Quarter End Round-up and A Look Forward

What a quarter to end: Equities surged in many parts of the world but the bears remain steadfast that the four-year bull run will soon end. Their rhetoric includes Europe is a mess; earnings momentum has peaked; and the Fed can't keep piling on liquidity fuel without causing collateral damage.

The fear-trade quickly re-emerged on any alarmist rumblings from Europe and sentiment weakened for consumers as Washington kept beating the drums for attention all quarter. Americans now know where Cypress is.

Few wanted to step into the equity markets and sell, so several North American equity indices neared or exceeded all-time highs. The S&P 500 Index recorded 105 new 52-week highs and a lonely new low in this shortened week.

Equity investment themes that worked in Q1:

- Containers and Packaging Companies,
- Consumer Staples and Consumer Discretionary,
- Homebuilding and Building Materials,
- Auto Parts,
- Drug makers,
- Oil and Gas Refiners,
- Transportation
- Big Industrials.

The constant disruption from overseas played well into the US Fed's hand to keep rates low for a while. US Treasuries garnered attention from those fearful of new actions by government towards any bank deposits. The gyrations of the 10-year US treasury yields this quarter summarize the very skittish nature of the current investment climate. Bull markets seldom end when there is this level of nervousness.

Our *Chart of the Week* shows the yield action of 10-year Treasuries.

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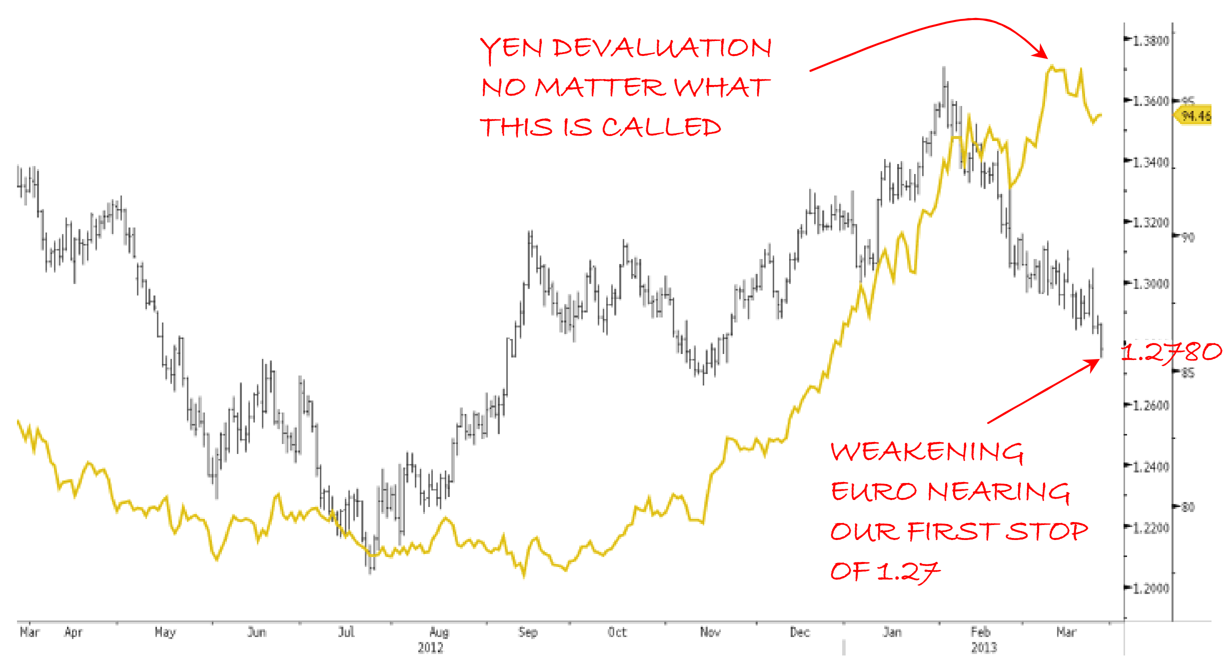
Chart of the Week: US Treasury 10-Year Yields – Daily

Source: Bloomberg

Currency movements of the Euro and the Yen disrupted purchasing power and ignited discussions concerning competitive devaluations as a threat to international trade.

