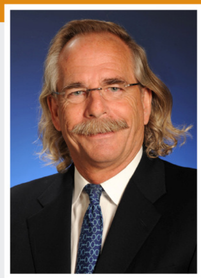
THE OMNIVEST MARKET VIEW

Investments



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Game Changer Still Alive

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Last week, we wrote a report titled "Game Changer". The essence of the piece was that we thought risk assets would likely resume their uptrend after gaining fundamental support from much better than expected April employment data. While we still harbor this view, the fact is that the markets did not respond as we had expected.

Global equity markets, commodities and currencies continue to move lower on the heels of concerns about Greece. An increase in margin requirements for oil contracts and renewed concerns that China's economy would cool - in response to yet another increase in bank reserve requirements - have also contributed to lower commodity prices. While these factors did weigh on the performance of financial markets, we are beginning to see signs that many of these same markets are in the process of bottoming.

Perhaps, the most telling signal is the yield movement of the 10-year Treasury note. Often times, Treasury prices move in the opposite direction of other risk assets. In this case, we may have witnessed the yield on the 10-year note bottom last Monday with a closing yield of 3.148%. The fact that a lower yield was not established this week suggests that the 3-week rally in Treasury securities may be coming to a conclusion. What are the factors that could push yields higher over the near term? An increase in producer and consumer prices could begin to push interest rates higher as inflation fears begin to surface.

Another data point that has influenced the direction of Treasury yields has been the volatility of initial unemployment claims. Prior to this week's release, unemployment claims had risen from 385,000 to 478,000, which suggests a weakening of the labor market. This morning's claims data was a pleasant surprise - a drop of 44,000 in unemployment claims from the previous week.

A combination of improving labor markets and somewhat higher inflation data should arrest the recent decline in Treasury yields in advance of the end of QE2 at the end of June.

The declining need to own Treasury securities should shift asset demand in favor of risk assets; stocks, corporate credit, commodities and currencies. In addition, increased merger activity, stronger earnings, increased dividends and stock buyback programs should all prove supportive for equity markets.

Finally, the US dollar is expected to surrender its recent gains as progress is made in gaining support for resolving Greece's financial distress. Resumption in a broad based decline of the US dollar should also put luster back into the price of gold. Also, the unwinding of long speculative positions in silver, and perhaps even oil, in response to the CME's increase in margin requirements, should begin to ease.

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