Focus on Strength

Key economic indicators and market events for April by Joe Terranova, Chief Market Strategist

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In each of the last three years, a softening in both economic data and equity markets occurred in the second quarter. As we enter Q2 2013, global equity markets are mixed. Year-to-date, Japanese and U.S. equity markets are the strongest performers, with the Nikkei up 20%, the Dow up 10% and the S&P 500® up 9%. At the same time, equity markets are down 2% and 9% in China and Brazil, respectively, while Germany's DAX is also falling short, up only 3% for the year. On the mind of every strategist, money manager, trader, and investor: Will 2013 be the fourth consecutive year that we see a second quarter softening in economic numbers and a peak in equity markets? That answer will begin to be answered this month as we focus on the strength of U.S. economic data, specifically labor, housing, and the retail consumer.

April 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1 10:00 AM: **U.S. ISM Manufacturing**	2	3 8:15 AM: **U.S. ADP Employment Report**	4 **ECB Monetary Policy Meeting** **FOMC U.S. Economy Speeches (George & Yellen)**	5 8:30 AM: **U.S. Labor Report**	6
7	8 **President's Budget Submission to Congress** **Fed Chair Bernanke Atlanta Fed Address**	9 **German Trade Balance** **U.S. House & Senate Return to Session**	10 **China Trade Balance** 2:00 PM: **FOMC Minutes**	11 1:00 PM: **U.S. 30-Year Treasury Auction**	12 8:30 AM: **U.S. Retail Sales** **JPM & WFC Earnings***	13
14	15 **China Q1 GDP**	16 **IBM, GS, & JNJ Earnings*** 8:30 AM: **U.S. Housing Starts & Building Permits**	17 **China Property Price Index** 2:00 PM: **Beige Book**	18	19	20
21	22 10:00 AM: **U.S. Existing Home Sales**	23 10:00 AM: **U.S. New Home Sales**	24 **German Ifo Business Climate**	25	26 8:30 AM: **U.S. Q1 GDP**	27
28	29	30 **China PMI** **U.S. S&P Case-Shiller HPI** **FOMC Meeting Begins**				

*Times shown are Eastern Time. *Expected earnings release date; may be subject to change.*

April indicators / events of note:	You should be watching:
U.S. 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. Data released is for the previous month.	Much of the reason behind the reversal of the late February pause in equity market appreciation was initiated with last month's U.S. ISM Manufacturing Index, which came in at 54.2, ahead of expectations and was the highest reading since July 2011. Also surprisingly strong in that report was the new orders to inventory ratio, which rose from 2.3 to 6.3.
U.S. ADP Employment Report This report is based on U.S. private payroll data (excluding government) compiled by Automatic Data Processing (ADP). The report is released monthly, two days ahead of the U.S. Labor Department's Employment Situation report, and is used for the advance read it gives on the labor market.	Sometimes the ADP data is reliable, sometimes not, but the Street has been following this report and trading off the private payroll data. For that reason, we need to pay attention. 198,000 jobs were added last month; early estimates call for 190,000-200,000 jobs to be added this month.
ECB Monetary Policy Meeting The European Central Bank (ECB) holds its monthly monetary policy meeting on April 4.	ECB President Mario Draghi has done an excellent job using verbal intervention to walk the euro down from 1.40 to 1.30 over the last two months. The unfortunate consequence of the euro at 1.40 has been a significant softening in Germany's economic numbers. With the euro falling, I suspect Germany's data will come in better than expected in April. I also expect Draghi to take a dovish tone to counter the stronger position that the euro could find itself in against the yen, which has been weakening significantly.
FOMC U.S. Economy Speeches (George & Yellen) FOMC voting members Esther George and Janet Yellen give speeches on the economy, George in Oklahoma and Yellen in Washington, D.C.	The composition of the Federal Reserve has changed substantially. The real hawk Lacker is gone, as are Plosser, and Fisher. We also gained Rosengren, Evans, and Bullard, who are all dovish. Esther George remains the lone hawk on the FOMC, and I would expect her April 4 speech will lay out genuine concerns about continuing with $85 billion in monthly asset purchases. To counter that, Fed Vice Chair Janet Yellen (and the expected successor to Chairman Bernanke) also gives her speech that day. She clearly thinks the way Bernanke does, and the Street does not seem concerned that she is likely to be at the helm a year from now, and will be responsible for orchestrating the tapering of the Fed's asset purchasing program.
U.S. Labor Report 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.	Last month, the headline figure was +236,000, private payrolls were +246,000, and the unemployment rate was 7.7%. I expect the rate will remain at 7.7% (possibly 7.8%) this month, and that job gains might come in slightly lower. Initial jobless claims have been very strong of late, with the 4-week moving average at its best level since March 2008. While this data suggests improvement in the labor market, it is not the substantial improvement the Fed is looking for. In order for the unemployment rate to decline further, we will need to see pure job growth, which will become challenging as many people who stopped looking for work may regain the confidence to try again. As the labor force participation rate stabilizes, I would expect the unemployment rate will begin to moderate.

