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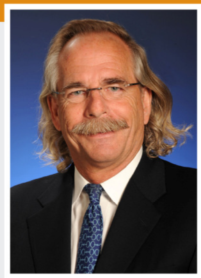

Tom Sowanick

Co-President
Chief Investment Officer
tom@omnivestgrp.com
Tel: +1 609 921 7939

Eleni Athanatos

eleni@omnivestgrp.com
Tel: +1 609 986 1001

Another Round of Stimulus - From Banks!

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Concerns that the Federal Reserve may soon taper its asset purchase program has called into question whether the modest economic growth we have been experiencing in the US is in jeopardy. It is our view that the economy is likely to gain momentum in the second half of the year from an increase in bank lending. The key question is "why would banks become more generous with their lending?" The answer, we believe, is relatively simple.

First and foremost, net interest margins for US banks are approaching their lowest levels since the 2008 financial crisis. It is incumbent upon the banks to grow earnings and this can only be done by increasing lending activity. There is evidence that banks are beginning to ease their lending standards. In April, the Senior Loan Officer Opinion Survey produced by the Federal Reserve showed that lending to businesses eased in the first quarter of 2013 and borrowing demand increased. 19.1% of the banks reported that they had eased credit standards for Commercial and Industrial (C&I) loans for large and middle market firms.

Secondly, credit lending standards eased by 23.1% for small businesses in the first quarter of 2013 and are at their easiest levels since June of 2005. The willingness for banks to lend to small firms is a very constructive sign for future economic activity. The economy has only experienced modest growth during this recovery because most banks were not willing to increase lending. Declining net interest margins for the banking sector may give banks sufficient reason to ease credit standards further in order to reverse the decline in their margins.

And while the Fed has repeatedly said that "tapering of asset purchases would be data dependant", investors should not be fearful that an eventual end to quantitative easing is necessarily synonymous with an end to the bull market in risk assets, nor an end to the economic recovery.

The fact that there is no evidence that the equity rally has been nourished with asset allocation shifts from bonds to stocks suggests that additional buying power may still be waiting in the wings. Investors have been looking for a pullback in the equity market for the past six months. The last time that the S&P 500 Index experienced a 5% correction was in early November of 2012.

Somewhat higher treasury yields may be the catalyst to initiate a shift from the safety of treasuries into the equity market. Since the end of this past April, the yield of the 10-year Treasury note has risen from 1.67% to 2.00% which is the first meaningful rise in yields since July 24th 2012 when 10-year yields rose from 1.38% to 1.83% by August 15th 2012. If the current rise in long term interest rates is sustained, then bond investors will need to brace themselves for the prospects of negative total returns.

It is our view that once the Federal Reserve sends a clear signal that tapering is around the corner, then the widely expected allocation shift will begin. This belief is based on our view that tapering will only occur when the US economy can better stand on its own two feet; an environment whereby stocks should continue to outperform bonds.

This report was prepared by Omnivest Research. This material reflects the current opinion of the firm based on sources deemed reliable, but we do not guarantee its accuracy or completeness.

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