

MONTHLY ECONOMIC UPDATE

March 2014

MONTHLY QUOTE

“We must believe that we are gifted for something, and that this thing, at whatever cost, must be attained.”

– Marie Curie

MONTHLY TIP

Are your financial needs and priorities the same as they were five years ago? Time may have subtly changed them. Every few years, you should review your financial strategy to see if it needs altering in light of new needs and goals.

MONTHLY RIDDLE

It is born in the air and it hears and speaks even though it has no ears, mouth or body. What is it?

Last month's riddle:
What possesses a foot, yet no legs?

Last month's answer:
A snail.

THE MONTH IN BRIEF

Wall Street staged an impressive comeback in February – emerging market currency troubles, middling economic indicators and unrest brewing on multiple continents couldn't stop the bulls from running. The Dow gained 3.97% for the month and the S&P 500, Nasdaq and Russell 2000 all gained more than 4%. Important commodities and most foreign stock exchanges also rallied. While existing home sales slipped, new home sales jumped. New Federal Reserve chair Janet Yellen soothed the markets with reassuring remarks on Capitol Hill.¹

DOMESTIC ECONOMIC HEALTH

Why were so many economic indicators so feeble? Maybe it was the weather. Janet Yellen thought so – on February 27, she told Congress that the miserable winter much of the U.S. was enduring was likely distorting economic reports for the worse. The unemployment rate fell to 6.6% in January, but hiring fell off as well with the economy generating 113,000 new jobs (payrolls had grown by an average of 182,000 positions a month during 2013). The federal government also revised its estimate of Q4 GDP down to 2.4%.^{2,3}

Consumer spending represented a bright spot – personal spending was up 0.4% for January and personal incomes rose 0.3%, even as overall retail sales declined 0.4%. Still, the Commerce Department revised December's consumer spending gain down to 0.1% and the Q4 gain down to 2.4%.^{4,5}

Consumer prices moved north just 0.1% in January while producer prices rose 0.2%; the gains in the core CPI and PPI matched the respective headline numbers.⁶

As for consumer sentiment ... the Conference Board and University of Michigan indices told slightly different stories. Last month's final University of Michigan index came in at 81.6, a minor improvement from the final January mark of 81.2. The Conference Board's consumer confidence index (which arguably carries greater weight) slipped 1.3 points to 78.1 for February. The CB's leading economic indicator index was up 0.3% in January.^{6,7}

American industrial output had fallen 0.3% in January; economists polled by Briefing.com had expected a gain of that magnitude. Durable goods orders fell 1.0% in the first month of 2014, though they advanced 1.1% in January minus transportation orders.^{5,7}

The much-watched purchasing manager indices maintained by the Institute for Supply Management showed factory and service sector growth holding up even with the severe cold. ISM's manufacturing PMI improved from 51.3 in January to 53.2 in February. Weeks earlier, its service sector PMI had shown a 1% gain for January to 54.0.^{8,9}

GLOBAL ECONOMIC HEALTH

As February came to a close, the threat of combat in Ukraine hadn't unsettled the markets to the degree it would in early March. The currency problems and capital flight plaguing the “Fragile Five” – as Morgan Stanley christened the economies of South Africa, Turkey, Brazil, India and Indonesia – moderated in February, with the average implied volatility of their currencies hitting 3-month lows weeks after touching 4-month highs.¹⁰

China's official factory PMI read just 50.2 in February, an 8-month low. The preliminary HSBC/Markit PMI for China came in at 48.3 for January, signaling contraction of its manufacturing sector. China's official service sector PMI, however,

was at 55.0 last month (a 3-month high). India's HSBC/Markit PMI was at 52.5 in February (its best reading in a year); South Korea's fell to 49.8 (the first reading below 50 since October).^{11,12}

In the euro area, consumer inflation was still very low in February (0.8%) while the jobless rate was still high at 12.0%. Markit's PMI for the eurozone manufacturing sector showed slower growth at 53.2 in February, down from 54.0 a month earlier – yet Markit manufacturing PMIs improved in Germany, Spain, Italy and France.^{13,14}

WORLD MARKETS

As U.S. benchmarks reversed course and turned north in February, so did many others. Take the MSCI Emerging Market Index, up 3.19% last month; the MSCI World Index topped that gain with a 4.81% February climb. The Global Dow gained 3.95%, the Asia Dow 3.33% and the Europe Dow a tremendous 7.28%; the STOXX Europe 600 was up 4.81% for the month.^{1,15}

While Canada's TSX Composite advanced 3.76% in February, the same couldn't be said of Mexico's IPC All-Share (-5.13%), Brazil's Bovespa (-1.14%) or Argentina's Merval (-3.89%). In the Asia Pacific region, Australia's S&P/ASX 200 gained 4.14% in February; the Nikkei 225 dipped 0.49%. Both the Shanghai Composite (1.14%) and the Hang Seng (3.64%) posted February gains. India's Sensex rose 2.96%, Indonesia's Jakarta Composite 4.96%; Pakistan's KSE 100 lost 3.74%. In Europe, the FTSE 100 improved 4.60% in February; the CAC 40 was up 5.82%, the DAX 4.14%. Ireland's ISEQ advanced 11.69%, and Russia's RTS fell 2.59%.¹

