

MONTHLY ECONOMIC UPDATE

September 2014

MONTHLY QUOTE

“Do not consider painful what is good for you.”

– *Euripides*

MONTHLY TIP

Tax planning is a year-round pursuit, especially for the business owner. Arrange a time to meet with your tax professional and figure out how many tax breaks you are eligible to claim.

MONTHLY RIDDLE

What may contain hundreds or thousands of wheels yet never moves or rises above the land?

Last month's riddle:

Never resting, never still. Moving silently over the hill. It can't walk, run or trot. All is cool where it is not. What is it?

Last month's answer:

Sunshine.

THE MONTH IN BRIEF

August has often been a good month for stocks, and the eighth month of 2014 was no exception. The S&P 500 surpassed 2,000 while logging a 3.77% monthly advance. Even with ISIS controlling parts of Iraq and Syria and Russia possibly conducting a stealth invasion of Ukraine, Wall Street retained its optimism. The rally in stocks wasn't matched by big gains for oil and gold. The housing market was cooler than it was last summer, but by no means lukewarm. Most U.S. indicators signaled a healthier economy, perhaps one strong enough to motivate the Federal Reserve to raise interest rates a bit sooner than forecast.¹

DOMESTIC ECONOMIC HEALTH

Commerce Department data showed consumer spending unexpectedly ticking down 0.1% in July, even with personal wages rising 0.2% - and seasonally adjusted retail sales were also flat. If households were retaining more of their incomes than expected, they were also more confident in August than they had been the previous month. The Conference Board's August consumer confidence index hit 92.4 (blowing past the Briefing.com forecast of a descent to 88.0) and the University of Michigan's consumer sentiment index ended August with a climb to 82.5.^{2,3}

The latest Consumer Price Index showed inflation running right at the Fed's target: an annual increase of 2.0%, with a July gain of 0.1%. (The core CPI was up 1.9% in a year and 0.1% in July.) Wholesale prices also rose 0.1% in July, putting the year-over-year increase at just 1.7%.^{4,5}

American manufacturing was clearly very healthy this summer. The Federal Reserve announced a 1.0% July increase in factory production (the best month for the indicator since February) with an impressive 10.1% July jump in car manufacturing (a 5-year peak). Thanks to a huge request for new planes at Boeing, overall hard goods orders improved 22.6% in July.^{5,6}

Indeed, the Institute for Supply Management's August factory PMI affirmed the Fed's findings: it reached 59.0, the best reading since March 2011. Weeks prior, ISM's service sector PMI had come in at 56.0, up 1.6 points from June.^{7,8}

Perhaps the best news of all was the pace of hiring. In July, U.S. employers added more than 200,000 jobs for a sixth straight month. That hadn't happened in 17 years. Another good thing about July's 209,000 new hires: according to Labor Department data, 47,000 entered business and professional positions.⁹

Finally, second quarter growth was judged even better than previously thought. Toward the end of August, the Commerce Department revised Q2 GDP from 4.0% to 4.2%. Capital spending was up 8.4% during the quarter.¹⁰

GLOBAL ECONOMIC HEALTH

Had Russia invaded Ukraine under the pretense of offering humanitarian aid? If so, the economic reaction to that incursion was still relatively localized. At the end of the month, NATO reported it had footage of Russian combat units operating within Ukraine's borders – and still, U.S. stocks seemed unaffected.

Sanctions imposed on Russia did perhaps affect the eurozone Markit PMI, which ticked down to 50.7 in August.^{11,12}

China's HSBC factory PMI flirted with contraction at 50.2 – not exactly encouraging news from the globe's top market for commodities. The PRC's official PMI was at 51.1 last month, underneath July's 51.7 mark. Japan's PMI increased 1.7 points last month to 52.2.¹²

Markets also took the threats posed by ISIS in stride in August. Fears of oil output being presently disrupted in Iraq were muted. Even though the largest exporter of energy supplies outside the Middle East – Russia – was in a conflict of its own, there was no leap in energy prices. In part, that can be attributed to record output from the U.S. and reduced demand given the eurozone's lingering recession and China's economic engines revving down slightly this year.¹³

WORLD MARKETS

In terms of indices, some of the best August performances occurred in the Americas. Brazil's Bovespa jumped 9.78% and Argentina's Merval soared 19.90%. Mexico's IPC All-Share rose 4.13% while Canada's S&P/TSX Composite gained a mere 1.92%. The major European national bourses also recorded advances – 0.67% for the DAX, 3.18% for the CAC 40, 1.33% for the FTSE 100. In the Asia Pacific region, benchmarks were up and down in August – losses of 1.26% for the Nikkei 225 and 0.37% for the Kospi, gains of 2.87% for the Sensex, 2.71% for the PSE and 0.71% for the Shanghai Composite. Vietnam's VN-Index notably advanced 6.81% last month. The Hang Seng and S&P/ASX 200 respectively posted tiny August losses (0.06% for the former, 0.12% for the latter).¹