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April indicators / events of note:	You should be watching:
President's Budget Submission to Congress / U.S. House & Senate Return to Session On Monday, April 8, President Obama submits his 2013 fiscal budget to Congress following its session break.	So far this year, U.S. fiscal troubles have not been disruptive to the markets. The market seems to be sending a message to D.C. that there is not much relevancy in this discourse. However, the budget conversation should continue to be monitored.
Fed Chair Bernanke Atlanta Fed Address Also on April 8, Fed Chair Bernanke gives a speech at the Atlanta Federal Reserve Bank's Financial Markets Conference.	I don't expect any change whatsoever in Bernanke's tone or messages. He will continue to substantiate the reasons for continuing the Fed's asset repurchase program. With the knowledge that his term will be up at the end of the year, I don't think he'll risk his legacy by an early withdrawal of any stimulus.
German Trade Balance Germany's monthly trade balance report is released by the Federal Statistical Office in Wiesbaden, and provides detailed import and export data for the country.	Germany's economic numbers remain important, and they have not been good as of late. We could make the argument that this is because of significant appreciation in the euro. Last month, German exports were up only 1.3%, which is not enough to turn things around. We need to see those figures return to the 2% and above level. They were soft not only last month, but for the four months prior. We haven't seen a +2% figure since May 2012.
China Trade Balance China's monthly trade report provides important import, export, and interest rate data on the Chinese economy.	The China trade report will give us a bit of a read into China's upcoming GDP report. China's imports were down 15% last month, but exports were up 21%, and the surplus was running $15.25 billion. Even though China trade numbers have improved slightly, we are not seeing the economic rebound out of China some had expected. However, I want to reiterate, as I've said in the past, that I don't think the absence of a rebound will be disruptive to the markets. If China's April 15 Q1 GDP report does not show substantial growth acceleration, I don't think that will cause the markets to correct. Investors should not expect much from the Chinese economy currently. The new administration needs more time to stimulate growth. The most important thing for China is that we not see a resurrection of inflation, and we haven't to this point.
FOMC Minutes The Federal Open Market Committee (FOMC) releases minutes from its March meeting.	I don't expect there will be much within the minutes to disturb the markets, considering that Esther George was the lone dissenter at the last (March 20) meeting. I think it's interesting that the FOMC's statement from that meeting included additional language in its notes about the housing sector ("the housing sector has strengthened further, but fiscal policy has become somewhat more restrictive") compared to the prior statement which noted "the housing sector has showed further improvement" and didn't address fiscal policy. You wonder if the fiscal policy language was added to assuage someone like George who was concerned that the monetary accommodation, as she has said, "will increase the risk of further economic and financial imbalances over time and could cause an increase in long-term inflation expectations."

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U.S. 30-Year Treasury Auction The 30-year Treasury bond auction is on April 11.	$13 billion in 30-year Treasury bonds were sold at the March 14 auction, the weakest demand in seven months. The yield on the 30-year Treasury has ranged from an opening print of 2.95% to 3.28% in early March. It appears we are on the path to challenge the high of 3.44% achieved last April, if not to potentially exceed that level.
U.S. Retail Sales Retail sales data are released monthly by the U.S. Department of Commerce, providing total sales receipts for 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.	For the last three years, the weakest quarter for retail sales has generally been the second quarter. The leading indicator of Q2 softness in 2012 was negative retail sales (April -0.5%, May -0.10%, and June -0.7%). Last month's retail sales rose a surprising 1.1% over the prior month. A large part of that was gasoline related, however, we can't ignore the positive correlation to the economy currently underway. As long as housing prices and asset prices appear to be stabilizing and rebounding, I expect consumer retail sales to stay somewhat strong.
JPM & WFC Earnings JP Morgan (JPM) and Wells Fargo (WFC) are expected to release earnings on April 12.*	Earnings season will have already begun by the time JPM and WFC report earnings. 2013 EPS for the S&P 500 is expected to be $108. Earnings estimates have come down for the first quarter, which is expected to be the weakest quarter of the year. Much of the belief that the markets can continue to move higher in the second half is predicated on the Street's expectations for double-digit EPS and high single-digit sales growth. Returning to this month's "focus on strength" theme, financials have been very strong this year. Both JP Morgan and Wells Fargo have traded strong, and their earnings appear to be normalizing at a far greater rate than the Street anticipated. Early weakness in financials would provide an indication if we are going to see Q2 softness or not.
China Q1 GDP China's gross domestic product (GDP) growth rate provides an aggregated measure of changes in the value of goods and services produced by China, the second largest economy in the world.	We're looking at China GDP growth of 7.8%-7.9% on a year-on-year basis, and approximately 2% quarter over quarter. Some unique measures are being enacted by China's new administration, and clearly an effort is underway to calm down property prices in the housing market. The new administration has many challenges to stimulate growth while also fighting inflation. The most important China metric for investors to focus on would be the continued appreciation in the Chinese yuan. Even though much of China's economic data may be disappointing, as long as the yuan keeps appreciating, that's good for the equity markets.

