Courier Capital Corporation

INVESTMENT COUNSEL

Market Review & Update

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Well, we're a quarter into the New Year, another earnings period has passed and its Spring! There's so much joy and rebirth in the air, even though it's snowing, that the usual sarcasm seems out of place. So as an homage to the Affordable Care Act lets do a health focused piece! Yeah, that's the ticket…

The recently completed earnings period was once again ok. Ok enough to press the markets to new historic highs. This manifested in debates of bubbles, overvaluations, and any hyperbole that could attract viewers. Our favorite tools in the medical kit for gauging the health and vigor of the markets are the 10-year Treasury and the P/E ratio, domestically speaking. Why? The 10-year yield will rise as the outlook for growth and inflation increases and P/E's reflect what you are willing to pay for tomorrow's earnings. More confident about what their growth and you'll pay more; less optimistic, lower P/E. What do they tell us these days? While we have easily witnessed froth in certain names and sectors, for example the Russell 2000 (small cap index) reached a 26 P/E and certain social media and biotech names got a tad feverish, the preponderance of equities, as represented by the S&P 500, currently carry a forward P/E of approximately 15.6 times earnings, boringly in line with long term historical averages, or, true to our homage, a perfect 98.6 degrees. As a confirmation of the lack of fever in this market, the 10-year Treasury slipped back to a yield of 2.65%, signaling an unenthused lack of appreciation for the potential for those narrow sectors of fever to go virulent. To sum up, we're far from growing fast enough yet.

So, if we're not too hot and not too cold what does this tell us about where we may be headed?? The consensus for earnings growth forecasts have the S&P 500 earning about $120 per share this year or another ok march forward of about 8%. We're now heading into the 6th year of the recovery. Global growth has been both the reason earnings have moved steadily forward and also the very reason we use the word "steadily" in lieu of "quickly". At this juncture, are the big global supports for growth getting better or worse? Let's take a peek at the thermometer readings for the heretofore deathly ill sectors of our European counterparts; you do recall the P.I.G.S.??? If we look at the charts of their bond yields, we see that their crippling fevers have reduced dramatically.

Figure 1: Greece 10-Yr Gov't Bond Yield

Source: Bloomberg

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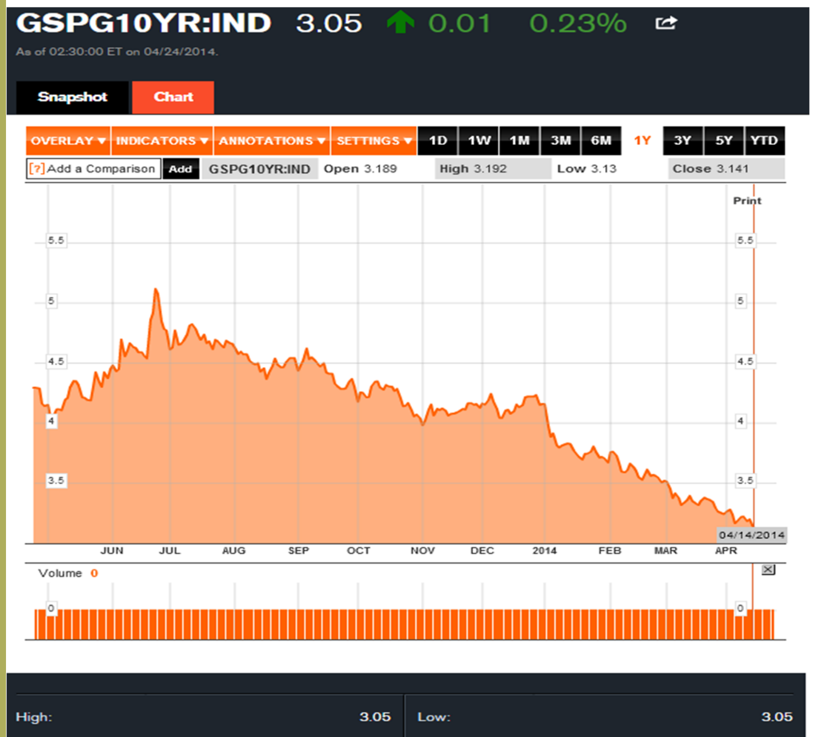


Figure 2: Spain 10-Yr Gov't Bond Yield

Source: Bloomberg

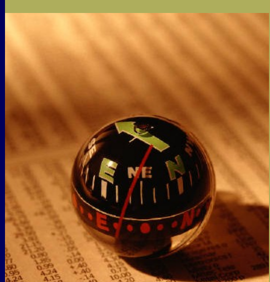
Their government bonds yields have easily dropped in half over the last year or two. What's this mean? The world no longer thinks there is a great risk that they will die and a greater likelihood exists for their ability to provide a forward positive contribution to the global growth momentum upon which this recovery has so depended. So, as far as the Euro zone is concerned, they seem headed in a more positive direction, health wise…

China is, and has been, the other main factor in the diagnosis of the health of this recovery. They are typically somewhat secret about their internal workings, but seemed to be attempting a balancing act of stimulus aimed at a growth rate of 8-8.5%. This appears to be another plus to the overall environment, as the world has manifested a gloomier outlook than seems to be on the horizon.

This has been a long, steady and highly underappreciated recovery. The S&P 500 and its earnings power have risen well over 150%. This has happened in spite of nuclear accidents, tsunamis, earthquakes, reality TV, hurricanes, several wars, countless military skirmishes, several significant coup d'etat, embassy attacks, many noteworthy government debt downgrades and, closely related thereto, some of the finest political malfeasance witnessed in this still nascent millennium! If all that doesn't impress upon you the strength and persistence of this recovery's momentum, then by now, you sort of understand why the aforementioned laundry list of distractions have caused the general populace to let this go largely unnoticed.

And "unnoticed" goes right back to the health issue. The 10 year Treasury and the P/E ratio are evidencing simply fair value because of the lack of forward positive outlook. Greater enthusiasm would be the result of greater corporate spending, declining unemployment, et al. Those are the result of improving confidence. Every recovery experiences such an increase and some of the more significant indicators suggest we are headed in that direction. Velocity and amplitude now depend largely on spending and the all too human shot of confidence. In an environment of tenuous psychology, we should anticipate and tolerate a continued level of volatility; the price for a degree of uncertainty on what seems to be a continuation of this uphill slog. Uphill is good. And, we should not be surprised to see a surge, even a twinge of irrational exuberance, if the spending/confidence cycle accelerates.

Enjoy a lovely Spring, we'll talk to you soon…



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