE-like steps to help address growing deflation fears (options include increasing JGB purchases, clarifying commitment to policy duration, cutting rates, inflation targeting and/or helping limit a rise in long rates), a move that will widen interest rate differentials and weaken the yen. While historically a rally in JGBs has almost always been associated with a fall in equities (and vice versa with a bond sell-off), we think the market may view more decisive action as a positive.

Historically, the performance of the MSCI Japan Index has inversely tracked the fortunes of the yen, which is especially true in recent years. In fact, the relationship between the MSCI Japan Index and the yen appears to be strengthening, with 5-year rolling correlations peaking in Nov-09 at 92%. Nonetheless, while fundamentally corporate Japan and key cyclical sectors (Autos, Tech Hardware and Capital Goods) are reasonably well positioned to leverage a global growth rebound, we look for a change in policy direction and the yen as the catalysts for an overall change in market view.

However, the move to buy Western equity markets as QE measures were implemented in early 2009 was to some extent a bet that policy action would be sufficient and successful. We think investors will be more cautious in treating Japan in the same manner, especially against a backdrop where other central banks are winding down QE measures. We prefer to play a weaker yen via an overweight on Japanese Industrials and exporters, rather than on the overall Japanese market.

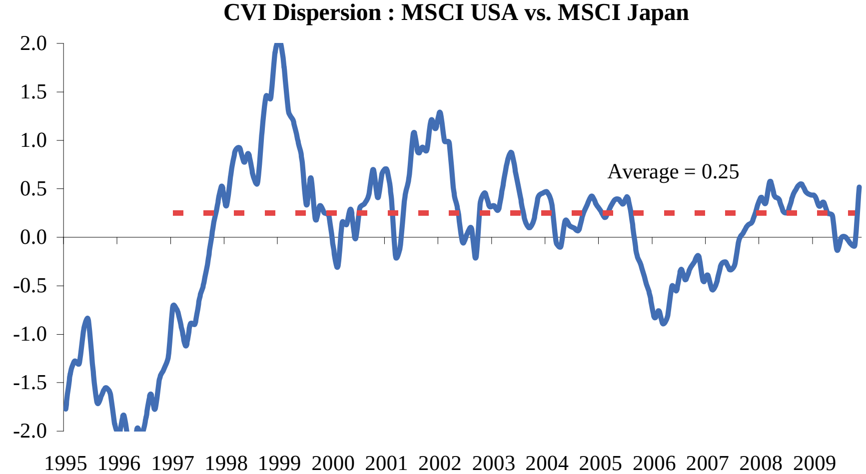
Japanese Equities need a Weaker Yen

MSCI Japan vs US$/Yen



No Strong Valuation Signals for Japan

CVI Dispersion : MSCI USA vs. MSCI Japan



Source: Factset, Datastream, MSCI, Morgan Stanley Research

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UK - Underweight on Both a Bull and Bear Growth Outlook

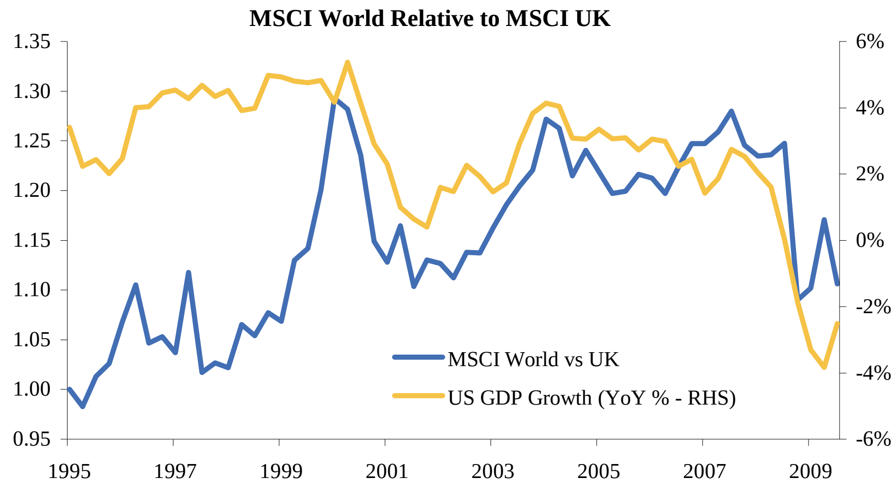
Negative macro and micro. On absolute return potential, both macro (structural debt concerns, a weak growth recovery, 2010 election uncertainty) and micro factors (lack of cyclical exposure, overweight in fragile banking system, limited relative valuation attraction) are negative for the UK. In addition, on a relative basis we think UK equities will underperform irrespective of whether global growth surprises on the upside or downside in 2010.

Under a bull case growth outcome, we would rather be overweight Europe relative to UK as the latter performs in line with its low-beta (defensive) status. Under a bear case growth outcome, we would rather be overweight US relative to UK as defensive flows shift back towards the former.

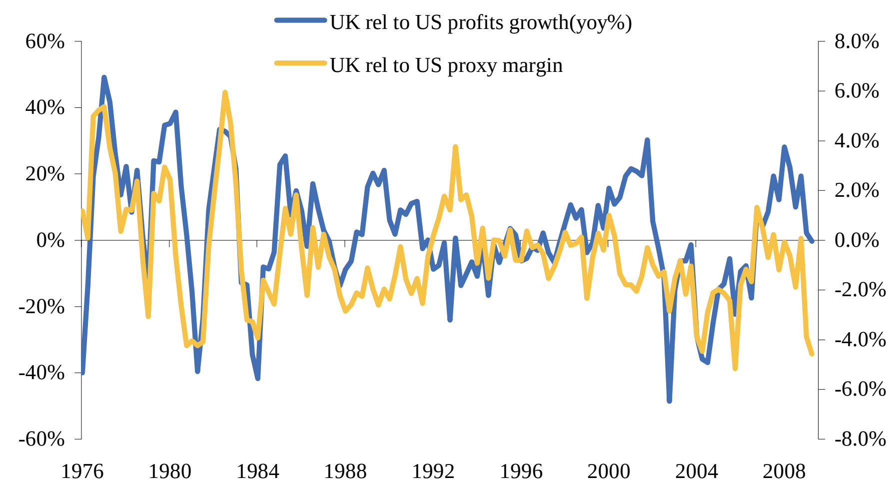
Although we like certain parts of the UK market - Materials (Bulks) and Staples, these two sectors combined are still smaller than Financials, where we think capital adequacy and regulatory risk remain underappreciated and are likely to weigh on index performance.

We do not argue that UK equities are expensive, nor do we argue that a profit recovery is not coming. Similarly, UK equities traditionally outperform World equities when the GBP is falling, and being bearish the UK economy (the IMF expects government debt as a percentage of GDP to reach 98% by 2014, over 2.6X its 2002 level) does not automatically translate into being bearish UK equities, given 65% offshore revenue exposure. However, relative earnings growth (ex financials) will lag all key regions in 2010, relative valuations while not expensive are not cheap, and any weakness in the GBP is likely to be driven by broader growth and sovereign risk concerns – an unlikely backdrop for relative outperformance in our view.

Positive Growth Surprise = UK Underperformance



Relative Earnings Growth Favors US over UK



Source: Factset, Datastream, MSCI, Morgan Stanley Research

Part V - Sector Allocation

Sector Allocation – No Strong Cyclical or Style Tilt

We expect to see a much tighter return spread across sectors in 2010 **—** even as regional and industry correlations fall from record high levels. A contraction in the distribution of returns is consistent with 3 things:

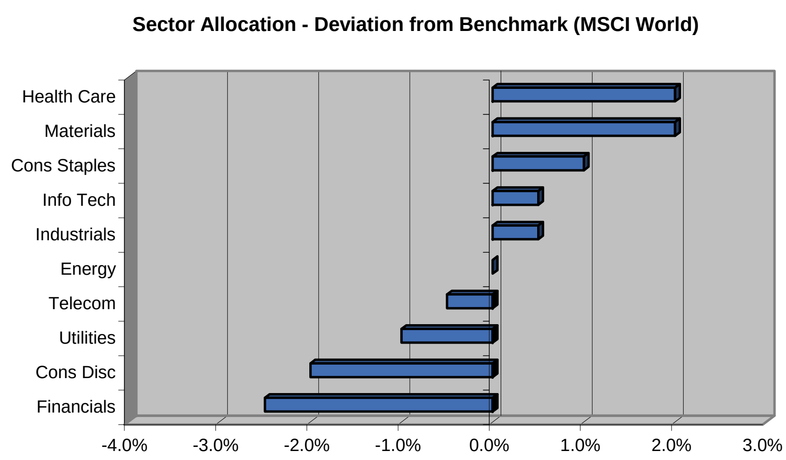
1) a broadening of the risk rally from early to mid & late cycle cyclicals and defensive laggard sectors (Healthcare, Staples and Telecoms) as the cyclical valuation premium begins to contract;

2) the market becoming more focused on earnings deliverability. While an environment of strong absolute earnings growth – like what is expected in 2010 - is generally accompanied by an increased willingness to accept earnings disappointment and/or higher earnings volatility, global equity markets are no longer priced for this outcome; and

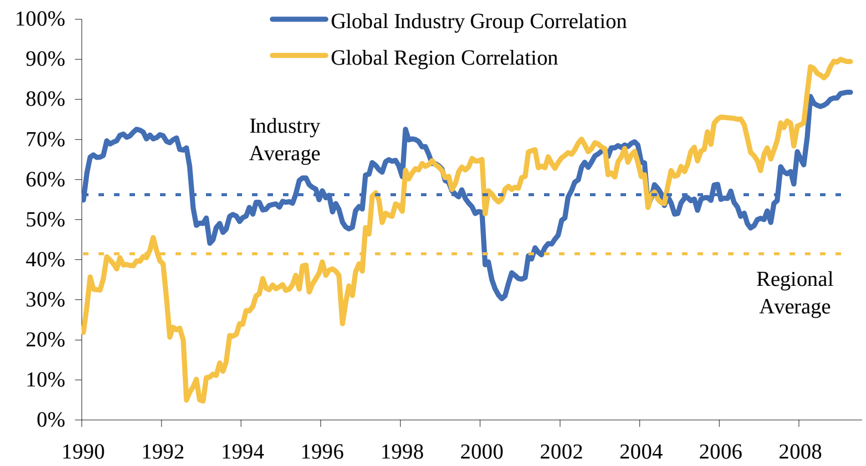
3) the start of a global interest rate tightening cycle, which has traditionally driven a rotation out of cyclicals and interest rate sensitive's and towards defensive sectors (Healthcare and Staples).

Our sector allocation does not have a strong cyclical or style tilt and it is not solely aligned for the expectation of a correction in equities. Unless we are misreading the earnings backdrop and there is even greater upside risk to 2010 estimates than we believe, then the coming year will be about deliverability, where corporates are penalized if they disappoint expectations, against a backdrop where revision momentum is unlikely to provide the same tailwind as it did through most of 2009.

Sector Allocation - Deviation from Benchmark

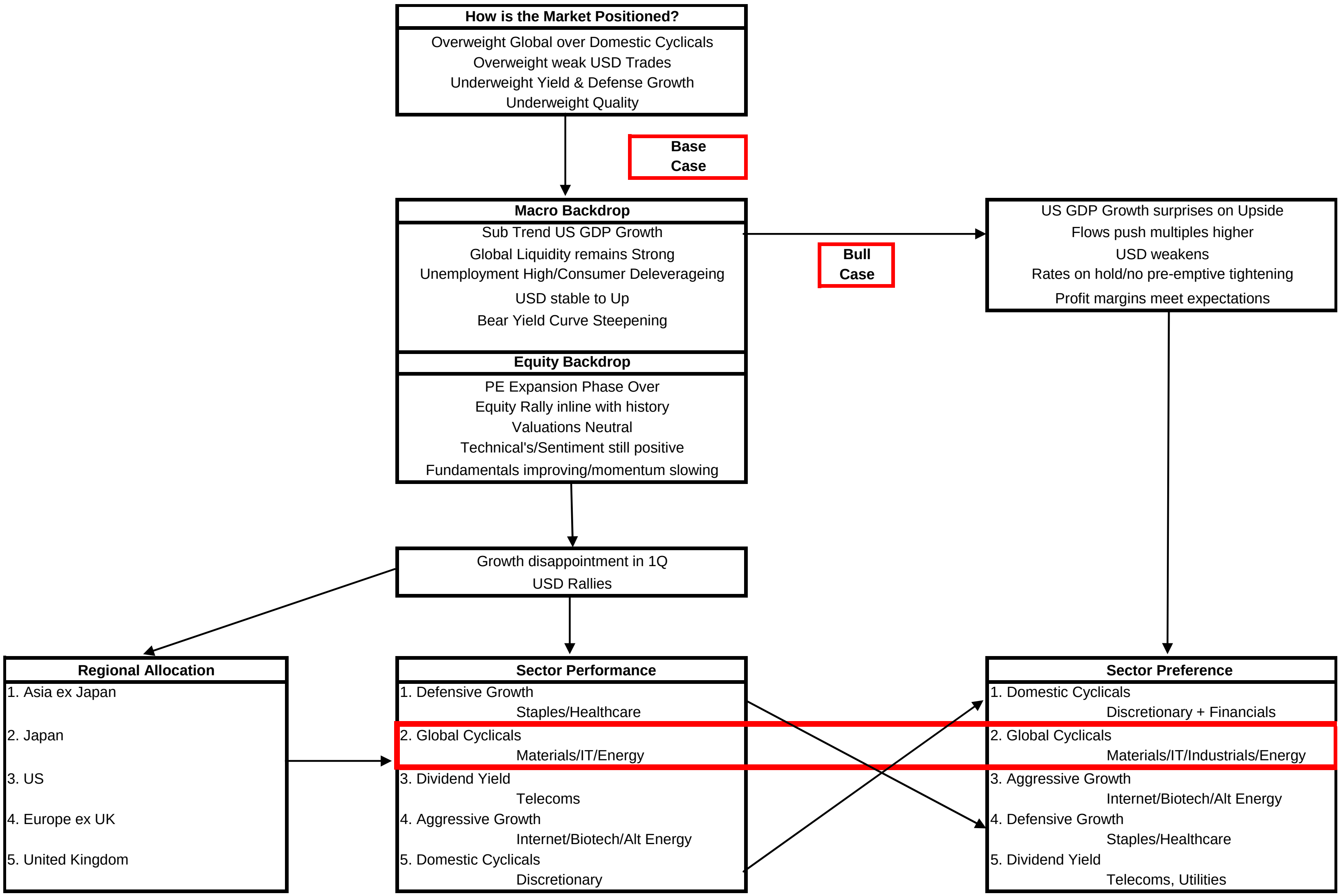


Correlations set to Decline



Source: MSCI, Datastream, Morgan Stanley Research

Sector Allocation – Base Case vs. Bull Case Sector Positioning



Source: Morgan Stanley Research

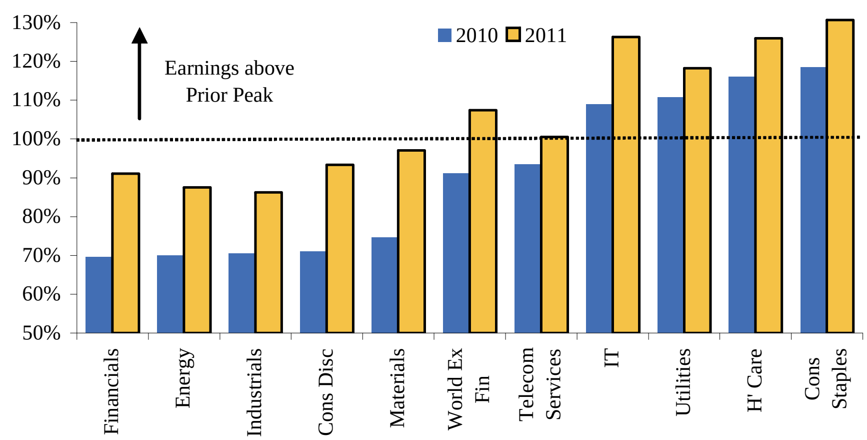
Sector Allocation – No Strong Cyclical or Style Tilt

Bear curve steepening would favor mid/late cyclicals. We think sector performance will be determined by a combination of factors driving earnings deliverability and the shape of the yield curve in 2010. With the yield curve a good coincident indicator of relative sector performance, we are also considering the implications of a further bear curve steepening into 2010, which has traditionally favored mid/late cyclicals such as Industrials and Energy over selected non-cyclicals such as Utilities.

Avoid downside earnings risk. However, rather than simply overweighting the traditional defensive sectors, we are minimizing exposure to sectors which contain downside earnings risk relative to expectations (i.e., Financials and Consumer Discretionary) and where the market has not yet discounted this risk from a valuation perspective. Relative earnings outperformance will not only come from Defensive sectors. We believe a number of cyclical sectors - Capital Goods, Autos and Media – all offer absolute and relative earnings upside versus the market.

Strong Global Earnings Recovery Already Forecast

MSCI World : 2010/11 Consensus Earnings as a % Prior Peak



Stage I Risk Rally		Stage II Fundamental Rally
Financials Capital Markets Insurance Banks	Transitions to	**Financials** Banks
Discretionary Retail Homebuilders Hotels & Leisure		**Discretionary** Media
Industrials Transportation		**Industrials** Captial Goods
Materials Metals & Mining		**Materials** Chemicals Bulks
		Energy
Info Tech Semi Con		**Info Tech** Software/Services Hardware
Deep Value **Laggards**		**Healthcare** Pharma
		Telecoms

Expansion Phase = Steepening Yield Curve = Global Cyclical Outperformance

	10-yr Yields Rising	10-yr Yields Declining
Yield Curve steepening (10-yr less 2-yr)	**1. Recovery Phase** **Overweight:** Cyclicals (esp. Metals & Mining, Retail & Tech Hardware) **Underweight:** Non-Cyclicals (esp. Telecoms & Utilities) S&P 500 Avg Returns: 2.3%	**4. Slowdown / Recession Phase** **Overweight:** Non-Cyclicals (esp. Non-Cyclical Consumer Goods) **Underweight:** Cyclicals (esp. Tech Hardware) S&P 500 Avg Returns: 4.9%
Yield Curve flattening (10-yr less 2-yr)	**2. Expansion Phase** **Overweight:** Cyclicals (esp. Info Tech, Industrials & Energy) **Underweight:** Non-Cyclicals (esp. Utilities) S&P 500 Avg Returns: 12.6%	**3. Overheating Phase** **Overweight:** Non-Cyclicals (esp. Non-Cyclical Consumer Goods & Utilities), also Financials **Underweight:** Cyclicals (esp. Mining, Metals, & Cyclical Consumer Goods) S&P 500 Avg Returns: 2.9%

Source: Factset, MSCI, Morgan Stanley Research

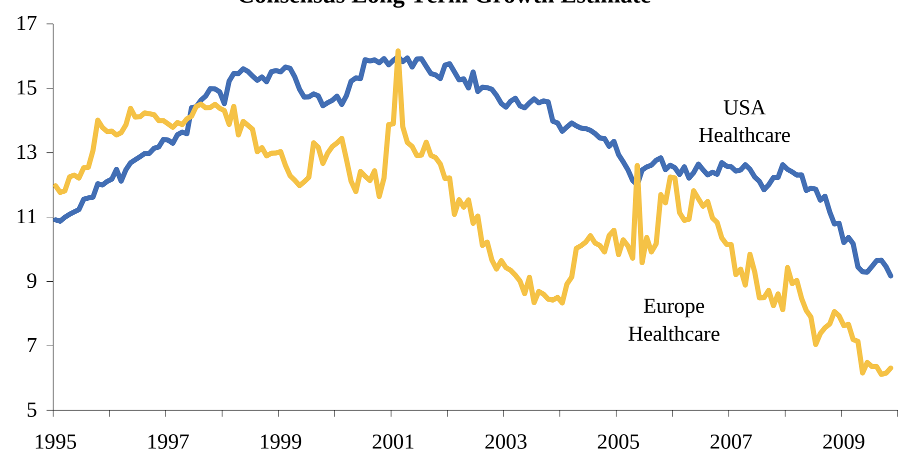
Sector Allocation – Overweight Healthcare

Reasons to overweight healthcare: 1) The rally is becoming old, 2) healthcare outperforms other cyclical sectors when tightening cycle begins, and 3) the sector offers an attractive dividend yield with dividend growth potential. We prefer Pharma in Europe (Roche, Sanofi) where exposure to faster growing markets is greater than in the US, but prefer to buy healthcare equipment and biotech exposure in the US (Abbott, Baxter, Amgen, Thermo Fisher). Strategically there are only a few true *'growth'* areas left within the healthcare sector. This includes the Distributors/PBMs, Mid Cap Biotech (Vertex) and EM Healthcare (Amil Participacoes).

