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End of Year or End of Times? A Look at 2013 and Beyond

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Panelists:

Paul Nolte, CFA, Managing Director, Dearborn Partners

Charles Gabriel, Managing Director, Capital Alpha Partners

Moderator:

Jason Dean, Chicago Bureau Chief, The Wall Street Journal

Key Takeaways

Does the outlook for economic and financial markets in 2013 rely entirely on Washington? Does President Obama hold all the cards? Panelists at our December year-end discussion looked to several significant factors impacting the future of our economic health, including fiscal cliff negotiations to avoid all or some of: sequestered defense and non-defense spending cuts that kick in based on the debt ceiling deal of 2011, the end of the temporary 2 percent payroll tax cuts, the end of tax dividend and capital gains cuts from 2001, no annual “inflation patch” for the alternative minimum tax, the end of certain business tax breaks, and new taxes related to President Obama’s healthcare law.

As we approach the fiscal cliff, investors, analysts and policymakers are examining the potential outcomes. Will President Obama and Congress reach a deal that addresses revenue increases, spending cuts and entitlement reform? Will that deal include an agreement on raising the debt ceiling so we can avoid more political drama a few months down the road? Or, will all parties fail to agree, putting America over the fiscal cliff?

The debt ceiling may be reached as soon as February 2013. If the debt ceiling isn’t raised beforehand, the repercussions could be serious. Global confidence in general and confidence in the U.S. in particular could plummet. However, increases in emerging market growth and resumption of free trade agreements could help alleviate the stress.

The question is – how should investors prepare? In the current environment, dividend growth potential should be top of mind when evaluating investments in most major companies. Corporate borrowing to pay off debt, while wise in the current “money for nothing” environment, could be a major red flag – is the company just kicking the can down the road?

In the past, the Federal Reserve served as a steady hand during periods of financial market instability. However, in today’s “everybody gets a trophy” society, we’ve become comfortable with an environment of low interest rates, high unemployment, and pushing federal debt financing farther and farther out. The panelists agreed on the bottom line: While the fiscal cliff and federal budget debate may offer exciting political drama, solving it for the long term will require vision, a willingness to face reality and compromise.

– Michelle Therrien