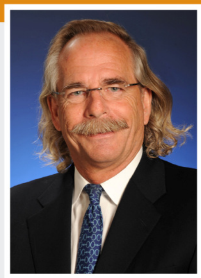
THE OMNIVEST MARKET VIEW

Investments



Tom Sowanick
Co-President
Chief Investment Officer
tom@omnivestgrp.com
Tel: +1 609 921 7939

Eleni Athanatos
eleni@omnivestgrp.com
Tel: +1 609 986 1001

Another Round of QE May Not be Too Far Off

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Weaker than expected May employment data that showed a gain of only 69,000 jobs and a downward revision of 38,000 jobs to the April report should promote strong debate at the Federal Reserve on June 20th at the next FOMC (Federal Open Market Committee) meeting. Not only has the US employment picture deteriorated, the Euro zone unemployment rate has recently risen to 11%. Also, China's PMI Manufacturing Index fell from 53.3 to 50.4. This backdrop of the weakening of the global economy could promote a broad round of coordinated Central Bank easing.

Interest rates, as measured by government bond yields, in many instances are already at historically low levels. US 10-year yields have now fallen below 1.5% for the first time. German 10-year bund yields are only 19 basis points (bps) from dipping below 1.0% and Swiss 10-year yields are now below 0.5%. These ultra low yield levels reflect the need for safety but also a very relaxed attitude towards risk in the fixed income markets.

The need to own risk-free assets, in our view, has converted the concept of "risk-free" to "at-risk" assets. None of us really know when the tide for owning risk-free assets will shift. What we do know is that the day or reckoning will surely come, and when it does, investors who thought they were in safe assets will find themselves in unchartered territory-unchartered territory because the current interest rate environment is being held artificially low by Central Banks around the world. Therefore, the normalization process for market interest rates will not only have to retrace the artificial movement but will also have to rise to reflect fundamental values, which may include an eventual nasty bout of inflation.

In the current environment, it is difficult to imagine Treasury yields falling much below where they are today. And while the momentum for lower yields seems intact, it is our view that the risk to higher Treasury yields is greater than the potential rewards from ever lower yields. A one year horizon analysis, using a +/- 100 bps interest rate move, for the 10-year Treasury note produces a total return of +9.94% or -6.57%. While the reward for 100 bps drop in rates is greater than that for 100 bps rise in rates, the question that needs to be addressed is what is the likelihood that the 10-year Treasury yield can actually fall to 0.47% and is this a reasonable assumption given what we know today?

While we and others believe that Quantitative Easing (QE) may in fact be closer than many think, we do not believe that Treasury yields will necessarily fall further. In fact, without another round of QE, Treasury yields will almost surely have to rise which will inevitably put investors buying at today's yields at risk. Given the fact that interest rates are at historic lows, commodity prices are at their lowest levels since September of 2010 and housing showing some signs of stabilization, it may not be unreasonable to see the US economy quickly recover from the current economic soft patch.

In our view, risk looks attractive and risk-free looks unusually risky for intermediate to long-term investors.

OMNIVEST GROUP LLC