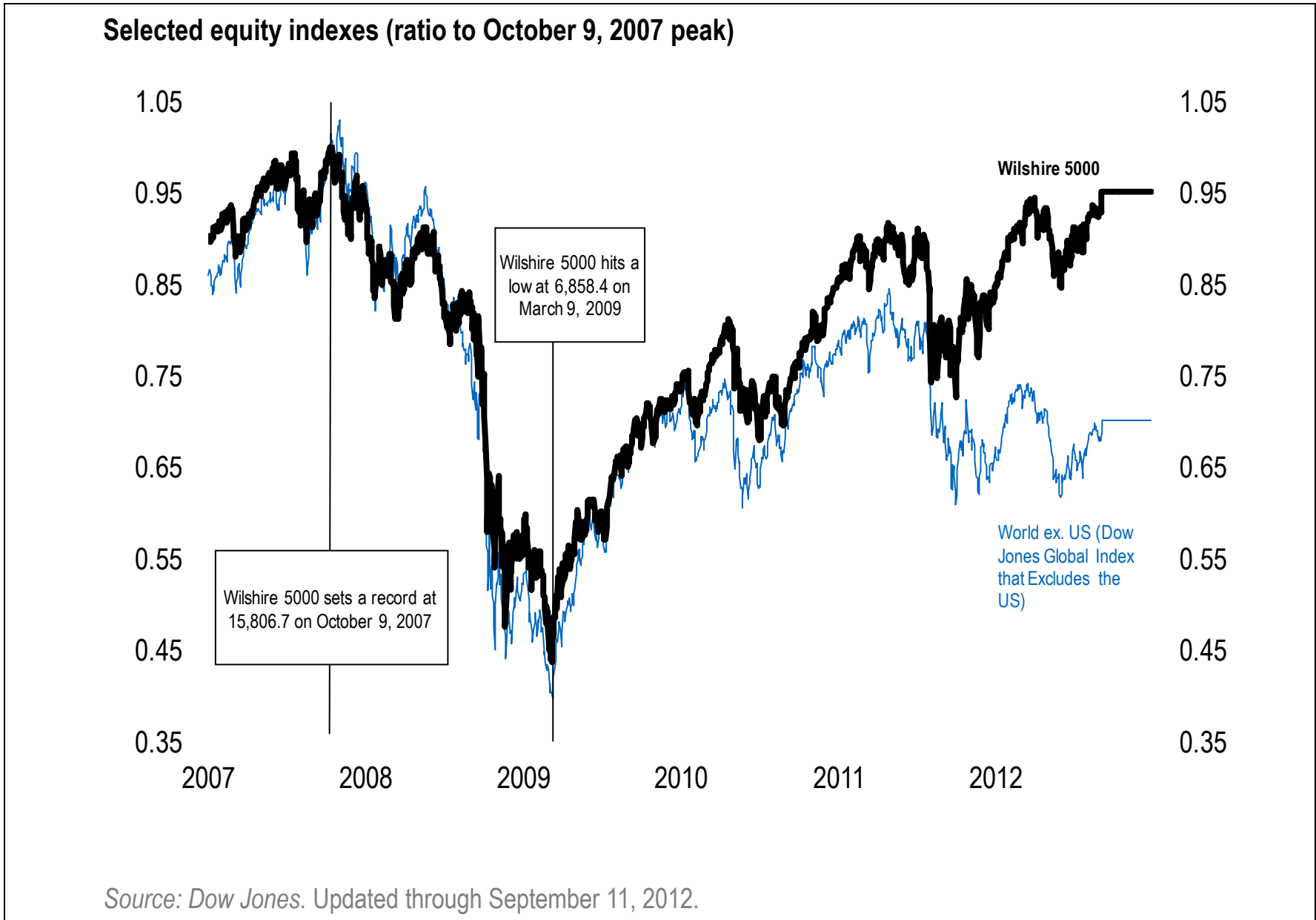


# Getting There ...

## Better Slow than Never

# Despite all the uncertainty ...

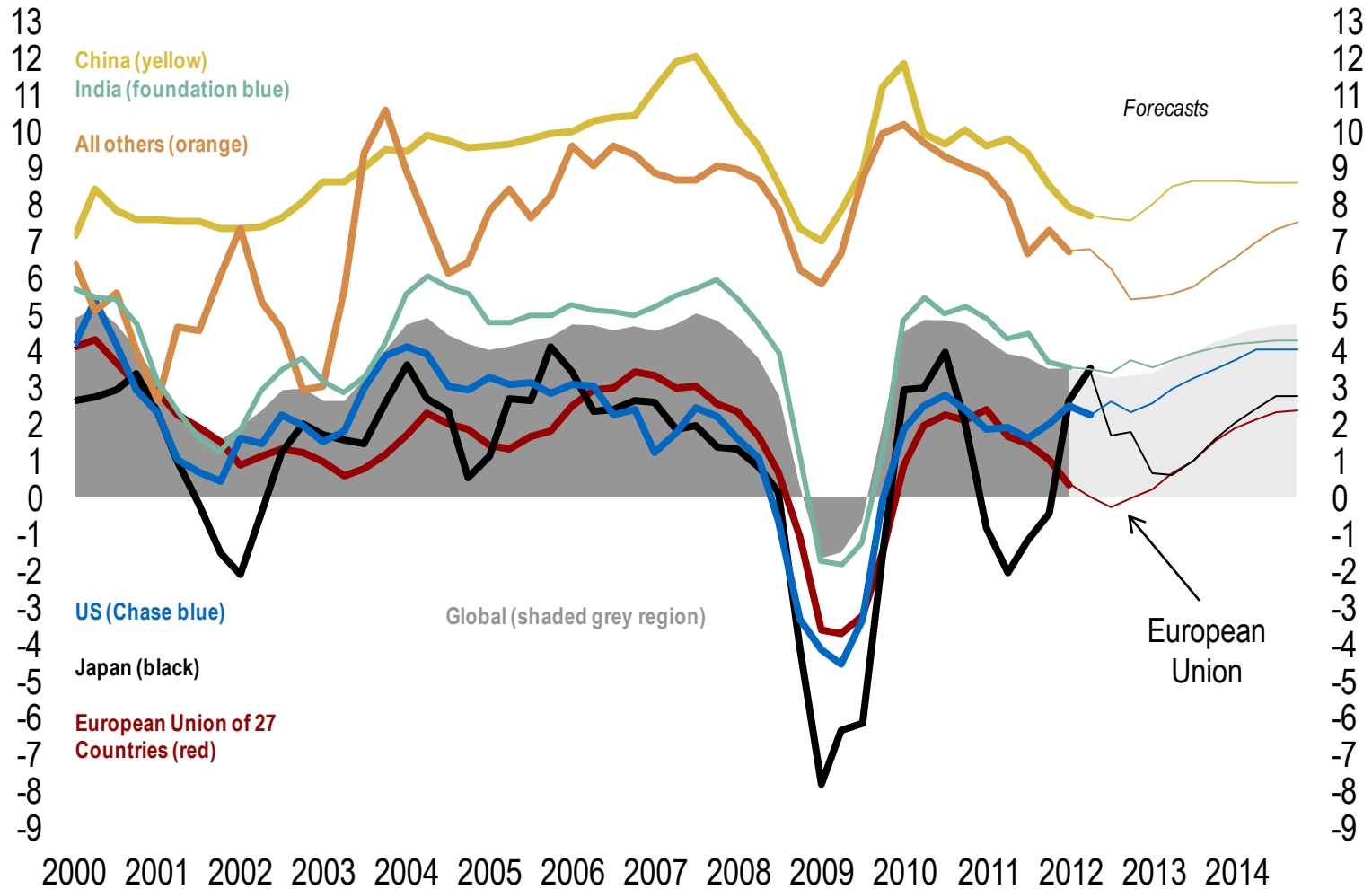
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# A little chillier elsewhere this year ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

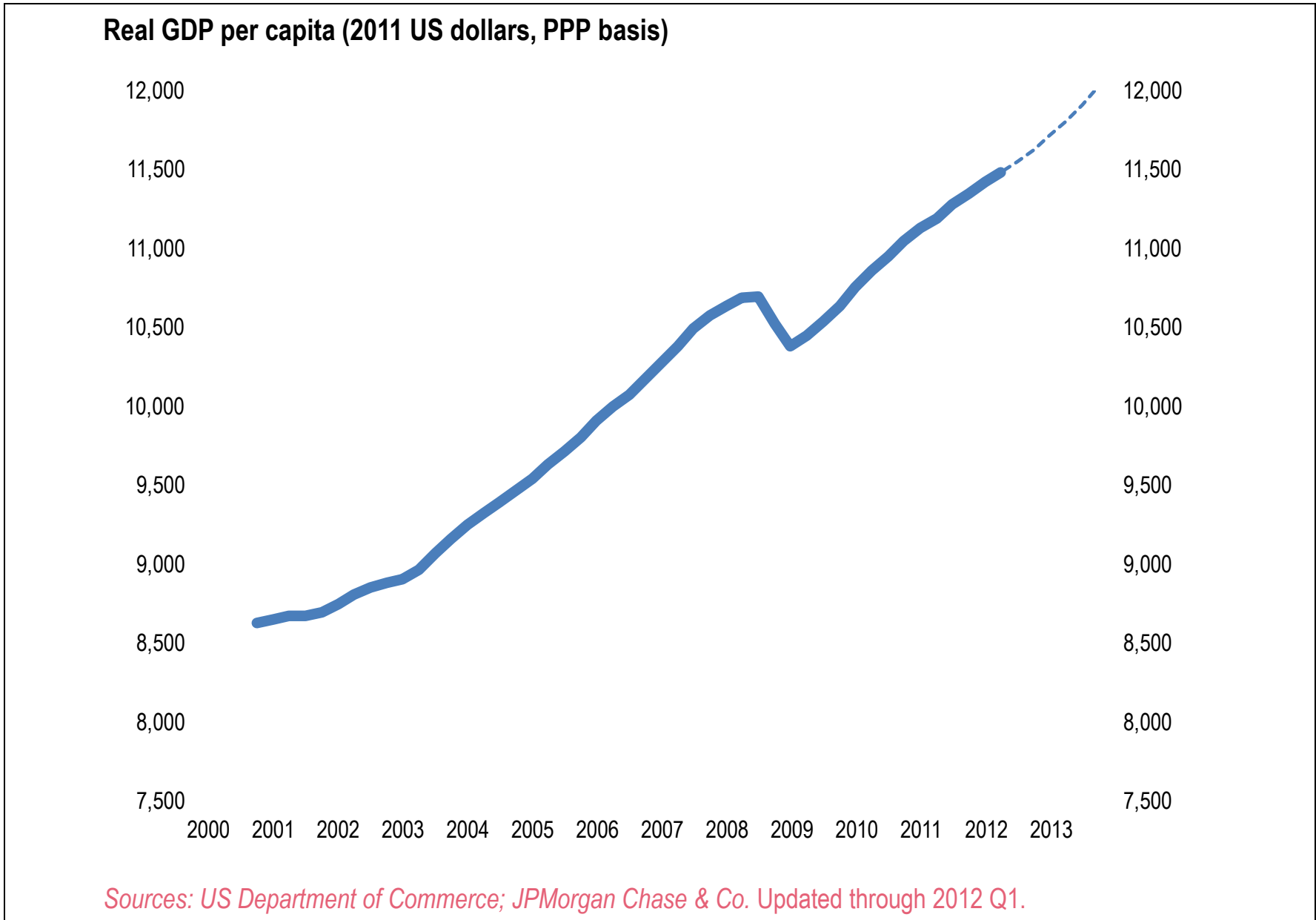
Real GDP in selected regions (percent change from four quarters earlier)



Sources: US Department of Commerce; JPMorgan Chase & Co. Updated through 2012 Q2.

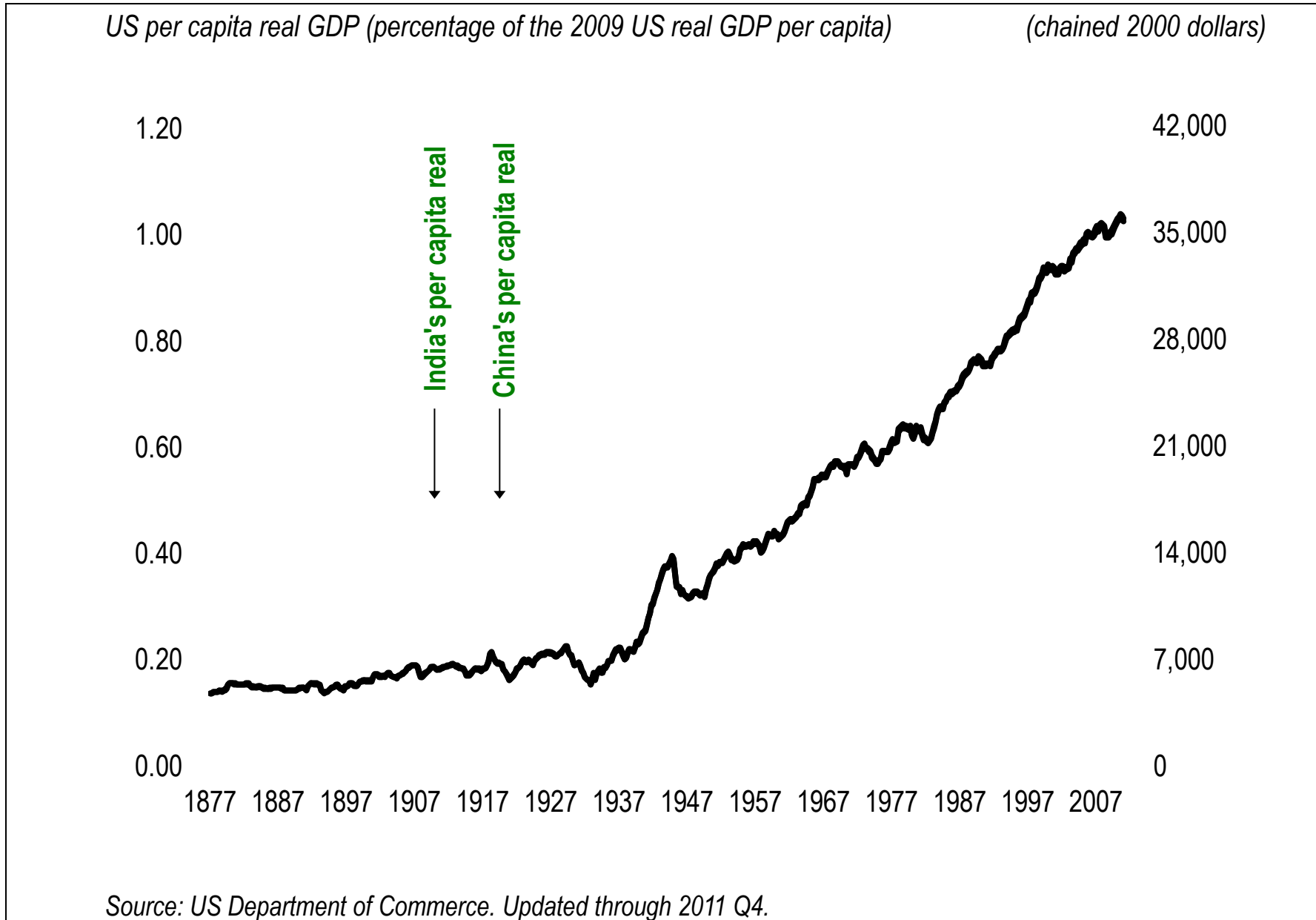
# ... but the march to higher global living standards goes on

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



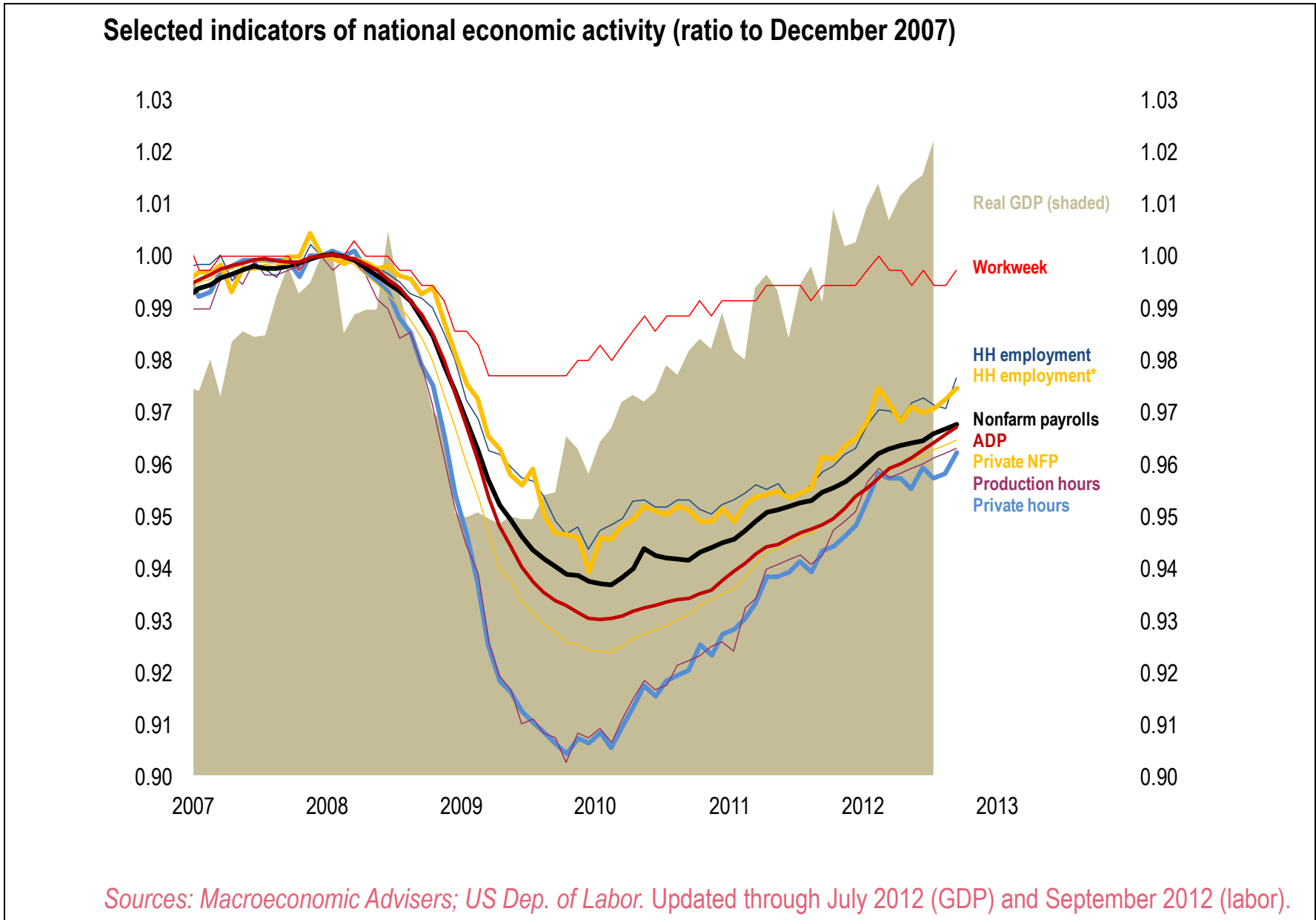
# Keep in mind where much of the world is

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



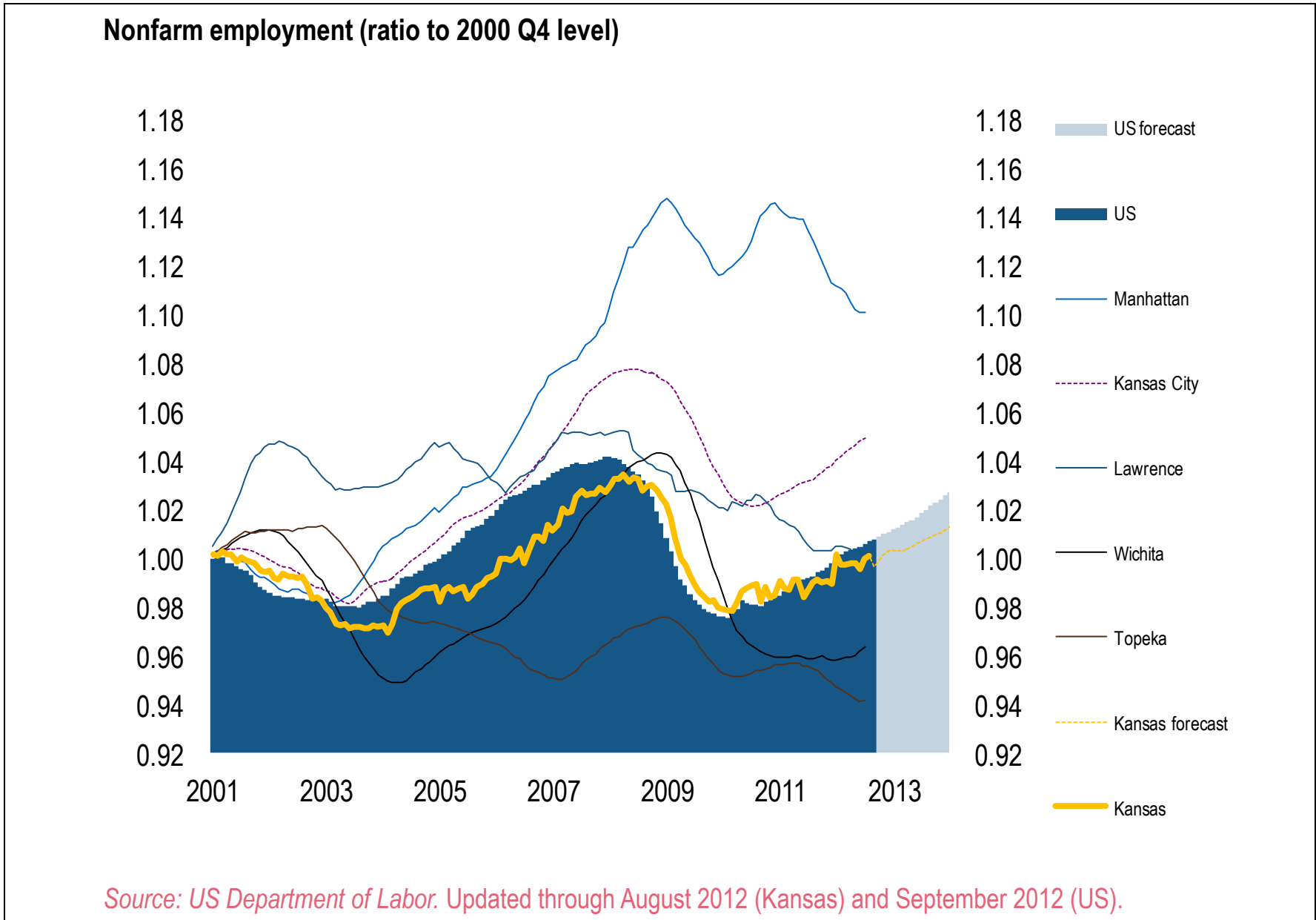
# Warmer for the US ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# ... and Kansas

