Citi Personal Wealth Management

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U.S. growth statistics are masking some important issues, Richard Cookson observes in *Market Insights* (March 2, 2012). While the economy has looked better in recent months, “we really need to bear a couple of things in mind,” he says. Cookson heads Citi Private Bank’s Global Investment Committee, whose views guide the asset allocation used by many managed accounts at Citi Personal Wealth Management. First, he says, seasonal adjustments have made growth numbers appear better than they really are, and it will be harder to match that growth in the second and third quarters. “The second thing to bear in mind is that the U.S. has had the most anemic recovery since World War II despite the loosest monetary and fiscal policies ever,” Cookson says. “Although monetary policy will remain very loose, indeed, and may even get looser still, fiscal policy will be tightened. If you tighten fiscal policy while the private sector is still saving, the economy will slow.”

Data and events that matter most do not point to an accelerating recovery, Robert DiClemente writes in *Comments on Credit* (March 2, 2012). Growth in the very near term appears to be on or close to a 2% track, he notes, which would represent a slowing from the 3% fourth-quarter pace, when growth was helped by temporary factors. For example, he says, “the ongoing improvement in labor markets has been supercharged as a mild winter has limited seasonal layoff activity.” Now, DiClemente argues, broader measures of consumer spending, business capital expenditures and construction point to relatively modest growth in demand and output going forward.

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Stock prices are likely to come under near-term pressure, Tobias Levkovich contends in *Monday Morning Musings* (March 2, 2102). “While such a trading pullback may just provide the ‘pause that refreshes,’ a number of other issues may need to be addressed before stocks regain upward momentum, including corporate profit margins and politics around expiring spending programs and tax cuts,” Levkovich writes. For example, he says, although the Nasdaq Composite Index is pulling out of a decade-long consolidation, there is a potential for a correction in the information-technology sector. At the same time, should economic conditions begin missing forecasts, defensive sectors such as utilities and healthcare may do better if investors shift towards more stable, less cyclical sectors, he notes.

“The demands of fiscal promises made to the baby boom won’t simply go away,” Steven Wieting argues in *Afternoon Comments* (March 5, 2012.) “The rise in federal healthcare spending and unwillingness to tax and save for it, in our view, does have a good chance of someday generating the nightmare scenario of interest rate pressures that has long been the standard warning on excessive deficit spending.” Even more important than aging, Wieting says, is the fact that the U.S. has a per-capita healthcare cost that is nearly twice the developed-world average. As a result, he adds, moving people from privately financed healthcare to publicly financed healthcare could result in a severe relative deterioration in U.S. fiscal prospects compared to other countries. “There is no automatic source of financing for the bulk of these incremental government expenditures other than deficit spending,” Wieting points out.

The U.S. has become the fastest-growing oil producer in the world, Scott Chronert observes in *Small/Mid Cap Thematic Focus* (February 27, 2012). “The emergence of new oil and gas drilling technology is transforming the North American oil and gas production dynamic, and creating one of the most interesting structural themes to be found in today’s equity markets,” he writes. “The implications are far reaching. While the ‘peak oil hypothesis,’ which has been associated with a decade-long rally in oil prices, is negated, the development of U.S. shale plays has profound implications for commodity prices, the U.S. balance of payments, infrastructure requirements and, most importantly, production growth on the road to energy independence.”

Asia’s stock and bond markets are off to their best start in years, John Woods and Jack Siu write in *Quadrant Asia* (February 29, 2012). “The global liquidity sparked by the European Central Bank’s December 2011 Long-Term Refinancing Operation has triggered the best start to Asia’s equity markets in 20 years; the best start to bond markets in ten years; and the best start for its currency markets in five,” they note. There is, however, reason for caution. Recent gains in stocks have been achieved with low volumes, they observe, adding that the first seven weeks of 2012 saw the widest disparity in price and volume growth of the MSCI Asia ex-Japan Index in 15 years. “The lack of conviction—particularly among Asia’s retail investors—reflects a widely held local view that the risk rally is built on temporal foundations rather than solid economic growth and/or improving earnings,” they write.

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The MSCI AC Asia ex Japan Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of the following 10 developed and emerging market country indices: China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.

The Nasdaq Composite Index is a market-value weighted index of all common stocks listed on Nasdaq.

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