

MONTHLY ECONOMIC UPDATE

December 2013

MONTHLY QUOTE

“Business opportunities are like buses, there’s always another one coming.”
– *Richard Branson*

MONTHLY TIP

Even in a solid bull market in which most stocks are advancing, you need to diversify adequately across asset classes. The closer you get to retirement, the more vital this becomes.

MONTHLY RIDDLE

A dog is on an 18-foot leash. The dog wants a biscuit that is 32 feet away. The dog succeeds, rather easily. How does the dog manage to reach the biscuit so easily?

Last month’s riddle:

They bat, but they will never hit a single, double, triple or home run. They are also near a ball that is never thrown. What are they?

Last month’s answer:

Eyelashes.

THE MONTH IN BRIEF

Will 2013 go in the books as the best year for U.S. stocks since the mid-1990s? It may. At the end of November, the S&P 500 was already up 26.62% YTD – and that was just its price return. November brought more signals of an improving economy, even with a hot housing market cooling off by degrees. The eurozone economy still looked tenuous; China’s economy showed signs of resilience. Prices of gold, oil and other key commodities dropped. Some foreign stock markets outperformed ours, others lost ground. The Federal Reserve made no moves, but its October policy minutes hinted at trimming its monthly bond buying.¹

DOMESTIC ECONOMIC HEALTH

Early in the month, the Labor Department stated that 204,000 new jobs were created in October, better than the average monthly gain of 190,000 seen during the past year. The jobless rate did tick up to 7.3%; at least that was 2.9% lower than the recessionary peak seen in October 2009. Manufacturing and service sectors appeared healthy judging by the Institute for Supply Management’s purchasing manager indices. ISM’s factory sector gauge reached 56.4 in October (and 57.3 in November, marking a sixth straight monthly advance). Its service-sector PMI rose a full point in October to 55.4.^{2,3,4}

November also brought the federal government’s first estimate of Q3 GDP – a surprisingly good 2.8%. (Analysts polled by MarketWatch had expected a 2.3% reading.) As for the prime factor in GDP, a delayed Commerce Department report on consumer spending noted only a 0.2% gain in September, even as personal incomes increased 0.5%. Retail sales rose a healthy 0.4% in October, however.^{5,6,7}

Respected consumer confidence polls reached different conclusions last month. The Conference Board’s index fell two whole points to 70.4, far underneath the 74.0 reading forecast by Briefing.com. The University of Michigan’s final consumer sentiment index for the month offered better news, rising to 75.1.⁸

Annualized inflation was amazingly tame – just 1.0% as of October, thanks to a 0.1% decline in the Consumer Price Index. As for wholesale prices, October’s Producer Price Index showed a 0.2% retreat, and that meant just a 0.3% gain over the past 12 months – the weakest annual wholesale inflation since 2009. Durable goods orders slipped 2.0% in October.^{7,8,9}

As for the Fed, Janet Yellen reassured Wall Street at mid-month with dovish comments at her Senate confirmation hearing, noting that “supporting the recovery today is the surest path to returning to a more normal approach to monetary policy.” Days later, however, the October Fed policy minutes noted that if indicators affirmed the FOMC’s “outlook for ongoing improvement” in the labor market, it would “warrant trimming the pace of [bond] purchases in coming months.”^{10,11}

Lastly, the White House dealt with the backlash over the launch of HealthCare.gov. Less than 27,000 people had enrolled in the federal online insurance exchange in October due to glitches. A November repair effort left the site running much more smoothly at the start of December; CNN estimates that at the end of last month, total enrollment at HealthCare.gov and the 14 state-run exchanges surpassed 200,000, up from 106,000 at the end of October. Individuals have until December 23 to shop for health coverage effective on January 1.¹²

GLOBAL ECONOMIC HEALTH

The EU jobless rate descended 0.1% in October to 12.1%. That was the good news. Annualized eurozone inflation hit 0.9% last month, rising from 0.7% for October (a

4-year low); retail sales slipped 0.8% in Germany in October following a 0.2% retreat for September. As for eurozone manufacturing, Markit's PMI for the region reached 51.3 in October and a 2-year peak of 51.6 in November. Great Britain's factory PMI hit 58.4 in November, the highest reading since February 2011. Not all was well: manufacturing PMIs showed contraction in Spain (48.6) and France (48.4).^{13,14}

Indian manufacturing expanded for the first month since July in November, with HSBC's PMI reaching 51.3. China's official PMI was flat last month at 51.4 while HSBC's PMI declined 0.1 points to 50.8. HSBC PMI readings for South Korea (50.4), Taiwan (53.4) and Vietnam (50.3) all showed growth in November. Japan's official data stream showed yearly consumer inflation at just 0.6% and just an 0.9% annualized rise in consumer spending.^{13,15}