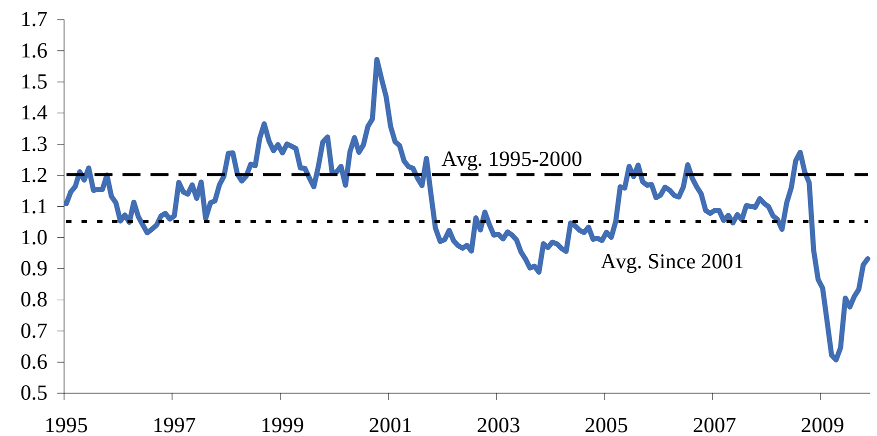
Healthcare has been a relative call on the market since it first went ex-growth in early 2001. We have no reason to believe this has changed. In our view, the sector is only moderately cheap relative to growth. Healthcare is a *"renter's"* rather than *"buyer's"* sector that is attractive given growing caution around broader equity market levels and a rally that is beginning to look tired.

We see limited scope for a broad and sustained sector multiple re-rating unless we see an improvement in long-term growth expectations (which would require a reversal in the multi-year structural decline) and/or we see a bout of general equity market weakness that results in a relative re-rating. Although it appears that growth estimates are now beginning to stabilize, we doubt that low single-digit revenue growth and mid to high single-digit earnings growth is enough to underpin higher multiples for global Pharma as a whole.

Is the Structural Decline in LTG Over?



Healthcare – Moderately Cheap



Source: Datastream, MSCI, Morgan Stanley Research

Sector Allocation – Overweight Healthcare

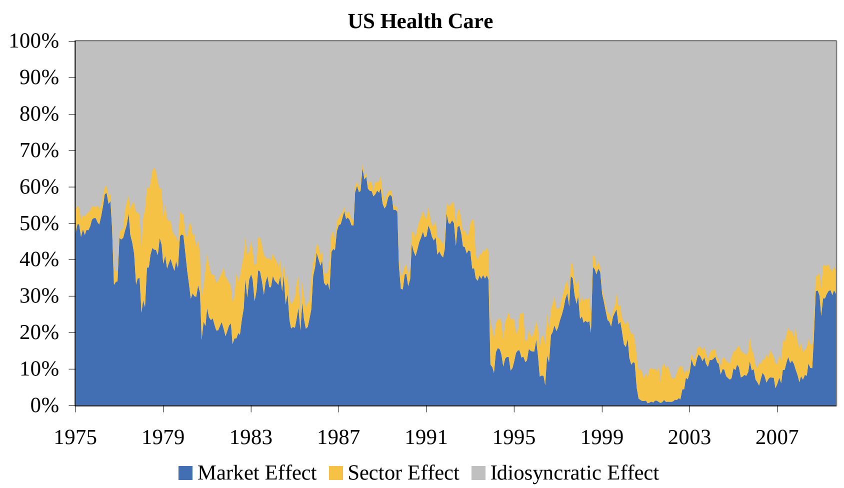
Healthcare has enjoyed a mini revival in the past few months. We attribute this to two factors. First, a broadening out of the risk rally to include the laggard sectors (Staples and Healthcare). This is common in any rally that begins with the highest beta / most oversold cyclical stocks and is not solely a change in view on Healthcare. Second, a reversal in what was an overly pessimistic risk premium due to Healthcare reform uncertainty. It is clear that parts of Healthcare were overly discounted, but the sharp re-rating in Managed Care, Hospitals and selected Pharma looks to have already corrected this distortion.

Stock picking to drive alpha. Market and sector effects have risen (single-stock idiosyncratic effects fallen) significantly over the past year. However, this is broadly in line with the shift we have seen at a market level (correlations rising as markets fall). We have not seen sector effects continue to rise in recent months, a sign that a more broad-based change in view has occurred. We think that idiosyncratic effects – while as low as they have been since the late 1990's – are still enough to make stock picking within a relative sector call the most important driver of alpha.

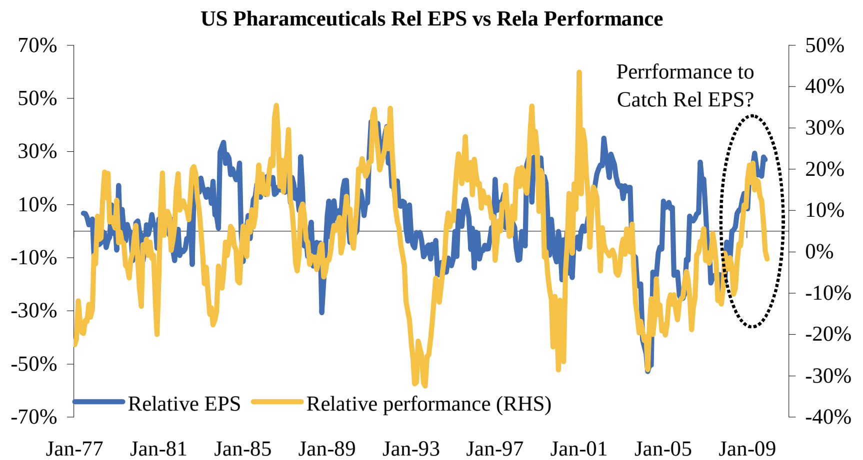
Pharma earnings have been resilient. Traditionally, relative earnings growth momentum has been a significant driver of relative performance for Pharma sector. When Pharma has been growing earnings faster than the market, it has tended to outperform and vice versa. Pharma earnings have held up significantly better than the broader market recently – a fact which has not been fully reflected in relative performance.

Pharma has been overly discounted for slim pipeline. The patent cliff is well recognized and discounted in the stocks, and product pipeline expectations are low. Against such reduced expectations, results/news flow on product pipelines, restructuring, and a steady adjustment in business models may well surprise on the upside

US Healthcare – Becoming Less Idiosyncratic



US Pharma vs. SPX – Relative EPS 'g' and Performance



Source: Datastream, Morgan Stanley Research

Sector Allocation – Neutral Energy

Structurally we are oil bulls. Tactically, however, we are a little more cautious. (Our European and Emerging Market/Asian strategy teams are bullish and remain overweight). We agree with all the long-term arguments to be bullish oil and energy equities – changing demand composition, challenged supply with rising extraction costs, and we also highlight our commodity team's above-consensus oil call in 2010 ($85/bbl). However, 2008-09 provided a reminder that oil remains a cyclical commodity, and we have not reached the point where the market is prepared to re-rate multiples on the belief that higher energy prices can be sustained. Our central case is that a potential 1Q growth scare takes risk assets lower, and against this backdrop we remain cautious on the near-term energy outlook. In addition, we think the direction of the commodity will drive performance, and without a strong valuation attraction, relative returns will be limited by a stabilization in the USD, an oversupplied North American natural gas market, poor refining margins, and the expectations of a range-bound crude price ($70-80/bbl).

We think the following arguments support a neutral call on Energy:

- **The sector is not cheap.** The sector trades in line with its long-term average relative NTM P/E (ex financials/ex energy) .
- **The sector is not over or under represented in the MSCI World index.** The current earnings weight of energy (12.1%) is little different from its market cap weight (11.1%). Historically, the sector has undergone significant short term re-rating following periods when the earnings weight has risen to more than 5% above the index weight. In fact, the average P/E expansion during the prior 4 episodes when the earnings weight was more than 5% above the market cap weight has been 84%.
- **Strong relative earnings growth expectations are already embedded in prices.** Global energy is expected to grow well in excess of the market in both 2010 and 2011, but these expectations should already be embedded in prices. From here, the sector requires either a resumption of positive relative EPS momentum or greater comfort that growth will be sustained into 2010. While both may prove correct, we suspect a decision by the market is some time away. All else equal, even assuming 2010 and 2011 consensus earnings expectations are achieved, the sector would only be 2.5% above its index weight.
- **What's good for Energy is bad for the Market.** Our commodity team thinks the oil price is range bound for the near term, supported around $70 and bounded at $80, with OPEC supply discipline needed to restore balance and drive prices higher into 2010. We think it unlikely that energy will rally strongly unless accompanied by either positive growth surprise or exogenous factors which push crude above this range. Under the first scenario, given spare capacity (8%), we think non-commodity linked cyclical sectors stand to benefit more. Similarly, an exogenous oil price shock may prove to be the limiting factor on growth and reinforce a broader earnings slowdown. Similar to 2007, this may not result in a relative re-rating either.

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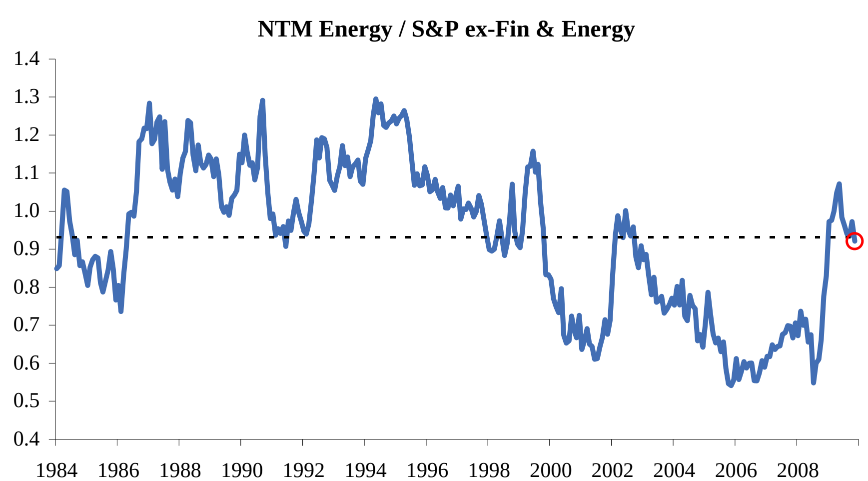
Sector Allocation – Neutral Energy

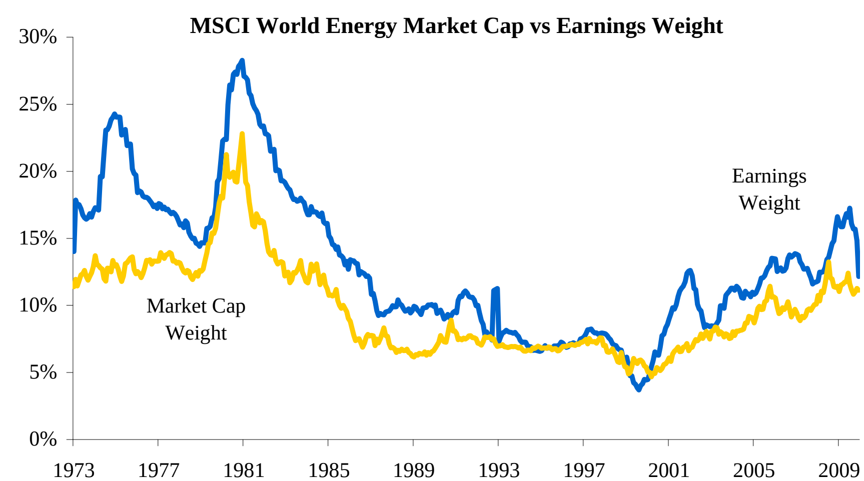
- **Two out of Three is not good enough yet.** While crude prices are the biggest driver for the Energy sector, natural gas prices and refining margins complete the puzzle. Our commodity team is negative on the near term fundamentals for both.
- **USD & Equities.** For the past 9 months there has been a tight inverse correlation between the dollar and equity markets. This is unusual as equity markets and the dollar usually are positively correlated (dollar strength goes hand-in-hand with rising equities). Consequently, this correlation could weaken if the dollar strengthens because US growth and rates are expected to rise. Our sense, however, is that if growth disappoints, then the correlation may remain positive and dollar strength would go hand-in-hand with softer equities and the unwind of other commodity and commodity related trades.

Why not play Energy defensively? We prefer to look at the Energy sector in absolute terms. If we are positive Energy we like to play it via high beta (E&P and OSX). If we are cautious, rather than buy the super majors and low-beta oil & gas names, we would rather take cover in more traditional defensive areas of the market (as we are in Healthcare and Staples). Our work shows that: 1) it is rare for Energy to move against the market (i.e., market down = energy down); 2) it is rare for oil and gas to move against equipment & services (once in the past 14 years); 3) there are few diversification benefits from a regional allocation in energy between US and Europe. As a result, an overweight is more likely when accompanied by a positive view on the market (which we do not hold near term).

Energy Back to Average Valuation Levels



Energy Index Weight consistent with Earnings Weight



Source: Factset, Datastream, Morgan Stanley Research

Sector Allocation – Neutral Industrials

Producer over consumer. We expect the producer and corporate sectors to outperform the consumer sector in 2010 as utilization rates rebound, inventories are rebuilt, capital spending recovers, and the corporate sector eventually begins to rehire. This will underpin an earnings recovery that we still don't think is fully reflected in analyst forecasts for Industrials – global Capital Goods and Transport.

Rotate out of Tech later in 2010. In Technology, expectations for a strong enterprise replacement cycle are well embedded in earnings expectations and highly dependent on an uncertain recovery in Financial and Retail sector capex budgets. Consequently, we think a rotation into Industrials and out of Technology is coming later in 2010, but concerns regarding overcapacity and the slow return of long duration capex spend suggest it remains too early to be making this switch.

Favor Japan for Industrial exposure. While we are neutral Industrials, we see opportunity to get exposure via Japan (East Japan Railways, SMC Corp) where: 1) fundamentals and timing of the cycle are better than in the US or Europe; 2) Japan has a greater proportion of early cycle industrial exposure via Electrical Machinery & Precision Machinery, while the US and Europe are dominated by late cycle capex and construction market exposure; 3) relative valuations (vs. the TOPIX and global Industrials) are supportive; and 4) Japanese Industrials have limited exposure to US/Europe and should benefit as Asia leads the global growth recovery.

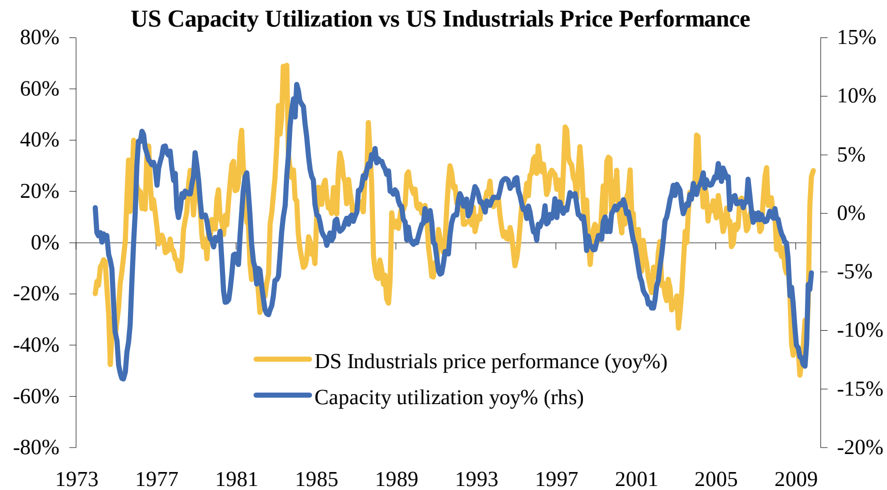
Japanese Industrials…Well Protected from a Slow US and European Capex Recovery

Regional MSCI* Industrial Sector Sales Expsoure

Region	US	Europe	Asia ex-JP	Japan
US	66%	15%	4%	8%
Asia	8%	8%	81%	75%
Europe	13%	51%	9%	5%
Other	12%	25%	6%	12%
Total US + Europe	**79%**	**67%**	**13%**	**13%**

*US data for S&P 500

Rebound in Capex Supporting Industrial Upside



Source: Factset, Datastream, Morgan Stanley Research

Sector Allocation – Underweight Financials

Expectations for a steeper yield curve would normally support a bullish allocation to Financials, particularly as they are now posting better than expected pre-provision earnings, lower than expected NPL growth, building reserves faster than expected, and are not demanding on price to book values. However, we think many of the upside earnings surprise drivers are unlikely to get much better in coming quarters and may actually get worse. Expectations for pre-tax/pre-provision earnings are not consistent with anything but a V-shaped recovery – strong NIM's, rising volumes and a benign regulatory environment – an outcome we view as unlikely.

Financials may outperform if risk assets rally further (especially Insurance), but we would rather own traditional growth cyclicals (Energy on valuation grounds and Materials on scope for earnings recovery) if the market goes higher in the near term. If equities go through anything worse than a technical correction, we would prefer to own the traditional defensive sectors, Telecoms and Staples. Unless the directional view for equities is flat, we see the drivers as more positive for the cyclicals over the rate sensitive's on the upside and more positive for defensives over the rate sensitive's on the downside. We worry that Financials will trade like the Tech sector did from 2004-2006 after a strong 2003 rally.

