

June, Halfway to Where?

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



Despite the prevailing notion that a long overdue correction is about to unfold, global equity markets have enjoyed very strong performances during May. In fact, the emerging markets have enjoyed one of their best performances since last fall. However, an unsolved riddle remains for 2014. Investors and money managers are still trying to determine which asset classes will exhibit the strongest tailwinds. Unlike the formula of the past few years, no single asset class has revealed itself to be “best in breed” yet. The argument can be made that portfolios designed with a focus on “asset balance” will be optimal in 2014. So far, the many moments of frustration year to date have been driven by investors and money managers attempting to identify a clear winner. June is typically a month when investors prepare and formulate strategy for the rest of the year. This year, I suggest investors focus intently on applying behavioral finance practices and strive to remove emotion from their second half strategy.

June 2014

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2 10:00 AM: U.S. ISM Mfg. Index Market Reaction to China May PMI Apple WWDC Begins	3 U.S. Primary Elections	4	5 ECB Policy Meeting	6 10:00 AM: U.S. Non-Farm Payroll Report	7
8	9	10 U.S. Primary Elections	11	12 8:30 AM: U.S. Retail Sales BOJ Meeting	13	14
15	16 Call Your Advisor	17	18 2:00 PM: FOMC Statement 2:30 PM: FOMC Press Conference	19 10:00 AM: U.S. Philly Fed Index	20	21
22	23 10:00 AM: U.S. Existing Home Sales	24 10:00 AM: U.S. New Home Sales	25	26	27	28
29	30 China June PMI					

Times shown are Eastern Time.

June indicators / events of note:

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.

China PMI

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.

Apple's WWDC Begins

Apple holds its annual Worldwide Developers Conference (WWDC) June 2 through June 6 in San Francisco. According to Apple's press release, this year's conference will feature more than 100 technical sessions, over 1,000 Apple engineers, hands-on labs to help developers integrate new technologies and fine tune their apps, as well as the Apple Design Awards which showcase the best apps from the past year.

U.S. Primary Elections

Primary elections for the November 2014 midterm elections will begin to take place across the country throughout June.

European Central Bank (ECB) Policy Meeting

The ECB releases its monetary policy announcement following its June meeting.

U.S. Non-Farm Payroll 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.

You should be watching:

The ISM Manufacturing Index is a clear indicator that growth in the United States is positioned to reaccelerate. Last month's 54.9 was the highest reading for 2014, and the best since December 2013's 56.5. For May, consensus estimates are for a 55.5, which would extend the positive trend since January's weather-depressed reading of 51.3.

- > **May:** Markets will respond to the late Saturday, May 31 release of China's May PMI. Premier Li Keqiang has adopted a much more dovish stance to assist the Chinese economy regain some of its positive momentum. Recent evidence suggests that the loosening is working. Expectations are for a 50.7 May reading, which would be the strongest reading since 51.0 for December 2013.
- > **June:** The evening release of China PMI on Monday, June 30 will be the first global economic data that investors will react to as the second half of 2014's trading begins on Tuesday, July 1.

During the second quarter, shares of Apple have regained the strength of years past. In early June, investors will gauge if that positive momentum will continue as Apple's Worldwide Developers Conference begins and a seven-for-one stock split transacts. With the stock split occurring on June 2, AAPL's inclusion in the Dow Jones Industrial Average becomes more likely.

On Tuesday, June 3, U.S. midterm elections begin to take shape as state primaries are held in Alabama, California, Iowa, Mississippi, Montana, New Jersey, New Mexico, and South Dakota.

On Tuesday, June 10, further primary elections will be held in Maine, Nevada, North Dakota, Virginia, and South Carolina.

Markets await ECB President Draghi to orchestrate a modest interest rate cut. Expectations are that he will take action at the June meeting. In response to continued low inflation in Europe's periphery nations, Mr. Draghi is expected to provide stimulus through lowering rates and liquidity injections. Direct asset purchases are not likely to be included at this meeting.

Consensus estimates are for a headline new jobs figure ranging from 200,000 to 210,000, well below April's 288,000. Private payroll estimates are for 205,000 to 215,000 positions added, again below last month's 273,000. The unemployment rate is expected to rise from 6.3% to 6.4%.

June indicators / events of note:

U.S. Retail Sales

Retail sales data are released monthly by the 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.

Bank of Japan (BOJ) Meeting

The BOJ holds its monthly monetary policy meeting on June 12.

Call Your Advisor

On June 16, with two weeks to go before the midway point of 2014, it's time for investors to be setting their investment strategy for the second half of the year.

FOMC Statement and Press Conference

Following its June monetary policy meeting, the Federal Open Market Committee (FOMC) releases its statement, and the Fed Chair gives a quarterly press briefing.

Philly Fed Index

The Philadelphia "Philly" Fed Index is a monthly survey that provides intelligence on manufacturing conditions within the Philadelphia Federal Reserve district, which is useful as an indicator of broad manufacturing sector trends.

Existing Home Sales

This report 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.

You should be watching:

April's retail sales were disappointing and unable to extend the strong 1.5% gain reported for March. A modest 0.1% increase in April versus consensus estimates of 0.4% caused many observers to reduce their tracking estimates for Q2 GDP from the 3.0% to 3.5% range. However, I would urge investors to use the combined March and April retail sales data as evidence in support of the state of the U.S. consumer. Using April data alone would be a mistake. Q2 GDP is positioned to recover strongly, and May's retail sales report will contribute largely to whether a recovery is realized or not.

BOJ Governor Kuroda recently transferred responsibility for the next leg of Japan's growth strategy to Prime Minister Abe. Expect further dialogue at the June central bank meeting encouraging Abe to unveil particular fiscal policy initiatives. Speculators who positioned for further yen weakness in 2014, predicated by a new round of Japanese monetary and fiscal policy easing measures, have been frustrated. The absence of any new measures suggests that frustration evolves into an unfavorable deleveraging process.

For investors expecting to tackle the markets by themselves for the rest of 2014, I implore you to think again. With the start of the second half of the year just two weeks away, I encourage all investors to reach out to their advisors beginning this week and discuss their investment strategy for the third and fourth quarters of 2014. Applying behavioral finance principals will be a top priority for me for the balance of 2014.

Investors will get an opportunity to listen to Fed Chair Yellen at the first FOMC press conference since March 19. After this meeting, the pace of monthly asset purchases is expected to decline to \$35 billion per month, down from \$85 billion. Ms. Yellen might provide some insight on the projected end of the program and expectations for the first interest rate hike.

Philly Fed readings for the past two months were the strongest posted since September 2013. An April reading of 15.4 followed a 16.6 reading for March. Keep in mind, in the five months prior to March, the index failed to post a double-digit reading. Much of the confidence in U.S. GDP reaccelerating is centered on a manufacturing rebound, which the Philly Fed has confirmed to this point.

April's existing home sales was the strongest monthly reading since June 2013. Total existing home sales rose 1.31% to 4.65 million units, up from 4.59 million units in March. The supply of existing homes in April also moved higher to 5.9 months from 5.2 months previously.

June indicators / events of note:

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.

You should be watching:

In April, new home sales bounced back, up 6.4% from March's disappointing decline of 6.9%. (The March figure was positively revised from an initial -14.5%.) April's annualized units were reported at 433,000. The bounce confirms transitory weather effects were at fault, not an economically induced weakening of the housing environment. Strength in new home sales has been located in the Midwest, West, and South.



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 "embrace 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

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