

UBS Weekly Guide

China still landing softly

- Weaker-than-expected Chinese economic data points last week were clearly a disappointment. Nonetheless, we continue to believe that Chinese policymakers will be able to engineer a soft landing, although this may require more policy support.
- Chinese equities and emerging market equities still look attractive in our view, based on valuations that fail to reflect a greater growth potential than in developed markets. Nonetheless, we acknowledge that it may take a bit longer before Chinese and emerging market equities can resume their outperformance.
- Meanwhile, US data both on the economic and earnings front remain sufficiently robust to suggest some moderate though limited upside to US stocks. We increased our S&P 500 year-end 2012 target from 1350 to 1400 last week.
- With this target just 3% away from current market levels, this target underpins both our overall neutral tactical stance on equities vs. other asset classes and a neutral stance on US equities vs. international markets.

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Weak data in China ...

The economic data released in China last week was disappointing. In particular, industrial production, which is highly correlated with Gross Domestic Product (GDP), slowed to a 9.3% annual rate in April, much lower than the market expected and the weakest growth since April 2009. This reflects both weaker exports and softer domestic retail sales. Exports to the eurozone continued to decline in April, and even demand from emerging markets slipped against a weak global environment. Heavy industrial production continues to be impacted by slowing property investment, while infrastructure investment has not rebounded strongly. New loan growth in April was Chinese yuan renminbi (CNY) 682 billion (bn), well below the CNY 1010 bn figure for March, and money supply growth slowed as well. In addition, much of the recent new bank lending came in the form of short-term working capital loans or discount bills rather than medium- to long-term

We welcome your feedback:
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Fig. 1: China April macro data

Date	Indicators	Units	Consensus	April	March
10-May	Exports	% y/y	8.5	4.9	8.9
10-May	Imports	% y/y	10.9	0.3	5.3
10-May	Trade balance	USD bn	9.9	18.42	5.35
11-May	CPI	% y/y	3.4	3.4	3.6
11-May	PPI	% y/y	-0.5	-0.7	-0.3
11-May	Industrial production	% y/y	12.2	9.3	11.9
11-May	Fixed asset investment	% y/y	20.5	20.2	20.9
11-May	Retail sales	% y/y	15.1	14.1	15.2
11-May	New yuan loans	CNY bn	780	681.8	1010
11-May	M2 money supply	% y/y	13.3	12.8	13.4

Source: Bloomberg, UBS

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lending, which would normally be associated with investment.

...may trigger more policy support

The weak economic data should be a worrying sign for the government and may trigger more policy support in the months ahead. We have already seen signs of policy easing in the form of increased fiscal spending, easier liquidity conditions, and eased rules on credit to local governments and to the property sector. There have been signs that this is supporting construction activity, for example steel demand for construction seems to have rebounded in the past 2 months. Additional policy support will likely come in the form of credit and fiscal policy, but not necessarily in Reserve Requirement Ratio cuts (a lower RRR helps to increase banks' lending capacity). As corporate credit demand is likely to remain weak in light of relatively poor short-term growth prospects, the government will have to push up government and government-related spending. Part of this may come directly in the form of increased fiscal spending, and part from government-related investment financed through credit expansion to local governments and state-owned companies.

Even with additional government support, weaker exports and investment spending will likely mean slower growth than we previously anticipated. UBS economists have therefore revised down their second quarter GDP growth forecast to a year-over-year rate of 8.0% (down from 8.4%) and overall GDP growth in 2012 to 8.2% (down from 8.5%).

Bad news already priced into Chinese equities, remain overweight

Chinese equities have returned 6% in dollar terms year-to-date, trailing slightly behind overall emerging market equities as well as the S&P 500. With the Chinese market now trading below 9 times forward consensus earnings estimates, it appears that investors have already priced in quite a lot of bad news. We still think that China is unlikely to suffer a hard landing, and our reduced forecast of 8.2% GDP growth is obviously still much higher than in most other countries.

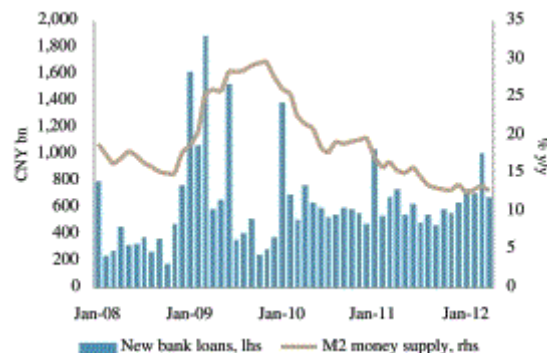
We, therefore, remain overweight China within emerging market equities, and we are also overweight emerging markets within global equities. However, we acknowledge that this recent weakness in Chinese data is likely to keep investors cautious about the market. It may therefore take some time before enough evidence is available that China is picking up and investor sentiment improves again. Outperformance by Chinese stocks, and emerging market equities more broadly, may therefore be constrained in the near-term.

US still robust

Meanwhile, US economic and earnings prospects remain fairly robust, in our view. After a spell of weakness in the economic data flow, some recent releases have started improving again. Consumer confidence is ticking up and initial jobless, after rising in early April have come back down to March levels, suggesting

