MV Capital Management Weekly Market Flash

The Home Stretch: Charting a Course to 12/31

November 21, 2014

With a little more than one month left until the Champagne corks pop on New Year's Eve, it's a good time to survey the investment landscape and see how we might be ringing out 2014. With U.S. equity market indexes back in double digits, it looks very likely to be another good year for long-only portfolios loaded up with domestic stocks. And fixed income has not disappointed either; the Barclays U.S. Aggregate bonds index is up a bit more than 5% as of the 11/20 close. Not bad for a year which began with an overwhelming consensus among market watchers that bond prices would fall as interest rates continued to rise. Should we flip the cruise control switch and ride the wave into 2015, or are there still some bumps in the road that could make for tricky navigating?

Season's Greetings

The seasonal phenomenon of Black Friday – and its new twin sister Cyber Monday – puts retail spending firmly in the spotlight. The consumer discretionary sector has underperformed the broader market for most of the year, and there are some signs that mainline and specialty retail names with relatively cheap valuations are attracting investors. The National Retail Federation forecasts a 4.1% growth rate for holiday spending this year, a better performance than last year and well above the average for the past ten years. What may make shares in this sector even more attractive is fund managers looking for ways to beef up their portfolios before year-end. This has been a dreadful year for active fund managers, fewer than 20% of whom have beaten their benchmark in the U.S. large cap space. "Window dressing" is the (somewhat derisory) term of art to describe late-season fund manager scrambling to embellish their numbers, and it would seem to be a likely year for this activity to make the scene.

Commodities Resurgence?

As good a year as it has been for stocks, commodities have suffered mightily. Oil prices reached a peak in June and began a downward spiral of more than 30% -- good for consumers at the gas pump but unwelcome for oil production companies and emerging markets resource exporters. Investors have been looking for a potential catalyst in this sector that could spur a rally. They may have found one in the surprise announcement this morning that China's central bank is cutting its benchmark lending rates. While cheaper credit in China could signal building weaknesses for the longer term, the more immediate effect would likely stimulate growth in areas like infrastructure and construction. That would provide a decent tailwind to the prices of commodity inputs for which China is the world's leading customer.

Political Animals

So far so good – but it is never a good idea to be too complacent. One joker in the deck is the U.S. political landscape, where another deal on the budget and debt ceiling – sound familiar? – will face lawmakers in December. With the executive and legislative branches doing their best imitation of an OK Corral standoff, swift resolution of this deal is anything but certain. Odds are that we'll wind up with some messy but workable compromise, but we will keep a close eye on how these shenanigans unfold. It's never a bad idea to expect the unexpected – particularly when it comes to the unfortunate dysfunction of our political system.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.