NAVIGATOR PLANNING GROUP

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CERTIFIED FINANCIAL PLANNER™

MONTHLY ECONOMIC UPDATE

April 2014

MONTHLY QUOTE

"That which seems the height of absurdity in one generation often becomes the height of wisdom in the next."

– John Stuart Mill

MONTHLY TIP

Every dollar you contribute to your retirement plan today could be worth much more by the time you retire thanks to investment and compounding. So even if your budget is tight, contribute as much as you can.

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?

THE MONTH IN BRIEF

Thanks in part to a March 31 rally, the S&P 500 managed to gain 0.69% last month. Comments from Federal Reserve chair Janet Yellen alternately startled and soothed investors; events in the Ukraine didn't send U.S. stocks markedly lower, though they certainly held back European benchmarks. In the commodities markets, crop futures continued rising while energy futures and metals mostly descended. Analysts wondered if the softness in the housing market was seasonal or more entrenched. As the bull market celebrated its fifth birthday, investors mulled how long it would continue.[1]

DOMESTIC ECONOMIC HEALTH

On March 19, the Federal Reserve announced further tapering of QE3 - another cut of $10 billion effective in April. The market anticipated that, but it didn't anticipate Janet Yellen's spontaneous remarks at the central bank's ensuing press briefing. Asked what the lag time might be between the end of the current Fed stimulus and an increase in the benchmark interest rate, Yellen estimated six months. As the stimulus is projected to end in late 2014, that implied a rate hike as early as spring 2015, and stocks plunged in response. Wall Street quickly recovered, however, and Yellen reassured the markets on March 31, noting that the economy would still require an "extraordinary" commitment to economic stimulus for the near future.[2,3]

Some very good news emerged on a few fronts. Consumer spending and consumer incomes were both up 0.3% for February, echoing the (revised) January increases earlier reported by the Commerce Department. February also saw retail sales improve 0.3% - the first gain in three months and a nice rebound from the (revised) 0.6% drop in January.[4,5]

Households didn't have to contend with much inflation, and for that matter wholesalers didn't either: February brought only a 0.1% in the headline Consumer Price Index and a 0.1% retreat for the headline Producer Price Index. The CPI was up just 1.1% in a year, the PPI just 0.9%.[6]

Consumer confidence – as measured by the Conference Board – hit its highest level in six years in March. The CB's monthly index came in at 82.3, a peak unseen since January 2008. Consumer sentiment – as measured by the University of Michigan – declined slightly to 80.0 from 81.6 at the end of February. (For the record, the CB survey carries slightly more weight with economists and market analysts.)[4,7]

Unemployment was at 6.7% in February, which was 0.1% higher than in January but down a full percent from a year before. Non-farm payrolls added 175,000 hires, slightly below the monthly average of 189,000 noted over the past year.[8]

As the weather warmed, the pace of growth in the factory sector picked up slightly. Overall durable goods orders were up 2.2% in February, and the Institute for Supply Management's factory PMI rose half a point to 53.7 in March. Early in March, however, word came that ISM's non-manufacturing PMI had stumbled to 51.6 in February from the January reading of 54.0.[9,10,11]

Riddle answer:
An echo.

GLOBAL ECONOMIC HEALTH

On March 16, Crimeans voted to leave Ukraine and join Russia in what seemed a clear violation of Ukraine's constitution. To most diplomats, it looked merely like a Russian land grab. Russia met with resulting economic sanctions, but still had 40,000 troops amassed on the Ukraine's borders when March ended, inviting tougher measures against its weak economy. As Russia exports about 3 trillion cubic feet of natural gas annually to the euro area via pipelines through Ukraine, fear of military action (and disruption of natural gas supplies) worried global investors for most of the month. Turning to the regular economic indicators of the eurozone, Markit's euro area factory PMI came in at 53.0 for March (down 0.2% from February) and the eurozone jobless rate remained at 11.9% in February (though Germany's jobless rate declined for a fourth consecutive month in March).[12,13,14]

It seemed that Asian economies were still waiting for renewed demand to spur exports. China's manufacturing sector was still sputtering: the nation's "official" factory PMI for March read 50.3, but the respected HSBC PMI hit an 8-month low of 48.0. Other March HSBC manufacturing PMIs came in as follows: India, 51.3; Taiwan, 52.7; South Korea, 50.4; Vietnam, 51.3; Indonesia, a 7-month low of 50.1.[15]

WORLD MARKETS

Generally speaking, markets in the Asia Pacific region and the Americas had it easier than their European counterparts. India's Sensex soared 5.99%, Pakistan's KSE 100 rose 5.34%, Indonesia's Jakarta Composite gained 3.20%, the Asia Dow advanced 3.03%, and Taiwan's TWSE rose 2.43%. To our south, Argentina's Merval climbed 10.19%, Brazil's Bovespa 7.05%, and Mexico's IPC All-Share 4.33%. The broad MSCI Emerging Markets Index gained 2.92% (and for the record, the MSCI World Index lost 0.09%). The only major emerging-market indices to lose more than 1% in March were Hong Kong's Hang Seng (3.00%) and China's Shanghai Composite (1.12%).[1,16]