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



## Europe Aims for More “Europe”

*(the crisis forces a new commitment to the project)*



# Slower is Safer for Developing Economies

(Europe's stall does for EM what its central bankers were unable to)

James Glassman, JPMorgan Chase & Co. ([jglassman@jpmorgan.com](mailto:jglassman@jpmorgan.com); o 212-834-5093; o 212-270-0778; m 609-510-3723)

# Bending the Curve on State Government Finances

(what challenging times do)

# Federal “Entitlement” Spending Outlook

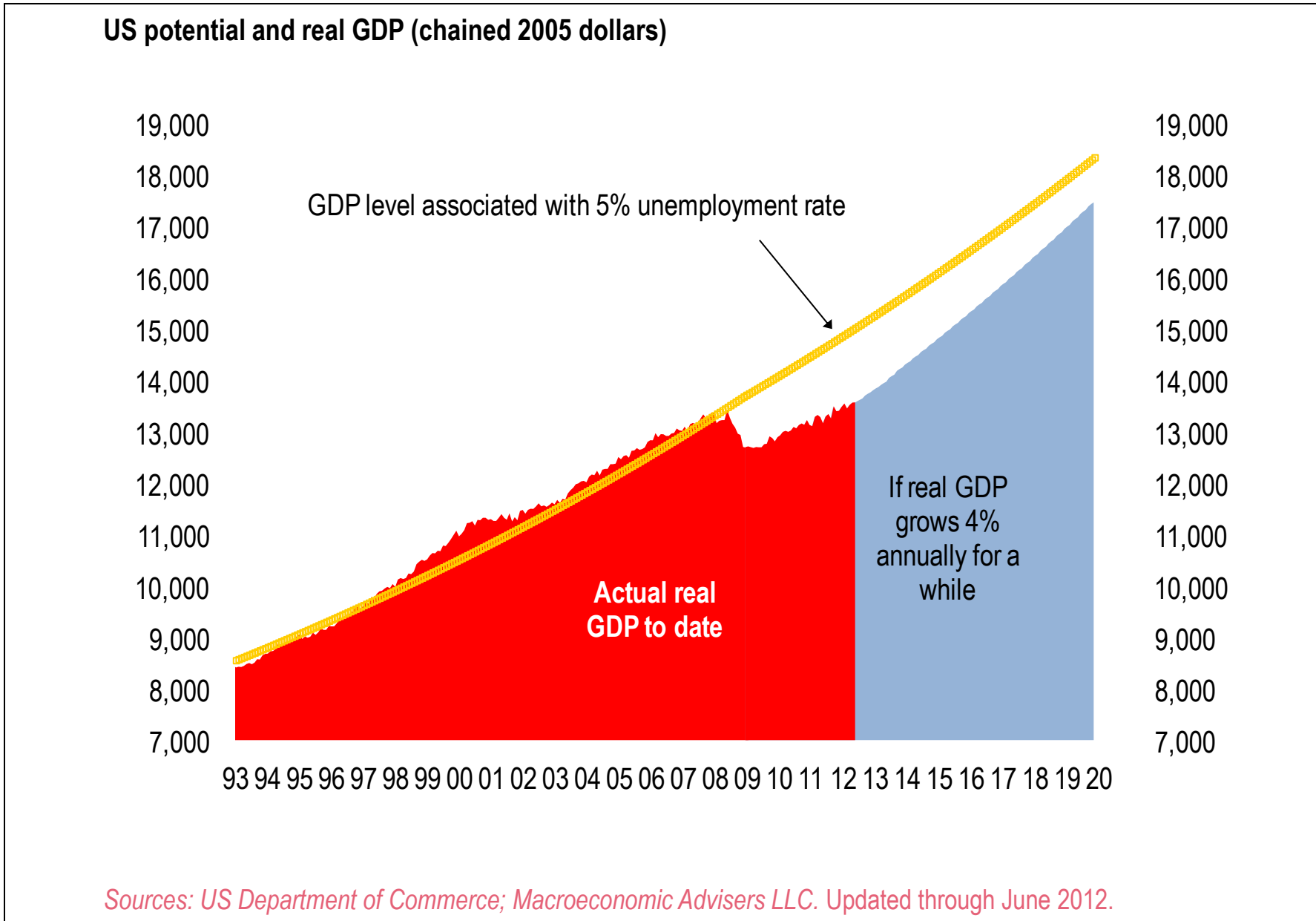
(admitting there’s a problem is a big first step)

James Glassman, JPMorgan Chase & Co. ([jglassman@jpmorgan.com](mailto:jglassman@jpmorgan.com); o 212-834-5093; o 212-270-0778; m 609-510-3723)

## Rising US Cyclical Tide

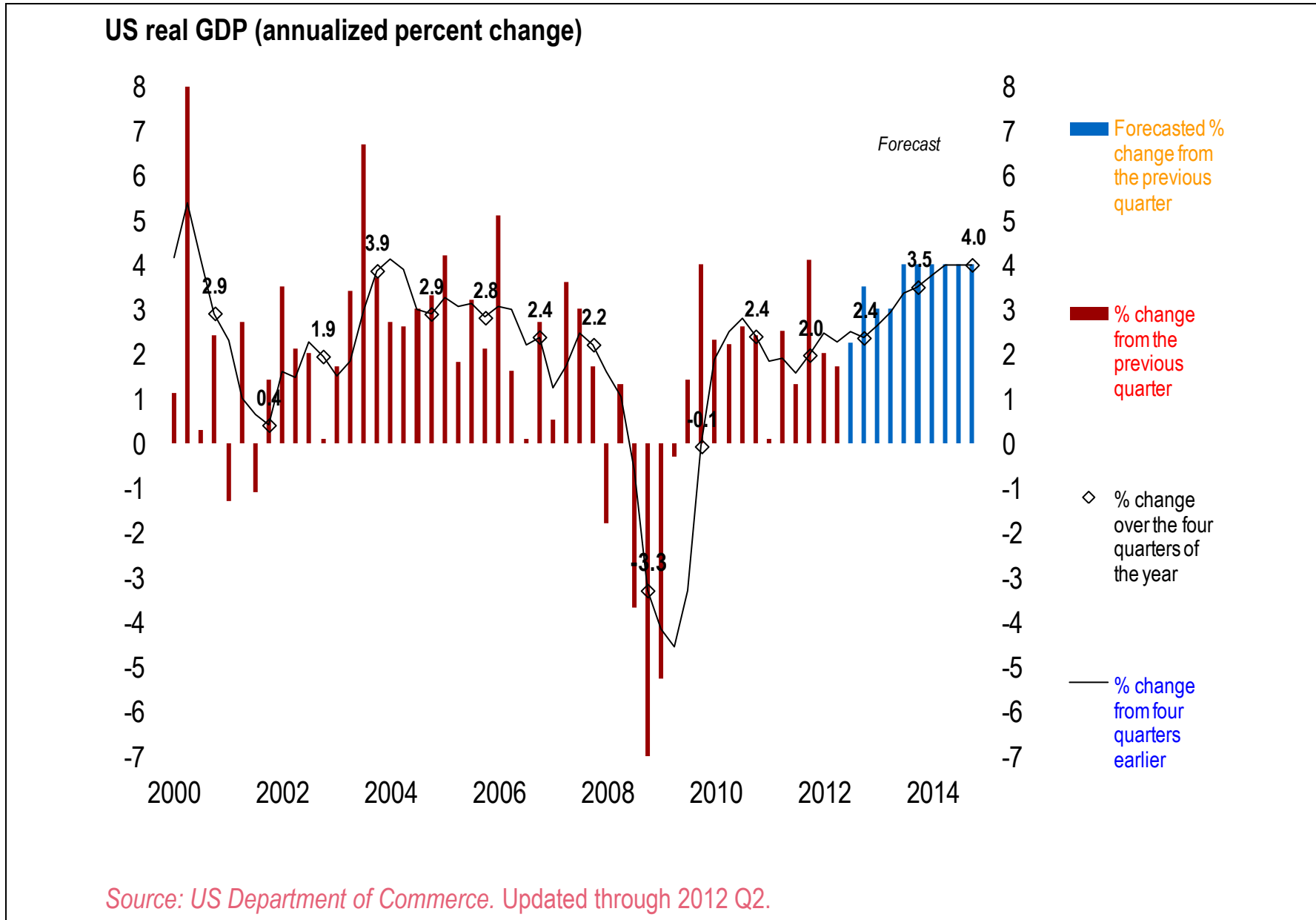
# Cyclical setbacks ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



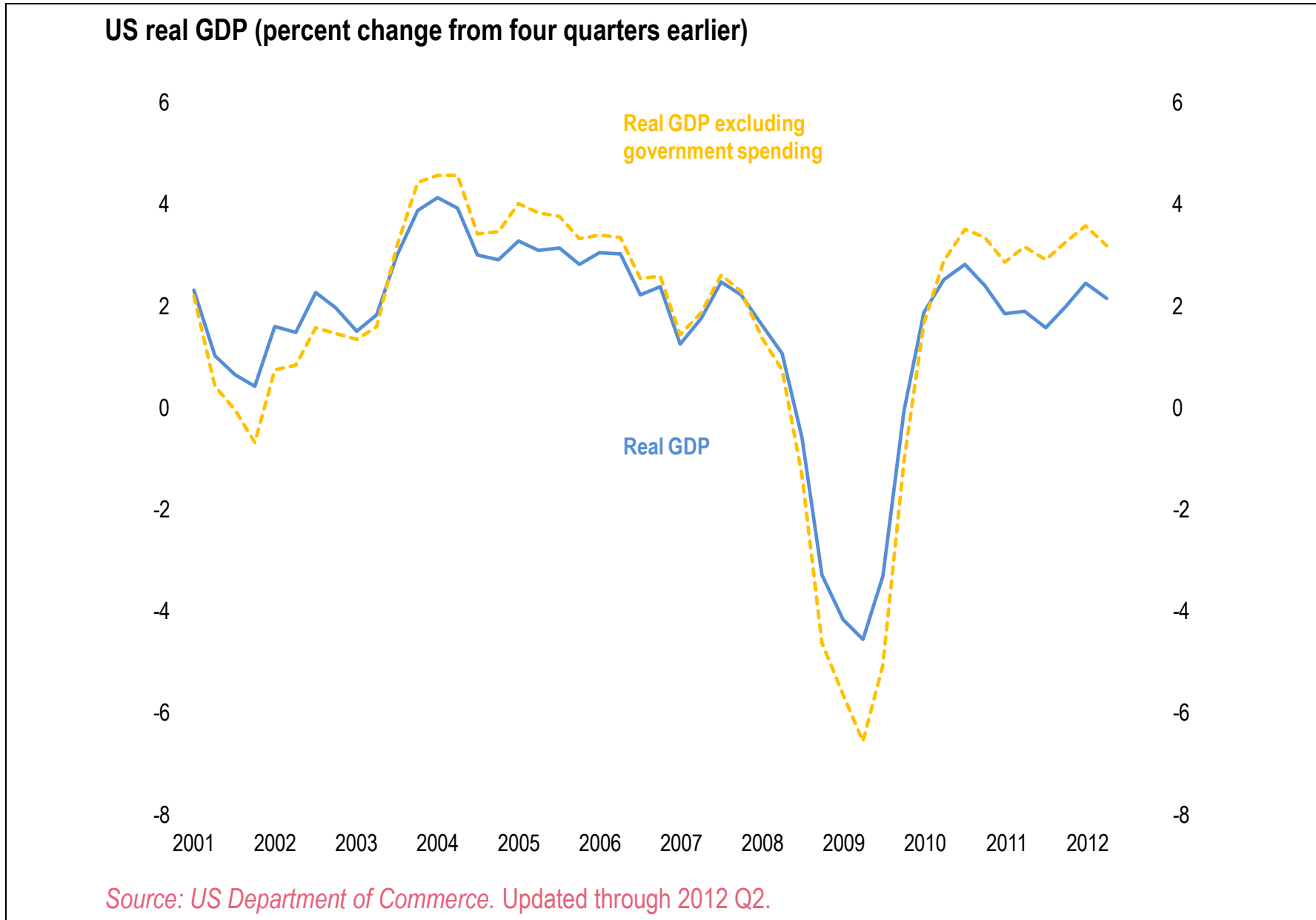
# ... need (and eventually get) a spell of above-trend growth

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

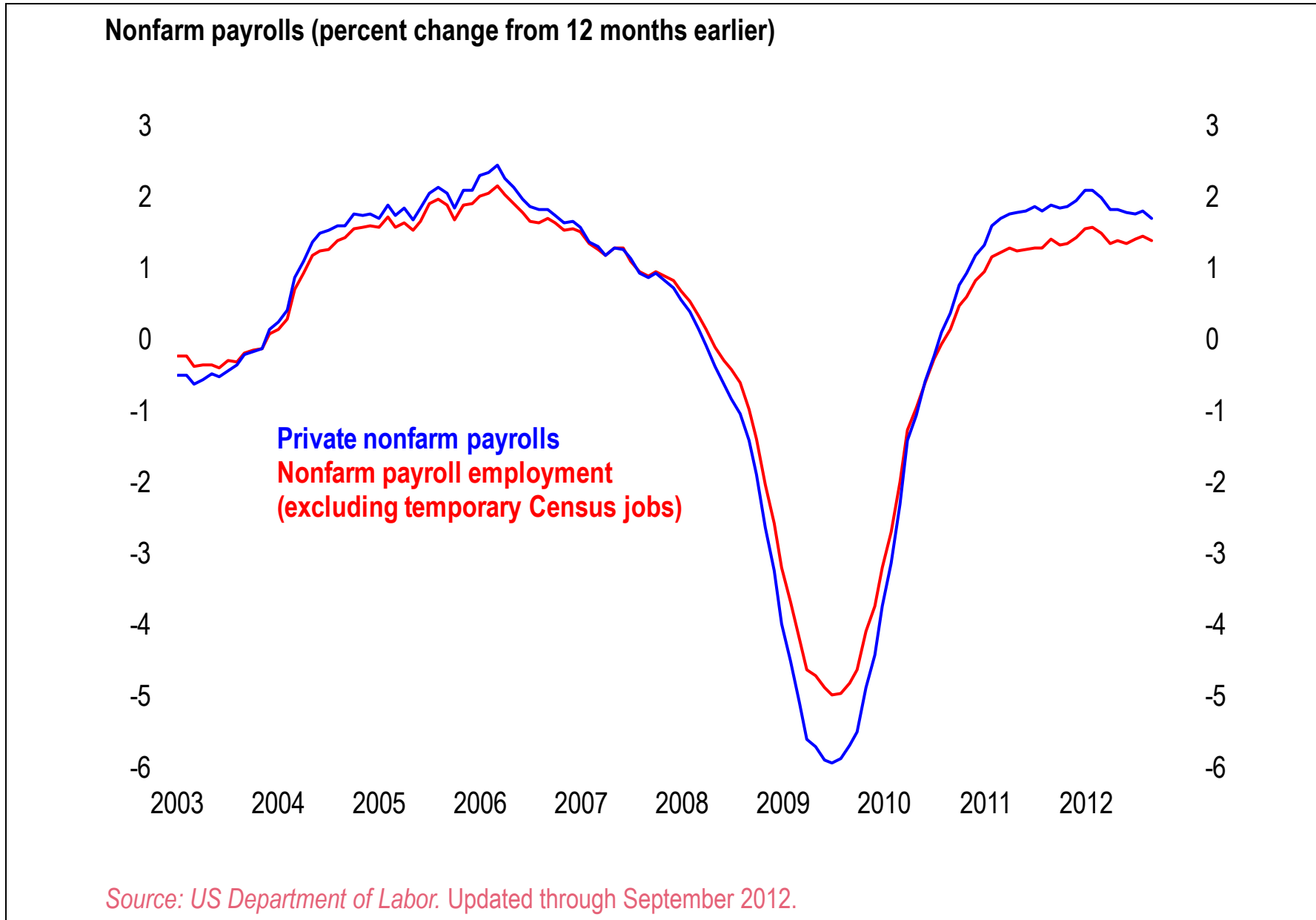


# The best news isn't always on the front pages ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# ... and it's reflected in the job trends



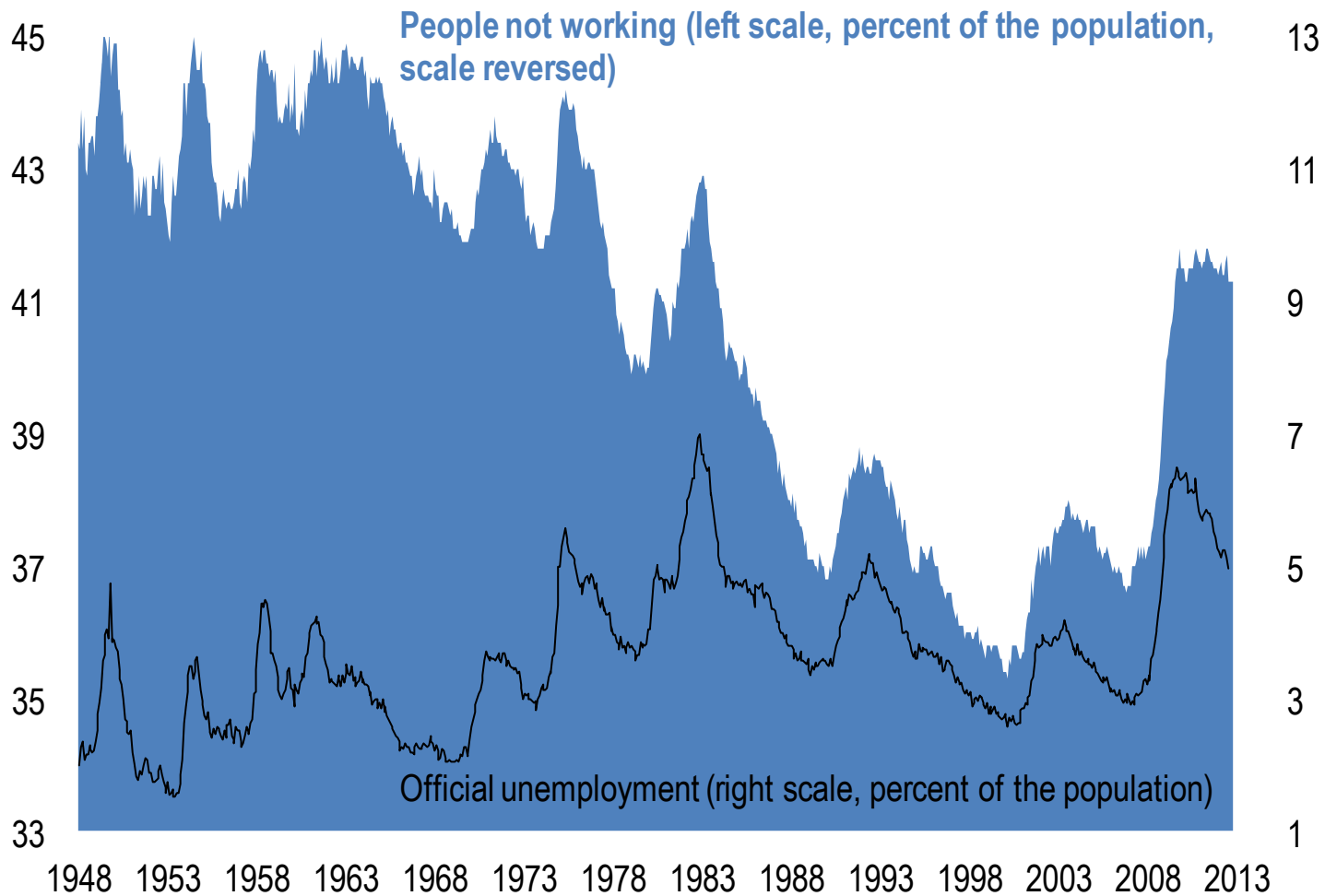
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# (1) “Maximum employment” ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

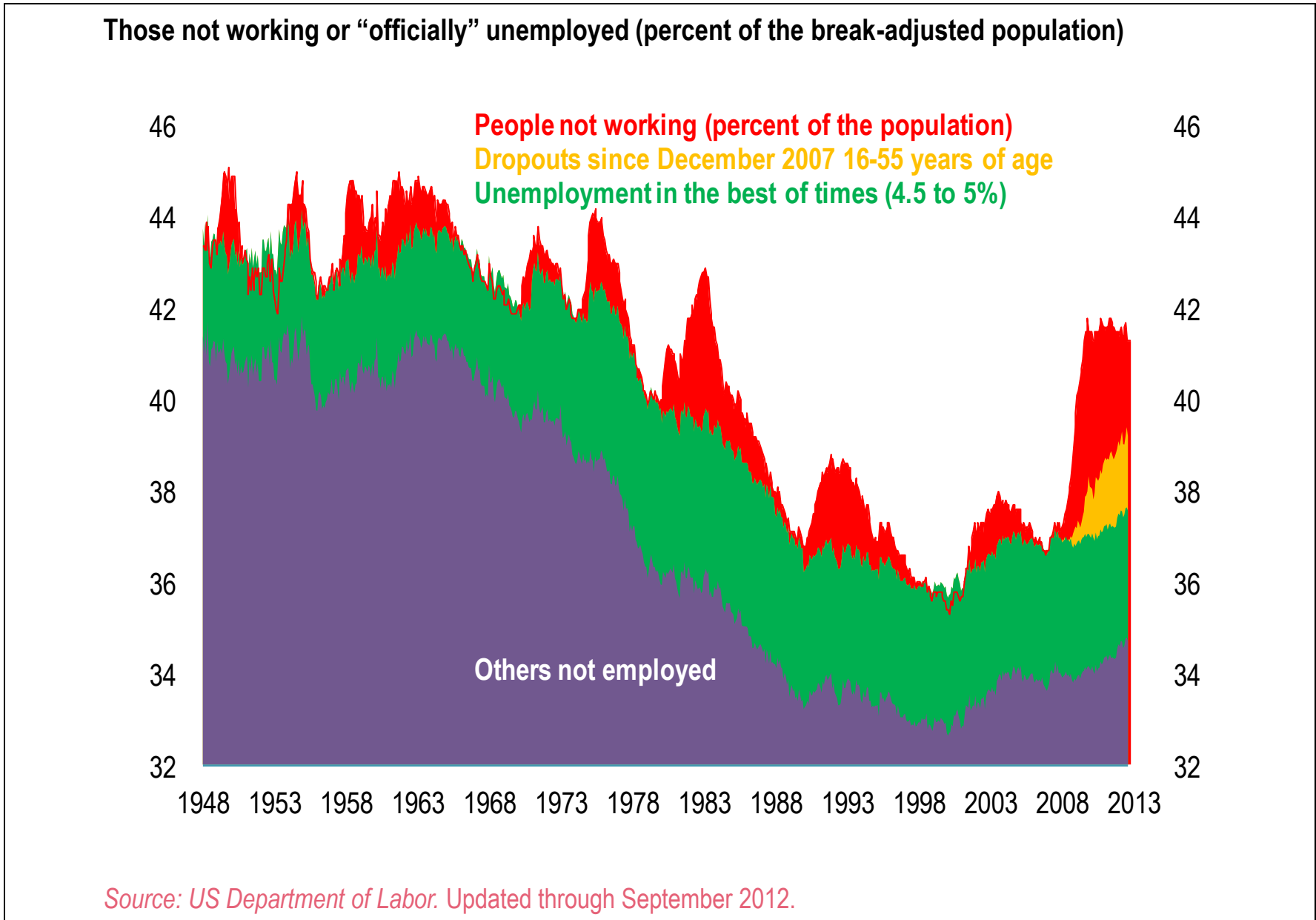
Those not working or “officially” unemployed (percent of the break-adjusted population)



Source: US Department of Labor. Updated through September 2012.

