Retirement Income
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Expect “relief rally” in January: Prudential

By Editor Test *Mon, Dec 3, 2012*

Stocks are likely to rebound on the heels of a “fiscal cliff” resolution, predicts John Praveen of Prudential International Investments Advisers, LLC.

Stock markets should rebound from the early Q4 sell-off and enjoy a relief rally into 2012 year-end with a likely agreement on the U.S. fiscal cliff, a fresh reprieve for Greece and activation of ECB bond buying for Spain, and easing of Middle-East Tensions, according to John Praveen’s Global Investment Outlook for December 2012.

Highlights from the report include:

- Stocks remain supported by interest rate and liquidity tailwinds and expectations of further rate cuts and easing measures with the Fed, the BoJ and BoE likely to expand QE in early 2013. Finally, valuations have improved further with the recent sell-off.
- We expect an agreement in Washington preventing the U.S. economy plunging over the cliff, and further stabilization in Eurozone. This combined with the liquidity and interest rate tailwinds should fuel a relief rally into 2012 year-end. We maintain our 2012 year-end target for the S&P500 index at 1480 and for the Dow at 13,500.
- Global bond yields are likely to remain range-bound with support from weak GDP growth, lingering risk aversion and central bank asset purchases offset by low yield levels and potential for increased risk appetites. Bonds are likely to benefit from the ongoing uncertainty about the U.S. fiscal cliff, lingering fears about Greece & Spain, and weak GDP growth outlook especially in Europe and Japan. In addition, bonds yields are also supported by interest rate and liquidity tailwinds with several global central banks undertaking easing measures.
- Any increase in risk appetite after the decline in equities in October is likely to pressure bond yields higher. Bonds are also likely to enjoy less safe haven appeal with reduced Eurozone tail risks. Finally, bond yields have fallen to low levels in major bond markets and are likely to rise with a sustained decrease in risk aversion.