Market Musings and Other Semi-Interesting Thoughts

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Richard Suvak MSF CFA

The current market environment is tricky, and I believe will continue to be so for a bit longer. The major issues that we are tracking are the following:

Earnings

By the end of this week, most companies will have reported for the current earnings season. It has been a busy couple of weeks and the pace does not stop for a few more days. Some of the biggest to report have been Microsoft, Intel, Alphabet and Coke, with others to follow. It's been a bit of a mixed bag as some have reported slower sales, lower-than-expected earnings and/or slower growth. Intel for example announced a change in corporate strategy which possibly suggests a break-up of the company into two separate (or at least separately managed) pieces. Some suggested this was bad for the company while others suggested this move to be a positive. I take the latter view but would prefer the former to dictate near-term prices in order to buy the stock at lower multiples. Microsoft and Alphabet took a hit as lower growth and missed expectations took a bite out of their market value. While I would like to sell Microsoft due to its valuation, the lower price makes it a bit more attractive as stability of earnings is high and the yield is more attractive. I continue to like Alphabet and believe its new corporate structure is a long-term positive. I am waiting for more opportune times to exit and enter these stocks respectively.

As a more general comment on the current earnings releases, I think it shows the economy to be relatively strong and not in any near-term danger of falling to pieces. On the contrary, I think it shows more strength than some would suggest. However, I think the market's valuation is relatively high and I am taking the opportunity to remain in cash and/or wait for more attractive prices to sell expensive stocks and buy cheaper ones. As a result, you may have seen less activity in your accounts recently. However, the activity I am undertaking at the moment is to do nothing... a small but meaningful difference.

Economic Status

Continuing on from the above, I do not see any major economic hurdles on the horizon. Business, uninspiring as it is, is still decent. While the presidential election brings its own set of problems and issues, the basic rules of an election year dictate more spending by the incumbent party and no harm by either party or the Federal Reserve. While some would argue the Fed's desire to raise interest rates goes against this grain, I do not believe so. Further, I think higher rates are the desire of the Obama administration and Yellen is feeling the pressure to accommodate.

Federal Reserve Interest Rate Intentions

Speaking of Chair Yellen, she seemed intent on multiple interest rate raises in 2016- until the market slapped her for one at the end of 2015. Since then she has been more cautious and less willing to upset market participants. Her backtracking has focused on allowing the "data" to dictate direction and they have found enough evidence to leave rates unchanged for the time being. However, I believe she remains undeterred and views the risks of an overheating economy as the necessary, and overarching, signal to continue raising rates. As stated above, despite all the negative talk, the economy continues to grow. Additionally, wage pressure is increasing as unemployment levels continue to fall. With these signs, along with pressure from retirees wanting higher social security payments, hints of an uptick in commodity prices and statements from the Fed itself, leaves me to believe she will raise rates in June.

What This Means

A moderately growing economy within a rising interest rate environment in the context of an expensive market gives pause for investors. The higher valuation of the stock market indicates the difficulty in further growth. The moderately fast (or slow, depending on your perspective) growth of the economy suggests markedly higher earnings are further away. These two items suggest investments in the equity market are risky at worse, or come with moderate growth expectations at best. Turning to fixed income, the potential for higher rates via Ms. Yellen makes this a challenging option as well.

So, if equity investments are not a great option and fixed income is equally unappealing, where can investors turn? Real estate, alternatives, commodities (for the particularly brave among us), volatility (for the very very brave among us) and cash (for the not so brave) are currently among the best options we see.

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3 Wolcott Rd Winchester Massachusetts 01890 | www.eunoiafinancial.com | r.suvak@eunoiafinancial.com | 781 460-9238