

Will This 'Pause' Refresh?

Joe Terranova, Chief Market Strategist, Virtus Investment Partners, offers insights into some of the key economic indicators and meaningful market events to keep a close eye on throughout October.

October 2011

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					September 30 China PMI	1
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9	10 COLUMBUS DAY	11 2:00 PM: FOMC Meeting Minutes Earnings Season Begins*	12 7:00 AM MBA Mortgage Applications China Trade Report (Exports/Imports)	13 JP Morgan Earnings*	14 8:30 AM: Retail Sales	15
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23	24 Caterpillar Earnings*	25	26 7:00 AM: MBA Mortgage Applications Ford Earnings*	27 8:30 AM: GDP	28	29
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Times shown are Eastern Standard (EST). *Expected earnings release date; may be subject to change.

Since May, I have suggested that the capital markets have taken a pause, waiting to be refreshed by any of several potential heroes – manufacturing, corporate earnings, U.S. fiscal policy, and/or China. I have all but given up on U.S. policy makers coming through this year, however, investors may still have room for optimism. In October, I'll be looking for possible refreshment primarily from corporate earnings; China, which has the potential to restart global growth now that its tightening cycle appears over; and global manufacturing, which, though stalled, has not slipped into recessionary territory just yet.

October indicators / events of note:

You should be watching:

China PMI

China PMI (purchasing managers' index) is released on the last day of the month. This monthly gauge of China's manufacturing sector, combined with the monthly U.S. ISM Manufacturing Index released the next day, gives a clear picture of global manufacturing health. An index value above 50 indicates growth, below 50 contraction.

We have not seen a rebound in manufacturing from China, which is problematic. Last month's China PMI was 50.9, up slightly from 50.7 the month before. We'd like to see October PMI stay above the 50 contraction/expansion line.

France, Italy, and Germany PMI

Each country's PMI is a key measure of the state of its manufacturing sector. An index value above 50 indicates growth, below 50 contraction.

It's important to continue to monitor manufacturing across Europe, where PMI set a bearish tone last month. In September, PMI for the most important eurozone country, Germany, fell to 50 (from 52 in August), France dropped to 47.3 (from 49.3), and Italy slipped to 47 (from 50.1).

ISM Manufacturing Index

Issued by the Institute of Supply Management, this report provides an influential monthly measure of the health of U.S. manufacturing based on an in-depth survey of 300 manufacturing firms. An index value of 50 is the dividing line between an expanding or slowing economy.

In September, ISM Manufacturing came in at 50.6 (August data). If the October reading were to cross below 50, it would be the first time since the 49 in July 2009 (reported in August 2009). October ISM is expected to come in at around 50.5.

ECB Rate Announcement

The ECB controls monetary policy, including interest rates, for euro-zone countries, and strives to keep inflation at about 2%.

Currently, ECB interest rates are at 1.5%. The expectation in the marketplace is for rates to be lowered 25 basis points, to 1.25%. I wouldn't be surprised if that happened in October.

Unemployment & Private Sector Jobs

Private payroll data is part of the Labor Department's monthly U.S. Employment Situation report. This data gives the true employment story, is the best gauge of the economy's direction, and has the power to move markets.

I'm looking for a significantly better employment report than last month where the headline figure reflected zero job growth. This month, I expect to see 50,000 to 75,000 jobs added. Last month, 17,000 private payroll jobs were added; this month, I'd expect a figure closer to 100,000. I also expect the unemployment rate to remain at 9.1%.

Earnings Season Begins*

Alcoa (AA) kicks off earnings season with its release targeted for October 11.

Corporate earnings remain a key metric to monitor. Will this quarter's reports show contraction or continued resiliency?

FOMC Meeting Minutes

The Federal Open Market Committee (FOMC) releases minutes from its September 20-21 meeting.

There were three dissenters at the September meeting, and the next meeting is on November 1. Should the economy deteriorate into an actual recession, what's the willingness of the FOMC to implement asset purchases once again?

*Expected earnings release date; may be subject to change.

