

MARKET
INSIGHTS

Q4 | 2009

As of September 30, 2009

Guide to the Markets

David Kelly

Chief Market Strategist

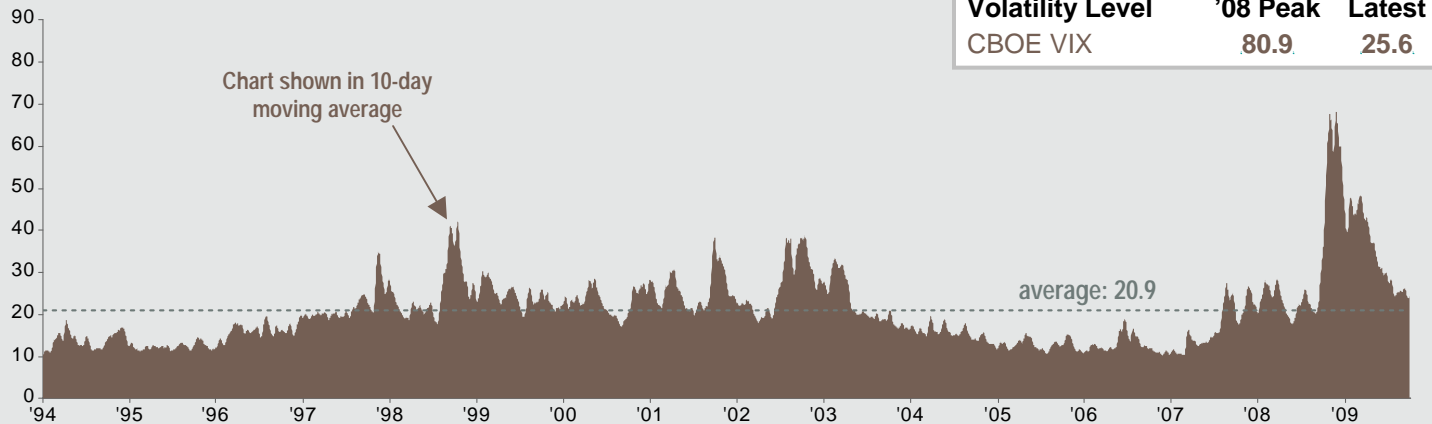
JPMorgan Funds



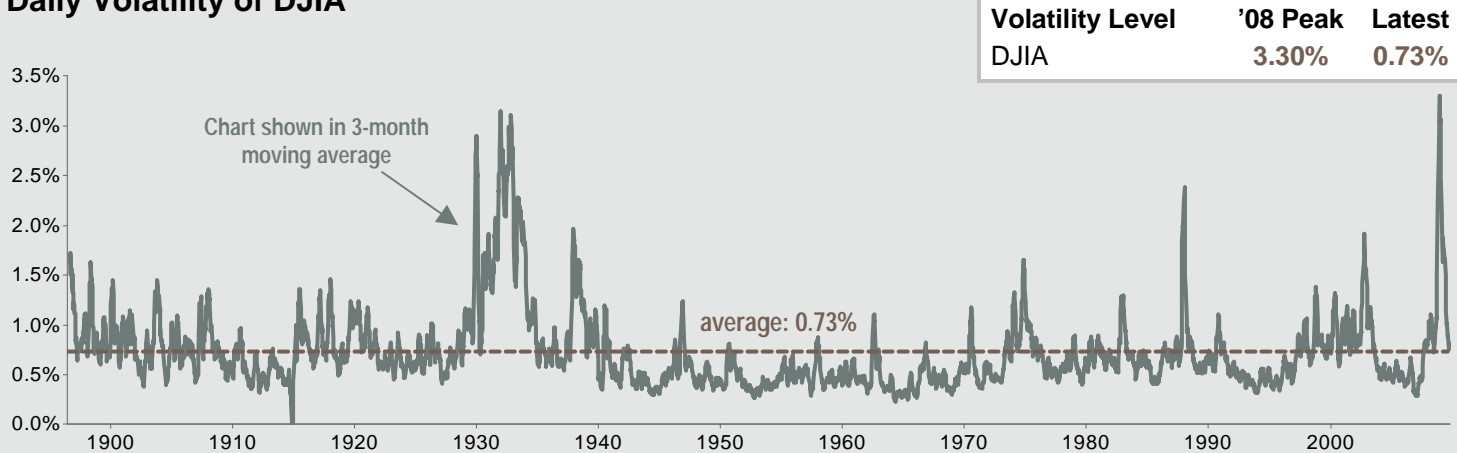
J.P. Morgan

J.P.Morgan
Asset Management

Implied Volatility (CBOE VIX)



Daily Volatility of DJIA

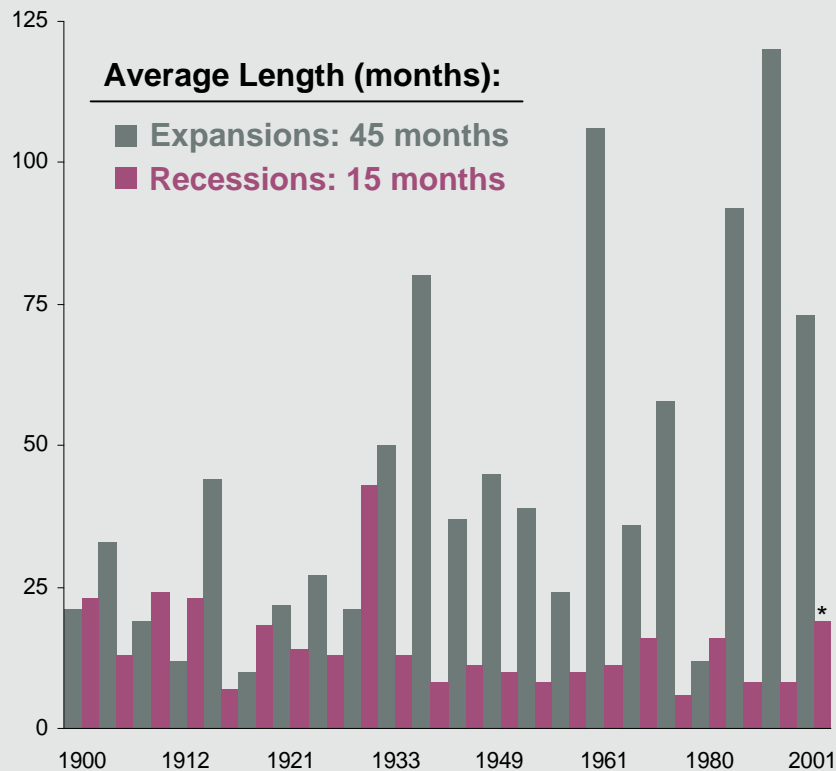


Source: (top) J.P. Morgan Asset Management, Merrill Lynch, CBOE, EcoWin, FactSet.

Source: (bottom) Dow Jones, J.P. Morgan Asset Management. Data are represented as three-month moving averages of the daily absolute percentage change in the Dow Jones Industrial Average and are as of 9/30/09. Note that volatility dropped to zero in 1914 due to temporary closure of the stock exchange for over four months.

Charts shown for illustrative purposes only. Data are as of 9/30/09.

Length of Economic Expansions and Recessions



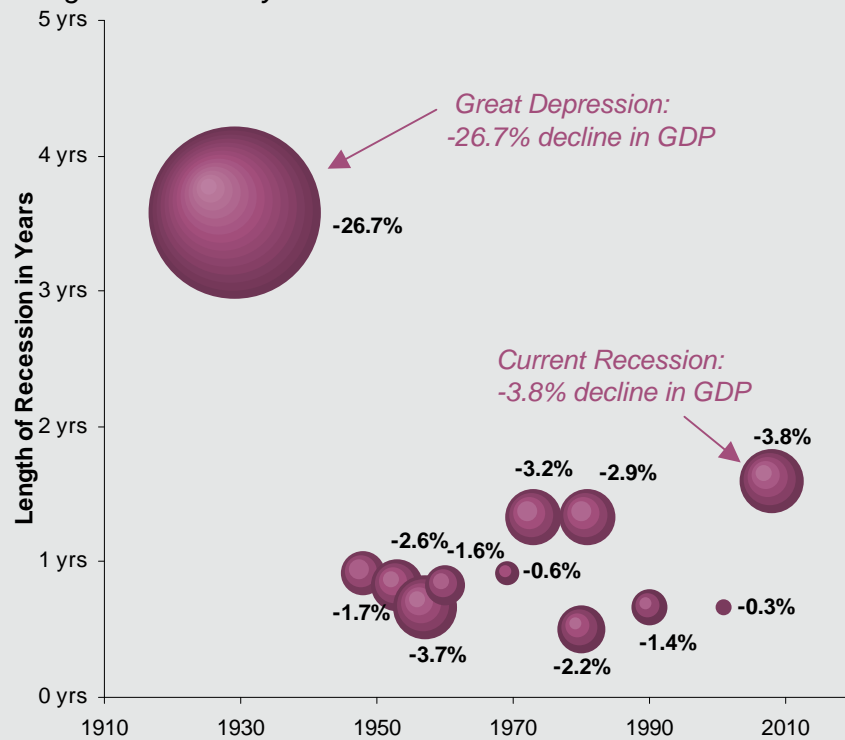
Source: NBER, J.P. Morgan Asset Management.

Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). This data can be found at www.nber.org/cycles/ and reflects information through September 2009. *Assumes recession that started in December 2007 continued at least through June 2009.

For illustrative purposes only.

The Great Depression and Post-War Recessions

Length and Severity of Recession

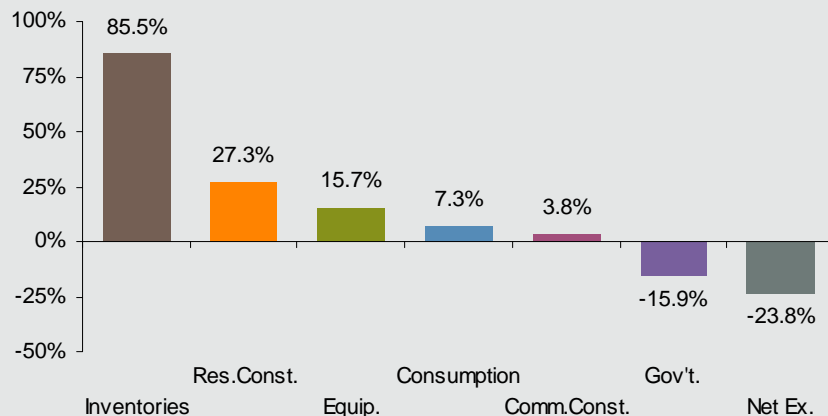


Source: NBER, BEA, J.P. Morgan Asset Management.

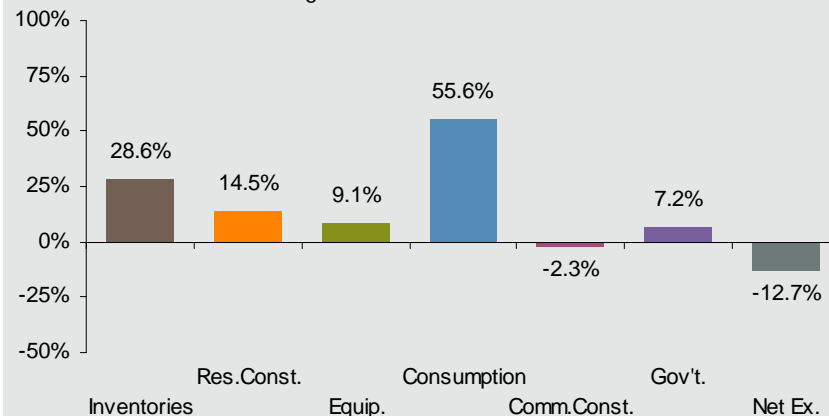
Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data. Data are as of 9/30/09.

	Last 50 Years		Last 7 Recessions		Last 7 Recoveries (1st Yr)		Most Recent Recession	
	Percent	Share	Percent	Share	Percent	Share	Percent	Share
Overall GDP Growth	3.2	100.0%	-1.8	100.0%	5.0	100.0%	-3.8	100.0%
Consumption	2.2	69.8%	-0.1	7.3%	2.8	55.6%	-1.2	31.7%
Commercial Construction	0.1	2.4%	-0.1	3.8%	-0.1	-2.3%	-0.7	18.6%
Equipment	0.4	12.3%	-0.3	15.7%	0.5	9.1%	-1.7	43.6%
Residential Construction	0.1	2.1%	-0.5	27.3%	0.7	14.5%	-0.9	23.5%
Change in Inventories	0.0	0.1%	-1.5	85.5%	1.4	28.6%	-0.9	24.6%
Net Exports	0.0	-1.6%	0.4	-23.8%	-0.6	-12.7%	1.1	-29.6%
Government	0.5	14.9%	0.3	-15.9%	0.4	7.2%	0.5	-12.4%

Last 7 Recessions
Contributions to real GDP decline



Last 7 Recoveries
Contributions to real GDP growth



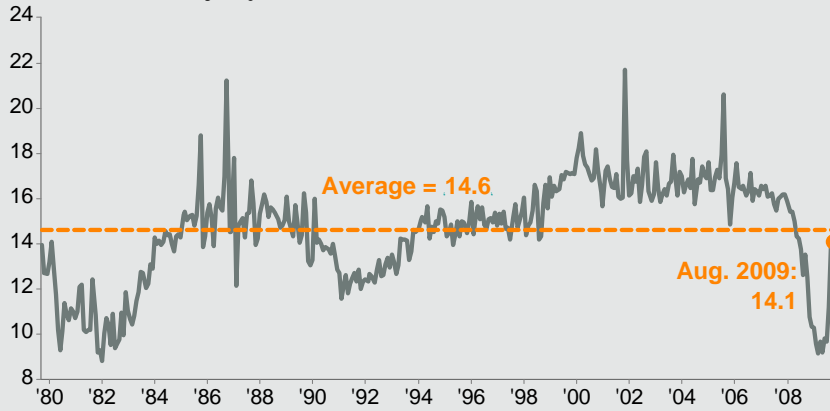
Source: Bureau of Economic Analysis, National Bureau of Economic Research, J.P. Morgan Asset Management. Most recent data as of 9/30/09.

Last 50 Years are from 1959Q3-2009Q2. **Last 7 Recessions** are measured from peak real GDP to trough real GDP. **Last 7 Recoveries** are defined as the four quarters following the NBER-designated trough quarter. **Most Recent Recession** is defined from peak real GDP in 2008Q2 to trough real GDP, assumed to have occurred in 2009Q2.

Note that contribution numbers are approximations due to the use of chain-weighted GDP, which is not designed to sum exactly.