Regulatory & capital adequacy risk remains underappreciated, and the willingness to let valuation outweigh structural earnings concerns seems too great. We have little confidence in how the new rulebook will look – capital adequacy, consumer protection regulations, regulation requirements, etc. This may imply that the trajectory of pre-tax, pre-provision earnings is significantly lower than expected.

Write-backs unlikely to be a big driver of earnings upside, especially in relation to the size of the provisioning expense. Leveraged loans and CLOs could see some write-backs, but most banks significantly reduced their leveraged loan book, moved assets into the Held to Maturity (HTM) book, or did not fully mark to market, thereby limiting the upside from write-backs. In RMBS, any write-ups should be limited to non-agency RMBS and not extend to ABS CDOs. CMBS and CRE have seen a slight uptick in price since the end of 2Q, but this is unlikely to form the basis for a write-up given the risks of further downside associated with this asset class. Insurance could see greater write-backs given a higher level of lower-quality MBS still held on balance sheets.

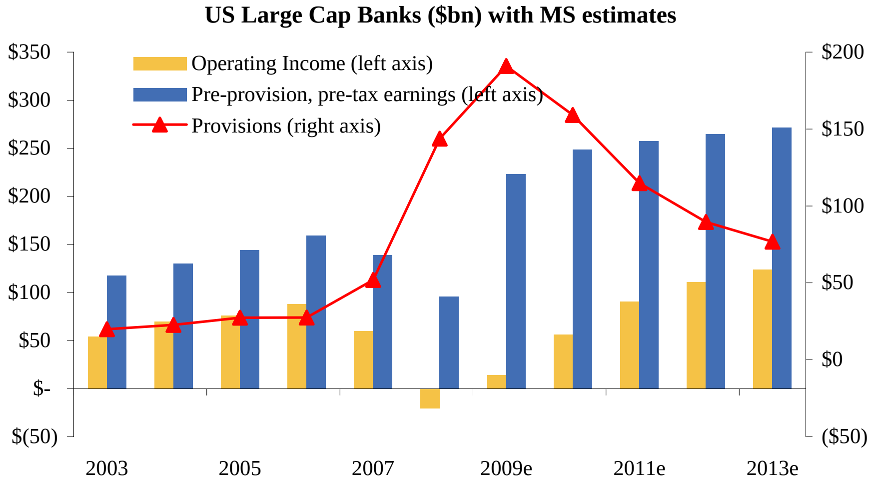
Key risks for the sector: 1) Yield curve begins to flatten, with narrower spreads not fully offset by stronger underwriting volumes; 2) Foreclosure mitigation rolls off, driving further weakness in home prices, and the benefit of low rates (which have helped reduce servicing costs and NPLs) begins to quickly reverse; 3) Commercial real estate (CRE) weakness persists into 2011-12, and the bank debt rollover in construction loans comes to a halt; 4) Possibility of no significant improvement in the labor market; 5) Tighter financial regulation raises compliance and borrowing costs more significantly than expected, reducing credit availability and in turn reducing pro-cyclicality of earnings. More stringent capital adequacy regulations drive higher than expected equity dilution.

US over European/UK Banks: We prefer US over European banks for 3 reasons: 1) US capital dilution risk is lower; 2) US banks are further through the provisioning cycle; 3) US financial sector consolidation has been wider reaching; and 4) The rate of bank earnings improvement from 2008 lows is sharper in the US than Europe, where regional variations are widespread.

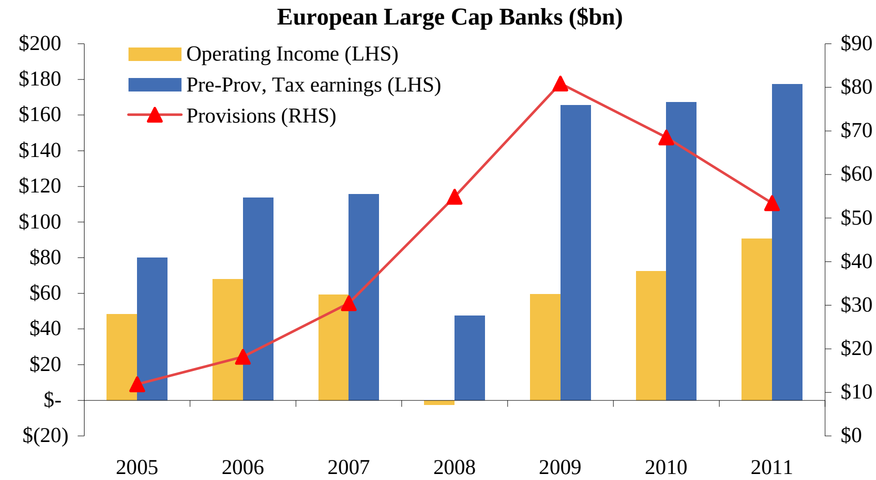
European Insurers over US Insurers: 1) European insurers are less exposed to "toxic assets". Commercial real estate market in US is yet to stabilize and US life insurers do not mark to market their commercial mortgage loans. Most European insurers' exposure to US real estate is limited to US life insurance units; 2) US insurers are more exposed to equity sensitive products (e.g., variable annuities) than European counterparts, who reduced equity exposure post 2001 equity market crisis; and 3) Operationally, US insurers are less diversified.

Sector Allocation – Underweight Financials

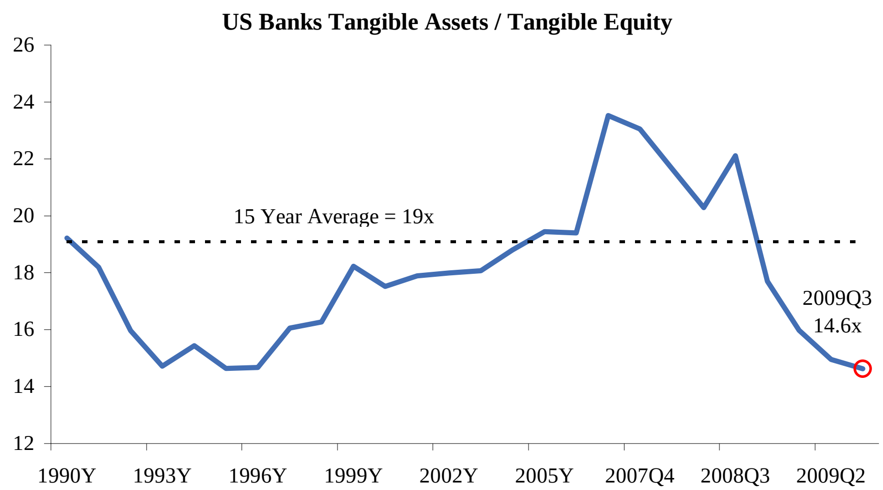
US Large-Cap Bank Earnings



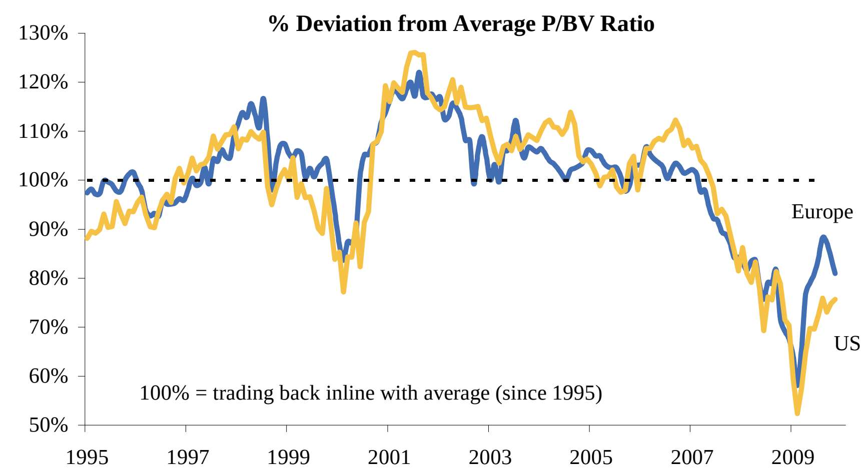
European Large-Cap Bank Earnings



US Banks Deleveraging at a Rapid Pace



US Banks Cheaper than European Counterparts



Source: SNL Financial, Datastream, Morgan Stanley Research

Part VI - Stock Portfolio

Buy:
- European Pharma and US Biotech/Healthcare Equipment
- Bulk Materials, Agribusiness and Asia-Ex Japan Coal/Gold
- US & UK Food & Beverage
- Asia-Ex Japan Financials and Global Capital Markets
- Japanese Industrials and US Rails
- Global Autos/Auto Components

Sell:
- UK Financials (Banks)
- Asian and US Semi and Semicon Equipment
- Global Utilities

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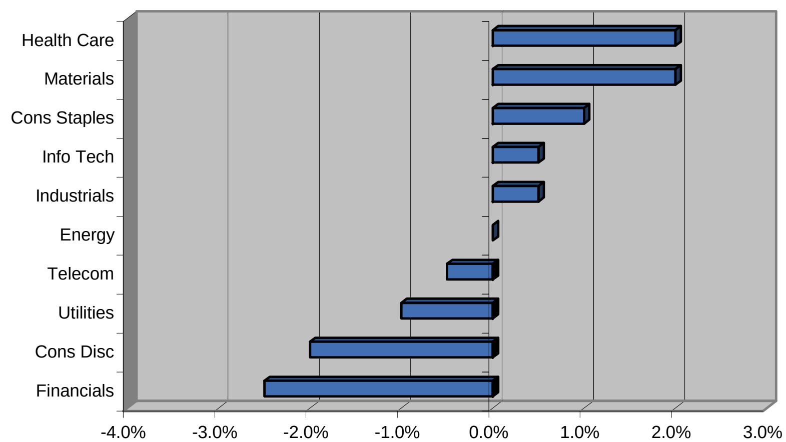
Global Stock Portfolio

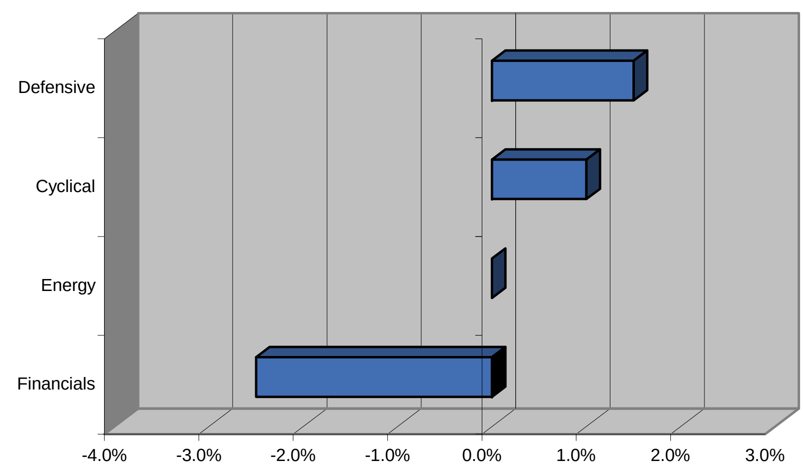
We are introducing our global model portfolio, which consists of 40 equally weighted stocks. It is designed to broadly reflect our regional and sector views and at the same time our key investment themes that may cut across both regions and sectors. Our key themes and investment ideas can be summarized as follows:

- **Overweight Developed Asia and Japan** and Underweight UK;
- **No strong cyclical tilt – we recommend reducing early-cycle cyclical (Semi and Semi Equip, Retail, Cyclical Consumer Services) and interest rate exposure (Financials & Utilities).** A preference for mid/late cycle cyclicals and defensive sectors (Healthcare, Staples) where performance is likely to be more balanced as the global policy tightening cycle begins.
- **We prefer to take cyclical exposure via regional allocation (Asia)** or at a stock--specific rather than a sector-specific level.
- **We are most negative on:** US consumer cyclicals, UK/European financials, and early-cycle Asian Tech.

Sector Allocation - Deviation from Benchmark (MSCI World)



Sector Allocation - Deviation from Benchmark (MSCI World)



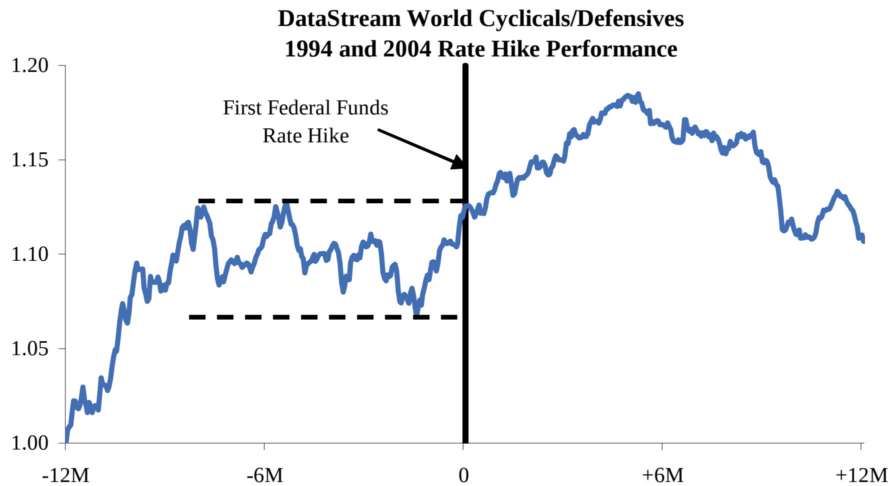
Source: MSCI, Morgan Stanley Research

Global Stock Portfolio

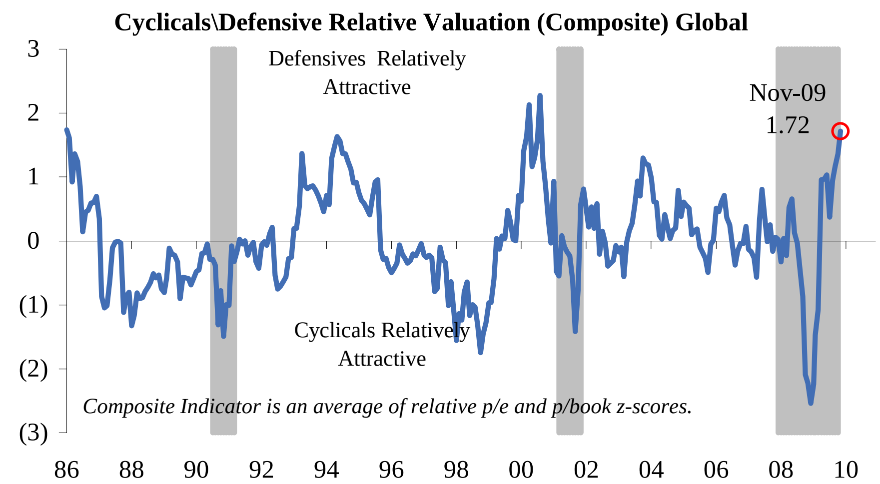
At the broadest market level our portfolio is allocated in the following way:

- **Cyclicals** – Long the producer over consumer cyclicals including Bulk materials (Asia & UK), Transport (US), Autos/Auto Components (Global) and selected Tech over Retail;
- **Defensives** – Long stocks with pricing power in addition to attractive dividend yield and valuation. This includes Staples (Europe & US), Healthcare Equipment (US) and Biotech (US);
- **Financials** – Long corporate/capital markets over consumer related with a strong bias against UK (and to a lesser extent European and Australian Banks), European Insurance over US insurance;
- **Energy** – High over low beta. Our Energy call is absolute. We prefer to play relative returns outside the sector and are overweight E&P and OSX over Integrated Oils.

World Cyclicals vs. Non-Cyclicals prior to First Fed Rate Hike – 1994, 2004



Global Relative Cyclical Valuation Attraction Over



Source: MSCI, Datastream, Morgan Stanley Research

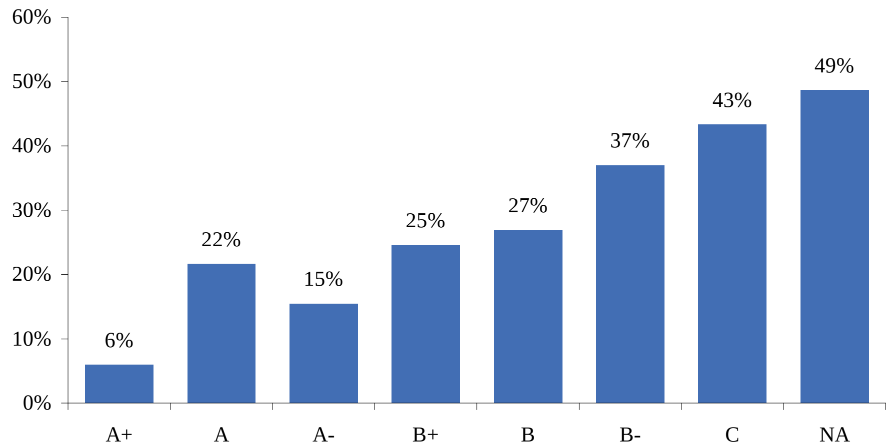
Theme One: Buy Large-Cap 'Quality (QARP – Quality at A Reasonable Price)

The convergence in the valuation distribution across the world (most prevalent in the US but also evident in Europe, Asia and Japan) has now removed much of the traditional premium paid for high-growth versus low-growth stocks. Historically this is rare, occurring only once before in the early 1990s. We think this signals one of two things: 1) Either the market is confident that earnings growth will raise valuations to more normalized levels for the low-growth/cyclical stocks; or 2) the market thinks high-growth stocks are not actually high growth and do not deserve their premium multiple. We suspect the outcome will sit somewhere in between, with earnings for some cyclicals surprising on the upside while some growth stocks – still priced as such – go ex-growth.