Fig. 2: Chinese loan growth declined in April after the pick-up in March

New bank loans and M2 money supply



Source: Bloomberg, UBS

Fig. 3: Disappointing Chinese trade data in April

Trade balance in USD bn, Export and Import growth, y/y in %

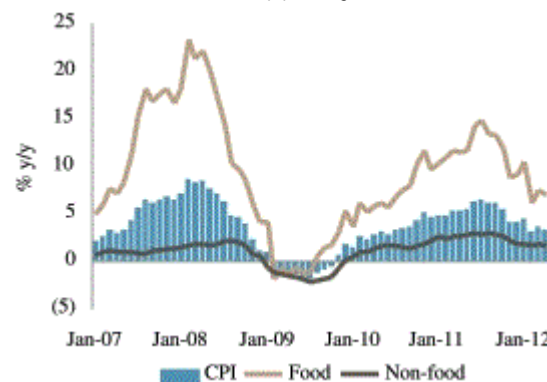


Note: y/y = year-over-year

Source: Bloomberg, UBS

Fig. 4: Moderating inflation gives more room for policy maneuver

China Consumer Price Index, y/y change in %



Source: Bloomberg, UBS

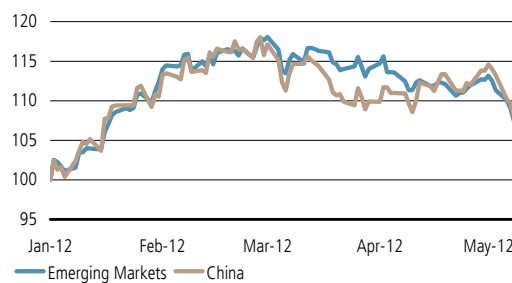
that softness in nonfarm payrolls may prove temporary. Overall, we continue to view a scenario of moderate but sustained positive growth as the most likely in the US. We expect US GDP to grow at 2.3% this year.

We have turned somewhat more constructive on US corporate earnings. S&P 500 earnings results have come in stronger than we had previously anticipated. WMR Chief Equity Strategist, Jeremy Zirin, has boosted his 2012 and 2013 forecasts from US dollar (USD) 100 and USD 104 per share to USD 102 and USD 108, respectively, implying 6% growth in 2013. In addition to solid first quarter results this reflects three factors: 1) ongoing improvements in the asset quality at US banks and a greater willingness to lend on their part, 2) signs that the US consumer is holding up rather well, and 3) an improved assessment of future Energy sector earnings. Applying a fair value forward price-earnings of 13x to our 2013 earnings-per-share estimate, we raise our year-end 2012 S&P 500 target from 1350 to 1400 (see WMR report, *US equity markets: Profits shine amid uncertainties*, 8 May 2012).

With this target just 3% away from current market levels, this target underpins both our overall neutral tactical stance on equities vs. other asset classes and a neutral stance on US equities versus international markets.

Fig. 5: Chinese equities have underperformed modestly

Equity market performance in USD, end-2011 indexed to 100



Source: Bloomberg, UBS WMR, as of 11 May 2012

In the Spotlight

High yield credit: overweight allocation

Anne Briglia, CFA, strategist, anne.briglia@ubs.com

Recent developments

- The option adjusted spread (OAS) on the high yield (HY) index narrowed to 582bps in March, as Treasury yields climbed to the top of the recent trading range.
- Following the recent rally in the Treasury market, the OAS on the HY index has risen 21bps to 603bps.
- Excluding the height of the financial crisis, the long-term average spread is 548bps, leading us to reiterate our overweight recommendation.

Key facts

Sector	High yield
WMR allocation	Overweight
Yield to worst*	7.02%
Option adjusted spread*	603
Effective duration*	4.24

* BofAML US High Yield Master II Constrained Index
Source: BofAML, UBS WMR, as of 10 May 2012

Investment Thesis

- We believe HY offers an attractive risk/reward trade-off given the current investment backdrop.
- Slow but steady economic growth is fundamentally positive for corporate credit.
- Corporate earnings and cash levels are consistent with stable credit ratings trends. Balance sheets are in good shape, and significant releveraging is unlikely in the near term.
- New high yield corporate issuance has been used to refinance at favourable yields, rather than increase leverage.

Why we like it

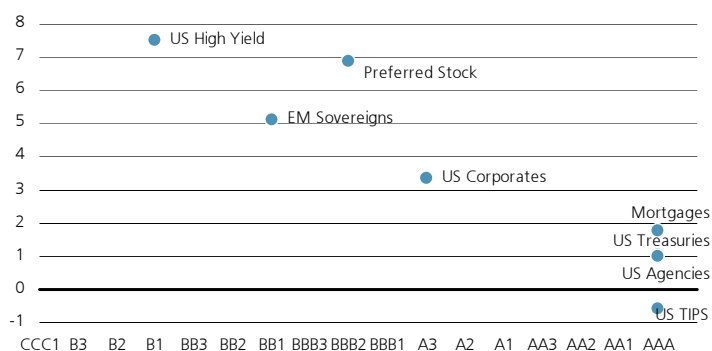
- Credit conditions are fundamentally supported and the default rate should remain low.
- In the current low interest rate environment we expect over the next year or so, investor demand for HY should remain strong.
- Our valuation models are signalling the fair value spread is at least 100bps lower, suggesting room for spread compression.
- The HY index has a comparatively low duration, which will help to cushion the negative impact to price should Treasury yields eventually rise.

Risks

- A deepening of the eurozone debt crisis, including an exit of Greece from the euro area, could lead to a spike in risk aversion and widening credit spreads.
- Should economic growth slow to the point where the US economy slips into recession, the default rate could climb sharply.
- An increase in shareholder friendly actions to boost a company's stock price would come at the expense of bondholders.
- Liquidity could be negatively impacted due to external shocks emanating from Europe, or a pick up in restructuring activity.

Fig. 1: Yield versus credit trade-off

Taxable fixed income scatter plot, in %



Source: BofAML, UBS WMR, as of 9 May 2012

Updates to this view can be found in the Fixed Income section of the Online Services Research website.

High Conviction Calls

Sector analysts are required to have at least one "high conviction" outperform or underperform call for each sector they cover. Analysts have discretion over the selection of a recommendation as high conviction and the grounds for selection (e.g., greatest upside/downside to price target, most/least compelling investment case, etc.). The basis for each high conviction call is set forth in any research report identifying a recommendation as such.