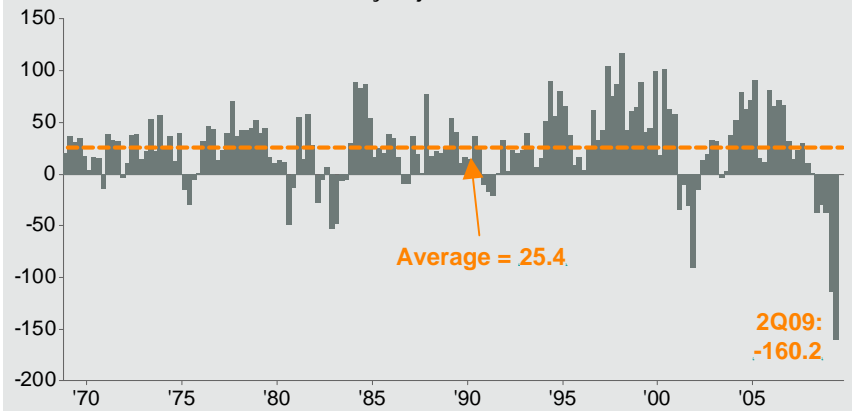
Light Vehicle Sales

Millions, seasonally adjusted annual rate



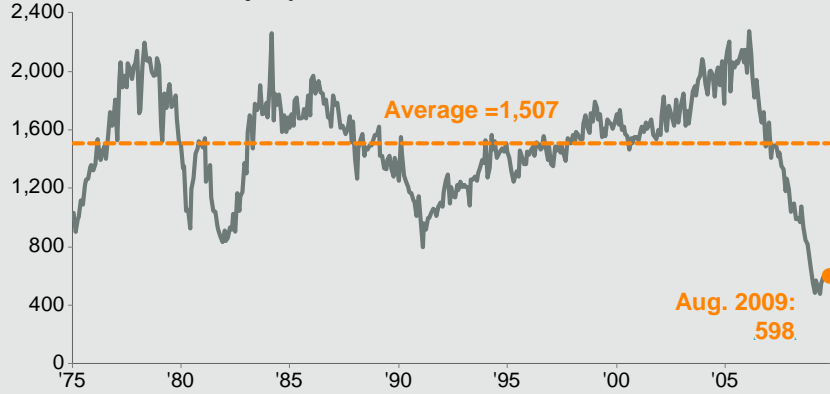
Change in Private Inventories

Billions of 2005 dollars, seasonally adjusted annual rate



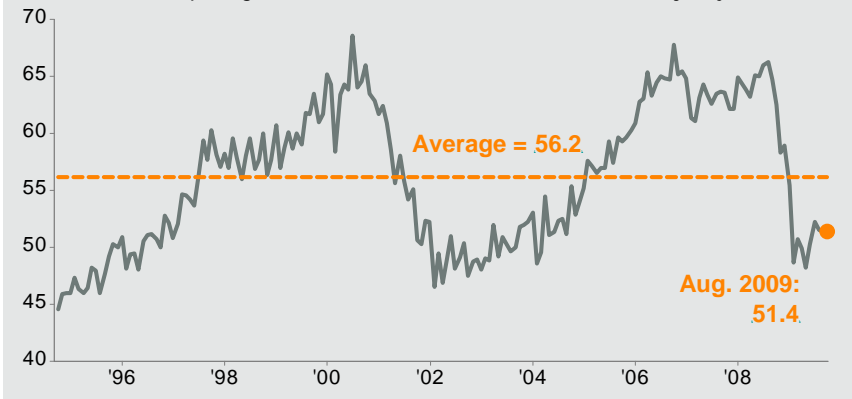
Housing Starts

Thousands, seasonally adjusted annual rate



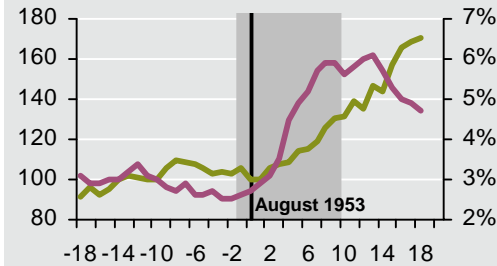
Capital Goods Orders

Non-defense capital goods orders ex. aircraft, \$ bn, seasonally adjusted

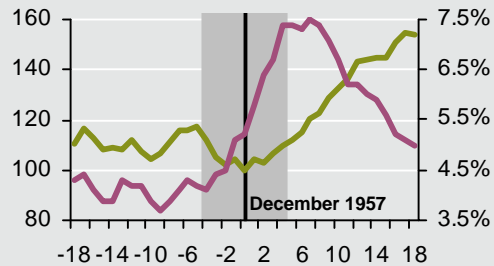


Source: (Top left chart) Bureau of Economic Analysis, J.P. Morgan Asset Management. (Top right chart) Bureau of Economic Analysis. (Bottom left chart) Census Bureau. (Bottom right chart) Census Bureau. Data reflects most recently available as of 9/30/09.

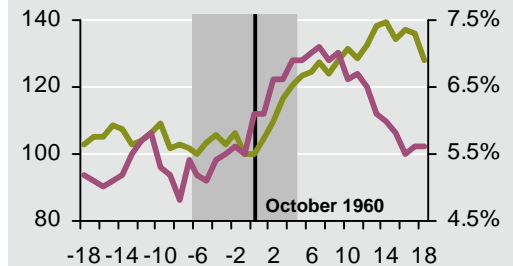
July 1953 – May 1954



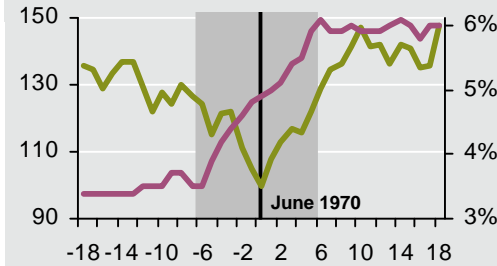
August 1957 – April 1958



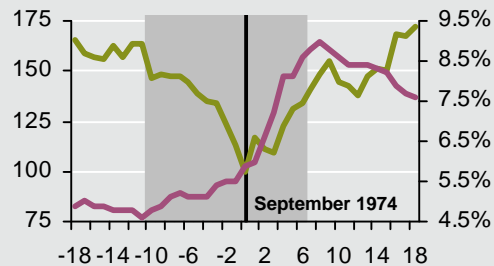
April 1960 – February 1961



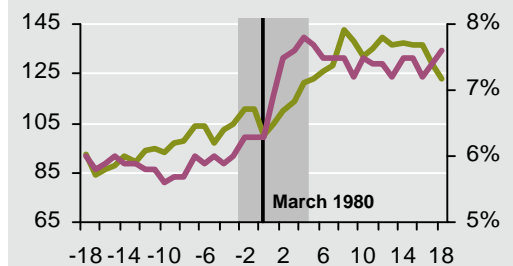
December 1969 – November 1970



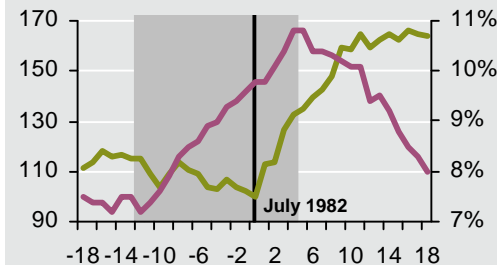
November 1973 – March 1975



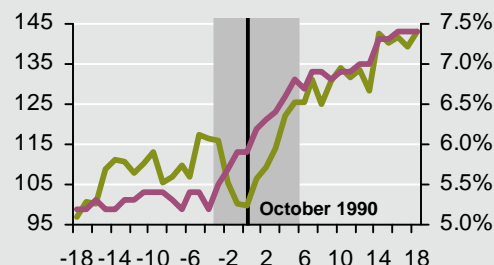
January 1980 – July 1980



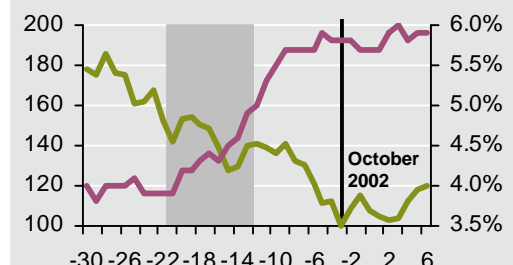
July 1981 – November 1982



July 1990 – March 1991



March 2001 – November 2001

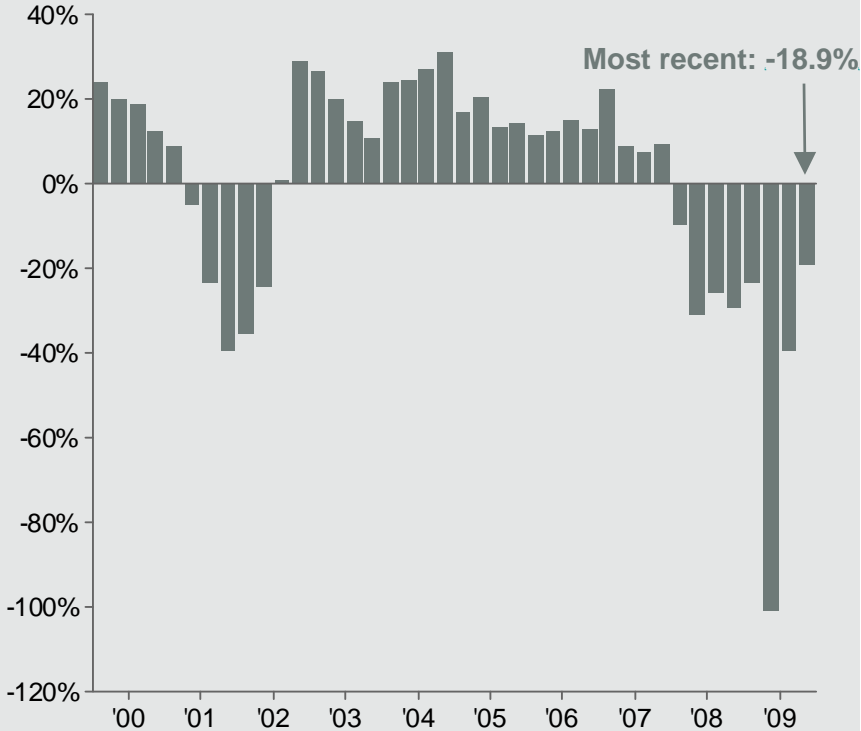


— Unemployment Rate Recession
— S&P 500 Total Return Market Low

Source: Ibbotson, J.P. Morgan Asset Management, Bureau of Labor Statistics. Time zero represents the numeric low of the S&P 500 Total Return Index associated with the recessionary period defined by the shaded grey area; data shown in months. S&P 500 Index is rebased to 100 at time zero.

