Janet, meet TINA

The first quarter offered quite a roller coaster ride for equity investors. Out of the gate, the stock market swooned throughout January and found itself down almost 11% by February 11th. Yet by March 31st, the market had regained all lost ground and closed the quarter ever so slightly in the black. For the first three months of 2016, the S&P 500 and Dow Jones Industrial Average gained 0.77% and 1.449% respectively, while the NASDAQ Composite declined by -2.75%.

That this whiplash market rebounded so sharply in such short order, despite all the headline risk, is impressive if not outright amazing. Let's briefly review the primary issues that weighed on the stock market at the year's outset and evaluate to what extent these headwinds may have become tailwinds.

Oil: As we detailed in our January newsletter, the price of oil had plummeted over 70% from its 2014 peak, exposing an imploded bubble and promulgating widespread fears of geopolitical uncertainty, sovereign wealth fund liquidation and global recession. Since bottoming on February 11th along with the stock market, the price of oil has rebounded 60%, despite little evidence of any material change in supply and demand fundamentals. U.S. oil production is on pace to decline approximately 10% from last year's peak of 9.6 million barrels per day to approximately 8.6 million; while Russia and Saudi Arabia have agreed only to freeze production at January's record levels of 10 million barrels per day. Meanwhile, Iran is now producing 1.7 million barrels per day, up 600,000 barrels from the end of 2015. Albeit down from last year's inventory build of 2 million barrels per day, global oil production oversupply is presently running at 1.4 million barrels per day.

Perhaps Putin's pledge to withdraw troops from Syria and hopes of cooperation between Saudi Arabia and Russia to cut production (which thus far has only translated into maintenance of the status quo) is sufficient for the reprieve in oil war tensions. In the meantime, while dividend cuts and bankruptcies continue to surge in the energy sector, banks have more than adequate capital reserves to manage the exposure.

China: China's foreign reserves have stabilized over the last two months, helping lift the yuan in spite of massive hedge fund bets against the Chinese currency's imminent collapse. The most recent economic data out of China illustrates a surprising increase in exports and the Chinese stock market has firmed up as well. Fears of a dramatic and potentially devastating devaluation of the yuan seem to have been allayed, at least for now.

As China manages the transition to a slower growing, albeit more consistent, consumer-based economy, it's free-market communist regime seemed to have lost control and much needed credibility. The crisis sparked a growing chorus of naysayers predicting dire consequences for the world's second largest economy and the global economy by extension. Should the data continue to indicate a successful soft landing, this would be a considerable catalyst for global markets.

Federal Reserve: The most significant game-changer helping catapult the markets so rapidly off recent lows was the mid-March announcement by Janet Yellen that the Federal

Reserve had softened its previously expected path for interest rate hikes. Instead of four quarter-point increases this year, the Fed now expects only two. Despite full employment and inflation ticking higher in recent months, the Fed has essentially bowed to global concerns and helped reignite the market's animal spirits.

Moreover, the Fed's dovish maneuver halted the extended bull market in the U.S. dollar and lead to the greatest two-day decline in the dollar in over seven years. Yellen's maestro-like gesture worked its medicinal impact throughout the ailing global system and Fed policy has proven to be a much needed panacea for the stock market. As the dollar eases lower, there are multiple benefits that have given Fed action additional bang for the buck. First, since the yuan is pegged (mostly) to the U.S. dollar, the weakening greenback has eased pressure on the Chinese government to devalue its currency. Next, given the inverse relationship of oil (priced in dollars) and the dollar, the swift drop has given oil a boost just as the precipitous decline in energy prices showed no signs of abating. Finally, with approximately 50% of S&P 500 revenues derived overseas, the weakening dollar will offer a much-needed springboard to reported earnings for U.S. multinationals. Monetary policy headwinds have become a tailwind on a dime.

Presently, the S&P 500 trades at 16.7x forward annual earnings and a more respectable 15.2x expected earnings for 2017. And at today's levels, the S&P 500 is trading only 3% away from 2,150, the high end of the range for what we expected to be the stock market's upside for the year. While stocks are not trading at bargain prices, we must grapple with the reality of TINA - "there is no alternative".

In a world where the Japanese and European central banks experiment with negative interest rates, a stunning $6.8 trillion of government bonds or 27% of the value of total outstanding sovereign debt now yield less than zero. By comparison, today's 1.78% yield on the ten-year Treasury and 2% yield for the S&P 500 appear quite appetizing. Low and even negative return from the world's highest rated and arguably safest fixed income securities is undoubtedly lending a bid to the U.S stock market.

During such uncertain and volatile periods as the first quarter of 2016, it is especially important to monitor signs of extreme pessimism. For example, short interest in the S&P 500 on the Chicago Mercantile Exchange has risen to 3.5% of outstanding shares, the highest percentage since November of 2009. In addition, the allocation to cash by global fund managers is now sitting very near a 14-year high. And retail investors have yet to deploy the $437 billion that was squirreled away in money market funds during the fourth quarter of last year. The last time individuals sidelined such a substantial amount of their assets was during the dark times directly following the Lehman crisis. Finally, though tainted by the brush of continued global quantitative easing, paltry and even negative yields on sovereign bonds tells us much about what investors are willing to accept in the name of losing money safely. With gloom so abundant, it usually pays to be at least somewhat contrarian and go against the grain. To that end, we were able to take advantage of the market's prevailing dour mood by adding to a few of our core names during the first quarter.

While we remain cautious, we are anchored by our conviction in our investment philosophy and remain steadfast in owning world-class businesses that have demonstrated the ability to consistently grow earnings and raise their dividends through varying economic, interest rate and political cycles. In such an environment driven by TINA, this time-tested approach will serve our clients well.