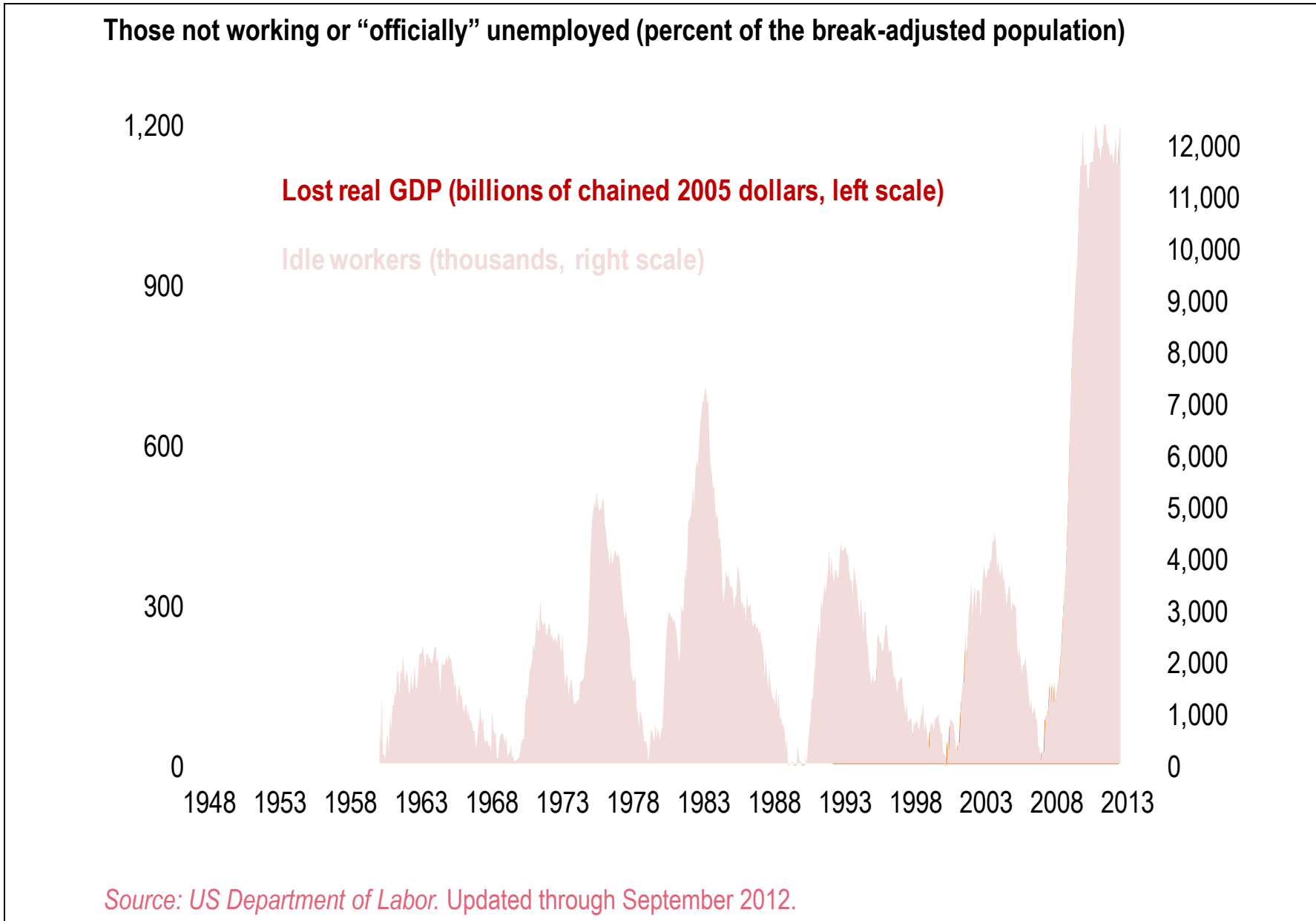
# ... includes the ones we don't see ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



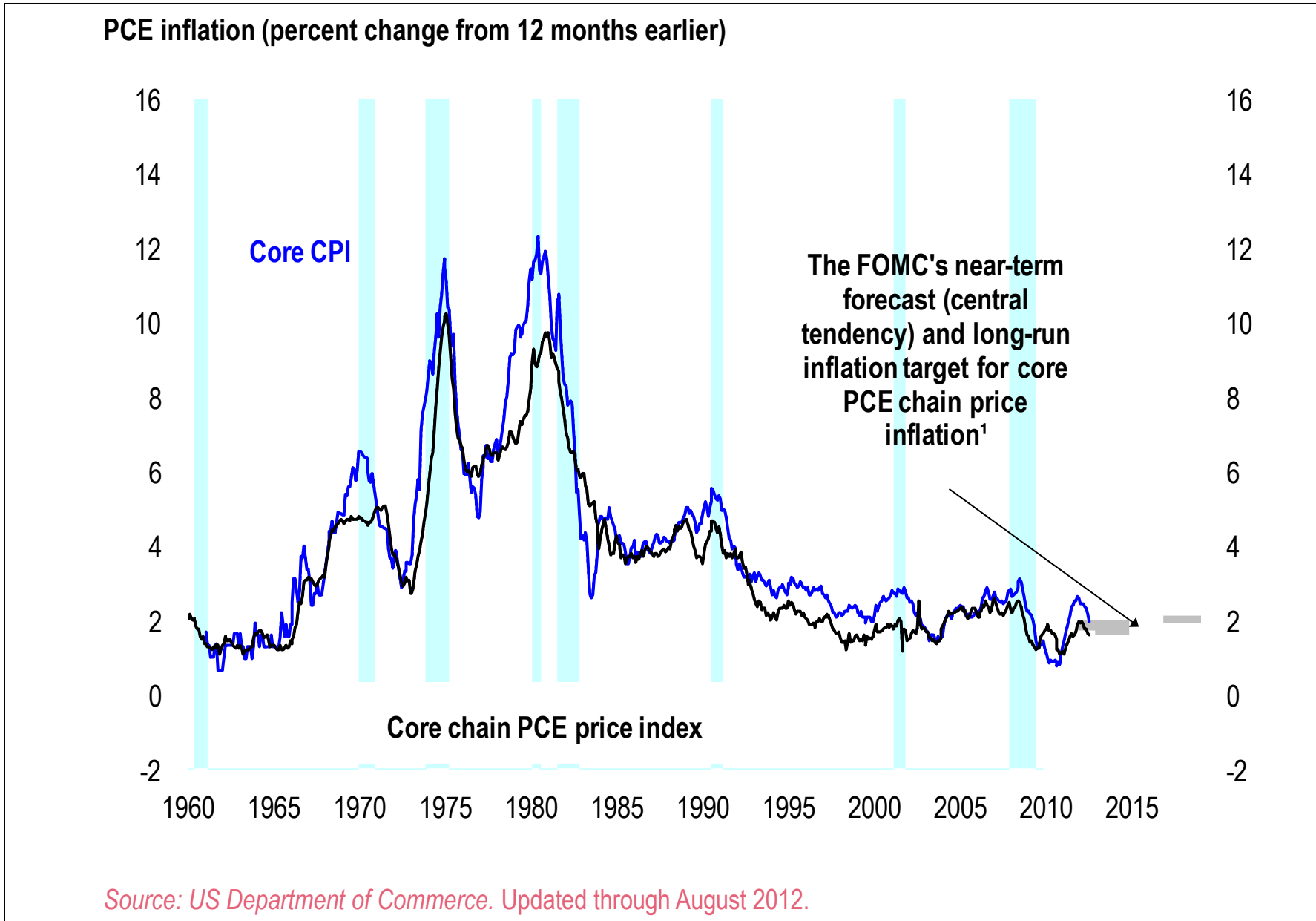
# ... because the opportunity cost runs \$1.2 trillion annually

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



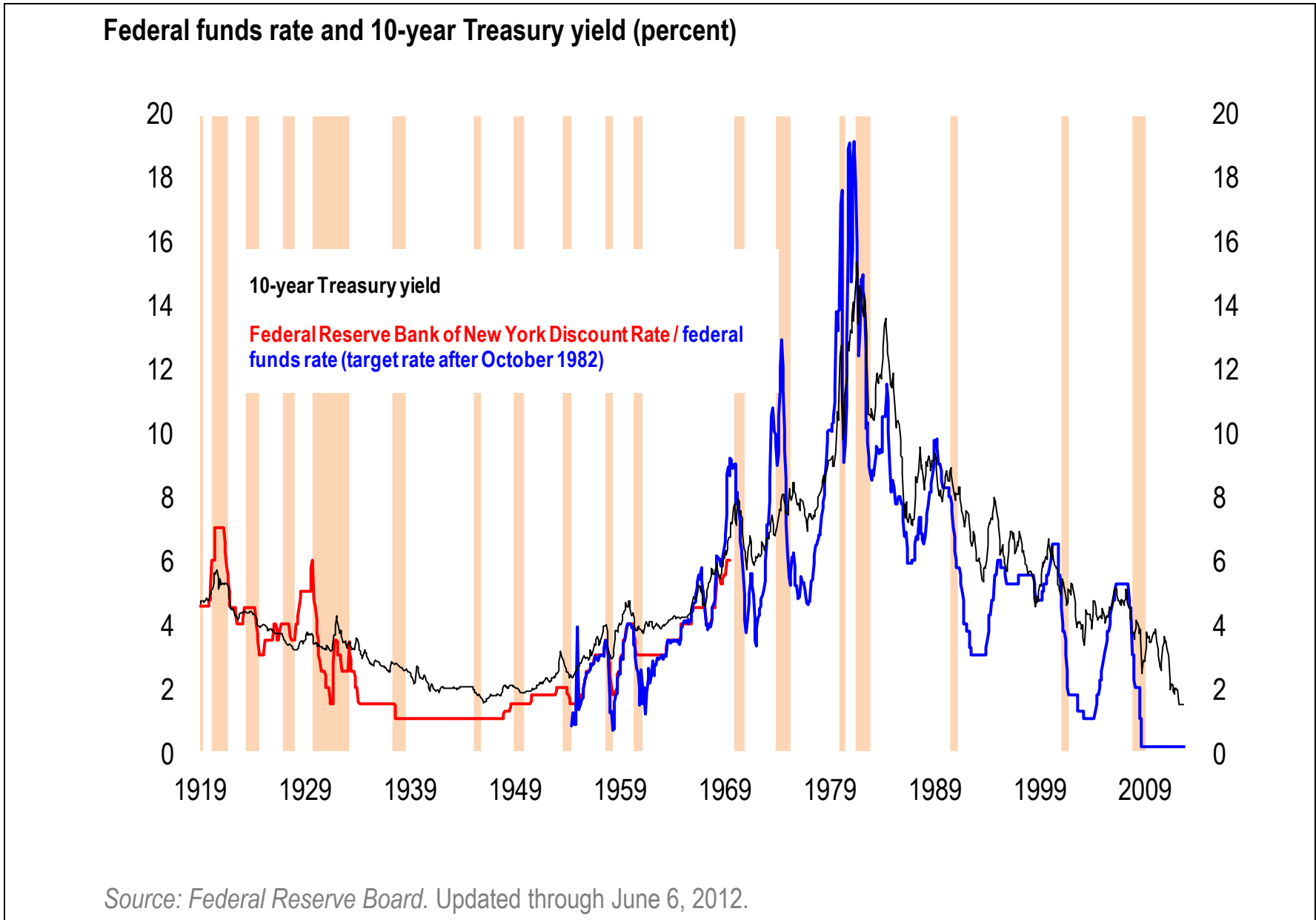
# ... and (2) 2% inflation

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



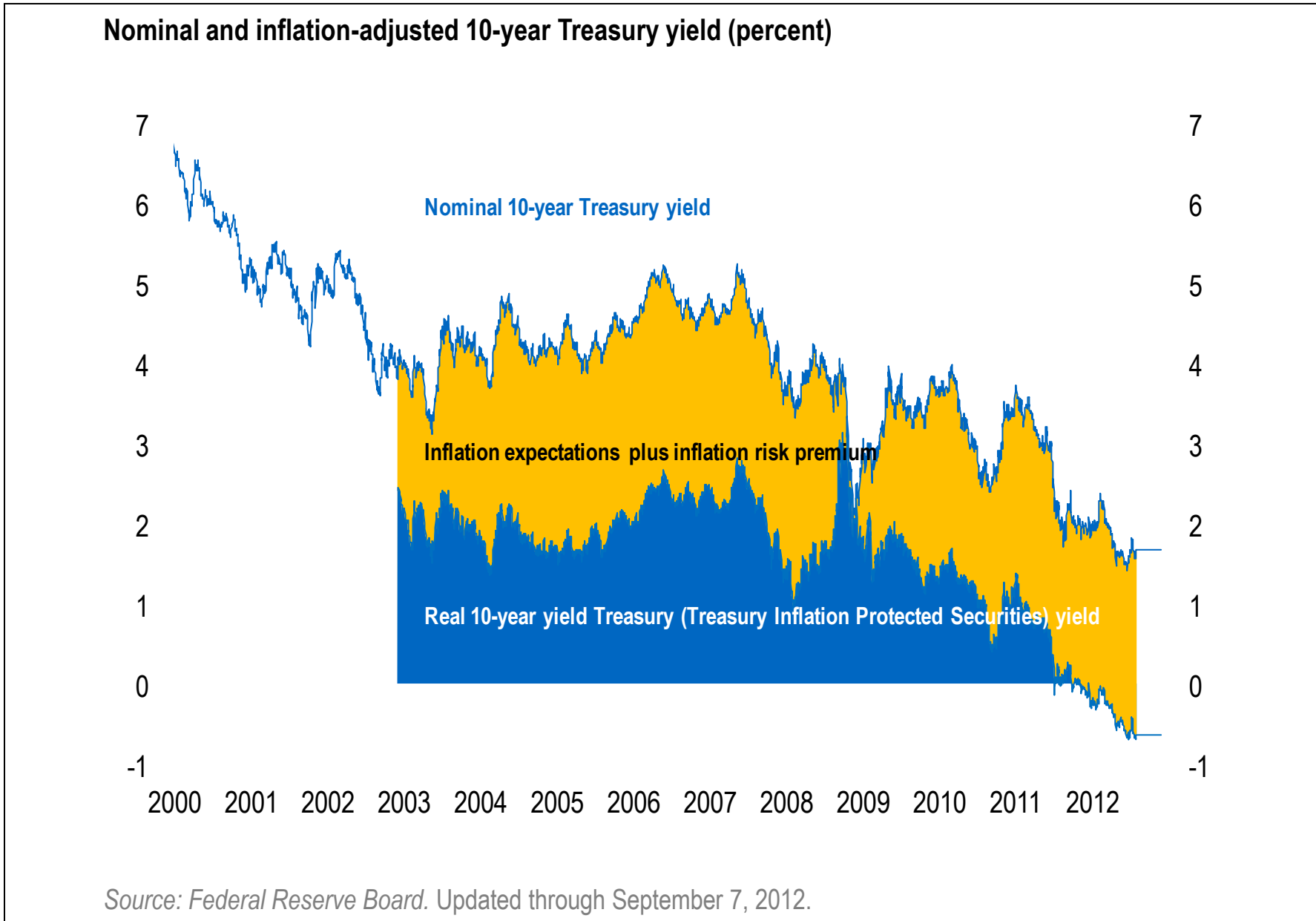
# (1) Monetary conditions are highly stimulative ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



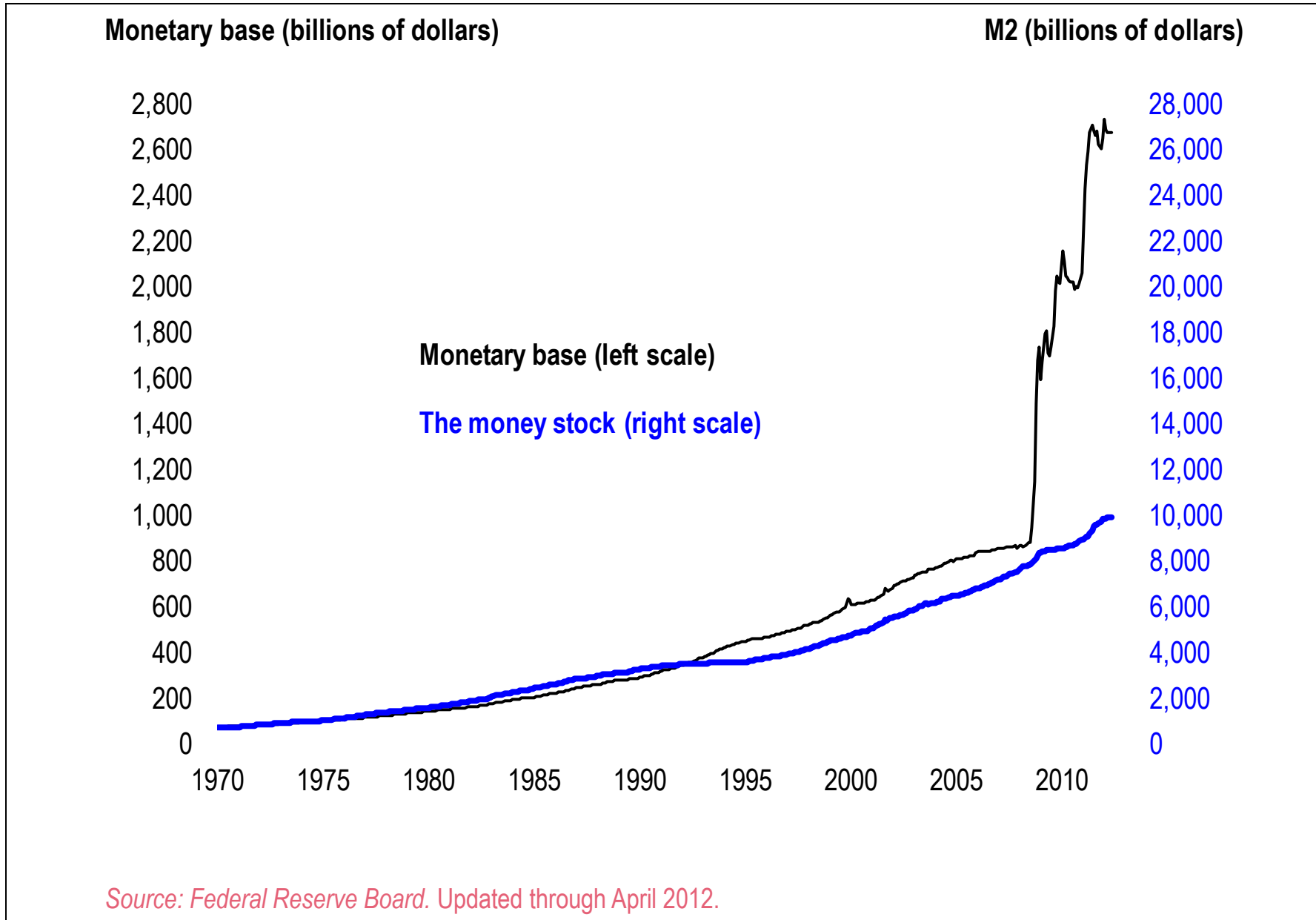
# ... reflecting on traditional and non-traditional policies

