Courier Capital Corporation

Market Review & Update

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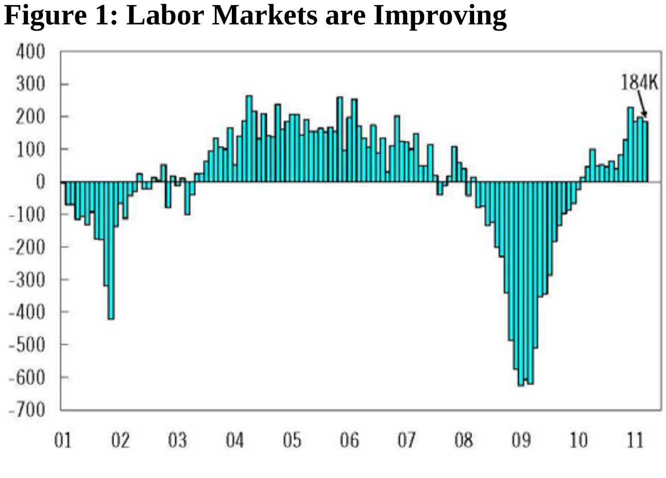
Happy Spring! And just when you thought we'd be in the typical boring ebb of the last news cycle…

A sudden wave of evolution, revolution or devolution (hopefully the former) is sweeping through the Middle East, while a wave of even more serious impact was generated by the largest earthquake in the history in Japan. The fallout, both literal and figurative, will have lasting impact. In the short term, the perturbations in the news were the catalyst for a 7%, two-week correction at the beginning of March, making lots of folks nervous and understandably queasy about the future.

Let's take a bit closer look at these events, their likely impact and then take a giant step back to look at the big picture. Japan has experienced an horrific chain of events. Before we look at the numbers, for the workers dealing with their nuclear plants only the words of Winston Churchill see apt "Never in the field of human conflict have so many owed so much to so few"…and this brings to mind the most memorable news item of a Japanese man speaking of his retired father, who got up from his comfy chair to go aid the nuclear cleanup, sacrificing himself for his nation, placing a face, a story, on one of the "so few". As one of the world's largest economies, the economic disruption of Japan's recent tsunami will likely impact world GDP by an estimated .5%-1% in the current year. However, beginning in the final quarters of 2011, the immense and unanticipated spending to rebuild a nation's infrastructure will have an outsized positive impact on world GDP for the foreseeable future. And, world GDP is at a sufficiently robust level to absorb the near term impacts.

The Middle East seems to be on a trajectory toward more modern forms of leadership, this could likely be a positive long term trend. Near term, the worries of oil disruption caused crude to rise to over $100bbl at a time when there has been no literal disruption in supply. So call that "twenty bucks of fear". The significant fear was that similar political upheaval would migrate to the Saudi Kingdom, the potential source of a significant oil supply disruption. To date, the Saudi's seem to be managing the mood of the populace, offering a $37bil package of aid to its citizenry, which is significant if you note that there are about 24mil Saudis. And, underlying most of the disruptions we have seen to date is true economic disenfranchisement of large segments of the populations in the Egypt, Libya, Yemen, et als of the world.

Figure 1: Labor Markets are Improving

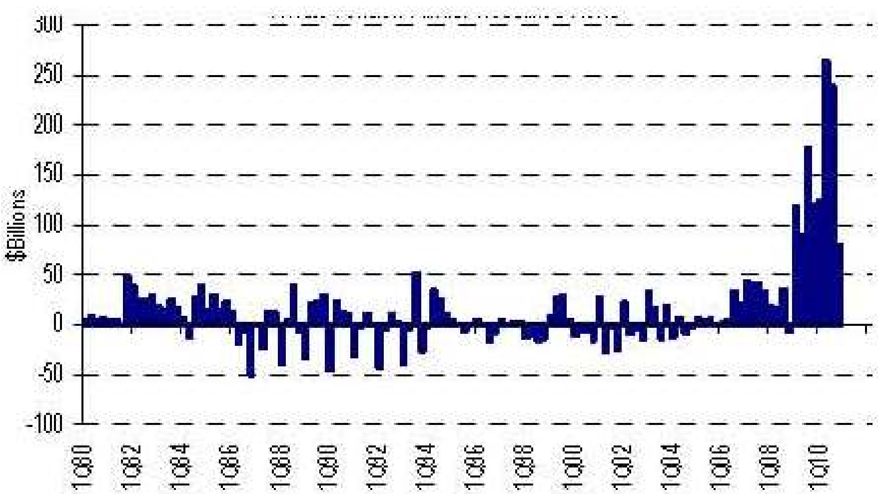


Source: ADP

Ok, ample destruction, disruption and upheaval to cause us all to quake… But, we always have to remember to look at the big picture, in this case, the really big picture. As we've noted in past issues, we are in a persistent global recovery of significant momentum, fact (see Figure 1). There has been a steady rise in corporate earnings, gradual improvements in the labor markets, and multiple demonstrations of the steadfast commitment of government, here and abroad to provide ample exogenous stimulus, as needed, to assure continued momentum.