October indicators / events of note:

MBA Mortgage Applications

This weekly report from the Mortgage Bankers' Association gives a gauge on housing demand and economic momentum using a purchase applications index, which measures applications at mortgage lenders. This report is a leading indicator for single-family home sales and housing construction.

China Trade Report (Exports/Imports)

China's monthly trade report provides important import, export and interest rate data on the Chinese economy.

JP Morgan (JPM) Earnings*

Targeted for release on October 13.

Retail Sales

Retail sales data is released monthly by the U.S. Department of Commerce. Retail sales measure total receipts for sales of durable and nondurable goods. Consumer spending accounts for two-thirds of GDP and is therefore a key element in economic growth. Each report is based on the previous month's data.

Empire State Manufacturing Survey

The Federal Reserve Bank of New York conducts this monthly survey of manufacturers in the New York tri-state area across a variety of industries. Report data is for the month in which it is released.

China CPI

China's consumer price index, a key measure of inflation, is released monthly.

China GDP and Industrial Production

China GDP (gross domestic product) is the market value of China's goods and services and provides a broad measure of economic growth. Industrial production is a monthly indicator measuring changes in output for the industrial sector of China's economy, including manufacturing, mining, and utilities. It is an important indicator for economic forecasting and a measure of inflation. Data released is for the previous month.

You should be watching:

This will be an important weekly report to monitor. Will we see a refinancing boom as a favorable consequence of the Federal Reserve's "Operation Twist" initiative, which lowers private sector borrowing costs on 30-year terms? If so, the evidence will be seen in this report.

If China is to be a hero before 2011 ends, we want to see imports rise. Last month, China's trade surplus shrank to \$17.75 billion, mostly due to a record surge in imports. Continuation of the surplus would provide The People's Bank of China with motivation to continue to appreciate the yuan currency, and that is something we'd like to see happen.

JP Morgan releases its earnings before market open. We've been hearing so much about a contraction in bank earnings, there's no better source to get the story than from the "best in breed."

Retail sales were flat last month, the first disappointment we've seen in this economic gauge. Affluent consumers have supported retail sales but began to retrench their spending patterns in August in response to price action in the S&P 500, reflected in September's retail sales report. Since September was also not a good month for the market, the October report could show if a worrisome trend is developing in this area.

This manufacturing survey, along with the Philly Fed Survey released on the 20th, is an important recessionary indicator. We've seen deterioration for the last three months in this survey: -8.82 (Sept), -7.72 (August), and -3.76 (July). It will be very important to reverse that trend.

Last month, China CPI actually moderated for the first time in a few months, down to 6.2% year on year (from 6.5% the prior month). We'd like to see further moderation this month, in the area of 6% or lower, which should officially end the Chinese tightening cycle initiated in the fall of 2010.

China remains a potential hero for the markets in these final months of the year, which is why we need to watch all economic data coming out of China. China's GDP growth rate is currently 9.5% annualized; let's see what the Q3 update brings. Last month, China's industrial production expanded 13.5% (August data), down slightly from 14% the prior month.

*Expected earnings release date; may be subject to change.

October indicators / events of note:

You should be watching:

IBM Earnings*

Targeted for release on October 17.

The most important information to gather from IBM's report is whether enterprise IT spending is still resilient.

Goldman Sachs (GS) and Apple (AAPL) Earnings*

Targeted for release on October 18.

These are two big releases to watch on the 18th. For Goldman Sachs, the focus will be on trading revenues. With the volatility in the marketplace, will the bank's fixed income, commodities, and currency desks begin to turn profits as they have in similar years? For Apple, the ultimate consumer discretionary play, will the company continue to exceed estimates?

American Express (AXP) Earnings*

Targeted for release on October 19.

The AMEX report will tell us if credit quality, which has been trending quite favorably, has continued to see improvement.

Morgan Stanley (MS) Earnings*

Targeted for release on October 20.

It will be interesting to hear from Morgan Stanley, given the significant fall in its stock price and fears that trading revenues have contracted sharply.

Philadelphia Fed Manufacturing Survey

This monthly survey provides useful intelligence on manufacturing conditions within the Philadelphia Federal Reserve district and is useful as an indicator of broad manufacturing sector trends.