S&P 500 Earnings Growth

Operating basis, quarterly, % change year-over-year



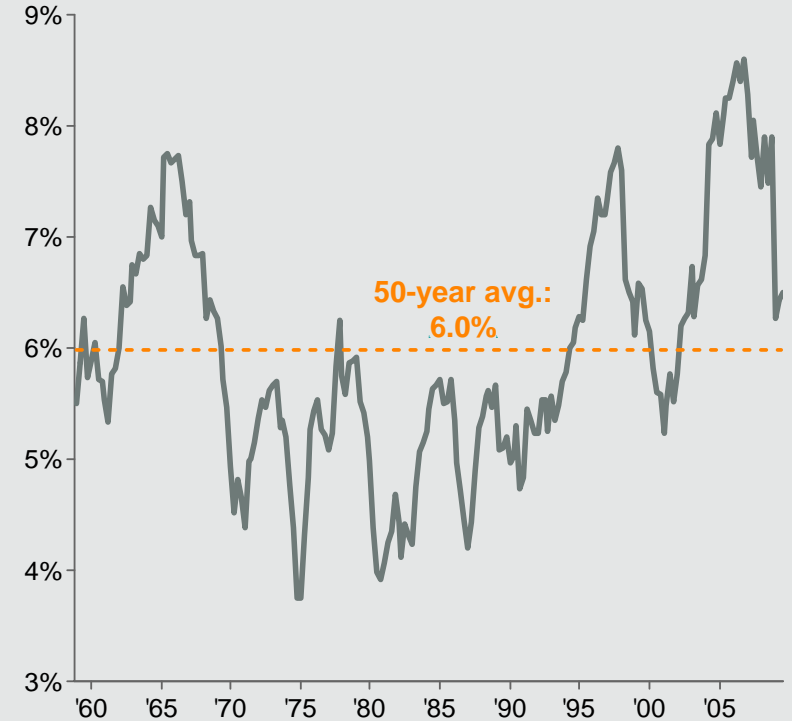
Source: EcoWin, Standard & Poor's, FactSet, J.P. Morgan Asset Management.

EPS growth is shown as quarterly year-over-year change and based on operating earnings per share. Data reflects most recently available as of 9/30/09.

Most recently available is a 2Q09 99% complete estimate.

Adjusted After-Tax Corporate Profits (% of GDP)

Includes inventory and capital consumption adjustments

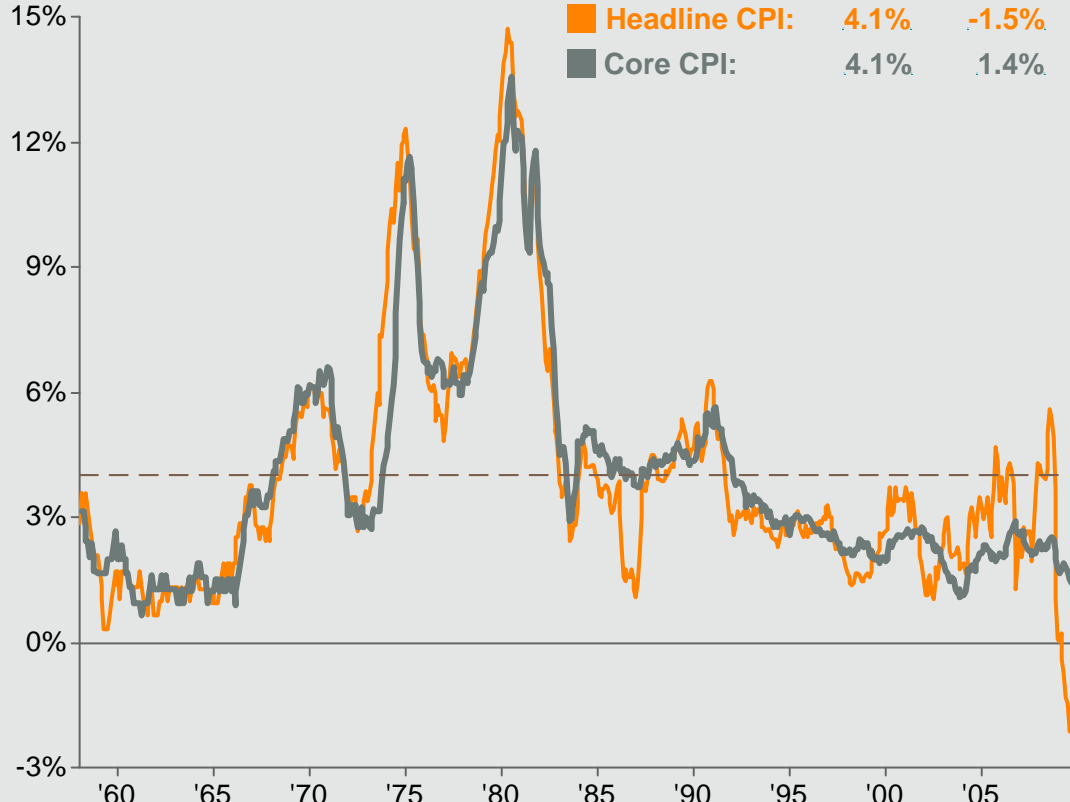


Source: BEA, FactSet, J.P. Morgan Asset Management.

Data are as of 9/30/09.

CPI and Core CPI

% chg vs. prior year



CPI Components	Weight in CPI	12-month Change
Food & Bev.	15.8%	0.6%
Housing	43.4%	-0.6%
Apparel	3.7%	0.6%
Transportation	15.3%	-10.8%
Medical Care	6.4%	3.3%
Recreation	5.7%	0.9%
Educ. & Comm.	6.3%	2.8%
Other	3.4%	7.4%
Headline CPI	100.0%	-1.5%
Less:		
Energy	7.6%	-23.0%
Food	14.6%	0.4%
Core CPI	77.8%	1.4%

Source: BLS, J.P. Morgan Asset Management.

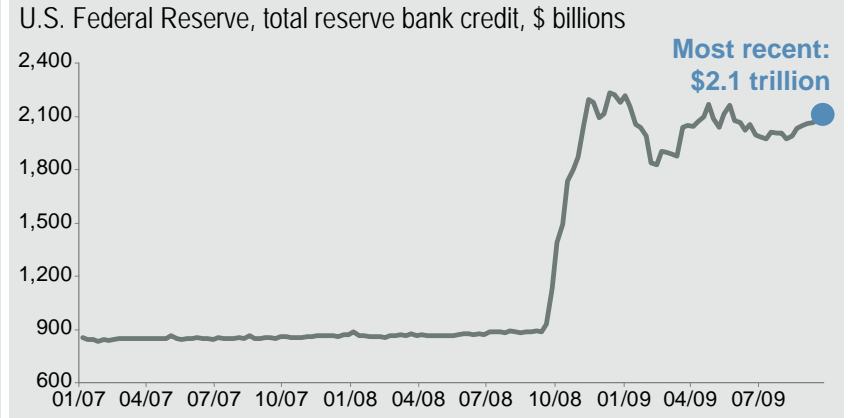
Data reflects most recently available as of 9/30/09. CPI values shown are % change vs. 1 year ago and reflect 8/2009 CPI data. CPI component weights are as of 12/31/08 and 12-month change reflects data through 8/2009. Core CPI is defined as CPI excluding food and energy prices.

Fed Funds Target Rate



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.
Data are as of 9/30/09.

Federal Reserve Balance Sheet



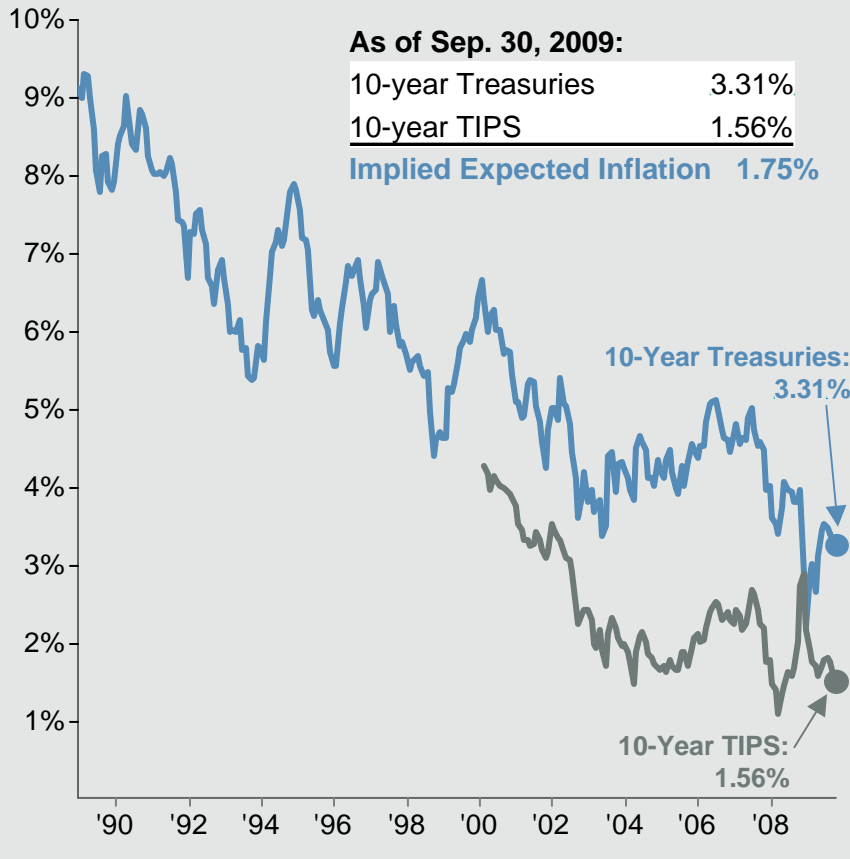
Money Supply Growth



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.
Data are as of 9/30/09.

