# Courier Capital Corporation

## Market Review & Update

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Anguish caused by fears of contagion dominated the headlines recently as domestic cases of Ebola became the sole focus of the nightly news. It is probable that this increased attention will draw more resources to the locus of the problem. It was, however, concern over an economic pandemic that shook the leaves off a record setting August, to usher in autumn.

Let's retrace the last few months to place this all into perspective. After an unusually calm summer the equity markets ushered in autumn on a high note, quite literally. The most robust August in four decades saw the S&P 500 break 2000, while the Dow surpassed 17,000, both all time highs. Once again, the catalysts appear to primarily be the continuation, albeit slow, in the momentum of corporate earnings and the gradual improvement in domestic economic metrics. The trends continued in the face of ongoing global unrest, with perhaps a specific focus on the protests in Hong Kong. That garnered special attention because of Hong Kong's import on the global economic scene and to China as well. It is that same significance that should ultimately result in a fairly civil resolution to the not surprising tug of war between historic forces of the communist archetype and its morphing quickly into a formidable economic behemoth.

With all this and many other distractions occurring, it's really little surprise to see the lack of attention, at first, being directed at the record low level of global interest rates. Sovereign debt yields worldwide acknowledged the potential for the aforementioned economic pandemic of deflationary pressures in both Japan and the Euro-zone to go quite literally viral. The prospect of aggressive quantitative easing measures in both regions have sent 10 year sovereign debt yields to levels never before seen. German bunds dipped below 1% and the yields in Spain and Italy were below that of the US. The ECB was/is widely expected to begin to aggressively buy bonds in hopes of sparking some economic growth to stave off these recessionary/deflationary fears. ECB head Mario Draghi certainly was a major catalyst for the fears of the deflationary pandemic spreading when he dragged his heels on the potential for a quick start to the Euro Zone QE efforts, which coincided with the initiation of the recent fear based sell off. If nothing else it makes for this nifty, or not so nifty little currency war in which we may have little alternative but quiet surrender. The plus is that it could well keep a glass ceiling on interest rates in spite of our aforementioned strengthening domestic metrics. The impact on the earnings of our multinationals will be something to closely monitor. Past fears of Euro weakness have always been countered by the strength of German exports. Those very same metrics have been recently weak despite the presence of cheap Euros, which would normally be expected to stimulate German exports.

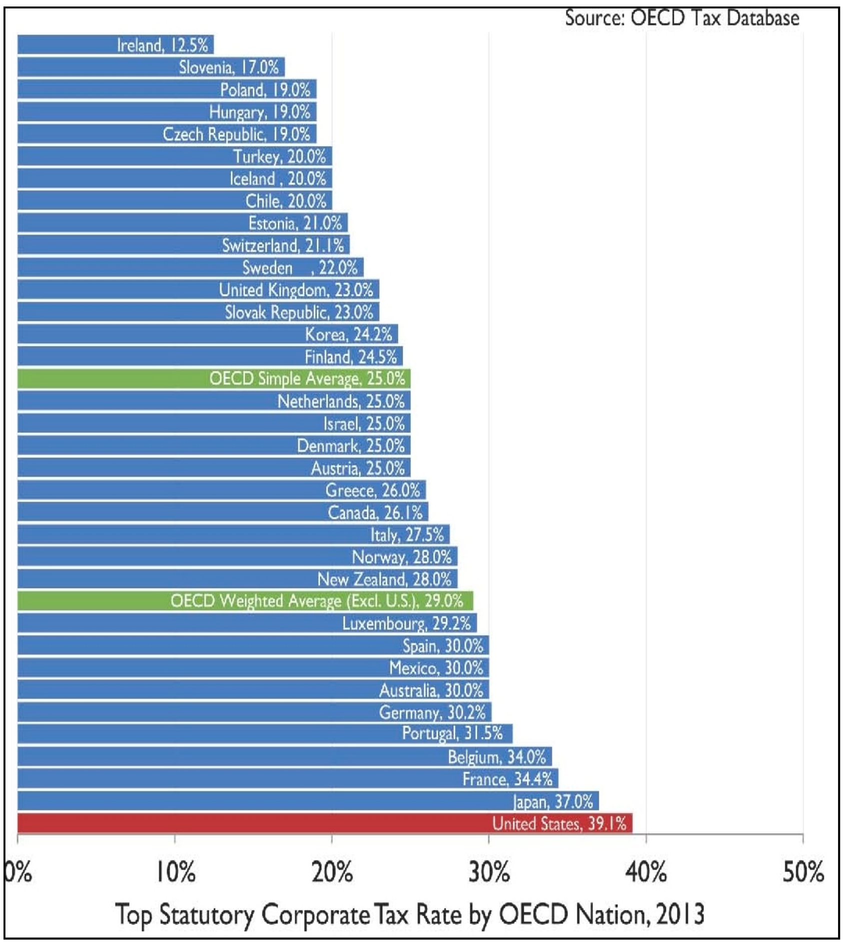
**Figure 1: Labor Force Participation Rate**


