Economic & Market Review

~ January 2014 Investment Newsletter ~

Steven W. Lieberman, MBA, CFP® Summit Financial Resources, Inc. (973) 285-3637 slieberman@sfr1.com

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.

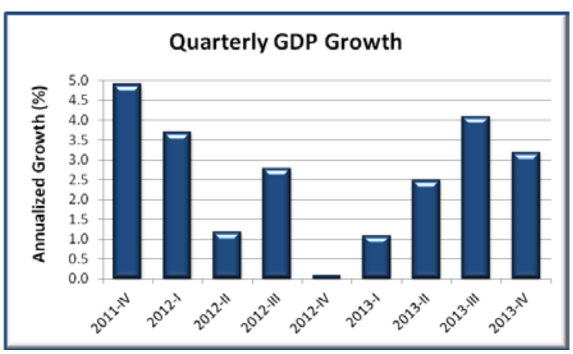
While developed economies had challenges, the epicenter of January's difficulties was found in emerging economies. Countries with large current account deficits experienced an exodus of capital. Argentina, Turkey, and South Africa were hit particularly hard, but others such as Russia and Brazil were 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

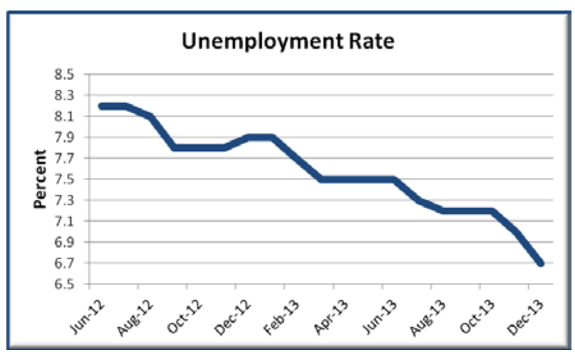
General	Prior	Current
GDP growth	4.1% (Q3)	3.2% (Q4)
Trade balance	-$39.3 B (Oct)	-$34.3 B (Nov)

Employment	Prior	Current
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)

Consumer	Prior	Current
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

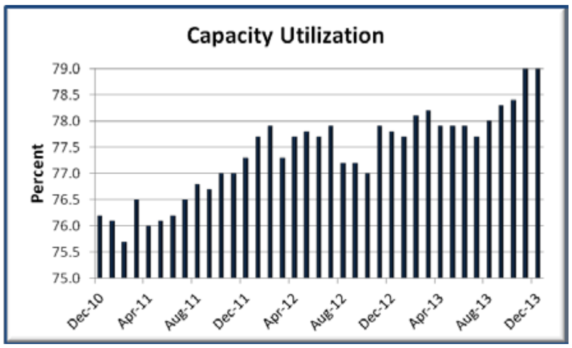


Data Source: U.S. Department of Labor

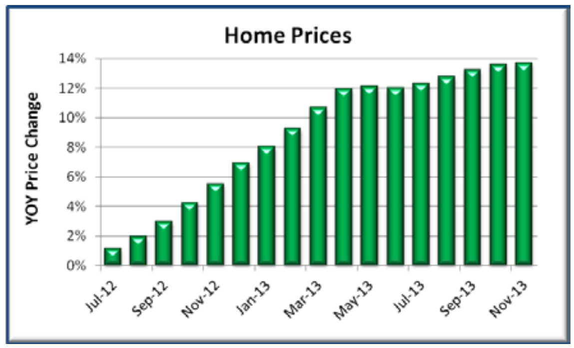
Manufacturing & Service	**Prior**	**Current**
ISM manufacturing index	57.0 (Nov)	57.0 (Dec)
ISM non-manufacturing index	54.1 (Nov)	53.0 (Dec)
Durable goods orders growth	2.7% (Nov)	-4.3% (Dec)
Industrial production growth	1.0% (Nov)	0.3% (Dec)
Capacity utilization	79.1% (Nov)	79.2% (Dec)

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%.