

MONTHLY ECONOMIC UPDATE

September 2013

MONTHLY QUOTE

“Truth is generally the best vindication against slander.”

– Abraham Lincoln

MONTHLY TIP

If you take a lump sum pension payout from your former employer and deposit it, keep in mind that all that money will be considered taxable income by the IRS. (There are very few exceptions to that rule.)

MONTHLY RIDDLE

It is 2:00am, and Felipe has been standing under a shower – yet he is completely dry, and he has spent the last half-hour outside. How is this possible?

Last month's riddle:

Mark says he just looked down and saw a forest without trees, a highway without cars and a town without houses. How can all of this be explained?

Last month's answer:

He was looking at a map.

THE MONTH IN BRIEF

August threw all kinds of challenges at stocks, and stocks retreated from them. Lackluster economic indicators, resignation that the Federal Reserve might soon taper its stimulus, rising yields on the 10-year note, a bit of cooling in the red-hot housing market, and the threat of U.S. military involvement in Syria all combined to keep the S&P 500 in check. The index slipped 3.13% during the poorest month for U.S. equities since May 2012; gold, silver, oil and the dollar fared much better.¹

DOMESTIC ECONOMIC HEALTH

Most of August's best economic indicators arrived in the first half of the month. The unemployment rate fell to 7.4% in July, with hiring at a decent pace (payrolls expanding by 162,000 new jobs). The Institute for Supply Management's July manufacturing PMI showed a reading of 55.4, its service sector PMI a reading of 56.0. Retail sales were up 0.2% in July, with core retail sales (minus volatile car, gas and home improvement purchases) up 0.5%. Toward the end of the month, the Commerce Department revised Q2 GDP up to 2.5% from the initial estimate of 1.7%, a big change from 1.1% growth in Q1 and 0.1% growth in Q4 2012.^{2,3,4,5}

Consumer spending, however, had nudged up just 0.1% in July – economists polled by Reuters had expected a 0.3% rise. Consumer sentiment fell to 82.1 in the final August University of Michigan survey (though the August Conference Board poll showed a 1.4% gain to 81.5). Hard goods orders plunged 7.3% in July after a 3.9% setback in June.^{1,6}

Inflation pressure moderated, however – the overall Consumer Price Index rose 0.2% for July, and so did the core CPI. Year-over-year, the headline CPI advance was 2.0%. The Producer Price Index went flat for July with the core PPI up 0.1%; annualized wholesale inflation was running at 2.1%.^{7,8}

President Obama called for the phase-out of Fannie Mae and Freddie Mac in August, proposing their replacement in the coming years with a new system reliant on private sector purchases of mortgages from lenders, with private capital bearing the bulk of any losses. According to White House officials, new federal government guarantees would help to preserve the fixed-rate 30-year home loan under these circumstances. The Obama administration's idea of giving private capital a greater role in mortgage lending has bipartisan support – legislation sponsored by Sen. Bob Corker (R-TN) and Sen. Mark Warner (D-VA) is already making its way through Congress – but no real timeline for change has emerged.⁹

The NASDAQ exchange suffered a “flash freeze” in late August, with a software malfunction interrupting all trades for three hours. NASDAQ took full blame for the snafu, which revived an old debate about the risks of computer-driven trading.¹⁰

GLOBAL ECONOMIC HEALTH

On August 26, Secretary of State John Kerry stated that Syria's government had used chemical weapons against its own people. On August 27, the U.S. and other nations were publicly considering a military response and global markets were beset by volatility – on that day, NYMEX crude topped \$109 a barrel, the Dow fell 170 points, the CBOE VIX rose 12%, gold went back into a bull market and emerging market stocks hit a 7-week low. Fears of \$150 oil emerged. President Obama requested a vote in Congress authorizing an attack on Syria; House and Senate leaders intend to vote on the matter in the week of September 9-13.^{11,12}

August also saw the slide of India's benchmark currency, the rupee. It had its worst month in 21 years, dropping 8.1% versus the dollar as a \$2.2 billion exodus occurred

from India's stock and bond markets over fears of an economic slowdown. Worries about Syria and the related jump in oil prices simply made things worse. How much worse? The rupee's August decline widened the Indian government's account deficit so badly (to nearly \$90 billion) that the Reserve Bank of India said it would supply dollars directly to local oil importers. Reuters reported that the RBI was seriously considering directing commercial banks to buy gold from private citizens. In better news from the Asia-Pacific region, the official China factory PMI rose to 51.0 in August, a 16-month peak.^{13,14,15}