Figure 1: Euro in US $ and Japanese Yen per US $ - Daily to March 27, 2013



Source: Bloomberg

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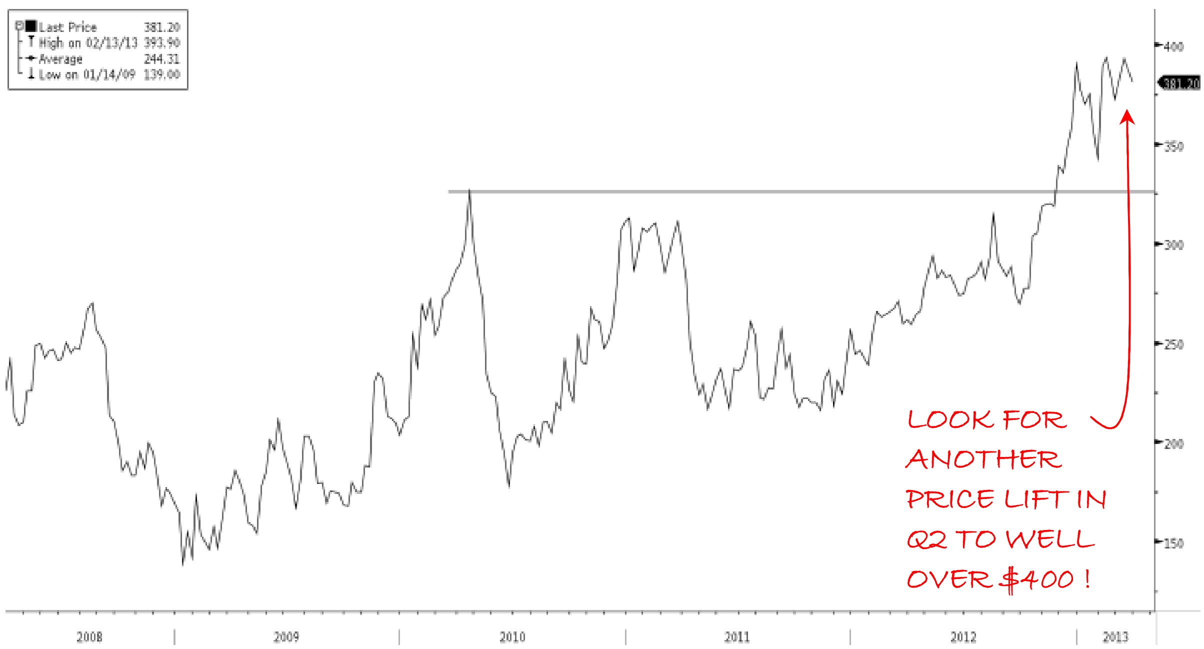
Commodities tell an interesting story: The best price performers are natural gas (yes!), lumber, grains, and palladium. The worst were coffee, sugar, orange juice and Brent oil. The CRB index is flat for the quarter.

Inflation warnings about escalating prices proved to be ill-founded.

Our Q1 lumber barometer continues to send a positive signal for equities in 2013. The current price as we approach quarter end remains above the December 31, 2012 price for lumber.

Figure 2: Lumber Continuation Series in 1000 Board Feet – US $ - Weekly to March 27, 2013



Source: Bloomberg

Volatility indicators are showing extremely low readings, yet the realized market volatility for both the S&P 500 and the NASDAQ Composite are lower than the implied volatility. This condition is one we expect will change in Q2.

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Figure 3: Volatility Indices for the S&P 500 and the NASDAQ 100 – Weekly to March 27, 2013

Source: Bloomberg

Another useful equity market indicator is the cumulative advance/decline line for each index.

Figure 4: Cumulative Advance/Decline Line for NYSE, S&P500 and NASDAQ Indices – Weekly to March 27, 2013

Source: Bloomberg

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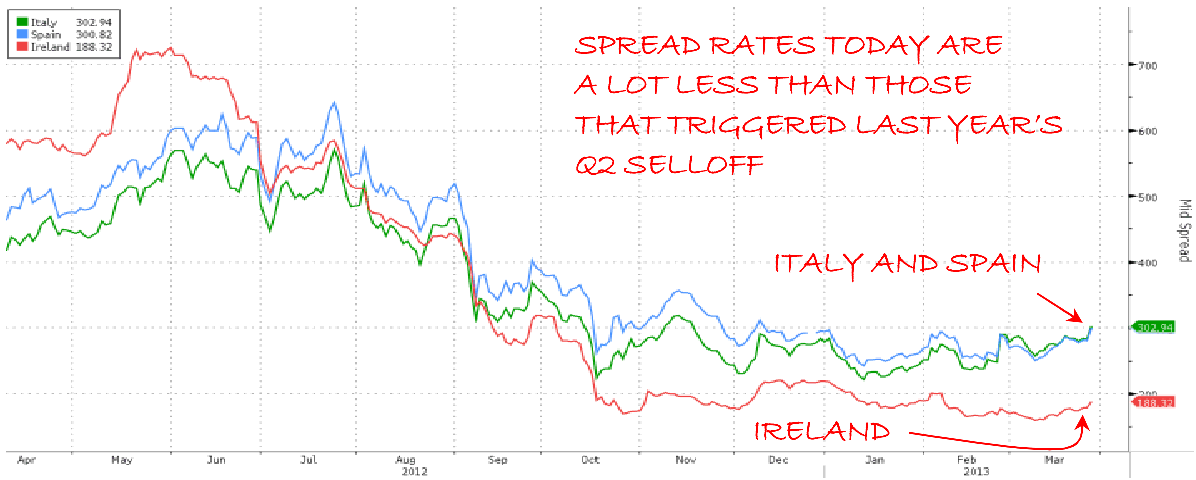
For Q2 we expect the US economic recovery to continue with housing and vehicle production leading. The on-going crisis in Europe is unlikely to be solved this year, however tiny steps for improvement should surface in late Q2 or early Q3.

