Prudential International Investments Advisers, LLC.

Global Investment Strategy – June 2009

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Financial Market Outlook & Strategy: Further Stock Gains with Economic & Earnings Recovery, Increasing Risk Appetite, Credit Market Stabilization. Bonds under Pressure

John Praveen's Global Investment Strategy – June 2009 expects the stock market rally to continue in H2 with recession on track to end and GDP growth turning positive in H2, earnings recovering, stabilizing credit markets, and improvement in risk appetite. However, given the strong rally since the March lows, markets are likely to experience a technical correction, though the correction is likely to be modest as a lot of investors are waiting for a pullback to increase equity exposure. In the near-term, there are several risks that threaten the fragile global economic recovery and the stock market rally: 1) rising bond yields and mortgage rates threatens to choke off the refinance wave and delay the housing recovery; 2) the rebound in oil prices dampening consumption spending; 3) inflation concerns fuelling fears of a premature tightening of monetary policy.

Global government bond yields are likely to remain under pressure on continued signs of economic recovery, stabilization of credit markets and increasing risk appetite. However, bonds face several cross currents. Improving macro data, increasing risk appetite and rising bond supply are likely to push yields higher. However, persistence of deflationary pressures and an anemic GDP recovery are likely to limit the rise in yields. Given the recent sharp rise in bond yields, a pullback is likely in the near-term with the Fed unlikely to raise rates or exit from Quantitative Easing in 2009 given that the economic recovery is fragile, unemployment is rising, deflationary pressures are persisting and the healing of financial system is not yet complete.

Among stock markets, we are overweight Emerging Markets, modest overweight in the U.K., and have raised Japan to a modest overweight. The U.S. is downgraded to underweight. We remain underweight on Eurozone. Among sovereign bond markets, we are underweight developed bond markets and overweight Emerging Market bonds.

The global asset allocation and strategy models presented are hypothetical models shown for illustrative purposes only, and does not necessarily reflect the management of any actual account. Following the models presented may not result in profitable investments.

Financial Market Outlook: Further Stock Gains with Economic & Earnings Recovery. Bonds Under Pressure

Stocks: Stock Rally Continues in H2 with Improvement in Macro & Earnings Outlook & Increasing Risk Appetite

- Global equity market rally continued in May with growing evidence that the macro recovery is getting entrenched, the earnings outlook is improving, the U.S. bank stress test results did not spring any negative surprises, credit markets continued to stabilize and risk appetite improved further. Markets were also relieved as the U.S. engineered a soft landing of the GM bankruptcy after brokering the Fiat-Chrysler deal.
- Looking ahead, green shoots of recovery continued to spread on the global economic landscape. Leading Economic, business and consumer confidence indicators, and actual activity data continue to improve in May/early June indicating that the global recession is bottoming. Activity data continues to improve suggesting that Q2 GDP is on track to a much smaller decline in the U.S. and Europe and even positive GDP growth in Japan after the Q1 collapse.
- In recent weeks, short-term rate expectations have undergone a significant change following the sell-off in the bond markets, especially at the short end. Fed Funds futures are pricing Fed rate hikes in late 2009. However, this seems highly unlikely with the economic recovery still very fragile, unemployment rising, deflationary pressures persisting and the healing of financial system not yet complete. Our view is that the Fed will remain on hold through 2009 and well into 2010. This is another positive for stocks.
- On the earnings side, while Q1 reported earnings were sharply negative, the rate of decline appears to be abating. Earnings growth is expected to recover in H2 as GDP growth is expected to move into positive territory resulting in better sales growth. Further, the drag from Financials is likely to diminish as their earnings recover on the back of favorable base effects, improved financial market conditions, and profitability due to the steep yield curve. Further, the sharp rise in oil and commodity prices should support Materials and Energy earnings.
- Equity market valuation multiples rose further in May as equity markets continued to rally during the month. However, P/E multiples are still below long-term averages. Stocks remain cheap relative to bonds, though their relative valuation advantage has decreased from the levels seen in early March as stocks continued to rally strongly in May while bond yields have risen.
- Credit markets continue to normalize to the pre-crisis level. Interbank lending resumed with 3-month LIBOR OIS spread easing to around 40bps in early June (the lowest level since February 2008) from a peak of 363bps in October 2008. Credit spreads have eased sharply to close to pre-Lehman levels. Emerging Market spreads also declined to 470bps in early June from the peak of 1087bps. Risk appetite has recovered significantly with the VIX index falling below 30 from the peak of 81 in late 2008 following the Lehman demise.