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# Don't worry, the Fed isn't "monetizing" debt

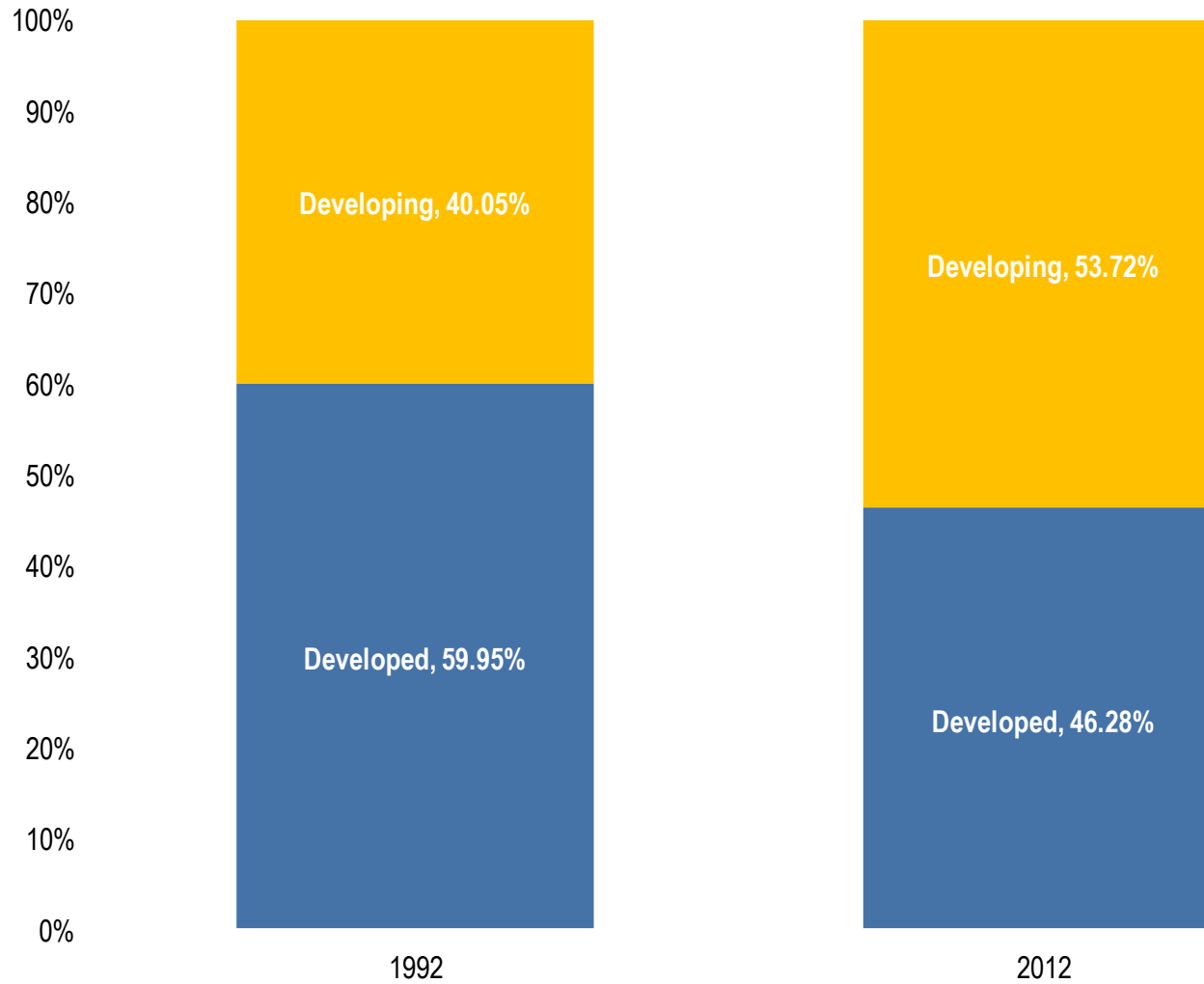
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# “EM” is a new story

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

Share of markets for US exports (percent of goods exports)

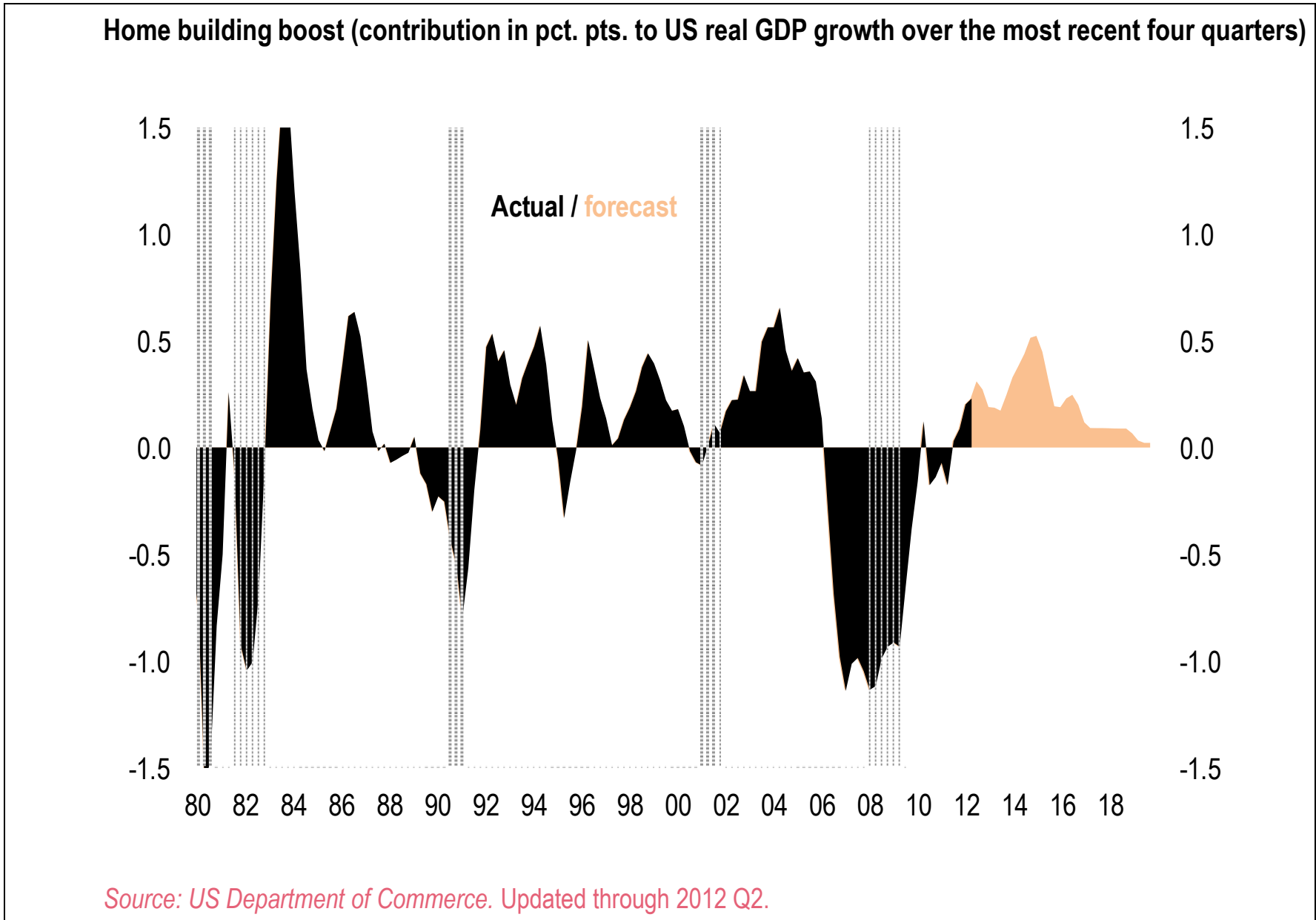


Source: US Department of Commerce; Updated through May 2012.



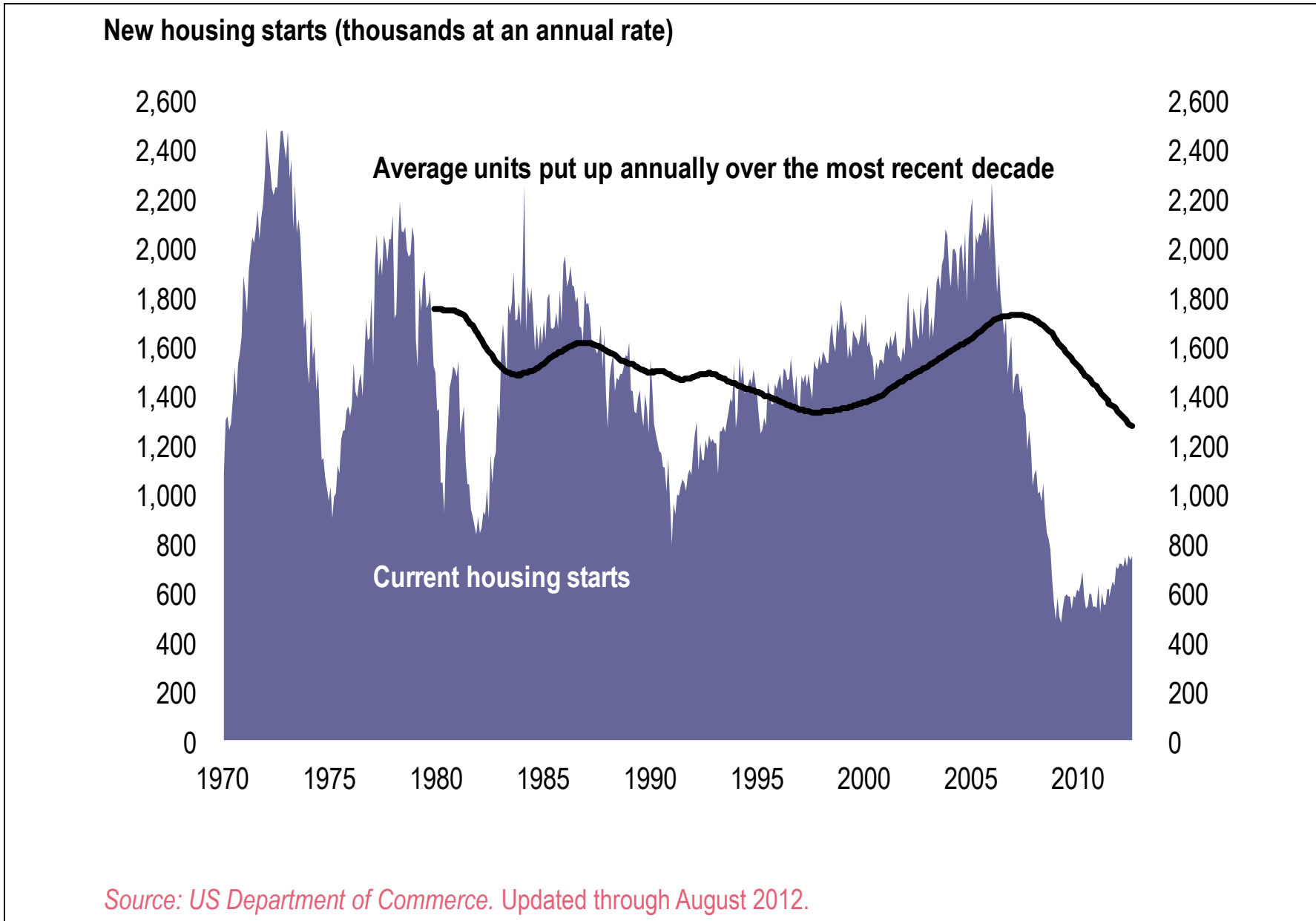
# The housing nightmare is passing ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



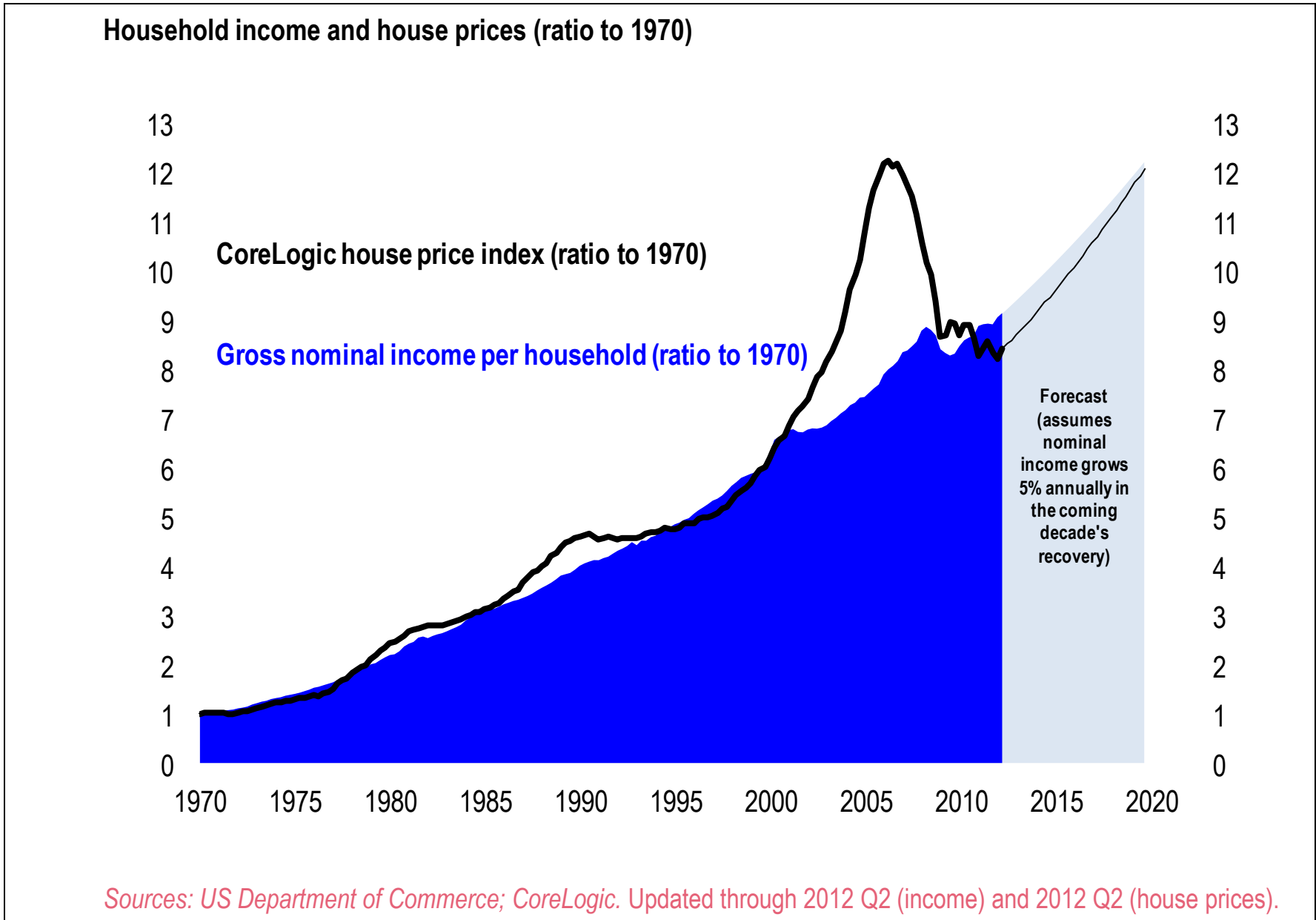
# ... because builders have cleared the glut ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

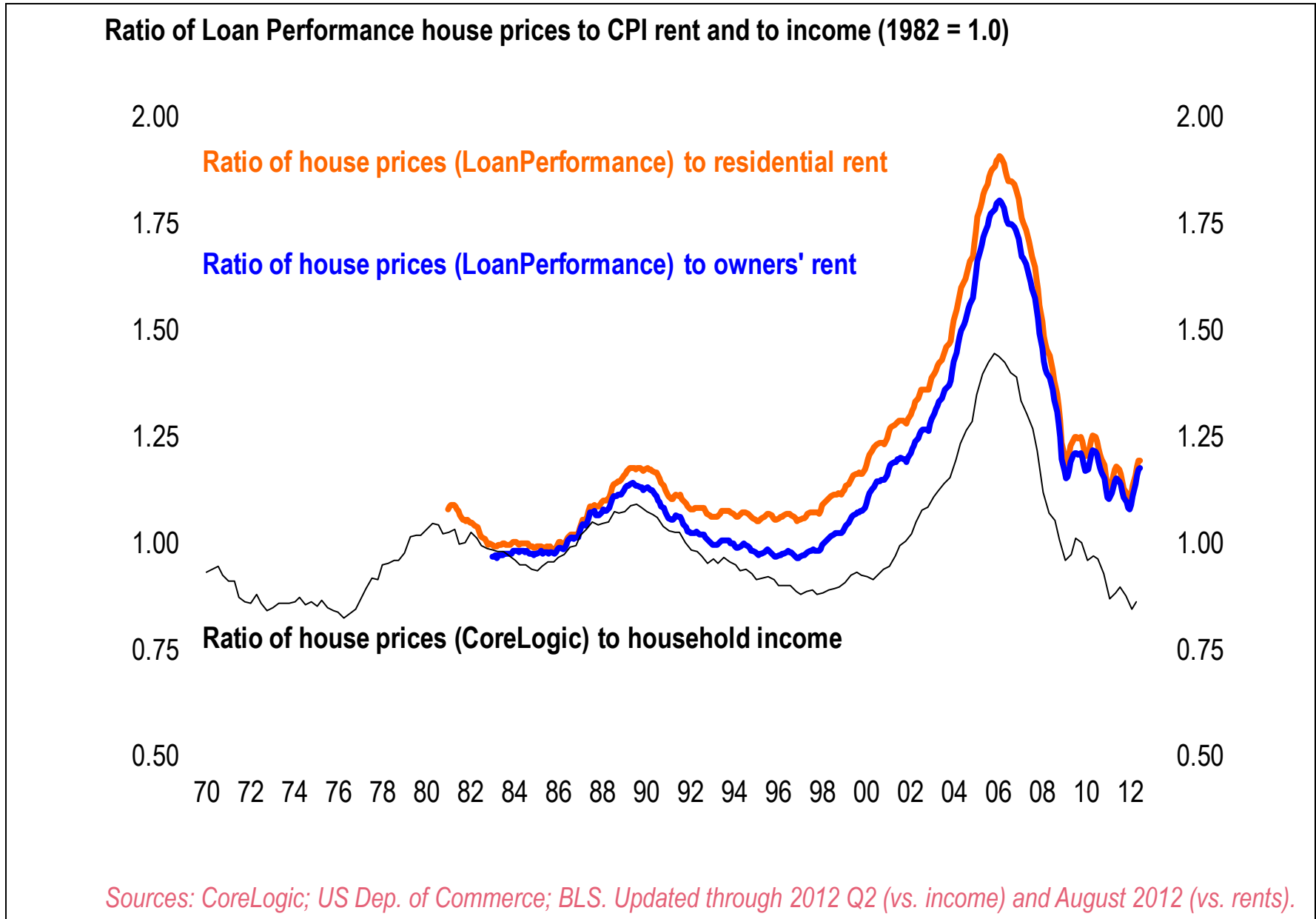


# ... prices are reasonable again ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



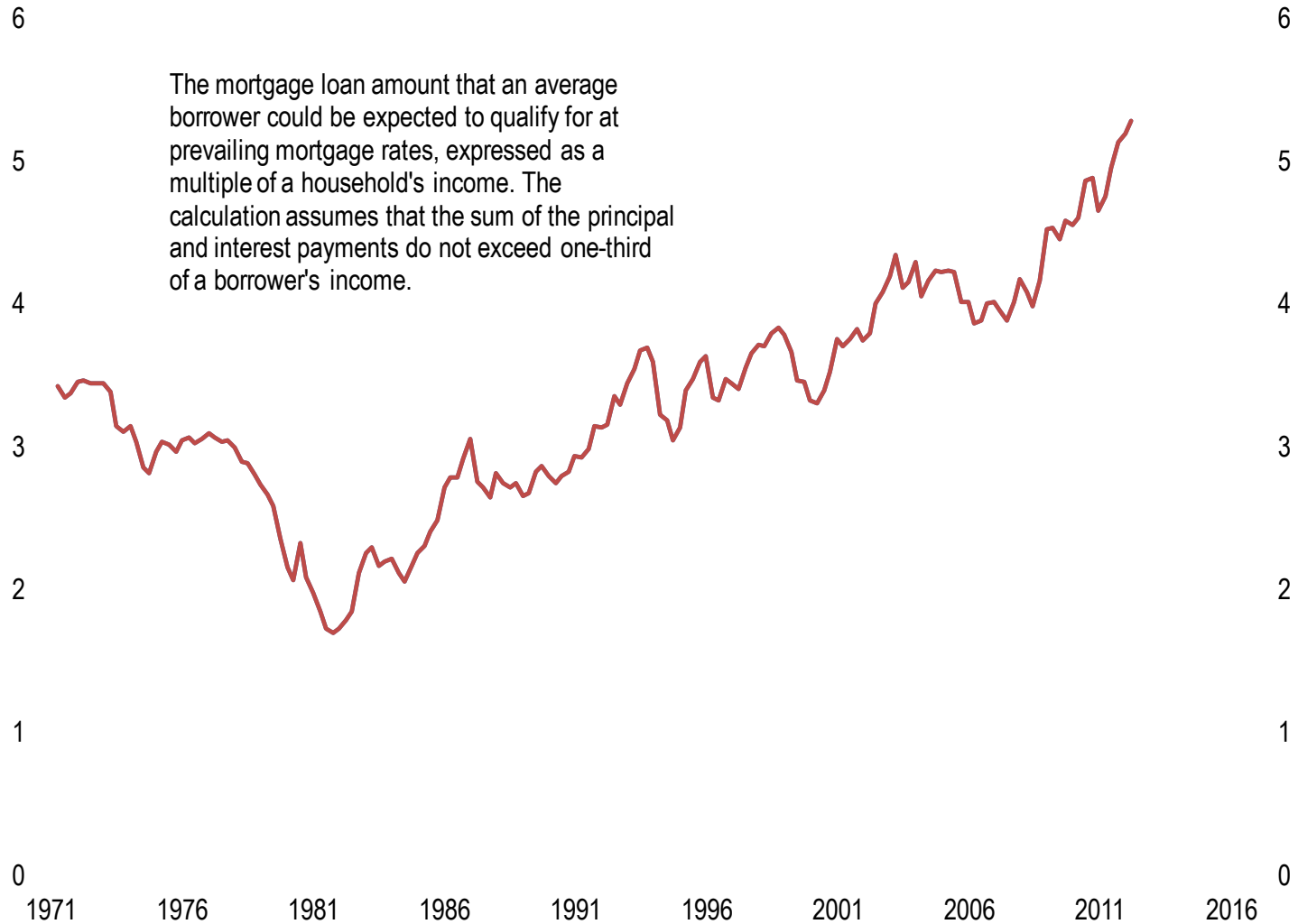
# ... versus everything ...



