Q2 | 11

Europe | North America | Japan | Asia Pacific | Latin America

Standpoint

Global Market Analysis by Regional Consumer Banks

It's the economy!

Simply said, putting together an investment strategy consists in trying to find out where the risks and opportunities are and then to determine whether these risks and opportunities are fairly priced in the markets or not. For example, in the recent months, such an approach had led Citi's Global Investment Committee preferring an exposure to the strength of Emerging Markets economic growth through cheaper European and Japanese companies and to underweight direct exposure in Emerging Equities which were more exposed to inflation and interest rates increases risks. This strategy proved accurate, given the large underperformance of Emerging Markets equities (a rare event during a bull market) between October 2010 and February this year. The efficiency of an investment strategy also tends to depend on two additional factors: (1)the market has to share your views (which was not the case for the underweight US equities) and (2) no unpredictable event should occur and derail the trend.

Middle East and Japan

With the civil unrests in the Middle East and the natural disaster in Japan, unpredictable events have come to dominate markets trends in the second half of the first quarter and have clouded investors' outlook. That type of event tends to be a major cause of emotion and uncertainty as the extent of the human and economic consequences as well as the time it will require to settle the damages are unknown or difficult to assess at best. Therefore, the occurrence of a major unpredictable event tends to be accompanied by a sudden increase of risk aversion and market volatility. However, history shows that markets'

Citi outlook

A snapshot of Citi's global market views across a select group of asset classes, regions and currencies over the next six to twelve months.

The Citi Market Outlook reflects our assessment of each asset class independently of the other asset classes. The Citi Portfolio Allocation reflects our relative assessment of each asset class in the context of a portfolio.

The Global Investment Committee (GIC) has grown more defensive over the course of 1Q11. The GIC now has a significant overweight in US Treasuries, which should act as a hedge against adverse news globally. Given the specific pressures on the Japanese government, the GIC recommends underweighting exposure to Japanese Government Bonds (JGBs). Risks that could accrue to US Treasuries: Eurozone sovereign crisis heats up; MENA tensions boil over, hitting oil exports; greater-than-anticipated supply disruptions from Japan's natural disasters. Central banks globally are aiming to hike rates, but the GIC believes that the long end of the curve should offer positive returns even in the scenario that rates tighten a bit faster than anticipated. The global economy may face some headwinds as the Fed's Quantitative Easing program (QE2) ends in June. Positive earnings surprises may have peaked for the near term, making this an opportune moment to lighten on developed equities. Japan is a special case, as before the earthquake its equity market was already inexpensive relative to the rest of the world and to its own historical norms. The GIC also continues to favour Investment Grade Credit as a prudent way to express exposure to risk

Global equities

Market	Market outlook	Portfolio allocation
	Negative	Underweight
US	Negative	Underweight
Europe	Negative	Underweight
Japan	Positive	Overweight
Latin America	Negative	Underweight
Asia Pacific	Negative	Underweight
Eastern Europe	Positive	Overweight

Global fixed income

Market	Market outlook	Portfolio allocation
	Positive	Overweight
US Treasuries	Positive	Overweight
US High Grade Corporate	Positive	Overweight
Euro Government Bonds	Positive	Overweight
Euro High Grade Corporate	Positive	Overweight
Japan Investment Grade	Negative	Underweight
High Yield	Positive	Overweight
Emerging Market Debt	Negative	Underweight

Data Source: Citigroup Global Markets Inc. Weightings provided by Citigroup Global Wealth Management and Citigroup Global Consumer Group Investments as of December 2005.

sensitivity to such type of events tends to be short-lived. Indeed, of the 187 earthquakes with a magnitude higher than 7 on the Richter scale that occurred over the last 15 years, none had a impact on global equity markets trend, not even Hurricane Katrina affect US domestic equity markets.

Impact on the outlook

Citi's Japanese economist Kiichi Murashima thinks that the Japanese disaster is likely to significantly affect local economic activity during the first two quarters of this year, but he also reviewed to the upside his expectations for the second half of the year as reconstruction efforts are likely provide a boost to economic activity. This opinion is also shared by the World Bank who expects only a modest short-term impact on Japan.

Citi analysts also invite cautiousness when reading the signals sent by the markets after the unrests in the Middle East reached countries with a strategic position in term of oil production. They think indeed that the oil prices increase subsequent to tensions in the Middle East are not likely to derail the global economic activity. Citi analysts think that the global demand is less elastic than in 2008, at the peak of the economic cycle, as consumers in Developed Markets are still saving and deleveraging while many central banks in Emerging Markets have started to raise interest rates in order to manage threatening inflation pressures. What they expect through higher oil prices is mainly a redistribution of wealth and spending power from oil consumers to oil producers rather than a destruction of the aggregate spending power.