- ***We expect stocks to post further gains during H2 with: 1) the recession on track to end and GDP growth turning positive in H2 2009; 2) earnings recovering with improved GDP growth, rising oil and commodity prices boosting Energy and Materials earnings and a more favorable backdrop for Financials earnings (loss write-downs abating, improving interest margins with steep yield curve); 3) credit markets stabilizing with spreads declining further; 4) risk appetite improving.***
- ***The global stock market rally has continued uninterrupted since the March lows, with Developed Markets rising over 40% and Emerging Markets surging over 55%. Given the duration and magnitude of the rally, markets are likely to experience a technical correction. However, the correction is likely to be modest as a lot of investors are waiting for a pullback to increase equity exposure.***
- ***In the near-term, there are several risks that threaten the fragile global economic recovery and the stock market rally: 1) rising bond yields and mortgage rates threatens to choke off the refinance wave and delay the housing recovery; 2) the rebound in oil prices dampening consumption spending; 3) inflation concerns fuelling fears of a premature tightening of monetary policy.***

Bonds: Bonds Under Pressure from Improving Macro Data, Increasing Risk Appetite

- Developed Market bonds fell sharply in May on strengthening global macroeconomic data, concerns over increased supply with exploding fiscal deficits, and increased risk appetite. Emerging Markets bonds rose for the third consecutive month with a continued increase in risk appetite.
- ***Looking ahead, global government bond yields are likely to remain under pressure on continued signs of economic recovery, stabilization of credit markets and increasing risk appetite. However, bonds face several cross currents. Improving macro data, increasing risk appetite and rising bond supply are likely to push yields higher. However, persistence of deflationary pressures and an anemic GDP recovery are likely to limit the rise in yields. Further, a correction in equity prices should support bonds.***
- ***Given the recent sharp rise in Treasury yields, a pullback is likely in the near-term. However, in the medium-term, the continued macro improvement and increasing risk appetite are likely to push Treasury yields higher. In Eurozone, rising unemployment and modest export recovery point to a weak Eurozone rebound. This combined with deflationary pressures and ECB's asset purchases should limit the rise in Eurozone yields. Gilts are likely to be pressured by stabilizing GDP growth, rising inflation and increased fiscal deficits. Japanese JGBs likely to be pressured by rising bond supply and the already low level of yields. Emerging Market bonds remain supported by the decline in risk aversion and improving growth outlook.***

Investment Strategy: Further Stock Gains with Economic & Earnings Recovery. Bonds Under Pressure

ASSET ALLOCATION: Stocks vs. Bonds

The global asset allocation models presented are hypothetical models shown for illustrative purposes only, and does not necessarily reflect the management of any actual account. Following the allocation models presented may not result in profitable investments.

Overweight Stocks: Stocks likely to continue to rally in H2 with recession on track to end and GDP growth turning positive in H2, earnings recovery, stabilizing credit markets, and improvement in risk appetite. However, rising bond yields and oil prices are risks to the economic recovery and the stock rally.
Underweight Bonds: Bond yields are likely to remain under pressure on continued signs of economic recovery, stabilization of credit markets and increasing risk appetite. However, persistence of deflationary pressures and an anemic GDP recovery are likely to limit the rise in yields. Further, a correction in equity prices should support bonds. Expansion of QE programs would be a positive for bonds.

GLOBAL BONDS

Neutral: Japan, U.S., U.K., Eurozone 1) JGBs likely to be pressured by the stabilizing GDP growth after the free fall in Q1. Low levels of yields and rising bond supply from the fiscal stimulus are further negatives for JGBs; 2) Treasury yields likely to pull-back near-term after the recent spike. However, strengthening macro data, financial market stabilization and increasing risk appetite are likely to push yields higher medium-term. Deflation fears, anemic recovery and QE buying are positives for Treasuries; 3) Stabilizing U.K. GDP growth, rising inflation and increased fiscal deficits likely to continue to push Gilt yields higher. BoE's asset buying is likely to provide some support to Gilts; 4) Eurozone yields pressured by improving growth outlook after the Q1 collapse. However, rising unemployment and modest export recovery point to a weak rebound. This combined with deflationary pressures and ECB asset purchases should limit the rise in yields.