While timing a rotation from low-quality to high-quality stocks is uncertain, we are much more comfortable doing this when the premium paid for the latter is low. We think the intensity of financial and credit market disruptions will continue to impact growth visibility, and a tight valuation distribution implies that you can now buy higher-quality, stable-growth names with low earnings risk, strong franchise values, dividend sanctity, and a strong balance sheet at similar valuation levels to lower-quality, more cyclical stocks. We think the former have the potential to be strong outperformers, not for the near term but over a number of years (*see our report "Global Strategy: Buy Large Cap Quality: 18th August 2009"*)

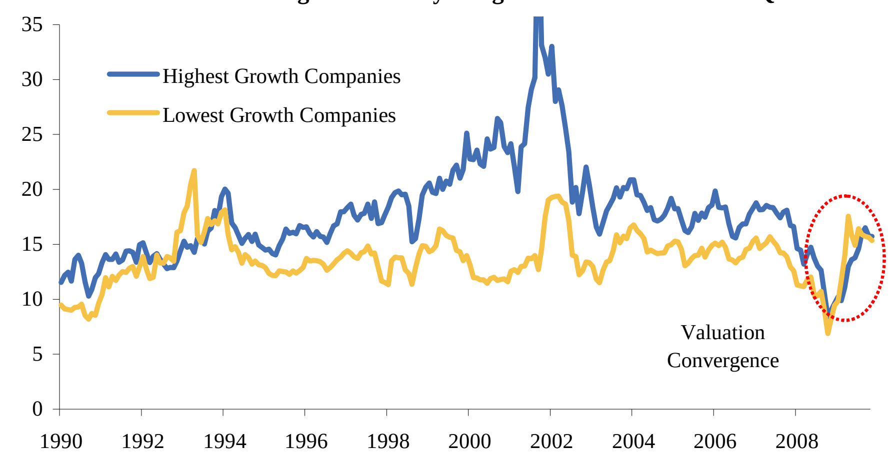
A Global Low-Quality Rally…

S&P 500 Performance Year-to-Date by S&P Equity Quality Rating



…Has Closed the Valuation Dispersion

MSCI World: Average FY2 P/E by Long-Term Growth Estimate Quintile



Source: Factset, Morgan Stanley Research

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Theme Two: Buy Asia/Emerging Markets (more than just buying a growth story)

Buying Asia and Emerging Markets exposure is not a new theme, but it runs deeper than simply buying companies that sell into these markets. We are focused on the following four themes and attempt to avoid areas where Asian or EM companies compete aggressively on price or have similar cyclical leverage to developed counterparts, where it is simply cheaper to buy local stocks, and/or where local stocks are likely to give better operational leverage. We are looking for exposure to the following:

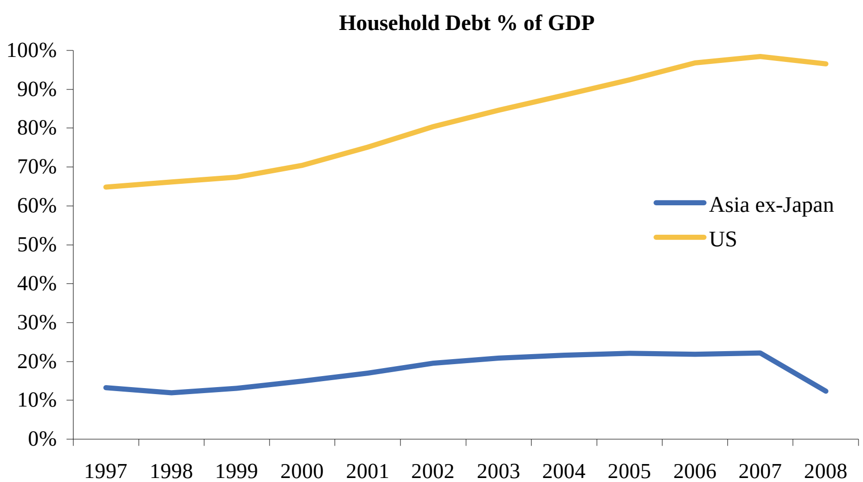
1) US/European companies that have a strong competitive advantage (Aerospace, Healthcare Equipment, high-end Automobiles, Oil Equipment, Dry Bulk Shipping, Solar Energy, Branded Pharmaceuticals and Technology - Enterprise Software);

2) Industries whose scale and location prevent local competition (Film/media; Machinery and transportation equipment & Multi-industry & Electrical Industrial equipment);

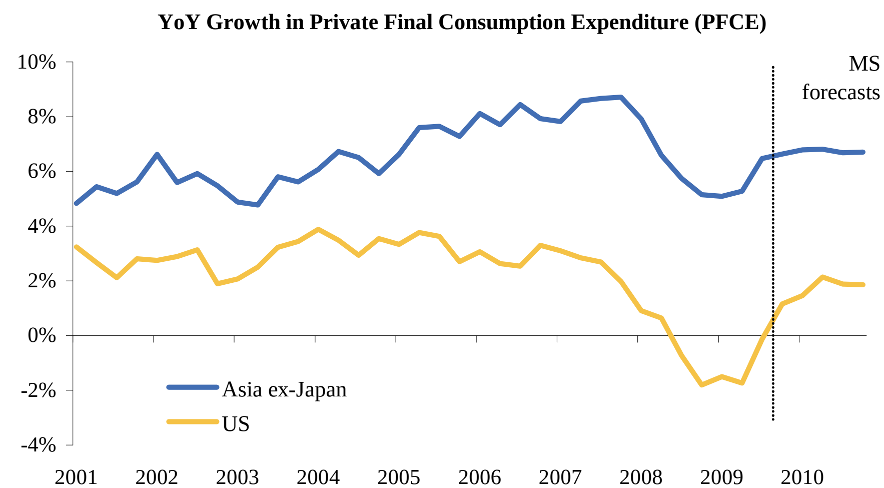
3) Structurally (and cyclically over coming years) higher growth rates (Healthcare equipment; Branded alcoholic beverages; Household products & tobacco); and

4) Natural resources where Asia/EMs are structurally short (Industrial metals - copper, iron ore and nickel; Selected chemicals; Energy – oil and natural gas).

Asia ex-Japan Households Far Less Levered



Asian Consumption – A Strong Recovery



Source: Haver, Morgan Stanley Research

Theme Three: Buy Producer over Consumer (buy the drivers of growth, not growth itself)

We expect the rotation in leadership away from interest rate sensitives / early-cycle cyclicals and towards global cyclicals, in particular the producer sectors - Materials (bulks), Energy (E&P, Oil Services) and selected Technology and Industrials, will continue to gather momentum as the market becomes increasingly confident in the strength of recovery, bond yields begin to rise, global yield curves flatten (the implied views out of bonds and equities becomes more aligned), and the broad trend of dollar weakness resumes.

There is a timing element to this trade: It remains too early to shift into late-cycle cyclicals, despite our view that the big outperformance by the interest rate sensitives and early cyclicals in the West (US and Europe) has now played out. We think too much emphasis is being placed on the ISM as a guide for sector rotation (versus the yield curve, which we have traditionally followed). Global producers are the ultimate winners from dollar weakness, stronger ROW growth, and tight supplies that help drive pricing power. In comparison, ongoing consumer deleveraging / balance sheet repair and the prospect that a weaker dollar raises inflation risk and begins to erode real incomes improves the long-term growth outlook for the producer sectors over the consumer ones.

Theme Four: Buy Pricing Power (it still matters even when volumes improve)

Generally the time to seek pricing power is when the economic and profit cycle is mature and other key earnings drivers such as restructuring and operating leverage have played out. When the cycle is turning and volumes and leverage are improving, pricing power is not as important. However, while strong cost control suggests leverage will be significant for many in the current upturn, we think end-demand will remain tepid. Given significant excess capacity in many industries, we think the ability to raise prices as input costs creep higher while demand remains uncertain will be rewarded.

We expect the consumer areas (especially discretionary – Autos, Apparel) will continue to face greater pricing pressures than normal for this stage of the cycle. We do not expect to see significant improvements in pricing for Healthcare (Pharma, Managed Care), Telecoms (fixed and wireline), Technology (hardware, comm. equipment) and even parts of Financial services (cards, where the UDAP/consumer legislation will likely impact both NIM and size of the book, but not necessarily profitability/ROA; balances will shrink as banks won't be able to risk-base-price lower-quality consumers). In fact, we are hard pressed to identify any areas with significant scope for pricing power outside of the commodity/producer sectors (Materials, Energy, and later-cycle Industrials) where inventory levels may already be relatively tight and where stronger demand out of Asia/EM will ultimately support higher pricing. We believe even the traditional price setters in Consumer Staples (HPC and Tobacco) have seen price leadership decline via private brand competition and a more price-conscious consumer.

Theme Five: Turnaround Potential and Operating Leverage (the laggards)

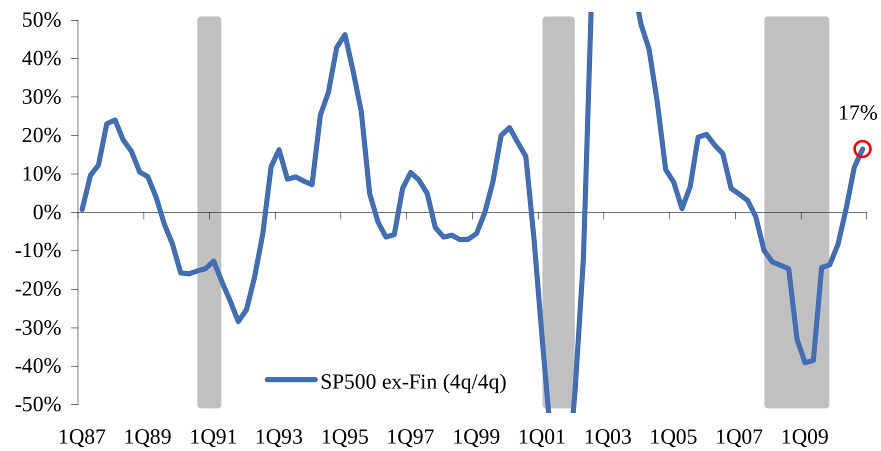
Two themes are always prevalent at the turning point in every growth cycle: (1) Identify companies that have the greatest amount of operating leverage, and (2) find true laggards that offer longer-term turnaround potential.

It is hard not to be impressed with the margin and profit performance of US and, to a lesser extent, European corporates through the recession (profit margins have bottomed well above prior-cycle lows). The willingness to right-size business and cut costs now provides the base for significant operating leverage. However, the leverage theme has an important caveat: Analysts are typically too optimistic about cost control during recoveries. We think the key to successfully playing stocks for operational leverage is to be comfortable that expectations of cost growth are commensurate with sales growth. Broadly speaking, we think the cost-out story is at least 70-80% done for the current cycle, and we are skeptical of buying stocks for large cost-saving potential from here. We are more focused on finding names where cost growth is reasonably well protected (i.e., not underestimated). This is more likely to be in the capital, not labor-intensive industries.

The second area of focus is on turnaround stocks where underperformance has been driven by factors including a lack of restructuring success (poor cost-cutting efforts; lack of pricing power; and/or simply poor execution). We are looking for stocks that have the potential to capture market share, still have cost-cutting potential and hence margin upside, have favorable growth outlooks either offshore or via underpenetrated markets, and where upside is not just a cyclical but also a structural tailwind.

S&P 500	**2009**		**2010**	
	Sales Growth	**Earnings Growth**	**Sales Growth**	**Earnings Growth**
Consumer Discretionary	-9.8%	-7.9%	7.4%	55.6%
Consumer Staples	0.4%	-3.7%	9.2%	13.8%
Energy	-34.5%	-57.8%	22.2%	46.7%
Health Care	3.3%	-0.7%	7.6%	15.9%
Industrials	-9.5%	-31.9%	3.0%	9.7%
Information Technology	-9.4%	-13.6%	15.4%	39.2%
Materials	-29.9%	-74.9%	37.8%	196.3%
Telecoms	2.8%	-19.5%	1.6%	4.6%
Utilities	-2.3%	-3.0%	7.2%	5.8%
S&P ex-Financials	**-11.0%**	**-24.8%**	**10.6%**	**27.0%**

S&P 500 Earnings Growth - Revenue Growth



Source: Compustat, Morgan Stanley Research

Global Stock Portfolio

	US	Europe (ex UK)	UK	Asia-Ex	Japan
Consumer Disc	Yum! Brands BorgWarner Inc.				Sony Corp. Toyota Motor Corp.
Consumer Staples	Kellogg Co. Wal-Mart Philip Morris		Diageo PLC Danone S.A.		Japan Tobacco Inc.
Energy	Schlumberger Ltd. Weatherford Int	Total S.A.		Centennial Coal	
Financials		Credit Suisse Aegon N.V.		Macquarie Group	Nomura Holdings
Health Care	Amgen Thermo Fisher Baxter Int Abbott	Roche Holding AG Sanofi-Aventis SA			
Industrials	Union Pacific FedEx Corp.			Hutchison Whampoa	East Japan Railway SMC Corp.
Information Tech	Apple Inc. Microsoft Corp				Yahoo Japan Corp.
Materials	Monsanto		Vedanta Resources Xstrata PLC	Newcrest Mining	Nippon Steel Corp.
Telecom	AT&T Inc.	Telefonica S.A.		Telstra Corp	
Utilities					
Total Stocks	**17**	**6**	**4**	**5**	**8**

Source: Morgan Stanley Research

Global Stock Portfolio – Key Statistics

Tickers	Company Name	Country	Sector	Industry Group	Price as of 12/14/2009 (LC)	Mkt Cap (USD mn)	Dividend Yield (FY1)	Price change (YTD)	NTM P/E	P/B Ratio	ROE (FY1)	MS Analyst Rating	MS Price Target (Local Currency)	Current Upside to PT
6900643	Toyota Motor Corp.	Japan	Cons Disc	Automobiles & Components	3,710.0	143,006	1.62	27.7%	34.9	1.22	0.02	O / A	5,150.0	38.8%
6821506	Sony Corp.	Japan	Cons Disc	Consumer Durables & Apprl	2,610.0	29,164	0.94	35.8%	71.6	0.82	NM	O / I	3,400.0	30.3%
YUM-US	Yum! Brands Inc.	United States	Cons Disc	Consumer Services	34.8	16,290	2.24	10.6%	14.8	18.07	NM	O / I	40.0	14.8%
BWA-US	BorgWarner Inc.	United States	Cons Disc	Automobiles & Components	32.0	3,716	0.25	46.8%	21.0	1.74	0.90	O / I	40.0	25.2%
WMT-US	Wal-Mart Stores Inc.	United States	Cons Staples	Food & Staples Retailing	54.1	206,016	2.11	-3.5%	13.8	3.04	19.76	O / I	58.0	7.3%
BN-FR	Danone S.A.	France	Cons Staples	Food Beverage & Tobacco	41.6	36,910	2.89	2.0%	15.9	2.01	11.41	O / I	50.0	20.3%
0237400	Diageo PLC	United Kingdom	Cons Staples	Food Beverage & Tobacco	10.5	42,547	3.58	9.5%	14.0	8.03	44.41	O / I	12.0	14.1%
6474535	Japan Tobacco Inc.	Japan	Cons Staples	Food Beverage & Tobacco	283,000.0	31,869	2.05	-4.1%	16.4	1.70	7.81	O / I	405,000.0	43.1%
K-US	Kellogg Co.	United States	Cons Staples	Food Beverage & Tobacco	53.6	20,326	2.70	22.2%	14.8	10.02	59.80	O / C	60.0	12.0%
PM-US	Philip Morris	United States	Cons Staples	Food Beverage & Tobacco	50.3	95,729	4.50	15.5%	13.3	15.15	NM	O / I	57.0	13.4%
CEY-AU	Centennial Coal Co. Ltd.	Australia	Energy	Energy	3.4	1,203	2.35	2.7%	16.2	2.00	8.74	O / A	3.9	15.2%
SLB-US	Schlumberger Ltd.	United States	Energy	Energy	62.0	74,411	1.36	46.4%	22.1	3.84	16.98	O / A	130.0	109.8%
FP-FR	Total S.A.	France	Energy	Energy	43.3	138,994	5.35	11.2%	9.5	1.93	15.35	O / A	48.0	10.9%
WFT-US	Weatherford International	United States	Energy	Energy	15.8	11,618	0.00	45.7%	16.2	1.21	4.65	O / A	45.0	185.5%
CSGN-CH	Credit Suisse Group AG	Switzerland	Financials	Diversified Financials	51.3	57,868	4.11	79.8%	8.3	1.58	19.48	O / I	73.0	42.4%
MQG-AU	Macquarie Group Ltd.	Australia	Financials	Diversified Financials	47.6	14,346	3.83	65.2%	12.6	1.58	9.62	O / C	63.8	34.0%
8604-JP	Nomura Holdings Inc.	Japan	Financials	Diversified Financials	663.0	20,703	1.98	-9.1%	30.2	1.14	NM	O / I	850.0	28.2%
AGN-NL	Aegon N.V.	Netherlands	Financials	Insurance	4.5	11,020	0.12	-0.6%	10.6	0.65	NM	O / I	7.5	66.7%
BAX-US	Baxter International Inc.	United States	Health Care	Health Care Equip & Services	58.9	35,533	1.75	10.0%	13.8	5.02	31.06	O / A	65.0	10.3%
AMGN-US	Amgen Inc.	United States	Health Care	Pharma Biotech & LS	56.9	56,896	0.00	-1.5%	11.0	2.53	23.81	O / I	76.0	33.7%
2002305	Abbott Laboratories	United States	Health Care	Pharma Biotech & LS	53.8	83,184	2.89	0.8%	13.0	3.90	29.49	O / A	60.0	11.6%
ROG-CH	Roche Holding AG	Switzerland	Health Care	Pharma Biotech & LS	169.3	139,964	3.17	4.2%	12.5	43.18	65.92	O / A	200.0	18.1%
SAN-FR	Sanofi-Aventis S.A.	France	Health Care	Pharma Biotech & LS	52.9	101,415	4.53	16.5%	8.3	1.55	17.57	O / A	57.0	7.8%
2886907	Thermo Fisher Scientific	United States	Health Care	Pharma Biotech & LS	49.0	20,007	0.00	43.8%	14.6	1.30	8.04	O / A	53.0	8.2%
6448068	Hutchison Whampoa Ltd.	Hong Kong	Industrials	Capital Goods	51.9	28,156	3.35	33.6%	16.5	0.80	6.02	O / I	73.0	40.7%
6763965	SMC Corp.	Japan	Industrials	Capital Goods	10,590.0	8,491	0.80	16.4%	43.1	1.53	1.69	O / A	13,000.0	22.8%
9020-JP	East Japan Railway Co.	Japan	Industrials	Transportation	6,010.0	26,275	1.91	-12.8%	14.2	1.32	7.40	O / A	7,700.0	28.1%
FDX-US	FedEx Corp.	United States	Industrials	Transportation	90.6	28,302	0.49	41.2%	22.3	2.06	7.74	E / A	n/a	n/a
UNP-US	Union Pacific Corp.	United States	Industrials	Transportation	65.3	32,937	1.65	36.6%	15.6	2.00	10.93	O / A	80.0	22.5%
MSFT-US	Microsoft Corp.	United States	Tech	Software & Services	30.1	267,350	1.71	54.9%	15.4	6.50	37.22	O / I	36.0	19.6%
6084848	Yahoo Japan Corp.	Japan	Tech	Software & Services	28,950.0	18,851	0.48	-20.7%	19.2	6.30	26.49	O / A	42,000.0	45.1%
AAPL-US	Apple Inc.	United States	Tech	Tech H/W & Equip	197.0	177,416	0.00	130.8%	24.5	6.37	22.40	O / A	230.0	16.8%
XTA-GB	Xstrata PLC	United Kingdom	Materials	Materials	10.7	49,708	0.14	196.4%	11.1	1.59	9.25	O / I	13.1	21.9%
MON-US	Monsanto Co.	United States	Materials	Materials	83.1	45,294	1.27	18.1%	22.8	4.51	18.43	O / A	105.0	26.4%
NCM-AU	Newcrest Mining Ltd.	Australia	Materials	Materials	35.2	15,735	0.44	3.8%	27.4	4.02	11.57	O / A	39.7	12.8%
6642569	Nippon Steel Corp.	Japan	Materials	Materials	358.0	27,469	0.69	23.4%	19.3	1.44	0.30	O / A	510.0	42.5%
VED-GB	Vedanta Resources PLC	United Kingdom	Materials	Materials	24.3	10,577	1.09	297.7%	11.1	2.86	13.65	O / I	31.7	30.3%
T-US	AT&T Inc.	United States	Telecom	Telecom	28.1	165,523	5.85	-1.6%	12.5	1.66	12.65	O / A	32.0	14.1%
TEF-ES	Telefonica S.A.	Spain	Telecom	Telecom	19.4	131,132	5.93	22.5%	10.3	5.18	38.96	O / A	23.0	18.5%
TLS-AU	Telstra Corp. Ltd.	Australia	Telecom	Telecom	3.5	38,946	8.38	-8.6%	10.0	3.46	31.67	O / I	3.8	8.0%