Turning Cautious

Notwithstanding the limited expected impact of the recent events on the global economic outlook, Citi analysts are becoming more cautious in terms of risk allocation. In the last two years, Citi analysts have observed a strong correlation between Quantitative Easing, economic surprises and equities performance. However, the second round of quantitative easing by the US Federal Reserve will soon come to an end and Citi analysts do not share the general enthusiasm about the capacity of the US economy to continue to beat expectations in the absence of monetary support. The fact that most of the economic surprises are mainly reflected in the soft indicators (survey, sentiments, etc.) rather than in hard data (actual production, housing, etc.) indicates the potential risk that near term economic developments could disappoint. While recent major events have been at the core of investors' attention, the shift of monetary policies is likely to drive the economy into a new phase of its cycle and may be the key driver of market performances in the coming months.

Europe

Fixed income

European central banks in the starting blocks

Citi analysts think that the GDP of the Euro area grew at around 0.6% quarter to quarter during the first quarter of the year. Although sentiment indicators of the fiscally-strained periphery countries improved in recent months, the large divergence between core and periphery countries is likely to stay high. Citi analysts have kept their 2011 GDP forecast for the Euro area unchanged at 1.7%, but have slightly revised down their forecast for 2012 from 1.4% to 1.3%, mainly reflecting the earlier and larger than previously expected increase in interest rates. With additional pressure from higher import prices, they have increased their inflation forecast from 2.5% to 2.6% in 2011, with inflation peaking around 3% in June/July. On the back of rising inflation pressures and a more hawkish rhetoric from the European Central Bank (ECB), the ECB hiked the main refinancing rate by 25 bps to 1.25% in April. Citi analysts expect a further refinancing rate hike in 3Q11. Following a small pause in 4Q11, they expect four rate hikes of 25 bps each in 2012.

Citi analysts think that, after all the uncertainty and volatility of recent weeks, and among all the heightened risk aversion, bond yields are now broadly in line with the current monetary and economic environment. They were significantly too low in 3Q10 and then somewhat too high at their peak in mid-February of this year. Citi analysts continue to stay away from peripherals as they expect the peripheral crisis to rumble on and on until a crisis looms that is sufficiently large to force politicians to overcome their national differences, and set out a credible plan to address the root causes of the situation

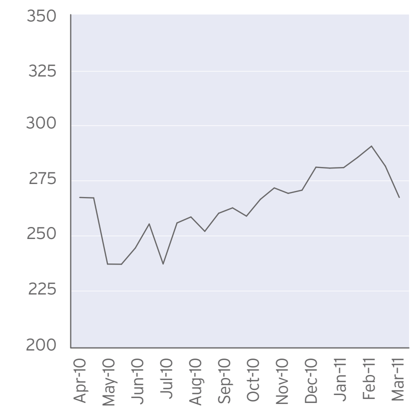
Citi Euro BIG (EUR)
Data source: Bloomberg as of 31 March 2011.

Equities

Less scope for positive surprises

CCiti analysts think that the 8-9% sell off that followed the Japanese earthquake has been of normal size for European equity markets that were already facing a wall of worry before the catastrophe. Citi analysts indeed observe that, looking at major natural disasters over the last 40 years, European equity markets have on average fallen by about 5% in the period that follows the event. Citi analysts think that positive global economic trends are likely to remain the key driver for equities performances. From that perspective, extremely robust Purchasing Managers Indexes, with the exception of China, have justified the strong performance of equities from November 2010 till February 2011. However, Citi analysts observe that their Economic Surprise Index (which measures the differences between actual economic indicators and consensus expectations) started to decrease in March, which coincided with the equity market consolidation that started before the Japanese disaster. The combination of a potential reversal of economic surprise trends with building inflationary pressures in many countries and higher risk aversion leads Citi analysts to adopt a more cautious view on European equities in the near term.

Within European equities, Citi analysts think that overall, the Eurozone periphery risk remain present and could easily resurface around individual events like a failed bond auction or the impact of rising ECB policy rates choking off recovery. But over the medium term, they believe European politicians are likely to endeavour to see the Euro survive. Therefore, they continue to prefer Core countries over more speculative periphery countries.



DJ Stoxx 600
Data source: Bloomberg as of 31 March 2011.

Forecasts may not be attained. **Past performance is no guarantee of future results.** There are additional risks associated with foreign investments.

North America

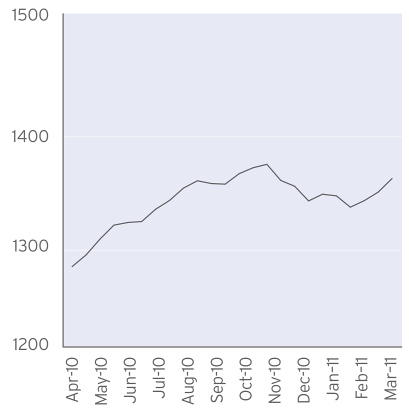
Fixed income

Moderate recovery means only gradual removal of policy support

The Federal Reserve (Fed) reaffirmed its conviction of its new round of extraordinary intervention in the securities markets (quantitative easing or "QE2"), an eight-month program of US$600 billion of Treasury purchases lasting through June 2011. While QE2 seems to have positively contributed to diminishing fears of the US economy falling back into recession ("double dip"), critics within the Fed had complained that this intervention risked igniting inflation that would be difficult to control, given the extremely loose posture QE2 represents. However, subsequent calm core inflation data and continuing slow improvement of US labour markets seem to have given Chairman Ben S. Bernanke the better of the argument. The Fed also reaffirmed its planned end to QE2 in June, as economic trends seem generally positive (according to the Fed and to Citi analysts, who forecast 2.9% GDP growth in 2011 and 3.1% in 2012).

