

Economic & Market Review

~ January 2014 Investment Newsletter ~

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Monthly Summary

Following strong equity market returns in 2013, investors were reacquainted with risk in January. Stocks declined globally on softer economic data and turmoil in emerging markets. Initially dismissed by investors, a weak U.S. labor market report in early January was a harbinger of things to come. Auto sales fell, and retail sales growth slowed from more impressive levels last fall. Housing trends also showed continuing weakness. New homes sales ticked lower for the second month in a row and existing home sales have declined each month since August. International developments gave investors pause as well. Data released in January suggested the tepid euro zone revival was even weaker than expected and China showed evidence of a slowdown in December. China's credit growth, debt levels, and intermittent liquidity shortages are also growing concerns.

While developed economies had challenges, the epicenter of January's difficulties was found in emerging economies. Countries with large current account deficits experienced an exodus of capital. Argentina, Turkey, and South Africa were hit particularly hard, but others such as Russia and Brazil were impacted as well. Of particular concern was the fact that contagion spread to countries like Hungary and Poland, with trade surpluses and lower levels of debt. In the end, it appears investors' perceptions of risk had become distorted by easy monetary policies and dramatic stock market gains in 2013. Federal Reserve tapering and global growth concerns have forced a reassessment of risk.

Economic Data

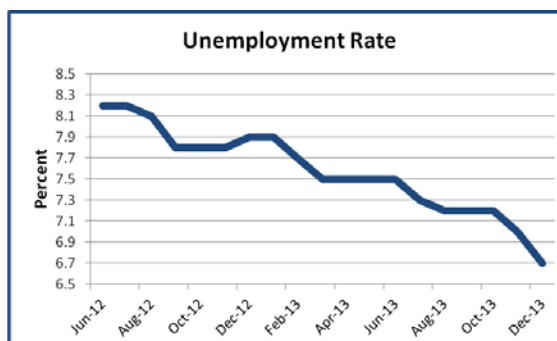
<u>General</u>	<u>Prior</u>	<u>Current</u>
GDP growth	4.1% (Q3)	3.2% (Q4)
Trade balance	-\$39.3 B (Oct)	-\$34.3 B (Nov)

<u>Employment</u>	<u>Prior</u>	<u>Current</u>
Initial jobless claims	329,000 (1/18)	348,000 (1/25)
Continuing claims	3.0 MM (1/11)	3.0 MM (1/18)
Change in nonfarm payrolls	241,000 (Nov)	74,000 (Dec)
Unemployment rate	7.0% (Nov)	6.7% (Dec)
Average weekly hours	34.5 (Nov)	34.4 (Dec)

<u>Consumer</u>	<u>Prior</u>	<u>Current</u>
Consumer confidence index (Conf. Board)	77.5 (Dec)	80.7 (Jan)
Retail sales growth (YoY)	3.7% (Nov)	4.3% (Dec)
Change in consumer credit	\$17.9 B (Oct)	\$12.3 B (Nov)



Data Source: U.S. Department of Commerce



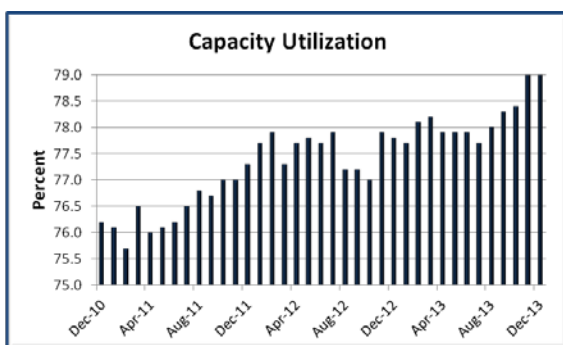
Data Source: U.S. Department of Labor



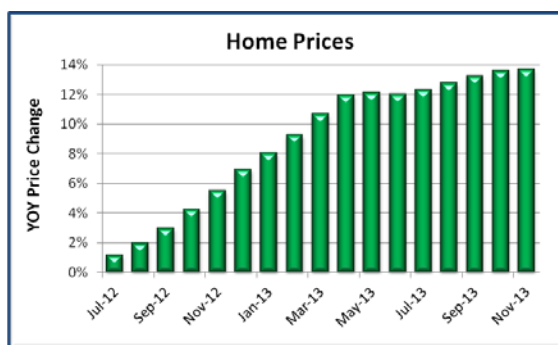
Manufacturing & Service	Prior	Current
ISM manufacturing index	57.0 (Nov)	57.0 (Dec)
ISM non-manufacturing index	54.1 (Nov)	53.0 (Dec)
Durable goods orders growth	2.7% (Nov)	-4.3% (Dec)
Industrial production growth	1.0% (Nov)	0.3% (Dec)
Capacity utilization	79.1% (Nov)	79.2% (Dec)

Real Estate	Prior	Current
New home sales	445,000 (Nov)	414,000 (Dec)
Existing home sales	4.8 MM (Nov)	4.9 MM (Dec)
Case-Shiller home price index (YoY)	13.6% (Oct)	13.7% (Nov)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.2%/1.7% (Nov)	1.5%/1.7% (Dec)
Producer price index/Core (YoY growth)	0.7%/1.3% (Nov)	1.2%/1.4% (Dec)



Data Source: U.S. Federal Reserve



Data Source: S&P/Case-Shiller

Market Returns

The Barclays U.S. Aggregate Bond index gained 1.5% for the month, and the yield on the 10-year U.S. Treasury note fell 37 basis points to end at 2.67%. High yield credit spreads widened modestly during the month providing the Barclays High Yield index with a more modest gain of 0.7%. TIPS and municipal bonds were the best performers in January, rising about 2.0% each. Lastly, although dollar strength weighed on international bonds, the category still managed a gain of 0.8% to start the year.

The S&P 500 lost 3.5% for the month. Developed international equity markets, as defined by the MSCI EAFE index, were down 4.0% while the MSCI Emerging Markets index lost 6.5%. Dollar strength against emerging market currencies accounted for about one-third of category losses incurred during the month. In other markets, the DJ U.S. Real Estate index gained 3.6% for the month and the DJ Commodity index rose 0.3%.

Disclaimers

This commentary was written by Robert W. Lamberti, CFA who serves as VP of Investments for Summit Financial Resources, Inc. 4 Campus Drive, Parsippany, NJ 07054. Tel: 973-285-3600, Fax: 973-285-3666. Source of performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The MSCI EAFE and Emerging Markets Indexes were created by Morgan Stanley Capital International (MSCI) and designed to measure equity market performance in global developed and emerging markets, respectively. The Barclays Aggregate Bond Index is a market capitalization-weighted index comprised of government securities, mortgage-backed securities, asset-backed securities, corporate securities, and a small number of foreign bonds traded in the U.S. It is used to represent the universe of bonds in the domestic market. REITs, Real Estate Investment Trusts, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, may have liquidity constraints. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding markets or other financial information, are obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. To unsubscribe from this investment newsletter please reply to this email with "unsubscribe" in the subject. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

