Key indicators suggest that the U.S. economy is improving however, at a very measured pace

<table>
<thead>
<tr>
<th>Real GDP growth</th>
<th>Commentary</th>
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<tbody>
<tr>
<td>2009 2010 2011 2012 2013</td>
<td></td>
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<tr>
<td>-10% -8% -6% -4% -2% 0% 2% 4% 6% 8% 10%</td>
<td>Global business activity is reviving following a slump in mid-2012 US activity rebounded into year-end The broad set of manufacturing signals have been mixed, but there are some important indications that activity has started to pick up ISM manufacturing index’s headline increased from 49.5 in November to 50.7 in December The economy added 155,000 jobs in December, bringing the total number of jobs created in 2012 to 1.8 million The unemployment rate remains at a stubbornly high 7.8% Economy expected to average 1.8% growth in 2013</td>
</tr>
</tbody>
</table>

Source: BEA, JPM estimates
Global asset values continue to recover

US markets have generally outperformed the rest of the world…
Chart 1: Cash on nonfinancial corporate balance sheets (USD bn)

Source: Federal Reserve Board, JPMAM; data as of 12Q3

Chart 2: Business investment as share of GDP (%)

Source: JPMBSI, JPMAM; data as of 12Q3.
Chart 3: Corporate profits as share of national income (%)

Source: JPMISI, JPMAM, data as of 12Q3.

Fiscal Cliff Deal and its effects

How Much Smaller Incomes Will Be From the Fiscal Cliff Deal Compared to 2012

Percent Change in After-Tax Income

Income ( Thousands of $)

JPMorgan
The U.S. Debt, From 1790 to 2011

US public debt as a percentage of GDP

C & I Loan Trend Report (Commercial & Industrial)
Summary

(1) **Regulatory Environment** Large banks are learning to navigate because they have the resources. Small banks are going to have a more difficult time. I think it’s fair to say that, at the end of the day, the new regulations are raising the cost and reducing the availability of credit to those who need access to credit.

(2) **Loan growth** has been picking up but remains moderate because credit needy sectors like commercial and residential real estate have been slow to recover and because businesses are able to fund a lot of their projects with internally generated funding (profits).

(3) We’re expecting **interest rates** to be relatively stable next year and, as the Fed has said, Fed rates are likely to stay where they are until unemployment breaks below 6-1/2%.

(4) If the **Fed winds down its asset purchases** later this year, as it hinted in its December FOMC minutes, long-term rates will grind higher, capped only by the Fed’s 0% fed funds rate. To me, a normal 10-year Treasury yield is in the 4-5% range. So, I look for 10-year Treasury yields to rise to 2 1/4 to 3% by the end of 2013.