



Looking Ahead & Other Observations

Week of February 4, 2013

Momentum from a Strong Start (but it's still the first quarter)

- **The first month of the year ended with a strong market rally on the back of mostly favorable data.** GDP for the fourth quarter was weaker than expected, negative in fact, due to a sharp drop in defense spending and inventory destocking, but the ISM manufacturing index and nonfarm payrolls (including revisions) were stronger. The unemployment rate ticked up to 7.9%, 58% of companies have beaten 4Q2012 EPS estimates, and housing remains an economic tailwind.
- **A slower data week will allow the market to take stock of its current position.** The ISM non-manufacturing index, initial claims, and productivity are the only major statistics released this week.
- **The question now becomes how long the first quarter strength can last.** Is it sustainable or simply the reflection of recovery from the hurricane-impacted fourth quarter? How much is Fed-induced and likely to eventually wane? While inclined toward growth expectations, we remain unconvinced that a sustained high-growth surge is upon us.

Dates of Interest:

2/5: ISM Svc

2/7: Initial Claims, Productivity

Half-Time Report: "It's Their Game to Lose"

- **The Senate confirmed the Houses' bill to extend the debt ceiling through at least May,** giving the economy some breathing room, but this is yet another kick-the-can solution, not long-term relief.
- **The sequestration and the continuing budget resolution, however, remain very real threats.** Politicians on both sides of the aisle in both chambers of Congress suggest the automatic spending cuts may occur, adding to the already extant drag from government action this year.
- **The change to government spending enacted by the American Taxpayer Relief Act (ATRA) is already in the books.** The current deal creates a 0.5%-to-1.0% headwind, which should be bearable. However, this could rise to 1.5% or more if negotiations break down and the automatic sequester is permitted to begin.

Dates of Interest:

3/27: Continuing Budget Resolution deadline

5/2: Sequestration deadline

Europe's Warming the Bench

- **Europe made progress in 2012 with ECB action and greater leniency of fiscal austerity programs,** but still has a long way to go. The ECB's OMT (Outright Monetary Transaction) program has reduced borrowing costs and near-term stress. ECB support can delay but not resolve the debt situation in Europe.
- **Europe's progress has also occurred in their budget deficits,** which may eventually permit them to lighten up more on fiscal austerity and permit longer-term growth, but probably not yet.
- **Spain remains the pivotal country,** with the need to issue raise over 200 billion euro (20% of the nation's GDP) in debt in 2013 to cover debt maturities and deficit spending. Spain's rates have fallen, making this problem less pronounced, but they have not fallen as much as the other PIIGS, suggesting we have yet to see a decisive end to the problems in Europe.

Dates of Interest:

2/5: Eurozone, Germany, France, Italy Svc PMI

2/8: Italy Industrial Production

2/7: ECB Meeting, UK, Germany Industrial Production

Investment Themes

- **Position portfolios to benefit from moderate economic growth**
 - Favor a constructive but not aggressive asset mix given ongoing risk of policy errors
- **Maintain the middle:** Investors should maintain a long-term focus on the middle of the investment risk spectrum, where the most attractive risk-reward opportunities lie.
 - Favor high quality and/or dividend growth within equities
 - Take credit risk: high yield bonds, bank loans, and emerging market bonds
 - Utilize alternative risk control: secured options and absolute return strategies
- **Position to benefit from long-term growth opportunities**
 - U.S. manufacturing renaissance and emerging market consumer growth
- **Maintain some protection against unexpected future inflation and currency devaluation:**
 - Global fixed income and broad/active commodity basket

Other Events / Dates

	Monday, February 4	Tuesday, February 5	Wednesday, February 6	Thursday, February 7	Friday, February 8
DOMESTIC		ISM Svc PMI (55.2e vs. 55.7)		Initial Jobless Claims (360Ke vs. 368K) Productivity (-1.1%e vs. 2.9%)	
INTERNATIONAL		Eurozone, Germany, France, Italy Svc PMI Italy CPI		ECB Meeting UK, Germany Industrial Production Spain bond auction Brazil CPI	Italy Industrial Production

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- Responsible for formulating investment policy and strategy
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Glenmede

Corporate Facts

- More than \$21 billion in assets under management
- Founded in 1956
- Serves high net worth individuals, families, family offices, foundations and institutional clients

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