Prudential International Investments Advisers, LLC.

Global Investment Strategy – September 2009

By John Praveen, Chief Investment Strategist

For Market Commentary Interviews Contact: Lisa Villareal, 973-367-2503/lisa.villareal@prudential.com

Financial Market Outlook & Strategy: Further Stock Gains with Macro Sweet Spot & Earnings Recovery. Bonds Likely to Remain Under Pressure With GDP Rebound

John Praveen's Global Investment Strategy – September 2009 expects equity markets to remain in an uptrend and add to the already solid gains since the March lows. Equity markets are now facing the sweet spot in the economic cycle with a stronger and faster rebound from the recession, inflation close to a trough but not yet picking up enough to cause concern, ample liquidity and interest rates remaining low. Further stock gains are driven by: 1) The recession ending faster than expected with a sharp synchronized GDP rebound in H2 2009; 2) Earnings outlook improving with the GDP rebound and improved pricing power; earnings expectations being revised higher and likely to surprise on the upside; 3) Deflation concerns easing with headline inflation at a trough and on track to turn positive; however, excess capacity and high unemployment are expected to keep inflation under control; 4) Plenty of liquidity and global central banks holding interest rates at current low levels; and 5) Continued stabilization in financial market conditions and risk appetite improving further.

With stock markets facing the macro sweet spot and earnings recovering, we remain confident that the S&P500 index will reach our year-end target of 1200 (revised up from 1100). We continue to expect Emerging Markets to outperform the Developed Markets.

However, stocks face near-term risks: overbought conditions, valuations getting stretched, market concerns about the sustainability of the GDP recovery beyond the stimulus and inventory rebuilding driven rebound, and fears about how successfully central banks can execute their QE exit strategies. These concerns are likely to contribute to equity volatility.

Bond yields are likely to remain under pressure with the recession ending faster than expected and a stronger GDP rebound. Further, headline inflation is on track to turn positive in Q4, removing a tail wind for bonds. The winding down of asset purchases by central banks is another negative. However, low core inflation and central banks remaining on hold at low levels are positives.

Among global stock markets, we remain overweight Emerging Markets, and modest overweight in the U.K. We have upgraded Eurozone to neutral with GDP growth on track to turn positive in Q3. We downgraded Japan to neutral on yen strength and policy uncertainty after the election of the new DPJ government. We remain underweight on the U.S. ***Among Government bond markets***, we have a modest overweight in Japan and U.K., and underweight in U.S. Treasuries. We have upgraded Eurozone bonds to neutral due to concerns about the sustainability of the recovery and relatively smaller fiscal stimulus. We remain overweight Emerging Market bonds.

Among global sectors, we remain Overweight in Financials, Information Technology, Modest Overweight in Energy, Materials and Industrials. We remain Underweight in Consumer Staples, Healthcare, Consumer Discretionary, Telecomms, and Utilities.

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: Stock Rally Continues with Faster & Stronger GDP Rebound, Earnings Recovery & Liquidity

Stocks: Further Stock Gains with Sharp, Synchronized GDP Rebound, Earnings Recovery & Liquidity

- The global equity rally continued with solid gains in August and early September. Equity markets are now facing the sweet spot in the macro cycle with a stronger and faster rebound from the recession, inflation at a trough but not yet picking up to cause concern, ample liquidity and interest rates remaining low.
- The global economy appears to be on the fast track to exit the recession with a sharp synchronized rebound in the second half of 2009. GDP growth has turned positive in Japan, Germany, France and several emerging economies in Q2, while the U.S., U.K. and the rest of Eurozone are on track to positive GDP growth in Q3. GDP growth is set to accelerate in China, India and other emerging economies.
- Headline inflation appears to have troughed and is on track to turn positive in late 2009 due to the base effects of the oil price collapse in H2 2008. However, excess capacity and high unemployment are expected to dampen inflationary pressures, both core and headline. Liquidity remains plentiful and central banks remain on hold with policy rates at record lows and are expected to remain on hold through the first half of 2010.
- With the global economy on a fast track to a sharp rebound and GDP forecasts being revised higher, earnings expectations are also being revised up. In Q2 earnings improvement was driven by cost cutting. The GDP recovery should boost H2 earnings by improving top line revenue growth. Global earnings revisions turned positive in August after remaining in negative territory for 21 months.
- Equity market P/E multiples continue to rise in August with global stocks posting further gains during the month. However, stocks are still cheap using adjusted earnings. On a normalized Graham & Dodd P/E basis, all developed markets are trading at a discount to the long-term average.
- ***We expect equity markets to remain in an uptrend and add to the already solid gains. Further stock gains are driven by: 1) The recession ending faster than expected with a sharp synchronized rebound in H2 2009; 2) Earnings outlook improving with the GDP rebound and improved pricing power; earnings expectations being revised higher and likely to surprise on the upside; 3) Deflation***

