

**Contact:** Alex Jones  
Communications Manager  
Mobile : +44 7703 600122  
aljones@russell.com

Beth Murray/ Alice Stevens  
Lansons Communications  
Tel: (0)20 566 9728 / (0)20 7566 9705

Russell Investments  
Rex House  
10 Regent Street  
London SW1Y 4PE

[www.russell.com](http://www.russell.com)

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## Russell Investments 2012 Global Outlook: Global deleveraging as backdrop for modest growth and recovery

*Volatility expected to continue in 2012; key risk to improved global market sentiment is Europe*

LONDON – DECEMBER 15, 2011 – Russell Investments' team of global investment strategists have released the firm's [2012 Global Outlook](#) in which they predict that global deleveraging will continue through 2012, noting that “it took three decades for the developed economies to borrow too much money and it will take years to pay it back.” Against this backdrop however, Russell forecast that investors can expect to see modest levels of recovery and growth overall, driven by Asia and the U.S.

“The global markets in 2011 have played out consistently with our expectations and as we look ahead to 2012 we anticipate continued volatility, especially as Western democracies reconcile the need for austerity with the need to support economic growth and provide for rising outlays on entitlements. However, we do expect to see more clarity around the impacts of the proposed solutions to this year’s headline-dominating policy issues globally,” said Pete Gunning, Russell’s global Chief Investment Officer.

The [2012 Annual Global Outlook](#) points specifically to four themes that Russell believes will have the greatest impact on markets and asset returns in 2012:

1. **Global deleveraging will continue to be the backdrop for economics, finance and politics for 2012.** Balance sheet recessions are typically followed by elongated, grinding and below-trend recoveries. Lower standards of living, high unemployment, lower returns and higher volatility should all be expected.
2. **The key risk to improved market sentiment in 2012 is the Euro.** Given the fragility of the European banking system, Russell considers potential European policy errors and inaction as the single largest source of systemic risk and threat to global market sentiment.
3. **Continuation of a square-root-sign-shaped U.S. economic recovery.** Central to Russell’s U.S. economic forecast since 2009, the square-root-sign-shaped recovery is expected to continue into 2012 with gradually improving news on the U.S. economy, ongoing strength of U.S. corporate earnings and expanding pockets of private investment strength.
4. **The expected modestly positive effect of the Chinese/Asian engine of growth.** Chinese authorities have just embarked on an easing cycle and Russell’s strategists believe China will likely achieve a reasonably soft landing. Combined with other emerging-market easing, China and these emerging markets will, along with the U.S., once again contribute as engines of growth for global gross domestic product (GDP).

While Russell expects market volatility levels to remain elevated and corporate earnings to slow, the firm's investment strategists believe moderate profit growth will likely balance the scales to result in positive, albeit modest, global share market returns in 2012. **Specifically, Russell's targets for the equity markets at the end of 2012 are as follows:**

- U.S. 10-year Treasury yield target: between 2.5 and 2.75 percent
- Russell 1000® Index target: 720
- S&P 500 Index target: 1300

These equity targets represents about a 10 percent increase from where the U.S. market stood in late November 2011.

### **A tentative balance of risks for 2012**

For 2012, Russell proposes a central, highest-probability scenario that the two engines of the Chinese and U.S. economies will ignite and drive global growth. Assuming this is the case, and if Europe can stabilize their deepening sovereign debt crisis, Russell believes this will result in a notable positive for risk assets.

"While we are more confident on the U.S. and China forecast with each data release, we are acutely aware that forecasting political outcomes is very difficult. We believe that Europe will remain a source of systemic risk," said Gunning.

Russell believes that the ongoing crisis in Europe will likely also sap the strength of emerging market asset classes – at least temporarily – as these emerging economies are weighed down by the tightening of credit globally, the knock-on effects to growth and liquidity, and sustained risk aversion. Despite this, Russell expects that strong fundamentals will mean that emerging markets will benefit from a return to risk.

### **What does this outlook mean for investors?**

According to Russell, attention to every detail will matter more than ever for investors – every basis point earned will be hard fought, and regional diversification will need to be firmly in place.

"Making gains this year will require an active, global, multi-strategy approach and identifying outperforming managers in every sector and region will count more than ever," said Gunning. "Gaining access to non-traditional securities through alternatives will also be a key potential return enhancement strategy. In a world of increased volatility and lower returns, a dynamic approach to investing to take advantage of opportunities as they present themselves will increasingly become the norm for successful investors."

**ENDS**

### **About Russell**

Founded in 1936, Russell Investments is a global financial services firm that serves institutional investors, financial advisors and individuals in more than 40 countries. Over the course of its history, Russell's innovations have come to define many of the practices that are standard in the investment world today, and have earned the company a reputation for excellence and leadership.

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