

THE OMNIVEST MARKET VIEW



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Week in Review & Preview Glimpse

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Last week was the second week in a row where risk assets gained positive momentum. Emerging equity markets were up 4.14% with small cap stocks gaining 4.04%. In the fixed income markets, high yield gained 2.47% vs. 0.21 for investment grade bonds.

Increased demand for risk assets had negative consequences for long term treasuries. The 10-year yields for the US rose 9.82 basis points (bps), followed by a 13.15 bps increase for 30-year Treasury yields. This is consistent with the back up in risk-free German bund yields of 19.70 bps and 9.33 bps for Swiss 10-year yields. Conversely, 10-year Brazilian yields fell 23.50 bps and Mexican 10-year yields fell by 32.30 bps.

A sense of calm in Europe and progress towards financial agreement for the expansion of the EFSF helped to strengthen the euro to 1.388 from 1.337 on the week. The improving tone of the euro quickly spread to other major currencies as the US dollar fell against 14 out of 16 major currencies, thus confirming the spreading demand for risk assets.

The S&P 500 Index gained 2.51% on the week which is almost half of the 4.04% gain for small cap stocks. For the week starting October 3rd to October 10th of this year, the S&P gained 8.78%. This is notable because when we look at the lows that were set on July 2nd of 2010, the S&P gained 5.46% the first week of that rally. The S&P has now regained all of its losses for September.

Further gains should be expected for risk assets as the G-20 Finance Ministers have committed to avoid European contagion and demanded to hear a comprehensive plan from the European Council on October 23rd. The G-20 Finance Ministers have paved the way for the November 3rd & 4th G-20 Summit that will act to further stabilize financial market turmoil and support stable economic growth.

This week will start with Industrial Production data on Monday, followed by inflation readings on Tuesday and Wednesday. Leading Indicators and Existing Home Sales will be released on Thursday. Perhaps the most important piece of data this Thursday will be the Initial Unemployment Claims which are flirting with breaking below the critical 400,000 level. The Federal Reserve's Beige Book will be released on Thursday and that should paint a picture of an economy that is beginning to show growth. The Retail Sales report that we had last week clearly surprised the doomsayers with a strong gain of 0.5% and a substantial revision of the August data from 0.1% to 0.5%.

We expect a further increase in demand for risk assets, led by global equities and low quality debt instruments. Investors with income needs should focus on high yield corporate bonds and low quality municipal bonds.

Week ending 10/14/11

	(%)
Gold	0.26
Silver	0.33
Oil	4.60
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S&P 500 Index	2.51
Russell 2000 Index	4.04
Emerging Equity Markets	4.14
Developed Equity Markets	2.58
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	(bps)
2-year Treasury Yields	-3.48
5-year Treasury Yields	-1.92
10-year Treasury Yields	9.82
30-year Treasury Yields	13.15
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	TR (%)
High Yield Bonds	2.47
Investment Grade Bonds	0.21
Municipal Bonds	-0.04

Source: Bloomberg

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