This impression of an economy only slowly on the mend leads Citi analysts to forecast no policy rate hikes until 1Q12 and 10-year Treasury bond yields averaging 3.60% in 4Q11, only slightly higher than current levels. They believe that this means that the long end should perform better than the short end of the maturity curve.

Corporate yield spreads to sovereign bonds have narrowed considerably over the last year, as corporate default rates have continued to fall and corporate balance sheets have strengthened from earnings growth. Citi analysts believe these trends have further to go and they remain overweight on corporate bonds.



Citi US BIG

Data source: Bloomberg as of 31 March 2011.

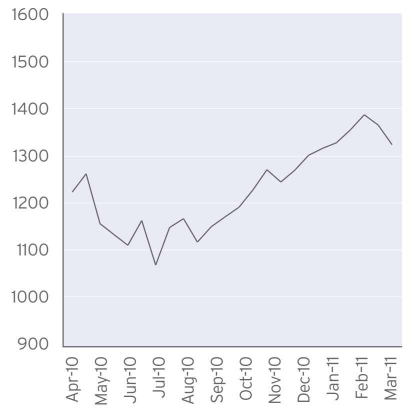
Equities

What comes after QE2?

Just as US equity markets were reassured by the Fed's QE2 program, investors have now begun to assess the challenges for the economy without this support. Will the Fed begin selling off its securities, will it allow maturing securities to shrink its holdings, or will it roll into new securities to replace the maturing issues? Liquidity concerns are likely to persist because Citi analysts believe fiscal worries may prevent the private sector from confidently hiring and reinvesting. Citi believes that the large fiscal deficit (forecast at 9.2% of GDP in 2011) is likely to dominate the equity market tone this year, as business heads wonder whether higher taxes or other fiscal austerity could constrain earnings in the near future.

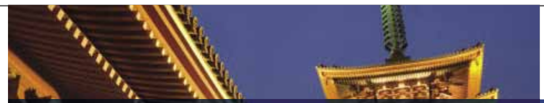
Though corporate earnings growth should permit US stocks to rise (the target for the S&P 500 at year end is 1400), margin pressures and tougher comparisons should moderate earnings-per-share (EPS) growth versus 2010. Within US equity sectors, Citi analysts favour Energy, Financials, Industrials and Information Technology; they would avoid Consumer Sectors, Healthcare and Materials.

While internal factors (margin pressures, fiscal pressures) may limit gains for equities, Citi analysts have concluded that the US equity market may be relatively less exposed to crises outside its borders (e.g. oil shock, Eurozone problems) than other equity markets.



S&P 500 Index

Data source: Bloomberg as of 31 March 2011.



Japan and Asia Pacific

Japan equities

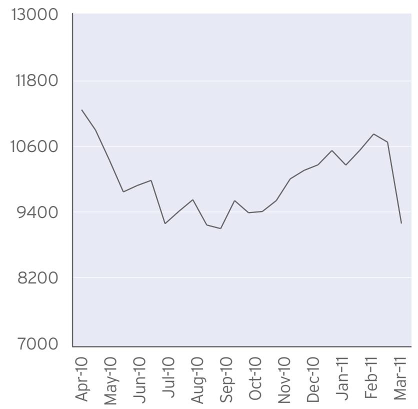
Selloff appears excessive

TOPIX fell 17.6% from the close on March 10, before the earthquake, through the close on March 15, its biggest percentage decline in three trading days since the market reopened after the war. With unprecedented events occurring – one of the biggest earthquakes ever to strike Japan coupled with possible leakage of radiation from a nuclear power plant – Citi analysts think the market has been seized by panic selling.

Equity markets have been through numerous big corrections in the past few decades – Black Monday, the Kobe earthquake, the Asian financial crisis, the events of 9/11, and the Lehman Brothers bankruptcy – and ultimately the markets have always overcome them. Panic selling is unlikely to continue. After the BoJ expanded the scope of easing and the G7 agreed on a concerted FX intervention, TOPIX seems to have bottomed.

However, given the host of unprecedented issues, including ongoing nuclear plant problems, a power supply shortfall, and supply chain bottlenecks, Citi analysts think the market could continue to be highly volatile. A "soft landing" for the nuclear issue in Citi analysts view holds the key to the future direction of TOPIX. Citi analysts envisage continued advances for TOPIX in the event of a soft landing, for the following reasons; the speed of the correction, the low level of valuations, the yen, which may weaken on concerted intervention and BoJ easing, and the speed of the government's policy response.

There is much uncertainty as to how much factors such as power shortages will impact (directly and indirectly) production, and corporate activity. Amid such conditions, Citi analysts continue to prefer sectors where demand growth looks most likely; construction, metal products, glass & ceramics products, mining and oil & coal products.



