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INVESTMENT
COUNSEL

Weekly Market Insights

Dow Jones: 16437 YTD -0.77% | **S&P 500:** 1842 YTD -0.27% | **NASDAQ:** 4174 YTD -0.00%

January 13, 2014

A Lackluster Start

The equity markets have started 2014 in a lackluster fashion. Year-to-date the Dow Jones 30 has lost .84, the S&P lost .32, while small caps, the NASDAQ, lost .05. The past week showed some improvement with all but the Dow showing gains. We are not particularly surprised at this considering the wonderful year the markets had in 2013. What did impress us is the markets' resilience to last week's disappointing employment numbers. Most analysts were forecasting robust job creation. The reported nonfarm payroll employment edged up a mere 74,000. The equity markets did fall a bit. We suspect that was due more to traders who took short-term positions in anticipation of positive news and just cleared their books when the number was released than investors selling because their faith in growth was shaken. This investor maturity is what impressed us. We have preached that all economic statistics must be studied as trends and not taken individually and looked at in the context of other statistical releases. This surprisingly bad number seems an aberration. It not only is a dramatic departure from the recent past but is not in keeping with other recent statistical evidence showing growing strength in the U.S. economy. If this is why investors did not sell, we are firmly in their camp. We remain optimistic about the growth of the U.S. economy. Around the globe, China seems mired in their effort to change the nature of the economy and finds themselves in a financial balancing act trying to reign in credit after years of ease, both official and off the books rapid credit growth. It is very hard to read what is happening in China, not the least, because of some doubts about the accuracy of the numbers, but clearly the banking authorities are struggling. Europe is apparently improving, but it is a far cry from substantial, sustained growth and the aggregate numbers hide some difficult fault lines within the EU. Emerging markets remain in a very difficult position. Exchange rates are conspiring against them. The world economy remains in a slow growth cycle with the United States being the driving force. Although this has not sounded as the most positive report, it does lead us to be optimistic about the equity market, particularly the U.S., and remain pessimistic about fixed income.

This has been a big week for the Federal Reserve. The Senate confirmed Janet Yellen as Chair of the Federal Reserve. Dr. Yellen should be a noncontroversial Chair, and we suspect will do an excellent job. President Obama nominated Stanley Fischer, former Governor of the Bank of Israel, as the next Vice Chairman who we believe to be a very good choice. Mr. Fischer is perhaps the foremost international banker of the day and has extensive experience in financial crises management. We believe he, if confirmed, adds much firepower to the Fed and will work well within the context of the Fed.

The Week Ahead:

- **MONDAY**: Italy Industrial Production (m/m) expected at 0.30%, India CPI (y/y) expected at 10.09%
- **TUESDAY**: US Retail Sales Advance (m/m) expected at 0.10%, US Retail Sales ex auto and gas expected at 0.30%, US Business Inventories expected at 0.30%
- **WEDNESDAY**: US PPI (m/m) expected at 0.40%, US PPI ex food and energy (m/m) expected at 0.10%, Japan Machine Orders (m/m) expected at 1.10%
- **THURSDAY**: Germany CPI (m/m) expected at 0.40%, US Initial jobless claims expected at 325K, US Continuing claims expected at 2850K
- **FRIDAY**: US Housing Starts (m/m) expected at -9.10%, US Building Permits (m/m) expected at -0.20%