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Market Outlook:

Too little....
We are in the heart of the current earnings season and it's interesting to observe, as one of our recent US presidential candidates once opined, that *"corporations are people, too".* That remark has never been more typified than by what we see coming out of analyst's reports and forecasts today. Like you, corporations are in pare-down mode, hoarding more cash, and loathe to spend indiscriminately.

Not that the opposite has always been true. In fact, corporations, just like you, try to live within their means; deliver an on-time profitable budget; and have an obligation to invest wisely on behalf of their stakeholders, hopefully to deliver even more value.

But the comparisons end there when assessing the current spate of data. Indeed, while one must concede that the engine of commerce is beginning to ignite, the changes in how business is being done have serious and long-lasting consequences for how the economy and the financial markets are to be quantified in the future.

One important distinction is that the primary nexus of capital savings is not in consumer's hands, but in treasuries, banks, and corporate coffers. This would imply that what you or I *do*, what you and I might *spend*, pales in comparison to the significance of institutional capital expenditures and their impact upon sustaining future economic development. Gross Domestic Product (GDP) now emanates from a substantially different source than in the past.

This sits in diametric opposition to a consumer-led expansion in which business takes its direction from demand we, the people, might create. Instead, capital today sits, figuratively, in drawers and vaults that, at the end of the day, are micro-managed with potentially self destructive implications, over which the consumer markets have relatively little control.

The second example of a new paradigm in earnings emerges from the centralization of natural resources into fewer and fewer global sources. If, for example, there were to be an interruption in the flow of vital commodities (food, water, energy, e.g.), the global economy would respond immediately with a high velocity inflation in prices which remarkably today sit pent-up, in abeyance. The potential impact of sudden commodities price spikes upon corporate profitability and consumer savings would be catastrophic, many might speculate.

The good news is that we do not expect a material disruption at this juncture, although current events in the Middle East and Ukraine bring the sensitivity of these facts into clearer focus. **However, earnings reports, and market behavior, seem to anticipate the potential for price increases "at the source" and are making the necessary adjustments with savings and cut backs as a part of the nomenclature, just in case**.

Too late....
From an investment standpoint, these data force us to look at commodities prices, basic materials, utilities, and price sensitive equities as direct beneficiaries of this uncertainty.

Another effect I see coming out of the current releases is a stagnation both in breadth and enthusiasm for financial securities. To be sure, the markets are toying with making "new highs" and investors are eager to speculate in future price advances, but while global economic activity is accelerating, it certainly doesn't *feel* like it in many homes. **The most compelling argument for consumer disassociation from the financial markets is that the downside seems more scary than the upside seems enticing.** While Friday's volatility was disconcerting, it doesn't appear to have stopped the risk-takers who chase after a 5 year recovery with great zeal. Even if investors haven't yet lowered their threshold about hoping for the best, their tolerance for yet another market collapse has nearly evaporated. Not a good combination of odds, in this reviewer's opinion. Markets work best when risk and reward are evenly correlated, and work even better when risk is at "absolute zero". Present conditions are nowhere near approximating either the former or the latter.

The data is good, the forecasts are better, but the emotional conviction has justifiably been tame.

We need to ratchet down the *"chase instinct"* just a notch and realize that contractions are part of growing, growth implies future revision, and planning for those ebbs and flows is instrumental in helping to reduce the effect of risk upon portfolio allocation strategies.

Demand generates income and profitability for corporations. That is the sequence I believe in, and upon which I predicate my market analysis. Therefore, the wealth centers have to step up, participate more aggressively , and allow that potential to be released.