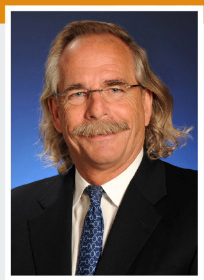
THE OMNIVEST MARKET VIEW
Investments



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FOMC - Hold the Fear

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Initial readings from the Federal Open Market Committee (FOMC) meeting of March 20th suggested that the Federal Reserve is much closer to reigning in asset purchases than previously thought. Long term Treasury yields rose nearly 10 basis points (bps) on the news and cast a shadow over the recent equity market rally.

Apparently, discussions during the March 20th meeting were colored by the healthy increase in job growth during the preceding four months. The optimism was quickly dashed with the April 5th employment report that showed a gain in non-farm payroll of only 88,000 which pales in comparison to the preceding four month average of 220,000. This dismal report has brought back the notion that the US economy remains fragile and subject to a variety of headwinds.

If the Fed did not respond (in a meaningful way) to the much better employment data from the preceding four months, then it is likely that the Fed will require more than six months of consecutive 200,000 plus in job gains before entertaining even a tapering of asset purchases. Accordingly, a continuation of quantitative easing should now be expected well into next year.

The response in the financial markets has been pro-cyclical with stocks gaining nearly 2% and setting all time highs for both the Dow Jones Industrial Average and the S&P 500 Index. We continue to believe that equity markets are generally undervalued, under owned and offer much more upside than what is commonly thought. Expectations that a “great rotation” out of bonds and into stocks would produce new highs also seems to have been premature.

Investors that typically own long term bonds are the same investors that typically don’t own stocks. It makes little sense to expect such unusual investment behaviors (selling bonds to buy stocks) to take place just because interest rates are low and will remain low for a prolonged period of time. The more likely scenario would be for bond investors to continue to move down in credit quality and at the same time reduce duration risk. This activity is evidenced by the continued narrowing of high yield credit spreads which have now narrowed 6 bps since the end of the first quarter of 2013 and narrowed by 42 bps since the start of the year. As long as quantitative easing remains in the picture, investors should anticipate even further narrowing of low quality credit spreads.

Investors that can invest in multiple asset classes should find equities that offer the highest expected returns. Currently, investors are looking at dividend paying stocks as a source of income and market watchers are saying that defensive sectors (dividend paying) are the market leaders. The reality is that small cap cyclical sectors are leading the performance derby. Having said that, investors looking for dividend yield may want to consider REITs, or financial stocks both of which sport dividend yields in excess of 7%.