

Russell's market expectations for Q2 2012

Signal date: April 1, 2012

So far, the European Central Bank's long-term refinancing operation (LTRO) for European banks has been perceived as partially successful in reducing the spread of European risks globally. Although many U.S. banks have modest exposure to European sovereign debt, they may have material exposure to European banks – thus the importance of the liquidity provided by the LTRO funding access. Nevertheless, structural concerns, as well as questions surrounding the mechanism for addressing sovereign troubles in Europe, are still unresolved. Against this backdrop, we believe that reduced risk in Europe may benefit U.S. equities more than European equities and we anticipate continuing market volatility. With the United States likely providing a material portion of risk asset opportunities, we will continue to monitor U.S. macro economic data as we move into the more mature portion of the earnings cycle.

Please remember that even in more normal market environments, the high level, simplified overview of our market forecasts presented in this document is not intended to be used as the basis for a trading strategy or asset class timing. Among other things, a client's individual risk tolerance and objectives, and more extensive details about the power and alignment of the various model signals, would need to be taken into account to form a robust trading strategy.

COMPARISON ¹	EXPECTATION	WHY WE CHOSE IT	+ Outperform ++ Strongly outperform
U.S. Equities vs. U.S. Fixed Income	U.S. Equities +	Momentum, long-term mean reversion, trailing earnings and fundamental valuation comparisons using forward earnings favor U.S. Equity. Note, however, that we believe that consensus forward earnings estimates may be too optimistic.	
U.S. EQUITY STYLES			
Large Cap vs. Small Cap	Neutral	We remain slightly more positive for Large Cap but not enough to move away from neutral for the pair. Although Large Cap benefits from a mean reversion and modest price-to-earnings advantage, momentum, price-to-book and price-to-sales signals are neutral.	
Growth vs. Value	Neutral	With the exception of price-to-sales and price-to-earnings comparisons, all of our signals are neutral. We do have a slight preference for growth over value, but only among Large Cap stocks.	
EQUITY REGIONS			
U.S. vs. Non-U.S. Developed	Neutral	While we see compelling valuations for non-U.S. Developed Equities from a moving average price-to-earnings basis, a momentum headwind as well as neutral signals in all our other valuation models lead us to a neutral position.	
Global REITs vs. U.S. Equities	Neutral	We have a neutral position in this pair. U.S. Equities are favored very slightly from a long-term mean reversion perspective. However, virtually all other indicators are neutral.	
U.S. vs. Emerging Markets	Neutral	U.S. Equities benefit from a recent relative performance advantage. But concerns about Chinese domestic politics and growth forecasts, and neutral signals from our valuation models keep us in a neutral position in this pair.	
Non-U.S. Developed vs. Emerging Markets	Neutral	We have a neutral position based on neutral signals from a long-term mean reversion, price-to-sales, price-to-book, and price-to-earnings basis. Fundamental valuation using trailing earnings favors Emerging Markets slightly.	
U.S. FIXED INCOME			
Corporate Bonds vs. Treasuries	Neutral	We hold a neutral to very slight preference for Corporate Bonds in this pair as a result of favorable option-adjusted spreads and positive momentum amid otherwise neutral signals.	
U.S. Fixed Income vs. Global REITs	Global REITs +	We continue to hold a slight preference to Global REITs in this pair based on relative yield comparisons. The long-term mean reversion signal remains neutral while momentum shows a slight recent preference for Global REITs.	

How do we expect the U.S. dollar (USD) to compare to other currencies? ²

UNDERVALUED
relative to USD

Chinese yuan/RMB
British pound

OVERVALUED
relative to USD

Yen
Euro

NEUTRAL
relative to USD

Australian dollar
Canadian dollar

¹All asset class comparison are Large Cap unless otherwise noted.

²Currency rates may fluctuate significantly due to many factors including political developments in the U.S. or abroad. As a result, investments in non-U.S. dollar-denominated currencies may result in reduced returns.

Frequently Asked Questions

What is *Russell's Market Expectations*?

- This quarterly report provides **Russell's viewpoint on the direction of the market** based on which asset classes and currencies we think are undervalued as indicated by our proprietary models.
- The information is used to **estimate the relative performance of the two asset classes shown in the pair**. It does not provide insight into the absolute returns that an investor could expect. A model may suggest that asset A will offer a higher return than asset B if the relative valuation between the two returns to a historical level. However, the models do not suggest that asset A will provide a high return, simply a return that may surpass that provided by asset B. The returns of both asset A and B could be negative.
- The asset class and currency views are **pair-wise comparisons, based on the relative value of each asset class or currency**, and reflect the valuation of asset classes or currencies that may be most attractive compared to one another.
- Russell's proprietary models use financial theory, historical data and forecasts to measure relative valuation.
- Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Why is it important?

- *Russell's Market Expectations* can be used as a **reference point for providing context and perspective on the direction of the market** and as a viewpoint on the attractiveness of different asset classes and currencies.

Can I use *Russell's Market Expectations* as an asset class timing tool?

- **No. This report is not intended to be used as the basis for a trading strategy or as an asset class timing tool.**
- The signals displayed in *Russell's Market Expectations* are a high level overview of a limited subset of the insights from Russell's Enhanced Asset Allocation (EAA) Strategies and do not reflect the risk and conviction controls that are part of the EAA portfolio customization.

How should I interpret it?

- In simple terms, **the chart shows you the relative valuation of asset classes for this quarter.**
- Each pair-wise expectation contains two important data points: the asset class we believe will outperform – or a neutral expectation if we believe they will have similar performance – and, if applicable, the strength of the outperformance. **Moderate outperformance potential is indicated by a single plus sign (+), while strong outperformance potential is indicated by two plus signs (++)**.
- The boxes shown to the right gives you a view on which major currencies we believe will be stronger, or weaker, than the U.S. dollar.
- No model or group of models can offer a precise estimate of future returns available from capital markets. We remain cautious that rational analytical techniques cannot predict extremes in financial behavior, such as periods of financial euphoria or investor panic. Our models rest on the assumptions of normal and rational financial behavior. Forecasting models are inherently uncertain, subject to change at any time based on a variety of factors and can be inaccurate.

How often is it updated?

- *Russell's Market Expectations* is typically updated during the first month of each quarter. In the first quarter of 2012 this communication will be updated in a timely manner if our strategists' views on using the model signals change, even if it does not fall in line with our normal quarterly reporting schedule.

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These views are subject to change at any time based upon market or other conditions and are current as of the date at the top of the page.

The information, analysis, and opinions expressed herein are for general information only.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

Growth investments focus on stocks of companies whose earnings/ profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or, such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes and tax laws and interest rates all present potential risks to real estate investments.

Treasury Bills (T-bills) are short-term debt securities issued by the U.S. government with maturities of usually one year or less. Fixed income investors should carefully consider risks such as interest rate risk, credit risk, securities lending, repurchase and reverse repurchase transaction risk.

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

Non-U.S. markets entail different risks than those typically associated with the U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile.

Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets.

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

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