- A return to 30's style frugality
- Oil shock
- Another financial shoe dropping
- Problems caused by extreme government intervention
- Something unexpected

Nominal 10-Year Yields: Treasuries & TIPS



Source: St. Louis Fed, Federal Reserve, J.P. Morgan Asset Management.
 Treasury Inflation Protected Securities were first introduced in 1997.
 Data are as of 9/30/09.

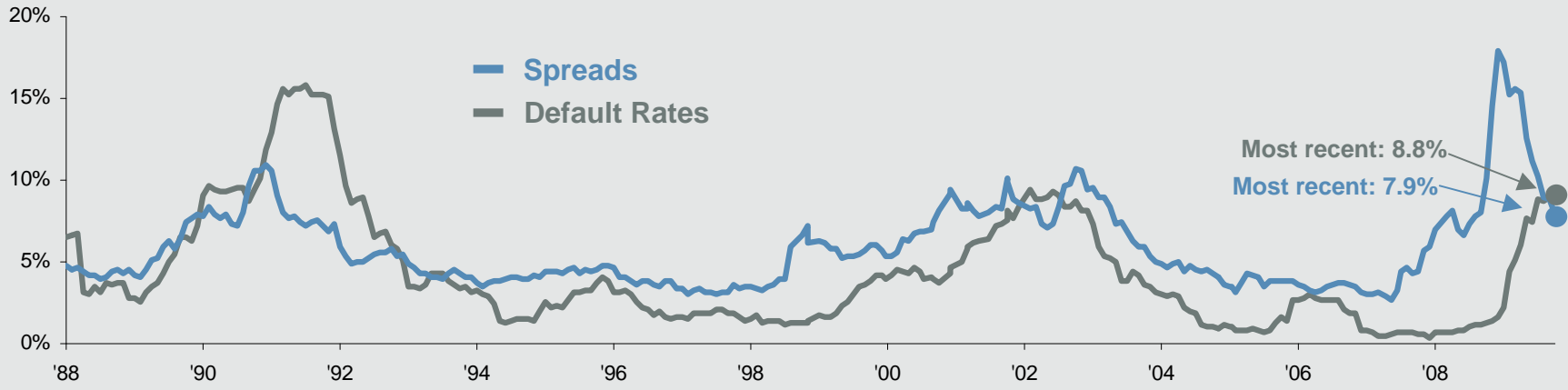
Real 10-Year Treasury Yields

10-Year Treasury Yields minus Core CPI

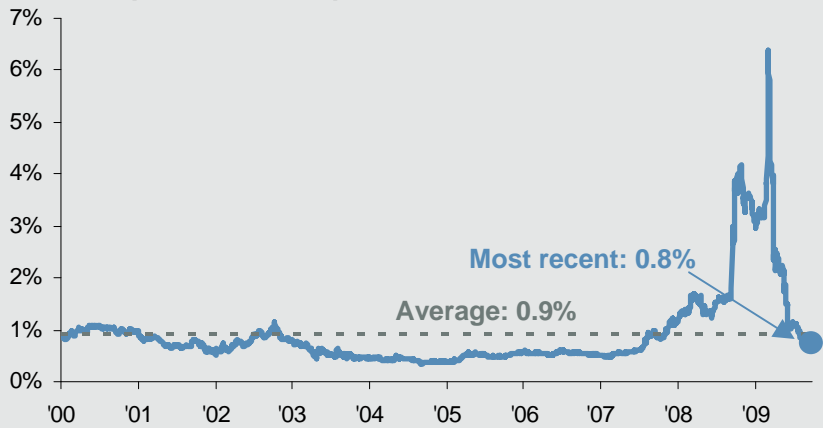


Source: FRB, BLS, J.P. Morgan Asset Management. Chart is the 10-year Treasury yield less Core CPI (inflation excluding food and energy, year-over-year).
 Data are as of 9/30/09.

High Yield Spreads vs. High Yield Default Rates



AAA Corporate Bond Spreads



BBB Corporate Bond Spreads



Source (top chart): U.S. Treasury, J.P. Morgan Asset Management.

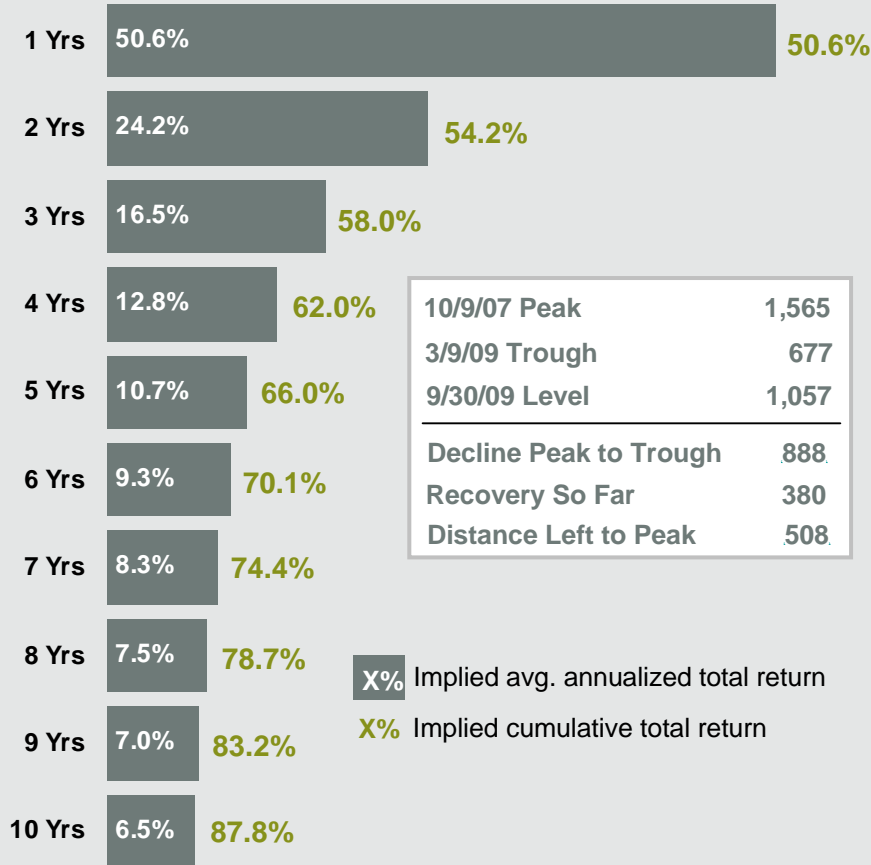
Source (bottom charts): U.S. Treasury, J.P. Morgan Asset Management.

Spreads indicated are benchmark rates over comparable Treasury yields. Corporate bond spreads are of 10+ year maturity.

Data are as of 9/30/09.

S&P 500 Index: Return Needed to Reach 2007 Peak

Analysis as of Sep. 30, 2009. Index has risen 56.3% since low of 677.



