

# Into the Home Stretch

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



It's hard to believe, but capital markets have entered the home stretch of the year. At the start of 2014, many consensus forecasts viewed the fourth quarter as having the strongest return potential for the S&P 500® Index (SPX). Now that the quarter is here, however, some perspective may be useful, as several other consensus estimates have proven incorrect to date, namely strong first quarter GDP, the U.S. 10-year Treasury trading at 3.25%, and a negative SPX for the first half. Therefore, I have some degree of skepticism that the fourth quarter will measure up to lofty expectations. Of particular concern is how corporate earnings will be impacted by the uncomfortable 6% rise in the U.S. dollar – the most substantive advance since the third quarter of 2011. While a rising dollar does not automatically translate into SPX weakness, the pattern of consecutive positive quarters for the index might be challenged. For this reason, earnings figure prominently in the October calendar.

## October 2014

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1 10:00 AM: U.S. ISM Manufacturing	2 ECB Meeting	3 8:30 AM: U.S. Nonfarm Payroll Report	4
5 Brazil Presidential Elections	6	7 SPX Earnings Season Begins*	8 2:00 PM: FOMC Minutes	9	10	11
12	13 Columbus Day Holiday U.S. Fixed Income Markets Closed	14 SPX Earnings – Week Ahead* JP Morgan Earnings*	15 2:00 PM: Fed Beige Book Bank of America Earnings*	16 Goldman Sachs Earnings*	17 Morgan Stanley Earnings*	18
19	20 SPX Earnings – Week Ahead*	21	22	23 Caterpillar Earnings*	24	25
26 Brazil Presidential Elections – Second Round Run-off	27 SPX Earnings – Week Ahead*	28 Apple Earnings*	29 2:00 PM: FOMC Meeting Announcement	30	31	

Times shown are Eastern Time.

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

## October indicators / events of note:

### U.S. ISM Manufacturing

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.

### European Central Bank Meeting

The European Central Bank (ECB) announces its monetary policy decision following the Governing Council meeting.

### U.S. Nonfarm Payroll Report

Private, nonfarm 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.

### Brazil Presidential Elections

The first round of Brazil's presidential election is held on Sunday, October 5, with three candidates on the ballot.

### SPX Earnings Week to Week\*

Earnings reporting season for the third calendar quarter begins on Tuesday, October 7, with Yum Brands reporting after the close.

## You should be watching:

Manufacturing remains the core strength of the U.S. economy, and ISM manufacturing remains a must-watch, tone-setting report for investors. Last month's reading of 59 was the highest since March 2011, and the index has steadily climbed over the last eight months from 51.3 in January. There has been only one decline this year, June's 55.3 from May's 55.4. Expectations for the upcoming report are for a modest decline in the range of 57.5 to 58.0.

ECB President Mario Draghi had many surprises for global markets at last month's ECB meeting: an unexpected cut to all three main interest rates and 700 billion euros of aid. Since that meeting, the value of the eurocurrency has fallen from 1.3150 to nearly 1.2800 – exactly what Mr. Draghi wants to accomplish to stimulate exports. Odds are long that he can orchestrate another surprise at the October meeting. More likely to occur will be the implementation in December of a direct asset purchase plan in the neighborhood of one trillion euros.

The August U.S. labor report was dismissed as seasonally weak, with only 142,000 jobs added to the headline figure and 134,000 to private payrolls. September's report is expected to show significant improvement, with estimates for the headline figure ranging from 210,000 to 230,000, and private payrolls from 190,000 to 210,000. The unemployment rate stands at 6.1%, and consensus estimates for September are between 5.9% and 6.1%.

Incumbent President Dilma Rousseff of the Workers' Party is running for re-election, with the biggest challenge coming from Brazilian Socialist Party candidate Marina Silva. If no candidate captures an outright majority of the vote, which is looking quite likely, the election will go to a second round run-off on October 26.

