Sell "What?" In May, and Go Away

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

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Is "sell in May and go away" the correct investment strategy for 2013? In 2011, that strategy worked perfectly as the May 2nd "bin Laden" high was the high of that year. In other years, "sell in May" has been more of a summer vacation strategy, with markets pausing in the spring and resuming their appreciation in the second half. For investors wondering about using this strategy, what would you sell? In my Q2 playbook "The Short Squeeze of Pessimism," I suggest that a correction could unfold if there is a reversal in the current SPX bullish technical formation, yen weakness, accommodative FOMC monetary policy, and robust corporate earnings. To date, these conditions remain in place, and we'll be watching in May for signs of any changes to the contrary. In the meantime, sometimes the best course of action is no action, and there is no evidence to suggest selling out of equities – or Treasuries – right now. Until something changes, May is shaping up to be a "wait and see" month for investors.

May 2013

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1 10:00 AM: **U.S. ISM Manufacturing** 2:00 PM: **FOMC Announcement** 9:45 PM: **China PMI**	2 **ECB Meeting**	3 8:30 AM: **U.S. Labor Report**	4
5	6	7 **China Trade Balance**	8 **China CPI**	9	10 **German Exports & Imports** **G8 Finance Ministers Meeting (U.K.)**	11
12	13 **China Industrial Production & Retail Sales** 8:30 AM: **U.S. Retail Sales**	14	15 **JCP & M Kick Off Consumer Discretionary Earnings***	16 8:30 AM: **U.S. Housing Starts**	17 **China Property Price Index**	18 **U.S. Congressional Deadline to Raise Debt Limit**
19 **U.S. Borrowing Limit Resumes**	20	21	22 10:00 AM: **Existing Home Sales** 2:00 PM: **FOMC Minutes**	23 **BOJ Governor Speech, Nikkei Conference** 10:00 AM: **U.S. New Home Sales**	24	25
26	27 **Memorial Day Markets Closed**	28 9:00 AM: **S&P Case-Shiller HPI**	29	30	31 **China PMI**	

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

May 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.	The U.S. ISM manufacturing data have been confusing. Since the 49.9 recorded in November 2012, we had seen decent ISM acceleration over the next few months, and it appeared that the market was lifting in the wake of Hurricane Sandy and the fiscal cliff. However, last month's ISM came in at a discouraging 51.3 print, down from the previous month's 54.2, creating a few days of discourse in the S&P 500® Index. For the May report, the market would only pay attention to a significant contraction below 50, which would be an area of concern.
FOMC Announcement The next FOMC meeting will be held on April 29 – May 1.	Not much is likely to come out of this meeting. I expect the Fed will cite some of the weakness we've seen in durable goods and U.S. ISM manufacturing, and even a little moderation in the housing recovery. However, I expect no change in monetary policy and that the FOMC will continue to stand pat.
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.	Last month's China PMI figure (for March) rebounded slightly to 50.9. That's the highest it's been in the last 11 months, which has also seen a low of 49.2. In contrast, the China HSBC Flash PMI, which I assign less importance, came in at 50.5 last month, down from the prior month's 51.6 and below expectations for 51.5. There is potential concern that the government-produced PMI will show that China manufacturing continues to be going nowhere.
European Central Bank (ECB) Meeting The ECB holds its monthly monetary policy meeting on May 2.	We continue to see significant weakness in European economic conditions. The German economy is now infected, with the Ifo Business Climate Index falling sharply at the end of April. This ECB meeting will be important, as the market looks for the central bank to cut interest rates to the lowest level ever. The market expects ECB President Mario Draghi will have to match what the Bank of Japan and the Federal Reserve have done and reduce the lending rate from 0.75% to 0.50%.
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 unemployment rate fell to 7.6%, however, I continue to ignore that data since the reason for the decline is the falling labor force participation rate, as people continue to drop out of the job market. Last month, private payrolls came in at +95,000 and the headline number was +88,000, which were both disappointing. The Street expects a sharp, strong snapback for this month's report, potentially to double last month's figures with a headline above +160,000 and private payrolls closer to +185,000-190,000.

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China Trade Balance China's monthly trade report provides important import, export, and interest rate data on the Chinese economy.	Year to date, emerging market equities are underperforming developed market equities. My expectation is that emerging markets will be a favorable story for the second half, shaped largely by China's ability to resurrect growth at a much faster pace than the Street anticipates. The Chinese are currently stuck between a rock and a hard place, having to be careful because they are fighting rising property prices and concerns about loan growth, while evidence suggests a slowdown in a number of China's domestic figures. Last month, exports were up 10%, and imports were up 14%. In May, the Street is looking for a return to 15%-20% growth like we previously saw. May's economic numbers from China have slightly greater relevancy than they have had over the last couple of months and will be important to shaping the second half story.
China CPI China's consumer price index (CPI) is a monthly measure of inflation.	Last month, China CPI came in at 2.1%, a reversal from the previous month's 3.2%, the highest figure in nine months. As long as CPI remains below 2.5%, it provides an opportunity for China's central bank and policy makers to orchestrate stimulus measures, which I would argue they need to do.
German Exports & Imports Germany's Federal Statistical Office in Wiesbaden provides detailed import and export data for the country.	Last month, German imports were down 3.8%, and exports were down 1.5% month on month. Germany's economic condition is deteriorating, which is reflected in the horrible performance of the DAX year to date. The condition of the German economy will shape much of the eurozone's future policy, and I believe it will also have a large impact on the September 22 presidential election. For these reasons, German trade figures do matter.
G8 Finance Ministers Meeting (U.K.) Finance ministers from the Group of Eight countries (Canada, France, Germany, Italy, Japan, Russia, U.K., and U.S.) gather in London for a two-day meeting.	I would expect a lot of rhetoric at this meeting regarding the accommodative monetary policy currently well entrenched in the U.S., in the process of being adopted in Japan, and soon to be implemented in the eurozone. One could also argue that the Bank of England is in need of more accommodative types of policies. I don't expect any meaningful action will come out of this meeting and no change to monetary policy. It could cause some minor discourse in the market in the days surrounding the event, but I don't think investors should view the message being signaled as an actual change in policy.
China Industrial Production & Retail Sales On May 13, China releases industrial production data, which measures changes in the output of China's industrial sector, including manufacturing, mining, and utilities, and it releases retail sales data.	Last month, China industrial production was up 8.9%, and retail sales were up 12.6%. These look like good numbers on the surface, but they are below the figures we've been reporting. In fact, the industrial production number is one of the weakest readings since May 2009.