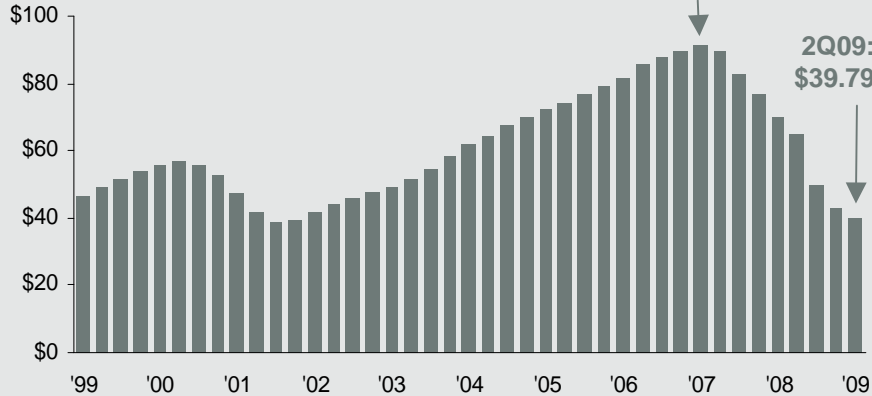
Bear Market Cycles vs. Subsequent Bull Runs

Market Peak	Market Low	Bear Market Return	Length of Decline	Bull Run	Length of Run	Yrs to Reach Old Peak
5/29/46	5/19/47	-28.6%	12	257.6%	122	3.1 yrs
7/15/57	10/22/57	-20.7%	3	86.4%	50	0.9 yrs
12/12/61	6/26/62	-28.0%	6	79.8%	44	1.2 yrs
2/9/66	10/7/66	-22.2%	8	48.0%	26	0.6 yrs
11/29/68	5/26/70	-36.1%	18	74.2%	31	1.8 yrs
1/5/73	10/3/74	-48.4%	21	125.6%	74	5.8 yrs
11/28/80	8/12/82	-27.1%	20	228.8%	60	0.2 yrs
8/25/87	12/4/87	-33.5%	3	582.1%	148	1.6 yrs
3/24/00	10/9/02	-49.1%	31	101.5%	60	4.6 yrs
10/9/07	3/9/09	-56.8%	17*	-	-	-
Average:		-35.0%	14 mo's	176.0%	68 mo's	2.2 yrs

Source: Standard & Poor's, J.P. Morgan Asset Management. (Left chart) Data assumes 2.5% annualized dividend yield. Implied values reflect the average geometric total returns required for the S&P 500 to reach its 10/9/07 peak of 1,565 over each stated time period. **Chart is for illustrative purposes only. Past performance does not guarantee future results.** (Right chart) A bear market is defined as a peak-to-trough decline in the S&P 500 Index (price only) of 20% or more. The bull run data reflect the market expansion from the bear market low to the subsequent market peak. All returns are S&P 500 Index returns and do not include dividends. *Most recent bear market is through market low of 3/9/09.

S&P 500 Operating Earnings - Annual

Rolling sum of prior four quarters



S&P 500 Index: Trailing P/E Ratio



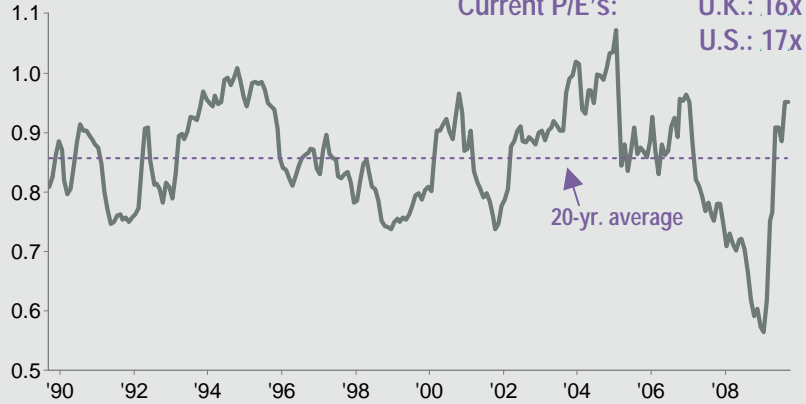
S&P 500 Index Levels

Index levels implied by operating earnings and P/E ratio combinations

	\$50	\$60	\$70	\$80	\$90	\$100
13x	650	780	910	1040	1170	1300
14x	700	840	980	1120	1260	1400
15x	750	900	1050	1200	1350	1500
16x	800	960	1120	1280	1440	1600
17x	850	1020	1190	1360	1530	1700
18x	900	1080	1260	1440	1620	1800
19x	950	1140	1330	1520	1710	1900
20x	1000	1200	1400	1600	1800	2000
21x	1050	1260	1470	1680	1890	2100

Source: Operating earnings provided by Standard and Poor's. **Price to Earnings** is the S&P 500 Index divided by the last four completed quarters of operating earnings except for the most recent quarter where, due to a lack of available data, the 9/30/09 price is divided by four quarters of operating earnings ending on 6/30/09. Table shows the S&P 500 Index level implied by a given level of earnings and P/E ratio.

U.K. equity / U.S. Equity

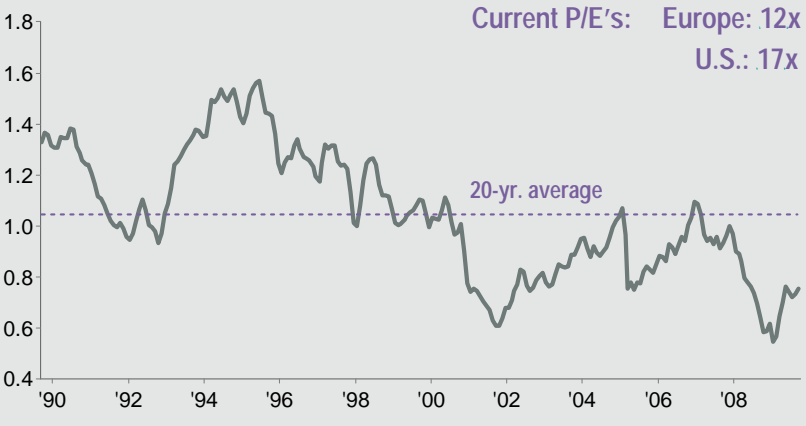


Japan equity / U.S. Equity

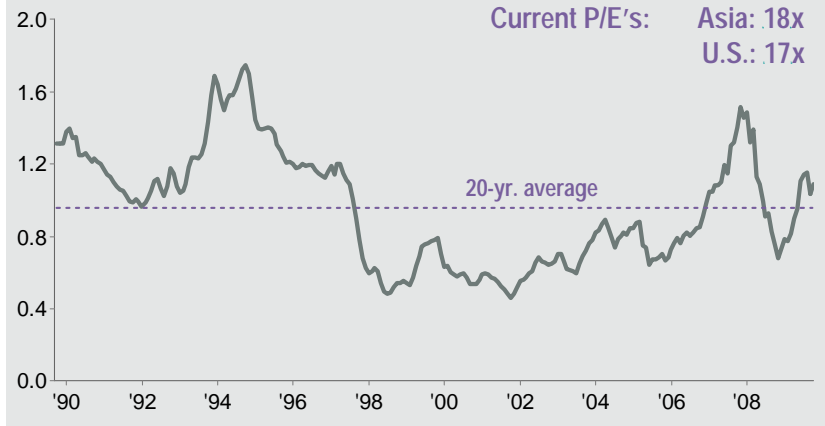


U.S. Cheap
U.S. Expensive

Europe equity (ex-U.K.) / U.S. Equity



Asia ex-Japan equity / U.S. Equity



U.S. Cheap
U.S. Expensive

International

Source: FactSet, J.P. Morgan Asset Management.

All P/E data are trailing, as reported and represent FactSet country aggregates.

Data reflects most recently available as of 9/30/09.

Current Account Balance, % of GDP



Source: J.P. Morgan Asset Management, BEA. Data are as of 9/30/09 and are reported quarterly.

U.S. Dollar Index

Nominal Trade Weighted Exchange Index: Major Currencies



Source: EcoWin, Federal Reserve, J.P. Morgan Asset Management. Data are as of 9/30/09.