The noted strength in US domestic economic metrics must be monitored for forward consistency. The most oft cited in those slowly improving economic releases has been unemployment. Touted for recently dipping below 6%, while still noting that enough people aren't enjoying this recovery, there may be some truths in the dichotomy… Typically, when unemployment heads toward 5% coincident indicators, namely housing and CPI, stimulated by rising wages, show some robust increase. It ain't happening, or so say the populace that have yet to feel wonderful about our slow but steady growth. Some truth can be found in the participation rate (see Figure 1). At the same time unemployment dipped, there was also a significant decrease in the participation rate (which requires a significant increase in the number of people who simply stop seeking work). As the chart shows that number has now reached a 36 year low. So, to compare our 5.9% unemployment rate fairly, you need to add in those dropouts to get a comparable unemployed number versus past periods. Housing and inflation are both saying we have a ways to go. And while that is bad for humans, the silver lining is that there is more elasticity to allow for forward improvement than would normally exist at a sub 6% unemployment level.

As we have noted previously and often, there is also plenty of fuel for this to happen in the now $2-3 trillion in cash and short term investment held by the S&P component companies. They are unlikely to make an aggressive commitment to increased capital expenditures absent some relief from tax and regulatory burdens. The recent tax inversions has focused a floodlight on these issues and have caused some recommendations, consistent with the state of affairs in DC, some productive yet some both hilarious and scary!

To the surprise of some of you, I will now end this citing Bill Clinton, who was recently interviewed In NY as his Global Clinton Initiative was scheduled to coincide with the UN Economic Forum. When asked what his most significant recommendation to help spread the economic recovery's impact to more people he said that we should simplify and lower the corporate tax rate in the US, which as the chart shows now ranks as the world's highest. He emphasized that we should also stop taxing overseas earnings if companies wish to bring them home (remember that $2-3 trillion…) and incent companies to build here. And, on the topic of inversions which but for Ebola had risen to near ubiquity on Capitol Hill, he cautioned congress to avoid trying to punish companies that wish to leave US taxation behind. He urged lawmakers to instead make the US the most attractive place to do business, thereby obviating the need to contemplate inversion relief. I couldn't agree more. Let's replay the aforementioned negatives: growth a little slower than we'd like; misinformation on unemployment; which inevitably leads to the soft housing and inflation statistics. Fix those tax items and those areas magically repair at an accelerating rate. Clinton's taxation assessment was so well thought out and concise you'd almost think he was preparing a political campaign…

**Figure 2: The U.S. Has the Highest Corporate Income Tax Rate in the Industrialized World**




So far this quarter, corporate earnings releases are manifesting a continuation of the slow but steady growth trend, exceeding analysts' estimates by about 3%. And expectations for 2015 manifest an 8-11% increase. The Euro Zone impact on our 10 year Treasury may very well make the best case for the path we are likely to travel in 2015. If we examine every historical occurrence of a 10 year yield dipping below the dividend yield of the S&P 500 we find a positive 12 month forward return at a 100% occurrence rate.

We'll talk to you soon…