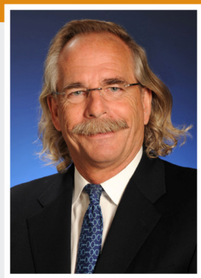
THE OMNIVEST MARKET VIEW



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The Steps to a Stronger Euro

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The sharp decline in the euro/US dollar exchange rate can be traced to the beginning of Greece's financial crisis and the knock-on-effects of relative yield changes. The onset of Greece's financial turmoil in early December initiated an intra-European flight to quality. Spreads between Greek and German 2-year yields exploded from a low of 50.5 basis points to their peak of 563.5 basis points February 8th. Since the talk of budget cuts and certain assistance measures, this spread has narrowed to 481.6 basis points.

The widening of these yield spreads began with the 2-year German yields falling from 1.24% to 0.95%. At the same time, the 2-year Greek yields rocketed from 1.74% to the present level of 5.76% - all, over a very short 3-month period.

The flight to quality out of Greek debt in favor of German debt has had a secondary effect of narrowing yield spreads between German and US debt. Within the past 2 years, spreads have narrowed from a wide position of 57 basis points to a current spread level of only 13.7 basis points.

At the same time German and US spreads have narrowed, yields have fallen. The 2-year German yields dropped from 1.24% to 0.95% while the 2-year US yields moved from 0.85% to 0.81%. The narrowing of these spreads has taken away the yield advantage of owning the euro, which in turn, helped push the euro/US dollar exchange rate from 1.50 to 1.35 since the beginning of December 2009.

It is our contention that once the Greek dilemma finds a healthy resolution, then intra-European yield spreads between Germany and Greece will normalize to lower levels and German yields will rewind themselves higher.

At the same time, Fed Chairman Ben Bernanke continues to echo the refrain that interest rates will remain near zero for an extended period of time. Hence, interest rate differentials between the US and Germany will most likely move back in favor of owning European debt and, therefore, owning the euro.

From an investment perspective, yields between Germany and the US are so small that it makes little sense for an investor to swap out of an expensive US note in favor of an expensive German note. To take advantage of the situation, an investor could simply swap US dollars for euros or invest in a euro ETF.

A bolder investment move would be to take on Greek short-term notes with yields around 5.7% and leave the currency unhedged. The market is pricing in a very negative outcome for Greece with short-term yields hovering just shy of 6%. However, if we are correct about our optimistic view that Greece's debt will have a workable fiscal resolution, then purchasing Greek sovereign debt at or near these levels would appear to be an excellent investment opportunity. Sometime over the next week or two, Greece will issue debt. At that time, investors will be given the opportunity to say "Ohi" (No) or "Ne" (Yes) to Greece as an opportunity. Regardless, the euro appears poised for a sharp rebound.

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