James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

# ... buyers have more options ...

Allowable mortgage debt taking account of income and interest rates (ratio of debt to income allowed)

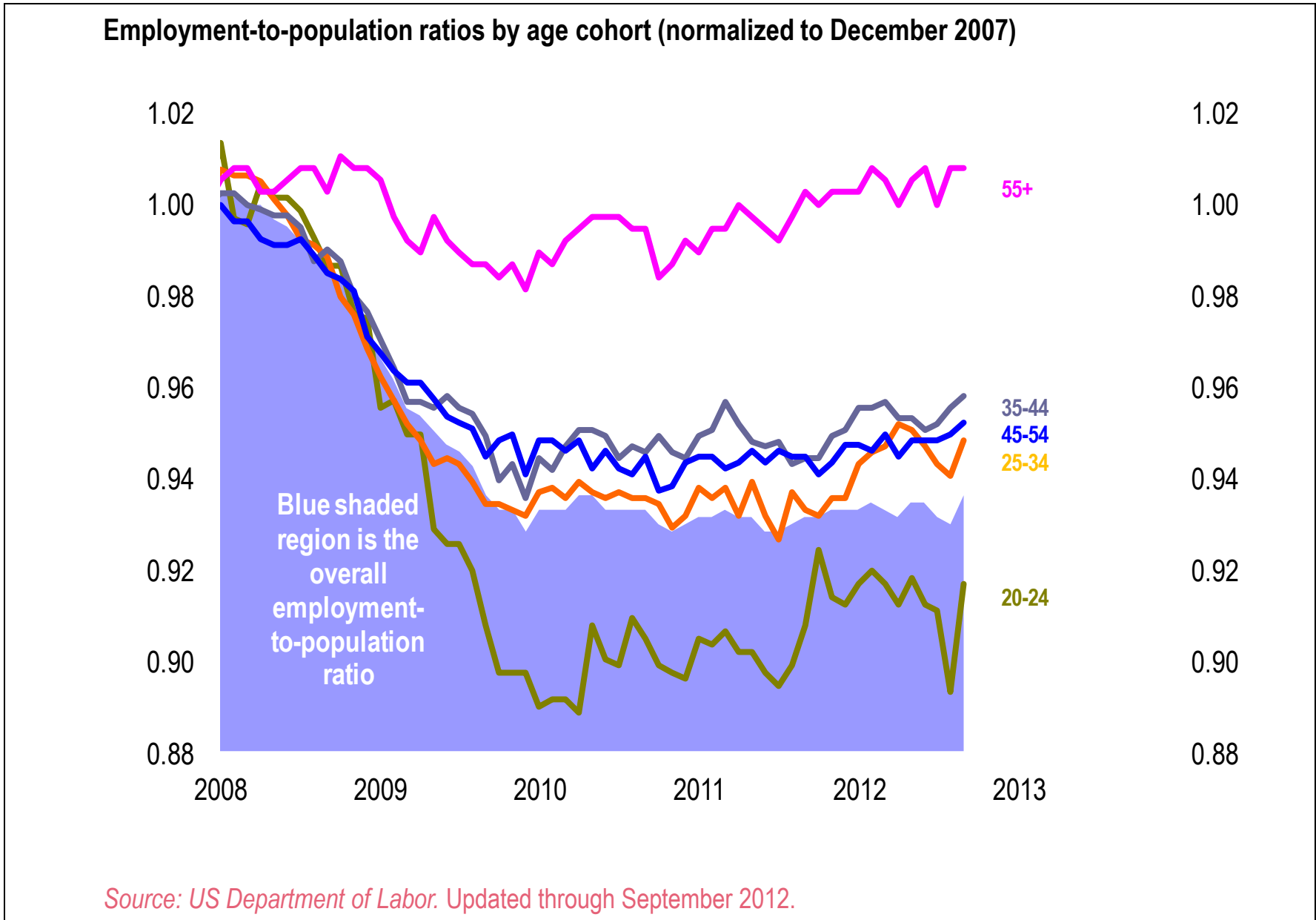


Source: JPMorgan Chase & Co.. Updated through 2012 Q2.

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

# ... all they need is a few more jobs

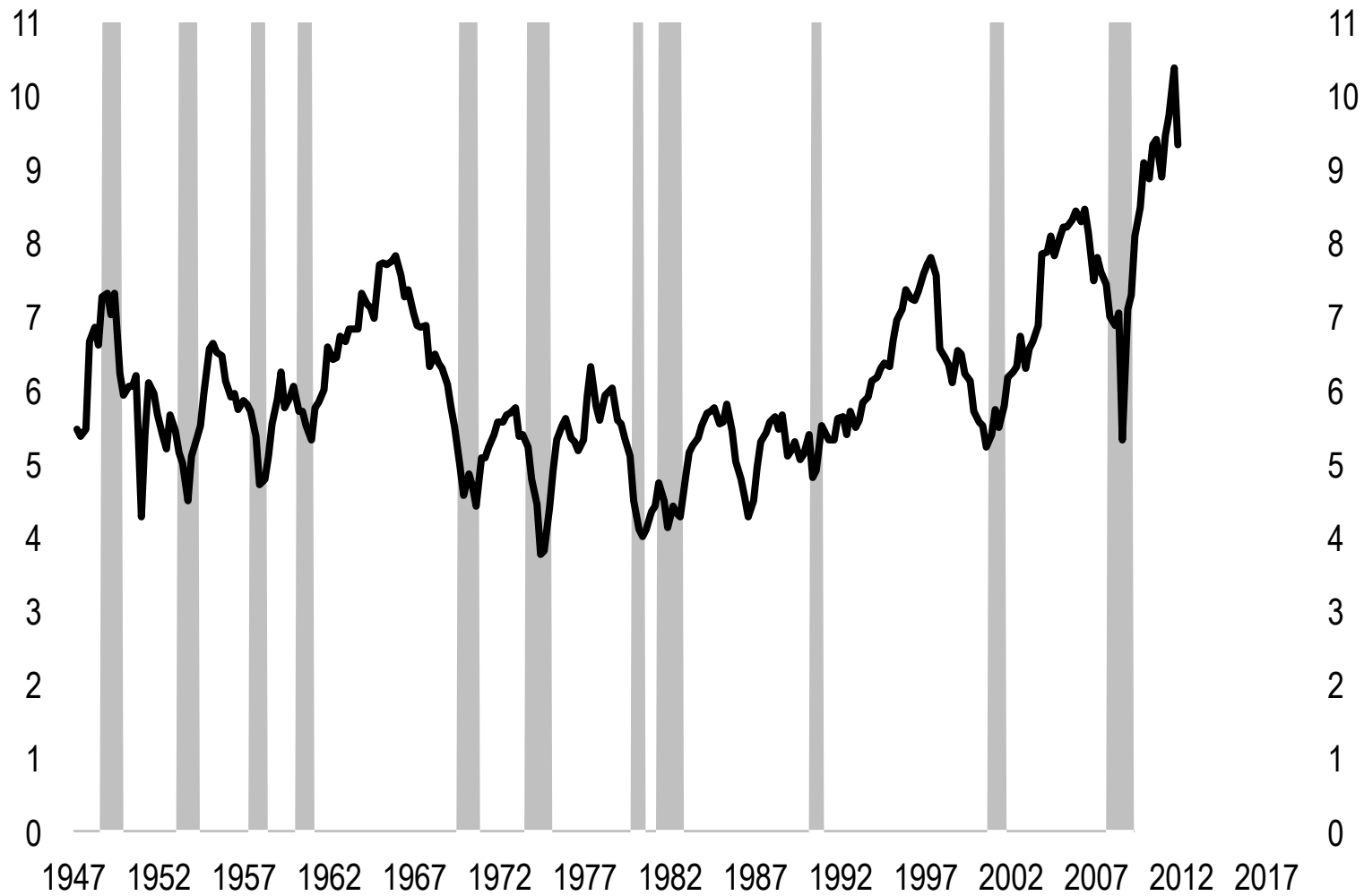
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# Business has a reason to look forward ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

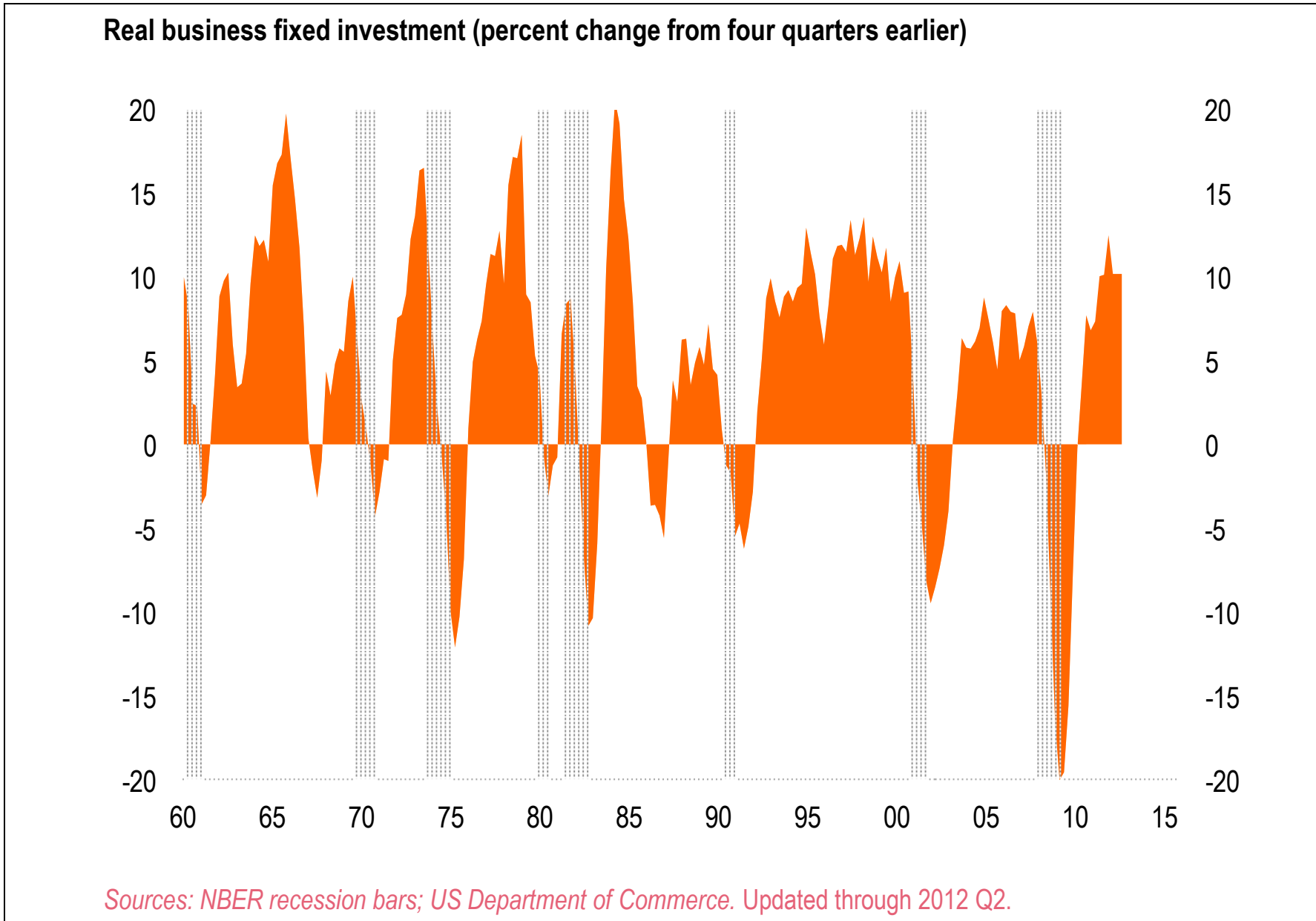
After-tax GDP profits of all US businesses (percent of nominal Gross Domestic Income)



Sources: NBER recession bars; US Department of Commerce. Updated through 2012 Q2.

# ... and is

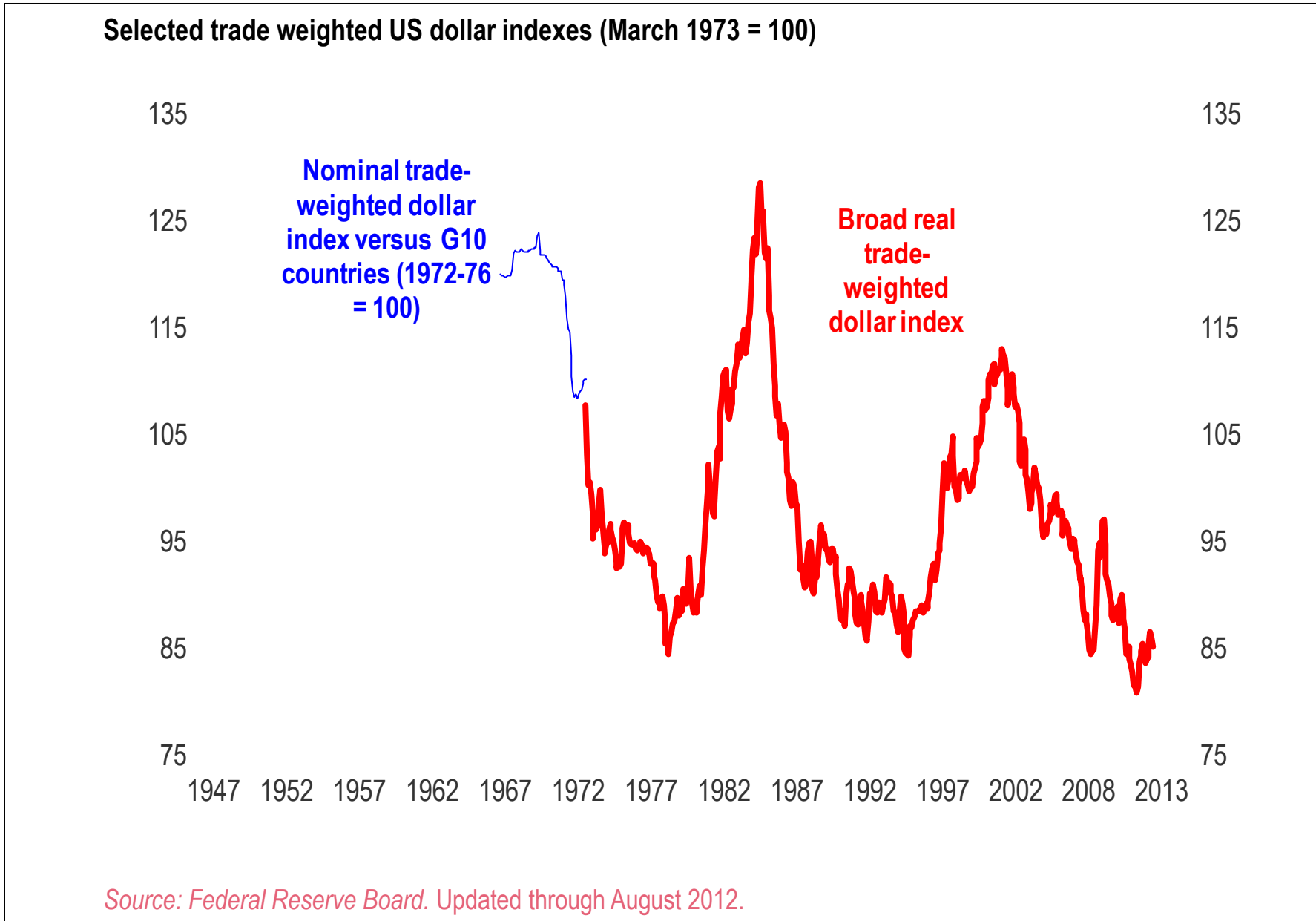
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



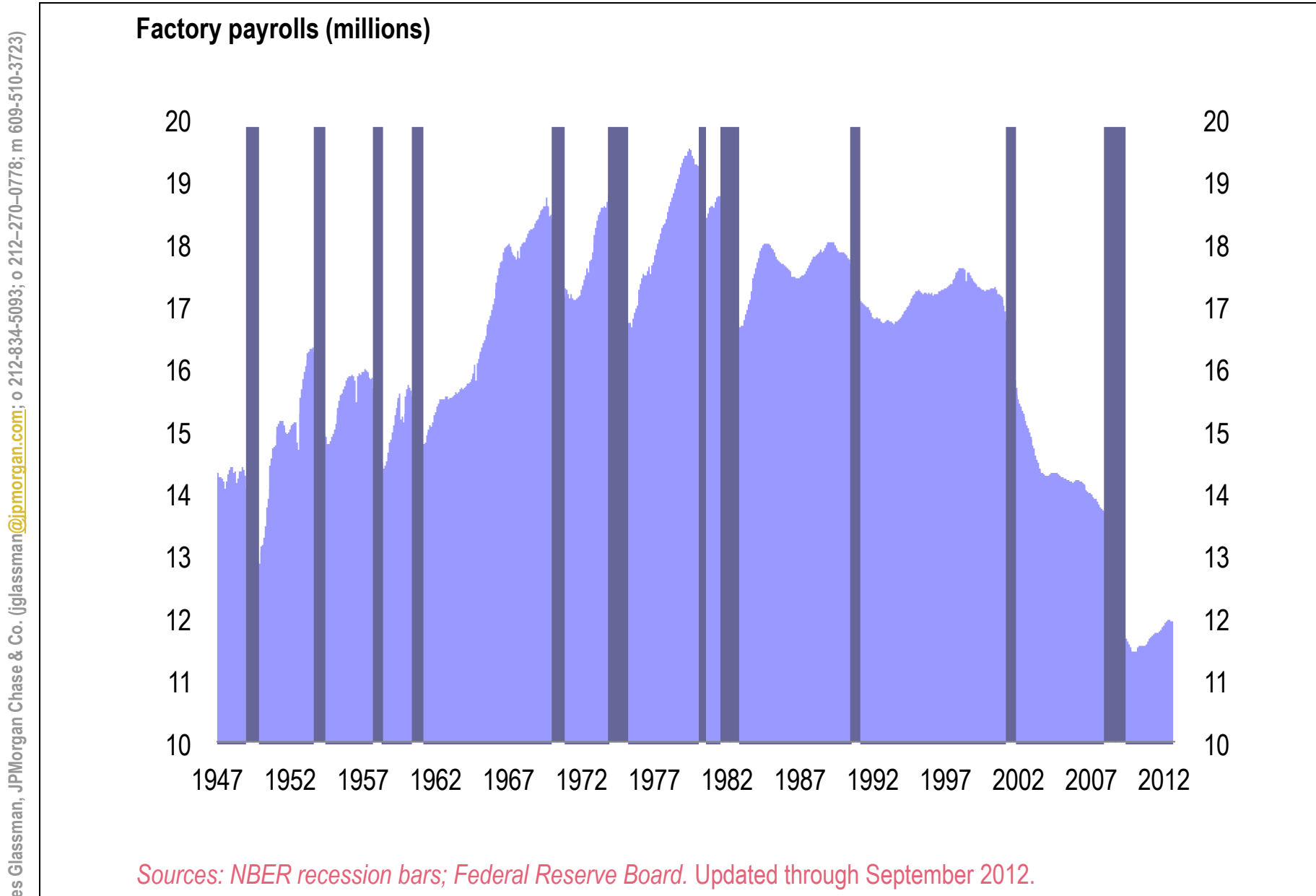


# US manufacturing has the wind at its back ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



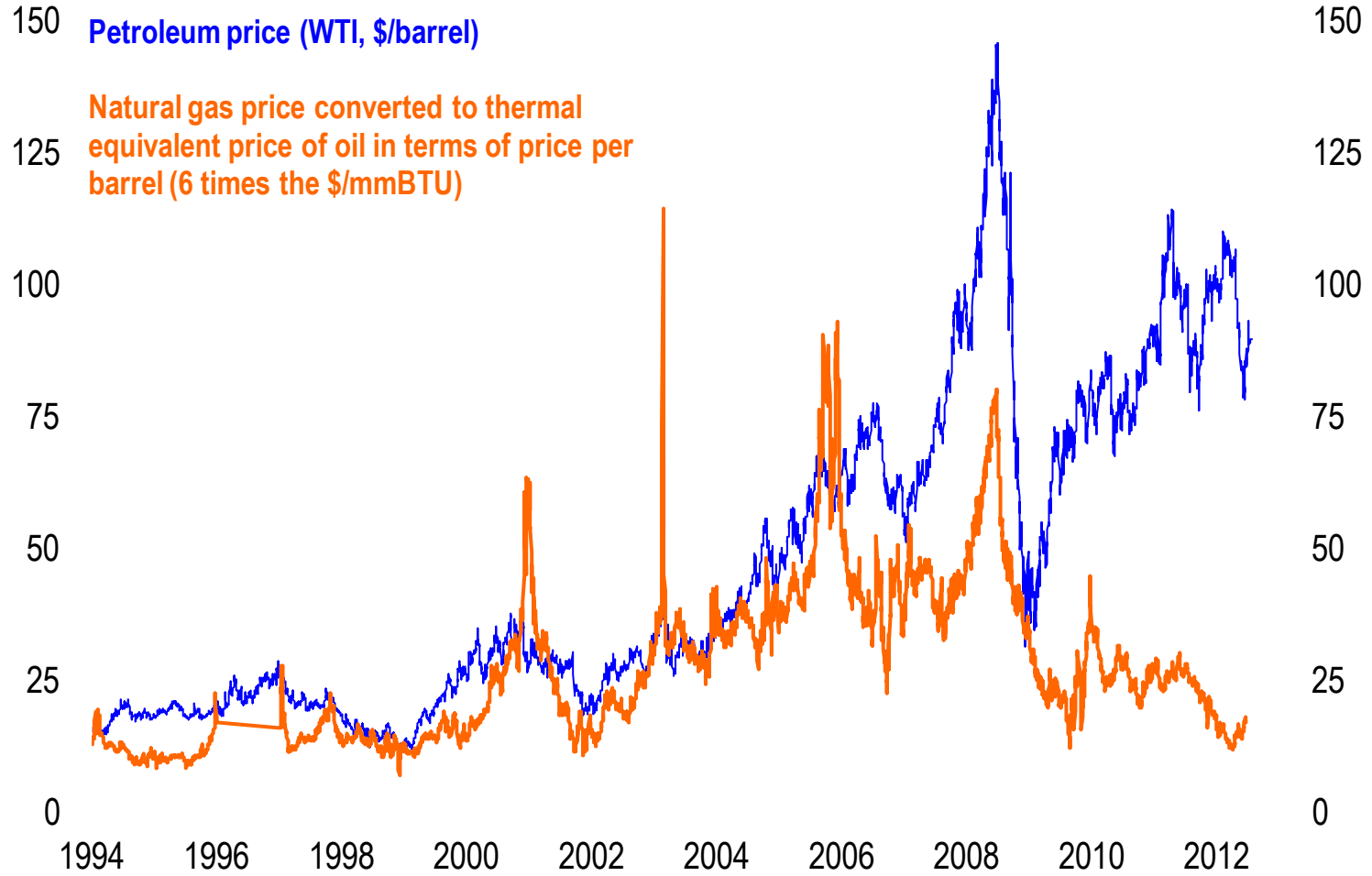
# ... and is hiring again



# New energy reality begets new economic energy

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

Prices of oil and natural gas, thermally-equivalent comparison (dollars per barrel)