Source: Factset, Morgan Stanley Research

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Global Stock Portfolio – Exposure to Investment Themes

Tickers	Company Name	Country	Sector	Industry Group	Large Cap Quality	Exposure to Asia and EM	Producer over Consumer	Buy Pricing Power	Takeoff Catalysts: Turnaround / High O/L	Score *(higher is better)*
6900643	Toyota Motor Corp.	Japan	Cons Disc	Automobiles & Components	✓	✓			✓	3
6821506	Sony Corp.	Japan	Cons Disc	Consumer Durables & Apprl		✓				1
YUM-US	Yum! Brands Inc.	United States	Cons Disc	Consumer Services		✓			✓	2
BWA-US	BorgWarner Inc.	United States	Cons Disc	Automobiles & Components				✓		1
WMT-US	Wal-Mart Stores Inc.	United States	Cons Staples	Food & Staples Retailing	✓			✓		2
BN-FR	Danone S.A.	France	Cons Staples	Food Beverage & Tobacco	✓				✓	2
0237400	Diageo PLC	United Kingdom	Cons Staples	Food Beverage & Tobacco	✓	✓		✓		3
6474535	Japan Tobacco Inc.	Japan	Cons Staples	Food Beverage & Tobacco	✓	✓		✓		3
K-US	Kellogg Co.	United States	Cons Staples	Food Beverage & Tobacco		✓		✓		2
PM-US	Philip Morris	United States	Cons Staples	Food Beverage & Tobacco	✓	✓		✓		3
CEY-AU	Centennial Coal Co. Ltd.	Australia	Energy	Energy		✓	✓	✓		3
SLB-US	Schlumberger Ltd.	United States	Energy	Energy	✓	✓	✓		✓	4
FP-FR	Total S.A.	France	Energy	Energy	✓		✓			2
WFT-US	Weatherford International	United States	Energy	Energy		✓	✓		✓	3
CSGN-CH	Credit Suisse Group AG	Switzerland	Financials	Diversified Financials	✓				✓	2
MQG-AU	Macquarie Group Ltd.	Australia	Financials	Diversified Financials		✓			✓	2
8604-JP	Nomura Holdings Inc.	Japan	Financials	Diversified Financials		✓			✓	2
AGN-NL	Aegon N.V.	Netherlands	Financials	Insurance					✓	1
BAX-US	Baxter International Inc.	United States	Health Care	Health Care Equip & Services	✓	✓			✓	3
AMGN-US	Amgen Inc.	United States	Health Care	Pharma Biotech & LS	✓					1
2002305	Abbott Laboratories	United States	Health Care	Pharma Biotech & LS	✓	✓				2
ROG-CH	Roche Holding AG	Switzerland	Health Care	Pharma Biotech & LS	✓			✓		2
SAN-FR	Sanofi-Aventis S.A.	France	Health Care	Pharma Biotech & LS	✓	✓				2
2886907	Thermo Fisher Scientific	United States	Health Care	Pharma Biotech & LS				✓	✓	2
6448068	Hutchison Whampoa Ltd.	Hong Kong	Industrials	Capital Goods		✓				1
6763965	SMC Corp.	Japan	Industrials	Capital Goods		✓	✓			2
9020-JP	East Japan Railway Co.	Japan	Industrials	Transportation				✓	✓	2
FDX-US	FedEx Corp.	United States	Industrials	Transportation		✓			✓	2
UNP-US	Union Pacific Corp.	United States	Industrials	Transportation	✓			✓	✓	3
MSFT-US	Microsoft Corp.	United States	Tech	Software & Services	✓			✓		2
6084848	Yahoo Japan Corp.	Japan	Tech	Software & Services		✓			✓	2
AAPL-US	Apple Inc.	United States	Tech	Tech H/W & Equip	✓			✓		2
XTA-GB	Xstrata PLC	United Kingdom	Materials	Materials	✓	✓	✓	✓		4
MON-US	Monsanto Co.	United States	Materials	Materials	✓		✓	✓		3
NCM-AU	Newcrest Mining Ltd.	Australia	Materials	Materials			✓		✓	2
6642569	Nippon Steel Corp.	Japan	Materials	Materials		✓	✓	✓		3
VED-GB	Vedanta Resources PLC	United Kingdom	Materials	Materials		✓	✓	✓	✓	4
T-US	AT&T Inc.	United States	Telecom	Telecom	✓				✓	2
TEF-ES	Telefonica S.A.	Spain	Telecom	Telecom	✓				✓	2
TLS-AU	Telstra Corp. Ltd.	Australia	Telecom	Telecom	✓			✓	✓	3

Source: Morgan Stanley Research

Appendix & Stock Screens

The Quality Baskets

Overweight Portfolio Baskets

United States (MSMSQALO)	
Wal-Mart Stores Inc.	Kellogg Co.
Walt Disney Co.	Honeywell International Inc.
Medtronic Inc.	Home Depot Inc.
Union Pacific Corp.	Carnival Corp.
EMC Corp.	Chevron Corp.

Europe (MSSTQALO)	
Nestle S.A.	Compass Group PLC
Total S.A.	SAP AG
Roche Holding AG	Repsol YPF S.A.
RWE AG	Novartis AG
BP PLC	Imperial Tobacco Group PLC

Asia ex-Japan (MSNJQALO)	
China Mobile Ltd.	China Shenhua Energy Co. Ltd.
CNOOC Ltd.	POSCO
Belle International	Taiwan Semiconductor Manufacturing
Tencent Holdings Ltd.	Larsen & Toubro Ltd.
Reliance Industries Ltd.	Acer Inc.

Underweight Portfolio Baskets

United States (MSMSQASH)	
Southwest Airlines Co.	Western Digital Corp.
Nordstrom Inc.	Rockwell Automation Inc.
Teradyne Inc.	Robert Half International Inc.
ENSCO International Inc.	Monster Worldwide Inc.
Advanced Micro Devices Inc.	Autodesk Inc.

Europe (MSSTQASH)	
KOC Holding A.S.	Acerinox S.A.
Volvo AB	Metso Corp.
Tomkins PLC	Swatch Group AG
Unilever N.V.	Anadolu Efes Biracilik ve MS
Belgacom S.A.	Cintra Conc de Infra de Trans

Asia ex-Japan (MSNJQASH)	
PTT Aromatics & Refining	Hynix Semiconductor Inc.
Aluminum Corp. of China	Epistar Corp.
Dongkuk Steel Mill Co. Ltd.	NCsoft Corp.
Hanwha Chemical Corp.	Korean Air Co. Ltd.
Far Eastern Depart Stores	Neptune Orient Lines Ltd.

Source: Morgan Stanley Research

Top 40 US Quality Stocks

Ticker	Company Name	Industry Group	Price $ 12/15/2009	NTM P/E	EPS Dispersion	% of Industry group Sales	% of Industry group Net Income	Median Earnings Growth Rel to IndGrp	Piotroski Score	Margin Dispersion	MS Analyst Rating
WMT	Wal-Mart Stores Inc.	Food & Staples Retailing	53.97	13.98	0.73	48.4%	41.2%	2.0%	9	0.06	O / I
ORCL	Oracle Corp.	Software & Services	23.38	15.00	1.05	10.8%	13.8%	4.9%	9	0.39	O / I
KR	Kroger Co.	Food & Staples Retailing	20.04	12.12	0.60	9.1%	6.8%	2.4%	8	0.21	E / I
MDT	Medtronic Inc.	Health Care Equipment & Srvc	43.82	13.15	0.81	2.2%	11.7%	1.8%	8	0.15	E / A
VFC	VF Corp.	Consumer Durables & Apparel	72.97	13.09	0.46	5.8%	28.0%	2.4%	8	0.10	NC
MCD	McDonald's Corp.	Consumer Services	62.29	14.36	0.59	22.6%	41.7%	0.0%	8	0.12	E / I
BDX	Becton Dickinson & Co.	Health Care Equipment & Srvc	77.98	15.31	0.56	1.1%	4.1%	-1.0%	8	0.15	E / A
UTX	United Technologies Corp.	Capital Goods	70.02	15.49	0.78	7.1%	7.2%	5.6%	8	0.37	E / I
PG	Procter & Gamble Co.	Household & Personal Products	62.26	14.85	0.62	58.8%	70.8%	0.6%	8	0.22	NC
CSX	CSX Corp.	Transportation	49.49	15.91	0.52	6.4%	10.2%	5.8%	8	0.29	O / A
UNP	Union Pacific Corp.	Transportation	64.70	16.00	0.52	10.2%	17.0%	-0.4%	8	0.22	O / A
DIS	Walt Disney Co.	Media	32.09	16.75	0.54	14.5%	18.8%	-0.7%	8	0.24	O / A
CSCO	Cisco Systems Inc.	Technology H/W & Equip	23.87	16.42	1.00	7.8%	17.9%	7.0%	8	0.29	NC
PFE	Pfizer Inc.	Pharma Biotech & Life Sciences	18.40	8.35	0.76	15.3%	23.0%	3.2%	7	0.22	O / I
AMGN	Amgen Inc.	Pharma Biotech & Life Sciences	56.33	11.29	1.01	4.8%	6.5%	9.2%	7	0.08	O / I
IBM	International Business Machines	Technology H/W & Equip	129.60	12.27	0.62	20.3%	23.9%	-8.5%	7	0.30	E / A
VZ	Verizon Communications Inc.	Telecommunication Services	33.24	13.62	0.36	34.4%	31.7%	-0.5%	7	0.11	E / A
MAT	Mattel Inc.	Consumer Durables & Apparel	20.07	13.57	0.36	4.5%	22.0%	8.8%	7	0.18	NC
BAX	Baxter International Inc.	Health Care Equipment & Srvc	59.10	14.27	0.44	1.8%	7.5%	-1.5%	7	0.21	O / A
ABT	Abbott Laboratories	Pharma Biotech & Life Sciences	54.08	13.34	0.51	9.4%	7.2%	-1.8%	7	0.07	O / A
HON	Honeywell International Inc.	Capital Goods	41.17	15.55	0.44	4.4%	4.4%	5.3%	7	0.21	O / I
HNZ	H.J. Heinz Co.	Food Beverage & Tobacco	43.15	14.83	0.25	2.4%	2.5%	-1.7%	7	0.09	NC
GIS	General Mills Inc.	Food Beverage & Tobacco	68.60	15.05	0.40	3.5%	3.5%	-1.0%	7	0.17	O / C
K	Kellogg Co.	Food Beverage & Tobacco	53.41	15.41	0.32	3.0%	2.0%	0.5%	7	0.08	O / C
MSFT	Microsoft Corp.	Software & Services	30.20	15.62	0.84	28.1%	37.4%	3.4%	7	0.17	O / I
EMC	EMC Corp.	Technology H/W & Equip	16.67	15.73	0.95	2.9%	3.2%	24.5%	7	0.51	O / A
HD	Home Depot Inc.	Retailing	29.15	17.79	0.85	13.5%	16.9%	1.1%	7	0.14	E / I
KO	Coca-Cola Co.	Food Beverage & Tobacco	59.00	17.58	0.50	7.5%	16.8%	2.5%	7	0.11	NC
CL	Colgate-Palmolive Co.	Household & Personal Products	84.33	17.65	0.59	10.8%	10.8%	2.3%	7	0.24	NC
SLB	Schlumberger Ltd.	Energy	62.94	23.49	0.97	1.8%	3.8%	9.4%	7	0.40	O / A
OI	Owens-Illinois Inc.	Materials	32.76	9.21	0.53	2.3%	2.7%	8.9%	6	0.28	NC
CVX	Chevron Corp.	Energy	77.67	10.14	0.86	17.6%	16.2%	3.1%	6	0.28	O / A
T	AT&T Inc.	Telecommunication Services	27.75	12.78	0.32	43.9%	56.0%	2.5%	6	0.16	O / A
XOM	Exxon Mobil Corp.	Energy	69.52	12.24	0.89	28.2%	29.3%	-3.5%	6	0.34	E / A
INTC	Intel Corp.	Semi & Semi Equipment	20.00	14.16	0.64	38.9%	52.4%	14.7%	6	0.28	E / C
FO	Fortune Brands Inc.	Consumer Durables & Apparel	39.92	14.76	0.36	5.3%	33.3%	5.8%	6	0.14	NR / I
CCL	Carnival Corp.	Consumer Services	33.87	15.96	0.60	14.1%	13.1%	0.0%	6	0.14	O / I
YUM	Yum! Brands Inc.	Consumer Services	34.66	15.40	0.46	10.8%	9.1%	2.6%	6	0.30	O / I
WM	Waste Management Inc.	Commercial & Professional Services	33.20	16.23	0.44	22.6%	22.9%	-1.8%	6	0.36	E / I
GE	General Electric Co.	Capital Goods	15.84	18.06	0.53	21.9%	29.4%	1.8%	6	0.09	O / I

Source: Morgan Stanley Research NC = Not covered NR = Not rated

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Top 40 Europe Quality Stocks

Ticker	Company Name	Industry Group	Price $ 12/15/09	NTM P/E	EPS Dispersion	% of Industry Group Sales	% of Industry Group Net Income	Median Earnings Growth Rel to IndGrp	Piotroski Score	Margin Dispersion	MS Analyst Rating
438042	Publicis Groupe S.A.	Media	41.26	14.5	0.82	5.5%	4.6%	2.6%	9	0.17	E / I
436492	Gazprom OAO	Energy	5.67	5.4	1.40	5.5%	16.7%	8.3%	8	0.47	O / A
B17KP4	Rosneft	Energy	8.08	8.3	0.54	1.8%	6.6%	43.5%	8	0.35	O / A
553397	Swisscom AG	Telecommunication Services	379.80	10.5	0.45	2.0%	2.8%	-19.0%	8	0.38	E / A
416343	Capgemini	Software & Services	45.98	14.2	1.11	25.7%	12.1%	3.9%	8	0.96	O / I
435664	Syngenta AG	Materials	278.48	15.7	0.79	1.3%	1.8%	14.1%	8	0.54	O / I
707752	Novo Nordisk A/S	Pharma Biotech & Life Sciences	64.86	16.0	0.97	3.2%	3.0%	1.7%	8	0.19	E / A
B01463	Synthes Inc.	Health Care Equipment & Serv	131.31	17.1	0.56	3.4%	15.6%	-1.8%	8	0.51	E / A
B0M7KJ	Eutelsat Communications	Media	32.49	19.1	0.51	1.2%	2.2%	29.3%	8	0.20	O / I
098952	AstraZeneca PLC	Pharma Biotech & Life Sciences	45.98	7.6	0.69	9.2%	14.4%	-1.8%	7	0.31	E / A
485173	Surgutneftegaz JSC	Energy	0.87	7.3	0.49	0.9%	2.5%	-17.7%	7	0.38	E / A
401225	EADS	Capital Goods	18.28	13.6	0.89	5.7%	4.5%	-21.2%	7	1.08	O / I
053315	Compass Group PLC	Consumer Services	7.55	14.4	0.16	13.3%	12.2%	2.1%	7	0.23	O / I
B11WWH	Schindler Holding AG	Capital Goods	73.44	15.5	0.74	1.2%	0.7%	-6.3%	7	0.26	NC
712387	Nestle S.A.	Food Beverage & Tobacco	48.05	15.9	0.62	24.0%	26.0%	-2.6%	7	0.21	O / I
B1Y9TB	Danone S.A.	Food Beverage & Tobacco	60.74	16.0	0.53	4.9%	6.0%	-4.5%	7	0.21	O / I
047640	Johnson Matthey PLC	Materials	24.41	16.7	0.50	1.3%	0.3%	2.9%	7	0.12	E / I
710889	ABB Ltd.	Capital Goods	18.25	17.3	0.79	3.4%	6.5%	-9.0%	7	0.47	E / I
476896	RWE AG	Utilities	95.21	9.2	0.72	7.8%	7.3%	-11.9%	6	0.42	E / C
714505	ENI S.p.A.	Energy	24.96	9.1	0.77	7.2%	8.5%	-12.2%	6	0.30	E / A
309135	BT Group PLC	Telecommunication Services	2.31	9.6	0.32	5.4%	3.8%	-17.8%	6	0.40	O / A
573252	Telefonica S.A.	Telecommunication Services	28.25	10.4	1.07	14.1%	17.6%	-12.0%	6	0.81	O / A
566935	Repsol YPF S.A.	Energy	27.28	10.7	0.64	3.9%	2.1%	-18.3%	6	0.11	O / A
451957	Kerry Group PLC	Food Beverage & Tobacco	31.47	12.2	0.56	1.5%	1.0%	2.9%	6	0.17	NC
711038	Roche Holding AG	Pharma Biotech & Life Sciences	163.03	12.6	0.69	16.1%	14.2%	0.8%	6	0.52	O / A
550507	PPR S.A.	Retailing	118.88	12.6	0.60	29.6%	18.1%	-8.3%	6	0.32	O / C
B1XH02	Vinci S.A.	Capital Goods	57.86	14.0	1.03	4.5%	4.6%	-14.7%	6	1.10	O / I
564156	Carrefour S.A.	Food & Staples Retailing	48.45	14.8	0.62	25.3%	20.2%	-3.5%	6	0.17	NC
B16GWD	Vodafone Group PLC	Telecommunication Services	2.30	9.3	0.79	10.3%	20.0%	-4.2%	5	3.19	O / A
079805	BP PLC	Energy	9.44	8.9	0.73	13.5%	14.2%	4.4%	5	0.31	O / A
B15C55	Total S.A.	Energy	63.39	9.7	0.95	10.7%	11.1%	-13.2%	5	0.46	O / A
092528	GlaxoSmithKline PLC	Pharma Biotech & Life Sciences	21.45	10.9	0.48	13.1%	15.2%	-4.9%	5	0.13	E / A
548155	TNT N.V.	Transportation	31.12	13.2	0.49	4.3%	8.2%	-7.4%	5	0.24	O / I
710306	Novartis AG	Pharma Biotech & Life Sciences	53.93	12.0	0.59	15.8%	18.6%	-0.6%	5	0.26	E / A
088470	Tesco PLC	Food & Staples Retailing	6.81	13.2	0.55	16.2%	27.2%	-6.9%	5	0.15	E / I
023740	Diageo PLC	Food Beverage & Tobacco	17.31	14.2	0.33	3.7%	5.9%	-5.6%	5	0.31	O / I
572797	Siemens AG	Capital Goods	89.02	14.5	0.49	10.4%	8.3%	-27.4%	5	0.32	E / I
B1YXBJ	Air Liquide S.A.	Materials	118.94	16.9	0.57	2.1%	1.9%	-0.3%	5	0.06	E / I
045449	Imperial Tobacco Group PLC	Food Beverage & Tobacco	31.03	10.4	0.60	4.2%	5.3%	1.8%	4	0.28	O / A
484628	SAP AG	Software & Services	44.92	15.6	0.97	34.1%	58.6%	-3.5%	4	0.19	O / I

