Market Move

It is not all that unusual for individual stocks, or even the broader stock market, to change direction after the end of a reporting period such as the end of a calendar quarter or year end. So, after last year’s strong bull market run, a stock market retrenchment shouldn’t be considered as anything out of the ordinary. The question in our minds is whether to consider the present decline as a standard, run-of-the-mill normal stock market correction that will soon play out, or the beginning of a more dangerous turn in the economic fundamentals which the stock market is now “sniffing out”.

The ink is barely dry on our Quarterly Review & Outlook for 2013’s fourth quarter, in which we opined that the economic conditions which contributed to last year’s market performance are pretty much unchanged so far this year. What has changed is that various emerging markets that rely heavily on foreign debt to support their current spending needs are experiencing falling securities and currency values coupled with an exodus of investor capital. The most severe problems are occurring in places like Turkey, Argentina, India, Indonesia, Brazil and South Africa.

Could their economic woes snowball out of the realm of emerging markets and into the domain of the developed markets? Sure — anything is possible, but the probabilities seem low at present. Our research services reveal that U.S. banks have negligible loan exposure to these countries and that emerging markets in the aggregate account for approximately 5% of the S&P 500’s profits.\

If emerging markets globally become consumed in a wider crisis, global growth would be harmed and in that event a “recalibration” of stock market levels might very well occur for some period of time. For now we at SIMI are “staying the course”.

As always, we welcome your questions and comments.

Sincerely,
Roger A. Sheffield, CFA

1 BCA Research