

# Is 2010 the Template for 2014?

Key economic indicators and capital market events for April 2014 by Joe Terranova, Chief Market Strategist



Predicated on the fact that investors behave in much the same way over time, technical analysts look for correlations between past and current price action to gauge what “might” happen in the market. For example, in 2012-2013, the S&P 500® Index (SPX) presented remarkably similar to 1975-1976. Year to date, there are strong similarities between 2014 and 2010. Both years were preceded by a year of strong performance, experienced a modest correction in January that found a bottom in early February, and then witnessed an aggressive advance. If, in fact, 2010 is to be the template for 2014, investors’ imminent concern would be the advent of a correction in April as we had on April 26, 2010. Ironically, markets tend to peak on excessive good news, and April presents a litany of potential good news.

## April 2014

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	Mar. 31 Turkey Begins EM Election Cycle	1 10:00 AM: U.S. ISM Mfg. Reaction to China PMI Japanese Consumption Tax Increases	2	3 ECB Monetary Policy Meeting	4	5 8:30 AM: U.S. Labor Report
6	7	8 Earnings Season Gets Underway*	9 2:00 PM: FOMC Meeting Minutes	10 BOJ Meeting Minutes	11 JP Morgan & Wells Fargo Earnings*	12
13	14 8:30 AM: U.S. Retail Sales	15 Fed Chair Yellen Speaks Intel Earnings*	16 8:30 AM: U.S. Housing Starts 2:00 PM: Fed Beige Book BOJ Governor Kuroda Speaks Fed Chair Yellen Speaks IBM Earnings*	17 Goldman Sachs Earnings*	18	19
20	21	22 Former Fed Chair Bernanke Speaks McDonald's, Apple, & Caterpillar Earnings* 10:00 AM: Existing Home Sales	23 10:00 AM: U.S. New Home Sales	24 Starbucks Earnings*	25	26
27	28	29 9:00 AM: U.S. S&P Case-Shiller HPI BOJ Meeting	30 China PMI (April) 2:00 PM: FOMC Meeting Announcement BOJ Meeting			

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

## April indicators / events of note:

### Turkey Begins the Emerging Markets (EM) Election Cycle

As we make the turn into April, a number of emerging market countries will have major elections in 2014.

## You should be watching:

It's time to start following elections in emerging markets countries. On the last day of March, local elections in Turkey will set the foundation for its presidential election in August. Besides Turkey's elections, other important EM elections to monitor this year include parliamentary elections in Indonesia (April), India (April to May), and South Africa (May), in addition to presidential elections in Columbia (late May) and Brazil (early October).

### ISM Manufacturing Index

The ISM Manufacturing Index, issued by the Institute of Supply Management, gives a 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.

Last month's ISM manufacturing reading of 53.2 marked a recovery over the prior month's 51.3 contraction, and was suggestive that the economic "potholes" I wrote about in March were shallow and can be quickly repaired. I will be looking for more good U.S. economic news in April as we snap back from the weather-inflicted contraction we saw in January and February. In fact, I expect the ISM reading could rise back above 54.0.

### Market Reaction to China PMI

On Tuesday, April 1, the market will react to the March China PMI data released late the night before. China PMI (purchasing managers' index) provides a monthly gauge of China's manufacturing sector, which, when combined with the monthly U.S. ISM Manufacturing Index value, gives a clear picture of global manufacturing health. A PMI value above 50 indicates growth, below 50 contraction.

Chinese Premier Li Keqiang has now entered the conversation about China, publicly seeking to reassure markets that the government won't ignore the risk of a slowdown in the economy, and has policies in reserve to deal with any economic volatility this year. As a result, the market will begin to treat negative news out of China, such as a weakening PMI figure, as good news on the expectation that the market might get some stimulus. Last month, China PMI was 50.2, and this month we are looking for a slip back to 50.0.

### Japanese Consumption Tax Increases / Bank of Japan (BOJ) Activities

On April 1, Japan increases its sales tax for the first time in 17 years, as part of the government's efforts to raise funds to help reduce the country's debt burden. Also worth watching out of Japan in April are the activities of the BOJ, including the April 10 release of minutes from the March monetary policy meeting, Governor Kuroda's April 16 speech at the 89th convention of the Trust Companies Association of Japan, and its April 29-30 monthly meeting.

On April 1, Japan's consumption tax will rise from 5% to 8% – the first rate hike since 1997 when it rose from 3% to 5% – and it is scheduled to increase to 10% in October 2015. In light of the fragile state of Japan's economic recovery, it is up to Prime Minister Shinzo Abe and the Bank of Japan to counter the negative impact of the higher consumption tax. Toward that end, we should be reading the minutes from the March BOJ meeting released on the 10th, as well as listen to Governor Kuroda's speech on the 16th, to see if either telegraphs any potential stimulus actions planned for the April 29-30 BOJ meeting to offset the tax hike. The concern remains on the yen as the speculative community is highly levered to that trade, betting on lower yen prices. Year to date, however, markets have not been rewarded for that position.

### ECB Monetary Policy Meeting

The European Central Bank (ECB) release its monetary policy announcement following its monthly meeting.

