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Investment Strategy Dashboard

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Recent updates to strategic view

Market	Strategic view	Updated
US BONDS [history]	Misguided disinflationary expectations, and an intense preference for liquidity, have driven TIPS spreads to impossibly narrow levels. We expect those spreads to widen considerably as the credit crisis eases, and inflation comes back to the forefront of concern.	10/2/2008 [full report]
US MACRO [history]	Comparisons of the US economy to that of Japan in the 1980s are misguided, despite superficial similarities. That "lost decade" of stagnation and monetary deflation, and its remaining legacy today, were the product of a persistently too-tight Bank of Japan. The Fed was not tight even before the present crisis, and as the crisis has unfolded has gotten progressively easier -- to the point now of extreme ease, where the real concern should not be deflation, but inflation.	10/2/2008 [full report]
US STOCKS [history] **US FINANCIAL STOCKS** [history]	With the bail-out bill painted as the only thing standing between us and a new Great Depression, the bill's failure had to set off a panic. The panic itself may get the bill back for another vote, but even if it doesn't, we'll soon learn that there are other means of dealing with the credit crisis through established institutions, and those may have lower long-term costs. With equities now more undervalued relative to bonds than at any time in almost thirty years, we don’t see much further downside to stocks.	9/30/2008 [full report]
US STOCKS [history] **US FINANCIAL STOCKS** [history]	We now have putatively final language for the banking bail-out: the Emergency Economic Stabilization Act of 2008, though it's not law yet, and markets still have no idea how its complex Troubled Asset Relief Program (TARP) will really work. The most pernicious elements considered last week are either gone or watered down, and useful new features -- such as Treasury insurance for illiquid securities, and Fed authority to pay interest on reserves -- have been added. We remain on alert for unintended consequences, especially in the form of incentives for speculative attacks. But at first blush, and acknowledging our basic aversion to government interventions, especially of this scope, we think this bill may end up being generally effective.	9/29/2008 [full report]

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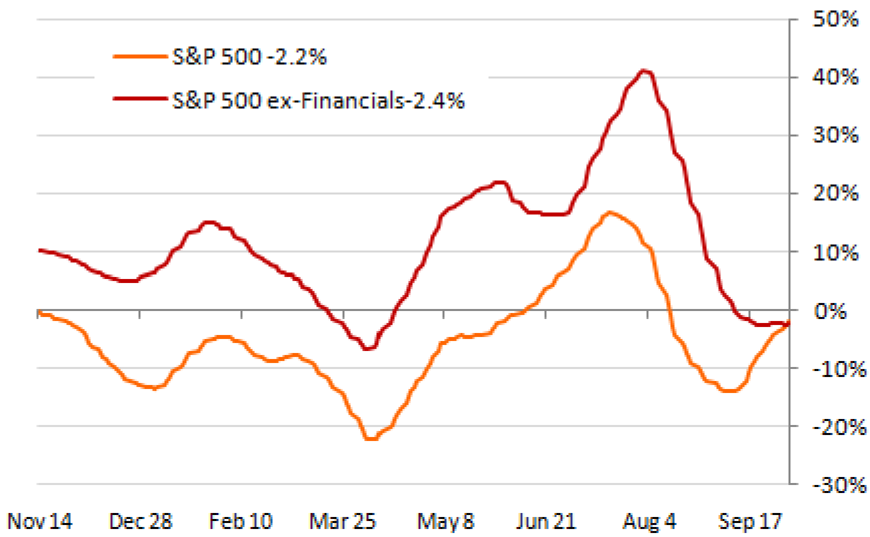
Continuing strategic views

