

THE OMNIVEST MARKET VIEW



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Is it the Darkest Hour Again?

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In many ways it feels as though global investors have returned to the darkest hour of investing, a feeling similar to what we all experienced in 2008. Today the fears are different. Greece may be on the precipice of default, the future of the euro is being challenged, the US economy is stagnant at best, Washington D.C is polarized and China's growth may prove to be too slow to keep the global economy afloat. While all of these fears are real, they have also largely been priced into current global equity prices.

First, we do not believe that Greece will default on its debt. We also expect that Germany will eventually come around to the belief that the EU will be better off with Greece rather than without it, thereby reducing the risk of a potential knock-on effect to the rest of Europe. And while Greece is running out of time, we believe that all of the relevant parties have finally realized the potential contagion effect if Greece were pushed into default.

It is also our belief that there will be a bi-partisan effort in Washington to pass another, more targeted, stimulus package aimed at job growth. Incumbent Republicans and Democrats both know that not voting for a jobs-related stimulus package would clearly damage their prospects for re-election.

Without doubt, business and consumer confidence are back to their lowest levels of the past 2 years. However, confidence does not always reflect the current state of economic activity. For example, the manufacturing ISM report is still growing, though at a slower pace than earlier in the year, with a current reading of 50.6. The non-manufacturing ISM report registered a somewhat stronger reading in August with a gain of 53.3 and is up from 52.7 in July.

The biggest problem in China has been the stubborn rise of inflation over the past year which has prompted The People's Bank of China (PBOC) to tighten monetary policy and therefore question the ongoing strength of the Chinese economy. The good news is that the August inflation reading came in at 6.2% versus a 6.5% increase in July. With commodity prices drifting lower over the past month, the odds favor another dip in China's inflation rate in September. If so, then the need for incremental tightening will be put to rest.

Finally, the Federal Reserve is scheduled to meet for an extended 2-day session next Tuesday and Wednesday to discuss their options in combating slow growth. Regardless of the action(s) they may or may not take, their fervor will not waiver with respect to being ready to take the necessary actions to ensure economic growth.

So the darkest hour may feel quite bleak, but often times it has proven to be the hour of opportunity when investors have been rewarded for taking on risk. We believe that the hour is again upon us to add to risk positions.

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