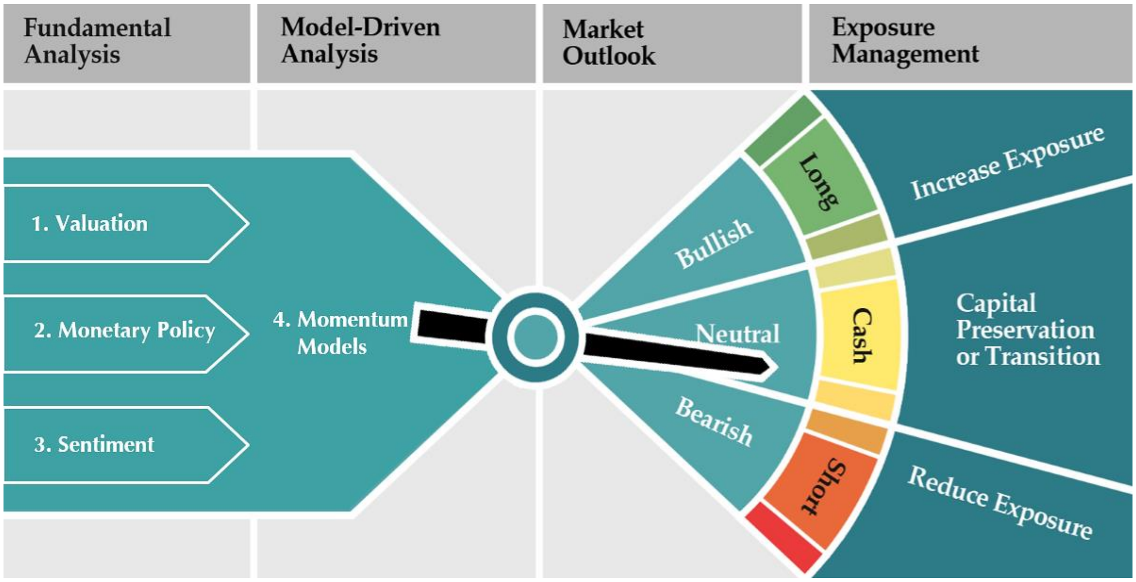
The Federal Reserve backed off of its January statement of targeting four rate increases in 2016, and now they are targeting one or two. This dovish tone in the US coupled with the ECB's announcement that they will be buying corporate bonds improved credit conditions. We find it interesting that that global central banks are in cooperation mode rather than in competition. This improvement in credit conditions fueled the market higher in March. The questions remain: What kind of staying power does the rally have? Will it ultimately fail as in the case of 2001, or will it be more like 2011 when it continued to progress?



A brief look at the four pillars of our investment process indicates the following:

Valuation: No change. The bottom line is still very high on a valuation basis. PE multiples have made a new high which should be a headwind to furthering the advance.
Monetary factors and credit conditions: As mentioned, we have seen improvement in credit conditions following the ECB and Fed's statements in March. The one negative we are concerned with is the relative underperformance of financial stocks. This has historically been a harbinger of bad things to come.
Sentiment: Pessimism became extreme in an oversold condition in February ahead of the rally but deteriorated (became more optimistic) as the market moved higher. Sentiment is not extreme as of yet but is in high-neutral zone.
Momentum: The rally in March was more broad based than the one in November of 2015. All of our thrust indicators kicked in and stocks trading above their 10 and 30 day moving averages jumped higher. Upside momentum has stalled at levels that one may anticipate, however. Defensive issues outperformed the broad market with increased volatility, which is indicative of a vulnerable market. We are watching for negative momentum divergences to indicate the end of the rally and that it is time to try the short side again.