



Upcoming Budget Battles – March 2013

The humiliating defeat on the fiscal cliff forced the House Republicans to take a long, hard look at their strategy. When the Republicans started their three day retreat in Williamsburg, Virginia, on January 16, there were three key fiscal policy dates on the Congressional agenda, as shown in table 1. The Williamsburg Retreat resulted in a revised timeline for budget battles that are highlighted in Table 2.

In the coming weeks, budget battles on Capitol Hill will take center stage again, starting with the automatic spending cuts on **March 1**. The ‘sequester’ would cut government spending on defense and domestic programs (Medicare, education, R&D, infrastructure) by \$85bn, subtracting 0.5 percentage points from 2013 real GDP growth.

After the battle on ‘sequestration’, Republicans will focus on the Senate budget. Since the Senate has not passed a formal budget since 2010, it is necessary to pass continuing resolutions to allow the government to keep on spending and avoid a government shutdown. Congress must pass the next continuing resolution on **March 27**.

Then we move to the **April 15** deadline that the House Republicans have put forward to force the Senate to pass a budget for fiscal year 2014. The Senate is not expected to come up with large spending cuts, while the House proposal is not likely to include higher tax revenues. That means another budget battle.

The debt ceiling will be hit on **May 19** and the Treasury is likely to announce extraordinary measures some time in advance to avert a default on the government’s obligations. That could delay a default to the first half of July. The extension of the debt ceiling could be the most dangerous budget battle.

The budget battles are going to cover the first half of the year. That means that businesses will be hesitant to invest and hire, consumers may be more cautious in spending and financial market sentiment is likely to deteriorate each time a deadline approaches. This adds to the drag on economic growth caused by the fiscal cliff itself.

We feel that there are so many fiscal policy debates taking place in Washington that stock markets will once again be taken hostage. When market uncertainty and volatility are both high, our more conservative portfolios have historically performed very well. All of our portfolios are well positioned in our opinion to not only weather, but do well in these choppy markets. Please let me know if you are interested in our help in executing these thoughts.

Table 1: Timeline before the Williamsburg Retreat

<i>Date</i>	<i>Fiscal policy issue</i>
2 nd half of February	Treasury’s extraordinary measures to forestall default on legal obligations will be exhausted, hence debt ceiling should be raised
March 1	Automatic spending cuts (‘the sequester’, ‘sequestration’) kick in
March 27	Congress must pass continuing resolution to allow government spending

Source: Reuters

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March 1	Automatic spending cuts ('the sequester', 'sequestration') kick in
March 27	Congress must pass continuing resolution to allow government spending
April 15	Senate must pass budget to get long-term increase in debt ceiling from House
May 19	Debt ceiling is hit
1 st half of July?	Treasury's extraordinary measures to forestall default on legal obligations will be exhausted, hence debt ceiling should be raised

Source: Reuters

Sincerely,

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