SN VALUATION
SN CAPITAL SN CONSULTING SN ENGLISH

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FI Weekly Brief

10 year yields approaching 2.0%, first time since early 2012. Consumer confidence came in at 58.6, lower than the consensus of 65, but equity market and fixed income market not responding sensitively to the news. VIX is at all time lows. European periphery bonds are yielding all times low, i.e Italy at 4%, granted a lot of the purchase activity may be spurred by ECB money. FX rates for EuroUSD and Europe related FX pairs have been appreciating since mid 2012, as investors are recognizing a stabilization occurring in Europe and in Asia. From the surface, the monetary policies conducted by the central banks seems successful. But as many skeptics explain, the bigger fundamental issue is the debasement of currency, which history has shown, leads to further decline of the economy with inflation.

A lot of noise in the market, especially the fixed income space, of a migration of investor capital from fixed income to equity. Equity market is off to a great start in 2013, up nearly 3-4%. Our SNV Focus Fund is up 2% YTD, so we are more optimistic about the equity fund, which has led us to look into more companies and pay more attention to stocks. I am sure this shift in attention is happening in every fund house, as all fund managers would be fully aware of the rich premiums fixed income securities are trading now. Also, big named deals such as Dell, Herbalife fiasco (hehe Icahn and Ackman) are attention grabbers. Equity investors have been waiting for a ripe time, after the 2010 rally, to re-enter the market. 2012 wasn't bad at 15% returns for domestic, US stocks, but it was very volatile and so many fund managers diversified with capital preservation investments in low yielding, many times negative real return fixed income products.

We anticipate a parallel shift in the yield curve, moving upward in the next 2-3 month window, before the May 18 deadline. Then, the yield will compress again a month prior. So, we suggest buying equities for the next 2 months, then allocating back some to fixed income for the expected volatility.