Market & Economic Commentary

Fall 2013

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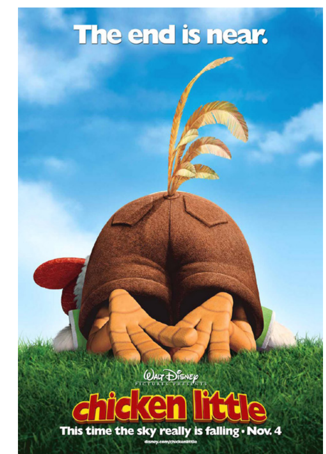
By: Jim Scheinberg - November 7, 2013

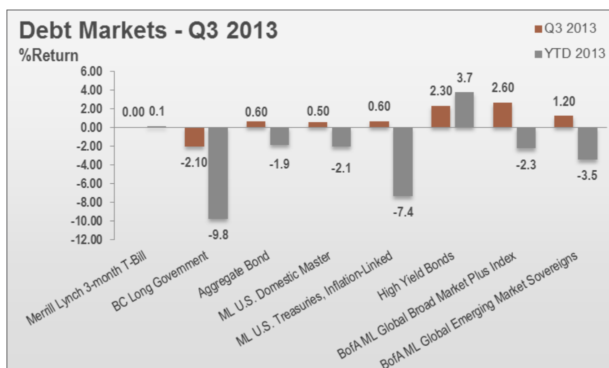
Proudly Presents:



Same Rift, Different Shovel.

In last winter's commentary, I expounded on our government's apparent addiction to crises. I wrote that piece on the back of "the fiscal cliff," expiring tax policy and sequestration. We can now add to the list another round of debt ceiling Congressional-Roulette and a good ole'fashioned government shutdown. One tuning in to CSPAN these days might mistake it for a spaghetti western marathon with continual showdowns at high noon (or midnight, as it may be). In the winter issue of "The North PIER*spective*," I also observed that "the media loves it…and they play the cords of the public's emotions around these crises-du-jour like a master conductor." Well, if Washington is the addict, and the media is the pusher, then who's doing all of the enabling? Until now, it's been the gullible or self-interested voters. As the mid-term 2014 elections start to take shape, however, I suspect that the public may be gearing up for an *intervention*.

If anything has changed, it's that the public may be growing immune to the melodrama that the talking heads are pushing. Even though we were threatened with a debt default and the looming specter of economic fallout caused by a government shutdown, the U.S. markets retreated less than 5% from their new all-time highs during the quarter. This stands in sharp contrast to the nearly 17% correction that ensued when we were faced with the previous debt-ceiling showdown in Q3 2011. It seems as though the CNBC Peacock is starting to resemble Chicken Little.



On the other hand, the debt markets may have bought into the mania a bit more than the equity markets did during the 3rd Quarter. As fears of a potential debt default mounted and concerns rose that the Fed might ease up on their policy of Quantitative Easing (the purchasing over $1 trillion of U.S. mortgage paper each year) the Treasury markets sold off another leg, lifting interest rates on the 10-Year from 2.5% to nearly 3% intra-quarter. These worries subsided, however, and rates on the bellwether finished the quarter just a tad ahead of where they started at 2.6%. This caused further price declines in the long end of the Government bond market, whose losses reached nearly 10% YTD, by quarter's end. The news was better for international markets which were insulated from our domestic drama; as both developed and emerging market debts recovered some of their Q2 losses. High yield domestic debt also saw a reversal from Q2's sell off.

Despite the ominous headlines during the quarter, equities regained their stride both at home and abroad. Investors continued to have more appetite for the small end of the capital

spectrum in Q3, with gains doubling that of large caps. After hearing many of our disciplined value managers tell us that they were finding value in traditional growth sectors earlier this year, it appears there is evidence that they may have been right. Growth stocks surged ahead of value for the first time in several quarters, outperforming their value counterparts by four to five percentage points here in the U.S. The same could not be said abroad, where the cyclical recovery, which we began to enjoy several quarters ago, may finally be taking hold. Internationally, value stocks edged our growth by a couple of points. Emerging markets reversed their huge Q2 declines as well, posting modest returns.

PIER*ing* Ahead

Though the shenanigans on Capitol Hill continue to weigh on the markets and short-term sentiment, the underpinnings of economic advancement are still in place. Business conditions are strong. Consumers appear to be resilient, even if they are voicing some concerns. Real estate has shown remarkable gains and appears to be moderating to more sustainable growth levels. Internationally, conditions are stable and improving. As long as our elected and appointed officials don't act recklessly (which can clearly not be assumed), further advancement should result. However, valuations for equities and real estate are no longer the bargains that they were just a short while ago. As a result, if conditions were to deteriorate unexpectedly, both are susceptible to pull backs in price. However, fairly valued prices in an advancing economy still afford for meaningful gains ahead. Our projections are for further advances in global equities, though we reserve the PIER*ogative* to change our opinion.

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