Company	Sector	Rating	Analyst	Investment Thesis Summary
Comcast	Consumer Discretionary	Outperform	George Lambertson	Comcast benefits from cost-efficient cable plant, potential to increase prices for broadband, growing commercial services revenues, approval of the Comcast/NBC Universal transaction which reduces uncertainty, ability to monetize NBC Universal content to cable providers and to online video providers, and commercial business revenue opportunity.
Dollar General	Consumer Discretionary	Outperform	Alexandra Brown	Dollar General's valuation is compelling, in our opinion, given our favorable outlook for its company-specific drivers: 1) continued store remodels and product quality improvements and 2) elevated unemployment plaguing low-to-middle income earners, Dollar General's core customers. The improved customer experience may mitigate customers "trading up" when the economy recovers. These fundamentals create a platform for Dollar General to grow sales and profits detached from the macro economic cycle.
Ford Motor	Consumer Discretionary	Outperform	George Lambertson	We expect Ford to benefit from accelerating US auto unit growth, limited negative impact from a weak European macro environment, success in driving penetration of new models, growth in core common platforms, relatively stable overall commodity costs, potential for margin expansion, medium-term growth in emerging markets, an improving credit profile and an inexpensive valuation relative to peers.
Lear Corp	Consumer Discretionary	Outperform	George Lambertson	Lear is a leading global supplier of seating and electrical distribution components to the auto industry. We expect Lear's stock to benefit from operating leverage geared to an auto production rebound in 2010, strong cash liquidity and low financial leverage, strong growth potential in Asia, increasing earnings before interest, taxes, depreciation and amortization margins, and upside to 2011 consensus margins.
Starbucks	Consumer Discretionary	Outperform	Alexandra Brown	Our bullish thesis depends on the remodeling the US stores, adding beverage innovation, incremental advertising spend, the launch of Via, "K-Cups," Verismo and the Seattle's Best Coffee quick-service partnerships. These sales/operation initiatives lead us to believe that the current forward year price-earnings multiple is too low and may expand as the company continues to execute well. We believe there has been a mentality shift among management towards focusing on profitable growth versus expanding outlets aggressively.
Starwood Hotels and Resorts	Consumer Discretionary	Outperform	Jonathan Woloshin	We believe Starwood's well diversified international portfolio combined with a good mix of managed and owned hotels will allow the company to leverage the current revenue per available room cycle. In addition, we envision substantial cash-generative asset sales over time as the portfolio further evolves toward a managed model.
Coca-Cola	Consumer Staples	Outperform	Sally Dessloch	Coke's strengths - its brands, geographic footprint, product affordability, potential for margin expansion, strong balance sheet and cash flow - position it well in good times and bad. We expect double digit earnings per share (EPS) growth over time, yet valuation is still reasonable.

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Anadarko Petroleum	Energy	Outperform	Nicole Decker	Anadarko has a balanced portfolio of oil and gas production, and a high-impact exploration program. Drilling activity is ongoing in East and West Africa, Brazil, the Gulf of Mexico and Southeast Asia. Its East and West Africa programs provide the most catalyst for upside as discoveries there have been sizable.
Devon Energy	Energy	Outperform	Nicole Decker	Devon has a balanced portfolio of oil and gas assets, a strong inventory of development prospects, and appears attractively valued relative to other exploration and production companies. The company's initiative to transform itself to a pure play North America onshore producer could lead to multiple expansion.
Schlumberger	Energy	Outperform	Nicole Decker	Schlumberger is the leading diversified oil and gas services provider. It has the largest international operations and excellent exposure to high-margin and high-growth markets.
Ameriprise Financial	Financials	Outperform	Michael Dion	Ameriprise currently has a strong balance sheet and capital position. Ameriprise should benefit from improving equity markets through margin expansion and increased flows. Ameriprise's accretive acquisition should bolster its asset management unit, which would likely boost Ameriprise's return on equity (ROE), EPS and multiple from current levels.
Simon Property Group	Financials	Outperform	Jonathan Woloshin	Simon is a best in class operator with a best in class portfolio trading at an attractive relative and absolute valuation.
Metlife	Financials	Outperform	Michael Dion	Metlife's leading position in group life insurance, its conservatively positioned investment portfolio, excess capital position, and its successful cost cutting initiatives separate it from its peers. We expect Metlife's accretive acquisition of Alico to improve ROE and bolster its international exposure, and to continue to take market share from competitors.
Piedmont Office Realty	Financials	Underperform	Jonathan Woloshin	Piedmont has a number of structural impediments including an uncovered dividend, negative re-leasing spreads, exposure to a number of weak markets, a high level of secured debt and an unattractive valuation.
Wells Fargo	Financials	Outperform	Dean Ungar	Wells is a strong revenue generator with an excellent franchise and should realize significant accretion from Wachovia. However, we are concerned about Wells' large commercial real estate exposure and general weakening of credit.
Celgene Corp.	Healthcare	Outperform	Jerome Brimeyer	Celgene is largely comprised of three anti-cancer drugs: Revlimid, Thalomid and Vidaza. Increased Revlimid use, principally for maintenance use in multiple myeloma, is the chief reason for the company's high expected rate of earnings growth.
Teva Pharmaceuticals	Healthcare	Outperform	Jerome Brimeyer	We believe that Teva is the best positioned generic drug company throughout the world, with substantial opportunities to take advantage of off-patent branded drugs over the next four years. While growth past the generics wave and Copaxone are legitimate concerns, these are at least partly reflected in the valuation of the stock and the company has many more longer-term opportunities than other generic drug plays.
Cooper Industries PLC	Industrials	Outperform	Andrew Sutphin	An estimated 60% of Cooper's sales fall within the early-to-middle phase of the economic cycle. Approximately 45% of its sales are driven by maintenance and repair operations, which should rise along with US industrial manufacturing capacity utilization.
Danaher	Industrials	Outperform	Andrew Sutphin	Our investment thesis in Danaher is driven by its ability to supplement its organic sales and earnings growth through accretive acquisitions, given its strong balance sheet and cash flow. Its diverse operating units provide it with a wide sphere of opportunities to make bolt-on acquisitions to augment its existing portfolio.

