

THE TOP GLOBAL RESEARCH FIRMS OF 2011

ONE WORLD, THREE LEADERS

A trio of global banks has dominated equity and fixed-income research in 2011.

BY THOMAS W. JOHNSON

Director Roland Emmerich wowed audiences with *2012*, a movie about a polar realignment that shifted land masses, collapsed cities and ultimately destroyed the planet. That doomsday scenario qualitatively isn't very different from the reality that research directors and analysts faced in 2011, with one disaster after another roiling world markets: sovereign-debt crises in Greece, Ireland, Spain and other European nations; civil unrest in the Middle East and North Africa; a devastating earthquake, tsunami and nuclear catastrophe in Japan; political gridlock in Washington that played a role in the historic downgrade of the U.S.'s credit rating; and more. Researchers — often coordinating with their peers across asset classes and countries — worked at a feverish pace to keep clients informed of what in the world was going on. Literally.

"Investors have clamored for collaborative research because everything has become so correlated," explains Candace Browning, director of global research at BofA Merrill Lynch Global Research in New York. "In the third quarter correlation among Standard & Poor's 500 stocks was around 75 percent, compared with a ten-year average of 46 percent. You

have to get the macro right because there's no place to hide with such a high degree of correlation — and it doesn't look like that's going to change anytime soon."

Throughout the year *Institutional Investor* asked buy-side analysts and portfolio managers to tell us who among their sell-side counterparts was producing the most helpful research in a dozen countries and regions around the globe. When the results of those 12 surveys are aggregated (with no adjustment for market capitalization), BofA Merrill claims the pole position among the Top Global Research Firms of 2011, with 226 total team positions. J.P. Morgan lands in second place overall, with 202 positions; but it leads the pack when it comes to the number of analysts and teams that finished in first place, with 64 (see Most First-Place Positions, page 75). Deutsche Bank, with 163 positions, is in third place overall. Rounding out the top five are Morgan Stanley, with 141 positions, and UBS, with 135.

An interesting pattern emerges in these aggregated results: Three firms dominate three distinct regions. BofA Merrill makes a clean sweep of our Asia surveys, taking first place in the All-Asia Research Team and the All-China Research Team, and tying for first place (with Nomura) on

the All-Japan Research Team. J.P. Morgan conquers the Americas, landing at No. 1 on the All-America Research Team, the All-America Fixed-Income Research Team and the Latin America Research Team. Deutsche Bank rules in developed and emerging Europe, leading the All-Europe Research Team and the Emerging-Markets Equity & Fixed-Income Research Team, with one caveat: J.P. Morgan snags the top spot in the All-Europe Fixed-Income Research Team. (Deutsche Bank finishes second in that ranking.)

The BRIC markets — Brazil, Russia, India and China — prove to be exceptions, for the most part. Although those countries are included in the relevant broader regional rankings, each has its own survey that a local or regional firm wins: Itaú BBA takes top honors in the All-Brazil Research Team, VTB Capital is No. 1 on the All-Russia Research Team, and CLSA Asia-Pacific Markets leads our inaugural All-India Research Team.

As the annus horribilis of 2011 drew to a close, we asked research directors whether the global economic situation would improve in the new year or if 2012 would be more like the world Emmerich envisioned in his film (metaphorically speaking, that is).

"I hung up my predictive-world crystal ball years ago," quips Stuart Parkinson, Deutsche Bank's London-based associate director of research. "With everything seemingly linked to everything else, I've never known the world to be more difficult to analyze. It's a very challenging environment for analysts" — but also one that provides an opportunity for them to demonstrate their value to clients, he adds.

Parkinson believes macro concerns — particularly the situation in Europe, where entities including the EU, the IMF and local governments pursue diverse objectives in their struggle to find a solution that's acceptable to all parties — will continue to cast a long shadow over markets in the coming months.

Juan-Luis Perez, director of global research at Morgan Stanley in New York, holds a similar view. "The key issues for 2012 include the critical uncertainty around Europe, the implications for funding between Europe and emerging markets, and the challenge of balancing global economic growth with a backdrop of deleveraging and potential fiscal austerity across most developed markets," he says.

BofA Merrill's Browning sees a few more potential trouble spots. "In addition to the U.S. presidential election and the euro debt crisis, investors are also concerned about growth in China—whether there will be a hard or soft landing—and oil prices," she says. "There is also concern about political and social tension and the potential for further civil unrest."