GLOBAL EQUITIES

Overweight: Emerging Markets Continued macro improvement led by China and India. Recovering GDP growth, rising oil and commodity prices should boost EM earnings. Further rate cuts and increased risk appetite are positives. Valuations have risen with recent rally.

Modest Overweight: U.K. & Japan 1) UK: Sharp improvement in GDP growth momentum. Valuations and sector composition are attractive. Earnings outlook negative for now. 2) Japan: GDP growth on track to a Q2 rebound. Earnings are expected to recover in coming quarters. Yen depreciation is a positive. However, valuations are expensive.

Underweight: U.S. & Eurozone 1) Improving U.S. business and consumer confidence point to a smaller Q2 decline. However, labor market remains weak. Relative earnings outlook is negative, while valuations are expensive. 2) Eurozone: Macro outlook is weaker relative to other markets. Recent euro appreciation is a negative for earnings. ECB's QE less aggressive than other central banks.

GLOBAL SECTORS

Overweight: Energy, Materials, Financials, Info Technology. Neutral: Industrials, Healthcare
Underweight: Consumer Discretionary, Consumer Staples, Telecomms, Utilities

CURRENCIES

Overweight: Euro; Neutral: Sterling; Underweight: Yen & U.S. Dollar

The dollar is likely to remain volatile in the near-term with prospects of a modest rebound after the sharp decline in May. However, underlying fundamentals suggest that the dollar is likely to weaken further as global growth recovers. Further, monetary and fiscal policy have been more aggressive in the U.S. raising the prospects of an increase in inflation and bigger current account deficit, pressuring the dollar further. Declining risk aversion still suggests a more positive outlook for commodity and EM currencies.

Regional Equity Strategy

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Emerging Markets (EM): Continued macro improvement in emerging economies led by the GDP recovery in China and optimism in India following the victory of the ruling Congress-led United Front. Exports have stabilized after the freefall in Q4 2008 while energy and commodity prices have recovered significantly. Further, domestic demand is recovering following the substantial fiscal stimulus and aggressive rate cuts. GDP growth is on track to improve in Q2 and further in H2 following the dismal reading in Q1. This combined with rising oil and commodity prices should boost EM earnings. EM rally is led by small caps, a play on the relatively better domestic demand in emerging economies. This combined with increased risk appetite is likely to lead to further gains for EM stocks. However, EM now trades at a premium to DM on some valuation measures. **Remain Overweight.**

U.K.: Sharp improvement in U.K. growth momentum with both manufacturing and services PMI coming in above the neutral mark. U.K. Q2 GDP likely to come in under -1% QoQ annualized, after the sharp -7.3% decline in Q1 2009. Valuations and sector composition continue to be positives for U.K. stocks. The Bank of England left rates unchanged at 0.5% in June, with no change in the size of the asset purchase program at £125bn. While current expectations are for earnings decline of -33% in 2009, earnings are likely to surprise on the upside with improved backdrop for Financials and rising oil prices boosting Energy earnings. **Remain Modest Overweight.**

Japan: Japan's GDP appears on track to a sharp rebound in Q2 after plunging –3.8% QoQ, –14.2% annualized in Q1 with improvement in exports and rebound in IP. The BoJ kept its policy rate on hold in June and upgraded its economic assessment. Earnings are likely to recover gradually in coming quarters after troughing in Q1 2009. Earnings should recover in H2 with the GDP rebound after the -109% decline in earnings in 2008. The depreciation of the yen in recent months is a positive for Japanese stocks. **Raised to Modest Overweight.**