NIKKEI 225 Index

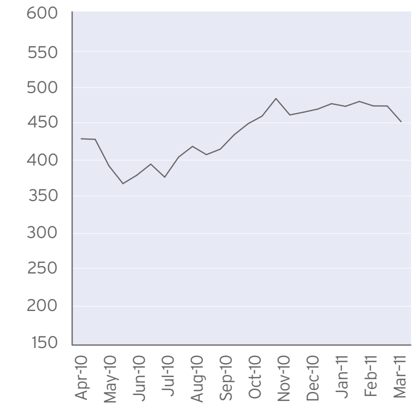
Data source: Bloomberg as of 31 March 2011.

Asia Pacific equities

Still preferring North over South Asia

Asian equity markets are likely to remain volatile as developments in Japan and the Middle East and North Africa continue to raise concerns over the sustainability of the global economic recovery. In terms of valuations, the MSCI Asia ex Japan index is currently trading at average levels based on mid-cycle price-to-earnings (16.7x) but is slightly above the historic average (1.8x) in terms of trailing price-to-book (currently 2x). Slightly higher P/B but lower P/E suggests that there are above-average levels of corporate profitability in the region, which is a good thing.

Citi analysts continue to prefer North Asia and cyclical sectors over South Asia and consumers. They highlight that South Asia is more domestically/consumer focused in terms of stock market make-up, and with the leading indicators looking up and inflationary pressures still high, cyclical sectors appear to be the way forward. This is especially so considering that, by transferring prices increase to the consumer, inflation is a shift in profitability away from the consumer and towards the manufacturer, and as things stand, North Asia (especially Korea and Taiwan) has a larger weight in cyclical sectors than South Asia. On the corporate earnings front, the more short term earnings revisions have started to come off in North Asia versus South Asia on the back of high oil prices, but on a 3-month moving average basis, North Asia has continued to outperform South Asia. Finally, the valuation gap remains more favourable to North Asia than it has been for a long time. Citi analysts believe that some of that valuation differential may need to close before one can turn more optimistic on South Asia. The additional factor to look out for is inflation. If market perceptions shifts from inflation "being out of control" back towards "deceleration", the consumer-intensive South Asian markets could stand to benefit *Central & Eastern Europe, Middle East and Africa (CEEMEA).*



MSCI Asia Pacific Ex-Japan

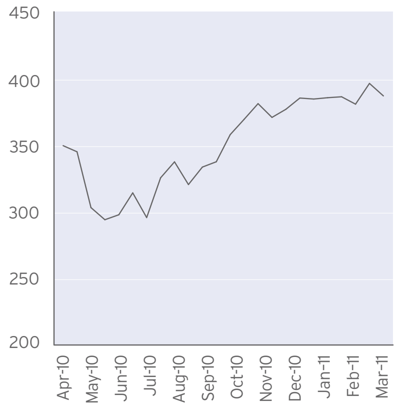
Data source: Bloomberg as of 31 March 2011.

CEEMEA and Latin America

CEEMEA equities

Beneficiary of higher oil prices

According to Citi analysts, the CEEMEA region appears well positioned in regards to the risks of oil prices increases due to political unrests in the Middle East, and to a potential demand slowdown from Japan. Citi analysts indeed observe that while Russia is a clear beneficiary of an increase of oil prices, the potential wealth increase in the Middle East that could result from higher oil prices could also be beneficiary to Turkey as the country's exports to Middle East countries has been multiplied by 6 over the last 10 years. Citi analysts also observe that, on the other hand, very few CEEMEA companies sell directly to Japan. Exports to Japan represent only 1.6% of the region's GDP against 7.9% in Asia. The impact of events there will likely be felt instead through higher prices for conventional power generation feedstock, further compounding the impact of higher oil prices driven by the turmoil in the Middle East. The net impact looks most supportive for Russia (where Citi analysts are Overweight), and most negative for Turkey (Underweight). For South Africa (Underweight) and Central Europe (Neutral), the impact is expected to be mixed. In Russia, the energy sector as a whole should benefit from the tightening of natural gas and oil spot markets. Other areas likely to be positively impacted are fuel oil, coal and utilities. Less immediate beneficiaries, but still sectors that may be positively affected are fertilizers and industrial minerals, as well as agricultural exports and transport.



MSCI EM EMEA
Data source: Bloomberg as of 31 March 2011.

Latin America equities

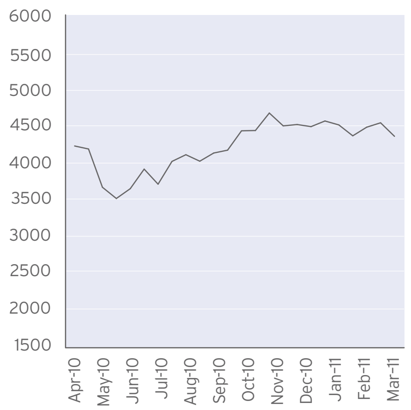
The region should eventually rerate

Despite some disappointing performance over 1Q11 (and down about 7% from the November 2010 high), Citi analysts predict that the multiple rerating of recent years could soon resume as structural reforms slowly advance. Citi analysts think that Latin American equities appear well positioned to benefit from the ongoing global economic recovery and Citi sees potential US dollar returns for the region of 25%-30% through the end of 2011.

