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Market Outlook:

Home stretch

With just a few weeks remaining until the end of the calendar year, some are looking at the remaining time as a jockey might see the last few furlongs of a race: *how to adjust, how to position for the highest finish, how to make a closing dash for the finish line.* Acknowledging that 2015 market performance hasn't been what many had expected, there are still a variety of factors, beyond the data that we already know, that are good enough to confirm that the recovery is for real, and that the financial markets are building a base. Most significantly, there has been a shift from the paralysis and illiquidity wrought by the recession towards demand-based purchasing and widening earnings acceleration.

It remains to be seen, of course, whether these intermediate trend improvements translate into further inventory expansion, new hiring and wage increases, and critically necessary consumer confidence numbers.

I view the recent October rally as a "gift" to those who were patient enough to wait out the volatility of this year's third quarter. However, I am selectively cautious about committing new money to the top of a short term cycle advance. In fact, if anything, the uptick has enabled us either to take profits in winners or to reevaluate our allocation to losers that haven't panned out. The rally, as said, is fortuitous, but it hasn't really produced a slew of new highs or breakout frontrunners.

In the corporate sphere, we are still facing significant reticence from those who have "parked" their money on the sidelines to go "all -in" with conviction. Declines in commodity prices and other core costs have not yet converted into anything other than increasing profit margins.....hardly the kind of expansion and production activity the markets need to see to confirm an economic renaissance. Even as business balance sheets widen, a contraction of "retail" pocketbooks represents real risk to the staying power of earnings in the private sector.

As one might observe from the dichotomies presented in the preceding paragraphs, polar anxieties in the fiscal markets are exacting a toll upon whatever tailwinds have developed in the global financial markets.

However, overall recovery risks *are* diminishing. Financial bourses are at nowhere near the same kind of crossroads they faced in 2008, a period during which all global credit and economic systems were stretched, and close to imploding. Rather, we are witnessing growing pains and cycle amplitudes that are normal, and necessary, to reduce the likelihood of future capitulations like those we experienced 7 years ago.

In fact, only where economies are still obliged to tightening and austerity programs are the potential vulnerabilities still magnified.

One medium-term notion now applies nearly everywhere around the globe: **where deleveraging and private sector investing intensifies, the growth trend also strengthens, increasing the sustainability of economic development.** Therefore, the probability of the bubble bursting, as it did a few years ago, is decreasing, while the duration of economic cycles is stingily elongating.

Good enough

Even if nominal stock market performance is met in the next few years, investors should prepare to ratchet down the *"integer of expectations"* they associate with satisfactory annualized gains. Remember, while there is a significant percentage of equities who are meeting or exceeding their bottom-line earnings (profit) projections, there is an equal or greater number of companies that are falling short of top line revenue goals. Doing more with less...*and less, yet again*....is a skill which too many in the corporate domain are becoming artful at mastering.

Given the complexity of the issues that initiated our last global recession, a quick fix is unlikely. It might require several generations during which sector balances recalibrate and transition from industrial to technological. I would like to see a period of government leadership in which legislative policies encourage funding for science and research, as was done in the early years of our space program. We cannot simply abide bottom-line efficiencies to the exclusion of socially responsible solutions. Government, in fact, *does* serve a purpose: its purpose, along with other societal institutions we have created, is to keep fiscal, moral, and social consciousness from spiraling out of control again.

Equity (stock) prices are starting to reflect these new realities. This past year's best performing sectors were healthcare (pharmaceuticals, biotech) and Technology. We are also seeing the influence of grass roots movements upon boardrooms worldwide in focusing upon issues like energy replenishment, healthcare pandemics, global hunger, and access to credit.

At the end of the day, the best way to gauge our remaining few weeks of the year is to see conviction on the part of investors that they're in this for the long haul...that the economy really *is* improving in their eyes...and that simply jockeying for position in the stock market is wasted exercise.

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