How about the regional and multi-country indices? The MSCI World Index gained 2.00% for August, the MSCI Emerging Markets Index 2.07%. Last month also brought gains of 1.79% for the DJ STOXX 600, 1.61% for the Global Dow and 3.95% for the Dow Jones Americas. The Asia Dow eked out an 0.08% advance while the Europe Dow lost 0.26%.^{1,14}

COMMODITIES MARKETS

Last month, cotton went +8.87% to register the biggest gain among major commodities. Soybeans went -10.93% to rack up the largest August loss. As for the rest of the ag futures, the month played out like this: wheat, +3.40%; corn, +0.98%; cocoa, + 1.25%; coffee, -0.89%; sugar, -5.89%.¹⁵

As for metals, gold managed a 0.31% August gain, yet silver lost 5.76%, platinum 2.85% and copper 2.76%. Gold ended the market month at \$1,287.40 on the COMEX, silver finishing at \$19.49. Turning to the buck, the U.S. Dollar Index gained 1.58% to settle at 82.75 on August 29. Oil slid 1.85% for August; at the close on August 29, NYMEX crude was worth \$95.96 per barrel. Heating oil retreated 0.95% last month while unleaded gasoline lost 1.40%; natural gas futures certainly looked good, rising 6.69%.^{15,16}

REAL ESTATE

Annual home price gains were clearly leveling off, with the 20-city Case-Shiller home price index showing an 8.1% yearly gain in its June edition compared to 9.4% a month earlier. The National Association of Realtors announced a 2.4% rise in residential resales for July plus a 3.3% increase in pending home sales. New home buying was down 2.4% for the month, according to the Census Bureau.^{2,8}

July brought a lot of groundbreaking. According to Census Bureau data, housing starts increased 15.7% for the month, and there was also an 8.1% rise for building

permits.⁸

Conventional home loans got a touch cheaper during August, with Freddie Mac calculating the average interest rate on the 30-year FRM at 4.10% in its August 28 Primary Mortgage Market Survey. That compared to 4.12% on July 31. Interest rates for 5/1-year ARMs also declined from 3.01% to 2.97% in that period. Average interest rates on the 15-year FRM (3.23% to 3.25%) and 1-year ARM (2.38% to 2.39%) increased in that stretch.¹⁷

LOOKING BACK...LOOKING FORWARD

Though the headlines carried news of some fairly significant geopolitical crises in August, Wall Street wasn't all that anxious about them. One telling sign is the S&P rising to an all-time record; another is the CBOE VIX, the so-called "fear index," closing down at 11.98 on August 29 (the final market day of the month).¹

While the VIX sank 29.32% in August, the key U.S. stock indices all gained 3% or more. The Nasdaq rose 4.82%, the Russell 2000 4.85%, and the Dow 3.23%. At the close on August 29, the S&P settled at 2,003.37, the DJIA at 17,098.45, the NASDAQ at 4,580.27 and the RUT at 1,174.35.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+3.15	+15.21	+15.83	+6.89
NASDAQ	+9.67	+26.52	+25.15	+14.94
S&P 500	+8.39	+22.29	+18.94	+8.23
REAL YIELD	8/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.23%	0.65%	1.76%	1.83%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 8/29/14^{1,18,19}
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

History is no barometer of future performance on Wall Street. That is worth stating for two reasons. One, it has been a long time since stocks corrected, and investors may be psychologically satisfied with the S&P 500 topping the once-unimaginable 2,000 mark. Two, September has historically been a poor month for the blue chips. On average, the Dow has declined 0.8% in the ninth month of a year. So Wall Street history and the back-of-the-mind bearish sense that things are going too well don't seem to bode well for U.S. equities this month, but all that may amount to nothing. MarketWatch's Mark Hulbert notes that the Dow has slipped an average of 2.7% in Septembers during years when stocks were already in the red, and on average gained 0.3% in Septembers during which stocks were in the green. The market may defy expectations and presumptions.²⁰

UPCOMING ECONOMIC RELEASES: The rest of September presents the following reports and announcements: ISM's August services PMI, the August ADP employment report and the August Challenger job cuts report (9/4), the Labor Department's August jobs report (9/5), July wholesale inventories (9/10), July business inventories, August retail sales and the University of Michigan's initial September consumer sentiment index (9/12), August industrial production (9/15), the August PPI (9/16), the latest Federal Reserve policy statement and the August CPI (9/17), August housing starts and building permits (9/18), the Conference Board's August leading indicator index (9/19), August existing home sales (9/22), August new home sales (9/24), August durable goods orders (9/25), the final estimate of Q2 GDP and the final September consumer sentiment index from the University of Michigan (9/26), August pending home sales and personal

spending (9/29), and finally the July Case-Shiller home price index and the Conference Board's September consumer confidence index (9/30).

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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 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 ISEQ Overall Index is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest 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 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 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 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 SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Vietnam Stock Index or VN-Index is a capitalization-weighted index of all the companies listed on the Ho Chi Minh City 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 S&P/ASX 200 is Australia's "premier" share market 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 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 Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. The Dow Jones Americas Index measures the Latin American 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 Europe Dow measures the European equity markets by tracking 30 leading blue-chip companies in the region. 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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