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Emerson Electric	Industrials	Outperform	Andrew Sutphin	Our rating is based on: 1) the continued strength in its order growth; 2) its exposure to emerging markets; 3) its improved business portfolio; 4) the shift to businesses with exposure to the recovery in mid-to-late cycle end markets; and 5) the impact of its reduced cost-base due to prior initiatives.
Illinois Tool Works	Industrials	Outperform	Andrew Sutphin	The company's short-cycle portfolio (backlog of about two weeks) is commonly misinterpreted as early-cycle exposure with the related concerns about a slowdown in its earnings growth. We expect this distortion to dissipate as Illinois Tool Works delivers forecast earnings growth well in excess of the S&P 500 over the 2012 estimate (E) - 2013E period.
United Technologies	Industrials	Outperform	Andrew Sutphin	We maintain our Outperform rating on United Technologies owing to: 1) as the impending Goodrich acquisition is digested in second half 2012 (2H12)E, we believe investors will look through 2012E modest EPS growth and to the consensus estimate for 22% EPS growth in 2013E; 2) its less-cyclical services and after-market exposure; 3) its robust free cash flow conversion of net income fueling acquisitions; and 4) its aggressive cost initiatives.
Cypress Semiconductor	Information Technology	Outperform	Robert Faulkner	We believe Cypress is a multi-year play on the replacement of microcontrollers with a more effective and more flexible solution. The company is in the very early innings of this process as the missionary selling and trial programs only began a few years ago. Cypress is only now seeing the results of those efforts and we should see revenue growth accelerate and remain strong for a number of years. While static random access memory (SRAM) is a commodity, few make the very high end (i.e. high speed, high margin) parts that drive data communications equipment. With the growth of mobile data demands, SRAM content per box has been increasing and should continue to.
Air Products	Materials	Outperform	Andrew Sutphin	Our Outperform rating on the shares of Air Products is based on our view that participants in the industrial gas industry have historically suffered less cyclicalities in their earnings than other segments of the S&P Materials sector. As such, we view Air Products a relatively "more defensive" company and likely to fair better than its peers during periods of macroeconomic uncertainty.
Alcoa	Materials	Underperform	Andrew Sutphin	We believe the global aluminum industry remains structurally oversupplied due to excess smelting capacity coupled with a lack of scarcity in the metal itself. We believe other investment opportunities in the US metals and mining sector offer better leverage to a potential upturn in industrial production.
Celanese Corp.	Materials	Outperform	Andrew Sutphin	Celanese's proprietary acetic acid production technology places it in a low-cost position within the industry with an attractive supply structure. The company also derives a natural hedge and attractive earnings stream from its joint ventures. At year-end 2011, the company had USD ~550 million available for strategic purposes which will likely be used to fund internal investment opportunities or "bolt-on" acquisitions to its existing production assets.
Dow Chemical	Materials	Outperform	Andrew Sutphin	Dow's earnings continue to benefit from its commodity businesses due to the revitalized competitiveness of US ethylene producers arising from the shale gas boom. We believe its specialty chemical businesses have turned the corner and will become even more meaningful contributors to Dow's sales and profits as the company migrates towards its goal of a 70/30 split between specialty and commodity chemical earnings.

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Potash of Saskatchewan	Materials	Outperform	Andrew Sutphin	Potash has production capabilities in all three nutrient groups (nitrogen, phosphorus and potassium) with the lowest quartile costs in all three nutrients. Its high quality investment portfolio of premier international fertilizer companies provides geographical and product diversification. High leverage to demand recovery in potash could provide an estimated 58% boost to 2011E earnings per share.
American Tower	Telecom	Outperform	George Lambertson	Our Outperform on American Tower is based on a solid investment grade balance sheet, financial flexibility for share buybacks or international tower acquisitions, current and increasing exposure to fast growing emerging markets, and its conversion to Real Estate Investment Trust (REIT) status and entry into certain REIT indices.
CenturyLink	Telecom	Outperform	George Lambertson	We expect CenturyLink-Qwest (merger pending) to benefit from capital and operating synergies, strong free cash flow, moderate dividend payout ratio, roughly 7-8% proforma dividend yield, while expansion of growing enterprise services in contiguous territories provides upside.
TW Telecom	Telecom	Outperform	George Lambertson	While we like TW Telecom's long-term prospects for growth driven by secular factors, we believe the stock is exposed to the risk of lower economic growth or recession, a less diversified business mix than some telecom peers, higher debt leverage compared to larger peers, and lack of a dividend.
Calpine	Utilities	Outperform	David Lefkowitz	Leveraged to tighter power markets as demand recovers. Shares trade at only 64% of replacement value.
ITC Holdings Corp.	Utilities	Outperform	Joseph Kenol	ITC Holdings is well-positioned to benefit from transmission investments needed to upgrade the electric grid. We view the recently announced plan to acquire Entergy's transmission assets positively as it should provide a robust pipeline of spending projects over the coming years.

Our Best Ideas at a Glance

The following list represents investment strategy recommendations that we believe will provide attractive opportunities over the next 9-12 months. For recommended allocation of these ideas, please see the most recent *Investment Strategy Guide*.