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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.	U.S. retail sales were down 0.4% last month, the weakest reading since Q2 2012. Retail sales are a good leading indicator of economic strength. Over the last three years, we have had spasms of contraction in the economic numbers, and retail sales have been a large component. Many were concerned, and rightfully so, with last month's retail sales report. Perhaps that was a little bit of payback for the previous month's strong 1% increase. However, this month it will be important to determine if a negative trend is beginning to evolve.
JCP & M Kick Off Consumer Discretionary Earnings J.C. Penney (JCP) and Macy's (M) are expected to release earnings on May 15.*	On May 15, J.C. Penney and Macy's kick of consumer discretionary earnings, followed by Wal-Mart and Nordstrom that week, and Limited Brands the following week. This sector will be a focal point of the market. If consumer discretionary companies are able to post continued strong earnings, their guidance will be important. What are their outlooks heading into back-to-school season? Consumer discretionary, more than any other sector, will give us a leading indication on whether we might expect to see a Q2 economic contraction.
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. > **Existing Home Sales** – This monthly report from the National Association of Realtors provides sales-closing data on previously constructed homes, condos, and co-ops. > **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. > **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.	March housing starts were 1,036,000, topping 1 million units at an annual rate for the first time since June 2008. By comparison, there were only 706,000 starts in May 2012. I believe the housing recovery has much further to go, in terms of both prices and units. For March, existing home sales were 4.92 million, down from the previous 4.95 million. Given the time of year and the fact that Treasury yields have fallen back significantly from where they were in early March, I would expect to see a pickup or reacceleration in existing home sales once again – possibly to the highest levels we have seen since spring 2007. If existing home sales don't come in higher this month, investors need to be paying attention because interest rates won't be to blame like they were last month. New home sales were 417,000 in March, down from 445,000 in January. That was the highest reported figure since July 2008, and was largely tied to lower interest rates. How were housing starts able to overcome the interest rate obstacle? The difference is that housing starts reflect home builders' confidence in the industry, and doesn't relate to favorable borrowing costs for buyers. Going into the spring selling season, home builders' expectations is most important. For the S&P Case-Shiller HPI, home prices were the last component in the housing market to come around. Home prices have been accelerating over the last three months, which is an important component of the "wealth effect." Consumers and investors may not be wealthier, but may feel wealthier as long as equity prices and home prices continue to rise, encouraging more spending than frugality.

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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.	One of the biggest concerns Chinese policy makers have is their desire to cool off property prices. This is one of the reasons why copper has underperformed year to date, and one of the biggest obstacles preventing the People's Bank of China from enacting further stimulative measures. I would encourage investors to watch property pricing data and the impact it has on the materials sector, steel, and copper.
U.S. Congressional Deadline to Raise Debt Limits / U.S. Borrowing Limit Resumes On February 5, the president signed into law the suspension of the $16.4 trillion federal debt limit. That legislation ends on May 18.	Under the law, the debt ceiling will be set on May 19 to a level "necessary to fund commitment incurred by the federal government that required payment." This time around, we're probably looking at $16.5 to $17 trillion as the revised debt limit. I don't expect a similar Capitol Hill debate as we saw in August 2011. The U.S. Treasury will be able to borrow through "extraordinary measures" and keep the government funded through the middle of the summer, which is when the real conversation about raising the debt limit will have to happen. In the meantime, Congress will be able to assuage the market for the near term.
FOMC Minutes The Federal Open Market Committee (FOMC) releases minutes from its April 30-May 1 meeting.	I don't expect the latest FOMC meeting minutes will reveal anything disruptive to the markets. Once again, this will likely be more of a status quo type of announcement.
Bank of Japan Governor Speech, Nikkei Conference On May 23-24, Tokyo hosts the 19th annual international conference on "The Future of Asia," a forum that brings together political leaders and top business executives to discuss the future of Asia-Pacific nations and their impact on the global economy.	BOJ Governor Haruhiko Kuroda remains one of the most powerful catalysts of the market. I expect nothing less from his speech at the Nikkei conference than a commitment to continued vigilance in aggressively fighting inflation with whatever tools he has at his disposal. In fact, I would expect his speech to strengthen the near-term bearish trend for the yen.

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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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