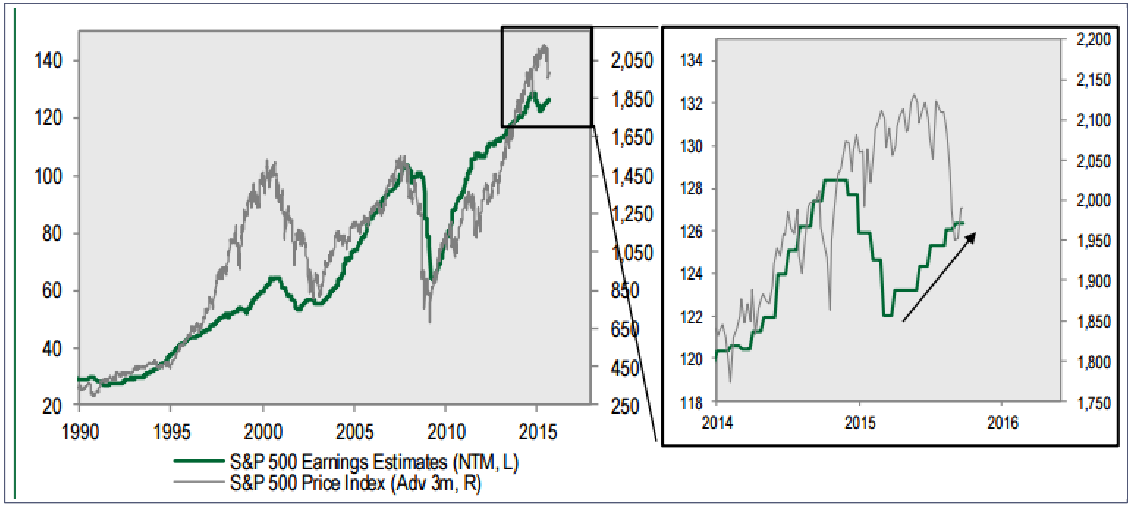
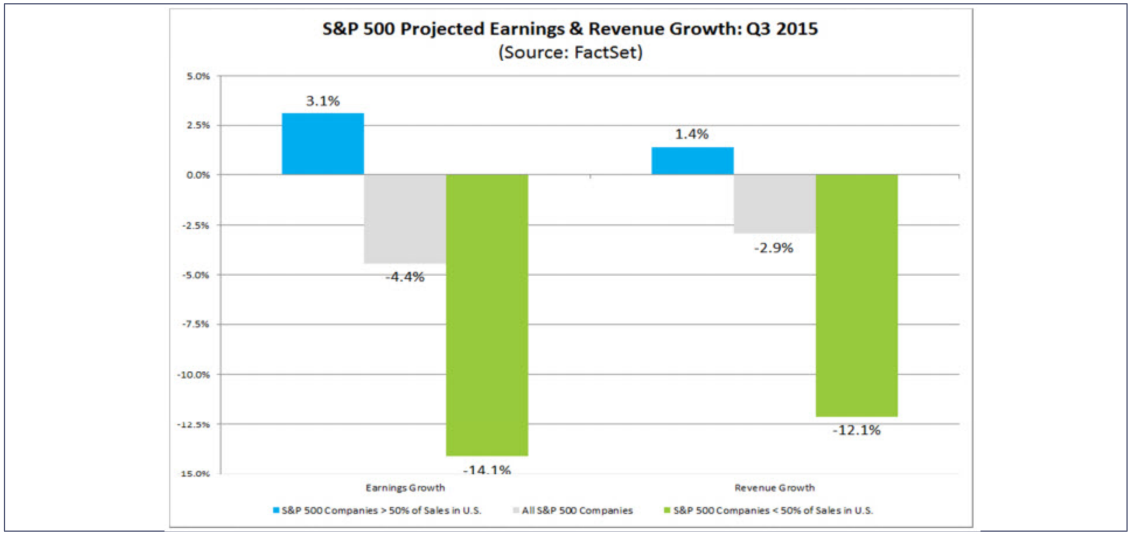
Market Recap

Improving Earnings Outlook Likely To Stave Off Market Correction



Source: Cornerstone Macro

Strong Dollar and Global Slow-Down Effect on S&P Earnings



Source: FactSet

September has been a volatile month for U.S. and international equities with the S&P 500 down over 1.5%. Much of this volatility was attributed to concerns about growth in China, however U.S. economic data, while not overly robust, has been largely positive. Further, stimulus measures enacted abroad are designed to keep global economic momentum moving forward. As a result, the outlook for U.S. company earnings has improved since bottoming in April. With stronger earnings estimates, analysts are optimistic that the recent market correction represents a contraction in the market P/E, but does not indicate a recession. Since we have higher earnings expectations and improved data, most analysts believe a recession in the U.S. is unlikely in the near term.