The latest crisis courtesy of inflated assets of Cyprian banks failed to meaningfully trigger default expectations for other bad sovereign credits.

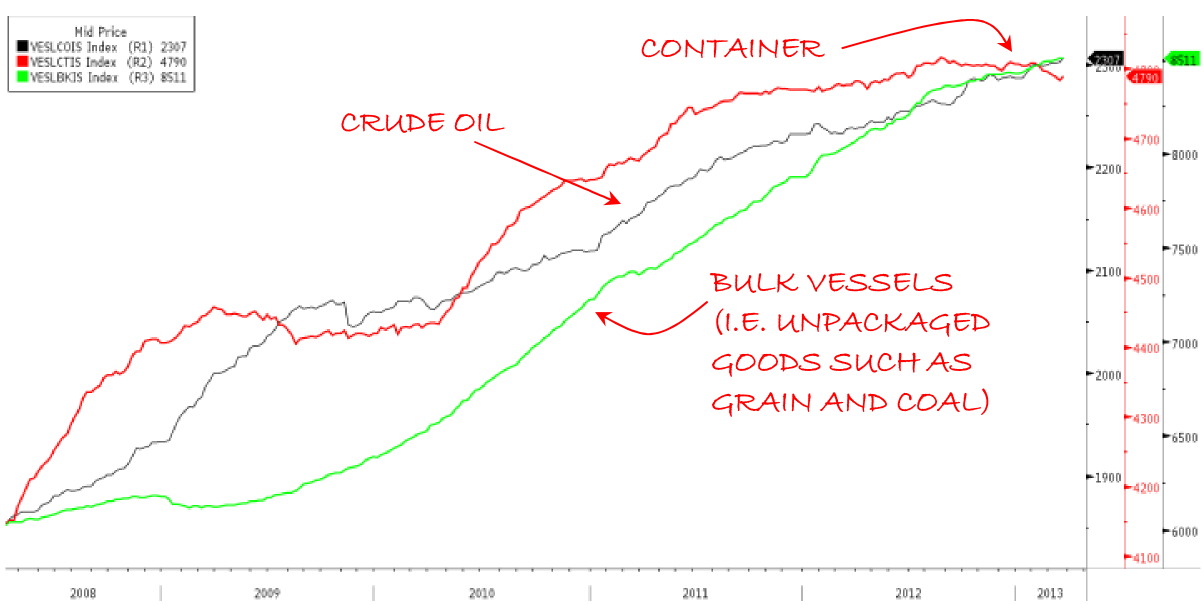
Figure 5: 5-Year CDS Spreads: Ireland, Italy, and Spain



Source: Bloomberg

All the concern about the European debt crisis overlooks some improving results from the real global economy.

