

MONTHLY ECONOMIC UPDATE

May 2014

MONTHLY QUOTE

“So many of our dreams at first seem impossible, then they seem improbable, and then, when we summon the will, they soon become inevitable.”

– Christopher Reeve

MONTHLY TIP

Apart from your day job, do you attempt to make extra money from some form of self-employment or pastime? If you do and incur a financial loss as a result, check with your tax advisor to see that you are not subject to the hobby loss rules.

MONTHLY 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 riddle:

Though it has been around for many millennia, in one sense it is never more than a month old. What is it?

Last month's answer:

The moon.

THE MONTH IN BRIEF

Another month, another minor gain for stocks. The Q1 earnings season didn't give the S&P 500 much of a lift – the index advanced 0.62% for April. Small caps were hit hard during the month. Indices in the Americas and Europe largely outperformed Asian benchmarks. COMEX gold gained in April, but NYMEX crude did not. Last month saw a major drop in new home sales, but only a fractional decrease in existing home sales. An important consumer sentiment index surged north, but a respected consumer confidence index declined. As April wrapped up, worries about a Russian takeover of Ukraine reemerged.¹

DOMESTIC ECONOMIC HEALTH

Were Americans feeling upbeat about the economy in April ... or not? It was hard to tell from the two most esteemed household surveys. The University of Michigan's consumer sentiment index hit a 9-month peak in April, rising to 84.1 from March's final reading of 80.0; on the other hand, the Conference Board's survey of consumer confidence declined 1.6 points last month to 82.3.^{2,3}

Payrolls expanded by 288,000 new hires in April and the jobless rate fell to 6.3%. The sour note: the sharp drop in unemployment was mostly because fewer people looked for work. The U-6 rate (unemployment + underemployment) was still up at 12.3%, no doubt a troubling factoid for the Federal Reserve.⁴

Walking randomly up Main Street, further March indicators show a 1.1% rise in retail sales and a 0.2% increase in the Consumer Price Index. (The headline CPI was up 1.5% in a year.) Consumers spent 0.9% more in March as wages rose 0.5%.^{3,5}

Even with that significant consumer spending boost, the economy hardly grew in Q1. In its initial estimate, the Bureau of Economic Analysis measured first quarter GDP at 0.1% – not exactly the 1.2% growth projected by analysts in a Bloomberg poll, and a far cry from the 2.6% GDP of Q4.⁶

The Institute for Supply Management's factory PMI was at a healthy 53.7 in March and an even healthier 54.9 in April; by April, the factory sector had expanded for 11 straight months. ISM's service sector PMI came in at 53.1 for March. The third month of the year saw a 2.6% pickup in durable goods orders, with the gain at 2.2% minus defense industry orders. Wholesale inflation increased, too – the 0.5% March rise in the Producer Price Index took the yearly rise in PPI up to 1.4%.^{3,7,8}

Last but not least, the Fed announced another \$10 billion cut in QE3 come May, reducing its monthly economic stimulus to \$45 billion. Its April 30 statement reiterated that it would keep the main U.S. interest rate near zero for a “considerable time” after the end of its extraordinary asset purchase campaign.⁶

GLOBAL ECONOMIC HEALTH

Was Russia poised to take over Ukraine? Tensions heightened between the nations as April ended, with Russian separatists staging protests and taking foreign military observers hostage. In late April, the EU expanded its economic sanctions against Russia and Standard & Poor's downgraded the nation's debt rating to BBB- (a step above junk). NATO's top commander, U.S. Air Force General Phillip Breedlove, reminded the press that “highly organized, highly supported forces [were] in place” if Russia wished to mount a full-scale invasion. While the ruble was down more than 7% YTD against the dollar as April ended, Russian officials spoke of a retaliatory economic response against the EU and the United States. (Since so many eurozone nations depend on energy imports from Russia, the EU has so far refrained from truly harsh sanctions against the country.)⁹

At least the global manufacturing picture looked a bit brighter. China's official purchasing manager index ticked north a tenth of a percent to 50.4 in April, and last month found South Korean exports up 9% year-over-year. The United Kingdom's Markit manufacturing PMI rose 1.5 points to 57.3 for April, while Germany's official factory PMI advanced to 54.2. The overall euro area manufacturing PMI rose slightly to 53.3 last month.^{10,11}