Given the unrest in the Ukraine, it isn't surprising to find major European indices in the red for March. France's CAC 40 slipped but 0.38%, the Europe Dow went down 1.03%, the DJ STOXX 600 lost 1.10%, Germany's DAX retreated 1.40% and Great Britain's FTSE 100 fell 3.10%. Two of the more volatile European indices also dipped lower last month: Ireland's ISEQ lost 3.86%, Russia's RTS 3.50%.[1]

COMMODITIES MARKETS

Crops set the pace in March. Aside from coffee losing 1.03%, there were numerous gains – wheat, 16.53%; sugar, 12.26%; corn, 6.99%; cotton, 8.25%; soybeans, 1.56%; cocoa, 0.20%. Among energy futures, oil dipped 1.31%, heating oil 4.87% and natural gas 4.85%. March did see a 4.18% ascent for unleaded gasoline.[17]

As the trading day wrapped up on the COMEX on March 31, an ounce of gold was valued at $1,283.40, an ounce of silver at $19.75. Those prices reflected a 3.12% March retreat for gold and a 6.98% March drop for silver. Copper slipped 5.80% for the month, platinum 1.92%. The U.S. Dollar Index ended March at 80.11, rising 0.53% for the month.[17,18]

REAL ESTATE

Residential resales had declined again. Sales of existing homes, the National Association of Realtors reported, dipped 0.4% in February. Pending home sales were down 0.8% on the month as well. Analysts hoped that short-term issues (pinched inventory and rough weather) were the barriers preventing improvement.[11,19]

New home sales retreated 3.3% in February (with new homes moving at the slowest pace since September). Sales were down 1.1% annually according to Commerce Department calculations. Housing starts did rise 0.3% in February, complemented by a 7.7% monthly increase in building permits.[7,20]

Slimmer inventory was a factor in rising house prices. In February, NAR noted, the median sale price of an existing home was $189,000, up 9.1% in 12 months. January's S&P/Case-Shiller Home Price Index showed an overall annual gain of 13.2% in addition to a monthly increase of 0.8%.[7,19]

Most mortgage types grew slightly more expensive last month. Tracking Freddie Mac's March 27 and February 27 Primary Mortgage Market Surveys, we see the following increases in average interest rates for varieties of home loans: 30-year FRMs, 4.37% to 4.40%; 15-year FRMs, 3.39% to 3.42%; 5/1-year ARMs, 3.05% to 3.10%. On the other hand, the average interest rate on the 1-year ARM descended 0.08% to 2.44%.[21]

LOOKING BACK...LOOKING FORWARD

Major U.S. indices closed as follows on March 31: Dow, 16,457.66; Nasdaq, 4,198.99; S&P 500, 1,872.34; Russell 2000, 1,173.04; CBOE VIX, 13.88. Small caps lost 0.84% on the month, leaving the RUT up 0.81% on the year so far; the VIX lost 0.86% for March, reducing its YTD advance to 1.17%.[1]

% CHANGE	Y-T-D	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	-0.72	+0.83	+12.93	+5.89
NASDAQ	+0.54	-2.53	+29.63	+11.06
S&P 500	+1.30	+0.69	+19.86	+6.63
REAL YIELD	3/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.60%	-0.65%	1.43%	1.48%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 3/31/14[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 marked the end of the first quarter, and it was a mediocre quarter for stocks with the S&P 500 rising little more than a percent. The bull market was clearly tempered these past three months, and articles have emerged here and there about how much longer it can last. (Six more months? Another year? Ten years?) It could be that, as Janet Yellen and other analysts have speculated, the winter froze the economy and the resulting indicators chilled the confidence of investors. We are on the cusp of another earnings season, and if quarterly results and fundamentals both show notable upside while overseas geopolitical crises lessen, then stocks may find even more room to rally. Don't count the bull down and out just yet.[1]

UPCOMING ECONOMIC RELEASES: On tap for the balance of April, we have: the March ADP employment change report and February factory orders (4/2), ISM's service-sector PMI and the March Challenger job cuts report (4/3), the Labor Department's March jobs report (4/4), February wholesale inventories and the March 19 FOMC minutes (4/9), the University of Michigan's initial April consumer sentiment index and March's PPI (4/11), February business inventories and March retail sales (4/14), the March CPI and the April NAHB housing market index (4/15), a new Fed Beige Book, March industrial output and March housing starts and building permits (4/16), the Conference Board's March leading indicator index

	(4/21), March existing home sales and the February FHFA housing price index (4/22), March new home sales (4/23), March durable goods orders (4/24), the University of Michigan's final April consumer sentiment index (4/25), March pending home sales and March consumer spending data (4/28), the Conference Board's April consumer confidence index and February's Case-Shiller home price index (4/29), and finally a Fed policy announcement, April's ADP employment change report and the first estimate of Q1 GDP from the federal government (4/30).

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