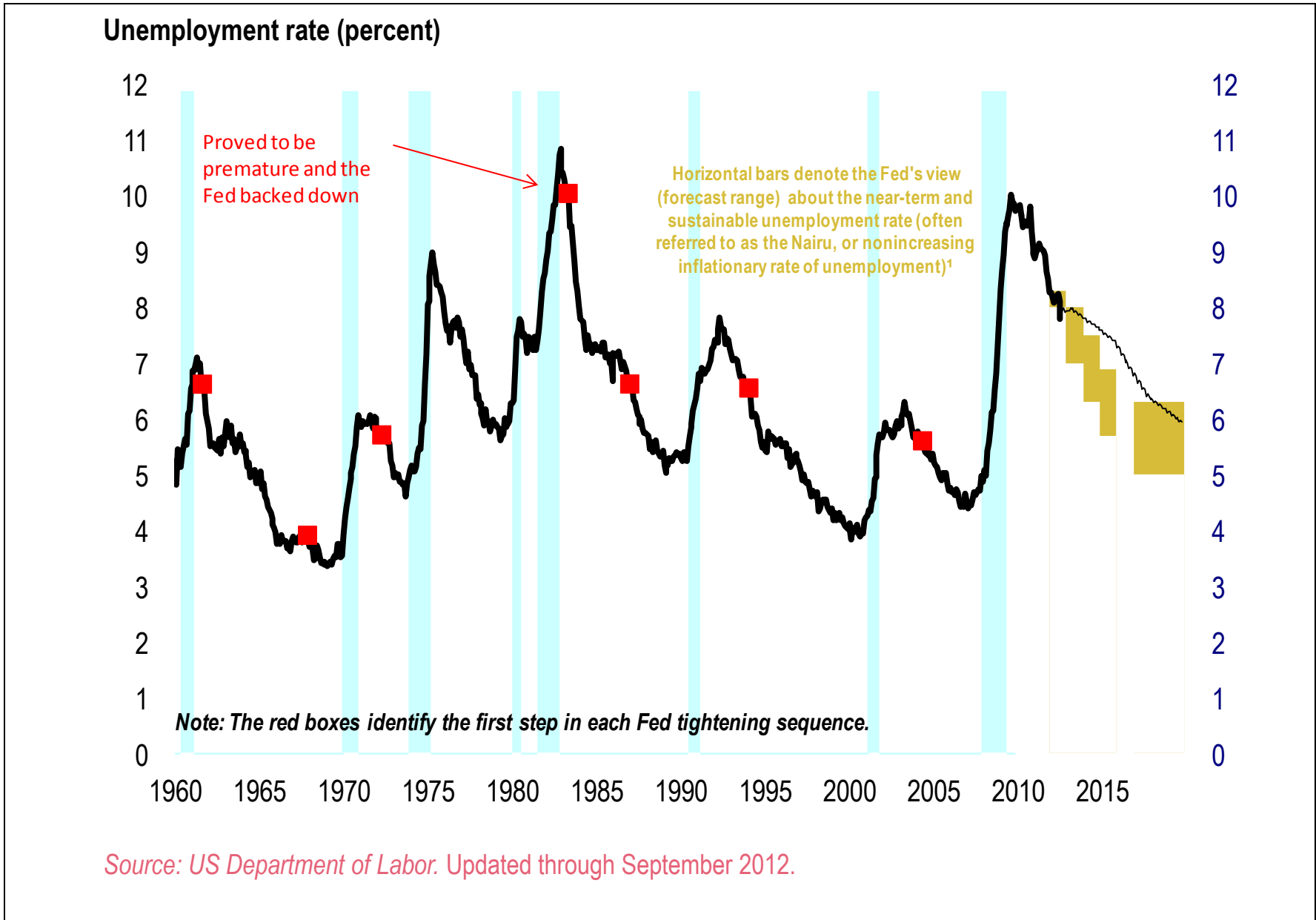
Source: Oil & Gas Journal. Updated through August 7, 2012.

**Conclusion:**

**“New Normals” Have No History ... Recoveries Do**

# It just takes a little time

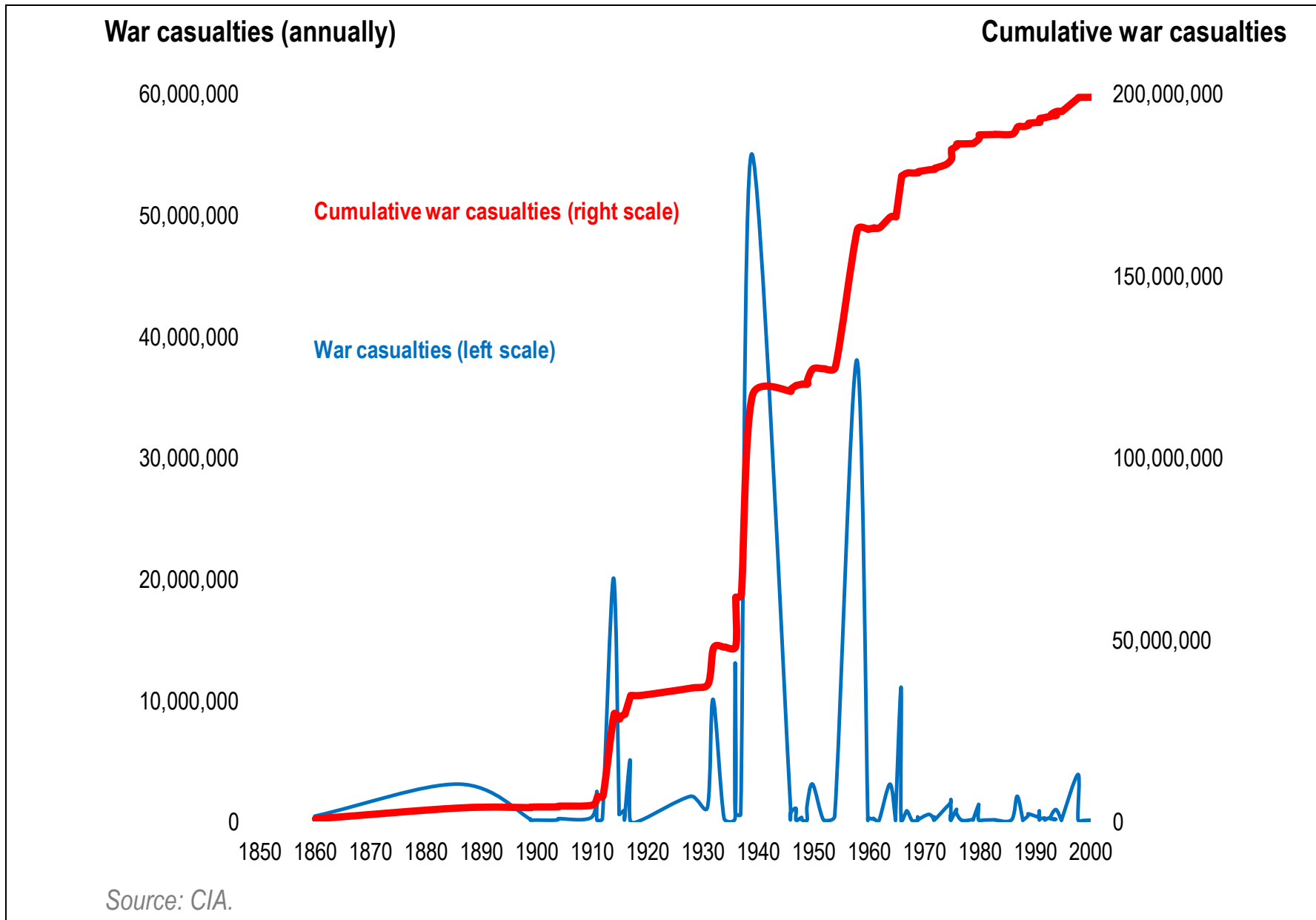
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



## Special Focus 1. Europe Aims for More “Europe”

*(the crisis forces a new commitment to the project)*

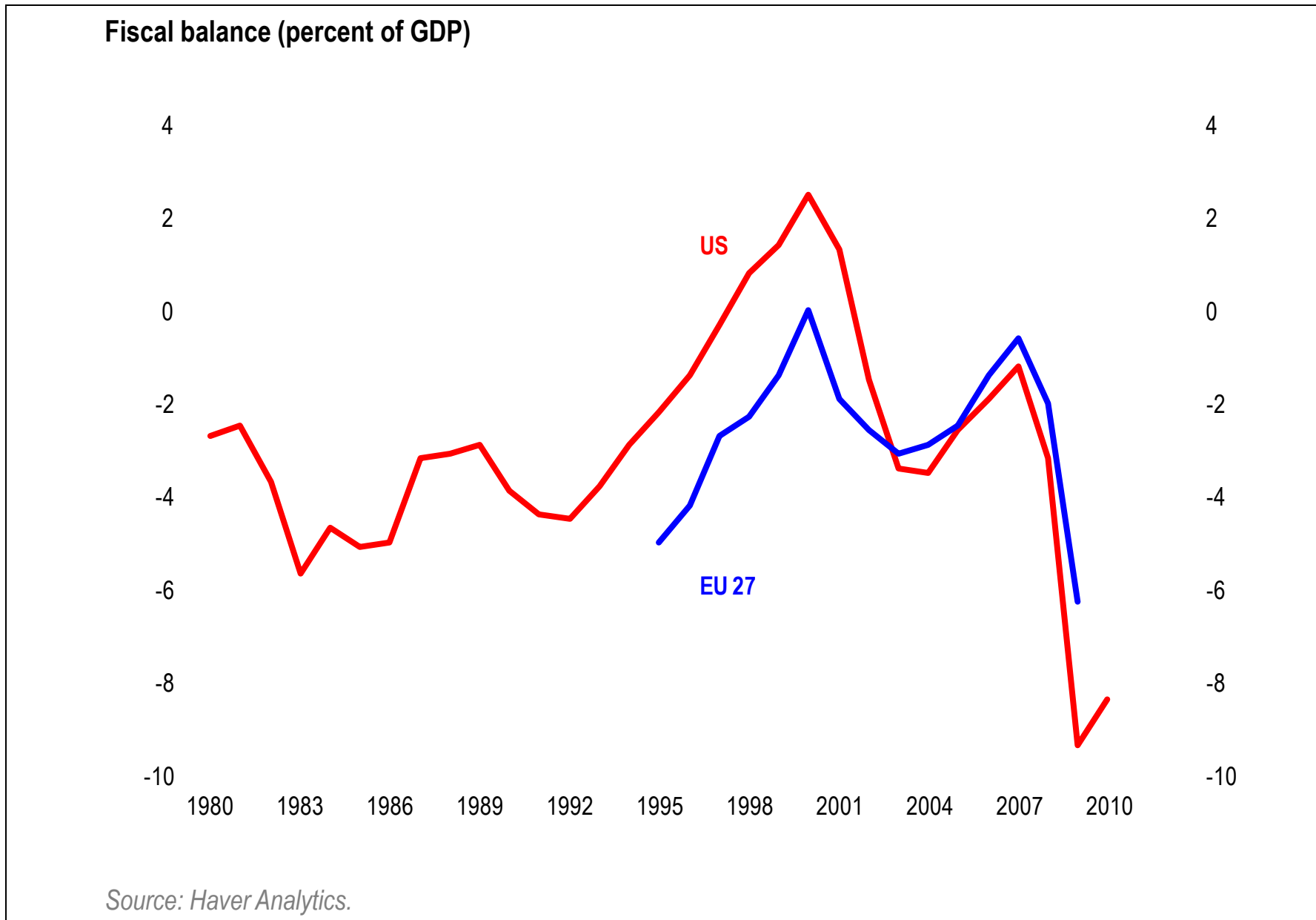
# 1) History's scars form a powerful bond



James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

## 2) Europe's fiscal crisis is cyclical, not structural ...

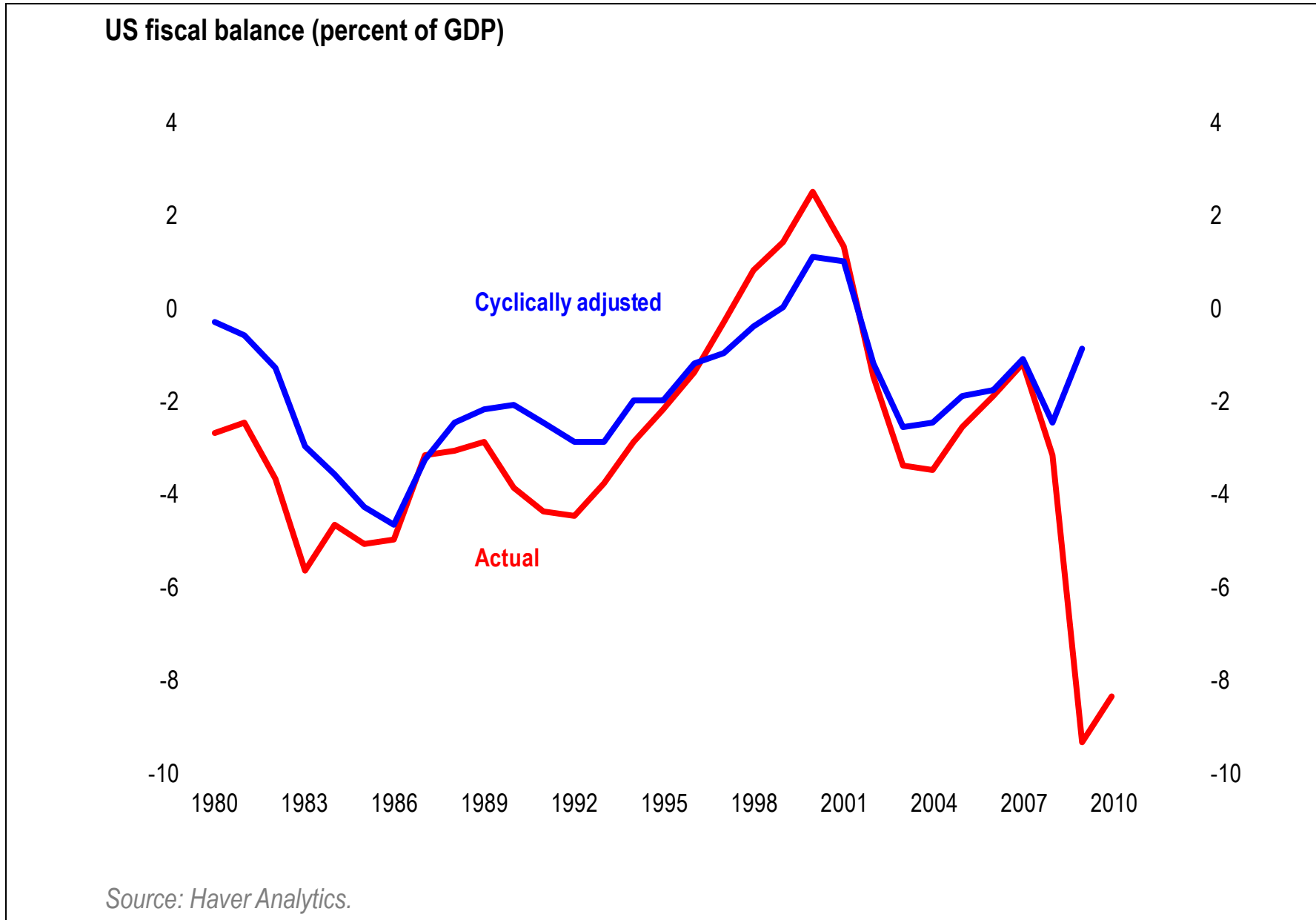
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)





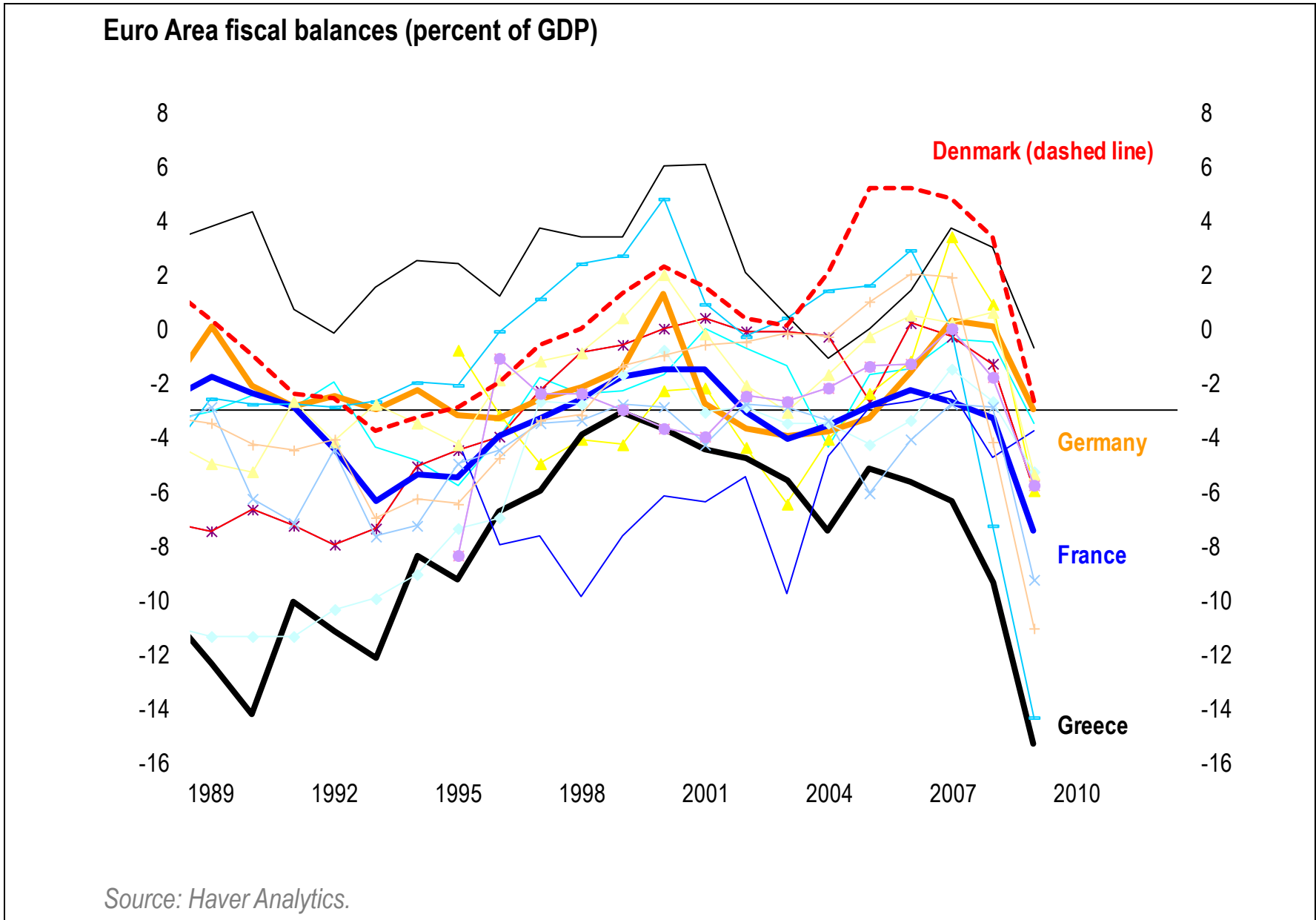
# ... just like the US ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

