DMS

Discretionary Management Services, LLC

Current Economic Commentary and Market Outlook

By James F. Dykstal, CFA, Portfolio Manager

Central bank actions around the world have reassured investors and put to rest some of the fear in the markets during 2012. However, that good feeling is coming to an end as investors are focusing more intently on "Fiscal Cliff" negotiations and the subsequent impact on economic growth.

- The U.S. economy is growing, albeit slowly. GDP growth has slowed in 2012 to an annual rate of 2.0%. Future economic growth rate of 2.0% is contingent upon a resolution of the "Fiscal Cliff." This is not altogether certain, in our view, and as a result we expect economic growth to slow further in 2013.
- The primary driver of tepid GDP growth is that the consumer continues with a slow pace of economic activity. The growth rates of personal consumption could slow further as consumers face new taxes, less fiscal stimulus and higher health care costs.
- The Fed will remain accommodative and keep the Fed Funds rate near zero percent. The Fed has maintained a position that it will keep rates low in hopes of spurring economic growth.
- Growth in Emerging Markets is slowing, but will still lead developed markets. We believe that future consumer growth will be centered in developing Asia.

Given our view of a slowing economy and moderate consumer activity, we are taking a cautious view on the markets. The employment situation in the U.S. has been stubbornly slow to improve. Labor force participation remains a problem and this stagnation in the labor force growth rate is an important development to watch.

- We see that corporate earnings growth estimates are in single digits and expect this to continue into 2013.
- The downside risk of the stock market is increasing as the market appears to be fully valued.
- Stock volatility will increase as investors look to lock in profits.
- U.S. Treasury bond yields will stay low as investors buy Treasuries as an investment safe haven and in response to QE3.
- Larger cap and higher quality U.S. equities offer relative safety to other equity classes.
- The euro will continue to struggle against the dollar and other global currencies as the debt crisis in Europe continues.
- Credit spreads have narrowed as investors have searched for yield. We expect relatively stable spreads for the remainder of 2012 and into 2013.

If you are interested in more information, please call Tom Woolwine, President, at (913) 981-1345 or email, twoolwine@dms-demarche.com.