

MONTHLY ECONOMIC UPDATE

June 2014

MONTHLY QUOTE

“Variety is the soul of pleasure.”

– *Aphra Behn*

MONTHLY TIP

A finer retirement strategy pays attention to tax implications. Many pre-retirees embark on retirement transitions without studying them.

MONTHLY RIDDLE

An ancient invention (still used the world over) permits people to see right through walls. What is it?

Last month's riddle:

Had by some, valued by all, I'm found both inside and outside and I make both men and women fall. What am I?

Last month's answer:

Beauty.

THE MONTH IN BRIEF

All four of the marquee U.S. stock indices rose in May, even as some key economic indicators left something to be desired. Most overseas equities markets also saw May gains; in New York, oil futures rose as much as gold futures fell. Home sales rebounded from a lull and manufacturing strength held up in the U.S. and China. The Dow rose 0.82% on the month to close at 16,717.17 on May 30.¹

DOMESTIC ECONOMIC HEALTH

Consumer spending had retreated 0.1% in April, even with consumer incomes up 0.3% for that month. That news from the Commerce Department came 24 hours after Q1 GDP was revised down to -1.0% by the Bureau of Economic Analysis. The BEA's second Q1 GDP estimate attributed the poorest economic quarter in three years largely to 1.6% slips in business investment and business stockpiles, plus a 6% in exports – that is, not necessarily winter weather.^{2,3}

Consumer confidence? It was difficult to get a bead on it in May, as the two most respected polls told different stories. The Conference Board's survey came in at 83.0, a gain of 1.3 points. The University of Michigan's index fell 2.2 points to 81.9, with decreases in its monthly gauges of present and future expectations.⁴

Consumer prices were rising appreciably – in fact, a 0.3% April rise in the Consumer Price Index took yearly consumer inflation up to 2.0%. (The Producer Price Index advanced 0.6% in that month, putting yearly wholesale inflation at 2.1%.⁵)

The picture was brighter when it came to manufacturing and hiring. Though the nation's industrial production was down 0.6% in April, overall durable goods orders were up 0.8%. U.S. firms created 288,000 new jobs as the unemployment rate declined to 6.3% (although the rate of unemployed and underemployed Americans was 12.3%). May brought a half-percent advance in the Institute for Supply Management's factory PMI, which rose to 55.4; in April, ISM's non-manufacturing PMI improved to 55.0 in April from March's reading of 54.2.^{5,6,7}

GLOBAL ECONOMIC HEALTH

Was Abenomics finally ridding Japan of its deflation problem? The latest data seemed encouraging. Prime Minister Shinzo Abe's “three arrow” economic strategy began with a Bank of Japan commitment to double the nation's monetary supply in two years; Q1 2014 had seen GDP of 5.9% (thanks to a promise to raise sales taxes by 3% in Q2) and core inflation of 3.2%. While the Bank of Japan wants to see 2% inflation soon, the International Monetary Fund doesn't see that happening until 2017 or later and just cautioned the central bank against abandoning its stimulus too quickly.⁸

China's latest official manufacturing PMI also brought good news, rising 0.4 points to 50.8 for May. This marked the third straight month of growth in factory activity, reassuring seeing as the country's annualized GDP had declined in the first quarter to 7.4%.⁹

The European Union's factory PMI slipped to 52.2 in May, down 1.2 points from April but still flashing a growth signal. The troubling news: consumer inflation was running at just 0.6% in Germany in May, as opposed to 1.1% a month before. Consumer price indices had also shown declining inflation in Italy, Belgium and Spain, which led analysts to believe that euro area annualized consumer inflation would come in at but 0.5% in May.¹⁰

WORLD MARKETS

Few stock benchmarks lost ground in May. Russia's RTS rebounded 12.12% and Spain's IBEX rose 3.25%; elsewhere in Europe, the DAX rose 3.54%, the CAC 40 0.72% and the FTSE 100 0.95%, with Italy's FTSE MIB down 0.71%. Further west, May gains came for the Merval (13.72%) and the IPC All-Share (1.60%) while the S&P/TSX Composite retreated 0.33%. In the east, May saw an 8.03% jump for India's Sensex, a 2.29% gain for the Nikkei 225, a 4.28% climb for the Hang Seng, a rise of 2.85% for Pakistan's KSE 100 and advances of 1.69% for the Kospi and 0.63% for the Shanghai Composite.¹

As for the regional and multinational indices, the Europe Dow was the laggard with a loss of 0.23%. May advances came for the Asia Dow (3.90%), Global Dow (1.67%), MSCI World Index (1.63%), MSCI Emerging Markets Index (3.26%) and STOXX 600 (1.88%).^{1,11}

COMMODITIES MARKETS

NYMEX crude climbed 3.25% for the month to settle at \$102.71 on May 30. Other energy futures retreated: unleaded gasoline lost 0.96%, heating oil 1.59% and natural gas 5.01%. Losses also came to the farm: soybeans slipped 2.21%, cotton 8.58%, corn 9.24%, wheat 11.78% and coffee 13.98%. A couple of key crops advanced for May: sugar went +0.81%, cocoa +2.62%.¹²

