THE OMNIVEST MARKET VIEW

Investments

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Winds May be Shifting

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We may have just seen nascent signs that Europe may begin to ease its emphasis on austerity and embrace pro-growth policies. The statement from the G-8 Summit this past weekend stated that "we welcome the ongoing discussion in Europe on how to generate growth, while maintaining a firm commitment to implement fiscal consolidation to be assessed on a structural basis". The G8 leaders also said that it is "our imperative to promote growth and jobs". These words and sentiment clearly point to the concern that austerity measures may have gone too far in weakening the hope that Europe can once again return to a state of positive economic growth. The result has clearly led investors to switch back to a "risk-off" mode.

Investors have responded to the subtle shift in language by raising the value of the Euro Stoxx Index by 3.7% and the S&P 500 Index by 2.7% from last Friday's lows. Conversely, risk free 10-year yields have risen 11 basis points (bps) in the US, 9 bps in Germany with Swiss 10-year yields rising 10 bps. Confirming these market moves, the US dollar has experienced a gradual decline, as reflected in the US dollar Index, from 81.75 to 81.23. Gold has responded to the drop in the US dollar by rising 1.3% from last Friday's low.

We understand the fragility of the Euro-zone and the headwinds that the global economy is facing, as a whole. However, we are also cognizant of the fact that the G8 and G20 countries are equally aware of the consequences of not addressing head-on the associated risks. On May 20th, Chinese Premier Wen stated that "more efforts should be made to maintain relatively fast economic expansion" in China. This follows the May 12th announcement that China would cut its required reserve ratios by 50 bps to inject liquidity into the financial system.

It is our belief that the negative price action for global risk assets may have been overdone and perhaps somehow associated with the old saw "sell in May and go away". In the past two years, investors have faced miserable market conditions for risk assets both in spring and summer and may have overreacted in May as financial markets started to decline.

Some may be interpreting the lack of investor follow-through post Facebook's Initial Public Offering (FB's IPO) as symptomatic of a waning demand for risk assets. Note that Apple shares have risen 8.8% since FB's IPO with Google rising by a more modest 2.3%.

It is our hope that this summer's pre-election stumping does not raise fears that the US will suffer Europe's fate of untimely and rigid austerity measures. Yes, the US deficit needs to be reigned-in, but not when the U6 unemployment rate (includes part time workers who want to work full time, but cannot due to economic reasons) is at 14.5% and the unemployment rate for teenagers between the ages of 16 to 19 years is at a whopping 24.9%.