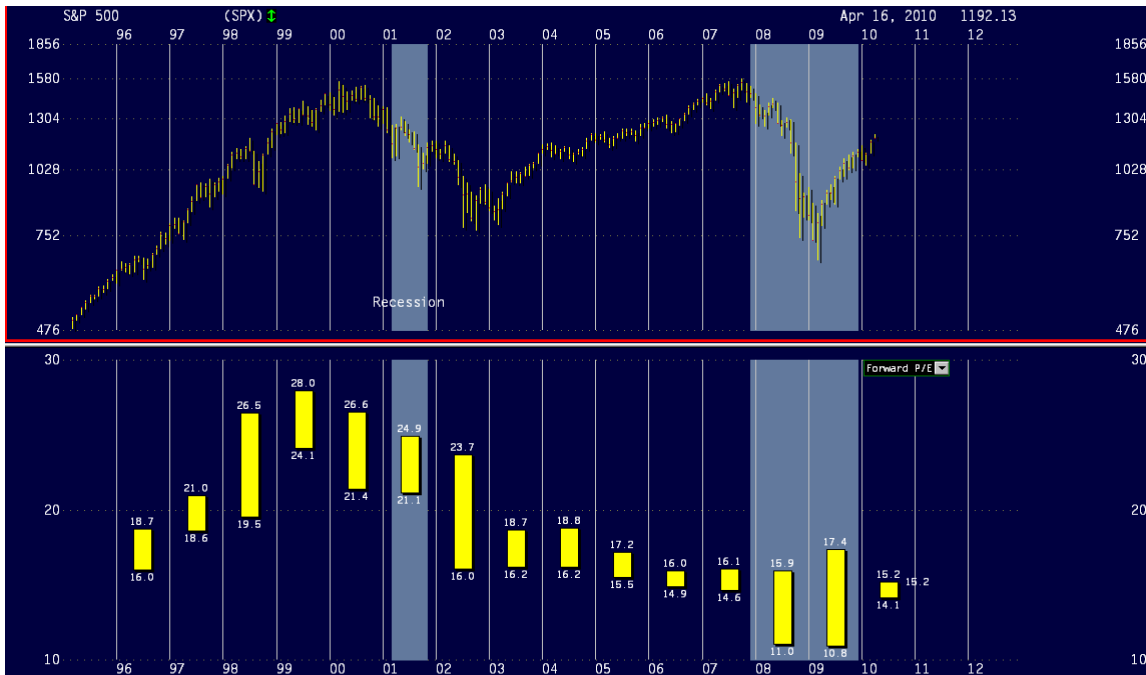




In writing a monthly Investment Outlook, there are times when we must admit that there is not much new on which to comment. We are at one of those crossroads where we have been stating for quite some time that the economic recovery is here and accelerating and equities ought to significantly out-perform bonds. Even with the S&P 500 up 50% in the past year, we continue to believe that the best risk/reward asset class remains stocks.

There is a long standing correlation between stock prices and stock earnings. One of the most widely used valuation metrics for the stock market is its price-to-earnings (P/E) ratio. As depicted in the graph below, the P/E of the market is trading around 15x; this is near its 15-year low, with the exception of the bottom of the bear market last year. Thus, even with the outsized gains in the stock market this past year, the market is still inexpensive on a historical basis.



Corporations have spent the better part of the past year slashing operating costs. Now that revenues are beginning to pick up, these same corporations are benefitting with substantial earnings growth. Furthermore, the earnings outlook for the remainder of the year is quite favorable. Earnings recoveries tend to lead economic cycles. The reason for this is that companies do not begin to re-hire until they have substantial belief that sales growth is sustainable.

The Household Employment Survey released by the Labor Department has shown over 1 million jobs created in the first quarter of this year. These jobs, for the most part, have been created at small businesses. As we move through the spring and into the summer, we should begin to see large corporations hiring. This will lead to further increases in both retail sales and home sales; this feedback loop will then provide even more hiring. This is the textbook definition of a self-sustaining economic recovery.

The Fed continues to be very accommodative in their interest rate policy with no intention of raising rates in the near term. A steep yield curve may be the single most important leading economic indicator and the curve has never been steeper than it is today.

The stock market does not peak prior to a cycle of monetary tightening. We expect the stock market to continue to lead all asset classes in returns for the foreseeable future as the Fed remains very accommodative. In other words... nothing has changed.

Thomas W. Wirth, CFA
Senior Vice President &
Senior Investment Officer