Asset Classes	Neutral tactical preferences across the main asset classes
Currencies	Japanese yen set to weaken further. Preference for British pound sterling, Canadian dollar, Australian dollar and New Zealand dollar among developed currencies. Selected Asian emerging market currencies for long-term appreciation potential.
Equities	International markets <ul style="list-style-type: none">• UK and emerging market equities• Within emerging market equities: China, Mexico and Brazil Within US equities <ul style="list-style-type: none">• Consumer Staples: companies with high emerging market exposure• Information Technology: semiconductors, data centers• Healthcare: managed care, generic manufacturers, drug distributors• Energy: oil services• Within Consumer Discretionary: cable and satellite, lodging• Within Telecom: wireless towers, enterprise and rural telecom carriers• Within Utilities: transmission-focused utilities• Within Financials: Real Estate Investment Trusts (REITs) with growing dividends, capital market-exposed banks, exchanges, property and casualty (P&C) insurers• Within Industrials: capital goods companies that are outgrowing the market• Within Materials: industrial gas• Preference for growth over value stocks
Fixed Income	Within US dollar Fixed Income <ul style="list-style-type: none">• Within investment grade corporates: short- to medium-term issues of larger, well-capitalized diversified banks, insurers and REITs• Fixed and floating rate preferred securities of well capitalized banks• Emerging markets sovereign debt, in particular from Asia and Latin America issuers• High yield corporate bonds• High quality municipal bonds in particular: essential purpose revenue bonds in the water/sewer and public utility sector, broad-based sales tax bonds with ample coverage and a conservative additional bonds test, major established transportation agency issuers, and voter-approved general obligation bonds
Commodities	<ul style="list-style-type: none">• We see upside potential for selected base metals and precious metals during second half of the year.

Review/Preview of the Financial Markets

Review
7 May –
11 May

The S&P 500 fell 1.1% for the week, and is now 4.6% off its year high. It was a volatile week with macro news dominating trading. Cyclical lead the market lower, while defensive sectors such as Telecom and Utilities finished up solidly. Consistent positive economic surprises in late 2011 and early 2012 boosted P/E multiples and helped drive a strong recovery in equity prices. But over the past several weeks, economic releases have been more mixed and with notable disappointing economic data coming out of China last week.

Last week politics in Europe was on center stage. Following recent elections in Greece, another round of elections look to be needed as no party was able to win a majority, with the next round likely taking place in June. The potential for Greece leaving the EMU remains a possibility and EFSF continued funding likely is contingent on a government that

takes control that is supportive to austerity measures, which remains a question. In France François Hollande won the presidential election, ousting incumbent President Nicolas Sarkozy. The results in France did not come as a surprise and we do not look for a major shift in policy given budget constraints and other challenges that are difficult to evade. Spain's banking system remains in focus, with only speculation now of greater European aid to come, European financial ministers meetings this Monday and Tuesday might shed more light.

US economic data releases last week highlighted that the labor market is on a more solid footing. After initial jobless claims had deteriorated in April which we believe was caused by weather and seasonal effects, initial jobless claims again showed improvement last week. Also supportive of an improving job market was released in the

University of Michigan Confidence Index report in regards to labor market assessment, with the fewest consumers reporting of hearing of job losses since mid 2007. The overall University of Michigan Confidence Index rose to its highest level since January 2008. THE NFIB small business optimism index also reflected a rebound in hiring plans and the index rose to its highest level since December 2007.

Joseph-Anthony Sawe, Strategist

Preview
14 May –
18 May

The economic release calendar includes several important releases. The early round of regional manufacturing surveys last month fell however we believe that was more payback from earlier year exaggerated strength than a new trend lower. We look for both the Empire State survey (Tuesday) and Philadelphia Fed (Wednesday) to rise in May. Headline CPI likely declined in April given declining energy prices, however core CPI likely continued to edge higher, with UBS economists forecasting rising 2.3% year over year. Mortgage applications (Wednesday) continue to pick up, with the 30 year fixed mortgage rates at 4.13%, which is the lowest level since the data goes back to 1990. Besides low interest rates with 1 million new households formed through 1Q is helping to support increasing housing starts (Wednesday), with

UBS economists looking for housing starts to rise from 610 thousand in 2011 to 800 and 900 thousand respectively for 2012 and 2013. Overseas GDP releases will be in focus for the Euro zone (Tuesday), with growth likely to pick up in Germany, remain flat in France and contract overall for the Euro zone according to UBS economists' estimates.

Earnings season slows down this week with 21 S&P 500 companies set to report quarterly results. With 92% of the market reporting quarterly earnings, 2012 Q1 S&P 500 earnings should end up rising by about 8% versus a year ago. So far 69% of companies delivered earnings that beat consensus estimates as they stood at the end of the quarter. But keep in mind that consensus estimates for Q1 S&P 500 EPS growth stood at just 2% on 31 March, setting a very

low bar for companies to clear. Based on consensus estimates for each S&P 500 company as of one month into the first quarter, only 59% of companies actually delivered earnings "beats." A similar story can be told for revenue beats. 68% of S&P 500 companies beat on the top-line using quarter end estimates compared to 61% beating estimates one month into the quarter. For 2012 and 2013 we look for profit growth to be in line with sales growth the next two years.

Joseph-Anthony Sawe, Strategist

Earnings Calendar

The Earnings Calendar provides publicly announced reporting dates and times of companies covered by Wealth Management Research Americas. Reporting dates and times are subject to change by the reporting companies.

Date	Ticker	Company	Call Description	Time	Analyst	Phone Number
15-May-2012	HD	The Home Depot, Inc.	Q1 2012 Earnings Release	Unspecified	Alexandra Brown	212-713-2825
15-May-2012	JCP	J. C. Penney Co., Inc.	Q1 2012 Earnings Release	4:00 PM	Alexandra Brown	212-713-2825
16-May-2012	DE	Deere & Co.	Q2 2012 Earnings Release	Unspecified	Andrew Sutphin	212-713-3646
16-May-2012	SPLS	Staples, Inc.	Q1 2012 Earnings Release	Unspecified	Alexandra Brown	212-713-2825
16-May-2012	PGR	Progressive Corp.	April 2012 Sales and Revenue Release	Before Market	Michael Dion	212-713-3825
16-May-2012	TGT	Target Corp.	Q1 2012 Earnings Release	Before Market	Alexandra Brown	212-713-2825
17-May-2012	AMAT	Applied Materials, Inc.	Q2 2012 Earnings Release	Unspecified	Bob Faulkner	212-713-3720
17-May-2012	WMT	Wal-Mart Stores, Inc.	Q1 2013 Earnings Release	7:00 AM	Sally Dessloch	212-713-9667
17-May-2012	GPS	Gap, Inc.	Q1 2012 Earnings Release	4:00 PM	Alexandra Brown	212-713-2825