Gold and silver futures both lost some ground in May. Gold's 3.23% descent led to a May 30 COMEX close of \$1,245.60; silver ended the month at \$18.68, losing 2.04%. Copper gained 4.22% for May while platinum advanced 1.83%. As for the U.S. Dollar Index, it rose 1.13% for May.^{12,13}

REAL ESTATE

Both new and existing home sales improved in April. The Commerce Department recorded a 6.4% rise in purchases of new homes, while the National Association of Realtors announced a 1.3% gain in residential resales. NAR also said that pending home sales were up for a second straight month in April, rising 0.4%.^{2,14}

April also brought more groundbreaking. Housing starts rose 13.2%, powered by a gain of almost 40% in the apartment category. Building permits were up 8.0%, again in large part due to multifamily projects getting off the drawing board.¹⁵

While the monthly numbers were solid, the year-over-year numbers were less impressive. Annually, new home sales were down 4.2% as of April; the pace of existing home sales had declined 6.8%, with the seasonally adjusted annual rate projecting to 4.65 million sales (compare that with 5.5 million in a healthy market). Existing home sale prices did rise 5.2% in a year to \$201,700; the S&P/Case-Shiller home price index saw its overall annual gain slip from 12.9% in February to 12.4% in March.^{2,14}

Where did mortgage rates stand at the end of May? We turn to Freddie Mac's Primary Mortgage Market Survey, specifically the May 1 and May 29 editions. On May 29, the average rate on a 30-year FRM was only 4.12%. The average interest on the 15-year FRMs was but 3.21%. Rates on 5/1-year ARMs averaged 2.96%, rates for 1-year ARMs 2.41%. Compare the May 1 numbers: 30-year FRMs, 4.29%; 15-year FRMs, 3.38%; 5/1-year ARMs, 3.05%; 1-year ARMs, 2.45%.¹⁶

LOOKING BACK...LOOKING FORWARD

More buying than selling, and not much fear – that is the simple summation of May on Wall Street. The CBOE VIX ended the month at a low, low 11.40, plunging 14.99%.¹

In addition to the Dow's aforementioned gain, the three other closely watched U.S. indices also advanced for the month – the NASDAQ rose 3.11% to 4,242.62, the S&P 500 2.10% to 1,923.57 and the Russell 2000 0.68% to 1,134.50. At the end of the month, the S&P appeared on pace for a pretty good year.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+0.85	+9.09	+19.33	+6.39
NASDAQ	+1.58	+21.52	+27.82	+11.31
S&P 500	+4.07	+16.27	+21.86	+7.16
REAL YIELD	5/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.26%	-0.05%	1.67%	1.97%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 5/30/14^{1,17,18}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

Seasoned investors know that June usually isn't a hot month on Wall Street. In fact, research from Bespoke Investment Group notes that from 1994-2013, the Dow has advanced in June just 40% of the time. During those 20 years, its average June performance was -0.76%. Certainly interesting, but what does this mean for June 2014? Probably nothing. The market defied (historical) trends last month and it could very well do so again this month – the blue chips might end the month at a new record high, the small caps might not lag the S&P so much, tech shares might get a boost, you can't tell the future's headwinds (or lack thereof) by looking intently into the past. Absent of some kind of unsettling geopolitical event, stocks may advance nicely this month if enough indicators exceed forecasts.¹⁹

UPCOMING ECONOMIC RELEASES: Coming up in June, we have: the May ISM services PMI and a new Federal Reserve Beige Book (6/4), the May Challenger job cuts report (6/5), the Labor Department's May employment report (6/6), April wholesale inventories (6/10), April business inventories and May retail sales (6/12), the University of Michigan's initial June consumer sentiment index and the May PPI (6/13), May industrial output (6/16), May's CPI plus May housing starts and building permits (6/17), a Fed policy statement (6/18), the Conference Board's May leading indicator index (6/19), May existing home sales (6/23), May new home sales, the Conference Board's June consumer confidence index and April's FHFA and Case-Shiller home price indices (6/24), May durable goods orders and the final Q2 GDP estimate from the Bureau of Economic Analysis (6/25), May consumer spending (6/26), the University of Michigan's final June consumer sentiment index (6/27), and May pending home sales (6/30).

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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is not possible to invest directly in an index. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. 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The FTSE MIB (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange. The Merval Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Mexican IPC index (Indice de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. Karachi Stock Exchange 100 Index (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Europe Dow measures the European equity markets by tracking 30 leading blue-chip companies in the region. The Asia Dow measures the Asia equity markets by tracking 30 leading blue-chip companies in the region. The Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. All economic and performance data is historical and not indicative of future results. Market indices discussed are unmanaged. Investors cannot invest in unmanaged indices. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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