More specifically, valuations are now attractive at about 11x on forward consensus earnings growth of some 18% in 2011. The unease from global events has contributed to Emerging Markets fund outflows of some US$25 billion in 1Q11, and Citi analysts believe this may present an entry opportunity into the market in anticipation of a change in investor sentiment.

Citi prefers high beta sectors such as Materials, Energy, Financials and, Consumer Discretionary. On a country level, Citi prefers Brazil, is neutral Chile and Peru, and is underweight Colombia and especially Mexico (China poses a threat for Mexico, unlike most of the region).

The target for Brazil's Bovespa index currently stand at 87,500, which Citi analysts believe is an aggressive yet achievable figure. Potential catalysts include a rollover in inflation expectations. Mexico's Bolsa is expected to end the year at 42,500, with modestly improving economic prospects driving higher top-line performance and reasonable profit expansion.



MSCI EM Latin America
Data source: Bloomberg as of 31 March 2011.

Global REITs and commodities

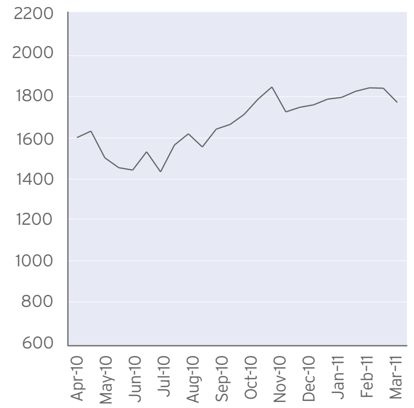
Real Estate Investment Trusts (REITs)

Still anticipating positive total returns in 2011

Citi analysts believe the US REIT sector is likely to continue to produce positive total returns in 2011, driven by industry tailwinds that have become stronger over the last three to six months and a macro backdrop that generally continues to be supportive of US REITs absolute and relative valuation in the near term. They reiterate their total return expectation of +5 to +15% for the year with the first quarter in the books at +6.3%.

While concerns over US REITs have been increasing, particularly over rising longer term interest rates, narrowing dividend yield spreads and the potential for retrenching funds flow, there are a number of factors that continue to lend themselves to US REITs producing positive total returns in the near term. A number of key industry tailwinds have grown stronger in recent months led by a continued improvement in the financing market, both in terms of financing availability, leverage levels and all in rate, and also stronger underlying real estate fundamentals backed by improving demand and low new supply. Combined, these are expected to lead to better earnings, and thus, stronger potential dividend growth. Citi analysts see six key tailwinds for the US REIT sector: (1) accelerating internal growth, (2) ramping external growth, (3) rising dividends backed by the lowest payout ratios on record, (4) increased capital flows to real estate from a variety of sources which should keep cap rates flat to down, (5) an attractive and open financing market and (6) REITs having a cost of capital advantage versus the private market.

Despite elevated US REIT equity multiples which may indicate that these "tailwinds" are priced in, US REITs earnings growth remains solid for the next few years and interest rates do remain exceptionally low. Low rates, while potentially fuelling another bubble, act as strong support for REITs and direct property pricing. They also make REIT dividend yields more attractive but the yield spread to other equity investments has narrowed.



EPRA/NAREIT Global Index
Data source: Bloomberg as of 31 March 2011.

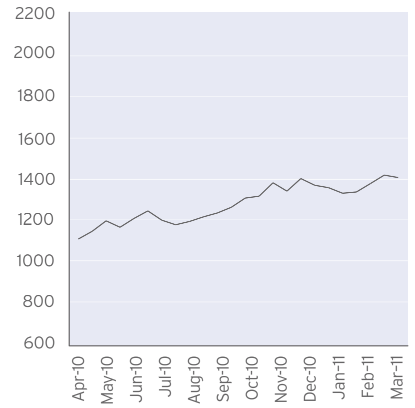
Commodities

MENA tensions likely to buoy oil and gold prices

Citi analysts continue to hold a constructive outlook on commodities over the medium term as they believe that the global economy, especially the emerging world, is likely to be able to weather the potential negative impacts arising from the tensions in the Middle East and North Africa (MENA), Japanese earthquake and the ongoing Euro Area periphery crisis. Additionally, expectations for a weak USD over the medium term, given high current account deficit in the US, diversification of USD holdings by central banks and renewed outflows into emerging markets, bode well for the medium term outlook for commodities.

Crude oil prices are expected to remain elevated given the potential for more supply disruption even if the Organization of the Petroleum Exporting Countries (OPEC) uses its 5.2Mbd spare capacity to mitigate price pressures. Citi analysts have revised their oil price forecast for West Texas Intermediate (WTI) from US$93/bbl to US$100/bbl in 0-3 months and from US$100/bbl to US$95/bbl in 6-12 months. Their Brent forecast remains unchanged at US$100/bbl in 6-12 months. Large deviations from these levels are however likely as uncertainty from MENA has increased in the near term. On a 6-12 months horizon, the oil price view assumes that the output disruption is short lived and large Middle East producers are broadly unaffected by disruption. Moreover, above-ground inventory and spare supply are deemed sufficient to balance the system in a reasonable time frame.