Asset Class Returns

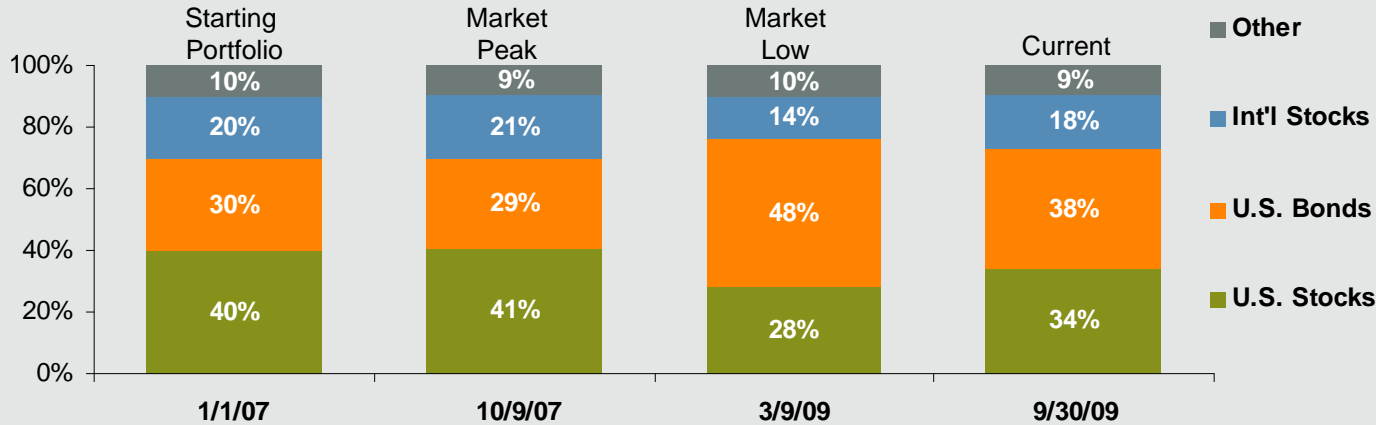
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	3Q09	YTD
Russell 1000G 38.7%	Russell 1000G 33.2%	Real Estate 26.4%	Real Estate 13.9%	Barclays Agg 10.3%	Russell 2000 47.3%	Real Estate 31.6%	MSCI EAFE 14.0%	Real Estate 35.1%	Russell 1000G 11.8%	Barclays Agg 5.2%	Real Estate 33.3%	MSCI EAFE 29.6%
MSCI EAFE 20.3%	MSCI EAFE 27.3%	Market Neutral 15.0%	Market Neutral 9.3%	Market Neutral 7.4%	MSCI EAFE 39.2%	MSCI EAFE 20.7%	Real Estate 12.2%	MSCI EAFE 26.9%	MSCI EAFE 11.6%	Market Neutral 1.1%*	MSCI EAFE 19.5%	Russell 1000G 27.1%
Russell 1000V 15.6%	Russell 2000 21.3%	Barclays Agg 11.6%	Barclays Agg 8.4%	Real Estate 3.8%	Real Estate 37.1%	Russell 2000 18.3%	Russell 1000V 7.1%	Russell 1000V 22.2%	Market Neutral 9.3%	Balance -23.5%	Russell 2000 19.3%	Russell 2000 22.4%
Balance 14.4%	Market Neutral 15.3%	Russell 1000V 7.0%	Russell 2000 2.5%	Balance -8.1%	Russell 1000V 30.0%	Russell 1000V 16.5%	Balance 6.7%	Russell 2000 18.4%	Barclays Agg 7.0%	Russell 2000 -33.8%	Russell 1000V 18.2%	Balance 17.2%
Market Neutral 13.3%	Balance 14.0%	Balance 0.2%	Balance -4.2%	Russell 1000V -15.5%	Russell 1000G 29.7%	Balance 12.6%	Market Neutral 6.1%	Balance 15.5%	Balance 5.7%	Russell 1000V -36.8%	Russell 1000G 14.0%	Real Estate 17.0%
Barclays Agg 8.7%	Russell 1000V 7.4%	Russell 2000 -3.0%	Russell 1000V -5.6%	MSCI EAFE -15.7%	Balance 25.0%	Market Neutral 6.5%	Russell 1000G 5.3%	Market Neutral 11.2%	Russell 1000V -0.2%	Real Estate -37.7%	Balance 13.6%	Russell 1000V 14.8%
Russell 2000 -2.5%	Real Estate -4.6%	MSCI EAFE -14.0%	Russell 1000G -20.4%	Russell 2000 -20.5%	Market Neutral 7.1%	Russell 1000G 6.3%	Russell 2000 4.6%	Russell 1000G 9.1%	Russell 2000 -1.6%	Russell 1000G -38.4%	Barclays Agg 3.7%	Barclays Agg 5.7%
Real Estate -17.5%	Barclays Agg -0.8%	Russell 1000G -22.4%	MSCI EAFE -21.2%	Russell 1000G -27.9%	Barclays Agg 4.1%	Barclays Agg 4.3%	Barclays Agg 2.4%	Barclays Agg 4.3%	Real Estate -15.7%	MSCI EAFE -43.1%	Market Neutral 3.1%	Market Neutral 4.3%

Source: Russell, MSCI Inc., Standard and Poors, Barclays Capital, NCREIF, J.P. Morgan Asset Management.

The "balanced" portfolio assumes the following weights: 15% in the Russell 1000 Value, 15% in the Russell 1000 Growth, 10% in the Russell 2000, 20% in the MSCI EAFE, 30% in the Barclays Capital Aggregate, 5% in the CS/Tremont Equity Market Neutral Index, and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represent total return for stated period. Past performance is not indicative of future returns. Please see disclosure page at end for index definitions. Data are as of 9/30/09, except for the CS/Tremont Equity Market Neutral Index, which reflects data through 8/31/09.

*Market Neutral returns for November 2008 are estimates by J.P. Morgan Funds Market Strategy, and are based on a December 8, 2008 published estimate for November returns by CS/Tremont in which the Market Neutral returns were estimated to be +0.85% (with 69% of all CS/Tremont constituents having reported return data). Presumed to be excluded from the November return are three funds, which were later marked to \$0 by CS/Tremont in connection with the Bernard Madoff scandal. J.P. Morgan Funds believes this distortion is not an accurate representation of returns in the category. CS/Tremont later published a finalized November return of -40.56% for the month, reflecting this mark-down. CS/Tremont assumes no responsibility for these estimates.

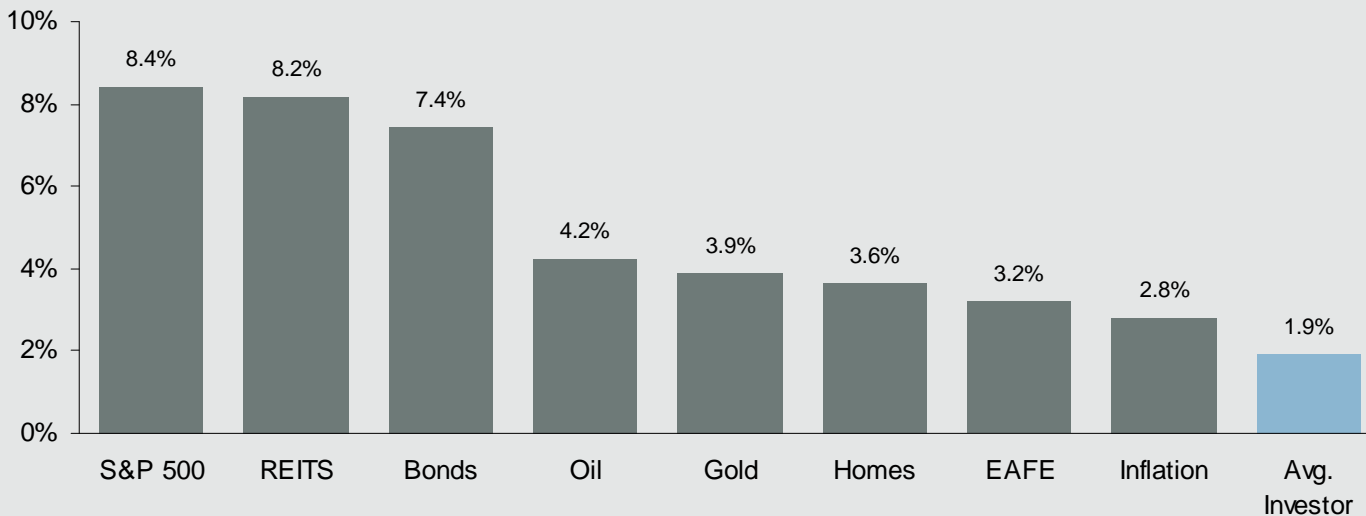
Balanced Portfolio Weights Through Market Turmoil



(Top) The indexes and weights of starting portfolio is as follows: U.S. stocks: 15% Russell 1000 Value, 15% Russell 1000 Growth, 10% Russell 2000. U.S. bonds: 30% Barclays Capital Aggregate. International stocks: 20% MSCI EAFE. Other: 5% CS/Tremont Equity Market Neutral, 5% NAREIT Equity REIT Index. The market peak and market low are based on S&P 500 peak on 10/9/07 and S&P 500 low on 3/9/09.

Portfolio assumes no rebalancing. Charts are shown for illustrative purposes only. Past returns are no guarantee of future results.

