THE OMNIVEST MARKET VIEW

Investments

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Week in Review & Preview Glimpse

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The five week rally for global equities and credit took a rest last week as investors went to the theatre to see the outcome of the next act of the Greek tragedy. Tonight Greece's Parliament will vote on whether or not to accept the austerity measures. And while it is largely expected that Greece will accept these measures, it is not clear whether an affirmative vote will have a lasting calm to financial markets.

Volatility has increased a smidge from 17.10 to 20.79 on the week but remains well below the 3-month average of 23.99. Many commentators have averred recently that volatility was unsustainably low and forewarned of an eminent price correction for equities. We disagree with this assessment and would argue that the FOMC's decision to keep interest rates at current levels through 2014 and the continued improvement in economic data are supportive of low levels of volatility and therefore high equity prices.

Our most favorite economic indicator, Initial Unemployment Claims continues to improve, suggesting that the labor market may in fact be healing. The four week moving average for Claims has fallen to 366,000 - its lowest reading since May of 2008. This week will be a heavy week for economic data in the US with Retail Sales, NY Manufacturing, Industrial Production and the FOMC minutes all being released February 15th. Producer Price Index (PPI), Initial Unemployment Claims, Housing Starts and the Philly Fed Index will be released on February 16th. On February 17th, Consumer Price Index (CPI) and Leading Economic Indicators will be released.

Last week (Friday) the global equity rally ran into resistance as investors awaited today's crucial vote by Greece. Also of note last week was BlackRock's CEO, Larry Fink who advocated that investors should own 100% equities vs. 0% fixed income. Warren Buffet also said that "bonds are among the most dangerous assets". While it is hard to argue that fixed income in general represents value, it is still possible to find decent investments within lower quality corporate bonds and municipal bonds.

Last week, high yield bonds posted a total return of 0.28%, bringing the year-to-date return to 3.66%. BBB rated muni's gained 0.14% on the week and is now up 3.6% on the year. It is our view that lower quality fixed income assets will continue to perform well as investors continue to search for yield.

Equity markets continue to be led by pro-cyclical sectors such as financials, industrials and materials. Emerging markets have also been quiet strong leading up to last Friday and should continue to perform well as investors distinguish between debt laden industrialized European countries and the merits of emerging economies and the emerging consumer.

Investors understandably are nervous about the outcome for Greece but Greece's outcome will have little impact on global growth. It is more important that we focus on the global Central Bank community that is committed to stabilizing financial market risks by keeping interest rates at ultra low levels and therefore providing investment opportunities in asset classes that can take advantage of low carrying costs. In this instance, low quality fixed income assets and commodity based currencies fit the bill.

February 3 - 10, 2012

	(%)
Gold	-0.86
Silver	-0.23
Oil	0.85
	(%)
S&P 500 Index	-0.12
Russell 2000 Index	-2.12
Emerging Equity Markets	-0.29
Developed Equity Markets	-0.32
	(bps)
2-year Treasury Yields	4.37
5-year Treasury Yields	5.25
10-year Treasury Yields	6.38
30-year Treasury Yields	2.12
	(%)
High Yield Bonds	0.28
Investment Grade Bonds	0.47
Municipal Bonds	0.01
US Treasury Master	0.07

Source: Bloomberg

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