February 2015

At the start of January, I suggested that investors might want to delay making asset allocation decisions. U.S. equities looked like the place to be, but more recently this thesis has been challenged, as the S&P 500® Index significantly lags the German DAX and MSCI Emerging Markets Index. I expect the market's focus will switch to the impact of the ECB's 1.1 trillion euro QE program, which has strengthened the trends of elevated volatility, oil vulnerability, low bond yields, and a strong dollar/weak euro. I've identified six market indicators that could further influence these trends in February, which will be important for determining global risk asset allocations.

February is historically a slow growth month for U.S. equities, with the S&P 500 producing an average annual return of 0.13% since 1950. But for the last five years, February returns have been positive, including a 4.31% gain last year. Make of that what you will. I choose to view it as an example of the unpredictability of the markets and a case for maintaining a diversified portfolio.

1

MONDAY, FEBRUARY 2

Market Reaction to China PMI Manufacturing

Very quietly both the Chinese economy and equity market are showing signs of a rebound. Q4 GDP came in at 7.3% in mid-January, ahead of the 7.2% estimate. Year to date, China's equity index is a global leader, up 5%. With India's stock market also outperforming at +10%, emerging markets are attracting investor attention once again. Therefore, China's monthly manufacturing data resumes importance. U.S. markets will react to the weekend release of January's China data on Monday, February 2. Expectations are for a modest uptick from last month's 18-month low of 50.1.

2

MONDAY, FEBRUARY 2

U.S. ISM Manufacturing

The ISM Manufacturing index recorded a three-and-a-half year high of 59.0 last November. Not surprisingly, that positive U.S. manufacturing news was a catalyst for investors to take on more risk, and the S&P 500 rallied 2.45% in November. Since then, manufacturing readings have weakened. January came in at a six-month low of 55.5, which contributed to the muted tone for equities early in the month. Expectations for the upcoming report are for an unchanged 55.5 print.

3

FRIDAY, FEBRUARY 6

U.S. Nonfarm Payroll Report

Last month's U.S. nonfarm payrolls figure reported for December (+252,000) was slightly lower than the previous month (+321,000), which was the strongest reading since January 2012. Private payrolls for December were reported at +240,000. The unemployment fell to 5.6%, as did the labor force participation rate to 62.7%. Expectations are for the January data to come in unchanged to slightly lower.

4

MONDAY, FEBRUARY 9

62 S&P 500 Companies Report Earnings this Week

Lower energy prices and lower private sector borrowing costs for the consumer are two key themes of investment banking market forecasts for 2015. This week investors will learn just how much of an impact lower costs are having on consumer spending. Consumer staples and consumer discretionary companies will report earnings this week. Among the highlights: Coca-Cola, PepsiCo, Kellogg, Kraft, CVS, Whole Foods, and Starwood Hotels. Just how much did the reduced borrowing and energy costs benefit other areas of consumer spending in the fourth quarter?

continued

5 **THURSDAY, FEBRUARY 12**
U.S. Retail Sales

Last month's retail sales report strongly disappointed, with the core figure (ex-auto) declining 0.4% when consensus estimates called for a gain of +0.4%. Consumer discretionary stocks have also disappointed, with the sector ranked seventh out of the nine major S&P 500 sectors. Expect the upcoming report to include revisions to the prior month. This report should also reveal if the "strong U.S. consumer" theme anticipated for 2015 might be challenged. One month of disappointing news can be dismissed, but back-to-back months, especially with the favorable tailwinds of energy and borrowing costs, cannot be dismissed.

6 **WEDNESDAY, FEBRUARY 18**
FOMC Minutes

Minutes from the late January FOMC meeting will be important in providing a sense of how the Fed expects to navigate lower energy prices and the strong U.S. dollar. Those conditions were dismissed as "transitory" at the mid-December FOMC meeting. However, the reality is, they clearly are not. Growth in wages has been disappointing and core inflation is nowhere near the Fed's 2% target. The January meeting minutes may serve to underscore a much more dovish January FOMC statement that pushes consensus forecast for the first Fed rate hike into the fourth quarter of 2015 or even into 2016.

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

Joe Terranova is chief market strategist for Virtus Investment Partners, a position he was elevated to in 2009, after having started with the company as 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, Mr. 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.

Mr. Terranova is strongly committed to charitable causes benefiting children. He founded and funds the 501(c) South Nassau Rock organization, which provides specialized athletic experiences for children, and works with Nassau County to sponsor the improvement of baseball and outdoor ice rink facilities. In 2007, he established "Bossy's Bunch," a program that rewards academic excellence among elementary school students, with New York Islanders Hall of Fame hockey player Mike Bossy. In 2013, he expanded his charity work with the Islanders, creating and sponsoring the "Courier of Courage" program, which acknowledges children who have overcome hardships, disabilities, or illness.

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