Safe haven demand is likely to lend support to gold in the short and medium term. Citi analysts see potential for gold prices to reach US$1,550/oz in 6-12 months. They however caution that a key downside risk over the medium term is a higher interest rate environment. This is accentuated by the fact that investment demand for gold has grown from 4% of total demand to 40% in the past 10 years, leaving the metal vulnerable to any sudden change in sentiment.

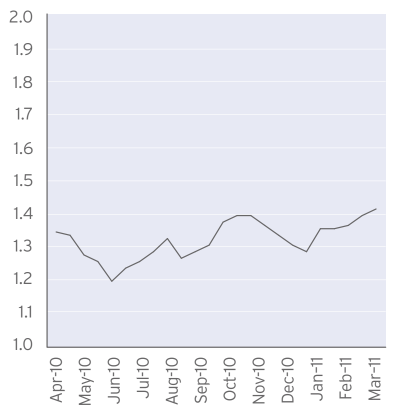


Golds US$/troy oz.
Data source: Bloomberg as of 31 March 2011.

Currencies

Euro

EUR/USD has appreciated relatively sharply during the first quarter despite ongoing European Monetary Union (EMU) strains and the underperformance of European stocks in a general risk sell-off. Over the past couple of years, investors have got used to an inverse relationship between risk and the USD. Risk sell-offs have typically produced USD rallies, but this has recently not been the case. Citi analysts think this is because an older trend is at work. This is that when oil prices rise, the USD falls. Citi analysts highlight two reasons behind this reversal of trend. First, oil producers diversify reserves to EUR from USD as revenues rise. Second, the ECB tends to become more hawkish earlier than the Fed when oil prices rise and term yield differentials are playing a bigger role in driving EUR/USD higher. The ECB has in fact raised its main refinancing rate by 25 bps in April, and considering the hawkish tone of the press statement, Citi analysts see increasing risk that the ECB might go with the next 25 bps hike before July and that further rate hikes might follow in the remainder of the year. They forecast EUR/USD at 1.45 over the next 6-12 months.



Euro-Dollar (USD/EUR)
Data source: Bloomberg as of 31 March 2011.

Yen

Japanese Yen is clearly in the market spotlight. The consensus view is to expect JPY weakness over the medium term, perhaps over 6-12 months, driven by easy Bank of Japan policy, fiscal concerns made worse by the disaster and, possibly, accelerated corporate Foreign Direct Investments outflows. Japan's post disaster reconstruction will need funding but fiscal accounts are already stretched with the fiscal deficit at 7.5% of GDP and net government debt at 120% of GDP. This suggests that using foreign assets may make sense where possible, according to Citi analysts. In addition, the recent (absolute and relative) fall in Japanese stocks have automatically raised the share of foreign assets in Japanese institutional portfolios. To keep these proportions stable, Japanese investors need to sell some foreign holdings. Citi analysts also think intervention may fail to prevent some downside over 0-3 months in USD/JPY in the context of a generally softer USD and weaker risk appetite. They forecast 78 over 0-3 months but 87 over 6-12 months.

Dollar-Yen (JPY/USD)
Data source: Bloomberg as of 31 March 2011.

Pound sterling

Citi analysts continue to expect broad GBP appreciation over the medium term helped by lower perceived fiscal risks (due to the coalition government's deficit reduction programme) and tighter money assuming the Bank of England's rate hikes begin at least by May. They expect around 100 bps of tightening over the next 12 months. Since this bearish view on policy rates is more pronounced for the BoE than either the ECB or Fed, Citi analysts expect GBP to appreciate against both EUR and USD over the medium term. In addition, re-balancing of the economy is already evident in rising indicators for exports/ production and weak ones for consumer confidence. This is helpful for the currency longer term as the UK external deficit is likely to shrink. Lags between changes in the fiscal / current account deficit and the exchange rate are occasionally long and variable but big swings, such as Citi analysts expect in the UK over the next couple of years, are usually GBP positive. Citi analysts forecasts GBP/USD above 1.70 over the 6-12 month.

Pound-Dollar (USD/GBP)
Data source: Bloomberg as of 31 March 2011.

Forecasts may not be attained. **Past performance is no guarantee of future results.** There are additional risks associated with foreign investments.

Guest corner

The growing middle class in latin america

By Matthew Hickman, Managing Director and Director of Latin America Research for Citi Investment Research and Analysis (CIRA)

The purchasing power of the global middle income consumer continues to grow at a rapid rate. We expect this growth to persist as the number of middle income consumers swells, and their personal incomes expand. In addition to Asia, middle income growth will also take place in Latin America.

The middle class has expanded dramatically in Latin America since 2003 and, according to a variety of sources, now accounts for about 50% of the total population of the main countries in the region. The growth of the middle class has been driven by several factors, including: a) strong regional GDP growth averaging close to 4% since 2003), b) an important reduction in inflation across the region, c) rising formal employment and d) government initiatives to reduce poverty.