This survey is what got everyone concerned about a double-dip recession when it sharply contracted in August, to -30.7. September's figure was somewhat better but still in negative territory, at -17.5. We need this figure to cross back into positive territory to reduce the fear of recession.

McDonald's (MCD) Earnings*

Targeted for release on October 21.

The value of the U.S. dollar has been rising while China has tightened its monetary policy to slow inflation. How is the multi-national McDonald's corporation, which has tentacles that touch every global market, surviving? To this point, there has not been a significant pullback. Will that change?

Germany's Ifo Business Climate Index

This index, prepared by the Ifo Institute for Economic Research in Munich, is a leading indicator for Germany's economic activity. The index is based on a monthly survey of 7,000 manufacturing, construction, wholesaling, and retailing firms on their current business situation and their business outlook for the next six months. Results reported are for that month.

We've seen some moderation from historical highs in this index over the last three months. One of the reasons the euro has been depreciating in response to the European debt crisis compared to this time last year when it was very resilient, is because we're starting to see a softening in Germany's economic numbers. For this reason, it's important to track this business confidence index, which hit a 15-month low in September, falling to 107.5.

Caterpillar (CAT) Earnings*

Targeted for release on October 24.

What is the true state of global manufacturing? Caterpillar, the world's largest construction and mining manufacturer, always provides excellent insight to help give us the answer.

**Expected earnings release date; may be subject to change.*

October indicators / events of note:

Ford (F) Earnings*

Targeted for release on October 26.

Gross Domestic Product (GDP)

The quarterly GDP report, released by the U.S. Commerce Department, tracks the purchases of all U.S. goods and services in all sectors and is the broadest measure of the economy.

You should be watching:

Auto production is back on line in Japan and conditions are returning to normal. Ford's results will help give us a sense of the state of the auto industry, both domestically and globally. Also, will this be the quarter Ford restores the common stock dividend it suspended five years ago?

Advance GDP for Q3 2011 will be released. Expectations range from 1% to 2% for an annualized rate.

**Expected earnings release date; may be subject to change.*



JOSEPH M. TERRANOVA, *Chief Market Strategist, Virtus Investment Partners*

Joe Terranova is Chief Market Strategist for Virtus Investment Partners. He was elevated to that position in June 2009, having started with the company in the role of Chief Alternatives Strategist.

In his current role, Mr. Terranova works with Virtus' regional sales teams and the financial advisors who sell the company's investment products, providing insight into the domestic and global investing landscape and has represented Virtus as a keynote speaker for several financial institutions. He is a member of the Virtus Investment Oversight Committee.

Prior to joining Virtus in 2008, Mr. Terranova spent 18 years at MBF Clearing Corp., rising to the position of Director of Trading for the company and its subsidiaries. In this capacity, he managed more than 300 traders and support staff for MBF, one of the New York Mercantile Exchange's largest firms. His work was highlighted as the feature story in the June 2004 issue of *Futures* magazine.

Mr. Terranova is perhaps best known for his risk management skills, honed while overseeing MBF's proprietary trading operations during some of the most calamitous times for the U.S. markets, including the first Gulf War, the 1998 Asian Crisis, 9/11, and the collapse of Amaranth Advisors. In 2003, he was one of the first Wall Street professionals to make an early call for higher energy, natural resources, and commodity prices. In June 2008, he cautioned investors to move to the sidelines in commodities and, in March 2009, he encouraged investors to ignore the global "embracement of pessimism" and overweight equities. Before joining MBF, Terranova held positions at both Swiss Banking Corp. and JP Morgan Securities.

Mr. Terranova is a CNBC contributor and is currently a full time panelist on the highly rated program *Fast Money*. He is also a frequent panelist on the CNBC daytime program *Fast Money Halftime Report*.

In 2007, along with Hockey Hall of Fame player Mike Bossy, Mr. Terranova established "Bossy's Bunch," a program that rewards excellence in the classroom for elementary school students.

Mr. Terranova earned a bachelor's degree in finance from the Peter J. Tobin College of Business at St. John's University in New York.

For more information, visit Virtus.com

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