The relevance of the ECB's monetary policy meeting is elevated in April. The euro has appreciated towards 1.40 from levels below 1.30 a year ago, which stimulated exports and provided the foundation of the economic recovery. With Europe in the midst of recovery and inflation at very low levels, many believe ECB President Draghi will use this meeting to expand upon the central bank's incredibly easy monetary policy and attempt to weaken the euro again. In addition, the ECB will be anticipating what the Bank of Japan may have planned for the yen currency at the end of the month.

## April indicators / events of note:

### 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.

### Earnings Season Gets Underway\*

Companies of note that will be reporting earnings in April include: Alcoa (AA), JP Morgan (JPM), Wells Fargo (WFC), Goldman Sachs (GS), Intel (INTC), IBM, McDonald's (MCD), Apple (AAPL), Caterpillar (CAT) and Starbucks (SBUX).

### FOMC Minutes / Yellen Speaking Engagements

Leading up to the April 29-30 FOMC meeting, minutes from the March 18-19 monetary policy meeting will be released on April 9, and Janet Yellen will give speeches at the Fed's 2014 Financial Markets Conference on the 15th and the Economic Club of New York on the 16th.

### 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.

## You should be watching:

The biggest U.S. economic event in April is the release of the March labor report. Month over month, look for the unemployment rate to fall from 6.7% to about 6.6%, private payrolls to rise from 162,000 to 220,000, and the headline jobs number to go from 175,000 to possibly 225,000. The Street is modeling a very strong labor report, and I think we're going to get it.

- > On April 8, Alcoa reports to kick off the earnings season. Alcoa's profit margins currently stand at 9.56% having risen over the last five quarters from 8.2%. I expect plenty of conversation from the CEO blaming weather for any disappointment.
- > On April 11, JP Morgan and Wells Fargo report, which represents the true start of the season for me.
- > During the week of April 15, financials will intensify, including Goldman Sachs on the 17th, which will give us good insight on capital markets' trading activity in the prior quarter.
- > Also that week, we'll hear from technology bellwethers Intel on the 15th and IBM on the 16th. IBM has had a series of disappointing quarters. This calendar reporting season, I am placing renewed emphasis on technology to see if there is an increase in demand from the enterprise or consumer sides of the space.
- > On 4/22, companies to watch include McDonald's and Apple for a read on the global consumer, and Caterpillar for a window into global manufacturing. Finally, on the 24th, Starbucks will give us excellent read on the strength of the domestic consumer.

Will the minutes from the March meeting support Yellen's comments made after that meeting that the Fed could start to raise rates about six months after the end of its bond purchase program? Is that timing in the minutes, or did she just say it at the press conference? We'll also want to hear what Dr. Yellen has to say at both speaking engagements for any indication of a reversal on her interest rate comments made following the March meeting.

We should be looking to see if we get a slight snap back in retail sales as the impact of winter weather starts to lessen.

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

## April indicators / events of note:

### Fed Beige Book / FOMC Meeting Announcement

The Beige Book provides FOMC commentary on the current economic conditions in each of the Federal Reserve's 12 districts and is released two weeks prior to the next FOMC meeting.

### U.S. Housing Indicators

- > **Housing Starts** – The most closely followed report on the housing sector discloses the number of new residential buildings under construction in the U.S. in the prior month.
- > **New Home Sales** – Issued monthly by the U.S. Census Bureau, U.S. Commerce, and U.S. Housing Departments, this report reveals the number of newly constructed homes with a committed sale.
- > **Existing Home Sales** – Provides sales-closing data on previously constructed homes, condos, and co-ops. Existing homes account for a larger share of the market than new homes and indicate housing market trends.
- > **S&P Case-Shiller Home Price Index (HPI)** – 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.

## You should be watching:

This month's Beige Book will serve as the template for the April 29-30 FOMC meeting. Investors should pay attention to this document which lays out the economic conditions of the 12 regional Federal Reserve bank districts that the FOMC will consider at the meeting. At this time, we expect the April FOMC meeting will conclude with the announcement of another \$10 billion taper in monthly bond purchases (\$5 billion from mortgage-backed securities, and \$5 billion in Treasuries).

Last month, housing starts were down 0.2% to 907,000; new home sales were down 3.3% to 440,000; and existing home sales came in at 4.6 million, down 0.4%, all on a month-on-month basis, and home prices rose 13.24% on a year-on-year basis. All of this data suggests that the long-awaited moderation in the housing recovery is transitory, and as we head for the spring selling season, I expect a potential surprise to the upside. Housing has moderated over the last couple of months, but I expect the sector to snap back rather quickly.

Ironically enough, the impact might be less positive for the S&P 500. The myriad of good news the market might get in April, including housing, could potentially exhaust the rally and serve to initiate the long-awaited correction. Looking back to 2010, markets peaked in the month in which one of the strongest labor reports was released, and we suffered a summer correction. And, in 2011, how ironic was it that the market peaked for several months on the very day the world learned Osama bin Laden had been killed? Markets have a tendency to hit a temporary peak when there is overwhelmingly good news, and we could be setting up for that to happen in the not-too-distant future.



**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.

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