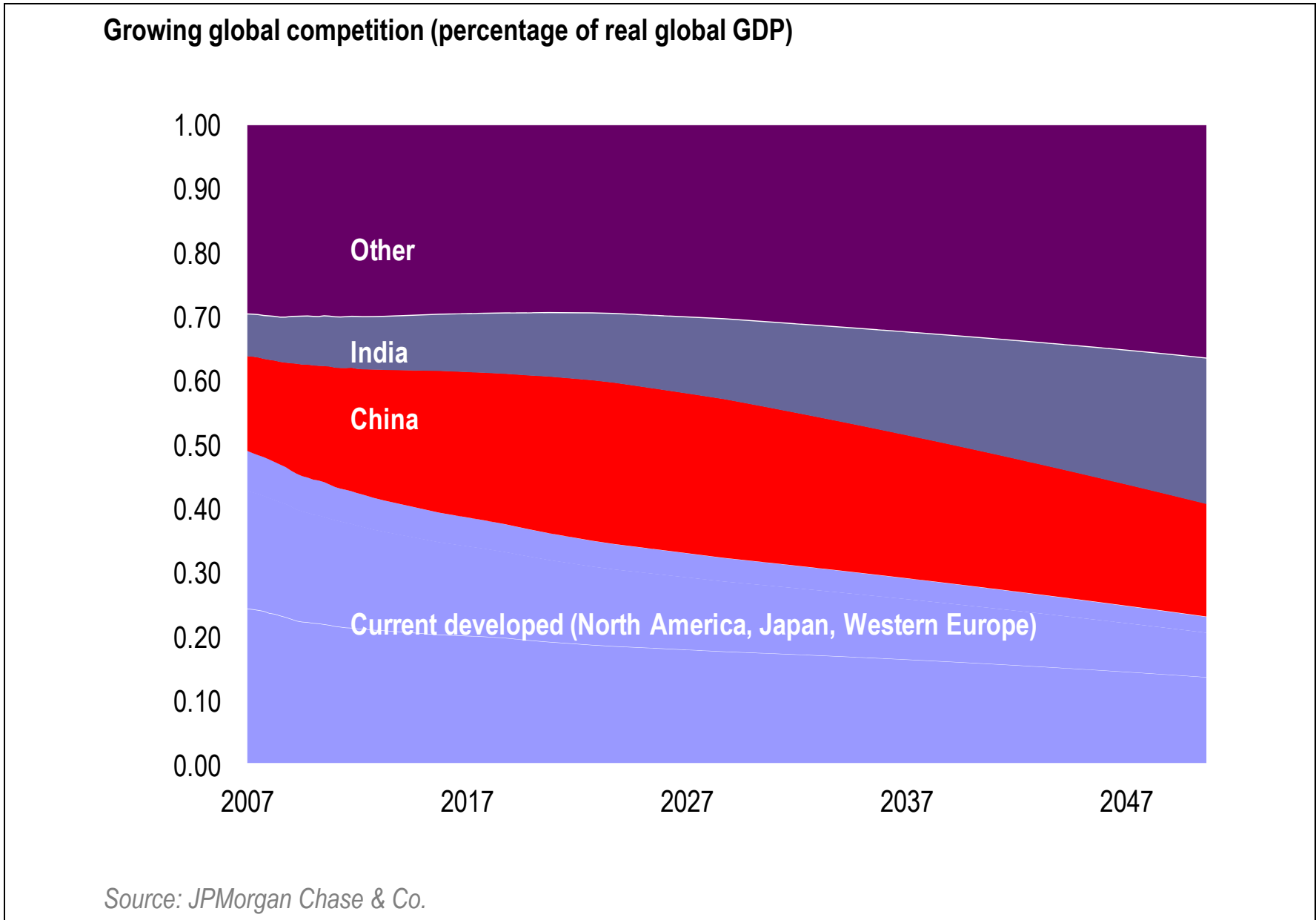


# ... Why? Before the recession, only Greece was off course

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



### 3) United they stand, divided they are irrelevant



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James Glassman, JPMorgan Chase & Co. ([jglassman@jpmorgan.com](mailto:jglassman@jpmorgan.com); o 212-834-5093; o 212-270-0778; m 609-510-3723)

## Special Issue 2: The Fiscal Cliff

# Accidental convergence

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

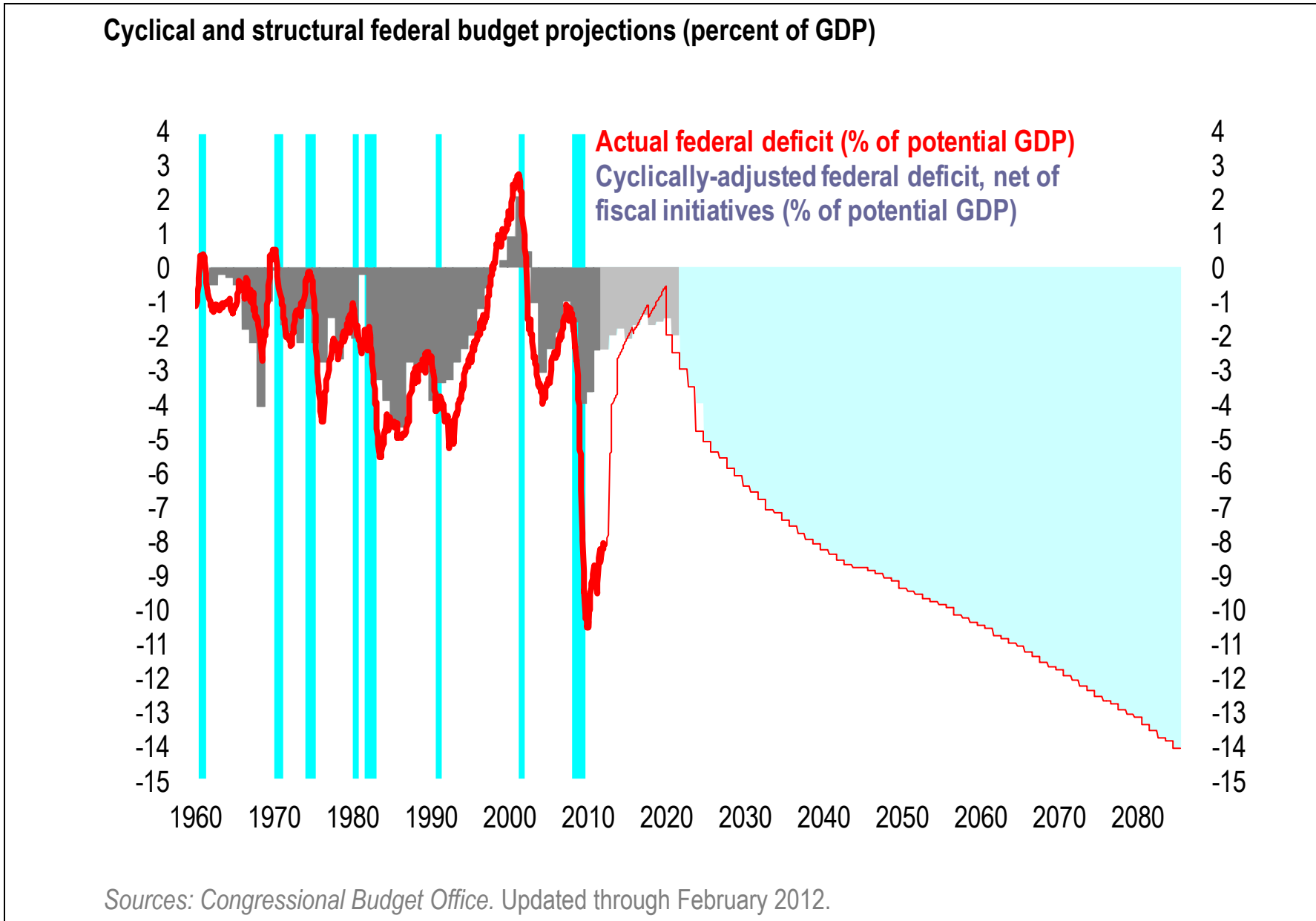
	Spending Cuts	Tax Increases
Index AMT for inflation		\$ 90
Scheduled cuts in Medicare payments	\$ 20	
Expiration of 2001 tax cuts		\$ 180
Estate and gift taxes	\$ 5	
Reduced ARRA spending		\$ 25
Expiring 2010 tax act provisions		\$ 95
Tax increases in the health care law		\$ 18
Sequestration per BCA of 2011	\$ 110	

James Glassman, JPMorgan Chase & Co. ([jglassman@jpmorgan.com](mailto:jglassman@jpmorgan.com); o 212-834-5093; o 212-270-0778; m 609-510-3723)

## Special Issue 3. Red Herrings vs. Red Storms

# Structural (not cyclical) deficits are the issue ...

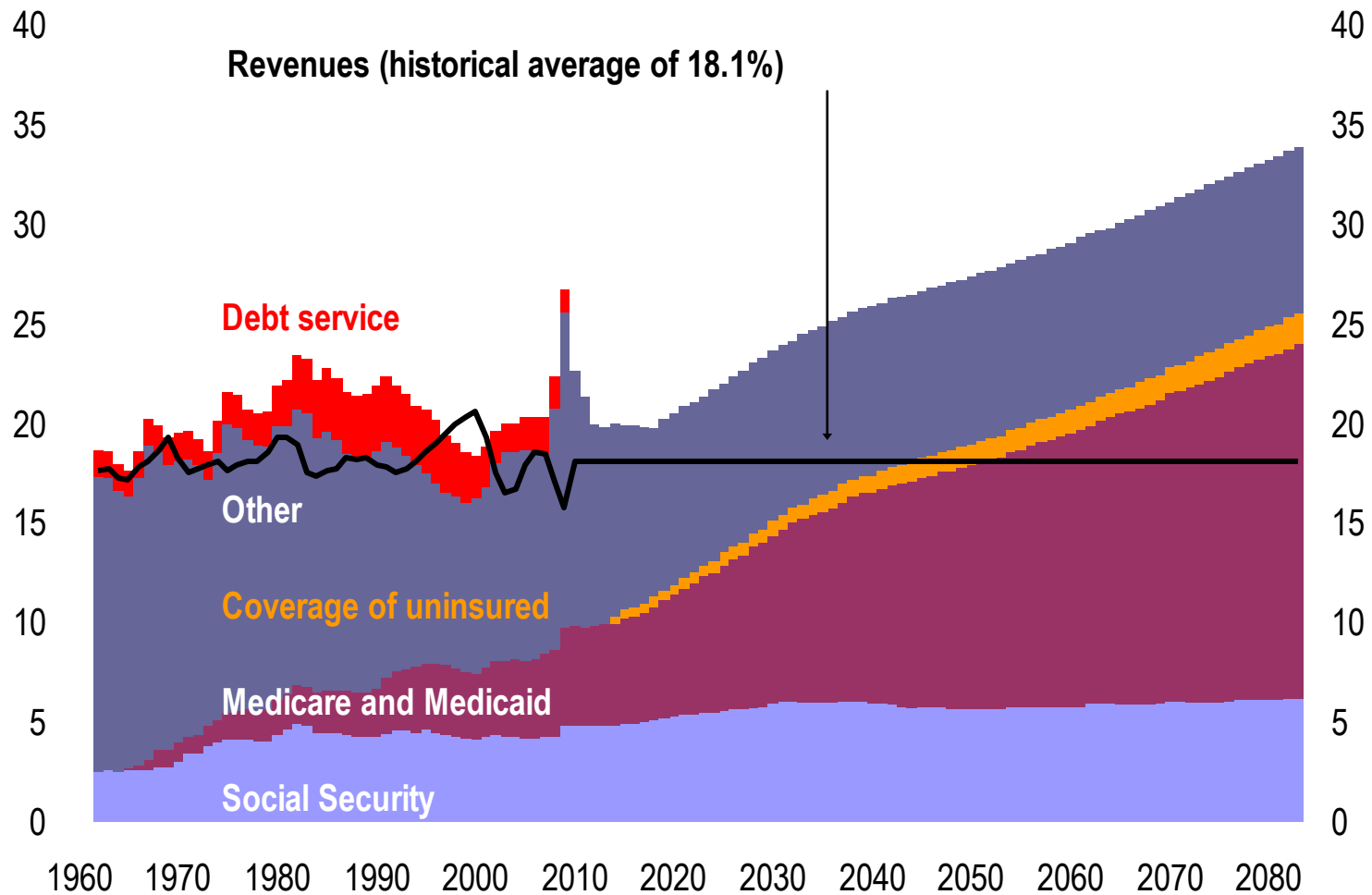
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# ... healthcare reform not taxes the answer ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

Long-term projections (percent of GDP)



Source: Congressional Budget Office. Updated through August 2011.

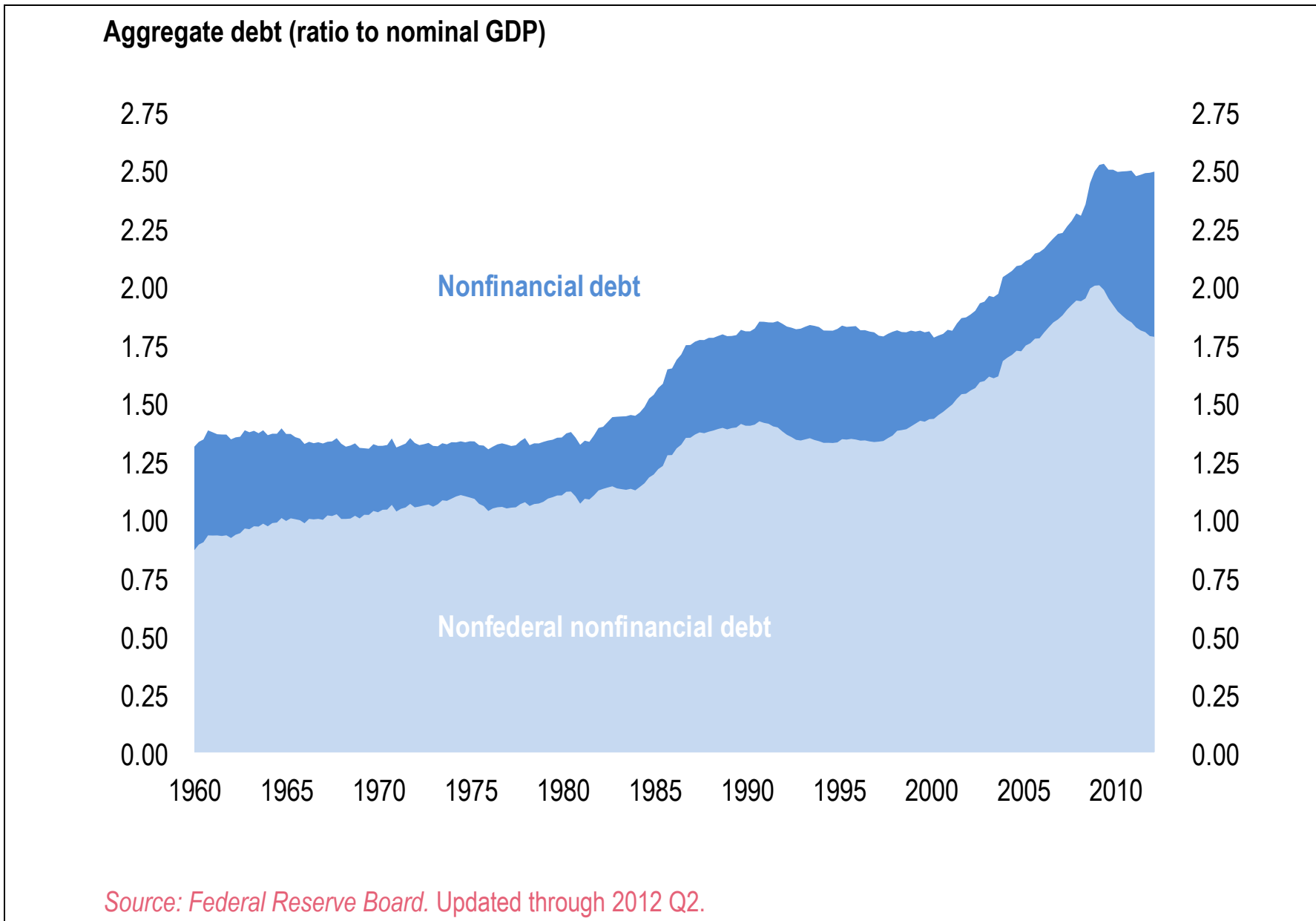


James Glassman, JPMorgan Chase & Co. ([jglassman@jpmorgan.com](mailto:jglassman@jpmorgan.com); o 212-834-5093; o 212-270-0778; m 609-510-3723)

## Special Issue 4. The Reinhart-Rogoff Myth

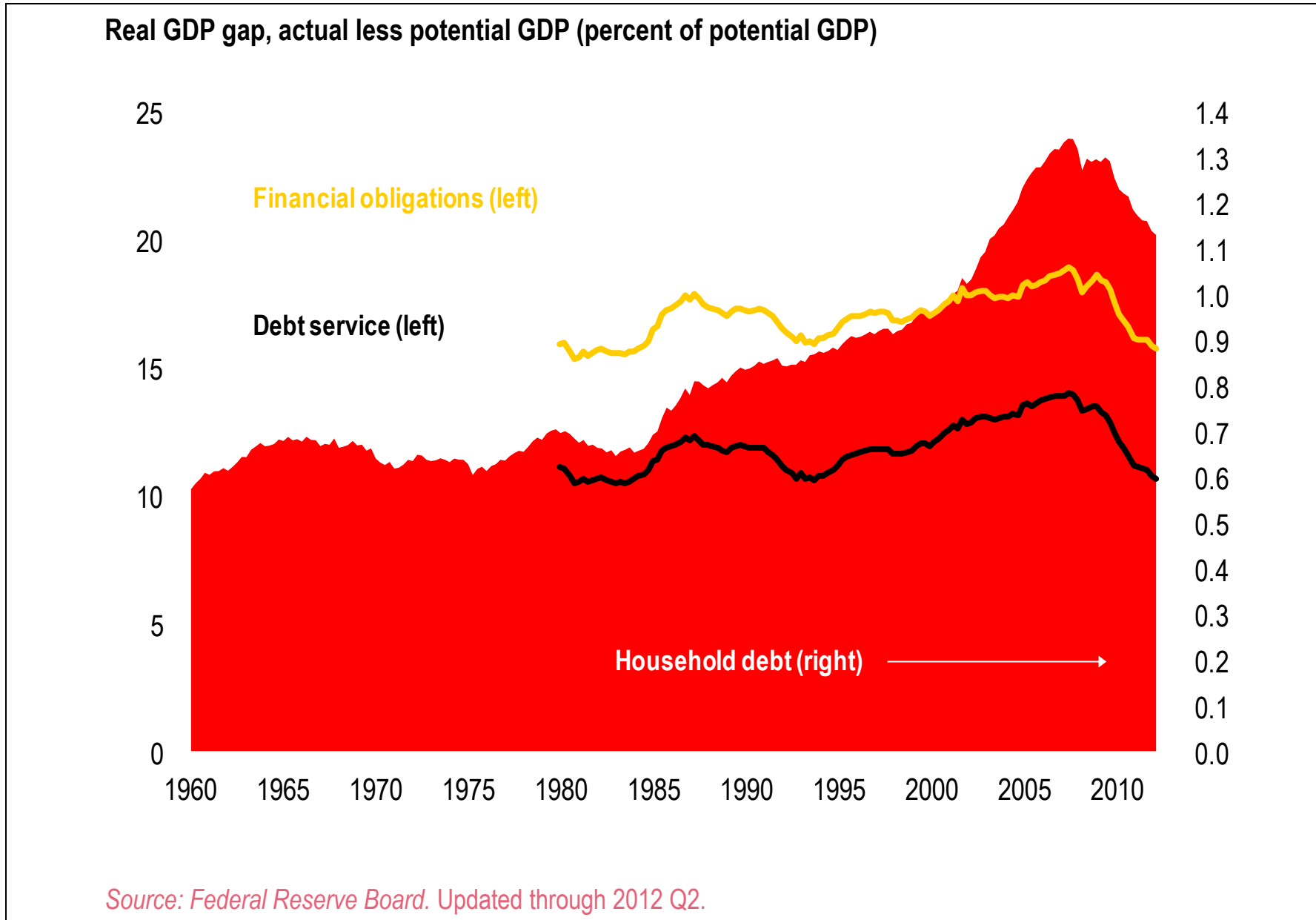
# Reinhart-Rogoff: it's all about excessive leverage ...

