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Press Releases

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Byron Wien Announces Predictions for Ten Surprises for 2013

New York, January 2, 2013 – Byron R. Wien, Vice Chairman, Blackstone Advisory Partners, today issued his list of Surprises for 2013. This is the 28th year Byron has given his views on a number of economic, financial market and political surprises for the coming year. Byron defines a “surprise” as an event which the average investor would only assign a one out of three chance of taking place but which Byron believes is “probable”, having a better than 50% likelihood of happening.

Byron started the tradition in 1986 when he was the Chief U.S. Investment Strategist at Morgan Stanley. Byron joined Blackstone in September 2009 as a Senior Advisor to both the firm and its clients in analyzing economic, political, market and social trends.

Byron’s Ten Surprises for 2013 are as follows:

1. Iran announces it has adequate enriched uranium to produce a nuclear-armed missile and the International Atomic Energy Agency confirms the claim. Sanctions, the devaluation of the currency, weak economic conditions and diplomacy did not stop the weapons program. The world must deal with Iran as a nuclear threat rather than talk endlessly about how to prevent the nuclear capability from happening. Both the United States and Israel shift to a policy of containment rather than prevention.
2. A profit margin squeeze and limited revenue growth cause 2013 earnings for the Standard & Poor’s 500 to decline below \$100, disappointing investors. The S&P 500 trades below 1300. Companies complain of limited pricing power in a slow, highly competitive world economic environment.
3. Financial stocks have a rough time, reversing the gains of 2012. Intense competition in commercial and investment banking, together with low trading volumes, puts pressure on profits. Layoffs continue and compensation erodes further. Regulation increases and lawsuits persist as an industry burden.
4. In a surprise reversal the Democrats sponsor a vigorous program to make the United States independent of Middle East oil imports before 2020. The price of West Texas Intermediate crude falls to \$70 a barrel. The Administration proposes easing restrictions on hydraulic fracking for oil and gas in less populated areas and allowing more drilling on Federal land. They see energy production, infrastructure and housing as the key job creators in the 2013 economy.
5. In a surprise reversal the Republicans make a major effort to become leaders in immigration policy. They sponsor a bill that paves the way for illegal immigrants to apply for citizenship if they have lived in the United States for a decade, have no criminal record, have a high school education or have served in the military, and can pass an English proficiency test. Their goal for 2016 is to win the Hispanic vote, which they believe has a naturally conservative orientation and which put the Democrats over the top in 2012.
6. The new leaders in China seem determined to implement reforms to root out corruption, to keep the economy growing at 7% or better and to begin to develop improved health care and retirement programs. The Shanghai Composite finally comes alive and the “A” shares are up more than 20% in 2013, in contrast with the previous year when Chinese stocks were down and some developing markets, notably India, rose.
7. Climate change contributes to another year of crop failures, resulting in grain and livestock prices rising significantly. Demand for grains in developing economies continues to increase as the standard of living rises. More investors focus on commodities as an investment opportunity and

increase their allocation to this asset class. Corn rises to \$8.00 a bushel, wheat to \$9.00 a bushel and cattle to \$1.50 a pound.

8. Although inflation remains tame, the price of gold reaches \$1,900 an ounce as central bankers everywhere continue to debase their currencies and the financial markets prove treacherous.
9. The Japanese economy remains lackluster and the yen declines to 100 against the dollar. The Nikkei 225 continues the strong advance that began in November and trades above 12,000 as exports improve and investors return to the stocks of the world's third largest economy.
10. The structural problems of Europe remain largely unresolved and the mild recession that began there in 2012 continues. Civil unrest subsides as the weaker countries adjust to austerity. Greece proves successful in implementing policies that reduce wasteful government expenditures and raise revenues from citizens who had been evading taxes. European equities, however, decline 10% in sympathy with the U.S. market.

Every year there are always a few Surprises that do not make the Ten because either I do not believe they are as relevant as those on the basic list or I am not comfortable with the idea that they are “probable.” Below are several “also rans” which did not make the Ten Surprises.

“Also Rans”

11. Having traded below 20 for most of 2012 the VIX Volatility Index surges 33% to 30, providing a bonanza for traders. The decline in the S&P 500 increases market volatility.
12. The Newtown, Connecticut, massacre finally convinces Congress to do something about gun control. As a first step they ban future civilian purchases of automatic weapons, including handguns, with clips of more than ten rounds and require more extensive background checks on all gun purchases. “It should not be easier to buy a gun than rent a car” becomes a slogan.
13. Frustrated by an inability to increase revenues through raising income taxes, Congress begins to consider different approaches. There is more talk of a value-added tax as well as a wealth tax, and these ideas appear to be slowly gathering momentum.
14. Congress decides that high-frequency and other computerized algorithmic-based trading practices are putting the individual investor at a disadvantage. A transaction fee designed to slow down frenetic activity and protect against “flash crashes” and glitches is imposed on intra-day trades.
15. The planet finds itself saturated with technology. Semiconductor companies, software providers, social media favorites and personal computer manufacturers all report disappointing earnings and provide discouraging guidance. They lead the overall market lower. Users finally agree the present state of the art is fast enough and connected enough, and that they have more “apps” than they know what to do with. Apple bucks the trend and trades above \$700 as its products continue to enjoy enormous success abroad.

About Blackstone:

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The views expressed in this commentary are the personal views of Byron Wien of Blackstone Advisory Partners L.P. (together with its affiliates, “Blackstone”) and do not necessarily reflect the views of Blackstone itself. The views expressed reflect the current views of Mr. Wien as of the date hereof and neither Mr. Wien nor Blackstone undertakes to advise you of any changes in the views expressed herein.