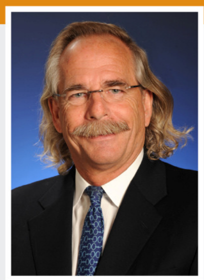
# THE OMNIVEST MARKET VIEW



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## Weight of the Evidence is Turning Positive

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In recent weeks we have seen a number of professional money managers either raise cash levels, increase exposure to US Treasuries or buy investment protection in the derivatives markets. They believe there is a high level of risk that what has occurred in Greece is likely to repeat itself in Italy, with potential spillover effects with respect to France and Spain. They also hold the belief that austerity measures in a broad sense will likely push Europe into a recession in the very near term. In the US, fears that the super committee may fail to reach its November 23rd deadline (which invokes mandatory budget cuts) and that expiring tax cuts may not be extended have investors concerned that the US too is subject to a significant slowdown in early 2012. While all of these risks are real, we believe that investors are still in shock from the August-September 2011 financial market meltdown and still too deeply impacted by the 2008 financial crisis to examine the set of leading indicators that portend a strengthening of the US economy.

First, Initial Unemployment Claims have fallen consistently since peaking at 432,000 on September 9th and now sit at 390,000. More importantly, the 4-week moving average has fallen from 427,000 on July 1st to a current reading of 400,000 - its lowest reading since April 15th. Second, the 10-yr Fed Funds spread fell from 256 basis points (bps) on August 5th to 172 bps on September 22nd and since then re-steepened to 206 bps - as economic releases continue to surprise on the upside.

Retail sales data (a coincident indicator) have posted three consecutive months of incrementally higher sales activity - from a 0.1% increase in June to a 0.6% increase in September. The next Retail Sales release is scheduled for November 15th and current estimates are for a 0.2% increase.

The Purchasing Managers Index (PMI) appears to have bottomed at 50.6 in August and has since ranged between 51.6 and 50.8. Though these are not strong readings, they do portend modest growth in the months ahead.

Housing Starts is another leading indicator which seems to have stabilized at very low levels. The recent reading of 658,000 units appears strong relative to the April reading of 549,000 units. Of course we are still well off the average of 1mm units reported annually over the past six-years.

Consumer sentiment which bottomed at 55.7 in August posted a 64.2 reading this morning. It is not a stellar improvement, but an improvement nonetheless. High-yield spreads have started to narrow over the past month from a wide spread of 866 bps in mid-October to a current spread of 746 bps. At the same time, the S&P 500 Index has risen from its October 3rd low of 1,099 to 1265.

If these leading indicators continue to improve, then rising cash balances will likely be redeployed in equities and perhaps quite quickly as we approach year-end.



OMNIVEST GROUP LLC