

The Market Week in Review

For Week Ending May 17, 2014

THE MARKETS

It was another volatile week in the equity markets. The Dow and the S&P both hit record highs during the week before paring back. The small cap Russell 2000 seemed to set the pace as both large caps and technology stocks followed its lead throughout the week. Nervous investors continued to flock to safe-haven U.S. Treasuries, sending the yield on the 10 Year Note down below 2.5 percent for the first time since October of last year. The NASDAQ managed to finish the week up 0.46 percent, the S&P and Russell both finished flat, and the Dow closed the week down 0.55 percent.

| Index | Started Week | Ended Week | Change | % Change | YTD % |
|--------------|--------------|------------|--------|----------|--------|
| DJIA | 16,583.34 | 16,491.31 | -92.03 | -0.55% | -0.51% |
| Nasdaq | 4,071.87 | 4,090.59 | 18.72 | 0.46% | -2.06% |
| S&P 500 | 1,878.48 | 1,877.86 | -0.62 | -0.03% | 1.60% |
| Russell 2000 | 1,107.22 | 1,102.91 | -4.31 | -0.39% | -5.22% |

DAILY DEVELOPMENTS

MONDAY

The federal government enjoyed a \$106.9 billion surplus in the month of April, pulling down the year-to-date deficit, 8 months into the fiscal year, to \$305.8 billion. That amounts to a 37 percent decline as compared to this time last year. Corporate tax receipts are up 15.0 percent year-to-date, while individual tax receipts are up 3.6 percent year-to-date. Spending is down 2.4 percent year-to-date led by declines in defense spending and net interest payments.

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TUESDAY

Retail sales increased just 0.1 percent in April from the prior month to a seasonally adjusted \$434.6 billion, the Commerce Department said Tuesday. Auto sales increased 0.6 percent in April, and purchases at clothing stores were up 1.2 percent. But most of those gains were offset by declines in spending at restaurants, online retailers and furniture and electronics stores. Excluding autos and gasoline, retail sales fell 0.1 percent last month. Although some analysts may see the slowdown in April as a cause for concern, it's reasonable to wonder if it's simply a response to the unusually strong advance in the previous month.

WEDNESDAY

The Labor Department said on Wednesday its Producer Price Index, which measures inflation at the wholesale level, rose 0.6 percent in April. That's the biggest gain since September 2012. In March, the index increased 0.5 percent. Low inflation has allowed the Federal Reserve to keep its monetary policy extremely loose in an effort to stimulate the U.S. economy. Although the Fed began cutting back the amount of money it is injecting into the economy through monthly bond purchases a few months ago, it has continued to hold the interest it charges to U.S. banks very low in hopes of encouraging lending activity. If inflation begins to accelerate, the Fed may have to reconsider this policy.

THURSDAY

Initial jobless claims were down for the second week in a row, coming in at 297,000 which was 24,000 lower than the previous week and much lower than the consensus number of 317,000. That is the lowest level since May of 2007. However the 4 week average for the month of April was only down 2,000 to 323,250 which is still 10,000 higher than the month-ago comparison. Continuing claims for the week of May 3rd were down 9,000 to 2.667 million which is a post-recession low.

The Consumer Price Index rose 0.3 percent in April, which was in line with expectations. The increase was mainly due to a jump in gasoline and food prices. Core CPI, which strips out volatile food and energy prices, was up 0.2 percent which was above the consensus of 0.1 percent. This was a 1.8 percent increase year over year which is likely to keep the Fed's tapering on their previously telegraphed track.

FRIDAY

Housing starts in April were up 13.2 percent from the previous month to 1.072 million units. The consensus was for only 980,000 units. However, the surge was due to an increase in multi-family units which were up 39.6 percent compared to March, while single-family homes were only up 0.8 percent for the month of April. Housing permits were up 8.0 percent to an annualized rate of 1.08 million units, also lead by the multi-family component.

TIDBITS

After 31 years and \$43 billion collected in a trust fund, a federal court has ordered the Energy Department to stop imposing a tax on U.S. energy consumers for a nuclear waste site that doesn't exist. The tax was originally imposed to fund the Yucca Mountain nuclear waste dump in Nevada, but the dump was never built and the Obama administration essentially killed any plans for doing so. However, taxpayers shouldn't expect a refund. The money will be used if a site is ever built in the future.

QUOTE OF THE WEEK

"The engine which drives Enterprise is not Thrift, but Profit."
- John Maynard Keynes

I hope you have found the information in this week's market summary helpful. If you would like to comment on any of the information found in this week's Market Commentary please e-mail me at awillms@estatecounselors.com. If you would like to discuss how current market conditions could impact your investments, please feel free to call me at the number listed below.

Best regards,

Andy

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