20-year Annualized Returns by Asset Class

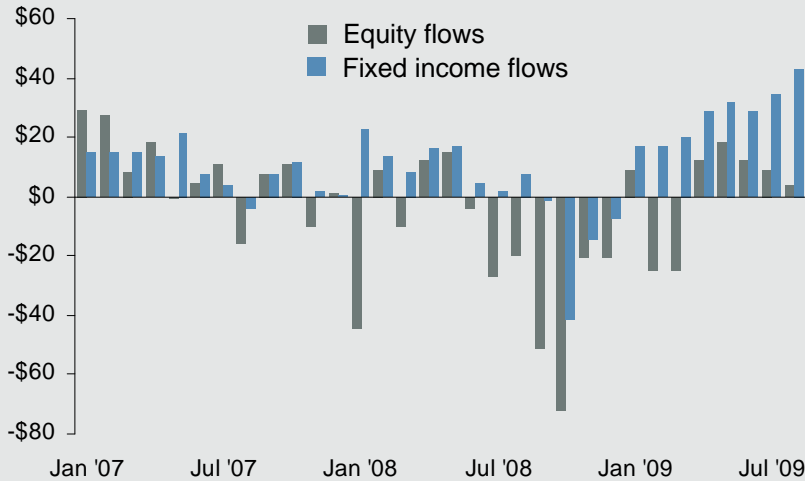


(Bottom) The indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sales price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. All returns are annualized (and total return where applicable), and represent the 20-year period ending 12/31/08. Average equity investor return is based on an analysis by Dalbar, Inc. which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

Billions, USD	AUM	Fund Flows									
		YTD 2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Domestic Equity	3,375	5	(151)	(48)	11	31	111	130	(25)	54	260
International Equity	1,136	10	(82)	139	148	105	67	23	(3)	(22)	50
Taxable Bond	1,553	175	19	98	45	26	3	39	124	76	(36)
Tax-exempt Bond	420	45	8	11	15	5	(14)	(7)	16	12	(14)
Hybrid	577	3	(19)	23	7	25	43	32	8	10	(31)
Money Market	3,552	(291)	637	654	245	63	(157)	(258)	(46)	375	159

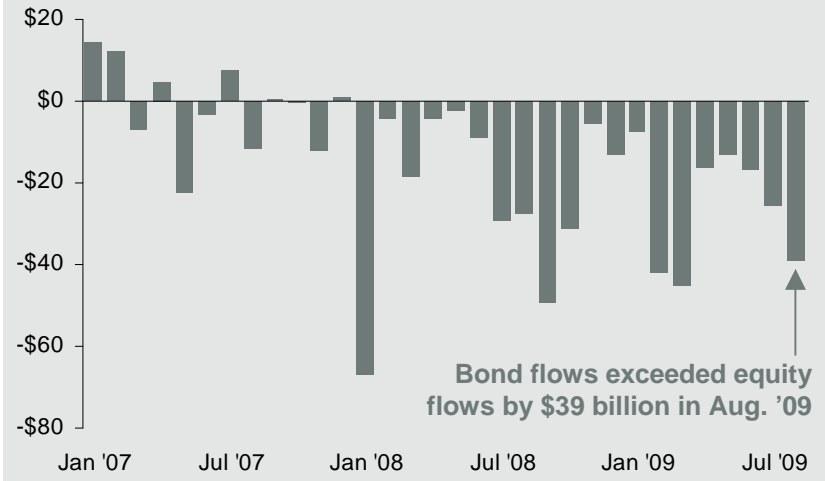
Net fund flows (monthly)

Billions, USD, U.S. and international funds



Difference between net flows into stock and bond funds

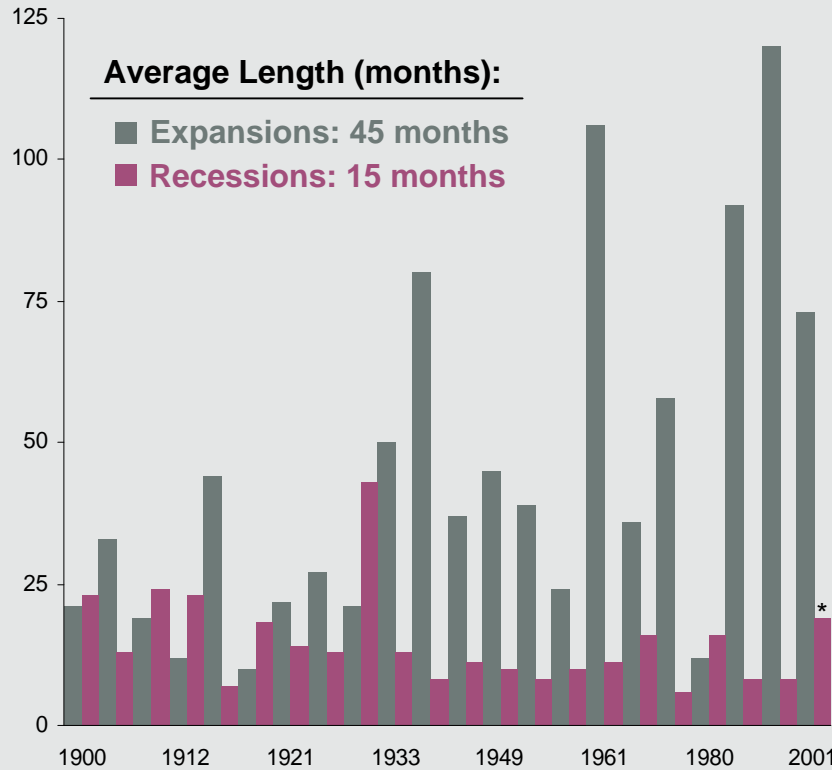
Billions, USD, U.S. and international funds



Source: Investment Company Institute, J.P. Morgan Asset Management.

Data include flows through August 2009 and exclude ETFs. International equity flows are inclusive of emerging market, global equity, and regional equity flows. Hybrid flows include asset allocation, balanced fund, flexible portfolio and mixed income flows.

Length of Economic Expansions and Recessions



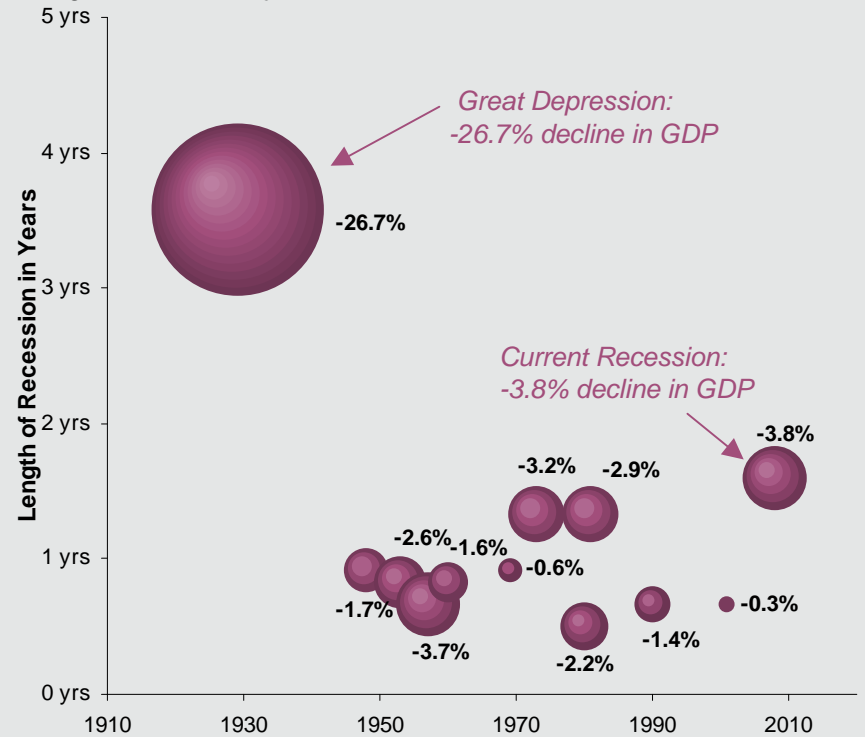
Source: NBER, J.P. Morgan Asset Management.

Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). This data can be found at www.nber.org/cycles/ and reflects information through September 2009. *Assumes recession that started in December 2007 continued at least through June 2009.

For illustrative purposes only.

The Great Depression and Post-War Recessions

Length and Severity of Recession



Source: NBER, BEA, J.P. Morgan Asset Management.

Bubble size reflects the severity of the recession, which is calculated as the decline in real GDP from the peak quarter to the trough quarter except in the case of the Great Depression, where it is calculated from the peak year (1929) to the trough year (1933), due to a lack of available quarterly data. Data are as of 9/30/09.