concerns easing with headline inflation at a trough and on track to turn positive; however, excess capacity and high unemployment are expected to keep inflation under control; 4) Plenty of liquidity and global central banks holding interest rates at current low levels; and 5) Continued stabilization in financial market conditions and risk appetite improving further.

- ***With stock markets facing the macro sweet spot and earnings recovering, we remain confident that the S&P500 index will reach our year-end target of 1200 (revised up from 1100). We continue to expect Emerging Markets to outperform the Developed Markets.***
- ***However, stocks face near-term risks: overbought conditions, valuations getting stretched, market concerns about the sustainability of the GDP recovery beyond the stimulus and inventory rebuilding driven rebound, and fears about how successfully central banks can execute their QE exit strategies. These concerns are likely to contribute to equity volatility.***

Bonds: Stronger Economic Growth, Inflation Trough Keep Bonds Under Pressure

- Global government bonds again posted modest gains in August with stocks volatile on concerns about the sustainability of the GDP rebound.
- ***Looking ahead, bond yields are likely to remain under pressure with the recession ending faster than expected and a stronger GDP rebound. Further, headline inflation is at a trough and is set to turn positive in Q4, removing a tail wind for bonds. The winding down of asset purchases by central banks is another negative. However, low core inflation and central banks remaining on hold are positives for bonds.***
- ***U.S. Treasury yields are likely to edge higher with a strong H2 GDP rebound, headline inflation turning positive in Q4, and the Fed ending Treasury purchases in October. However, low core inflation, the Fed keeping rates around zero, and strong demand for Treasuries are positives. Eurozone bonds are likely to be under pressure from the H2 GDP rebound and headline inflation turning positive. However concerns about the sustainability of the GDP recovery are likely to limit the rise in yields. In the U.K., a relatively weaker growth outlook and the expansion of the BoE's QE program are likely to support Gilts. In Japan, persistence of deflation and fears of a double dip are positives for JGBs. EM spreads are likely to narrow further with continued improvement in EM growth outlook.***

Investment Strategy: Increase Stocks Overweight with Sharp, Synchronized GDP Rebound, Earnings Recovery & Liquidity

ASSET ALLOCATION: Stocks vs. 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.

Increase Overweight Stocks: Equity markets remain in an uptrend and expected to add to the already solid gains thus far with the recession ending faster than expected and the global economy on track to a sharp synchronized rebound in H2, earnings outlook improving with the GDP rebound and improved pricing power, deflation concerns easing with headline inflation at a trough and on track to turn positive, ample liquidity and global central banks on hold, and continued stabilization in financial market conditions and risk appetite improving further.

Increase Underweight Bonds: Bond yields are likely to remain under pressure with the recession ending faster than expected and a stronger GDP rebound. Headline inflation appears to have troughed and is set to turn positive in Q4, removing a tail wind for bonds. The winding down of asset purchases by central banks is another negative. However, low core inflation and central banks remaining on hold are positives for bonds.

GLOBAL EQUITIES

Overweight: Emerging Markets Continued improvement in macro outlook with GDP growth set to accelerate due to exports recovery and domestic demand improving with the fiscal stimulus. The earnings outlook is being revised up with solid consumption growth and rally in oil and commodity prices. Increased risk appetite is another positive for EM stocks. However, EM now trades at a premium to DM on some valuation measures.

Modest Overweight: U.K. Macro outlook is relatively less positive for U.K. stocks but valuations and sector composition are positives for U.K. stocks. Earnings likely to surprise on the upside given rising expectations for Energy, Materials and Financials stocks.

