

THE OMNIVEST MARKET VIEW



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We are having a Perfect Storm for Equities!

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It is now quite clear that investors were waiting for the outcome of the mid-term elections and the decision by the FOMC before making a more permanent commitment to risk assets.

The mid-term election outcome will likely result in President Obama compromising on the Bush tax-cuts in some manner, perhaps by placing a temporary extension on those who earn more than \$250,000 in exchange for making permanent the tax-cuts for those who earn less than \$250,000. A compromise of this sort would push consumer confidence higher and would have a positive impact on consumer spending.

Post election, the markets were greeted with a second round of quantitative easing (QE2) by the Federal Reserve Open Market Committee (FOMC). The important take-away from this decision is that the Fed is planning on extending QE2 at least until the 2nd quarter of 2011. Moreover, the FOMC suggested that, if necessary, QE3 would be applied which means that they are prepared to remain excessively easy for at least 8 more months or longer..

By taking away the uncertainty of the election outcome and the result of the FOMC meeting this past week, investors have been given a clear sign to add to risk assets. Hence, stocks started to rally after the release of the FOMC meeting and high-yield corporate bonds also rallied to suggest that risk appetites have increased.

Looking forward, we see little reason to expect that the equity market will not continue to rally, at least through year-end, if not longer. We continue to expect that the S&P 500 will rise to a range of 1300 or 1350 by the end of this year.

The re-steepening of the Treasury yield curve will enable corporate spreads to continue to narrow and will encourage investors to not only extend maturity allocations, but also, move down in credit quality.

While stocks and bonds have fared quite well since the announcement of QE2, the value of the US dollar has dropped significantly. In fact, the US dollar has fallen against all 16 major currencies since yesterday. It is our belief that the US dollar has further room to fall, especially given the notion that the Fed will maintain its QE2 stance while other central banks embark on normalizing their interest rates.

It is our view that the perfect storm has arrived for equity market returns. The fact that the S&P 500 has moved to a new 2-year high suggests that investors will need to reinvest in the equity market or suffer not only underperformance but also from the consequences of remaining in cash or very low yielding fixed income assets. Additionally, the weakening of the US dollar should lead investors to seek incremental returns outside of the US markets. It is also our view that investors should look towards emerging market equities for better returns.