US Stocks Continue to Appear Well-Positioned August 9, 2012

Over the last three years, US stocks have been enjoying a bull market, if one that has been punctuated by several sharp corrections. In our view, the bull market should continue. As long as economic growth manages to remain at least somewhat decent, corporate earnings should hold up. On that front, we are now more than two-thirds of the way through the second-quarter earnings season and while overall earnings have been slightly beating expectations, revenues have been disappointing and forward guidance has been weak. At the beginning of the year, we had a forecast of $103 for S&P 500 earnings-per-share, and we would hold to that view. Such a number might not be stellar, but it should be enough to help stocks continue to make gains.

Outside of the United States, the outlook is a bit murkier. Non-US stocks have struggled to stay range-bound, reflecting both weakness in the euro area and lackluster levels of growth in emerging markets. European equities may be poised for a rebound, particularly if we should see aggressive policy support from the ECB and other policymakers. That region's poor corporate earnings outlook, however, is likely to remain a drag on performance for some time. One area we are watching carefully is emerging markets—emerging markets equities appear to be positioned for an upgrade once we see improvements in emerging markets and global economic growth.

Overall, we would view the combination of below-trend growth and very easy monetary policy in most parts of the world as a positive backdrop for stocks. Despite the well-known risks, we believe a modest "risk on" strategy continues to make sense for investors.