# THE OMNIVEST MARKET VIEW


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## Return Profiles are Shifting in Favor of Stocks

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Total return data since the start of 2009 through September 13th 2010 has shown a clear bias of outperformance by corporate bonds in both relative and absolute terms to stocks, as measured by the S&P 500. During this time period, the S&P has earned a total return of 33.7%, investment grade corporate bonds earned 31.4% and high-yield corporate bonds earned an impressive 73.54%.

However, a closer look at the return profiles on a quarterly basis suggests that high yield and investment grade corporate bonds earned equity like-returns in Q2 and Q3 of 2009 but when we average returns from Q4 of 2009 through Q3 YTD, quarterly returns have been relatively stable with high-yield bonds at 5.35% and investment grade bonds at 2.66% during positive quarters.

The table below illustrates that during Q3 and Q4 of 2009 and Q1 of 2010, total returns between high-yield bonds and the S&P 500 have been remarkably similar, with the S&P posting a return of 29.2% versus 27.6% for high-yield bonds over the period.

**Total Return (%)**

| 2009 | S&P 500 | Investment Grade Bonds | High Yield Bonds | Municipal Bonds |
|---|---|---|---|---|
| Q1 | -11.01 | -1.43 | 5.06 | 4.43 |
| Q2 | 15.92 | 10.82 | 23.19 | 2.72 |
| Q3 | 15.60 | 8.32 | 14.81 | 8.07 |
| Q4 | 6.03 | 1.22 | 6.04 | -1.20 |
| **2010** | | | | |
| Q1 | 5.38 | 2.74 | 4.82 | 1.27 |
| Q2 | -11.43 | 3.25 | -0.07 | 2.02 |
| Q3 | 9.35 | 3.42 | 5.19 | 3.24 |

***Source:*** *Bloomberg*

In the current quarter, there appears to be a significant outperformance of stocks versus bonds. In the current quarter to-date the S&P 500 is up 9.35% and high-yield bonds are up a very respectable 5.2%. While it may certainly be true that the near double digit equity returns during the current quarter may only be a "bounce" from the horrible Q2 returns of negative 11.43%, it is notable that return patterns from the debt markets have moved into a relatively stable pattern.

It is our contention that with interest rates so very low, bond market returns should not be expected to be much greater than the respective coupon return over the quarters ahead.

On the other hand, it is our view that equity market returns have substantial ability to return double digit returns for the period immediately ahead. Investors have clearly noticed the relative attractiveness of stocks versus bonds and in August have plowed a record of $1.4 billion into a combination of dividend, preferred and convertible bond ETFs. Since the start of the year, these income producing equity-like products have seen inflows of around $12 billion.

The fact that investors are warming to the idea that stocks have a greater prospective return profile than low yielding fixed income gives us comfort in recommending a more aggressive stance on asset allocation by way of shifting assets out of bond funds and into equities.



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