However, the macroeconomic future is not wholly dire. "We are calling for a mild recession in Europe, with real gross domestic product growth

research & rankings

THE LEADERS

BofA Merrill Lynch Global Research wins the most positions across 12 research team surveys, followed by J.P. Morgan and Deutsche Bank.

RANK	FIRM	TOTAL TEAM POSITIONS	FIRST TEAM	SECOND TEAM	THIRD TEAM	RUNNERS-UP
1	BofA Merrill Lynch Global Research	226	49	50	43	84
2	J.P. Morgan ¹	202	64	33	42	63
3	Deutsche Bank	163	34	30	27	72
4	Morgan Stanley ²	141	27	32	22	60
5	UBS	135	19	26	25	65
6	Credit Suisse	128	16	22	33	57
7	Barclays Capital	116	25	27	21	43
8	Citi	101	16	15	17	53
9	Nomura ³	90	14	22	16	38
10	Goldman, Sachs & Co. ⁴	66	10	11	17	28

¹Positions on the All-Europe Research Team were for J.P. Morgan Cazenove.

²Positions on the All-Japan Research Team were for Morgan Stanley MUFG Securities Co.

³Positions on the All-Europe Fixed-Income Research Team, the All-Europe Research Team and the Emerging-Markets Equity & Fixed-Income Research Team were for Nomura International. Positions on the All-Japan Research Team were for Nomura Securities Co.

⁴Positions on the All-Asia Research Team and the All-China Research Team were for Goldman Sachs (Asia). Positions on the All-Europe Fixed-Income Research Team and the All-Europe Research Team were for Goldman Sachs International. Positions on the All-Japan Research Team were for Goldman Sachs Japan Co.

of -0.1 percent," she adds. "For the U.S. we are calling for growth of 1.9 percent. When you aggregate the various regional numbers, global GDP growth is going to come in at 3.5 percent." Browning expects global GDP growth for 2011 to be 3.8 percent.

However, top-line numbers tell only part of the story. "We think 2012 will be a year of strong growth in Japan," Browning says. "Fiscal spending for reconstruction in the wake of the earthquake and tsunami will lead to a jump in GDP growth." Her firm expects Japan to report 2011

GDP contraction of 0.3 percent and a surge to 2.3 percent growth in 2012.

BofA Merrill also envisions increased output in emerging markets, although not as much as in 2011. "Overall growth will be slowing, from 6.2 percent in 2011 to 5.5 percent in 2012, but that's still very, very healthy," she says.

China is likely to see growth of 8.6 percent in 2012, down from 9.2 percent in 2011, Browning's team believes; while growth in India will dip only slightly, from 7 percent to 6.8 percent. China remains a worry, however. "Essentially,

we believe there will be a soft landing, but we recognize that China is vulnerable to a recession in Europe and a slowdown in the U.S.," she explains. "But they have a huge current-account surplus and massive foreign reserves, so if they want to ease aggressively, they can."

Anticipating what will happen in the U.S. presents unique challenges. "There's a lot of uncertainty around the Bush tax cuts and concerns about the extent of fiscal tightening," she says. "Plus, policy uncertainties prior to the presidential election will lead some investors to pull back."

BofA Merrill's forecast of 1.9 percent growth in 2012 is "divided into a much stronger first half than second half," Browning adds. "By the fourth quarter growth will slow to around 1 percent—but if there is a major banking or debt crisis or a deeper recession in Europe, then you could see growth as low as -0.5 percent in the U.S. However, that is not our base case."

BofA Merrill does not intend to increase its analyst head count in 2012 but will raise stock coverage by about 10 percent, mostly in Asia, Browning says.

"THE 'NEW NORMAL' IS EVERYONE WORKING TOGETHER TO COME UP WITH ANSWERS."

"We have done a lot of work where we have equity analysts working with economists and strategists, and I expect that we will do more of that," Browning says. "The 'new normal' is everyone working together to come up with answers and to make sense of this highly correlated market."

BofA Merrill is not only hosting calls with portfolio managers more often but also sponsoring more meetings. "We have a very robust conference schedule," she adds. "We've invested in that over the past couple years, both on the equity side and on the macro side. We are doing more macro conferences than we used to, and have more macro strategists participating in equity conferences than ever." ●●

Candace Browning is the Head of Global Research at Bank of America Merrill Lynch