

Market Outlook:

Peak or trough?

A few weeks ago, I pointed out a trend in my data analysis that identified emerging market growth potential as possibly outpacing more developed economies. Although this should not be construed as a generalization in all regions of the globe, the *rates of change* between these two demographics is definitely reconfiguring.

What makes this observation relevant is that these processes do not simply occur at a single point in time but, rather, they evolve over years and owe their formation to a variety of factors which precede them. And because they are evolving, these secular configurations require a great deal of time to coalesce, or to unwind as the case may be. While some are waiting for a cataclysmic "current event" to divert market performance, we know that the seeds of economic shifts have already been planted.

One of the most significant changes to affect the "mature" markets that also reverberates upon the more nascent markets was the excessive leveraging during the past two decades of financial assets throughout nearly all sectors, geographies, and asset classes. In fact, leverage became so commonplace that the "*too big to fail*" mantra became part of our financial lexicon. Substituting someone else's money for one's own cash was part of the unseen terror that led to the credit collapse worldwide.

We can see in hindsight how that pervasiveness later erupted into something more nefarious, but at the time very few felt any remorse about living high and making a lot of money.

The problem today, and a direct after-effect of that condition, is that a climate of austerity has taken over, infecting government, corporations, and individuals. Because of the u-turn the markets took in 2008, the psychology of "making up for lost time", coupled with the fear of another market collapse, has poisoned enthusiasm for confidently rebuilding economic viability. Corporations are playing it too close to the vest, while individuals are scrambling to make back what losses they perceive they incurred after the market's fall. To be sure, most global financial bourses are in a fantastic bull recovery. But despite economic improvements, the overall global marketplace, as well as the emotional solvency of its players, is not quite back yet. Thus, an "event-driven phenomenon", such as a change in interest rate policy or capital spending, might be the shock that knocks the bull off-center.

In this changing paradigm, the advantage actually falls to regions/nations that aren't held hostage by political gridlock or which have had economic history to overcome. While we're still wrestling with undoing the causes and consequences of excessive leverage and borrowing, some nations are simply creating from scratch the technology, infrastructure, government, and economy they require not only to survive, but to flourish.

Developing patterns

Before you accuse me of being a purveyor of "*doom and gloom*" about the markets, as one client recently did, let me remind you, and him, that (1) I am an advocate for the recovery and (2) that these economic trends are neither an "either/or" situation, nor are they happening in the next 30 minutes...or 30 months!! The average timeline of generational/secular economic change is tectonic, and might be several decades or several generations hence. We bother with this information because it is relevant to our overall asset allocation and to staying ahead of trend inflections. The art of portfolio management is to capitalize upon current events and trends, while being nimble enough to identify macro changes that might influence future returns.

But there is no denying the negative impact of greed, avarice, leverage, and malfeasance of one generation upon the next.

What my data simply confirms is that the raw information is there to identify that unleveraged cash-rich economies might have a head start at creating sustainability more effectively than do those who *rely upon* public and private debt to succeed. Since history tends to repeat itself, a new capital dynamic might just be what is missing to get things going the next time around.

We are still in the throes of unwinding 2008...and the decades prior... and I am expecting a considerable fiscal and psychological drag upon that process. As a result, my portfolios are participating in the recovery in equities by prudently selecting strong earnings performers alongside leaders in demographic categories that are most likely to sustain price momentum for at least three years. I am also keen to provide safe haven for my clients with sufficient cash reserves so as not to be caught in any swift downdrafts that might negatively impact upon their overall upwards vector...or their ability to sleep at night, comfortable with the captain they selected to navigate the ship.

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