# THE OMNIVEST MARKET VIEW

Investments

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The landscape for risk assets continues to improve finding new support from the 25 basis point (bps) interest rate cut by the ECB this week, followed by a very important asset sale in Greece which has pushed 10-year Greek yields to 9.46% (their lowest levels since October of 2010). Evidence that Greece is able to sell assets to reduce its debt burden sends a very positive message to investors that Greece does have the potential to resolve its debt burden and remain in the euro.

The last piece of positive news came in the way of a "better than expected" increase in employment of 176,000 vs. expectations of 150,000 and a very significant 2 month net revision of 114,000 increase in employment. The much broader U-6 Unemployment rate has now stayed below 14% for two consecutive months (its lowest reading since December 2008).

A combination of better housing and employment trends in the US coupled with the fact that countries in crisis are attracting buyers for sales of distressed assets is leading equity markets sharply higher at a time when investors generally remain grossly underweighted. Investors continue to be too cautious despite the global effort of Central Banks to promote growth and reverse deflationary pressures.

Central Banks have recently started to articulate their need to diversify reserve assets away from low yielding fixed income securities into equities. While the Federal Reserve is not in this camp, Central Bank of Switzerland and the Bank of Japan (BoJ) have both publicly stated their intentions to purchase equities or increase their existing relative allocations. Prudent or not is not the question. It is the message that Central Banks believe that low rates will last longer than most investors envision.

It is our view that investors should purchase on the continued strength in equity markets rather than waiting for that illusive "pull-back". Though pull-backs would be welcomed, they would also likely give rise to concern that the market's rally is finally over, thereby adding to investor's inertia to invest in risk assets.

Already narrow spreads in high-yield corporate debt and lower quality municipal debt have room to compress further given the current investment climate created by the Central Bank community. Moreover, low quality debt offered at discounts to par continues to offer upside potential should spreads continue to narrow.

In the equity market, we believe that multi-expansion will provide the gas for the next leg to the current rally. It is not unreasonable to expect the P/E multiple for the S&P 500 Index to rise to a new range of 16 to 18 times, allowing the S&P to rise to a new range of between 1,760 and 1,980.

The ingredients are coming together for a substantial multi-year move up in the price of risk assets. As we have argued in the past, let price action be your guide.



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