MV Capital Management Weekly Market Flash

Equities Fever

July 19, 2013

Sentiment in risk asset markets has taken a sharp turn for the better in 2013 year to date, and the bulls are making a rather compelling case that the good times may roll on for awhile yet. The S&P 500 surged to yet another record level on a jetstream-strength tailwind of $19.7 billion of net new assets poured into global equity funds. That's the most since June 2008, as good a sign as any that the fear-greed pendulum has well and truly crossed the full horizon. That being said, the funds flow has been unusually concentrated. Of that $19.7 billion a full $17.5 billion went into US funds, and $6.5 billion into one single asset – the SPDR S&P 500 exchange traded fund (SPY). No wonder the S&P 500 is proving to be such a formidable benchmark for active money managers to beat this year.

Bye Bye Bonds

The gains in equities have come at the expense of bond funds, which saw $700 million of net outflows. Most of the outflows relate to rate-sensitive areas like US governments and investment grade corporates, along with emerging markets funds, while high yield funds saw sizable net inflows. That is not altogether surprising, as high yield bonds often exhibit trading patterns closer to equities than to other bond asset classes. This week's bond exodus didn't do much to move the needle on broad market yields, though. In fact the 10 year yield has generally trended downwards over the week, staying just below 2.5% as Friday trading approached the close.

Banks Rock, Techs Lag

With around 25% of the S&P 500 companies reporting on 2Q performance thus far the picture is a bit more mixed than the general euphoria of weekly funds flows. Financials are leading the way and tech, laden down by Apple, is bringing up the rear. The financial sector overall is showing earnings growth of 24.3%, highest overall for the second quarter in a row. In fact when you take financials out of the equation the blended earnings growth rate for the S&P 500 overall falls from 1.1% to -3.5%. Big names like Citigroup, JP Morgan and Bank of America have provided much of the strength, and interestingly the consumer finance subsector is the strongest overall. Rock on, US credit card users.

Apple as Albatross

If giant banks are a blessing to the financial sector, one behemoth is proving to be a curse on the tech sector. That would be Apple, the largest company by market cap on the S&P 500. Earnings growth for S&P technology companies is -9.4% based on current consensus expectations, but if you take Apple out of the equation that jumps to only -6.9%. Perhaps most ominously, sales of iPads are projected to fall 14% over the next year. The iPad Mini is experiencing some stiff competition in that space from Amazon's Kindle, among other factors. Proving yet again that when it comes to tech, yesterday's darlings can find it challenging to sustain the high expectations that come with being #1.

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