Source: Morgan Stanley Research NC = Not covered

Top 40 Asia ex-Japan Quality Stocks

Ticker	Company Name	Industry Group	Price $ 12/15/2009	NTM P/E	EPS Dispersion	% of Industry group Sales	% of Industry group Net Income	Median Earnings Growth Rel to IndGrp	Piotroski Score	Margin Dispersion	MS Analyst Rating
629171	Astra International	Automobiles & Components	3.61	13.4	0.59	6.6%	18.2%	-10.4%	9	0.42	NC
609701	CLP Holdings Ltd.	Utilities	6.73	15.2	0.26	6.6%	18.9%	-3.9%	9	0.17	E / C
613936	Oil & Natural Gas Corp	Energy	25.52	11.1	0.54	2.9%	17.1%	2.2%	8	0.20	E / I
607355	China Mobile Ltd.	Telecommunication Services	9.25	11.1	0.71	29.7%	53.3%	-4.2%	8	0.31	E / I
B1TLR6	China Agri-Industries Holdings	Food Beverage & Tobacco	1.35	15.6	0.60	6.3%	4.8%	55.7%	8	0.72	O / A
B01CLC	Noble Group Ltd	Capital Goods	2.23	14.9	0.92	5.6%	4.1%	9.1%	8	0.31	NC
643532	HongKong Electric Holdings	Utilities	5.42	13.6	0.15	1.5%	14.5%	-6.6%	8	0.12	E / C
B0PH5N	Dongfeng Motor Group Co. Ltd.	Automobiles & Components	1.47	13.2	0.39	7.6%	4.2%	-16.6%	8	0.38	E / C
600550	Jiangsu Expressway Co. Ltd.	Transportation	0.88	14.1	0.43	0.6%	2.8%	-63.0%	8	0.07	O / I
621173	Daewoo Shipbuilding & Marine	Capital Goods	14.51	4.1	0.69	1.5%	2.3%	-1.0%	7	0.71	E / I
B0WNLY	Reliance Communications Ltd.	Telecommunication Services	3.74	10.0	0.37	2.2%	3.8%	29.0%	7	0.36	E / I
614101	Quanta Computer Inc.	Technology Hardware & Equip	2.09	10.5	0.27	8.1%	7.8%	-38.1%	7	0.62	O / I
612149	Steel Authority of India Ltd.	Materials	4.57	14.1	0.66	2.8%	7.6%	1.0%	7	0.72	E / I
B0WGPZ	Lotte Shopping Co. Ltd.	Retailing	311.29	13.0	0.24	15.9%	17.3%	-28.5%	7	0.23	E / I
624226	Jardine Cycle & Carriage Ltd.	Retailing	17.93	11.4	0.60	17.0%	13.2%	13.9%	7	0.53	NC
B00G0S	CNOOC Ltd.	Energy	1.56	12.3	0.70	2.6%	27.3%	16.5%	7	0.13	O / C
649091	KCC Corp.	Capital Goods	317.32	15.7	0.39	0.4%	1.1%	-19.8%	7	0.17	E / I
B2PFVH	China Railway Construction	Capital Goods	1.25	13.6	0.41	5.0%	0.7%	29.7%	7	0.43	NC
B01CT3	Tencent Holdings Ltd.	Software & Services	20.82	36.9	0.88	5.4%	9.8%	12.8%	7	0.13	O / A
650531	KT Corp.	Telecommunication Services	35.61	8.9	0.50	7.7%	1.2%	22.8%	6	0.52	O / A
609972	Bharat Petroleum Corp. Ltd.	Energy	13.19	11.8	0.41	4.0%	0.8%	-12.8%	6	0.37	O / I
667248	Wistron Corp.	Technology Hardware & Equip	1.77	9.6	0.82	4.4%	3.0%	-22.2%	6	0.63	O / I
610115	Tata Steel Ltd.	Materials	11.69	12.3	0.83	9.3%	8.7%	-10.2%	6	0.42	O / I
658653	Yue Yuen Industrial	Consumer Dur & Apparel	2.87	10.6	0.19	6.7%	35.2%	2.8%	6	0.17	E / A
628784	Chunghwa Telecom Co. Ltd.	Telecommunication Services	1.81	13.7	0.16	3.0%	4.4%	-23.7%	6	0.10	O / A
609962	Reliance Industries Ltd.	Energy	22.52	15.0	0.73	4.8%	13.7%	2.4%	6	0.34	O / I
613340	GAIL (India) Ltd.	Utilities	8.61	15.3	0.38	4.6%	7.9%	-1.7%	6	0.15	O / I
643856	Hon Hai Precision Industry Co	Technology Hardware & Equip	4.31	14.4	0.63	19.3%	21.7%	-13.4%	6	0.44	O / I
635425	Cosco Pacific Ltd.	Transportation	1.31	13.4	0.42	0.3%	13.3%	-67.3%	6	0.28	E / I
638870	Guangshen Railway Co. Ltd.	Transportation	0.40	13.2	0.27	1.3%	1.7%	-65.7%	6	0.38	O / I
617340	Woongjin Coway Co. Ltd.	Consumer Durables & Apparel	33.37	15.9	0.56	2.4%	8.1%	46.8%	6	0.30	O / I
678204	China Shipping Development	Transportation	1.58	16.9	1.00	1.9%	14.6%	-2.7%	6	0.44	O / I
B1JNK8	China Coal Energy Co. Ltd.	Energy	1.86	17.5	0.22	1.0%	1.4%	9.4%	6	0.41	E / A
680177	Foxconn Technology Co. Ltd.	Technology Hardware & Equip	3.62	16.1	1.01	1.6%	2.4%	11.1%	6	0.62	O / I
B09N7M	China Shenhua Energy Co. Ltd.	Energy	4.97	18.4	0.35	2.2%	2.8%	8.7%	6	0.26	O / A
B1WJ4X	Belle International Holdings	Retailing	1.30	24.9	0.32	4.1%	8.6%	18.1%	6	0.18	O / A
669323	POSCO	Materials	513.22	11.0	0.59	10.7%	19.9%	-17.6%	5	0.34	O / I
688910	TSMC	Semi & Semi Equip	1.94	14.3	0.56	7.5%	-139.2%	-1.6%	5	0.30	E / I
600585	Acer Inc.	Technology Hardware & Equip	2.69	14.8	0.37	5.4%	4.7%	-30.3%	4	0.51	O / I
B0166K	Larsen & Toubro Ltd.	Capital Goods	36.00	25.2	0.89	1.2%	4.0%	-7.7%	4	0.15	O / A

Source: Morgan Stanley Research   NC = Not covered

Companies with High & Reliable Earnings Growth

Ticker	Company	Country	Sector	USD Price (Latest)	Avg. chg in Fwd. EPS	Median chg in Fwd. EPS	Std. Dev. of EPS chg.	Prob. of +ve EPS change	NTM PE	MS Rating
ADS	Alliance Data Systems Corp.	United States	Information Technology	64.92	7.9%	7.5%	0.03	100%	10.6	NC
B23K0M	Capita Group PLC	United Kingdom	Industrials	11.71	6.1%	6.1%	0.02	100%	17.1	E / I
CERN	Cerner Corp.	United States	Health Care	77.20	6.2%	6.7%	0.02	86%	27.6	NC
ESRX	Express Scripts Inc.	United States	Health Care	88.02	7.6%	6.7%	0.03	90%	19.1	NC
SRCL	Stericycle Inc.	United States	Industrials	57.69	9.7%	5.9%	0.02	90%	24.5	NC
ESI	ITT Educational Services Inc.	United States	Consumer Discretionary	96.28	6.9%	6.0%	0.05	95%	10.2	O / I
775943	Iliad S.A.	France	Telecommunication Services	116.60	9.5%	10.5%	0.06	91%	18.2	E / A
MHS	Medco Health Solutions Inc.	United States	Health Care	64.94	5.4%	5.2%	0.04	88%	20.0	NC
698123	Woolworths Ltd.	Australia	Consumer Staples	24.67	4.4%	4.2%	0.02	98%	15.7	NC
DVA	DaVita Inc.	United States	Health Care	60.38	9.7%	6.0%	0.04	81%	13.8	NC
FISV	Fiserv Inc.	United States	Information Technology	47.59	4.3%	4.1%	0.02	97%	12.2	NC
079737	Serco Group PLC	United Kingdom	Industrials	8.46	4.4%	4.0%	0.01	98%	16.1	E / I
DGX	Quest Diagnostics Inc.	United States	Health Care	61.44	7.5%	5.3%	0.04	85%	14.7	NC
HSIC	Henry Schein Inc.	United States	Health Care	51.22	4.0%	4.2%	0.02	87%	14.8	NC
AAP	Advance Auto Parts Inc.	United States	Consumer Discretionary	41.05	5.4%	5.1%	0.05	87%	12.6	O / I
CVS	CVS Caremark Corp.	United States	Consumer Staples	32.36	3.1%	4.5%	0.04	86%	11.9	O / I
PDCO	Patterson Cos. Inc.	United States	Health Care	27.41	4.0%	4.4%	0.04	90%	14.8	NC
VAR	Varian Medical Systems Inc.	United States	Health Care	46.28	2.9%	5.7%	0.04	80%	16.7	NC
CHRW	C.H. Robinson Worldwide Inc.	United States	Industrials	59.04	4.9%	4.8%	0.04	87%	24.7	E / A
CTSH	Cognizant Technology Solutions Corp.	United States	Information Technology	43.88	10.2%	10.2%	0.05	77%	22.1	NC
568743	Hennes & Mauritz AB	Sweden	Consumer Discretionary	54.48	4.7%	5.1%	0.05	85%	18.0	E / C
484628	SAP AG	Germany	Information Technology	44.77	4.8%	5.1%	0.04	80%	15.5	O / I
CHD	Church & Dwight Co.	United States	Consumer Staples	60.33	6.1%	4.1%	0.03	88%	15.6	E / I
COH	Coach Inc.	United States	Consumer Discretionary	36.85	7.4%	8.6%	0.07	85%	17.1	O / C
B02J63	Admiral Group PLC	United Kingdom	Financials	18.02	4.6%	4.1%	0.04	95%	16.5	O / I
447621	Indra Sistemas S.A.	Spain	Information Technology	23.12	4.9%	4.3%	0.03	86%	12.7	E / I
WLP	WellPoint Inc.	United States	Health Care	57.68	3.9%	4.5%	0.04	84%	9.5	O / I
ACS	Affiliated Computer Services Inc. (Cl A)	United States	Information Technology	58.20	4.2%	4.3%	0.04	88%	13.5	E / I
MDT	Medtronic Inc.	United States	Health Care	43.87	3.9%	3.8%	0.02	92%	13.0	E / A
WAG	Walgreen Co.	United States	Consumer Staples	38.21	3.4%	4.0%	0.03	90%	15.4	E / I
*SC	Shoppers Drug Mart Corp.	Canada	Consumer Staples	41.63	4.1%	3.6%	0.02	97%	14.7	E / A
ACN	Accenture Plc	United States	Information Technology	41.96	3.9%	4.3%	0.04	88%	15.2	NC
UNH	UnitedHealth Group Inc.	United States	Health Care	30.95	4.5%	5.1%	0.06	88%	10.1	O / I
621179	Cochlear Ltd.	Australia	Health Care	58.35	5.4%	5.4%	0.05	81%	22.5	E / C
MFE	McAfee Inc.	United States	Information Technology	38.52	13.8%	8.1%	0.07	85%	14.4	O / I
CVD	Covance Inc.	United States	Health Care	51.64	3.8%	4.8%	0.05	84%	17.0	NC
9843	Nitori Co. Ltd.	Japan	Consumer Discretionary	74.99	6.5%	5.4%	0.06	85%	14.0	NC
*MRU.A	Metro Inc. (Cl A)	Canada	Consumer Staples	35.34	3.4%	4.1%	0.04	89%	10.7	NC
LH	Laboratory Corp. of America Holdings	United States	Health Care	74.75	18.3%	4.4%	0.03	80%	13.8	NC
LIFE	Life Technologies Corp.	United States	Health Care	51.62	5.9%	5.2%	0.05	83%	16.2	O / A

Screen universe is MSCI World excluding MS Analyst Underweights. Earnings estimates are IBES consensus. Source: Factset, Morgan Stanley Research
Stocks ranked by average of 3 ranks: 1) Median quarterly % change in NTM EPS since 1995; 2) St. Deviation of change in NTM EPS over last 5 yrs; and 3) Probability of positive EPS change.

Companies with High & Reliable Dividend Growth

Factset ID	Company	Country	Sector	Price (Latest)	09e Div Yield	09e Div Cover	10e Div Cover	10e Div Growth	11e Div Growth	MS Rating
MO	Altria Group Inc.	United States	Consumer Staples	19.567 $	6.7%	1.34	1.35	6%	6%	E / I
079087	Scottish & Southern Energy PLC	United Kingdom	Utilities	11.18 £	6.3%	1.59	1.55	8%	8%	O / C
*BCE	BCE Inc.	Canada	Telecommunication Services	26.32 $	6.0%	1.60	1.54	5%	5%	O / A
573252	Telefonica S.A.	Spain	Telecommunication Services	19.25 €	6.0%	1.52	1.32	22%	14%	O / A
595607	Koninklijke KPN N.V.	Netherlands	Telecommunication Services	11.835 €	5.7%	1.32	1.36	18%	13%	O / A
B08SNH	National Grid PLC	United Kingdom	Utilities	6.5 £	5.5%	1.54	1.46	8%	8%	O / C
529412	Muenchener Rueckversicherungs-Gesellschaft	Germany	Financials	105.48 €	5.4%	2.09	2.25	5%	5%	E / I
598381	Zurich Financial Services AG	Switzerland	Financials	219.1 CHF	5.3%	1.78	2.53	8%	9%	O / I
476896	RWE AG	Germany	Utilities	65.18 €	5.3%	1.82	1.82	9%	12%	E / C
034521	FirstGroup PLC	United Kingdom	Industrials	3.926 £	5.1%	2.03	2.06	10%	10%	O / I
028758	British American Tobacco PLC	United Kingdom	Consumer Staples	19.57 £	5.1%	1.54	1.54	8%	10%	O / A
*MFC	Manulife Financial Corp.	Canada	Financials	18.76 $	5.1%	1.42	2.16	10%	9%	E / I
B00ZQQ	SES S.A.	France	Consumer Discretionary	14.41 €	5.0%	1.62	1.61	10%	10%	O / I
657407	PCCW Ltd.	Hong Kong	Telecommunication Services	1.89 HK$	4.9%	2.42	1.78	32%	15%	NC
LO	Lorillard Inc.	United States	Consumer Staples	78.47 $	4.9%	1.49	1.54	6%	6%	O / I
*SLF	Sun Life Financial Inc.	Canada	Financials	29.47 $	4.9%	1.63	2.03	11%	11%	E / I
309135	BT Group PLC	United Kingdom	Telecommunication Services	1.413 £	4.9%	2.37	1.91	7%	7%	O / A
B033F2	Centrica PLC	United Kingdom	Utilities	2.661 £	4.8%	1.56	1.55	5%	5%	E / C
523148	Allianz SE	Germany	Financials	83.73 €	4.8%	2.35	2.47	11%	8%	E / I
B02PY2	Singapore Telecommunications Ltd.	Singapore	Telecommunication Services	3.02 S$	4.8%	1.67	1.59	15%	17%	O / I
606558	Australia & New Zealand Banking Group Ltd.	Australia	Financials	21.43 A$	4.8%	1.57	1.45	6%	26%	+ / C
B1LB9P	Scor S.E.	France	Financials	17.2 €	4.6%	2.35	2.52	10%	8%	NC
HCBK	Hudson City Bancorp Inc.	United States	Financials	13.105 $	4.6%	1.77	1.86	7%	10%	O / A
566935	Repsol YPF S.A.	Spain	Energy	18.635 €	4.6%	1.43	2.50	6%	30%	O / A
653611	BOC Hong Kong (Holdings) Ltd.	Hong Kong	Financials	17.64 HK$	4.5%	1.54	1.54	31%	24%	E / I
PM	Philip Morris International Inc.	United States	Consumer Staples	49.8 $	4.5%	1.46	1.53	13%	10%	O / I
B0LL2W	TrygVesta A/S	Denmark	Financials	340 DKK	4.5%	1.94	1.94	21%	6%	E / I
026349	BAE Systems PLC	United Kingdom	Industrials	3.451 £	4.5%	2.70	2.55	6%	6%	O / I
717158	Credit Suisse Group AG	Switzerland	Financials	50.95 CHF	4.4%	2.87	2.51	22%	55%	O / I
766716	Atlantia S.p.A.	Italy	Industrials	17.9 €	4.4%	1.63	1.59	10%	10%	O / I
PPL	PPL Corp.	United States	Utilities	32.19 $	4.3%	1.28	2.26	5%	5%	NC
B019KW	J Sainsbury PLC	United Kingdom	Consumer Staples	3.21 £	4.3%	1.61	1.60	9%	7%	O / I
056039	Legal & General Group PLC	United Kingdom	Financials	0.79 £	4.3%	1.36	2.41	10%	10%	O / I
B0ZNPN	AGL Energy Ltd.	Australia	Utilities	13.65 A$	4.2%	1.58	1.67	8%	16%	O / A
*TRP	TransCanada Corp.	Canada	Energy	36 $	4.2%	1.36	1.35	6%	5%	NC
627102	Insurance Australia Group Ltd.	Australia	Financials	3.84 A$	4.2%	1.88	1.60	7%	14%	E / I
B1Z7RQ	TUI Travel PLC	United Kingdom	Consumer Discretionary	2.576 £	4.2%	2.21	2.17	9%	8%	E / I
475531	Anheuser-Busch InBev	Belgium	Consumer Staples	36.075 €	4.1%	1.69	1.66	30%	13%	O / I
338721	ICAP PLC	United Kingdom	Financials	4.18 £	4.1%	1.87	1.94	11%	15%	E / I
B0DJNG	Finmeccanica S.p.A.	Italy	Industrials	11.2 €	4.0%	2.98	2.92	10%	8%	O / I

Screen universe is MSCI World excluding MS Analyst Underweights. Estimates are MS Analyst estimates for covered companies, otherwise consensus. Table sorted by '09e Div Yield.
Criteria: 1) 2009e Dividend Yield > 4.0%; 2) '09e and '10e Dividend Cover > 1.25x; and 3) '09e and '10e DPS growth > 5.0%. Source: Factset, Morgan Stanley Research