Market	Strategic view	Updated
Macroeconomy		
EMERGING MARKETS MACRO [history]	Emerging economies are beginning to find the courage that our Fed has not -- to raise interest rates to combat inflation. As in the US, at first normalizing rates is salutary -- but there is the risk that our exported inflation is already so embedded that only true tightening will do the job, at the cost of continued growth.	8/5/2008 [full report]
Equity markets		
US RESOURCE STOCKS [history]	Oil deserved to get whacked after the speculative frenzy of recent months, but it has unreasonably dragged other "inflation plays" down with it. Underlying inflation trends are worsening, not improving -- and resource stocks are now among the best bargains in the stock market.	8/13/2008 [full report]
US TELECOM STOCKS [history]	With the Democratic-controlled congress on hold, our outlook for these sectors shifts to neutral.	5/10/2007 [full report]
US SMALL STOCKS [history]	If the Fed can regain its inflation-fighting footing, then we expect another leg down in the small stock premium (though not in the absolute value of small stock indices). For the moment, a vacillating Fed has given the small stock premium a new lease on life.	7/11/2006 [full report]
Fixed income markets		
FED FUNDS [history]	A rate cut today would fail to either ameliorate the present market turmoil, or protect the economy from it -- yet beleaguered markets expect it, and will be disappointed if they don't get it. But after some initial dismay, markets could react very positively to what would soon be understood as a sign that the Fed that has finally found its moorings in sound-money policy, free from moral hazard.	9/16/2008 [full report]
Other markets		
US DOLLAR [history]	We reject on first principles the hypothesis that recent dollar strength is the result of a sea-change in relative performance of the US economy. The Fed is too loose, and dollar strength is only encouraging it to stay loose, so we expect that strength to be reversed.	8/26/2008 [full report]
OIL [history] **GOLD** [history] **COMMODITIES** [history]	Oil deserved to get whacked after the speculative frenzy of recent months, but it has unreasonably dragged other "inflation plays" down with it. Underlying inflation trends are worsening, not improving -- and resource stocks are now among the best bargains in the stock market.	8/13/2008 [full report]

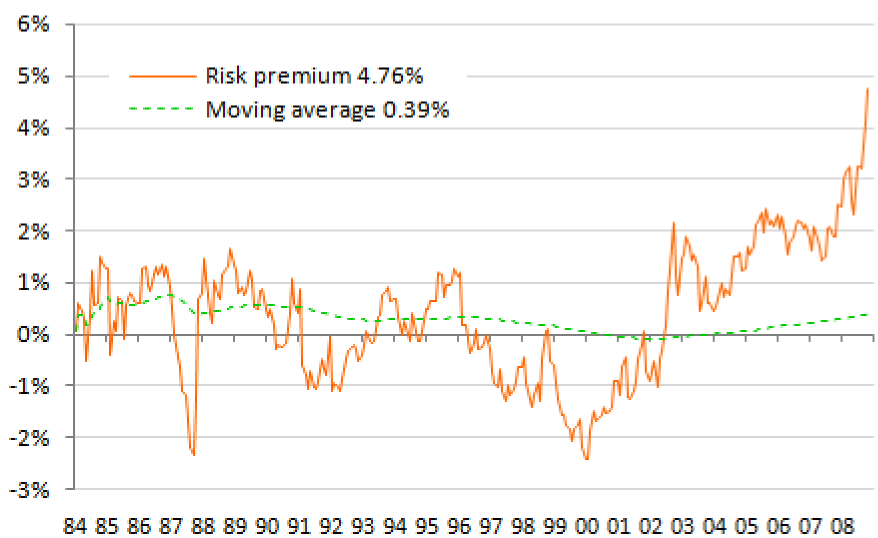
Equity risk premium update

S&P 500 forward earnings revisions, monthly annualized rate



Annualized earnings revision rate	
Consumer Discretionary	-17.1%
Consumer Staples	5.1%
Energy	-14.4%
Financial	-0.3%
Health Care	4.6%
Industrials	1.5%
Information Technology	-4.8%
Materials	60.6%
Telecommunications	-2.1%
Utilities	5.4%

S&P 500 earnings yield versus 30-year Treasury bond yield



S&P 500		
Earnings yield	8.87%	
30-year Treasury	4.11%	
Risk premium	**4.76%**	
Observations >=	*0*	*out of 296*
Sensitivities		
	Change	*S&P 500*
Market cap	97.2%	2,168
	From	*To*
Earnings growth	30.9%	-33.6%
	Change	*To*
Treasury yield	4.37%	8.48%