Brazil

The growth of the middle class has been an important underlying driver behind Brazil's improved economic performance in recent years as close to 30 million Brazilians joined the middle class between 2003 and 2009 and the middle class surged from about 38% to 51%, according to the Fundacao Getulio Vargas (FGV). We see significant middle class expansion potential ahead as 70 to 75 million Brazilians have not yet attained a middle class standard of living. We think the next stage of the Brazilian middle class story will be about the significant opportunities in poorer regions in Brazil (e.g. the Northeast) and the periphery areas of large cities. Though the growth of the middle class in Brazil clears benefits the entire economy, we believe a key question in investor's minds is: which sectors are likely to benefit most from this dynamic? Data show us that Education, Transportation, Recreation, Clothing and Healthcare are among the main beneficiaries of the growth of the middle class as expenditures on a few categories within Education, Transportation and Health Care in particular grow dramatically once the middle class is reached.

Chile

Chile has witnessed a significant expansion of its middle class over the past decade as the country's GDP has grown at an average rate of approximately 3.8% since 2000. Today, Chile has the highest per capita GDP in the region at US $11,200. To a large extent, the expansion of the middle class in Chile is further ahead than in the rest of the region. As such, we believe the experience of Chile is helpful in terms of understanding how the middle class dynamic might evolve in other countries in Latin America.

Mexico

According to the Mexican Association of Market Research and Public Opinion (AMIA), approximately two-thirds of Mexico's 112,000 million inhabitants could be considered middle class in 2008. The percentage of the population in Mexico that is in the middle class is higher than in other countries in the region.

GDP per-capita in Mexico has increased by a third in constant US dollars since 1999, to approximately US$10,500 (2011estimate). Macroeconomic discipline in public finances and the independence granted to the central bank in 1993 have resulted in economic stability. These relative recent achievements, combined with long-term initiatives in education and health care, have significantly increased the business opportunities in the Mexican market. Several economic and market penetration indicators reveal a growing middle class in Mexico. For example, cable, satellite or MMDS television (paid TV) has been increasing at double digit rates in the last few years to reach 9.6 million subscriptions by last year's 3Q, according to data published by Cofetel (Comisión Federal de Telecomunicaciones). This implies a penetration of 86 subscriptions for each 1,000 inhabitants, a significant increase vs. the 16 registered in December of 1996. The Latin America Advertising Council (LAMAC) recently estimated that by the end of 2010 the number of paid TV subscriptions in Mexico had surpassed 10 million and that it would further increase by 50% in 2011.

In macroeconomic terms this middle-class phenomenon goes hand in hand with the reduction in poverty in Mexico and the improvement in income distribution.

What will they buy ?

As consumers' incomes rise, three things typically occur: the percentage of income spent on food declines, the dollar value of food expenditures increases, reflecting the fact that middle class consumers "trade up" to better-tasting, more expensive foods, and there is a shift in the types of food products purchased, with, for example, consumers favoring products that offer convenience. In addition to spending more on goods, emerging market consumers also spend heavily on services, including financial services, and travel and tourism.

Forecasts may not be attained. **Past performance is no guarantee of future results.** There are additional risks associated with foreign investments.

Final word

Asset allocations

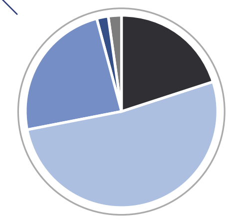
The suggested allocations are intended to be general in nature and are not to be construed as specific investment advice. Investors are encouraged to consult with their Financial Professional to determine their allocation needs based on their risk tolerance, suitability and goals.

Data Source: Citibank NA as of March 2011.

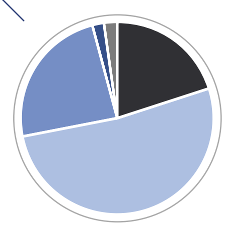
Euro tilted model portfolios / USD tilted model portfolios

Defensive

Seeking primarily capital preservation over time and only willing to accept very minor portfolio value fluctuations from month to month.



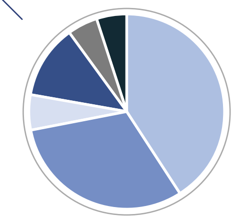
- EUR Cash **20%**
- EUR Government Bonds **51%**
- EUR Corporate Bonds **24%**
- European Equities **2%**
- Global Equities **2%**



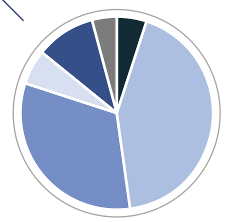
- USD Cash **20%**
- US Government Bonds **52%**
- US Corporate Bonds **24%**
- US Equities **2%**
- Global Equities **2%**

Income Oriented

Seeking growth of wealth over time but unwilling to accept significant fluctuations in the value of portfolio from month to month.



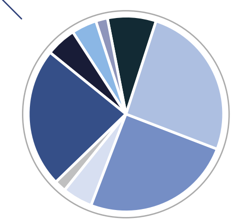
- EUR Government Bonds **41%**
- EUR Corporate Bonds **31%**
- EUR High Yield Bonds **6%**
- European Equities **12%**
- Global Equities **5%**
- Global REITs **5%**



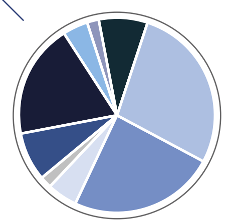
- USD Government Bonds **43%**
- US Corporate Bonds **32%**
- US High Yield Bonds **6%**
- US Equities **10%**
- Global Equities **4%**
- Global REITs **5%**

Growth and Income

Seeking long-term capital growth foremost but unwilling to accept significant losses on value of portfolio over the medium term.