Key Economic Indicators

Date	Indicator	Time (EST)	Unit	Consensus	UBS Est.	Previous
15-May-12	Retail Sales (Apr)	8:30 AM	m/m	0.2%	0.0%	0.8%
15-May-12	Retail Sales excluding autos (Apr)	8:30 AM	m/m	0.2%	0.0%	0.8%
15-May-12	Consumer Price Index (CPI, Apr)	8:30 AM	m/m	0.1%	-0.1%	0.3%
15-May-12	Core CPI (Apr)	8:30 AM	m/m	0.2%	0.2%	0.2%
15-May-12	Empire State (May)	8:30 AM	index	9.0	10.0	6.6
15-May-12	Housing Market Index (May)	10:00 AM	index	26	27	25
15-May-12	Business Inventories (Mar)	10:00 AM	m/m	0.5%	0.4%	0.6%
16-May-12	Housing Starts (Apr)	8:30 AM	level	680 k	730 k	654 k
16-May-12	Industrial Production (Apr)	9:15 AM	m/m	0.5%	0.5%	0.0%
16-May-12	Capacity Utilization (Apr)	9:15 AM	level	79.0%	79.0%	78.6%
17-May-12	Initial Jobless Claims (May 12)	8:30 AM	level	365 k	367 k	367 k
17-May-12	Philadelphia Fed Manufacturing Survey (May)	10:00 AM	index	10.0	10.0	8.5
17-May-12	Leading Economic Indicators (Apr)	10:00 AM	m/m	0.1%	0.1%	0.3%

Source: Bloomberg & UBS estimates, as of 11 May 2012.

In developing the WMR quarterly forecasts, WMR economists worked in collaboration with economists employed by UBS Investment Research (INV). All remaining forecasts were developed by economists employed by INV. INV is published by UBS Investment Bank. Forecasts and estimates are current only as of the date of this publication and may change without notice.

m/m = month-over-month, q/q = quarter-over-quarter, k = thousand, bn = billion, y/y = year-over-year, mn = million

Asset Class Strategy & Performance

	Extended Asset Allocation Strategy*	Market Returns		
		MTD	YTD	2011
US Equity	n	-2.8%	9.0%	1.0%
Non-US Developed Equity	—	-4.4%	3.9%	-11.8%
Emerging Market Equity	+	-4.3%	7.9%	-18.2%
US Fixed Income	+	0.2%	1.6%	7.8%
Non-US Fixed Income	—	-0.8%	1.6%	4.4%
Cash (USD)	n	0.0%	0.0%	0.1%
Commodities	n	-3.7%	-3.3%	-13.3%

Total return indices in USD: Russell 3500, MSCI EAFE & Canada, MSCI Emerging Markets, BarCap US Aggregate, BarCap Global Aggregate ex-USD, Citigroup 3-month T-bill, DJ UBS

US Equity Sector Strategy & Performance

	Sector Strategy*	Weekly	Market Returns		
			MTD	YTD	2011
Cons. Discr.	n	-3.3%	-2.9%	14.1%	6.1%
Cons. Staples	++	-0.7%	-0.2%	5.7%	14.0%
Energy	+	-2.9%	-4.5%	-1.7%	4.7%
Financials	n	-2.2%	-2.8%	15.8%	-17.1%
Healthcare	+	-1.0%	-1.2%	7.5%	12.7%
Industrials	—	-2.8%	-3.3%	6.5%	-0.6%
IT	++	-3.8%	-4.4%	14.0%	2.4%
Materials	—	-3.2%	-4.3%	5.5%	-9.8%
Telecom	—	-0.3%	0.2%	7.8%	6.3%
Utilities	—	1.2%	0.7%	0.9%	19.9%

Total return indices in USD: S&P 500 sector indices

US Dollar Fixed Income Strategy & Performance

	Strategy*	Market Returns		
		MTD	YTD	2011
Treasuries	—	0.3%	0.5%	9.8%
TIPS	—	0.1%	3.0%	14.1%
Agencies	—	0.1%	0.9%	5.3%
Inv. Grade Corporates	n	0.4%	4.2%	7.5%
High Yield Corporates	+	0.5%	6.8%	4.4%
Preferred Securities	+	0.4%	7.7%	4.1%
Mortgages	+	0.2%	1.4%	6.1%
Emerging Markets	+	0.0%	6.2%	8.1%
Municipals	n.a.	0.8%	4.0%	11.2%

Total return indices in USD: BAS / Merrill Lynch

*Please see the scale in the Appendix and the most recent Investment Strategy Guide for an interpretation of the tactical deviations and an explanation of the corresponding benchmark allocation.

**EMU = European Monetary Union and is comprised of European countries that have adopted the Euro as their currency.

Equity Region Strategy & Performance

	Strategy*	Market Returns		
		MTD	YTD	2011
US Equity	n	-2.8%	9.0%	1.0%
S&P 500	n.a.	-2.8%	8.8%	2.1%
DJIA	n.a.	-2.6%	6.2%	8.4%
Nasdaq	n.a.	-3.7%	13.0%	-0.8%
EMU**	—	-3.9%	2.3%	-16.9%
UK	+	-3.4%	5.3%	-2.5%
Japan	—	-5.2%	2.2%	-14.2%
Emerging Markets	++	-4.3%	7.9%	-18.2%
Other Developed	n	n.a.	n.a.	n.a.