U.S.: U.S. GDP is on track to a much smaller -1% QoQ annualized decline in Q2 after the -5.7% QoQ annualized decline in Q1 2009. ISM manufacturing confidence rose to 42.8 in May from 40.1 in April, while consumer confidence again surged in May, to 54.9 from 40.8 in April. The U.S. labor market remains weak but continues to show signs of improvement. Relative earnings outlook is negative, while U.S. remains more expensive relative to other markets. The Fed is due to meet in late June and is expected to leave rates unchanged in the 0 and 25bps range. However market expectations of Fed policy and QE exit strategy have changed, leading to a Treasury sell-off which carries risks for the GDP recovery and the equity rally. Given its defensive characteristics, the U.S. has underperformed international markets during equity market rallies. Given, our expectations of further stock gains, international markets are likely to outperform the U.S. Hence reduced exposure to the U.S. market. **Downgrade to Underweight.**

Eurozone: Eurozone GDP on track to a smaller decline in Q2 after the Q1 collapse with ongoing improvement in business and consumer confidence in major Eurozone economies. However, the macro outlook remains weak relative to the U.S., U.K., and EM. The ECB left rates unchanged at 1% at its June meeting and held their target of €60bn in purchases of euro-denominated covered bonds. Recent appreciation of the euro is a negative for Eurozone stocks. Eurozone earnings are expected to improve in H2 2009 after declining in H1. Expectations for full year 2009 are for a -17% decline after a -25% fall in 2008. Remain **Underweight.**

Regional Bond Strategy

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Japan: JGBs are likely to be pressured in coming months due to the stabilization in GDP growth after the free fall in Q1 and Q4 2008. Further, the low level of yields and rising bond supply from the fiscal stimulus are further negatives for JGBs. Japan's GDP appears on track to a sharp rebound in Q2 after plunging -14.2% annualized in Q1 with a recovery in exports and a rebound in industrial production. Japanese headline inflation inched higher to -0.1% YoY from -0.3% in March. The BoJ kept its policy rate on hold at its June meeting and upgraded its economic assessment. **Neutral.**

U.S.: Given the recent sharp rise in Treasury yields, a pullback is likely in the near-term. In the medium-term, the continued improvement in macroeconomic data, financial market stabilization and increasing risk appetite are likely to push yields higher. However, an anemic recovery and continued Treasury buying by the Fed are likely to limit the rise in yields. The Fed is due to meet in late June and is expected to leave rates in the 0 and 25bps range. In recent weeks, short-term rate expectations have undergone a significant change following the sell-off in the bond markets, especially at the short end. Fed Funds futures are now pricing a 50% chance that the Fed will hike by

November and a near-certain tightening move by the December FOMC meeting. The Fed has indicated that it is not likely to increase its asset purchase programs, reflecting its confidence in recovery. However, the Fed is likely to remain on hold through 2009 and well into 2010 before starting the policy rate normalization cycle. This is likely to keep the rise in yields on check. **Neutral.**

Eurozone: Eurozone bond yields are likely to be under pressure from the improving growth outlook after the Q1 collapse with the ongoing improvement in business and consumer confidence in the major Eurozone economies combined with the need for inventory rebuilding after the sharp decline in Q1. Nevertheless, the Eurozone labor markets remain weak. Rising unemployment and modest export recovery point to a weak Eurozone rebound. Eurozone headline inflation fell to a new record low of 0% YoY in May from 0.6% in April. The ECB left rates unchanged at 1% at its June meeting and held their target of €60bn in purchases of euro-denominated covered bonds. Modest GDP rebound, deflationary pressures and ECB's asset purchases should limit the rise in Eurozone yields. **Neutral.**

U.K.: Stabilizing U.K. GDP growth, rising inflation and increased fiscal deficits will continue to put upward pressure on Gilt yields. However, BoE's QE programs are likely to provide some support to Gilts. U.K. Q2 GDP is likely to come in under -1% QoQ annualized, after the -7.3% decline in Q1 2009 with continued improvement in business confidence. U.K. inflation rose for the fourth straight month, up 0.6% MoM in May. The YoY rate eased to 2.2% from 2.3% in April. The BoE held the bank rate at 0.5% at their June 4th meeting. In addition, the BoE decided to hold the size of their QE program at £125bn after increasing it by £50bn in May. **Neutral.**

Emerging Markets: EM bonds remain supported by the decline in risk aversion and improving growth outlook with stabilizing exports and the recovery in energy and commodity prices. Further, domestic demand is recovering following the substantial fiscal stimulus and aggressive rate cuts. GDP growth is on track to improve in Q2 and further in H2 following the dismal reading in Q1. Further rate cuts by EM central banks is another positive for EM bonds. EM spreads have decreased from the post-Lehman highs, but there is scope for further spread narrowing due to the improved fundamentals and increasing risk appetite. **Overweight**

Global Sector Strategy

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Our global sector model ranks sectors on a comparative basis using macro factors, valuation, earnings and risk measures.

