The Rising Tide – May 2, 2013

BOTTOM LINE: U.S. Initial jobless claims unexpectedly fell last week. The U.S. trade deficit narrowed significantly more than expected in March, led by a decline in real imports. And as widely expected, the European Central Bank cut its rate by 25bps but left the deposit rate unchanged today.

Equity markets have been posting fresh highs this year pretty much across the globe. The general flow of money has been from risk-averse investments such as bonds into equities. With the underlying wishful thought being that the financial crisis is now "resolved", herd mentality has shifted from a return of money; to a return on their money.

Eurozone peripheral government bond yields are falling rapidly. Core government bond yields haven't risen substantially and overall remain depressed. Global government and corporate bond yields are all at very low levels for that matter. Meanwhile equity markets are rising rapidly. In brief, nearly everything appears to be rising.

A wave of central bank liquidity is overwhelming and crowding out investors, triggering a relentless hunt for yields with a disregard for credit risk. The Fed has been targeting asset prices for years now. The European Central Bank has promised to do whatever it takes. The Bank of England has bought one-third of the UK government bond market. Meanwhile, the Band of Japan has thrown the kitchen sink at Japan's deflation problem in its latest wave of easing.

We have thrown in the towel and see many of the major downside risks in the markets have eased. In our opinion we no longer see a meaningful rise in bond yields in the near term. Worldwide central bank easing is in effect right now and little can stand in its way. As a result we have shifted many of our more conservative, fixed income geared portfolios slightly up the risk spectrum, taking on more equity exposure.

As always, we thank you all for your continued support and look forward to discussing any or all of our thoughts at your convenience.

Sincerely,

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