



Looking Ahead & Other Observations

Week of February 18, 2013

Taking a Step Back...In Order to Leap Forward?

- **Housing continues to be among the strongest sectors of the U.S. economy.** This week gives us more data on the performance of one of the few dependable tailwinds to growth.
- **Some are wondering whether a serious correction is in the works,** that perhaps the “sell in May” dynamic that would have worked so well in the past few years might come earlier in 2013. Leading indicators show no convincing signs of a dip as of yet – last week’s Empire Manufacturing index was unexpectedly strong; we get an update on the Philly Fed and Markit’s Flash PMI this week.
- **Exit strategy discussions are beginning at the Fed.** Minutes from the FOMC’s January meeting are likely to reveal ongoing debate regarding the timing of an exit from their stimulus, including what to do first. Mid-2015 seems the most likely timing of the first rate hike, but ending QE purchases could come earlier.

Dates of Interest:

2/19: NAHB Index

2/20: Housing Starts, CPI, FOMC Minutes

2/21: Initial Jobless Claims, Philly Fed, Existing Home Sales
Market Flash PMI

The Game of Chicken Continues

- **Both political parties continue to talk up their respective views on the sequester.** If neither blinks, the headwind already imposed by the American Taxpayer Relief Act (0.5%-1.0%) could grow to 1.5% or more as spending cuts come into effect.
- **House Republicans have announced they will not act first.** Senate Democrats, meanwhile, have put together a bill to address the sequester, replacing it with a mixture of spending cuts and revenue increases. The possibility of its success is limited given Republican refusal to agree to more revenue hikes.
- **President Obama, in the wake of his State of the Union address, seems to be taking a much more assertive role** in terms of pushing issues he highlighted for his second term. At least for now, his role in sequester negotiations seems minimal.

Dates of Interest:

3/1: Official Sequestration Deadline

3/27: Continuing Budget Resolution deadline

5/2: Unofficial Seq. deadline (delayed implementation)

European Risks Remain, Despite Progress

- **Europe made progress in 2012 with ECB action and more gradual fiscal austerity programs.** Budget deficits appear to have narrow, but still have a long way to go. Eventually, Europe may be permitted to lighten up more on fiscal austerity and permit longer-term growth, but probably not yet.
- **Systemic risk in Europe has not dissipated entirely.** The ECB’s OMT (Outright Monetary Transaction) program has reduced borrowing costs and near-term stress, but as is evidenced by the recent up-turn in CDS rates on European financials.
- **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 but remain high enough to suggest we have yet to see a decisive end to the problems in Europe.

Dates of Interest:

2/19: Spain Bond Auction, ZEW Survey

2/21: Eurozone, Germany, France Flash PMI

2/22: Germany GDP, IFO Survey, Eurozone CPI

2/24: Italy Elections Begin

Investment Strategy: Selective Risk-Taking

- **Position portfolios to benefit from moderate economic growth**
 - Favor a constructive but not aggressive asset mix given ongoing risk of policy errors
- **Emphasize higher return opportunities within fixed income**
 - Underweight low-yielding cash and traditional fixed income
 - Allocate to bank loans, high yield bonds, and emerging market debt
- **Utilize risk-managed strategies within equities and alternatives**
 - High quality and/or dividend growth
 - Secured options/covered calls
 - Absolute return strategies/hedge funds
- **Enhance return prospects with select opportunities**
 - Emerging market equities (with a focus on domestic consumer growth)
 - Private Equity (secondaries, catastrophic reinsurance, triple-net leases)
- **Maintain some cheap(er) insurance against unexpected inflation/currency devaluation:**
 - Global fixed income and broad/active commodity basket

Other Events / Dates

	Monday, February 18	Tuesday, February 19	Wednesday, February 20	Thursday, February 21	Friday, February 22
DOMESTIC		NAHB Index	Housing Starts (920Ke vs. 954K) CPI (0.0%e vs. 0.1%)	Initial Jobless Claims (354Ke vs. 341K) Philly Fed (1.2e vs. -5.8) Markit Flash PMI Existing Home Sales (4.90Me vs. 4.94M)	
INTERNATIONAL		Spain bond auction ZEW Survey	Germany, France CPI	Eurozone, Germany, France Flash PMI France, Spain bond auction	Germany GDP Germany IFO Survey Eurozone, Italy CPI

Jason D. Pride, CFA

Director of Investment Strategy

- Responsible for formulating investment policy and strategy
- Serves as a leading member of the Investment Policy Committee
- B.S. from Massachusetts Institute of Technology

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

Investment Strategy Notes represents a review of issues or topics of possible interest to Glenmede's clients and not as personalized investment advice. It contains Glenmede's opinions, which may change after the date of publication. Information gathered from third-party sources is assumed reliable but is not guaranteed. No outcome, including performance, is guaranteed, due to various risks and uncertainties. This document is not a recommendation of any particular investment. Actual investment decisions for clients are made on an individualized basis and may be different from what is expressed here. Clients are encouraged to discuss anything they see here of interest with their Glenmede representative.