DMS

Discretionary **M**anagement **S**ervices, LLC

What We Are Telling Clients

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Below is a summary of our views on the economy and markets we are sharing with discretionary clients.

Economic Outlook

- The U.S. economy is expected to continue growing in 2013, albeit slowly. Preliminary 4^{th} quarter GDP was -0.1%, due to a slowdown in Government expenditures. We expect 2013 to grow at a 1% to 2% pace.
- Modest inflation will persist as unemployment stays stubbornly high despite a continued shrinking of the labor force.
- Increases in tax rates will slowly work their way through the economy as consumers adjust personal spending to offset less take home pay.
- Interest rates will remain near all-time lows. The Fed will continue its accommodative stance and keep the Fed Funds rate near zero percent.
- The European economy will slowly recover from recession, but growth will lag U.S. growth.
- Growth in emerging markets will lead developed markets as consumers in emerging market countries continue to increase their percentage of global consumption.
- With the culmination of the election and the "fiscal cliff," the political focus will shift to budget deficit negotiations and this uncertainty will contribute to market volatility.

Strategic Market Outlook

- Corporate earnings will continue to grow quarter over quarter but the rate of growth will decrease to low single digits.
- The downside risk of the stock market is increasing as the market appears to be fully valued.
- Stock volatility will continue to be strongly influenced by global macro events such as U.S. "debt ceiling" talks, potential China economic slowdown or a new sovereign debt crisis in Europe.
- U.S. Treasury bond yields will trend slightly higher as investors choose to invest in higher yielding corporate bonds. Credit spreads will continue to narrow in response.
- Larger cap and higher quality U.S. equities offer relative safety to other equity classes. Emerging market stocks, while more volatile, will benefit from stronger economic growth in those countries.
- World GDP will be constrained by slow European growth. Emerging market economies will continue their lead.

Current Tactical Positions

- Equity exposure continues to be underweight in favor of lower volatility fixed income assets.
- Within equities, the focus is on lower beta stocks of large, high quality, dividend paying companies.
- Within equities, the holding of small cap stocks remains underweight.
- International stocks stay at an underweight position due to concerns of European debt troubles and the prospect of lackluster economic growth.
- Among International equities, emerging markets stocks are relatively attractive as those countries lead in global economic growth.
- Within Fixed Income, credit is looked upon more favorably as compared to Treasuries due to stabilizing credit spreads. High yield is also viewed more favorably.

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