Neutral: Eurozone, Japan 1) Eurozone: GDP growth on track to turn positive in Q3 after turning almost flat in Q2. Relative valuations are attractive. However, Eurozone earnings outlook relatively less attractive. Rising euro is another negative. 2) Japan: Further GDP recovery in Q3. Earnings remain on recovery track. However, Yen strength is a negative for exporters. Further, policy uncertainty after the election of the new DPJ government is another negative for Japanese stocks. Hence, downgraded Japan to Neutral from modest Overweight.

Underweight: U.S. U.S. GDP is on track to a solid GDP rebound in Q3 after a smaller decline in Q2. Earnings outlook revised higher, but valuations still remain expensive relative to other markets. U.S. underperforms international markets during equity market rallies.

GLOBAL BONDS

Overweight: U.K., Japan 1) UK: Relatively weaker GDP recovery and BoE's Quantitative Easing should support U.K. Gilts. Increasing supply and low level of yields could put some upward pressure on yields. 2) Japan: Concerns about the sustainability of the GDP recovery and fears of a double-dip, and persistence of deflation are positives for JGBs.

Neutral: Eurozone Eurozone bonds are likely to be under pressure from the H2 GDP rebound and headline inflation turning positive. However concerns about the sustainability of the recovery and relatively smaller fiscal stimulus are likely to limit the rise in yields.

Underweight: U.S. Treasury yields are likely to edge higher with a strong H2 GDP rebound, headline inflation turning positive in Q4, and the Fed ending Treasury purchases in October. However, low core inflation, the Fed on hold, and strong demand for Treasuries are positives.

GLOBAL SECTORS

Overweight: Financials, Info. Technology. Modest Overweight: Energy, Materials, Industrials.

Modest Underweight: Consumer Staples, Healthcare; Underweight: Consumer Discretionary, Telecomms, Utilities.

CURRENCIES

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

The dollar likely to struggle with the sharp, synchronized GDP rebound. The ballooning fiscal deficit is dollar negative. However, dollar likely to have a technical correction after recent collapse. Yen likely to remain strong on the new DPJ government's tolerance of a stronger yen.

Regional Equity Strategy

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.

Emerging Markets (EM): Emerging economies recovered in Q2 with GDP growth swinging into positive territory after the Q1 carnage and are on track to accelerate further in H2 2009 and 2010 with the developed economies exiting the recession. The strong Asian rebound was driven by exports and the massive fiscal stimulus packages, while the rebound in energy and commodity prices helped Latin America and EMEA to post smaller GDP declines in Q2. 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. Interest rates still remain accommodative. However, currency appreciation is a negative for stocks. **Remain Overweight.**

U.K.: Continued improvement in business confidence and stabilization in industrial activity suggest that GDP growth will turn positive in Q3. We expect Q3 GDP growth of around 1% annualized. Valuations and sector composition remain positives for U.K. stocks. The BoE held the bank rate at 0.5% in September. Earlier in August, the BoE decided to increase its Quantitative Easing program by £50bn to £175bn. Earnings likely to surprise on the upside given rising expectations for Energy, Materials and Financials stocks. **Remain Modest Overweight.**

Eurozone: Eurozone GDP is on track to turn positive in Q3 with GDP growth in Germany and France accelerating further after turning positive in Q2. Eurozone recovery is expected to gain further traction as global manufacturing picks up in late H2. Eurozone Q3 GDP on track to rise around 1.5% QoQ annualized, accelerating to over 3.2% in Q4. The ECB held rates at 1% at the September meeting. The ECB also revised up its forecast for GDP growth for 2009 and 2010 but remains cautious on the sustainability of the recovery. Recent sharp appreciation of the euro is a negative. Relative earnings outlook is also negative. **Upgraded to Neutral.**

