Predictions for 2013

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In many cultures, and for various reasons, the number "13" is considered unlucky. Let us hope this is not the case for markets in 2013. As the new year begins, those of us in the investment world tally up the decisions we made in the past 12 months and contemplate the ones we will make in the next 12. Having made many incorrect ones in the past, I've never been a big fan of predictions. The world remains an amazingly unpredictable place. But predictions do have one valuable effect; they help frame the decisions that might be made in 2013.

Here are the main predictions I made a year ago.

Interest rates will be higher. Wrong on that one! Ten year U.S. Treasury bonds now yield 1.75% versus 1.88% at the end of 2011.

Stock markets worldwide will be mixed with the U.S. doing better than most, especially European markets. The results were mostly right with the U.S. S&P 500 Index[1] having a total return of 16% and the Dow Jones Index[2] up 7.3% , China's major Shanghai Composite Index[3] rising slightly, and major European markets going up 7%-20%.

Oil would end the year close to the $100 per barrel price it was at a year ago, but have a spike or two along the way. Right on the spike, wrong on the price. Oil is around $92 per barrel (West Texas Intermediate).

The U.S. economy would not recover much in 2012. There was too much uncertainty about too many things to induce businesses to significantly increase capital spending and hire new employees. Depressed real estate values and continued fears about employment, retirement, medical costs, etc. would keep individuals from stepping up spending. The U.S. elections were still a long way away but incumbents usually win. Pretty much right here.

Now for 2013.

Long term interest rates will probably stay fairly flat but start to rise by year end. Although I cannot believe people accept 1.75% for tying up funds for 10 years, the Federal Reserve has pledged to keep rates low until unemployment drops below 6.5% and/or inflation rises above 2.5%. So they will keep buying much of the newly issued debt and keep bond prices higher than they should be. Someday there will be consequences for all this, but probably not this year.

Last year (2012) was strong for U.S. markets with the S&P 500 up more than 16%. Given the uncertainties in global economies, earnings growth of 4%-7% is probably the best we can hope for. At a price/earnings ratio of 14x, this equates to mid-single digit S&P 500 returns in 2013. The economic uncertainty will probably make for a volatile year as well. Historically, post-election years have been the weakest in the four-year presidential cycle.

Oil prices will be flat, whether you use the West Texas price of about $92 or the Brent price of $111. There is growing supply from U.S. shale areas such as the Bakken. This will offset declines in fields elsewhere and demand growth around the world. Price spikes will happen as long as there is Mid-East turmoil. As always, the price of gold is very difficult to predict; inflation expectations, currency moves and global turmoil affect its price.

The U.S. economy should continue its tepid recovery. Although housing and unemployment rates are both improving, there remains too much uncertainty about many issues to induce robust businesses and consumers spending. Payroll taxes will rise; reducing consumer spending, still the key driver of the U.S. economy. Although "fiscal cliff" talks ended, new battles over the federal debt ceiling and curbing spending will make Washington as contentious and important to markets as ever.

As with last year, the one thing I can predict with certainty here at Chase Investment Counsel is that we will continue to invest your money in the same careful, deliberate way we always have – looking for strong mid and large capitalization companies that are able to grow in most economic conditions and have reasonably valued stocks. Best wishes for a happy, healthy and safe 2013.

Regards,

Peter W. Tuz

Peter W. Tuz, CFA
President

[1]The S&P 500 Index tracks the stocks of 500 U.S. Companies. [2]The Dow Jones Industrial Average is an unmanaged index of common stocks comprised of major industrial companies and assumes reinvestment of dividends. [3]The Shanghai Composite Index comprises all of the A and B shares listed on the Shanghai stock exchange. You cannot invest directly in an index.