

CAPITALE INVESTMENTS

Dear friends and clients,

Here are my latest thought on the markets for your review.

Clues to the markets next move. Are stocks overbought and due for a pause or can the upward momentum continue?

I believe 4 things hold the key:

- Next move for price in crude oil
- Strength of the dollar
- Whether FED intends on raising rate in June
- 1st qtr. earnings results



I believe the market seems a bit overbought after big price gains without much of a pullback, so the market may need to consolidate these gains. The market may stay range bound between 1900 and 2100, until earnings recover and liquidity improves. There are a few things I am watching that could be clues to the next move in the market.

- If oil can stay above \$35 per barrel, this can be bullish for energy and risk assets.
- The US dollar in my opinion is the most important factor and its direction. The dollar peaked in January just as the market was making its lows since then the dollar has declined and the market has rallied.
- The relationship between the Fed and the dollar is key for the markets. It seems the probability of a fed rate hike in June is low.
- The market is betting that the Fed will not raise rates so the markets and financial conditions have improved and this will help risk assets. The relationship between the SP500 vs 10yr treasuries is diverging. This bears watching because as the SP500 has rallied the 10yr yield has been dropping. If this continues this could signal that stocks may be overpriced or treasury yields are too low and heading higher.
- It's also important to keep a perspective that higher inflation due to strong labor markets and the FED's response can be a headwind for bond investors but can reward stock investors with stable growth and earnings.

Earnings- The Consensus EPS for 2016 growth is only 2.3% but a rally in crude oil of 50% and a weak dollar are creating a tailwind for earnings estimates. This in my opinion sets up for earnings surprises to the upside and can lead to the market's momentum and market new highs in the months ahead.

Sincerely,

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