

Economic and Market Outlook

In Sum: Iran is threatening to close the Strait of Hormuz and North Korea has a new and untested leader. Global economic activity was uneven in 2011 and 2012 looks similar. Sovereign debt crisis in the Eurozone is far from over but progress is being made. Government spending around the globe will decline from the heady levels of the recent past. US stocks may show moderate progress in 2012 as our economy grinds forward and corporate balances remain strong. US interest rates should rise after a surprising decline in 2011 and belief that we are near the bottom of the cycle.

Geo-political: Iran is threatening to close the Strait of Hormuz to disrupt the oil markets in retaliation to the US for trying to increase global economic sanctions against the country. The former leader of pariah state North Korea died in December and his untested son, believed to be in his late-twenties, is now the head of the country. European leaders continue to discuss how best to restructure their sovereign debt while staying out of default or devastating their local economies.

Economic: Global economic growth was uneven in 2011. Europe seems poised to experience softness in 2012 due to austerity measures needed to correct fiscal imbalances. China's communist leaders fear an inflation causing overheating scenario. Given the inept history of state led economic planning efforts (think USSR, circa 1930-1992), the outcome there is uncertain. It would appear that the US will experience moderate growth for the balance of the year.

Monetary: An increasing chorus of pundits and "experts" are beginning to seek monetary restraint, fearing an inflationary spiral if central bankers simply "print" more currency to inflate away the burden of their sovereign debt.

Fiscal: President Obama recently suggested combining certain federal agencies as a way of "shrinking government." Given that 2012 is an election year, however, and given the grave concerns expressed about unsustainable federal spending from republicans, it looks as though fiscal policy will be restrained.

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This will certainly be the case in Europe and other debt plagued geographies.

Equity Markets: Broad US stock indices were largely flat in 2011 while non US averages were mostly weaker. Cross currents buffeting financial markets suggest modest progress in 2012.

Fixed Income Markets: A rise in interest rates seems likely. As rates rise, fixed income investments may post sub-par and even negative total rates of returns, offsetting the extraordinary returns that many fixed income investors have enjoyed in the recent past.

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