WORLD MARKETS

Major indices in the Americas went mostly green last month. April brought gains of 0.62% for the IPC All-Share, 6.40% for the Merval, 2.21% for the TSX Composite and 2.40% for the Bovespa. Asia Pacific indices were up and down – KSE 100, +6.45%; PSE Composite, +4.34%; ASX 200, +1.75%; Asia Dow, +0.52%; Sensex, +0.14; Hang Seng, -0.08%; Shanghai Composite, -0.35%; Kospi, -1.20%; Nikkei 225, -3.53%. Aside from a 5.74% drop for Russia's RTS, key indices in Europe mostly advanced – the DAX rose 0.50%, the CAC 40 2.18%, the STOXX 600 1.07%, the FTSE 100 2.75% and the Europe Dow 0.72%.¹

The Global Dow was up 0.75% for April; the MSCI Emerging Markets Index rose just 0.06%, but the MSCI World Index gained 0.83%.^{1,12}

COMMODITIES MARKETS

At the end of April, a barrel of oil was worth \$99.74 on the NYMEX, an ounce of gold \$1,295.90 on the COMEX. Commodity performance was mixed for the month, with some of the biggest gains unsurprisingly coming in crops.¹³

Coffee was out front in April, with futures rising 16.48%. Cotton gained 1.28%, soybeans 4.62%, cocoa 1.22%, and corn 2.34%; sugar fell 4.59% for the month. Thoughts of possible interruption of natural gas supplies in Europe sent those futures 9.73% higher in April; unleaded gasoline futures also rose 1.57%. Heating oil futures retreated 0.19% in April, and oil futures pulled back 1.79%.¹³

Copper (-0.71%) and silver (-3.34%) did not advance in April, but gold (+0.67%) and platinum (+0.76%) did. The U.S. Dollar Index lost 0.75% in April and settled at 79.47 to end the month.^{13,14}

REAL ESTATE

Was the housing market stalling out? Or just having a seasonal slump? The March home sales numbers certainly paled in comparison to a year ago, with reduced inventory and higher interest rates exerting their influence. The Census Bureau reported a 14.5% drop in new home purchases; the National Association of Realtors announced a mere 0.2% dip in resales. A bright spot surfaced: NAR also measured a 3.4% gain in pending home sales, the first increase since June.³

As for home prices, the annual increase recorded by the S&P/Case-Shiller index decreased to 12.9% in the February edition from the previous 13.2%. On a monthly basis, the Case-Shiller was flat. NAR recorded a median existing home sales price of \$198,500 in March, up 7.9% year-over-year. On the construction front, a 2.8% March boost in housing starts was offset by a 2.4% fall for building permits.^{3,15}

In Freddie Mac's March 27 Primary Mortgage Market Survey, average interest rates for various home loans were as follows: 30-year FRMs, 4.40%; 15-year FRMs, 3.42%; 5/1-year ARMs, 3.10%; 1-year ARMs, 2.44%. On May 1, most of those numbers were lower, with average rates on 30-year FRMs at 4.29%, 15-year FRMs at 3.38%, 5/1-year ARMs at 3.05%, and 1-year ARMs at 2.45%.¹⁶

LOOKING BACK...LOOKING FORWARD

The Dow wrapped up April with a fresh record close of 16,580.84 and the S&P 500 ended the month near its all-time peak at 1,883.95. The Nasdaq concluded April at 4,114.56. A 3.94% April descent left the Russell 2000 at -3.16% YTD. The CBOE VIX fell 3.39% last month to end April at -2.26% YTD.¹

As the trading day ended April 30, 310 S&P 500 member firms had announced quarterly results, with 75% of them exceeding profit forecasts and 52% of them beating sales projections. Analysts tracking profits for Bloomberg estimated that profits for S&P 500 companies improved 3.4% in the first quarter.⁶

| % CHANGE | Y-T-D | 1-MO CHG | 1-YR CHG | 10-YR AVG |
|------------|-----------|----------|-----------|------------|
| DJIA | +0.03 | +0.75 | +11.73 | +6.22 |
| NASDAQ | -1.49 | -2.01 | +23.61 | +11.43 |
| S&P 500 | +1.93 | +0.62 | +17.93 | +7.01 |
| REAL YIELD | 4/30 RATE | 1 YR AGO | 5 YRS AGO | 10 YRS AGO |
| 10 YR TIPS | 0.49% | -0.64% | 1.69% | 2.11% |

Sources: online.wsj.com, bigcharts.com, treasury.gov - 4/30/14^{1,17,18}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
 These returns do not include dividends.

