

Market Outlook:

Flight to quality

The potential direct impact of economic turmoil in global markets (EU) upon the US economy and corporate profitability is relatively small, although the degree of volatility the S&P is experiencing in recent weeks underscores worries that many investors still harbor from the last recession. As a result, I am starting to see a "flight to quality", away from pure value-oriented speculation. What differentiates this cycle, however, is that the market as a whole still retains positive earnings acceleration.

Memories of a Lehman-led catastrophe still linger near the surface. Thus, a key question as the markets transition into the summer is *whether we will choose to focus upon negative contagion or positive cyclical activity?*

Without question, the work at rebuilding confidence, profits, and portfolio appreciation has been difficult and time consuming. We've come a long way since 2008. But the backdrop for the next several years is improving, and nowhere near the crisis levels we faced prior to or during the credit collapse. Capital is flowing more freely and the fundamentals are quite different this time.

To be sure, there *are* global financial crises still to be resolved, not the least of which is Greece's default possibility and the damage that might inflict upon its current EU partners. But, by design, the risk exposure of the rest of the world to this, and other financial current events, is peripheral.

Nonetheless, professional traders (and corporate leaders) are concerned that a disruption of any kind in global cash flows might level a death blow to corporate earnings and expenditures here in the United States and elsewhere. I disagree with the severity of predicting that outcome, however. There are enough safeguards built into the EU and US monetary system to offset a temporary buildup of fiscal, monetary, or political pressures, were they to occur.

Where's the correction?

My quantitative data indicates that any headwinds created by the "Common Market" crisis are not strong enough to derail the course of statistical progress developed during the past five years. Measures of liquidity and austerity that were effected across the globe as a result of 2008-2009 are broader and more durable than any rough patch we might currently be experiencing.

In fact, far from being impeded by "overhead supply", we are seeing a powerful initial upleg in pricing power, whose inflection point is confirmed by performance in tangible assets such as real estate, commodities, and foodstuffs. These points usually occur concurrently with a turnaround in cycles, from downtrend to uptrend. Obviously, then, I would also expect to see pricing power reflected in earnings acceleration patterns, *assuming demand for these assets remains robust.*

A key issue for the economy and the stock markets is whether we will maintain increases in corporate profits which so far have been quite good.

None less than the Chairperson of the US Federal Reserve gave quite specific indication this past week that the prospects for inflation, and concurrent rate hikes, are less a worry than maintaining the "solvency" of a growing economy. They at the Fed, like many others, argue that the risks of "tightening" too soon outweigh the risks of tightening too late.

While it might always be prudent to anticipate corrections in the market, particularly from these lofty levels, it is also wise not to fight the current trend obstinately. Thus, our current asset allocation into equities has steadily been increasing over the past five years even as we have been cautioning against behaviors that are either too exuberant or too speculative. Even with the prospect of "exogenous" events redirecting the current trend, any pause would not be sufficient to stall our current recovery.

It will take extraordinary patience to evaluate and persevere through the next upleg in stocks. Worrying is always part of the game. Nonetheless, I remain statistically positive about profits and economic sustainability for the next cycle's duration. For now, our conclusion is that a pending interest rate rise should not be negatively impactful upon our macro-view for owning equities in leading demographic sectors.

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.

Alexander Capital L.P., 17 State Street, 5th Floor, New York, New York 10004 646-564-2299