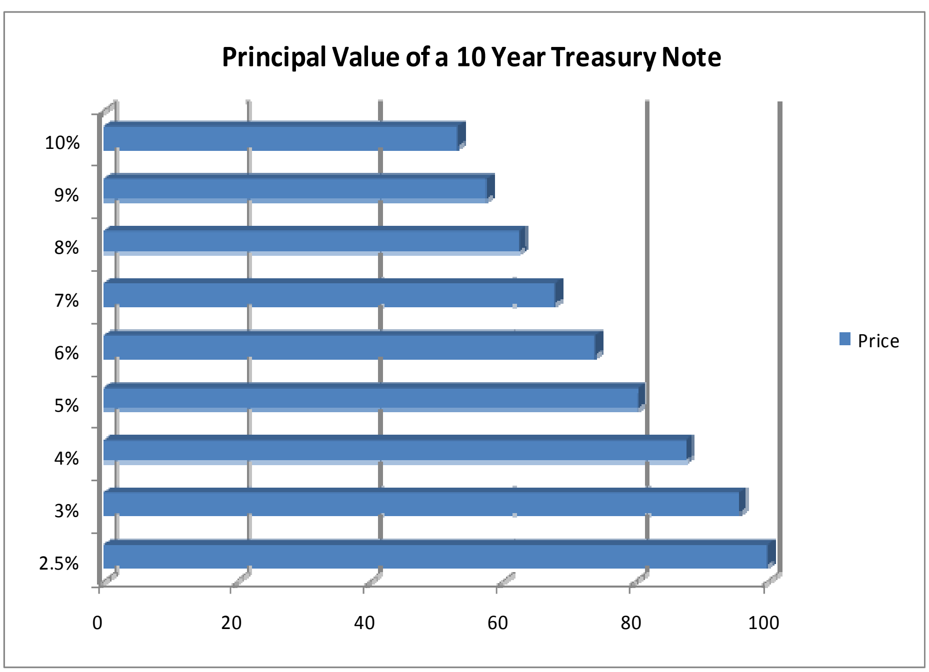
The impact of all this manifested in market activity of stark resilience in the face of all the aforementioned, significant perturbations. The equity markets have recently completed the 2nd most powerful two-year run in the last 60 years. And in the last quarter, during these upheavals, the markets stealthily produced their best quarter of performance since 1998. But how could this happen? We were all afraid! Big picture time again, when recoveries become self-evident, investors here and abroad become more apt to be prospective, rather than retrospective. And, they see further recovery momentum building on the horizon.

Figure 2: Pensions Too Focused on Bonds



Source: Haver and CIRA - US Equity Strategy

What stage are we at? How long will this last? Tough call, but it seems far from over. Midpoints of economic recoveries are normally marked by the first fed tightening and that stick has not been jammed in the sand yet. And, there seems to be ample fuel to further economic growth. Corporations have amassed over $2trillion dollars on their balance sheets, the S&P 500 will soon approach all time record earnings levels, and households & pension funds are woefully underinvested in equities (just how does one meet an 8&actuarial assumption with a 3% Treasury??), as they manifested their fears in the over-accumulation of "safe" bonds (see Figure 2). Let's talk about that for a minute, as it points to yet another source of potential fuel via future converts to the religion of prospectivity. The adjacent chart shows what happens to the prices of a ten-year treasury as interest rates rise. I will leave you with two rhetorical questions to ponder. #1. Anyone wanna bet that after touching 50 year lows that interest rates aren't headed higher after a global avalanche of economic stimulation? (gee, wasn't that a leading question?!) #2. Anyone wanna bet that investors will be thrilled to see their "safe" bonds and bond funds declining in value whilst a robust equity advance continues and opt for an albeit tardy opportunity to proclaim their financial conversion to a new religion? (as anyone close to me will tell you, I NEVER EVER gamble, so whenever I use the word "bet" it's because I know I can't lose…).



We'll talk to you soon…