Japan: GDP on track to strengthen further in Q3 to around 3.2% with the fiscal stimulus and continued recovery in exports. However, consumer fundamentals remain weak with unemployment at a record high, while capex remains anemic given the weak orders and record low capacity utilization. The BoJ left its policy rate unchanged in September, and remains cautious about the growth outlook. Earnings on track to recover in H2 with upward revisions to earnings expectations. Recent sharp appreciation of the yen is a negative especially for exporters' earnings. Policy uncertainty after the election of the new DPJ government is another negative for Japanese stocks. Hence, downgraded Japan to Neutral from modest Overweight. **Downgraded to Neutral.**

U.S.: U.S. GDP growth is on track to turn positive in Q3, around 3.5%, after a much smaller GDP decline in Q2. U.S. earnings are likely to improve further in the coming quarters with U.S. GDP rebounding leading to top line revenue growth. However, the U.S. remains expensive relative to other markets. In August, the Fed left rates unchanged and signaled that it would not expand its Treasury buying program, but would extend the program to the end of October. During past equity market rallies, the U.S. has underperformed international markets due to its defensive characteristics. Given our expectations of further stock gains, international markets are likely to outperform the U.S. Hence we remain underweight in the U.S. **Remain Underweight.**

Regional Bond Strategy

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.

Emerging Markets: EM spreads are likely to continue to narrow as the macro outlook for EM continues to improve and the global economy recovers further. However, given the sharp rise in the equity markets, near-term volatility in stock prices could prove damaging for EM returns. Emerging economies are on track to accelerate in Q3 with rising commodity prices, exports growing, and massive fiscal stimulus packages, particularly in China, boosting growth. After a long period of cutting rates sharply, some EM central banks are now on hold. Given the decline in inflation, these banks are likely to keep rates depressed for some time. Further, if the growth recovery is unimpressive in 2010, the low levels of inflation will give them room to cut rates further. Finally, the increase in fiscal spending is likely to increase EM bond supply leading to some upward pressure on yields. **Remain Overweight.**

Japan: The Japanese economy is on track to strengthen further in Q3, to around 3.2%, with the fiscal stimulus and continued recovery in exports. However, consumer fundamentals remain weak with unemployment at a record high, while private capex remains anemic given the weak orders and record low capacity utilization. JGB yields are likely to benefit from the BoJ's easy monetary policy with the bank leaving the call rate unchanged at 0.1% in September. Although the bank upgraded its economic outlook, it still remains concerned about downside risks to the recovery. JGBs are also likely to benefit from the persistence of deflation with headline inflation fell to -2.2% YoY in July, a record-low, from -1.8% in June, while core inflation fell to a record low -2.2%.Concerns about the sustainability of the Japanese GDP recovery and fears of a double-dip, and persistence of deflation are positives for JGBs. However, the increase in the fiscal deficit with another stimulus package being considered by the new DPJ administration is a negative for JGBs. **Remain Overweight.**

U.K.: U.K. Gilts are likely to benefit from a relatively weaker U.K. GDP growth outlook and the expansion of the BoE's QE program. GDP is expected to rise around 1% QoQ annualized in Q3, improving further to around 2% in Q4. U.K. headline inflation eased to 1.6% YoY in August, but prices rose 0.4% MoM. U.K. core inflation held at 1.8% YoY in August. The BoE again held the U.K. bank rate at 0.5% at their September meeting. Earlier in August, the BoE expanded asset purchase plan by £50bn to £175bn. Looking ahead, a relatively weaker U.K. GDP growth outlook and the expansion of the BoE's QE program are likely to put downward pressure on Gilt yields. **Remain Overweight.**

Eurozone: Eurozone GDP is on track to turn positive in Q3, around 1.5% annualized, after Germany and France lifted Eurozone Q2 GDP to almost flat reading. The solid rebound in Eurozone GDP growth, is likely to put upward pressure on bond yields. Further, headline inflation is set to turn positive with fading base effects. Headline inflation improved to -0.2% YoY pace in August from -0.7% in July. However, the pace of Eurozone economic recovery is expected to be slower relative to the U.S. The ECB held rates at their record low of 1% at the September ECB Council meeting. Although it upgraded its GDP forecasts modestly, it remains skeptical about the recovery. Further, since the fiscal stimulus was relatively small in Eurozone, growing bond supply is a smaller negative for Eurozone bonds. These are likely to limit the rise in Eurozone yields relative to the U.S. Treasuries. **Upgraded to Neutral.**

