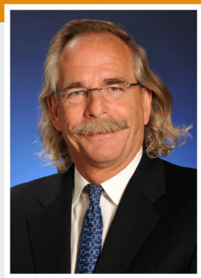
THE OMNIVEST MARKET VIEW

Investments



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

A Bigger Shoe to Kick the Can Down the Road

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How sad it is to have witnessed a near collapse of the US Government caused by the child-like behavior of our two primary political parties. What is even sadder is the likelihood that we will experience the same behavioral patterns prior to the January 15th budget expiration and the February 7th debt ceiling limits in 2014.

The immediate market reaction to the end of the shutdown was a modest reduction in Treasury yields and higher equity prices. Without a doubt, a certain amount of calm has been re-introduced into the financial markets, even if it's only temporary. The next big question is how global investors (especially foreign holders of US Treasury securities) will behave if round "2" is just as disruptive as the last one. China has already warned us that the US dollar is at risk of losing its status as the world's reserve currency. This is a strong statement from the largest holder of US Treasury debt away from the Federal Reserve. In addition, China's Dagong Global Credit Rating Co. cut its local and foreign credit rating of the US from A to -A, while maintaining a negative outlook just hours AFTER the Obama Administration signed legislation to raise the US debt ceiling.

It is also quite sad to know that marginal investment decisions that are made today or tomorrow will be clouded by another potential shutdown and potential default if the debt ceiling isn't extended in early 2014. This uncertainty however should push the beginning of the Federal Reserve tapering into next year. If correct, then risk assets will continue to be market leaders between now and year-end.

Volatility has already fallen sharply which corresponds to a narrowing of credit spreads and the continuation of the stock market rally. We believe that returns from the bond market will pale in comparison to the returns produced from equities for the balance of this year.

The rally in Treasury prices should be viewed with a fair amount of skepticism given that the US will politely remain on negative credit watch by Fitch and perhaps joined by S&P and Moody's. In other words, use positive price action to reduce duration exposure and overall exposure to the US Treasury market. The beneficiary of such action should be the corporate bond market (high yield and investment grade) and the equity market.

Given the 2-1/2 month window before Washington potentially blows up again, investors should not focus on stock picking but rather on passive investments such as ETF's and Index funds. Similarly, bond investors should use passive strategies for the short term. Additionally, corporate bond investors who have experienced unusual negative price action from closed-end bond funds as a result of prices trading at discounts to NAV, should take the next two months to sell these funds as these discounts narrow. Bond investors should favor index funds and mutual funds with short durations.

Over the near term, the quality of economic data will be quite choppy and heavily influenced by the government shutdown and the knock-on effects to the broader economy. Risk of another shutdown could keep the economy on a slowing track as uncertainty remains high.

OmniVest GROUP LLC