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



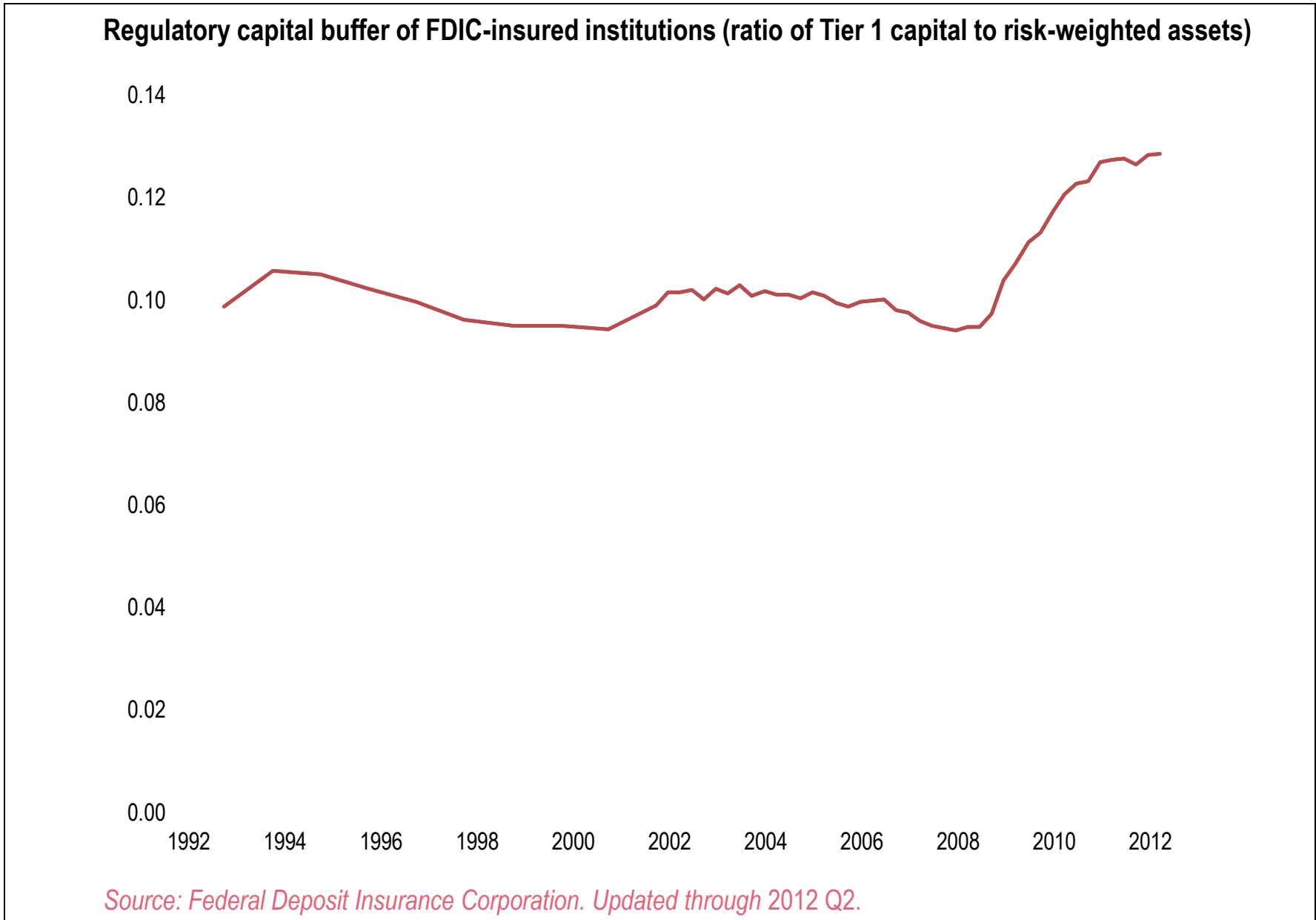
# ... but debt service is historically low

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

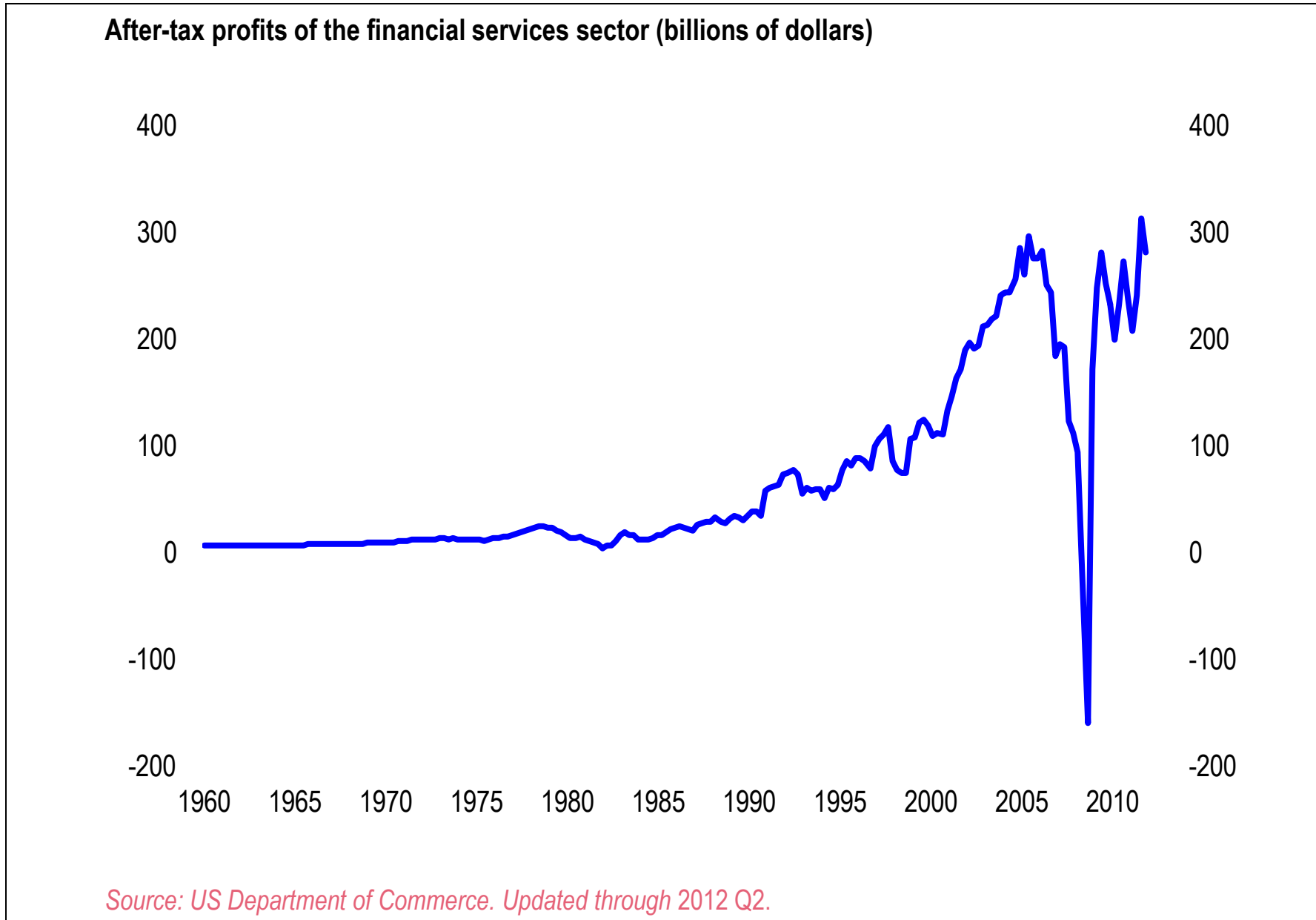


# Banks are better cushioned than ever

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

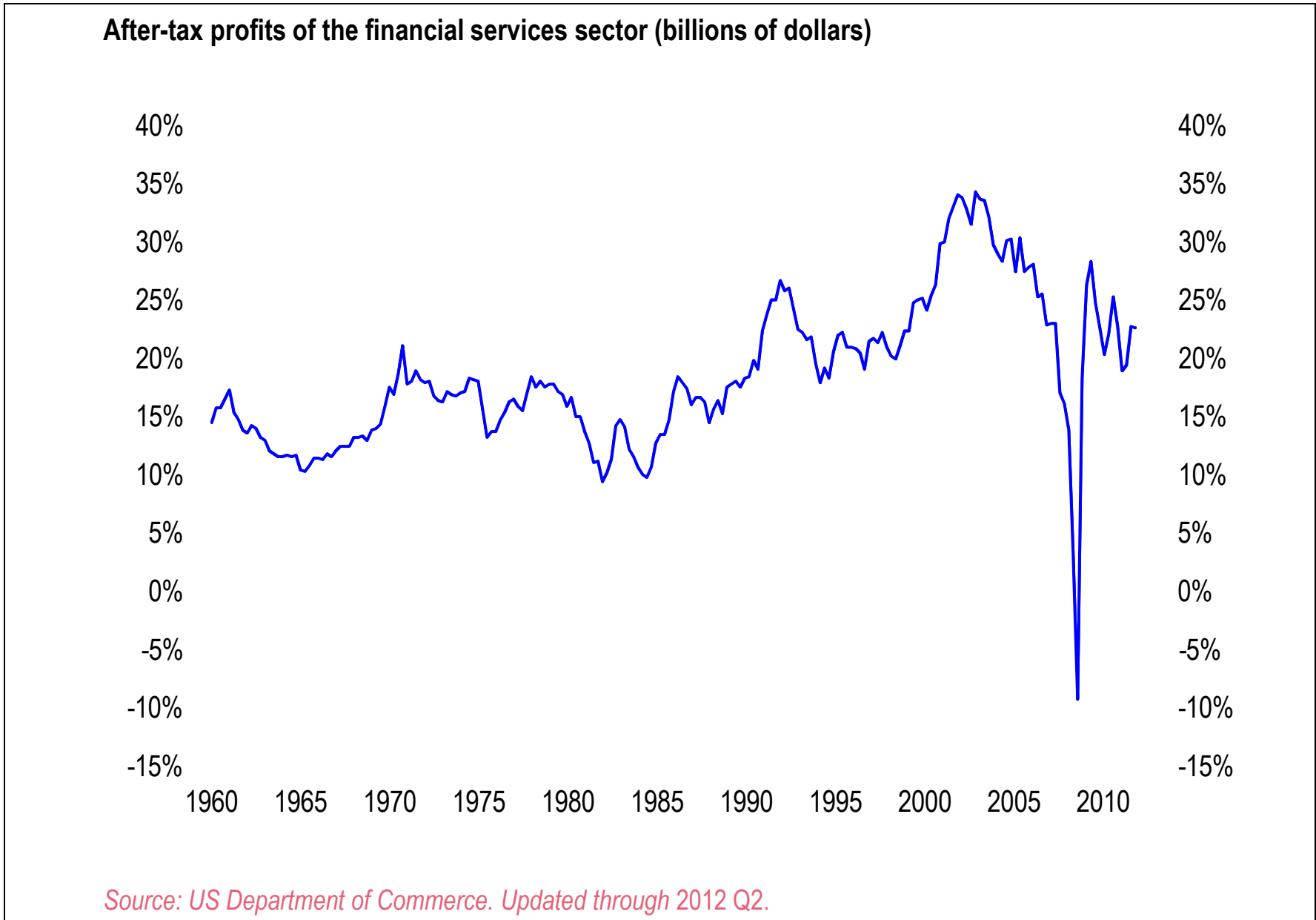


# The financial sector is extremely profitable ...



James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

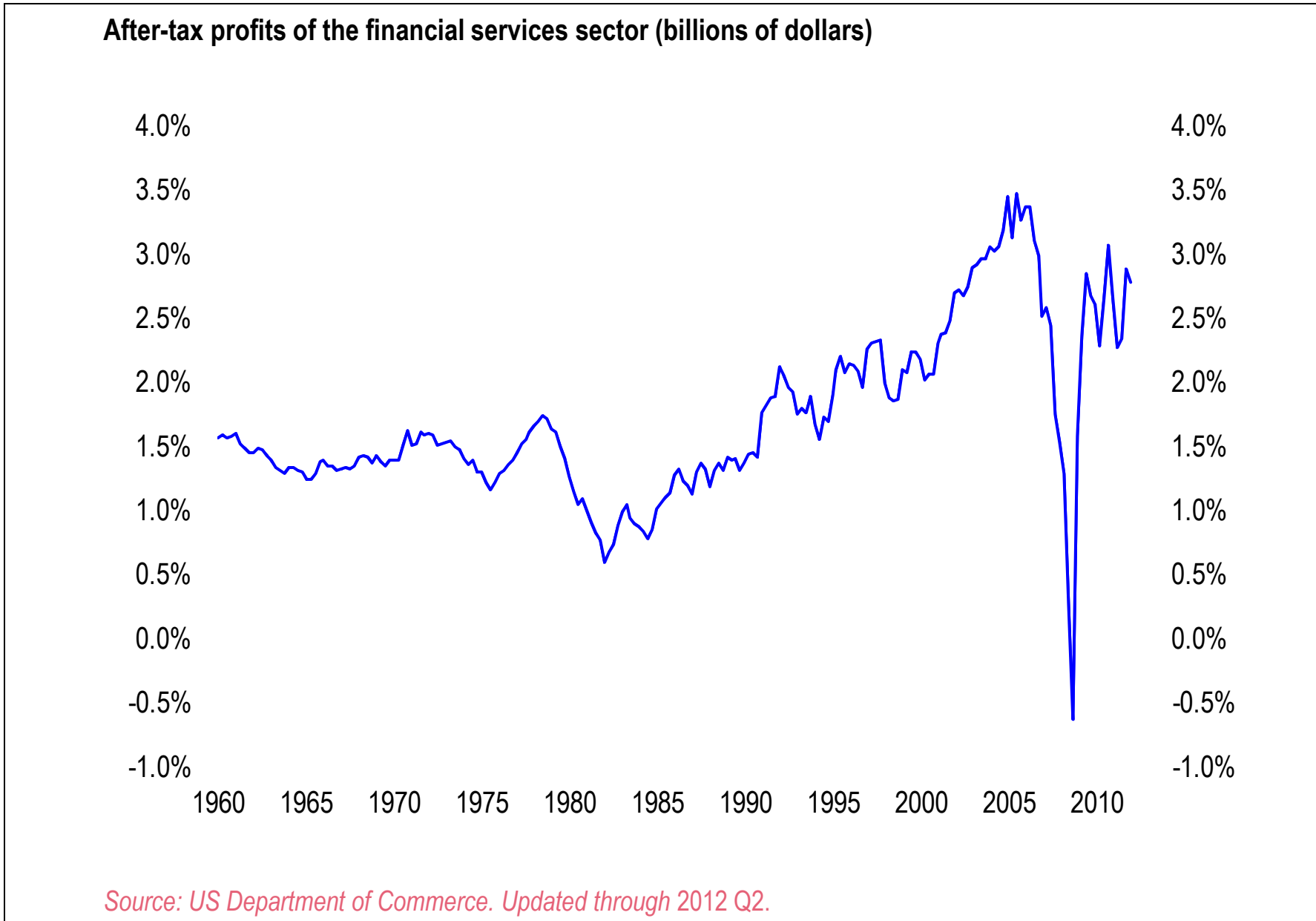
# ... relative to all businesses ...



James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

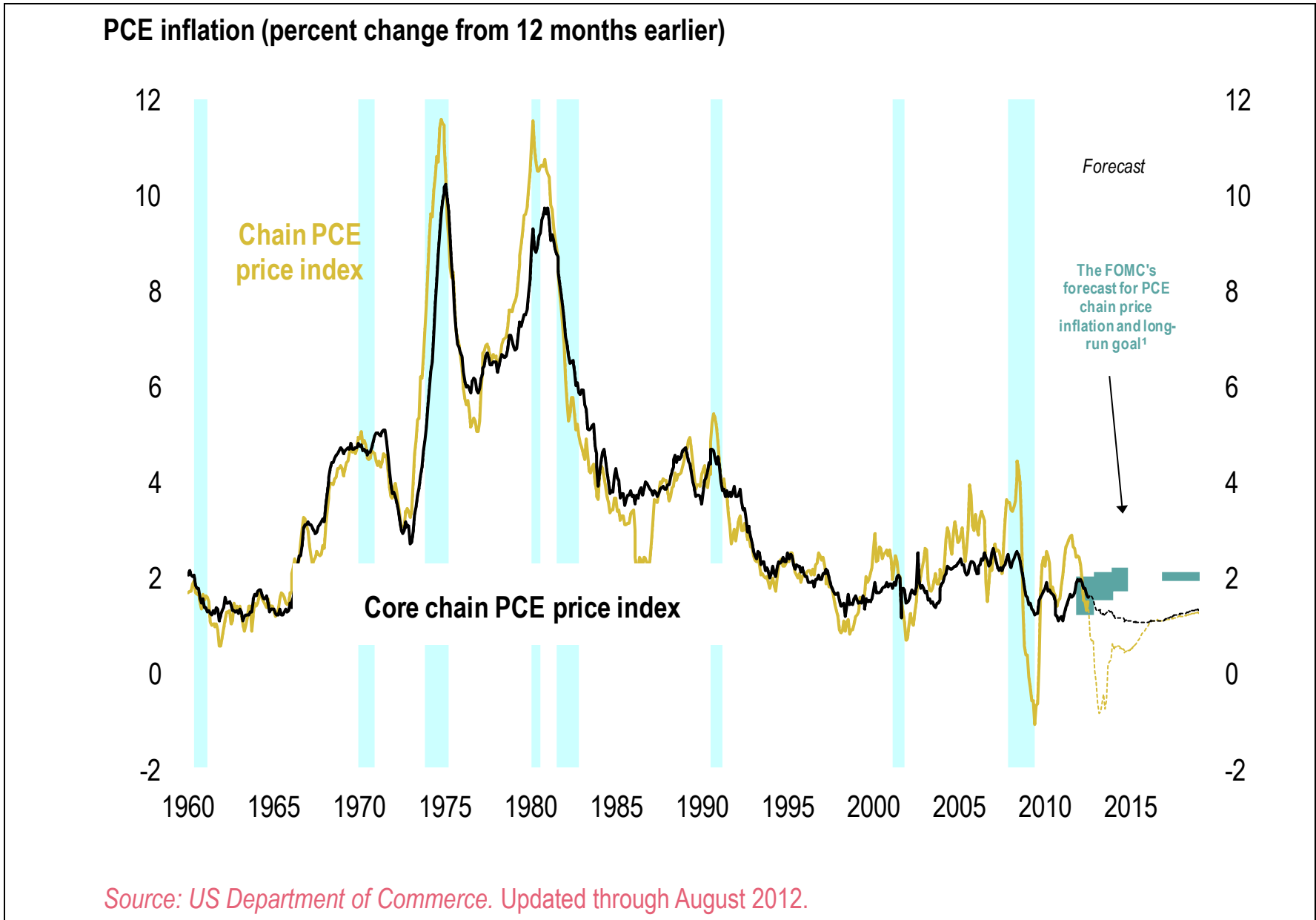
# ... and relative to the size of GDP

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)



# And low inflation is liberating

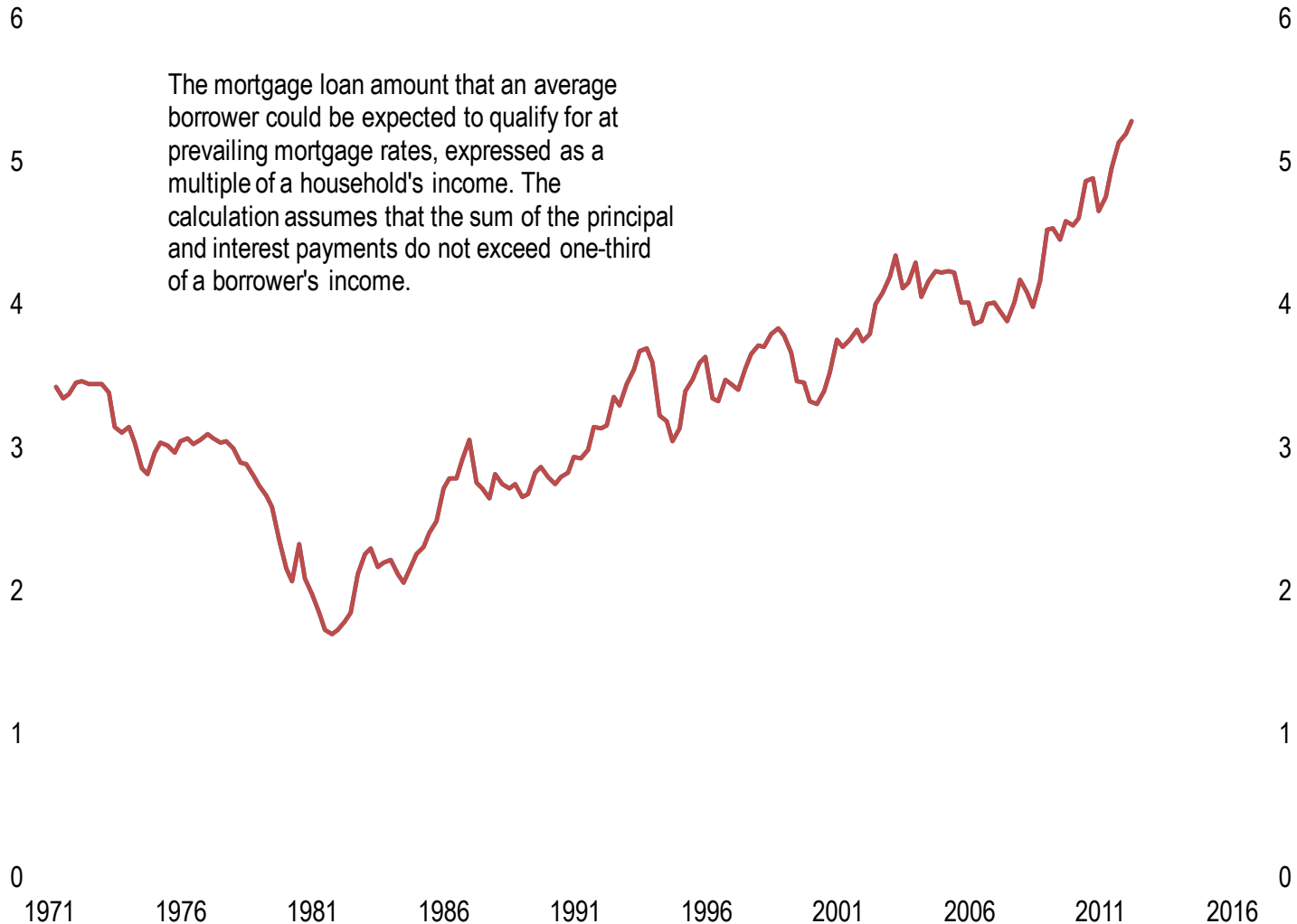
James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)





# Low rates beget more “leverage”

Allowable mortgage debt taking account of income and interest rates (ratio of debt to income allowed)



The mortgage loan amount that an average borrower could be expected to qualify for at prevailing mortgage rates, expressed as a multiple of a household's income. The calculation assumes that the sum of the principal and interest payments do not exceed one-third of a borrower's income.

Source: JPMorgan Chase & Co.. Updated through 2012 Q2.

James Glassman, JPMorgan Chase & Co. (jglassman@jpmorgan.com; o 212-834-5093; o 212-270-0778; m 609-510-3723)

James Glassman, JPMorgan Chase & Co. ([jglassman@jpmorgan.com](mailto:jglassman@jpmorgan.com); o 212-834-5093; o 212-270-0778; m 609-510-3723)



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