Figure 6: Vessels on the Sea: Crude Oil, Bulk, and Container Ships



Source: Bloomberg

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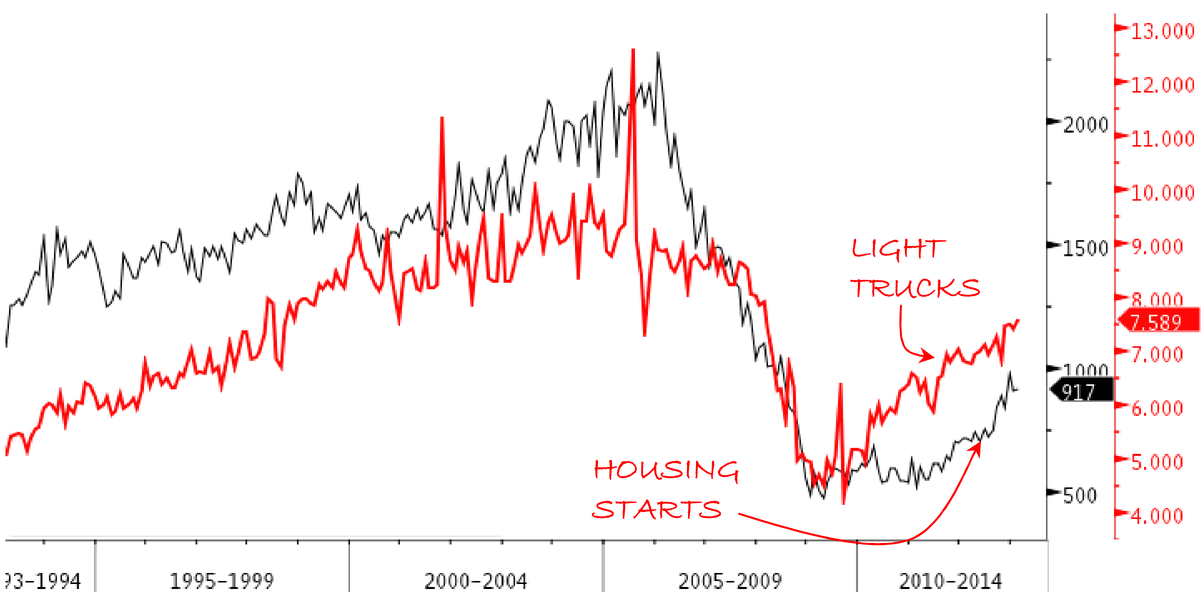
A closer look at the US economy gives us a better sign for the improvement in the US vehicle sector.

Figure 7: Amer.Assoc. of Railroads Motor Vehicle Carloads – Weekly to March 15, 2013

Source: Bloomberg

Vehicles sold helps with our other positive sector theme;

Figure 8: US Private Housing Starts and Light Truck Sales – Monthly to February 28, 2013



Source: Bloomberg

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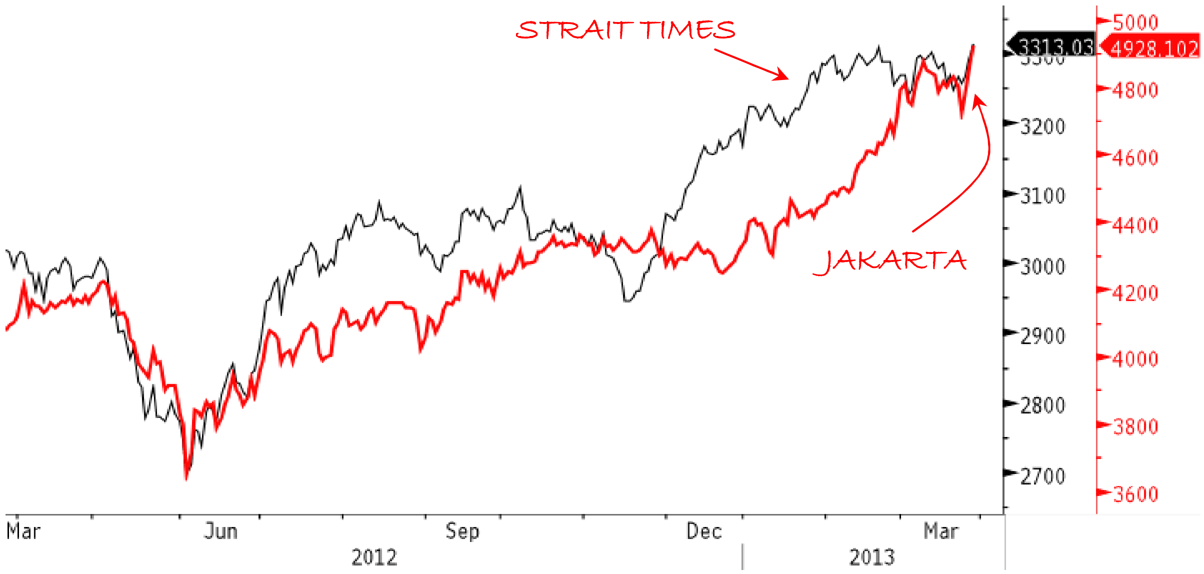
In our December forecast, we stated we expected two equity indices would outperform in 2013. Here is the up-date:

Figure 9: Singapore Strait Times Index and Indonesian Jakarta Composite Index – Daily to March 27, 2013



Source: Bloomberg

Another index showing the potential for further price advance in 2013 is the Mexican Bolsa. A number of stocks in this index are a play on an improving US economy.

Figure 10: Mexican Bolsa Index – Daily to March 27, 2013

Source: Bloomberg

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The Mexican economy should improve as it contains a number of major auto part and manufacturers with headquarters in other North American countries.

The final two charts feature two favoured plays for the US equity market.

Figure 11: Bloomberg World Auto Manufacturers and Auto Parts Indices – Daily to March 27, 2013

Source: Bloomberg

Figure 12: Bloomberg Americas Home Builders and Building Material Indices – Weekly to March 27, 2013

Source: Bloomberg

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