Recent commentary from the Fed has raised concerns in the market about how potentially slower global growth, along with a stronger U.S. Dollar, will affect sales and earnings figures of companies in the S&P 500 Index as a whole. Significant discrepancies exist in expected 3Q earnings growth figures for companies with less than 50% sales generated in the U.S. (expected to decline -14.1%) and those with more than 50% of U.S.-based sales (expected to grow 3.1%). A similar effect can be observed in revenues for the same groupings of S&P 500 firms; those with under 50% domestic sales are expected to see revenue decrease (-12.1%), while those reporting over 50% domestic sales expect an increase of 1.4%. This analysis allows investors to focus on sections of the broader market that may be more resistant to the forces driving declines in both sales and earnings.

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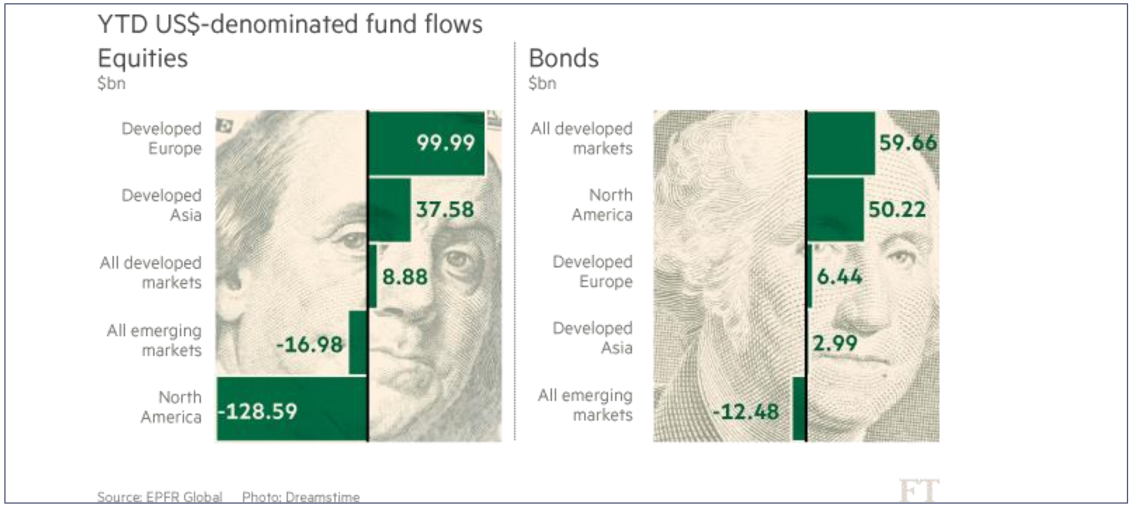
Fund Flows from US to Europe



Source: EPFR Global

In a trend that has gotten underway well in advance of a Fed rate hike, $128bn has flowed out of U.S. Equity funds, with nearly $100bn landing in funds exposed to developed European Markets. In addition to suggesting that investors anticipate downward pressures on domestic equities following a U.S. rate hike, this flow also is in response to the large scale Quantitative Easing program underway in Europe which is designed to keep rates low in the Euro zone, and is supportive of a weaker Euro and a consequently higher Dollar. Lack of consensus about the direction of the Fed is also expected to result in relatively higher price volatility in the U.S. Treasury markets, which is certainly weighing on the mind of fund managers and somewhat responsible for the flow of funds mentioned above.

From California, to the New York Island

Source: DerekLow.com

For those with the patience, time, and ability to travel by train, a bicoastal trip can cost as little as $213. A cross-country road trip is often a bucket-list item, but few people can find the time or energy for a 50-hour, 3,000-mile drive – one-way. The California Zephyr and Lake Shore Limited trains offer a solution: a four-day journey between San Francisco and New York, traversing some of the most scenic and iconic landscapes of North America. Although train travel deprives a would-be driver of some of the freedom and control that comes with traveling by car, it also grants him or her the freedom to engage with the scenery – an opportunity which is often compromised by the stress of being behind the wheel. By foregoing the efficiency of air travel and opting instead for a more leisurely option, one may find that the true value lies in the journey itself, not the destination.

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