Market Month: November 2013

2013 is shaping up to be a good year for the equity markets if the gains hold through December. It looks like bonds will limp to the finish line and gold will be the loser for 2013 having dropped more than 20%. As 2013 comes to a close we at FineMark wish you a safe and Happy Holidays.

The Markets

Sprint to the finish: As economic data delayed by the federal government shutdown began to trickle in and the Fed continued to hold off on tapering, investors continued to drive equities to record levels. The Dow industrials hit 12 new all-time closing highs during the month, which helped push the index above 16,000. The S&P 500 set its 38th new record of the year and made history by rising above 1,800 for the first time ever. While the Nasdaq is still well below its all-time record of 5048.62, set in March 2000, it did manage to surpass 4,000; the last time that happened, Al Gore and George Bush were a month away from their first presidential debate. And if the Nasdaq were to remain at Friday's level through the rest of the year, it would record the seventh best year in its history; if the small-cap Russell 2000 did the same, it would have had its fourth best year ever.*

All the enthusiasm for equities continued to lure investors away from bonds as the benchmark 10-year Treasury yield rose and prices fell. The price of gold continued to slide, losing $100 an ounce to end the month at $1,250, while the spot price of oil fell to roughly $93 a barrel.

Market/Index	2012 Close	Prior Month	As of 11/29	Month Change	YTD Change
DJIA	13104.14	15545.75	16086.41	3.48%	22.76%
Nasdaq	3019.51	3919.71	4059.89	3.58%	34.46%
S&P 500	1426.19	1756.54	1805.81	2.80%	26.62%
Russell 2000	849.35	1100.15	1142.89	3.88%	34.56%
Global Dow	1995.96	2410.12	2450.17	1.66%	22.76%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.78%	2.57%	2.75%	18 bps	97 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- The U.S. economy grew at an annual rate of 2.8% in the third quarter, according to the Bureau of Economic Analysis. The initial estimate, which is subject to two future revisions, represents an improvement from Q2's 2.5% and matches the pace hit a year earlier.
- The U.S. economy added 204,000 new jobs in October, according to the Bureau of Labor Statistics. However, the unemployment rate inched up 0.1% to 7.3%, in part because worker furloughs caused by the federal government shutdown may have distorted the figures. The BLS said the shutdown did not appear to have affected the data on new jobs, which is based on a survey of employers rather than households.
- Home prices were up 3.2% in Q3 in the 20 cities measured by the S&P/Case-Shiller 20-City Composite Index. September's 0.7% increase represented a 13.3% increase from a year earlier, the highest annual growth since February 2006. Building permits rose 6.2% in October, according to the Commerce Department, and were almost 14% higher than in October 2012 (data on housing starts was delayed by the federal government shutdown). Low inventories and double-digit year-over-year price increases for the last 11 months helped cut sales of existing homes by 3.2%, according to the National Association of Realtors®, though sales were 6% higher than the same time last year.

- A nearly 3% decline in gas prices cut consumer inflation by 0.1%, according to the Bureau of Labor Statistics. That put the annual inflation rate for the previous 12 months at 1%. Gas prices also were largely responsible for a 0.2% drop in the wholesale inflation rate during October, leaving the annual increase in wholesale prices at a mere 0.3%.
- Retail spending by U.S. consumers rose 0.4%, and retail sales were 3.9% higher than a year earlier. The Commerce Department said sales of autos, electronics/appliances, and clothing saw the strongest monthly gains. Auto sales were up almost 12% from a year earlier, and sales at nonstore retailers rose more than 8% during the same time. Personal incomes were up 0.5%, slightly more than the 0.2% increase in consumer spending.
- U.S. manufacturing showed signs of slowing. After two straight months of increases, durable goods orders fell 2%, fueled in part by a nearly 16% drop in new orders for aircraft and parts. However, orders for computers and capital goods also fell, leaving nontransportation orders down 0.1% for the month. The Philly Fed survey fell to 6.5% from the previous month's 19.8%, while the Empire State survey declined 2.2%, its first negative reading since May.
- The Senate confirmed Federal Reserve vice chairman Janet Yellen to replace Ben Bernanke when the Fed chairman's term expires January 31. Yellen's confirmation testimony as well as minutes of the Fed's most recent monetary policy committee meeting showed little inclination to begin cutting bond purchases before 2014.
- Growth in the eurozone was sluggish in the third quarter, slowing to 0.1%; that represents an annual rate of just 0.4%, compared to the second quarter's annualized 1.2% rate. Powerhouse Germany, which saw 2.9% growth in the second quarter, had less than half that in Q3. The European Commission now expects the eurozone to grow just 1.1% next year, though that would still be better than the 0.4% contraction anticipated for 2013. To try to stimulate growth and combat an ultra-low 0.7% annual inflation rate, the European Central Bank lowered its key interest rate to a record low of 0.25%.
- The Justice Department agreed to settle an antitrust suit and permit the $17 billion merger of American Airlines and US Airways, which will create the world's largest airline carrier. Also, JPMorgan Chase agreed to pay $13 billion--said to be the largest corporate/government settlement in U.S. history--to settle charges that its subsidiaries misrepresented mortgage-backed securities leading up to the 2008 financial crisis.

Eye on the Month Ahead

Washington will once again be a focus of investor attention. A report from the congressional budget conference committee established as part of the agreement ending October's government shutdown is due mid-month, and the Federal Reserve's monetary policy committee gets its last chance this year to reduce its bond purchases. Both of those factors could add to any volatility from year-end profit-taking and general portfolio tidying by institutional investors.

Key dates and data releases: U.S. manufacturing, construction spending (12/2); auto sales (12/3); new home sales, balance of trade, Fed "beige book" report, U.S. services sector (12/4); revised Q3 GDP estimate, factory orders (12/5); unemployment/payrolls, personal income/outlays (12/6); retail sales (12/12); wholesale inflation, due date for congressional budget committee report (12/13); U.S. industrial production, business productivity/costs, international capital flows, Empire State manufacturing survey (12/16); consumer inflation (12/17); Federal Open Market Committee announcement, housing starts (12/18); home resales, Philly Fed manufacturing survey (12/19); quadruple witching options expiration, final Q3 GDP estimate (12/20); personal income/outlays (12/23); durable goods orders, new home sales (12/24); home prices (12/31)

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

*Based on data from the "Stock Trader's Almanac 2013."