MV Capital Management Weekly Market Flash

Giving Thanks

November 26, 2014

On this holiday-shortened week we like to take a brief pause from the focus on day-to-day trends that normally fill up the pages of our Weekly Market Flash, and reflect on things at a more expansive level. 2014 has had its ups and downs, but mostly it has been a kind year to investors. As is our custom, we offer here some of the events and developments of the year that cause us to give thanks.

Spirit of America

Once again the U.S. has been the bright spot – among major economies the lone bright spot really – in continuing and strengthening the post-2008 recovery. Every quarter we closely analyze the performance of companies in our portfolios and listen to their management teams comment on the three months gone by and the outlook ahead. We are – not always, but generally – impressed by resourcefulness and discipline we hear on these calls and continue to believe that high quality U.S. stocks are attractive for long term portfolio performance. It's easy to become disillusioned with institutions both public and private in our day and age. But we'll take the American model over anything else we see out there.

Foreign Bond Investors

Back in January there was as clear a consensus as ever there was on Wall Street that interest rates were headed higher. The 10-year Treasury yield was over 3% and the Fed had just announced it would start reducing its monthly intermediate and long term bond purchases. Twelve months later, the 10-year yield is closer to 2% than 3% - this despite a continual stream of good macroeconomic numbers, corporate earnings and consumer sentiment. What's keeping rates so firmly entrenched at historical low levels? A major contributing factor has been a massive wave of bond purchases from investors in Europe, Japan and elsewhere. 2.3% is a pretty lousy yield, except when compared to the sub-1% yields to be had from Bunds, JGBs or the like. We sense that the music will likely stop at some point – making for some tricky terrain – but the day is not yet at hand.

Cool Heads, Low Vol

A year ago, the S&P 500 rang out 2013 with not only the highest total return since 1997, but the highest risk-adjusted return in, well, forever. Too good to continue? Well, volatility stayed in the valley for most of 2014 as well. The CBOE VIX, a broad measure of market risk, currently trades more than a third below its long term historical average. The handful of pullbacks we have seen this year – and the attendant spike in headline risk – have been exceedingly brief and mostly shallow. The biggest risk event of the year played out over a few days in the middle of October, and still failed to break through the -10% threshold that would have signified a technical correction. Why so tame? The "Yellen put" is a favorite answer: the belief that the Fed will always step in. We think a bit differently. When the tailwinds seem stronger than the headwinds, as we believe is currently the case, investors will use pullbacks as an excuse to buy at slightly cheaper valuations, not to panic and run for the fire exit.

We may be thankful, but we are not complacent. 2015 will no doubt present its own special set of challenges, and we have to be ready to meet them head on. In the meantime, though, let us all take a few to focus on the people and things in our lives we cherish. May each and every one of you have a very happy Thanksgiving.

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