Global Equity Performance at a Glance: By Region

MSCI Index	MSCI ACWI Weight	Local Currency Total Return % Week	1Mo	3Mo	YTD	12Mo	USD Total Return % Week	1Mo	3Mo	YTD	12Mo	Off 12Mo High	Off 12Mo Low	Performance Rank 1Mo	Performance Rank 12Mo
AC World Index (ACWI)		**0.3%**	**1.5%**	**4.7%**	**28.3%**	**31.9%**	**0.0%**	**0.9%**	**5.5%**	**34.8%**	**40.1%**	**-0.7%**	**76.7%**	16	26
MSCI World (Developed Mkts)	**87.1%**	**0.2%**	**1.4%**	**4.3%**	**24.8%**	**28.7%**	**0.0%**	**0.7%**	**4.7%**	**30.3%**	**35.6%**	**-0.7%**	**73.2%**	17	30
AC World Index ex-US	**58.0%**	**-0.3%**	**1.1%**	**3.4%**	**29.7%**	**33.2%**	**-0.8%**	**0.0%**	**4.7%**	**41.2%**	**47.9%**	**-1.8%**	**84.7%**	23	21
EAFE	**40.9%**	**-0.6%**	**0.7%**	**2.2%**	**22.4%**	**26.0%**	**-1.0%**	**-0.5%**	**2.9%**	**32.1%**	**38.7%**	**-2.2%**	**78.5%**	25	27
AC Europe	**28.6%**	**-0.4%**	**0.3%**	**4.0%**	**27.4%**	**29.5%**	**-1.5%**	**-1.8%**	**3.5%**	**37.4%**	**42.6%**	**-3.8%**	**88.5%**	31	23
Asia Pacific Ex-Japan	**12.1%**	**-0.1%**	**1.0%**	**5.3%**	**55.2%**	**59.3%**	**-0.1%**	**0.3%**	**8.8%**	**70.7%**	**80.5%**	**-1.4%**	**104.8%**	20	11
North America	**46.1%**	**1.0%**	**2.0%**	**6.1%**	**27.0%**	**31.1%**	**0.9%**	**1.9%**	**6.4%**	**28.7%**	**32.9%**	**0.0%**	**68.7%**	**11**	**32**
S&P 500		1.0%	2.1%	6.7%	26.3%	29.8%	1.0%	2.1%	6.7%	26.3%	29.8%	0.0%	67.5%	9	33
US - Nasdaq Composite		1.0%	2.0%	5.8%	40.3%	43.6%	1.0%	2.0%	5.8%	40.3%	43.6%	0.0%	74.4%	10	22
Canada	4.1%	0.7%	1.4%	1.3%	31.5%	38.5%	-0.3%	0.3%	3.7%	53.0%	62.1%	-3.4%	90.2%	21	18
Europe	**27.4%**	**-0.3%**	**0.3%**	**3.8%**	**26.1%**	**28.2%**	**-1.4%**	**-1.7%**	**3.2%**	**35.9%**	**41.3%**	**-3.7%**	**87.0%**	**30**	**25**
United Kingdom	8.8%	0.1%	0.6%	6.5%	25.4%	30.0%	-0.9%	-1.9%	4.3%	41.8%	41.7%	-4.0%	84.5%	32	24
Germany	3.3%	0.3%	1.9%	2.6%	19.5%	23.5%	-0.9%	0.3%	2.8%	26.0%	35.4%	-3.5%	82.7%	22	31
France	4.5%	-0.2%	0.7%	3.0%	25.4%	25.6%	-1.4%	-0.8%	3.1%	32.2%	37.7%	-3.2%	83.4%	28	28
Switzerland	3.1%	-0.6%	1.1%	3.1%	20.8%	18.8%	-1.7%	-0.6%	3.4%	24.6%	35.7%	-3.3%	72.5%	27	29
Japan	**8.6%**	**-1.5%**	**2.6%**	**-3.7%**	**6.1%**	**12.4%**	**-0.2%**	**4.0%**	**-1.2%**	**8.7%**	**16.1%**	**-3.1%**	**45.1%**	**4**	**34**
Developed Pacific Ex-Japan	**5.0%**	**-0.4%**	**-0.3%**	**4.3%**	**40.7%**	**46.7%**	**-0.3%**	**-1.6%**	**9.0%**	**69.1%**	**83.0%**	**-3.4%**	**111.6%**	**29**	**8**
Australia	3.4%	-0.6%	-1.2%	3.4%	30.8%	39.1%	-0.4%	-3.0%	9.8%	71.5%	92.2%	-5.2%	118.8%	33	5
Hong Kong	1.0%	-0.3%	1.4%	6.4%	61.4%	61.8%	-0.3%	1.4%	6.4%	61.4%	61.8%	-1.3%	86.4%	14	19
Singapore	0.6%	0.1%	3.1%	7.2%	63.1%	64.6%	-0.1%	2.7%	9.5%	68.8%	75.6%	-1.4%	121.8%	7	15
Emerging Markets	**12.9%**	**0.3%**	**2.3%**	**8.2%**	**60.8%**	**61.9%**	**-0.1%**	**1.8%**	**11.0%**	**77.1%**	**82.2%**	**-0.6%**	**110.7%**	**12**	**9**
EM Asia	**7.2%**	**0.2%**	**1.9%**	**6.0%**	**66.0%**	**68.3%**	**0.0%**	**1.7%**	**8.7%**	**71.9%**	**78.8%**	**-0.3%**	**105.2%**	**13**	**12**
Korea	1.7%	1.7%	6.3%	2.9%	57.2%	58.7%	1.4%	6.6%	9.0%	71.1%	88.2%	0.0%	131.0%	1	7
Taiwan	1.4%	0.1%	1.0%	6.0%	67.2%	71.7%	0.0%	0.7%	7.2%	69.9%	77.1%	-1.0%	89.7%	18	14
China	2.4%	-1.2%	-0.5%	8.1%	64.9%	66.6%	-1.3%	-0.6%	8.1%	64.8%	66.6%	-2.2%	93.7%	26	17
India	1.0%	0.9%	2.2%	8.2%	90.0%	90.2%	0.6%	1.3%	12.8%	98.1%	97.2%	-1.9%	147.1%	15	4
EM Latin America	**3.1%**	**0.6%**	**4.3%**	**14.7%**	**63.5%**	**61.9%**	**-0.2%**	**4.0%**	**19.5%**	**105.5%**	**103.8%**	**-1.2%**	**133.3%**	**3**	**3**
Brazil	2.2%	0.5%	4.9%	17.4%	72.5%	66.1%	-0.4%	3.8%	22.0%	130.3%	125.1%	-1.7%	144.5%	5	1
Mexico	0.6%	0.0%	2.6%	7.9%	45.7%	51.1%	-1.3%	4.9%	12.7%	57.4%	58.2%	-1.6%	126.3%	2	20
EM EMEA	**2.6%**	**0.2%**	**1.2%**	**7.3%**	**46.3%**	**47.2%**	**-0.2%**	**-0.2%**	**8.2%**	**63.8%**	**70.4%**	**-3.4%**	**103.3%**	**24**	**16**
Russia	0.8%	-0.3%	-1.1%	9.1%	77.0%	68.0%	-0.8%	-4.4%	11.3%	97.1%	82.2%	-9.3%	136.8%	35	10
Turkey	0.2%	0.3%	3.5%	7.1%	82.4%	96.8%	-0.4%	2.2%	6.7%	87.4%	104.0%	-6.4%	158.9%	8	2
South Africa	0.9%	1.3%	2.4%	4.3%	23.9%	29.1%	1.8%	2.8%	4.8%	54.5%	77.2%	-1.3%	104.3%	6	13
BRIC	**6.4%**	**-0.2%**	**1.6%**	**11.1%**	**72.0%**	**69.7%**	**-0.6%**	**0.7%**	**13.7%**	**93.3%**	**90.7%**	**-1.8%**	**120.9%**	**19**	**6**
Frontier Markets	**0.5%**	**2.2%**	**-4.0%**	**-6.0%**	**15.2%**	**5.1%**	**2.2%**	**-4.1%**	**-5.8%**	**12.2%**	**1.8%**	**-12.1%**	**49.9%**	**34**	**35**

Source: Factset, MSCI, Morgan Stanley Research. Note: Performance as of 12/14/2009.

Global Equity Performance at a Glance: By Sector

Total Returns	1 Month					3 Month					6 Month					YTD				
(In USD Terms)	USA	Europe	APxJ	Japan	World	USA	Europe	APxJ	Japan	World	USA	Europe	APxJ	Japan	World	USA	Europe	APxJ	Japan	World
Consumer Discretionary	**3.3%**	**-1.0%**	**3.5%**	**6.1%**	**2.7%**	**10.2%**	**4.0%**	**14.7%**	**3.9%**	**7.2%**	**27.2%**	**20.2%**	**36.8%**	**11.9%**	**21.8%**	**42.7%**	**37.7%**	**104.1%**	**37.2%**	**40.6%**
Automobiles & Components	4.8%	-1.6%	6.6%	7.2%	4.2%	9.7%	-0.7%	21.0%	5.8%	4.5%	36.6%	4.9%	57.1%	13.2%	13.2%	99.8%	25.1%	199.4%	49.8%	45.0%
Consumer Durables & Appare	0.4%	-1.5%	6.1%	6.2%	1.9%	6.6%	8.4%	6.2%	1.2%	5.3%	26.5%	36.3%	16.1%	7.3%	21.6%	32.2%	63.9%	76.1%	31.2%	41.0%
Consumer Services	1.4%	3.5%	-3.6%	1.1%	1.2%	8.2%	4.5%	6.6%	-3.1%	6.8%	18.7%	19.9%	18.9%	9.8%	18.8%	18.7%	29.3%	55.8%	-7.1%	21.9%
Media	6.0%	1.1%	-1.0%	5.6%	4.4%	11.4%	5.0%	8.5%	-3.0%	8.7%	31.1%	25.0%	29.1%	11.2%	28.0%	44.6%	25.8%	46.2%	-1.6%	36.2%
Retailing	2.7%	-5.3%	4.3%	-1.1%	1.0%	11.2%	5.2%	19.7%	1.6%	9.5%	27.3%	25.1%	42.9%	17.4%	26.4%	54.0%	73.5%	97.6%	9.5%	53.5%
Consumer Staples	**1.6%**	**1.3%**	**2.2%**	**4.5%**	**1.6%**	**8.0%**	**9.4%**	**14.2%**	**0.0%**	**8.1%**	**17.1%**	**28.5%**	**32.7%**	**12.1%**	**21.3%**	**16.6%**	**36.2%**	**64.7%**	**-8.6%**	**23.2%**
Food & Staples Retailing	0.7%	-2.3%	0.1%	-0.7%	-0.2%	3.2%	5.5%	11.0%	-9.0%	4.2%	11.7%	14.9%	31.8%	-9.7%	13.2%	8.6%	29.6%	68.9%	-29.6%	16.2%
Food Beverage & Tobacco	1.6%	1.7%	3.6%	5.0%	1.7%	7.7%	9.9%	16.5%	2.5%	8.4%	17.5%	31.2%	33.1%	19.6%	23.8%	23.0%	36.9%	62.5%	3.2%	28.7%
Household & Personal Produc	2.5%	5.4%	5.1%	9.7%	3.5%	13.8%	12.8%	18.2%	5.3%	13.0%	22.2%	37.0%	35.0%	26.1%	25.1%	12.6%	43.9%	55.8%	-3.3%	16.6%
Energy	**-2.4%**	**-2.2%**	**-1.0%**	**-8.7%**	**-2.2%**	**3.6%**	**5.2%**	**7.5%**	**-21.7%**	**3.8%**	**4.5%**	**11.8%**	**12.9%**	**-23.9%**	**6.9%**	**15.2%**	**32.6%**	**72.4%**	**-8.1%**	**24.4%**
Energy Equip & Services	-4.8%	-0.7%	1.7%		-4.0%	2.7%	11.4%	8.7%		4.0%	5.4%	28.6%	15.4%		8.9%	59.6%	109.1%	115.6%		66.7%
Oil Gas & Consumable Fuels	-1.8%	-2.3%	-1.1%	-8.7%	-1.9%	3.8%	4.8%	7.5%	-21.7%	3.8%	4.2%	10.9%	12.8%	-23.9%	6.6%	8.1%	29.4%	71.5%	-8.1%	20.0%
Financials	**-1.3%**	**-7.1%**	**-2.3%**	**-2.7%**	**-3.8%**	**-1.3%**	**-2.6%**	**8.5%**	**-11.4%**	**-1.1%**	**16.5%**	**21.8%**	**28.3%**	**-15.0%**	**17.3%**	**14.7%**	**45.0%**	**76.0%**	**-12.1%**	**31.8%**
Banks	-1.9%	-7.2%	-4.1%	-8.4%	-5.6%	-0.6%	-1.4%	10.0%	-14.0%	0.0%	11.3%	26.9%	34.0%	-21.6%	20.3%	-7.9%	59.3%	87.2%	-18.9%	41.1%
Diversified Financials	-2.7%	-9.1%	0.1%	2.2%	-3.9%	-3.7%	-9.1%	2.0%	-7.2%	-4.8%	14.0%	7.0%	14.2%	-16.5%	10.7%	30.3%	42.5%	75.2%	-3.7%	33.8%
Insurance	-0.4%	-4.6%	-1.1%	4.6%	-2.0%	-0.8%	-0.6%	11.5%	-5.6%	-0.6%	20.4%	19.6%	31.9%	-5.7%	16.9%	7.5%	18.9%	53.9%	-11.6%	13.5%
Real Estate	5.6%	-10.3%	1.2%	4.0%	1.2%	9.6%	-3.8%	5.4%	-11.7%	2.7%	33.2%	29.6%	17.4%	-1.7%	22.1%	22.2%	33.9%	63.0%	0.9%	32.5%
Health Care	**5.9%**	**1.9%**	**-1.6%**	**5.6%**	**4.5%**	**9.0%**	**7.7%**	**7.3%**	**1.0%**	**8.0%**	**23.9%**	**21.4%**	**23.3%**	**16.8%**	**22.6%**	**21.3%**	**21.7%**	**34.6%**	**-2.4%**	**19.8%**
Health Care Equip & Services	6.2%	1.6%	1.0%	6.0%	5.6%	8.8%	11.0%	12.1%	16.0%	9.4%	29.1%	29.6%	38.3%	38.9%	29.7%	32.6%	34.9%	48.8%	36.2%	33.2%
Pharm Biotech & Life Scienc	5.7%	2.0%	-2.4%	5.5%	4.1%	9.0%	7.4%	5.7%	-2.0%	7.5%	21.3%	20.5%	18.8%	12.7%	20.3%	16.2%	20.4%	30.2%	-8.2%	15.9%
Industrials	**3.2%**	**-1.5%**	**-0.4%**	**6.1%**	**2.0%**	**7.5%**	**1.8%**	**4.2%**	**1.5%**	**4.5%**	**21.3%**	**24.8%**	**14.2%**	**7.9%**	**19.6%**	**24.6%**	**39.9%**	**53.1%**	**18.6%**	**28.8%**
Capital Goods	2.8%	-2.2%	0.6%	7.1%	1.8%	7.7%	0.7%	4.2%	5.6%	4.9%	20.3%	25.0%	12.4%	11.0%	19.8%	24.7%	40.0%	59.5%	36.1%	31.9%
Commercial & Prof Srvcs	4.0%	1.6%	-9.8%	4.4%	2.2%	6.3%	8.1%	-9.7%	-2.6%	4.4%	17.0%	19.5%	19.3%	8.7%	16.5%	16.3%	47.1%	15.3%	9.0%	23.9%
Transportation	4.3%	0.9%	-1.4%	3.8%	2.9%	7.1%	4.5%	6.2%	-8.2%	3.5%	28.0%	26.5%	18.2%	-0.7%	20.3%	27.4%	35.1%	45.4%	-13.0%	20.0%
Information Technology	**1.5%**	**-4.6%**	**4.6%**	**4.3%**	**1.4%**	**9.3%**	**-9.5%**	**10.5%**	**1.9%**	**6.3%**	**25.0%**	**2.6%**	**39.5%**	**12.1%**	**20.6%**	**57.4%**	**17.2%**	**102.5%**	**22.1%**	**49.0%**
Software & Services	2.1%	5.7%	5.3%	-2.3%	5.1%	13.5%	1.6%	6.7%	-8.7%	4.3%	24.8%	33.1%	37.2%	-2.0%	25.9%	52.4%	58.0%	87.6%	-23.4%	57.1%
Tech Hardware & Equip	0.1%	-3.6%	4.2%	5.6%	1.4%	7.0%	-8.7%	18.4%	4.7%	10.3%	25.0%	13.6%	50.9%	14.9%	22.4%	62.7%	33.2%	133.7%	35.2%	44.1%
Semis & Semi Equip	5.0%	-7.9%	3.9%	5.9%	0.4%	4.9%	-12.7%	11.8%	0.3%	4.0%	25.9%	-9.0%	37.5%	18.5%	18.1%	55.8%	2.1%	111.1%	64.2%	51.0%
Materials	**3.0%**	**3.3%**	**3.4%**	**6.9%**	**3.1%**	**7.1%**	**12.1%**	**14.3%**	**-0.4%**	**9.5%**	**19.6%**	**28.9%**	**27.0%**	**5.2%**	**22.3%**	**47.3%**	**77.3%**	**92.7%**	**25.0%**	**60.6%**
Chemicals	2.2%	6.3%	6.7%	8.2%	5.6%	6.8%	16.2%	10.9%	-1.6%	10.2%	17.7%	30.0%	30.4%	12.8%	20.1%	47.2%	58.4%	94.9%	29.6%	50.1%
Construction Materials	1.5%	1.0%	0.5%	-15.3%	0.5%	-8.6%	1.3%	5.3%	-23.1%	0.4%	4.6%	22.2%	26.3%	-35.3%	21.6%	-21.1%	44.4%	76.6%	-38.5%	32.7%
Containers & Packaging	0.9%	-4.1%	9.9%	-3.2%	1.7%	-2.0%	1.2%	18.0%	-22.3%	0.0%	13.7%	4.2%	51.4%	-22.8%	14.5%	20.7%	5.0%	60.5%	-8.5%	22.2%
Metals & Mining	3.8%	2.6%	2.9%	6.3%	1.8%	10.3%	13.3%	16.2%	3.4%	11.0%	20.7%	30.2%	26.0%	-1.2%	23.6%	56.2%	110.1%	95.0%	29.6%	76.6%
Paper & Forest Products	9.1%	-3.9%		1.5%	2.3%	12.0%	-1.6%		-10.5%	3.4%	50.2%	29.2%		2.8%	34.3%	92.5%	24.0%		-28.2%	37.8%
Telecom	**8.6%**	**0.1%**	**-0.5%**	**0.4%**	**2.8%**	**9.4%**	**4.2%**	**-2.4%**	**-6.6%**	**4.8%**	**15.1%**	**29.8%**	**-0.2%**	**10.8%**	**21.3%**	**12.0%**	**24.2%**	**10.0%**	**-11.6%**	**15.6%**
Utilities	**8.7%**	**1.1%**	**-0.3%**	**7.4%**	**4.8%**	**9.4%**	**-0.2%**	**2.6%**	**0.5%**	**3.7%**	**15.3%**	**15.1%**	**9.3%**	**10.8%**	**14.4%**	**12.4%**	**12.4%**	**27.0%**	**-17.8%**	**7.7%**
Index	**2.0%**	**-1.7%**	**0.3%**	**4.0%**	**0.7%**	**6.6%**	**3.2%**	**8.8%**	**-1.2%**	**4.7%**	**18.9%**	**21.5%**	**24.9%**	**5.0%**	**18.4%**	**26.8%**	**35.9%**	**70.7%**	**8.7%**	**30.3%**

Source: FactSet, MSCI, Morgan Stanley Research. Note: Performance as of 12/14/2009.