U.S.: U.S. GDP growth is on track to turn positive in Q3, around 3.5% annualized, after posting a much smaller GDP decline in Q2. U.S. headline consumer prices began to turn around in August, with the YoY rate improving to -1.4% from -1.9% in July. Headline inflation is on track to rise further and turn positive in Q4. U.S. Treasury yields are likely to trend higher with the U.S. GDP rebounding in H2 and headline inflation turning positive in Q4. The Fed remaining on extended hold is a positive, but ending their Treasury purchases by October is a negative. Equity market volatility after the sharp rise since the March lows, low core inflation and strong demand for Treasuries from foreign central banks and domestic commercial banks are likely to provide some support. But on balance, the risks are for Treasury yields to rise. **Remain Underweight.**

Global Sector Strategy

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.

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

- **Financials -** Earnings outlook remains positive with earnings growth expected to recover sharply during H2. Financial market conditions continue to improve. Diversified Financials benefit from wider margins and increase in capital market activities. Insurance continues to benefit from equity market gains. Consumer Finance remains relatively weaker. **Remain Overweight.**
- **Information Technology** - Macro outlook remains positive with further recovery in tech orders. Earnings revisions strengthen further in August. Prospects of further margin expansion, especially in Semiconductors and Hardware. More economically levered segments such as Semi and Communication Equipment to outperform defensives such as Software. **Remain Overweight.**
- **Energy** - Oil remains above $70. Further, the ongoing economic recovery is likely to keep oil prices high and fuel sector gains. Relative earnings outlook is negative, but likely to be revised higher with strong earnings revisions in recent months. However, sector valuations are at par with the market. **Remain Modest Overweight.**
- **Materials** - Commodity prices are trending higher with the spot CRB index jumping 4.7% in August, driven by still strong demand for commodities such as iron ore. Outlook for Construction Materials still remains weak despite some improvement in the housing markets. M&A activity and improvement in demand due to increased fiscal spending are positives. **Remain Modest Overweight.**
- **Industrials** - Industrial activity is rebounding as the economic recovery is taking hold. Business confidence continues to rise with manufacturing confidence indices posting gains in all regions. Infrastructure benefiting from fiscal stimulus in the U.S. and China. Valuations are attractive. Earnings outlook remains relatively weak, but likely to be revised higher. **Remain Modest Overweight.**
- **Consumer Staples** - Reduced risk aversion due to strong and synchronized global GDP recovery is a negative for the sector. Earnings growth is better compared with other sectors due to solid margins. However, increasing oil and commodity prices are negative for the sector due to increased input costs. Prefer international Tobacco relative to U.S. due to tightening regulations. **Remain Modest Underweight.**
- **Healthcare -** Easing risk aversion is a negative for the sector. Pharma faces headwinds such as regulatory risk, political pressures, pricing weakness and downgrades to long-term earnings outlook. Current valuations are modestly attractive relative to the market. Sector's earnings growth and dividend yield remain relatively solid. **Remain Modest Underweight.**
- **Consumer Discretionary** - Sector fundamentals are negative with unemployment continuing to remain high and household earnings growth anemic in major developed markets. Sector earnings outlook remains negative relative to other global sectors with margins under pressure. Relative valuations are expensive. Consumer fundamentals in EM are supported by government spending. **Remain Underweight**.
- **Telecomm Services -** Consumer fundamentals remain negative. Earnings outlook is negative with continued negative earnings revisions due to weak consumer and business spending. Margins are under pressure. Valuations are at par with other global sectors. Big Telecomms favored due to their strong and stable cash flows and cost saving opportunities. **Remain Underweight.**

- **Utilities -** Sector likely to underperform with the decline in risk aversion. Carbon legislation risk in the U.S. has subsided, but possible revival of the bill still concerns investors. European Utilities face headwinds of expensive valuations, regulatory headwind, and weak pricing power. Sector valuations are attractive. **Remain Underweight.**

Strategy Summary:

Asset Allocation – Increase Overweight: Stocks. Increase Underweight: Bonds.

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

Global Bonds – Overweight: Emerging Markets, U.K., Japan; Neutral: Eurozone; Underweight: U.S.

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

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