- **Energy** - Oil prices have risen to around $70 in early June after plunging to under $35 from the record highs in 2008. Prices likely to remain solid as the economic recovery remains on track. Relative earnings outlook remains negative but likely to be revised up. Oil Services are likely to benefit from continued demand for maintenance projects. **Overweight.**
- **Materials** - Commodity prices (CRB index) surged 13.8% in May after rising 0.9% in April with demand for materials continued to be driven by China demand. Construction Materials remain weak with housing markets still in a decline. M&A activity is a positive. Improvement in demand due to increased fiscal spending is a positive for the sector. **Overweight.**
- **Financials -** The results of the bank stress test came out without any negative surprises. Capital issuance by banks is a positive. Earnings growth expected to improve over 2009 after the better than expected U.S. Q1 earnings with financial market stabilization, steep yield curve, and improvement in capital market activities. **Overweight.**
- **Information Technology** - Macro score is negative, but growing signs of revival in tech orders. Earnings revisions remain negative, but better than in other sectors. Valuations are expensive relative to other global sectors. High cash levels are a positive for the sector. European Tech firms likely to benefit from the currency tailwind and high net cash position. European Software less exposed to consumers and Financials. **Overweight.**
- **Industrials** - Macro fundamentals remain weak, but the smaller GDP decline in Q2 and recovery in H2 are positives for the sector. Manufacturing confidence has recovered sharply, but remains in negative territory. The fiscal stimulus in the U.S. and China are positive for infrastructure spending. **Neutral.**
- **Healthcare -** Sector's earnings and dividend growth remain relatively solid. Valuations attractive on a historical basis, but expensive relative to other sectors. M&A activity is positive for the sector. Pharma faces headwinds such as regulatory risk, political pressures, pricing weakness and downgrades to long-term earnings outlook. **Neutral.**
- **Consumer Discretionary** - Macro outlook remains negative with unemployment continuing to rise and negative wealth effects in the U.S. Sector earnings outlook is negative relative to other global sectors. Outlook for Eurozone, U.K., and Japan Discretionary is also weak with poor consumer fundamentals. Valuations are modestly expensive. **Underweight**.
- **Consumer Staples** - Sector rotation towards cyclicals from defensives due to declining risk aversion is a negative for the sector. Earnings growth is relatively better compared with other sectors. However, increases in oil and commodity prices are negative for the sector due to higher input costs. U.S. Tobacco likely to benefit from its low valuation and solid earnings growth. **Underweight.**
- **Telecomm Services -** Consumer fundamentals remain very negative. Seasonality remains negative for the sector. Valuations are at par with other global sectors. Sector earnings outlook is relatively positive, but likely to be revised down further with weak consumer fundamentals. Big Telecomms favored with their strong and stable cash flows and cost saving opportunities. **Underweight.**

- **Utilities -** Sector likely to underperform with the decline in risk aversion. However, sector benefits from defensive characteristics with markets set for a pullback in the near-term after the strong gains in recent months. Sector valuations are attractive. Earnings revisions have held up well due to the ability of Utility operators to pass on higher input costs to customers. European Utilities face headwinds of expensive valuations, regulatory headwinds and weak pricing power. **Underweight.**

Strategy Summary:

Asset Allocation – Overweight: Stocks. Underweight: Bonds.

Global Bonds –Neutral: Japan, U.S., U.K., & Eurozone.

Global Equities – Overweight: Emerging Markets Modest Overweight: U.K. & Japan Underweight: U.S. & Eurozone.

Global Sectors – Overweight: Energy, Materials, Financials, Info Technology. Neutral: Industrials, Healthcare. Underweight: Consumer Discretionary, Consumer Staples, Telecomms, Utilities.

Currencies – Overweight: Euro; Neutral: Sterling; Underweight: Yen & U.S. Dollar.

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