Market Month: January 2014

The global equity markets had a rough start to 2014 with most major indexes posting losses. After a strong 2013 where the S&P 500 was up more than 30%, many market strategist and investors alike expected a pull back to occur at some point. Here at FineMark we continue to work with our clients to assure their comfort in their portfolio construction especially in the areas of risk and volatility. Please reach out to your FineMark Professional with any questions.

The Markets

Increased confidence in a strengthening U.S. economy helped decrease investor confidence in several emerging-market countries, and financial markets around the world felt the strain in January. Investors worried that as the Fed cuts its bond purchases and eventually begins to move away from rock-bottom interest rates, money would be lured away from emerging markets, especially those already facing financial or political instability. That wasn't the only threat that roiled markets overseas. As several countries attempted to manipulate their currencies to try to attract buyers or fight inflation, a disappointing report on China's manufacturing sector did little to allay investor concern.

Developed markets weren't immune to the contagion. Large caps, many of which earn a substantial percentage of their revenues overseas, were hurt the most. After hitting an all-time record on December 31, the Dow had its worst January since 2009, while the S&P 500 went from an all-time high on January 15 to a loss for the month in just two weeks. The Nasdaq, which led the pack in 2013, lost the least, followed by the small caps of the Russell 2000. Not surprising given the rout in emerging markets, the Global Dow also suffered. And as frequently happens during periods of global instability, investors turned to such traditional safe havens as U.S. Treasuries; the yield on the benchmark 10-year note fell as demand pushed prices up.

Market/Index	2013 Close	Prior Month	As of 1/31	Month Change	YTD Change
DJIA	16576.66	16576.66	15698.85	-5.30%	-5.30%
Nasdaq	4176.59	4176.59	4103.88	-1.74%	-1.74%
S&P 500	1848.36	1848.36	1782.59	-3.56%	-3.56%
Russell 2000	1163.64	1163.64	1130.88	-2.82%	-2.82%
Global Dow	2484.10	2484.10	2389.81	-3.80%	-3.80%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	3.04%	2.67%	-37 bps	-37 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 expanded at an annualized rate of 3.2% during the fourth quarter of 2013. Though that was somewhat less than Q3's annualized 4.1% growth, the Bureau of Economic Analysis said the 3.7% growth during 2013's second half was stronger than the 1.8% expansion during the first six months. The growth was led by consumer spending, exports, and business spending on capital goods.
- Only 74,000 new jobs were added to U.S. payrolls in December; it was the lowest number since January 2011, according to the Bureau of Labor Statistics. However, the unemployment rate fell from 7% to 6.7%--its lowest level since October 2008--largely because of people dropping out of the workforce.
- A Markit/HSBC survey of purchasing managers that indicated contraction in China's manufacturing sector--a key customer for

the commodity exports on which many emerging economies rely--helped aggravate concerns about several foreign currencies. Argentina devalued the country's peso in an attempt to jump-start exports, while Venezuela indirectly imposed currency controls by attempting to curb a black market trade in airline tickets. Meanwhile, after South Africa's rand dropped and Turkey's currency hit a record low, central banks in both countries raised their key interest rates to try to keep investors from moving their money elsewhere. Those actions followed the decision of India's central bank to raise its benchmark rate from 7.75% to 8% after a year-long decline in the rupee, and Brazil's increase in its key rate to 10.5%.

- As Ben Bernanke turned over the Federal Reserve chairmanship to Janet Yellen, the Fed began reducing the bond purchases that have helped support the economy for the last several years. The $85 billion of Treasury and mortgage-backed securities being bought each month fell to $75 billion in January, and will go to $65 billion in February.
- Housing starts fell 10% in December, and sales of new homes were down 7% for the month. However, the Department of Commerce said the new-home sales figure is still 4.5% ahead of the previous December, and sales for all of 2013 were 16.4% higher than in 2012. Home resales were better, with a 1% rebound in December after 3 straight months of declines, and the National Association of Realtors® said 2013 resales were the highest since 2006. Meanwhile, even though home prices in the cities covered by the S&P/Case-Shiller 20-City Composite Index fell 0.1% in November, it was still the best November since 2005, and prices were up 13.7% year-over-year.
- Inflation remained well within the Fed's comfort level. A 0.3% increase in consumer prices and a 0.4% rise in wholesale prices in December left the annual inflation rates for 2013 at 1.5% and 1.2% respectively, according to the Bureau of Labor Statistics. Meanwhile, the Commerce Department said slower auto sales didn't prevent overall retail sales from rising 0.2% in December, because non-auto retail spending rose 0.7%.
- Record exports helped cut the U.S. trade deficit to $34.3 billion in November, its lowest level since September 2009, according to the Bureau of Economic Analysis. After a surge in November, orders placed with U.S. factories fell 4.3% in December--the second decline in the last three months. Also, the Fed's measure of industrial production saw its fifth straight month of gains; the 0.3% monthly gain put it 3.7% ahead of the previous December.

Eye on the Month Ahead

January's turmoil left many wondering whether it represented the start of a long-overdue correction in the nearly five-year post-2008 bull market in equities or a long-overdue pause that could fuel a push to fresh heights. February could help answer that question. The Fed won't meet again until March, so markets will get a chance to digest the current round of tightening and emerging markets' ongoing attempts to cope with its implications for their futures.

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.