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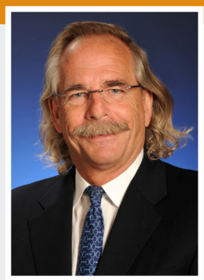

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A Sense of Calm

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There is a certain sense of calm returning to the financial markets over the past week following the violent reaction to Bernanke's press conference on June 19th 2013. The 10-year Treasury yields spiked 50 basis points (bps) between June 19th to June 24th. Credit and mortgage spreads were forced wider challenging investor's stamina in what could be a changing interest rate environment.

While interest rates may not return to the levels that existed before Bernanke's now infamous press conference, it is most likely the case that 10-year Treasury yields will move in a new range that is bound between 2.1% and 2.6% over the balance of the summer. If so, then investors will be rewarded by returning to the fixed income markets when yields are close to 2.6%.

The sense of calm that is growing in the marketplace has been the result of Federal Reserve officials initiating comments that were meant to ease fears about a quick end to Quantitative Easing (QE). New York Fed President, Bill Dudley was most poignant when he stated that "Bernanke wasn't trying to send a 'signal' to the market". It is our belief that the sharp rise in interest rates has recalibrated the risk/reward of owning fixed income assets. Whether the Fed begins tapering QE at the end of this year or sometime in 2014 should be less important than the fact that short term interest rates will be held at current levels until sometime in 2015.

With the Fed funds rate expected to be zero bound for the next 2 years, it is unlikely that an increase in volatility can be maintained for a prolonged period of time. We have already seen the CBOE Volatility Index (VIX) retrace nearly its entire move from 15.36 to 21.91 during last week. The VIX Index is currently priced at 16.45. Stability should lead to narrower corporate and mortgage spreads.

Currently, the best value in the fixed income market is in the lower quality spectrum of the municipal market. Yields for BBB muni's which were 4.64% a month ago are now above 5.00%. This compares favorably with investment grade corporate yields which are now less than 4.00%.

Stocks were also battered over the past week and are now in the process of recovering. Since bottoming on June 24th, the S&P 500 Index has gained a strong 2.60%. It continues to be our view that stocks will continue to outperform fixed income.

The prospects that the Treasury yield curve remains steep should be positive for the banking sector. Industrials and Consumer Discretionary stocks should also do well as employment conditions gradually improve.

OMNIVEST GROUP LLC