Global Valuation at a Glance: By Region

	IBES Aggregates Valuations							MSCI Trailing					MSCI Traling Relative to AC World				
	P/E				EPS Growth %			Current Trailing Multiples					Current Trailing Multiples				
MSCI Index	2008	2009E	2010E	NTM	2008	2009E	2010E	P/E	PCE	P/Book	DY	ROE	P/E	PCE	P/Book	DY	ROE
AC World Index (ACWI)	16.5x	17.2x	13.8x	14.3x	-30.0%	-4.6%	19.8%	25.2x	9.9x	1.8x	2.5%	7.1%					
MSCI World (Developed Mkts)	16.6x	17.4x	14.0x	14.5x	-31.9%	-0.6%	27.3%	26.2x	9.9x	1.8x	2.6%	6.8%	1.0x	1.0x	1.0x	1.0x	0.9x
AC World Index ex-US	16.0x	16.9x	13.2x	13.8x	-33.8%	-5.8%	20.4%	24.2x	9.1x	1.6x	3.0%	6.6%	1.0x	0.9x	0.9x	1.2x	0.9x
EAFE	16.4x	17.1x	13.3x	14.0x	-40.1%	-5.1%	21.3%	25.5x	8.6x	1.5x	3.2%	5.8%	1.0x	0.9x	0.8x	1.3x	0.8x
AC Europe	11.9x	14.7x	11.9x	12.5x	-22.5%	-19.3%	20.8%	16.4x	7.7x	1.6x	3.5%	9.6%	0.7x	0.8x	0.9x	1.4x	1.3x
AC Asia Pacific Ex-Japan	17.8x	17.3x	14.2x	14.6x	-31.9%	27.6%	23.8%	24.4x	12.7x	2.0x	2.6%	8.1%	1.0x	1.3x	1.1x	1.0x	1.1x
North America	**16.9x**	**17.7x**	**14.5x**	**14.9x**	**-21.8%**	**-5.4%**	**18.7%**	**26.8x**	**11.1x**	**2.1x**	**2.0%**	**8.0%**	**1.1x**	**1.1x**	**1.2x**	**0.8x**	**1.1x**
US - S&P 500	21.9x	19.1x	14.1x	14.1x	-41.0%	13.9%	35.3%	21.8x		2.2x	2.1%	12.0%	0.9x		1.2x	0.8x	1.7x
Canada	13.8x	18.5x	14.7x	14.7x	3.4%	-25.1%	16.0%	26.6x	10.2x	1.9x	2.6%	7.1%	1.1x	1.0x	1.1x	1.0x	1.0x
Europe	**12.2x**	**15.0x**	**12.1x**	**12.7x**	**-33.4%**	**-5.7%**	**24.0%**	**16.7x**	**7.8x**	**1.6x**	**3.6%**	**9.6%**	**0.7x**	**0.8x**	**0.9x**	**1.4x**	**1.3x**
United Kingdom	10.1x	14.4x	12.0x	12.5x	-8.9%	-29.4%	20.0%	11.9x	7.7x	1.8x	3.8%	15.4%	0.5x	0.8x	1.0x	1.5x	2.2x
Germany	14.8x	15.6x	12.2x	12.7x	-44.0%	-3.9%	21.7%	27.6x	7.3x	1.4x	3.7%	4.9%	1.1x	0.7x	0.8x	1.4x	0.7x
France	10.4x	15.2x	11.8x	12.5x	-10.2%	-32.0%	21.4%	16.8x	7.3x	1.3x	3.9%	7.8%	0.7x	0.7x	0.7x	1.5x	1.1x
Switzerland	84.9x	16.2x	12.7x	13.2x	-83.0%	424.7%	13.2%	37.6x	13.0x	2.5x	2.3%	6.6%	1.5x	1.3x	1.4x	0.9x	0.9x
Japan	**NM**	**31.1x**	**16.5x**	**19.7x**	**-78.3%**	**10.7%**	**177.6%**	**NM**	**10.0x**	**1.1x**	**1.8%**	**NM**		**1.0x**	**0.6x**	**0.7x**	**NM**
Developed Asia ex-Japan	**14.6x**	**17.7x**	**16.1x**	**15.8x**	**-12.7%**	**-17.6%**	**19.4%**	**23.0x**	**14.6x**	**1.8x**	**3.7%**	**8.0%**	**0.9x**	**1.5x**	**1.0x**	**1.5x**	**1.1x**
Australia	16.8x	16.6x	13.8x	15.5x	-20.2%	1.2%	15.0%	24.5x	14.9x	2.0x	4.1%	8.1%	1.0x	1.5x	1.1x	1.6x	1.1x
Hong Kong	18.4x	19.5x	17.1x	17.5x	-28.2%	-6.5%	15.2%	23.1x	16.5x	1.5x	2.7%	6.5%	0.9x	1.7x	0.8x	1.1x	0.9x
Singapore	14.5x	17.1x	14.6x	15.1x	-13.1%	-15.2%	10.1%	17.4x	12.0x	1.8x	3.1%	10.2%	0.7x	1.2x	1.0x	1.2x	1.4x
Emerging Markets	**15.9x**	**15.8x**	**12.4x**	**13.0x**	**-17.8%**	**-0.1%**	**18.8%**	**20.0x**	**10.5x**	**2.0x**	**2.3%**	**10.1%**	**0.8x**	**1.1x**	**1.1x**	**0.9x**	**1.4x**
EM Asia	**21.2x**	**17.0x**	**13.1x**	**13.8x**	**-31.7%**	**23.5%**	**16.4%**	**25.6x**	**11.8x**	**2.1x**	**1.9%**	**8.1%**	**1.0x**	**1.2x**	**1.2x**	**0.7x**	**1.1x**
Korea	19.6x	12.7x	9.6x	10.0x	-38.6%	54.2%	11.7%	23.4x	10.0x	1.4x	1.1%	5.8%	0.9x	1.0x	0.8x	0.5x	0.8x
Taiwan	38.2x	25.7x	16.0x	16.8x	-68.5%	33.9%	25.7%	306.3x	13.5x	1.9x	2.7%	0.6%	12.1x	1.4x	1.1x	1.1x	0.1x
China	19.4x	16.9x	14.0x	14.8x	-11.2%	14.6%	15.9%	20.0x	11.4x	2.5x	2.0%	12.7%	0.8x	1.1x	1.4x	0.8x	1.8x
India	23.0x	20.5x	16.5x	17.7x	-13.3%	12.6%	19.4%	20.8x	14.6x	3.7x	1.0%	17.5%	0.8x	1.5x	2.0x	0.4x	2.5x
EM Latin America	**15.3x**	**16.9x**	**13.5x**	**14.0x**	**-7.6%**	**-9.4%**	**16.9%**	**17.4x**	**10.0x**	**2.3x**	**3.1%**	**13.4%**	**0.7x**	**1.0x**	**1.3x**	**1.2x**	**1.9x**
Brazil	14.8x	17.0x	13.3x	13.6x	-5.1%	-12.7%	16.3%	16.1x	9.6x	2.3x	3.5%	14.0%	0.6x	1.0x	1.3x	1.4x	2.0x
Mexico	18.5x	17.1x	14.2x	14.6x	-28.1%	8.8%	19.3%	22.0x	10.5x	2.6x	2.2%	11.8%	0.9x	1.1x	1.4x	0.9x	1.6x
EM EMEA	**9.7x**	**12.4x**	**10.1x**	**10.4x**	**-0.2%**	**-24.2%**	**26.1%**	**14.3x**	**8.3x**	**1.6x**	**2.4%**	**11.4%**	**0.6x**	**0.8x**	**0.9x**	**1.0x**	**1.6x**
Russia	6.2x	9.3x	7.2x	8.7x	-3.6%	-33.5%	29.9%	12.3x	6.4x	1.1x	1.6%	9.0%	0.5x	0.6x	0.6x	0.6x	1.3x
Turkey	10.1x	9.5x	8.6x	9.0x	-11.2%	6.7%	18.8%	10.9x	8.6x	1.5x	2.6%	13.9%	0.4x	0.9x	0.8x	1.0x	1.9x
South Africa	11.9x	15.1x	12.1x	11.9x	8.2%	-21.1%	26.3%	15.6x	10.2x	2.2x	2.8%	14.3%	0.6x	1.0x	1.2x	1.1x	2.0x

Source: Factset, MSCI, IBES, Morgan Stanley Research   Note: Valuation as of 11/30/2009.

Global Valuation at a Glance: By Sector

Select MSCI World Valuation Metrics

MSCI World	YTD (%)						Current Trailing Multiples			EPS Growth%				
(In USD Terms)	USD	LOC	2009E	2010E	LTM	NTM	P/Book	DY	ROE	2008	2009E	2010E	LTG	PEG
Consumer Discretionary	**40.6%**	**36.5%**	**29.7x**	**17.6x**	**45.3x**	**18.0x**	**1.8x**	**1.8%**	**3.9%**	**-54.4%**	**-7.6%**	**68.8%**	**10.1%**	**1.77**
Automobiles & Components	45.0%	40.8%	NM	24.9x	NM	27.0x	1.3x	1.1%	NM	-105.8%	NM	NM	7.0%	3.9
Consumer Durables & Appare	41.0%	36.5%	56.1x	20.8x	NM	21.8x	1.7x	1.3%	NM	-67.0%	-15.6%	173.5%	9.3%	2.4
Consumer Services	21.9%	18.1%	17.9x	15.9x	17.4x	15.8x	3.0x	2.6%	17.3%	-20.2%	-3.1%	13.2%	12.9%	1.2
Media	36.2%	31.9%	15.9x	13.9x	15.5x	13.9x	1.7x	2.4%	10.6%	-11.1%	-1.3%	15.1%	7.9%	1.8
Retailing	53.5%	50.5%	19.0x	16.8x	20.3x	16.8x	2.6x	1.7%	12.6%	-27.9%	7.4%	13.2%	13.8%	1.2
Consumer Staples	**23.2%**	**18.3%**	**15.9x**	**14.4x**	**16.4x**	**14.6x**	**2.9x**	**2.8%**	**18.0%**	**4.4%**	**7.2%**	**10.6%**	**9.5%**	**1.54**
Food & Staples Retailing	16.2%	9.7%	15.3x	13.8x	15.4x	14.2x	2.0x	2.4%	13.2%	-4.1%	8.4%	10.5%	12.0%	1.2
Food Beverage & Tobacco	28.7%	23.8%	15.7x	14.1x	16.5x	14.4x	3.4x	3.1%	20.7%	8.9%	8.0%	11.1%	8.1%	1.8
Household & Personal Produc	16.6%	14.6%	17.8x	16.4x	17.3x	16.0x	3.6x	2.6%	20.8%	3.8%	4.2%	8.8%	10.4%	1.5
Energy	**24.4%**	**17.9%**	**16.4x**	**12.1x**	**12.3x**	**12.8x**	**1.9x**	**3.1%**	**15.3%**	**14.0%**	**-48.2%**	**35.0%**	**8.7%**	**1.48**
Financials	**31.8%**	**24.2%**	**18.2x**	**13.1x**	**NM**	**14.4x**	**1.1x**	**2.5%**	**NM**	**-91.8%**	**527.8%**	**42.6%**	**7.9%**	**1.81**
Banks	41.1%	29.4%	19.3x	14.3x	25.6x	14.9x	1.2x	2.9%	4.6%	-58.8%	13.1%	35.3%	6.8%	2.2
Diversified Financials	33.8%	31.0%	25.5x	13.2x	NM	14.2x	1.0x	1.1%	NM	-187.5%	NM	113.3%	8.9%	1.6
Insurance	13.5%	7.2%	11.4x	9.3x	NM	13.2x	1.1x	2.9%	NM	-93.6%	807.1%	23.6%	9.8%	1.3
Real Estate	32.5%	26.4%	21.6x	20.5x	30.1x	20.6x	1.2x	4.1%	4.1%	-42.0%	18.3%	9.2%	7.6%	2.7
Health Care	**19.8%**	**17.0%**	**13.0x**	**12.0x**	**15.3x**	**11.7x**	**2.8x**	**2.4%**	**18.0%**	**2.0%**	**6.9%**	**8.5%**	**8.7%**	**1.36**
Health Care Equip & Services	33.2%	31.6%	15.4x	14.0x	16.4x	13.5x	2.4x	0.8%	14.5%	-6.2%	10.8%	9.6%	12.5%	1.1
Pharm Biotech & Life Scienc	15.9%	12.8%	12.4x	11.5x	15.0x	11.2x	2.9x	3.0%	19.4%	4.4%	6.0%	8.2%	7.3%	1.5
Industrials	**28.8%**	**24.3%**	**19.5x**	**16.3x**	**19.5x**	**16.5x**	**1.9x**	**2.3%**	**9.8%**	**-13.9%**	**-32.1%**	**20.6%**	**11.3%**	**1.45**
Capital Goods	31.9%	27.6%	17.9x	15.5x	18.0x	15.7x	1.9x	2.3%	10.7%	-12.4%	-29.5%	16.3%	11.3%	1.4
Commercial & Prof Srvcs	23.9%	17.7%	19.2x	17.0x	20.6x	16.9x	2.5x	2.3%	12.0%	-16.1%	-12.2%	12.8%	12.4%	1.4
Transportation	20.0%	15.6%	29.1x	19.5x	28.3x	19.8x	1.8x	2.1%	6.3%	-19.7%	-45.8%	49.6%	11.2%	1.8
Information Technology	**49.0%**	**47.2%**	**22.8x**	**16.6x**	**37.9x**	**16.7x**	**3.1x**	**1.1%**	**8.2%**	**-21.5%**	**0.7%**	**37.8%**	**14.0%**	**1.20**
Semis & Semi Equip	57.1%	56.1%	70.3x	18.8x	NM	19.3x	2.7x	1.8%	NM	-50.4%	-46.6%	260.5%	12.2%	1.6
Software & Services	44.1%	42.9%	18.3x	16.5x	20.3x	16.5x	3.9x	1.1%	19.3%	8.4%	7.7%	11.2%	13.1%	1.3
Tech Hardware & Equip	51.0%	48.5%	23.1x	16.1x	NM	16.3x	2.8x	0.8%	NM	-32.3%	1.3%	43.5%	15.1%	1.1
Materials	**60.6%**	**47.1%**	**27.4x**	**16.9x**	**24.5x**	**17.3x**	**2.0x**	**1.9%**	**8.0%**	**-15.2%**	**-46.1%**	**63.3%**	**10.7%**	**1.62**
Telecom	**15.6%**	**10.1%**	**12.4x**	**11.7x**	**12.6x**	**11.6x**	**1.6x**	**5.3%**	**12.9%**	**-7.9%**	**-3.7%**	**5.3%**	**5.7%**	**2.03**
Utilities	**7.7%**	**4.1%**	**13.2x**	**12.5x**	**13.5x**	**12.1x**	**1.5x**	**4.7%**	**11.0%**	**-5.8%**	**10.6%**	**6.3%**	**10.9%**	**1.11**
Index	**30.3%**	**24.8%**	**18.0x**	**14.1x**	**25.0x**	**14.5x**	**1.8x**	**2.5%**	**7.2%**	**-31.9%**	**-1.3%**	**28.5%**	**9.8%**	**1.48**

Source: FactSet, MSCI, Morgan Stanley Research Note: Valuation as of 11/30/2009.

Disclosure Section

Latest price for stocks mentioned: Fosters (AUD 5.47), Kirin Holdings (1,386Y), Fanuc (8,300 Y), Komatsu (1,874 Y), Makita (3,300 Y), Tokyo Electron (5420 Y), Imperial Tobacco (1,913 GBP), BAT (1,949 GBP), Fiat (10.31 EUR), Peugeot (23.72 EUR), Nissan (725 Y), Valeo (23.00 EUR), Bridgestone ($35.04), Vertex (41.56 USD), Amil Part (13.80 BRL)

Ticker	Company	Price US$ 12/15/2009	Ticker	Company	Price US$ 12/15/2009	Ticker	Company	Price US$ 12/15/2009
LUV	Southwest Airlines Co.	10.75	B03MVJ	KOC Holding A.S.	2.74	B2B332	PTT Aromatics & Refining PCL	0.71
JWN	Nordstrom Inc.	35.95	B1QH83	Volvo AB	8.99	642539	Aluminum Corp. of China Ltd.	1.13
TER	Teradyne Inc.	10.34	089626	Tomkins PLC	3.11	627611	Dongkuk Steel Mill Co. Ltd.	23.77
ESV	ENSCO International Inc.	43.32	UNA-NL	Unilever N.V.	32.37	640776	Hanwha Chemical Corp.	12.10
AMD	Advanced Micro Devices Inc.	8.82	BELG-BE	Belgacom S.A.	36.70	633137	Far Eastern Department Stores I	1.12
WDC	Western Digital Corp.	39.60	B01ZVZ	Acerinox S.A.	20.19	645026	Hynix Semiconductor Inc.	18.04
ROK	Rockwell Automation Inc.	46.62	571342	Metso Corp.	34.47	2448-TW	EPISTAR Corp.	3.50
RHI	Robert Half International Inc.	26.57	718472	Swatch Group AG	245.02	036570-KR	NCsoft Corp.	130.03
MWW	Monster Worldwide Inc.	17.05	B03MNV	Anadolu Efes Biracilik ve Malt S	10.87	649676	Korean Air Co. Ltd.	48.22
ADSK	Autodesk Inc.	24.45	B03851	Ferrovial S.A.	11.47	662885	Neptune Orient Lines Ltd.	1.10
WMT	Wal-Mart Stores Inc.	53.98	712387	Nestle S.A.	48.09	607355	China Mobile Ltd.	9.25
DIS	Walt Disney Co.	32.18	B15C55	Total S.A.	63.30	B00G0S	CNOOC Ltd.	1.56
MDT	Medtronic Inc.	43.87	711038	Roche Holding AG	163.31	B1WJ4X	Belle International Holdings Ltd	1.29
UNP	Union Pacific Corp.	64.91	476896	RWE AG	95.05	B01CT3	Tencent Holdings Ltd.	20.82
EMC	EMC Corp.	16.67	079805	BP PLC	9.42	609962	Reliance Industries Ltd.	22.51
K	Kellogg Co.	53.12	053315	Compass Group PLC	7.56	B09N7M	China Shenhua Energy Co. Ltd.	4.97
HON	Honeywell International Inc.	41.25	484628	SAP AG	44.95	669323	POSCO	513.22
HD	Home Depot Inc.	29.02	566935	Repsol YPF S.A.	27.21	688910	Taiwan Semiconductor Manufa	1.94
CCL	Carnival Corp.	33.88	710306	Novartis AG	53.89	B0166K	Larsen & Toubro Ltd.	35.98
CVX	Chevron Corp.	77.37	045449	Imperial Tobacco Group PLC	31.11	600585	Acer Inc.	2.69

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(as of November 30, 2009)

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Total	**2,401**		**687**		

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