WORLD MARKETS

Performances were quite varied last month. Notable gains: DAX, 4.11%; Nikkei 225, 9.31%; Shanghai Composite, 3.68%; Hang Seng, 2.91%; IPC All-Share, 3.56%; Merval, 10.72%; TSX Composite, 0.26%; Global Dow, 1.65%; Europe Dow, 0.73%; DJ STOXX 600, 0.87%; MSCI World Index, 1.59%. These benchmarks racked up November losses: MSCI Emerging Markets Index, 1.56%; Asia Dow, 0.21%; Sensex, 1.76%; ASX, 1.94%; PSE Composite, 5.72%; Jakarta Composite, 5.64%; TAIEX, 0.51%; Bovespa, 3.27%; FTSE 100, 1.20%; CAC 40, 0.11%; RTSI, 5.23%.^{1,16}

COMMODITIES MARKETS

Oil ended November at \$92.72 as prices fell 3.57% on the month. Other energy futures posted monthly gains: heating oil, 2.70%; unleaded gasoline, 1.59%; natural gas, 10.69%. Gold sunk 5.46%, silver dropped 9.21%, platinum retreated 5.39% and copper lost 1.94%. COMEX gold settled at a mere \$1,250.60 on November 29. As for crops, coffee rose 4.04%, cocoa 4.76%, cotton 2.81% and soybeans 4.39%; sugar lost 5.77% in November, corn 2.92% and wheat 1.80%. The U.S. Dollar Index ended November at 80.68 for a 0.60% monthly gain.^{17,18}

REAL ESTATE

The National Association of Realtors announced that October had seen a 3.2% retreat in the pace of existing home sales – and a 0.6% slip in pending home sales. Countering the news of these declines, September's S&P/Case-Shiller Home Price Index had house prices up 3.2% in Q3 and up 13.3% YTD. October also saw a 6.2% rise in building permits; the annualized gain was 13.9%. (As a consequence of the federal shutdown, new home sales figures for September and October won't be announced by the Census Bureau until December 4, and the reports on September and October housing starts won't arrive until December 18.)^{7,19,20}

Between Halloween and November 27, Freddie Mac charted the following mortgage rate movements: 30-year FRMs, 4.10% to 4.29%; 15-year FRMs, 3.20% to 3.30%; 5/1-year ARMs, 2.96% to 2.94%; 1-year ARMs, 2.64% to 2.60%.²¹

LOOKING BACK...LOOKING FORWARD

Record closes seemed commonplace last month as the major U.S. indices pushed toward these November 29 finishes: DJIA, 16,086.41; NASDAQ, 4,059.89; S&P 500, 1,805.81. The Russell 2000 gained 3.88% last month to end November at 1,142.89; the CBOE VIX declined 0.36% on the month to settle at 13.70 on November 29.¹

% CHANGE	YTD	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+22.76	+3.48	+23.53	+6.44
NASDAQ	+34.45	+3.26	+34.79	+10.71
S&P 500	+26.62	+2.80	+27.53	+7.06
REAL YIELD	11/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.60%	-0.78%	2.60%	2.03%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 11/29/13^{1,22,23}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

The S&P 500 has advanced in each of the past five Decembers, and with the bulls seemingly entrenched on Wall Street, there is little reason to think it might not add to its YTD gain this month. In recent years, December has also been a terrific month for the small caps: across 2008-12, the Russell 2000's average December gain was 5.01%. Then again, Wall Street is a volatile place – and recent FOMC minutes do raise the possibility of the central bank tapering in December and taking some of the air out of any Santa Claus rally. It could be that stocks advance nicely prior to the December 18 Fed policy announcement and limp through the rest of the month. If the latest bicameral budget reduction committee can't agree on a plan by the middle of December, investors will have more to fret about. Confidence is still prevalent on Wall Street, however, and the year may end nicely indeed for equities.²⁴

UPCOMING ECONOMIC RELEASES: The data stream for the remainder of 2013 is as follows: September and October new home sales, a new Fed Beige Book and the November ISM service sector PMI (12/4), the second estimate of Q3 GDP out of Washington, the November Challenger job-cut report and October factory orders (12/5), the November employment report, October consumer spending figures and the University of Michigan's initial December consumer sentiment index (12/6), October wholesale inventories (12/10), November retail sales and October business inventories (12/12), the November PPI (12/13), November industrial output (12/16), the November CPI and the December NAHB housing market index (12/17), the latest Fed policy announcement plus data on September, October and November housing starts and November building permits (12/18), the last estimate of Q3 GDP (12/20), the University of Michigan's final December consumer sentiment index and Commerce Department figures on November consumer spending (12/23), November new home sales and durable goods orders and October's FHFA housing price index (12/24), and November pending home sales (12/30).

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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 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 Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. 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 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 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 Australian Stock Exchange (ASX) is Australia's primary national stock exchange and equity derivatives market. The PSE Composite Index, commonly known previously as the PHISIX and presently as the PSEI, is the main stock market index of the Philippine Stock Exchange. The IDX Composite or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX). The TWSE, or TAIEX, Index is capitalization-weighted index of all listed common shares traded on the Taiwan 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 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 RTS Index (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange. 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. 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