Total return indices in USD: S&P 500, DJIA, Russell 3500, MSCI for non-US. Price return indices in USD: Nasdaq

Equity Size, Style Strategy & Performance

	Style Strategy*	Market Returns		
		MTD	YTD	2011
Large-Cap Value	—	-2.3%	7.4%	0.4%
Large-Cap Growth	+	-3.2%	10.8%	2.6%
Mid-Cap	n	-2.9%	9.3%	-1.5%
Small-Cap	n	-3.0%	7.3%	-4.2%
REITs	+	-0.1%	13.3%	8.3%

Total return indices in USD: Russell

Bond Regions Strategy & Performance

	Strategy*	Market Returns		
		MTD	YTD	2011
US	+	0.2%	1.6%	7.8%
EMU**	—	-1.6%	4.3%	-0.1%
UK	+	0.5%	4.8%	12.6%
Japan	—	0.1%	-2.8%	7.4%
Other	+	n.a.	n.a.	n.a.

Total return indices in USD: Barclays Capital

Regional Indicators

	Consensus	WMR
2012 S&P 500 EPS	USD 106	USD 102
2012 year-end S&P 500 target		1400
2013 S&P 500 EPS	USD 119	USD 108
Price to earnings+	12.6x	
Price to book value+	2.3x	

+Consensus 12-month forward estimates, as of 11 May 2012.

Total return performance as of close of business on 10 May 2012.

+	—	Indicates +/- change in most recent update
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Reports of Note Published in the Last Week

To access these reports, please contact your Financial Advisor or access the reports via online services.

Friday, 11

May

Chinese economy: April macro data read-through

China has released a set of weaker-than-expected April macro data. While external demand decelerated on the back of slower global economic growth, we also observe sluggish domestic demand. The biggest negative surprises came from loan growth, import/export numbers and industrial production. Retail sales and fixed asset investment also came in slightly below consensus estimates. The Consumer Price Index edged down further in March, in line with expectations. The weakness in the April macro data has caught the market by surprise. We believe inflation is no longer an immediate constraint to monetary easing, and growth has become a more important driving factor. Supportive fiscal and monetary policies should gain pace from here on, though we do not expect an aggressive stimulus.

Friday, 11

May

UK economy: QE2 ties up in port

The Bank of England has halted its asset purchase programme – minutes of the meeting released in two weeks will reveal the essentials of the debate. The weaker than expected first quarter (Q1) growth estimates have prompted us to revise our 2012 UK GDP growth forecast to just 0.2%, but with possible upside risks. After-tax policy induced transactions in March, the latest data from both Royal Institute of Chartered Surveyors and Halifax show that house prices are declining and will continue to do so.

Friday, 11

May

Municipal Market Guide: A break in the clouds (*inaugural edition*)

The municipal bond market has outperformed Treasuries and fell behind only investment grade corporate bonds by a small margin. A moderate new issue calendar and strong demand from mutual funds and investors flush with cash from redemptions should provide technical support for the municipal market through the middle of the summer. We foresee a break in the clouds for municipal bond market investors. Rating volatility, pension liabilities, and reduced federal aid represent serious headwinds over the longer term but we expect the short-term rally to persist in the near term. Bond ratings have exhibited more volatility in the past three years. Recalibrations, new criteria, and fundamental credit weakness have led to some confusion among investors. We expect that local government ratings from Moody's and Fitch will exhibit a negative bias for the remainder of 2012. S&P is more likely to skew positively. California's structural deficit may widen after April tax revenues fell short of expectations. We anticipate that partisan discord over the state budget will trigger adverse media coverage and present an opportunity for investors. Stadium financings remain a hot topic. The city of Glendale (AZ) and the state of Minnesota remain willing to subsidize the operation of sports franchises to prevent relocation. Sacramento appears on the cusp of losing its basketball franchise, however.

Thursday, 10

May

May 2012 Technical Market Outlook

A monthly technical review of key financial markets, including US Equities (SPX Index), Currencies (US Dollar Index), Commodities (CRB Index, Gold and Crude Oil), Fixed Income (US 10-year Treasury), S&P 500 Sectors, and Emerging Markets.

Thursday, 10

May

Global financial markets: GBP - the best of the majors: second update

In recent weeks, the pound has hit multiple year highs against the euro and has also shown strong performance against all other major currencies. The pound remains attractive for a number of reasons. First, as measured by purchasing power parity, the pound still looks undervalued. Second, given ongoing Eurozone problems and doubts about the monetary policy of the US and Japan, the pound remains in demand. Third, the Bank of England today discontinued the monetary easing scheme it introduced in October. We do not expect further easing for the time being, given a brighter economic outlook for the second half of the year. We therefore reiterate our view that the pound remains the best of the major currencies for the time being.