WORLD MARKETS

There were a few notable August advances – TSX Composite, +1.34%; Shanghai Composite, +5.25%; Bovespa, +3.68%. Retreats were more numerous – Hang Seng, -0.70%; Nikkei 225, -2.04%; IPC All-Share, -3.29%; Sensex, -3.75%; DAX, -2.09%; CAC 40, -1.48%; FTSE 100, -3.14%. Multi-country indices also pulled back: the Global Dow lost 2.33% for August, the Asia Dow 1.87%, the MSCI World Index 2.33% and the MSCI Emerging Markets Index 1.90%.^{16,17}

COMMODITIES MARKETS

Investors certainly renewed their appetites for precious metals in August. When it was all said and done, the month saw major gains for silver (19.02%), platinum (6.85%) and gold (4.54%), with gold settling August 30 at \$1,396.10 an ounce. Copper, too, gained 4.20% on the month. NYMEX crude finished August at \$107.65 per barrel, a 2.32% monthly gain. Natural gas futures advanced 5.80%. In contrast, unleaded gasoline prices managed to fall 0.61%. Soybeans rose 3.97% in August, and cocoa 4.44%; their fortunes were not mirrored by corn (-1.95%), cotton (-2.37%) or wheat (-3.42%). The 7.12% single-month jump in the U.S. Dollar Index was hardly surprising; it finished August at 82.03.^{18,19}

REAL ESTATE

Home buying statistics seemed to show the influence of rising mortgage rates. The National Association of Realtors said existing home sales went +6.5% in July with the sales rate stronger than at any time since March 2007 – but the Census Bureau had new home sales down 13.4% in that month. New home buyers faced higher mortgage rates as they assumed loans for housing yet to be completed. For the record, NAR also noted a 1.3% drop in pending home sales in July.^{6,20}

June's overall S&P/Case-Shiller Home Price Index had home values rising 12.1% in 12 months, as opposed to 12.2% in the May edition. The Census Bureau said both building permits (+2.7%) and housing starts (+5.9%) increased for July.^{6,21}

Where were mortgage rates at as August ended? Well, between August 1 and August 29, the average interest rate on the 30-year FRM went from 4.39% to 4.51%. As for other loan types across that interval, average rates on 15-year FRMs rose to 3.54% from 3.43%; 5/1-year ARMs saw average rates move from 3.18% to 3.24%. Average rates on the 1-year ARM were at 2.64% in both surveys.²²

LOOKING BACK...LOOKING FORWARD

The Dow also had its worst month since May 2012, ending August at 14,810.31. The NASDAQ concluded the month at 3,589.87, the S&P 500 at 1,632.97, and the Russell 2000 at 1,010.90 (going -3.29% in August). The CBOE VIX rose 26.10% to 16.96.¹

% CHANGE	YTD	1-MO CHG	1-YR CHG	10-YR AVG
DJIA	+13.02	-4.45	+13.92	+5.73
NASDAQ	+18.89	-1.01	+17.75	+9.83
S&P 500	+14.50	-3.13	+16.68	+6.20
REAL YIELD	8/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.68%	-0.63%	1.68%	2.29%

Sources: cnbc.com, bigcharts.com, treasury.gov - 8/30/13^{1,23,24}

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

The Syria crisis has brought the potential for severe volatility back to Wall Street. Will its impact on stocks be brief and less significant than assumed? Will it prompt a short-term pause in the bull market? Or could things escalate, and rattle investor confidence to the point where YTD gains are severely threatened? This could be the biggest test of the year for equities, and yet stateside there is still a prevalent optimism that the economy is on the way back and that the recovery can continue with less help from the Fed. The current bull market has held up through four years of challenges; let's hope that it can weather this one and celebrate a fifth anniversary next March.

UPCOMING ECONOMIC RELEASES: September's roster of key economic announcements looks like this: the August ISM manufacturing index (9/3), a new Federal Reserve Beige Book (9/4), the August ISM non-manufacturing index, the August Challenger job-cut and ADP employment reports and July factory orders (9/5), the Labor Department's August jobs report (9/6), July wholesale inventories (9/11), the University of Michigan's initial September consumer sentiment index, August retail sales, July business inventories and the August PPI (9/13), August industrial output (9/16), the August CPI and the September NAHB housing market index (9/17), the September Fed policy announcement and August housing starts and building permits (9/18), August existing home sales and the Conference Board's August index of leading indicators (9/19), July's Case-Shiller home price index, the Conference Board's September consumer confidence survey and the August FHFA housing price index (9/24), August new home sales and durable goods orders (9/25), August pending home sales and the federal government's final take on Q2 GDP (9/26), and then the Commerce Department's report on August consumer spending and the final September University of Michigan consumer sentiment index (9/27).

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It is made up of a selection of shares that are representative of all the shares listed on the exchange from various sectors across the economy. 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 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 FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The Asia Dow measures the Asia 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 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 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. 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