

# THE MADISON WEEKLY MARKET WRAP

June 27, 2014 Volume 1, Issue 9



**Special points of interest:**

- The S&P 500 hit another all-time high this week.
- Initial jobless claims were lower than expected and came in lower than any reading since February of 2006.
- Fighting the Fed continues to be a losing proposition.
- But caution is still advised.

**Market Snapshot**

Market	YTD	2013	2012	10 Years
US Stocks (large)(SPY)	8.04%	32.21%	15.84%	8.32%
US Stocks (small)(IJS)	1.35%	39.72%	18.10%	9.71%
Ex-US Stocks (dev)(EFA)	3.76%	22.62%	17.22%	7.21%
Ex-US Stocks (EME)(EEM)	7.99%	-3.14%	17.32%	12.02%
US Bonds (AGG)	3.88%	-2.15%	4.04%	4.61%
Global Bonds (FWDB)	6.53%	-1.94%	7.83%	N/A
US Bonds (HY)(HYG)	4.12%	5.90%	13.83%	5.00%*
US REIT (IYR)	17.60%	1.05%	18.36%	8.25%
Ex-US REIT (IFGL)	6.67%	5.29%	37.32%	7.34%*
Gold (IAU)	8.43%	-27.94%	8.37%	13.17%*
Commodities (GSC)	1.96%	-1.93%	-1.73%	5.73%*

\* Data unavailable; standard benchmark substituted

**More of the Same**

Current market trends offer no consistent driver, and this week it seemed that corporate earnings were behind the wheel as the week's economic data proved largely inconclusive and geopolitical events faded a bit in investors' minds. The S&P 500 index hit yet another record high this week and seems poised to challenge the 2,000 level for real. Overall earnings growth in the second quarter year-over-year now looks like 6.7 percent versus 4.9 percent estimated at the end of the quarter, according to FactSet, which kept the stock market chugging along for most of the week. Bad earnings news from Visa and Amazon, which both reported after the close on Thursday, pushed the market lower on Friday. Net-net the United States and Europe provided small equity gains while emerging markets jumped higher on better news out of China. Commodities also did well and the 10-year U.S. Treasury note yield dropped a touch (see the chart above for more).



In economic news, existing-home sales jumped while new-home sales fell in June. Inflation appeared to moderate, per the Consumer Price Index, and there are early hints that there may be even more improvement in July (gasoline and food). Jobless claims inked their lowest print since 2006. According to Markit data, the world manufacturing industry continues to heat up, especially in China. U.S. durable goods orders, however, were a little less bullish, with almost no year-over-year growth. Businesses still don't seem too excited about investing in the future.

Last week, the market seemed terrified by events in Ukraine and Gaza. This week, not so much. Is the world any less risky today than it was a week ago?



## US equity bull market health check

The situation looks much better now than when compared to March 2000 or October 2007 (two previous peaks). High yield spreads are below 300 bps but are rising.

	TMT Bubble		Great Recession		Now
	March 2000	October 2007	June 2008	July 2014	July 2014
<b>Price momentum</b>					
Long-term momentum S&P 500 positive	✓	✓	✗	✓	✓
Long-term momentum Financials positive	✗	✗	✗	✓	✓
5Y annual S&P 500 TR Index return < 25%	✗	✗	✗	✓	✓
<b>Stock market related factors</b>					
Trailing P/E ratio < 20x	✗	✓	✓	✓	✓
EPS estimates rising	✓	✓	✗	✓	✓
Price-to-book value < 3x	✗	✗	✗	✓	✓
NYSE margin debt/GDP < 2.5%	✗	✗	✗	✓	✓
Retail participation low	✗	✗	✗	✓	✓
<b>Macro</b>					
Real yly GDP > 1.5%	✓	✓	✗	✓	✓
ISM PMI > 50	✓	✓	✗	✓	✓
Non-farm payrolls > 0	✓	✓	✗	✓	✓
Jobless claims < 350k and falling	✓	✓	✗	✓	✓
<b>Monetary policy</b>					
Fed easing	✗	✓	✓	✓	✓
Yield curve positively sloped	✗	✓	✓	✓	✓
<b>Risk</b>					
High yield spreads < 450bps	✗	✓	✗	✓	✓
High yield spreads < 450bps and not rising	✗	✓	✗	✓	✓
TED spread < 50bps	✗	✓	✗	✓	✓
St. Louis Fed's Financial Stress Index < 0	✗	✓	✗	✓	✓
VIX < 20%	✗	✓	✗	✓	✓
Eternal world peace	✗	✗	✗	✗	✗



Chart Courtesy: [Ineichen Research & Management](#)

The following recent articles are well worth your time.

- What Has Time Taught Bill Bernstein? ([Morningstar](#))
- Selling on bad news is a 'loser's game' ([The Wall Street Journal](#))
- Seven Truths Investors Simply Cannot Accept ([The Kindergarten](#))
- Mistrust the Financial Storytellers ([The Psy-Fi Blog](#))
- So whatever happened to the deficit? ([The Washington Post](#))



**"As Warren Buffett famously observed, investing is not a game in which the person with an IQ of 160 beats the person with an IQ of 130. Rather, it's a game best played by those with a broad set of skills that are rich not only in quantitative ability but also in deep historical knowledge, all deployed with Asperger's-like emotional detachment."**

William Bernstein ([Rational Expectations: Asset Allocation for Investing Adults](#))

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