Wednesday, 9 May	Interest rates and bond markets: Inflation-linked bonds not attractive Inflation-linked bonds (ILB) have generated an impressive performance since late 2010, due to the dramatic drop in benchmark real yields. As of late, increased inflation concerns due to temporarily higher oil prices have prompted numerous investors to consider an entry into this market. We presently advise against entry into inflation-linked bonds, as we believe real yields will start to normalize (weighing on performance), and inflation in the major markets should decline from previous peaks over the next two years.
Wednesday, 9 May	Currency markets: The four-step approach to currency diversification This introduction to practical aspects of currency diversification presents our four-step approach to currency diversification, developed to structure our discussions with investors on that subject. Investor demand for currency diversification has risen strongly over the past few years; we assume this demand will continue to rise. Financial market risks have risen due to the rising debt levels in major countries and the expansion of the global money supply. Separate publications will discuss the four steps in detail.
Wednesday, 9 May	US equity markets: Profits shine amid uncertainties While global economic growth remains fragile and highly divergent by region (US stronger, Europe weaker), US corporate earnings growth continues to impress. 2012 Q1 S&P 500 earnings per share (EPS) will likely rise 8% year-over-year, 6% ex-Financials. We raise our 2012 S&P 500 EPS estimate to USD 102, representing 5% year-over-year growth. We now expect 2013 S&P 500 EPS of USD 108, or 6% growth. Applying a fair value forward price-earnings of 13 times our 2013 EPS estimate, we raise our year-end 2012 S&P 500 target from 1350 to 1400. The combination of the recent 3.9% market pullback and our higher market target leaves stocks looking incrementally more attractive. For long-term investors with a multi-year time horizon, historically high equity risk premiums should support healthy equity market gains—especially relative to "expensive" bonds. However, weakening US economic surprises, ongoing turmoil in Europe, and domestic fiscal uncertainty limit upside over the summer months.
Wednesday, 9 May	The debt crisis: Italy tries a U-turn on the road to nowhere Market attention is currently on Spain, which we covered in detail in our recent debt crisis update, but Italian bond yields are similarly high across the curve. Our fiscal sustainability analysis on Italy in this report shows that the country has problems that are different in nature, but of similar magnitude as Spain's, and we think a fading commitment to consolidation may immediately translate into a pronounced increase of bond yields. Even if the current government succeeded in fully implementing the targeted reforms, Italy would maintain an unfavorable mix of very high debt levels and low economic growth. A sustainable long-term debt reduction is unlikely, in our view. We recommend avoiding Italian government bonds maturing in more than two years. However, we would not sell existing positions in Italian bonds held in an internationally well diversified portfolio.
Tuesday, 8 May	US Equities Consumer Discretionary: Consumers consume but uncertainty grows UBS WMR's US Equity Strategy team has a Neutral allocation for the sector.
Tuesday, 8 May	US Equities Consumer Staples: Monthly - Sector update The S&P Consumer Staples index has underperformed the broader market year-to-date. A shift toward riskier sectors and a lackluster earnings season for consumer staples have weighed on sector performance. We think the sector should fare better as the year unfolds. WMR's Equity Strategy team recommends an Overweight allocation for the sector.
Monday, 7 May	Emerging market economy: Prof. Balcerowicz: "Poland needs comprehensive reforms" Compared to regional peers, Poland's economy is in pretty good shape. Since its transformation from a planned to a market economy, Poland has not had a recession. Its GDP has almost doubled since 1991. Now Poland's economy is slowing down, but is not in a recession like some other European countries. The forecast growth rate of 2.5% for 2012 stands well alongside that of other EU member states. To boost long-term economic growth, Poland needs more comprehensive reforms. Poland's budget deficit exceeds the Maastricht criteria. Poland wants to be euro compatible; actual adoption of the euro should be a choice.

Monday, 7 May **US Equities Financials: Mortgage Real Estate Investment Trust update - 1Q 2012**

Monday, 7 May **Domestic Exchange-Traded Funds Technical Review**
We review the technical conditions of the more established, actively traded domestic Exchange-Traded Funds that track an underlying index or aim to represent a particular sector or industry. We then correlate this report with our broader macro market and sector analyses. In this review, we provide updates on various technical indicators including 10-week and 30-week moving averages, intermediate-term trends and important technical support and resistance levels. We try to identify potential trading/investment opportunities and downside risks in various key domestic markets.

Monday, 7 May **Eurozone economy: Hollande takes over France**
The Socialist François Hollande won the French presidential election, ousting incumbent President Nicolas Sarkozy by a margin of 51.7% to 48.3%. We think that market reactions should be rather neutral. All polls were forecasting this outcome, so it shouldn't come as a surprise. We do not anticipate a major shift of policy, given the fact that France is constrained by its budget and has numerous challenges it cannot evade. However, François Hollande's victory could slightly modify the way Europe currently addresses the euro crisis.

Monday, 7 May **Dividend ruler stocks: Monthly Update**
S&P 500 dividends grew 15% during the first quarter of the year. Strong cash flows are allowing Corporate America to respond to investors' search for income in a low interest rate environment. Dividend tax rates will likely remain an uncertainty and largely contingent on the election outcome. However, a substantial hike in dividend tax rates is not likely, in our view.

Appendix

Statement of Risk

Equity markets are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions, and other important variables.

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Stock Recommendation System

Analysts provide a relative rating, which is based on the stock's total return potential against the total estimated return of the appropriate sector benchmark over the next 12 months.

Industry Sector Relative Stock View

Outperform (OUT)	Expected to outperform the sector benchmark over the next 12 months.
Marketperform (MKT)	Expected to perform in line with the sector benchmark over the next 12 months.
Underperform (UND)	Expected to underperform the sector benchmark over the next 12 months.

Under review

Upon special events that require further analysis, the stock rating may be flagged as "Under review" by the analyst.

Suspended

An outperform or underperform rating may be suspended when the stock's performance materially diverges from the performance of its respective benchmark.

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Sector bellwethers, or stocks that are of high importance or relevance to the sector, that are not placed on either the outperform or underperform list (i.e., are not expected to either outperform or underperform the sector benchmark) will be classified as **marketperform**.

Stocks that are rated Marketperform that are not sector bellwethers are not assigned a price target.

Scale for tactical deviation charts – Performance and Strategy tables

Symbol	Description/Definition				
+	moderate overweight vs. benchmark	–	moderate underweight vs. benchmark	n	Neutral, i.e. on benchmark
++	overweight vs. benchmark	--	underweight vs. benchmark	n/a	not applicable
+++	strong overweight vs. benchmark	---	strong underweight vs. benchmark		

The overweight and underweight recommendations represent tactical deviations that can be applied to any appropriate benchmark portfolio allocation. They reflect WMR's short- to medium-term assessment of market opportunities and risks in the respective asset classes and market segments. The benchmark allocation is not specified here. Please see the most recent Investment Strategy Guide for definitions/explanations of benchmark allocation. They should be chosen in line with the risk profile of the investor. Note that the Regional Equity and Bond Strategy is provided on an unhedged basis (i.e., it is assumed that investors carry the underlying currency risk of such investments). Thus, the deviations from the benchmark reflect our views of the underlying equity and bond markets in combination with our assessment of the associated currencies.

Source: UBS WMR, All market performance data is from Bloomberg data as of date listed, using representative indices and is provided for information only.

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