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## MV Capital Management Weekly Market Flash

### Hiccup or Catalyst?

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Thursday offered up a textbook case of how asset markets react to the sudden appearance of an X-factor. In this case the event was the tragic crash of a Malaysian Airlines commercial plane, which appears to have been shot down by an anti-aircraft missile near the border of Russia and eastern Ukraine. Treasury yields plummeted both in the U.S. and Europe. Stocks fell, with major indexes falling by more than 1% for the first time in (what seems like) forever. Gold and the Japanese yen rose, and the VIX volatility index snapped out of its summer slumber to soar 32% in a single day. Improbably, the VIX is actually now in positive territory for the year to date. Anyone running a traditional, by-the-book event-driven strategy probably did very well yesterday.

### Uncertainty May Linger

The question is whether this turns out to be just a hiccup – another brief flare-up that quickly subsides into the dominant growth market narrative – or if it becomes a catalyst for a more sustained pullback. The magnitude of asset price movements yesterday, for the most part well within the bounds of similar X-factor events, does not yet suggest the imminence of a sizable pullback. The S&P 500 lost 1.2%, with the blue-chip DJIA losing a bit less than that and the riskier small cap sector retreating by about 10 basis points more. The 10 year Treasury yield matched its previous year to date low of 2.45%, set in late May, but hasn't yet pushed into new valleys.

Uncertainty, though, may be with us for a while and could make for a more fragile environment than what we have seen for the last couple months. The implications of the airline crash, of course, go well beyond the immediate tragedy of the 298 lives lost. As of this writing little remains known apart from the basic facts of the crash, the timing and the death toll. Russia, Ukraine and the pro-Russian separatists in control of the region where the crash took place are all pointing fingers at each other. The geopolitics were tense before the crash happened: Thursday's earlier headline was about new, tougher U.S. sanctions against four major Russian business entities including Rosneft, its largest oil company. Just hours before the Malaysian Airlines plane went down, rebel separatists had shot down two Ukrainian fighter planes. Many questions, and their economic implications, remain unanswered.

### Valuation Concerns

The potential for lingering uncertainty comes at a time when equity valuation metrics are at their highest levels in more than a decade. In our opinion stocks have not moved into bubble territory yet, but bargains are few and far between. It's not an optimal time for market jitters – and the typically light volume patterns of mid-late summer trading could exacerbate any negative price trends. With 74 S&P 500 companies reporting as of this morning, 2Q14 earnings are up 5% -- a bit better than the most recent mean estimate. Strong sales and earnings data could keep the negative sentiment at bay; but a couple big misses, especially among higher-profile names, could be worrisome. The dog days are shaping up to be anything but lazy and hazy.

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