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IBM, GS, & JNJ Earnings IBM, Goldman Sachs (GS), and Johnson & Johnson (JNJ) are expected to release earnings on April 16.*	These companies' earnings reports will give us a sampling of performance across some of the stronger sectors of the U.S. economy. Johnson & Johnson represents both the healthcare and consumer staples sectors. Financial companies like Goldman Sachs are positioned to benefit from the favorable capital market conditions and tightening credit spreads. Within technology, IBM is viewed as the most defensive and diversified play, and its stock has outperformed the overall sector. For the year, IBM is up about 11%, whereas the technology sector, as represented by the XLK, is up only 4.5%.
U.S. Housing Starts & Building Permits The Commerce Department's monthly housing starts report is the most closely followed report on the housing sector because it discloses the number of new residential buildings under construction in the U.S. The report is based on the previous month's data.	Continuing to focus on the strength of the economy, we will want to look at housing indicators. Housing starts rose 0.8% last month to a 917,000 annualized pace. Permits climbed 4.6% to a 946,000 rate, the highest level since June 2008. The housing industry itself is clearly confident that the recovery can be maintained. You don't start a house unless you are confident you can sell it.
China Property Price Index Monthly data released by China's Bureau of National Statistics provides pricing information for both new and pre-owned housing in 70 major cities across the country.	China property prices continue to support the underweight allocation to the materials space. With China looking to cool the property market, this would mean a reduction in residential building projects and related building materials.
Beige Book FOMC commentary on current conditions in each of the Federal Reserve's 12 districts is released two weeks prior to the next FOMC meeting. This month's Beige Book is for the April 29-May 1 meeting.	This month's Beige Book sets the table for the April 30-May 1 meeting.
U.S. Housing Sales and Pricing Indicators > **U.S. Existing Home Sales** – This monthly report from the National Association of Realtors provides sales-closing data on previously constructed homes, condos, and co-ops. > **U.S. New Home Sales** – Issued monthly by the U.S. Census Bureau, U.S. Commerce and Housing Departments, this report reveals the number of newly constructed homes with a committed sale. > **U.S. S&P Case-Shiller Home Price Index** – This index, released on a two-month lag, tracks changes in the value of residential real estate in 20 metropolitan regions across the U.S.	We're heading toward spring selling season. 4.98 million houses were sold last month, the highest level since November 2009. The recovery in existing home sales indicates that housing prices have not only troughed, but that we've closed the gap between buyers and sellers that existed a couple of years ago. In fact, I think the little bump-up we're seeing in the 30-year Treasury is motivating demand, and buyers who were waiting to see if prices would move any lower are beginning to take action. Clearly we are seeing an improvement in Case-Shiller home prices. I think that's been contributing to some of the surprise we are seeing in consumer spending and their ability to weather the storm.

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German Ifo Business Climate 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.	Last month's reading of 106.7 was a step backwards. It was the first decline for this index in five months since recording a 101.1 in October 2012. Subsequent readings: > November 101.5 > December 102.5 > January 104.3 > February 107.4 (the highest level since April 2012) > March 106.7
U.S. Q1 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. Preliminary Q1 GDP will be released this month.	We are seeing some favorable weather-related payback, and inventories are coming in better than expected. Estimates for Q1 GDP should potentially be running slightly higher than the Street's original estimates. Where it was looking like 2%-2.5%, we are now looking at 2.5%-3%.
China Manufacturing 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 value released the next day, gives a clear picture of global manufacturing health. An index value above 50 indicates growth, below 50 contraction.	Since April 2012, China PMI has been trading in a "ho hum" range, 49.2 to 50.6. Last month it came in at 50.1, and we really shouldn't expect anything different this month.
FOMC Meeting Begins The next FOMC meeting will be held on April 30-May 1.	The FOMC will have only one U.S. labor report to digest at this meeting, compared to two labor reports at the next (June 19) meeting. The tendency for the FOMC to make substantial changes, whether in language or action, has generally been when they have two labor reports to consider. One is generally not good enough. and the distance between the March 20 and May 1 meeting will only allow for one labor report.

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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 has been an ensemble member of the CNBC *Fast Money* franchise since 2008. He also frequently contributes exclusively to CNBC's other business programs. He is the author of *"Buy High, Sell Higher"* (Business Plus, 2012), a book about the "new rules" of investing based on his years as a professional trader.

In 2007, Mr. Terranova and Hockey Hall of Fame player Mike Bossy 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.

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