Indicators Signal Recovery's Fragility

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Surveys from Federal Reserve banks in New York and Philadelphia pointed to weakness in those regions' factory sectors, bucking a positive trend. Ugly news from Europe, slower growth in China, concerns about U.S. Budget Deficits and lack of confidence in our political leadership is weighing negatively on business sentiment. On September 21st, these trends were brought to a head by the Fed's pronouncement that confirms to the market that it also saw "significant downside risks" in the market.

Stocks are at Low Valuations

Current P/E ratios represent significant low valuations. Our current P/E ratio equals the quarterly valuation from Q1-2009, right after the 2008-2009 correction and represent the lowest annual valuation in the last 20 years.

"Twist"

Feeling the need to spur markets yet again, the Fed announced that it will sell short-term bonds and buy longer ones in order to "twist" the yield curve in hopes of lowering mortgage rates further. Rates and the equities dropped which signified the market's disbelief in the effectiveness of the program to stimulate the economy.

Our Focus

CTIC believes that buying large cap "blue chip" companies at these low valuations are compelling. On the bond side, we continue to find intermediate bonds most compelling because going long is scary if market sentiment changes suddenly and staying too short doesn't pay.Bonds are a bit problematic with the recent retraction in yields. We have reduced our duration and remain somewhat defensive in anticipation of a higher rate environment. We do still find some opportunities in both municipal and corporate markets however.

Commodity prices have taken a breather in their climb ever higher. We expect prices to moderate and find more realistic trading ranges. Long term we believe that commodity prices will rise due to global demand, but in the short run we feel that prices have gotten over extended, especially given the slower economic growth profile of both the US and foreign markets.

If you have questions or would like to set up a meeting with our team, contact R. Chris Meng, CFA at 859.389.5305 or mengro@ctbi.com