- > **Week of October 6** – Nine SPX companies will report during the week, including Alcoa (AA) after the close on Wednesday, and Costco (COST) and Pepsi (PEP) on Thursday.
- > **Week of October 13** – Earnings season really heats up this week with 61 SPX companies reporting. My main focus will be on the impact of the 6% rise in the U.S. dollar on large multi-nationals, including these companies reporting this week: General Electric (GE), IBM, Philip Morris (PM), and Honeywell (HON). In addition, four prominent financial institutions will report this week – JP Morgan (JPM), Bank of America (BAC), Goldman Sachs (GS), and Morgan Stanley (MS) – and there will be a direct correlation between the post earnings trading of those stocks and the direction of the overall SPX.
- > **Week of October 20** – This week, 146 SPX companies report earnings, most of them at the end of the week – 48 on Thursday, and 44 on Friday.
- > **Week of October 27** – Earnings season enters the fourth week, and the overall tone and impact on the market should be determined. Among the 127 SPX companies reporting this week will be Pfizer (PFE), Occidental Petroleum (OXY), Apple (AAPL), Visa (V), and Starbucks (SBUX).

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

## October indicators / events of note:

## You should be watching:

### FOMC Minutes

The minutes from the September 16-17 FOMC meeting will be released.

At its September meeting, the FOMC announced that the Fed's asset purchase plan would end in late October and interest rates would stay low for a "considerable time." The minutes from the September meeting will reveal the tenor of the committee's discussion around keeping or removing the "considerable time" language. Capital market participants will use the minutes to set expectations for whether that language is likely to be removed from the FOMC's announcement following its October 28-29 meeting.

### JP Morgan Earnings\*

Earnings are expected to be released for JP Morgan (JPM) on Tuesday, October 14.

Analysts' estimates are calling for EPS of \$1.38 and revenue of \$24.2 billion, both down from the previous quarter's \$1.59 EPS and \$25.3 billion revenue.

### Fed Beige Book

The Fed's 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.

This is the second Wednesday in October where market participants must pay attention to the Fed's late-day release. The October Beige Book will provide an economic outline for the end-of-month FOMC meeting and will directly impact whether the "considerable time" language is finally removed from the Fed's expectations for keeping interest rates low.

### Bank of America Earnings\*

Earnings are expected to be released for Bank of America (BAC) on Wednesday, October 15.

Estimates are for EPS of \$0.33 and revenue of \$21.4 billion, both down from the previous quarter's \$0.41 EPS and \$22 billion revenue.

### Goldman Sachs Earnings\*

Earnings are expected to be released for Goldman Sachs (GS) on Thursday, October 16.

Estimates are for EPS of \$3.09 and revenue of \$7.7 billion, both down from the previous quarter's \$4.10 EPS and \$9.1 billion revenue.

### Morgan Stanley Earnings\*

Earnings are expected to be released for Morgan Stanley (MS) on Friday, October 17.

Estimates are for EPS of \$0.55 and revenue of \$8.2 billion, both down from the previous quarter's \$0.60 EPS and \$8.5 billion revenue.

### Caterpillar Earnings\*

Earnings are expected to be released for Caterpillar (CAT) on Thursday, October 23.

With slightly more than 60% of Caterpillar's revenue derived outside the U.S., it will be important to not only review actual earnings but to read the conference call transcript, as management should specifically address the impact of the rising U.S. dollar. Estimates are for EPS of \$1.34 and revenue of \$13.3 billion, which are both down from the previous quarter's \$1.69 EPS and \$14.2 billion revenue.

### Brazil Presidential Elections Second Round Run-off

Expectations are that a second round run-off will determine Brazil's next president. More than likely it will be either incumbent Dilma Rousseff or Marina Silva of the Brazilian Socialist Party.

The winner of the election will need to deal with 6.5% inflation and the remnants of recession. Expectations are very high on the hopes of radical economic stimulus, and Brazil's stock market index, the Ibovespa, has risen nearly 25% since March. The task of economic recovery is much more daunting for Brazil than for India, where growth has gradually returned following India's election of a prime minister in May.

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

### October indicators / events of note:

#### Apple Earnings\*

Earnings are expected to be released for Apple (AAPL) on Tuesday, October 28.

#### FOMC Meeting Announcement

The Federal Open Market Committee (FOMC) releases its monetary policy statement following its October 28-29 meeting.

### You should be watching:

Estimates are for EPS of \$1.30 and revenue of \$39.5 billion, both up from the previous quarter's \$1.28 EPS and \$37.4 billion revenue.

As announced at the September FOMC meeting, the Fed's asset purchase program is set to end at the October meeting. For this meeting, the focus will be on whether the Fed keeps the "considerable time" language in its statement about keeping interest rates low. When that language is removed, a six-month window to the first interest rate hike is a reasonable expectation. After this meeting, the December 16-17 meeting is the last that remains for the year.

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



**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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