



Looking Ahead & Other Observations

Week of November 12, 2012

So, the Markets Don't Like Obama...

- **President Obama and the Democratic party emerged victorious**, as the President kept his office and Democrats picked up several seats in the Senate. The Republicans maintained their firm control of the House, however, meaning that the no major changes occurred in terms of the government's structure.
- **Markets weakened over the ensuing several days** although disquieting news out of Europe was partially to blame for this as well. It cannot be denied, however, that markets are concerned regarding the fiscal cliff, which is now only weeks away.
- **Behind the scenes, economic momentum continues**. So far, despite some near-term disruption (~0.5% of GDP) from Hurricane Sandy, the economy continue to exhibit strengthening economic momentum. Leading economic indicators, not yet reflecting Sandy's impact, continue to show improvement. Further, the Fed's quantitative easing should remain a net positive underpinning force as well.

Dates of Interest:

11/13: NFIB Index

11/15: CPI, Philly Fed, Initial Claims, Empire Mfg

11/14: Retail Sales, FOMC Minutes

11/16: Industrial Production

Status Quo Ante, Or Have Politicians Moved Forward?

- **Approaching the Fiscal cliff**: Current legislation would have the U.S. hitting a ~4% fiscal wall of automatic across-the-board spending reductions and tax hikes in 2013.
- **A nail-biter lame duck session**: Election season and the surrounding campaign rhetoric delayed needed resolution of the fiscal cliff, making for a nail-biting lame-duck congressional session after the elections. Our base case is that Congress should still be able to (at the last minute?) legislate a 3-to-12 month delay of the cliff, but we do not believe that the risk of inaction is immaterial.
- **Negotiations begin anew**, with President Obama and Speaker Boehner hinting that both parties may be willing to concede on certain points previously thought (or feared) to be non-negotiable in order to prevent the cliff from hitting.

Wherefore Art Thou, Mario?

- **Events in the United States may overshadow those in Europe for now, but Eurozone leaders still have yet to clarify their next steps**. Last week, Mario Draghi firmly declined to take further steps to support Greece, indicating he thinks the OMT program is sufficient for now.
- **ECB support can delay but not resolve the debt situation in Europe**. The ECB's OMT (Outright Monetary Transaction) program seeks to reduce government borrowing costs via direct purchases of debt similar to the Federal Reserve's quantitative easing programs.
- **Greece showed it is still an issue by exceeding budget targets** agreed upon in the last rescue. Greece's debt is now expected to hit 189% of GDP by next year.
- **Spain remains the pivotal country**, but Prime Minister Rajoy insists Spain is on its own timetable and is waiting for specifics on what conditions would be imposed if he were to ask for help from the ECB.

Dates of Interest

11/12: Eurozone finance ministers meet on Greece aid

11/14: France CPI, Labor Strike/Walkout in Greece/Europe

11/13: Spain, Italy CPI, ZEW Survey

11/15: Eurozone, Germany, France, Spain GDP

Investment Themes

- **Protect portfolios from economic volatility and other systemic risks**
 - Favor a protective but not overly defensive asset mix with some cash and core fixed income
- **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, municipal credit, and global 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, November 12	Tuesday, November 13	Wednesday, November 14	Thursday, November 15	Friday, November 16
DOMESTIC		NFIB Index	Retail Sales (-0.1% vs. 1.1%) FOMC Minutes	CPI (0.1%e vs. 0.6%) Philly Fed (2.2e vs. 5.7) Initial Claims (369Ke vs. 355K) Empire Mfg	Industrial Production (0.2%e vs. 0.4%)
INTERNATIONAL		Spain, Italy CPI ZEW Survey	France CPI	Eurozone, Germany, France, Spain GDP Eurozone CPI	

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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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