COMPASS 2012 - 2013 Economic Forecast

By Louis E. Conrad II, CFA

- Though the U.S. stock market did not suffer from a summer decline this year as it did in both 2010 and 2011, our capital markets still have plenty to worry about.
- While COMPASS is mindful of the economic challenges facing the U.S. and the world, we do see the greatest opportunities currently in U.S. stocks and the emerging markets.

While the U.S. economy continues to slowly recover from the Great Recession of 2008–2009, many risks remain, which leads to a difficult forecasting environment. The European debt crisis, a deceleration of economic growth in the emerging markets, and the economic and political challenges facing the U.S., including our own looming debt crisis and “fiscal cliff,” are some of the causes for this challenging environment.

COMPASS Wealth Management expects that U.S. economic growth will stabilize near the second quarter’s rate of 1.7% in real (inflation-adjusted) terms, before accelerating slightly to 2.0% - 2.5% in 2013. This assumes that the “fiscal cliff,” or the broad -based tax increases and spending cuts scheduled for 2013, is avoided. Inflation is expected to remain at recent levels, though oil and food prices could push inflation higher in 2013. Employment growth may improve slightly if economic growth accelerates as expected in 2013 and, if so, the unemployment rate may finally dip below 8%.

Consumer spending will continue to help drive economic activity, though the housing and construction market may have finally turned the corner, aiding economic growth as well. Government spending will remain under pressure and will partially offset the benefits of better consumer spending and an improving housing and construction market.

From a portfolio perspective, COMPASS continues to favor large U.S.-based companies over European-based companies, but we especially like emerging market stocks and bonds given the better growth rates and financial condition of these countries. In regard to U.S. bonds, COMPASS is managing the interest rate risk of client portfolios by favoring short- and intermediate-term corporate bonds over U.S. Treasuries due to our concern for higher rates.

2012
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