COMMODITIES MARKETS

Coffee was hot in February – to put it mildly. Coffee futures jumped 42.57% for the month, the biggest gain by far among many in key crops. Soybeans rose 10.07% in February, corn 5.30%, wheat 7.67%, cotton 0.65%, cocoa 1.63% and sugar 5.92%.¹⁶

COMEX gold ended February at \$1,321.60 per ounce following a 6.59% ascent for the month. Silver beat that, rising 10.78%. Copper rose just 0.59%; platinum futures advanced 5.20%. The U.S. Dollar Index slipped 1.99% for February, ending the month at 79.69.^{16,17}

Naturally, oil futures rose with emerging market concerns. NYMEX crude wrapped up February at \$102.59. Its 5.49% monthly gain paled to that of the 13.58% rise made by unleaded gasoline futures. Natural gas was up 5.87% for February, while heating oil futures descended 6.23%.¹⁶

REAL ESTATE

According to the National Association of Realtors, January saw a 5.1% plunge in residential resales, with sales of single-family homes down 5.8%. Existing home sales were also down 5.1% across the past year.^{7,18}

NAR also had pending home sales up just 0.1% in January; across the past 12 months, they had declined 9.0%. The Census Bureau delivered better news regarding new home purchases: a 9.6% January gain. December's edition of the S&P/Case-Shiller Home Price Index showed a 13.4% annualized rise in house prices across 20 cities, slightly lower than the 13.7% yearly gain reported in the November edition.⁷

January's harsh weather meant no increases in groundbreaking: housing starts were down 16.0% in the largest monthly retreat seen since February 2011. Building permits declined 5.4%.¹⁹

While 30-year home loans grew a little more expensive in February, Freddie Mac's Primary Mortgage Market Survey showed average interest rates for other types of mortgages lower. From the January 30 survey to the February 27 survey, the average interest on a 30-year FRM increased 0.05% to 4.37%. Average rates on a 15-year FRM, however, were 0.01% lower on February 27 at 3.39%. Freddie's February 27 survey also found average interest rates on 5/1-year ARMs and 1-year ARMs

respectively at 3.05% and 2.52%; those averages declined 0.07% and 0.03% from the January 30 PMMS.²⁰

LOOKING BACK...LOOKING FORWARD

February's percentage gains are even more striking when you realize that the first market day of the month saw a 326-point dive for the Dow. The S&P finished February with yet another record close – 1,859.45 – after a 4.31% ascent for the month. The Dow wrapped up February at 16,321.71, rising 3.97% in the second month of the year; the Nasdaq advanced 4.98% to wrap up February at 4,308.12. Last month was great for the small caps as well, with the Russell 2000 improving 4.61% to a February 28 close of 1,183.03. The CBOE VIX slid 23.95% during the month, ending February at 14.00.^{1,21}

| % CHANGE | Y-T-D | 1-YR CHG | 5-YR AVG | 10-YR AVG |
|------------|-----------|----------|-----------|------------|
| DJIA | -1.54 | +16.13 | +26.22 | +5.42 |
| NASDAQ | +3.15 | +36.32 | +42.53 | +11.22 |
| S&P 500 | +0.60 | +22.76 | +30.59 | +6.24 |
| REAL YIELD | 2/28 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | 0.49% | -0.64% | 2.06% | 1.61% |

Sources: online.wsj.com, bigcharts.com, treasury.gov - 2/28/14^{1,22,23}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

March started much like February, with a triple-digit loss for the Dow as tensions in Ukraine weighed on investors' minds. Would this be the "black swan" event so long absent from the stock market? Or would the current bull, now a week from its fifth anniversary, keep stampeding? The biggest possible economic threat stemming from the crisis might be the chance of eurozone economic sanctions against Russia, which in the worst-case outcome leads Russia to reduce energy exports to the euro area and sends the eurozone back into another recession. So far, this feels like a short-term event with an impact that may be muted on Wall Street (oil prices aside). The bull market has managed to saunter through many geopolitical and economic shocks since 2009, and its resilience may take investors through this one without too much negative impact.²¹

UPCOMING ECONOMIC RELEASES: Here is the data stream for the rest of March: February's ISM services index and ADP employment change report, plus the latest Fed Beige Book (3/5), the February Challenger job-cuts report (3/6), the Labor Department's February jobs report (3/7), January wholesale inventories (3/11), January business inventories and February retail sales (3/13), the University of Michigan's initial March consumer sentiment index and February's PPI (3/14), February industrial output and March's NAHB housing market index (3/17), February housing starts and building permits, and the February CPI (3/18), a Fed policy announcement (3/19), February existing home sales and the Conference Board's February leading indicator index (3/20), February new home sales data, the Conference Board's March consumer confidence index, the January Case-Shiller home price index and the January FHFA housing price index (3/25), February durable goods orders (3/26), February pending home sales figures from NAR and the final estimate of Q4 growth from the federal government (3/27), and then the University of Michigan's final March consumer sentiment index and February consumer spending data (3/28).

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The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. The Asia Dow measures the Asia equity markets by tracking 30 leading blue-chip companies in the region. The Europe Dow measures the European equity markets by tracking 30 leading blue-chip companies in the region. 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 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 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 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 Merval Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The S&P/ASX 200 is recognized as the institutional investable benchmark in Australia. The index covers approximately 80% of Australian equity market capitalization. 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 SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. 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. 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). The IDX Composite or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX). 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 FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The RTS Index (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange. The ISEQ Overall Index is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies. 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. 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