So far, it looks like Wall Street is on pace for ... well ... exactly the kind of year analysts thought it would have. Can stocks find fresh tailwinds in May? Will investors opt to buy rather than sell given some solid fundamental indicators of late? As the world closely watches events in Ukraine and continues to monitor the signals from the Chinese and eurozone economies, it is pretty hard to deny the stream of positive news coming from the U.S. There definitely seems to a sentiment that the U.S. economy is growing stronger and stronger, and improving jobs data and a spring pickup in home sales would add to that perception.

UPCOMING ECONOMIC RELEASES: Here is what awaits for the rest of May: the ISM services PMI (5/5), March wholesale inventories (5/9), April retail sales (5/13), March business inventories and April's PPI (5/14), the April CPI and April industrial production (5/15), the University of Michigan's initial May consumer sentiment index plus April housing starts and building permits (5/16), the April 30 FOMC minutes (5/21), the Conference Board's April leading indicator index and April existing home sales (5/22), April new home sales (5/23), April hard goods orders, the Conference Board's May consumer confidence index and the March FHFA and Case-Shiller home price indices (5/27), April pending home sales and the BEA's second Q1 GDP reading (5/29), and then the University of Michigan's final May consumer sentiment index and the April consumer spending report (5/30).

***Please feel free to forward this article to family, friends or colleagues.
 If you would like us to add them to our distribution list, please reply with their address.
 We will contact them first and request their permission to add them to our list.***

Retirement Strategies Ltd. is a Registered Investment Adviser. Advisory services are only offered to clients or prospective clients where Retirement Strategies Ltd. and its representatives are properly licensed or exempt from licensure. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital. No advice may be rendered by Retirement Strategies Ltd. unless a client service agreement is in place.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. MarketingPro, Inc. is not affiliated with any broker or brokerage firm that may be providing this information to you. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is not a solicitation or recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. 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. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. 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 MERVAL Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires 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 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. 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 Philippine Stock Exchange PSEI Index is a capitalization-weighted index composed of stocks representative of the Industrial, Properties, Services, Holding Firms, Financial and Mining & Oil Sectors of the PSE; it was formerly named the PSE Composite. The S&P/ASX 200 is Australia's "premier" share market index. The Asia Dow measures the Asia equity markets by tracking 30 leading blue-chip companies in the region. 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 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 SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. 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. 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 RTS Index (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. 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 FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The Europe Dow measures the European 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 Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. 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.

Citations.

- 1 - online.wsj.com/mdc/public/page/2_3023-monthly_gblstkidx.html [4/30/14]
- 2 - tinyurl.com/n2hh8eh [4/25/14]
- 3 - investing.com/economic-calendar/ [4/30/14]
- 4 - blogs.wsj.com/economics/2014/05/02/highlights-from-the-april-jobs-report/ [5/2/14]
- 5 - briefing.com/investor/calendars/economic/2014/04/28-02 [5/1/14]
- 6 - bloomberg.com/news/2014-04-30/u-s-stock-index-futures-fall-on-twitter-ebay-earnings.html [4/30/14]
- 7 - ism.ws/ISMReport/NonMfgROB.cfm [4/3/14]
- 8 - ism.ws/ISMReport/MfgROB.cfm [5/1/14]
- 9 - businessweek.com/news/2014-04-28/u-dot-s-dot-aims-at-putin-s-inner-circle-with-latest-round-of-sanctions [4/28/14]
- 10 - ft.com/cms/s/0/41fe3f6c-d112-11e3-9f90-00144feabdco.html [5/1/14]
- 11 - tinyurl.com/lh35sh7 [4/23/14]
- 12 - mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/performance.html [4/30/14]
- 13 - money.cnn.com/data/commodities/ [4/30/14]
- 14 - online.wsj.com/mdc/public/npage/2_3050.html?mod=mdc_curr_dtabnk&symp=DXY [5/1/14]
- 15 - realtor.org/news-releases/2014/04/existing-home-sales-remain-soft-in-march [4/22/14]
- 16 - freddiemac.com/pmms/pmms_archives.html [5/1/14]
- 17 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=4%2F1%2F13&x=0&y=0 [4/30/14]
- 17 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=4%2F1%2F13&x=0&y=0 [4/30/14]
- 17 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=4%2F30%2F13&x=0&y=0 [4/30/14]
- 17 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=3%2F31%2F04&x=0&y=0 [4/30/14]
- 17 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=3%2F31%2F04&x=0&y=0 [4/30/14]
- 17 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=4%2F30%2F04&x=0&y=0 [4/30/14]
- 18 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [5/1/14]