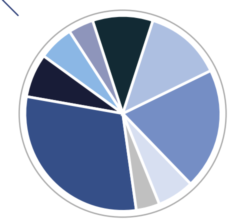
- EUR Government Bonds **26%**
- EUR Corporate Bonds **25%**
- EUR High Yield Bonds **5%**
- Emerging Market Debt **2%**
- European Equities **23%**
- US Equities **5%**
- Pacific Equities **4%**
- Emerging Markets Equities **2%**
- Global REITs **8%**



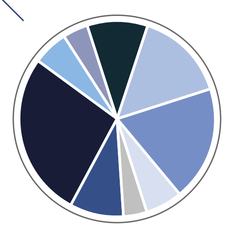
- US Government Bonds **28%**
- US Corporate Bonds **24%**
- US High Yield Bonds **5%**
- Emerging Market Debt **2%**
- European Equities **8%**
- US Equities **19%**
- Pacific Equities **4%**
- Emerging Markets Equities **2%**
- Global REITs **8%**

Growth Oriented

Seeking long-term capital appreciation and willing to tolerate measured medium-term volatility in order to enhance longer-term performance.



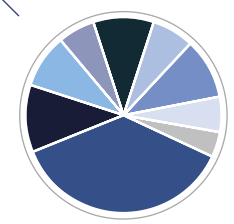
- EUR Government Bonds **13%**
- EUR Corporate Bonds **20%**
- EUR High Yield Bonds **6%**
- Emerging Market Debt **4%**
- European Equities **30%**
- US Equities **7%**
- Pacific Equities **6%**
- Emerging Markets Equities **4%**
- Global REITs **10%**



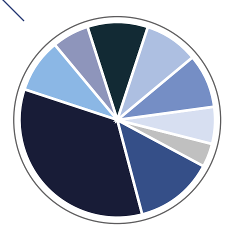
- US Government Bonds **15%**
- US Corporate Bonds **19%**
- US High Yield Bonds **6%**
- Emerging Market Debt **4%**
- European Equities **9%**
- US Equities **27%**
- Pacific Equities **6%**
- Emerging Markets Equities **4%**
- Global REITs **10%**

Aggressive Growth

Seeking long-term capital appreciation and can accept potentially large losses on portfolio over the near-to-medium term in order to maximise long-term performance.



- EUR Government Bonds **7%**
- EUR Corporate Bonds **10%**
- EUR High Yield Bonds **6%**
- Emerging Market Debt **4%**
- European Equities **37%**
- US Equities **11%**
- Pacific Equities **9%**
- Emerging Markets Equities **6%**
- Global REITs **10%**



- US Government Bonds **9%**
- US Corporate Bonds **9%**
- US High Yield Bonds **6%**
- Emerging Market Debt **4%**
- European Equities **13%**
- US Equities **34%**
- Pacific Equities **9%**
- Emerging Markets Equities **6%**
- Global REITs **10%**

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Spotlight on allocations

About the Citi asset allocation process

The Citibank tactical portfolio allocations are based on the work of the Global Investment Committee (GIC) of Citi Private Bank. The membership of the committee is comprised of experienced investment specialists from across Citi. The GIC deliberates on the macroeconomic and financial market environment in order to formulate an outlook across multiple asset classes and is responsible for maintaining tactical model portfolios based on this outlook. The tactical weights that are applied to the Citibank portfolios are aligned to the decisions of the GIC.

Allocation to bond and equity markets

- The allocation to global equities has been reduced from neutral to underweight and raised the allocation to global bonds from neutral to overweight.

Citi analysts believe that corporate profit growth is likely to slow while risks have multiplied. As such, they believe that the market's assumptions for economic growth may be disappointed. The rally in US long-term government bonds looks to be moderately overdone, providing some prospects of appreciation there and support for bond portfolios generally. Citi analysts consequently foresee better risk-adjusted return prospects for global bonds than global equities.

Allocation to regional equity markets

- The overweight allocation to Japanese equities has been maintained as well as the underweight allocation to US equities and emerging market equities. European equities are now underweight.

Citi analysts believe that the valuations for European stocks are no longer as cheap and the risks to the downside remain, or in the case of financials have gotten worse. Citi analysts advise avoiding US financials as well and see a potential for margin pressures hurting stocks there. Japan is a special case, as the earthquake has made very low valuations even more attractive. The emerging markets may still be overvalued relative to the risks inherent in those regions.

Allocation to government and credit markets

- With corporate earnings stabilizing, corporations worldwide deleveraging – using earnings to pay down debt – Citi analysts forecast that default rates on corporate bonds may continue to fall and the fundamental outlook for this asset class continues to be quite good. Citi analysts favour developed market (specifically US) sovereign bonds to express risk aversion and disfavor emerging market bonds as valuations appear too rich.

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