Market Month: April 2014

The Markets

The rotation out of momentum stocks that began in early March continued in April, hitting many of the tech and biotech high-fliers that had soared earlier in the year. That cost the Nasdaq and Russell 2000 dearly, leaving both with negative year-to-date returns. The Russell ended the month down 6.7% from its early March year-to-date high, while the Nasdaq slumped 5.6% over the same period. However, valuation concerns didn't affect equities across the board. After setting a fresh closing high early in the month, the S&P 500 managed to hang on to its gains, emerging from April the clear year-to-date leader. Meanwhile, the Dow managed to squeak into positive territory for 2014 on the month's final trading day by surpassing the all-time high it had not seen since New Year's Eve. The Global Dow survived April's volatility relatively well, especially considering geopolitical tensions over Ukraine.

Meanwhile, the rotation in equities, a steady hand at the Fed, and little inflation in sight helped keep the benchmark 10-year Treasury yield low. The price of gold backed off after a $43-an-ounce mid-month spike to end April just below $1,300 an ounce, while the price of oil hovered within a dollar or two on either side of $100 a barrel.

Market/Index	2013 Close	Prior Month	As of 4/30	Month Change	YTD Change
DJIA	16576.66	16457.66	16580.84	.75%	.03%
Nasdaq	4176.59	4198.99	4114.56	-2.01%	-1.49%
S&P 500	1848.36	1872.34	1883.95	.62%	1.93%
Russell 2000	1163.64	1173.04	1126.86	-3.94%	-3.16%
Global Dow	2484.10	2502.78	2523.14	.81%	1.57%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.73%	2.67%	-6 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

- Economic growth stalled during the first quarter, falling from 2.9% in Q4 2013 to the current 0.1%. The initial estimate will be subject to two revisions over the next two months. The Bureau of Economic Analysis attributed much of the decline to lower exports, less spending by businesses on fixed investments and inventory, and reduced spending by local and state governments.
- The U.S. economy created 192,000 new jobs in March, and the Bureau of Labor Statistics revised its previous estimates for January and February upward. However, that did little to help the unemployment rate; because more people sought work, the unemployment rate remained stuck at 6.7%.
- Consumers emerged from hibernation, sending retail sales up 1.1% during the month. However, a 0.2% increase in the consumer inflation rate could have been responsible for a portion of the higher spending (retail sales aren't adjusted for price increases). The Bureau of Labor Statistics said higher costs for food and shelter were responsible for much of the month's increase in the Consumer Price Index, which put the inflation rate for the last 12 months at 1.5%. Meanwhile, wholesale prices, especially those for services, jumped 0.5% during the month.
- Manufacturing data was generally positive. Orders for big-ticket items were up 2.6%, and according to the Commerce Department, some of the biggest increases were in computers, electronics, and communications equipment. Industrial production also rose 0.7%, particularly in the mining and utilities sectors.
- Spring brought few signs of improvement in the housing market. The Commerce Department's April release said new home

sales plunged 14.5%, while the National Association of Realtors® said sales of existing homes were down by only 0.2%. Housing starts were up almost 3% from February, but down 6% from a year earlier. Home prices in the 20 cities tracked by the S&P/Case-Shiller 20-City Composite Index were basically flat for the month, and year-over-year gains were less robust than in previous months.

- As expected, the Federal Reserve's monetary policy committee once again cut its monthly bond purchases by $10 billion, leaving them at $45 billion a month. The Fed also reiterated its intention to keep its target interest rate at its current level well after bond purchases end.
- The Chinese economy showed signs of slowing; the country's National Bureau of Statistics said the 7.4% growth over the last 12 months was slightly less than the previous quarter's 7.7%, and below the official 7.5% target rate. Also, exports were down 6.6% in March, while imports fell more than 11%.
- The European Central Bank kept its key interest rate unchanged at 0.25% despite a 0.5% inflation rate that raised concerns about the possibility of deflation there.

Eye on the Month Ahead

Investors will have to assess whether the recent slump in equities is a case of "sell in May, go away" coming early and whether recent selling has worked off concerns about overvaluation. European Union parliamentary elections on May 22-25 will be watched for signs of increasing anti-EU sentiment that could jeopardize support for the financial system there. The Fed's monetary policy committee will take a break in May, leaving investors to focus on economic data, earnings, and geopolitical considerations.

Key Dates/Data Releases

- *5/1: Personal income/outlays, ISM manufacturing survey*
- *5/2: Unemployment/payrolls, factory orders*
- *5/5: ISM services sector report*
- *5/6: Balance of trade*
- *5/7: Business productivity/costs*
- *5/13: Retail sales*
- *5/14: Wholesale inflation*
- *5/15: Consumer inflation, Empire State/Philly Fed manufacturing surveys, industrial production, international capital flows*
- *5/16: Housing starts, options expiration*
- *5/21: FOMC minutes*
- *5/22: Home resales, start of European Union parliamentary elections*
- *5/23: New home sales*
- *5/27: Durable goods orders, home prices*
- *5/29: Revised estimate of Q1 GDP*
- *5/30: Personal income/spending*