



# Brounes & Associates

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## AND THAT'S THE WEEK THAT WAS... For the Week Ended May 10, 2013

### Market Matters...

Market/Index	Year Close (2012)	Qtr Close (03/31/13)	Previous Week (05/03/13)	Current Week (05/10/13)	YTD Change
Dow Jones Industrial	13,104.14	14,578.54	14,973.96	<b>15,118.49</b>	<b>15.37%</b>
NASDAQ	3,019.51	3,267.52	3,378.63	<b>3,436.58</b>	<b>13.81%</b>
S&P 500	1,426.19	1,569.19	1,614.42	<b>1,633.70</b>	<b>14.55%</b>
Russell 2000	849.35	951.54	954.42	<b>975.16</b>	<b>14.81%</b>
Global Dow	1,995.96	2,110.73	2,189.67	<b>2,209.53</b>	<b>10.70%</b>
Fed Funds	0.25%	0.25%	0.25%	<b>0.25%</b>	<b>0 bps</b>
10 yr Treasury (Yield)	1.76%	1.85%	1.75%	<b>1.90%</b>	<b>14 bps</b>

Fiscal Cliff. Sequester. Different names for similar budgetary issues that both basically resulted in games of Congressional “kick the can.” Now in a stroke of luck for non-compromising politicians, the budget deficit is shrinking as higher payroll taxes and paybacks from previously bailed out entities (thanks Fan) have enhanced government revenues since the beginning of the year. While analysts understand that the deficit windfall will prove short-term in nature, Congress and the Administration will surely take some extra time to badmouth, blame, and bicker about any real actions to counter the budgetary challenges.

**Fannie Mae** said it will pay back close to \$60 billion in funds “borrowed” from the gov and partner-in-crime **Freddie Mac** plans to join in the repayment game as well after posting its second strongest quarter in company history as the quasi-governmental enterprises benefit from low interest rates, a resurging housing market, and fewer mortgage delinquencies. In other legal biz news, financial giant **Bank of America** has agreed to an \$1.7 billion settlement with mortgage insurer **MBIA** over a long-standing dispute that stems from the height of the prior housing boom.

**Toyota's** profits tripled last year and management expects even more stellar growth this fiscal year. With retailers set to take the stage in the earnings game, **Gap** posted strong same-store sales, though **J.C. Penney** offered a weak outlook as it looks to blame any and all struggles on the failed policies of ex-CEO Johnson. **Whole Foods** bested quarterly earnings projections and announced a 2-for-1 stock split, while **Delta** outlined a plan to reward shareholders with enhanced dividends and a share buyback program. While many analysts praise such buyback programs, some point out certain benefits that executive reap when their compensation is tied to metrics such as per-share earnings. Such measures look better when fewer shares are outstanding (after corporate repurchases), even when operating income is not improving. (That premise was merely shared in general terms and not in Delta's case in particular.)

Stocks continued their record-setting ways as the Dow Jones surged passed 15k and the S&P pushed to even “higher” highs as many previously fence-sitting investors are now joining the party for fear that they will miss out on all the fun. (And thus the Herd Mentality resurfaces.) Junk bonds have enjoyed a resurgence of their own as income lovers have poured dollars into high yield (sounds better) at a nice clip as treasuries and other high quality corporate offer virtually nothing in return. The **Barclay's** US Corporate High Yield index plunged to a record low yield below 5% as more than \$150 billion in “junk” debt has been issued this far this year. (The next bubble on the horizon?) Oil prices also continued their volatile ways. Traders bought on favorable domestic economic data that implied solid future demand, but sold on news that inventories hit levels not seen since the Energy Information Administration began keeping records (1982) and OPEC warned of future challenges ahead. (If you can't trust OPEC who can you trust.) As for stocks and junk, the trend continues to be your friend.

## Economic Calendar

Date	Release	Comments
May 7	Consumer Credit (03/13)	Reduced credit-card purchases for the first time this year
May 9	Jobless Claims (05/04/13)	4-week average at lowest level since November 2007
<b>The Week Ahead</b>		
May 13	Retail Sales (04/13)	
May 15	PPI (04/13)	
	Industrial Production (04/13)	
May 16	Jobless Claims (05/11/13)	
	CPI (04/13)	
	Housing Starts (04/13)	
May 17	Leading Eco. Indicators (04/13)	

With few major economic releases of note, analysts turned their attention to the current bank lending environment and speculation about future Fed policy. After six years of skepticism, banks finally are reopening the spigots and consumers and biz borrowers are taking advantage of the low rate environment. Loans for commercial and industrial companies have increased at a double-digit annualized clip for six out of the past seven quarters and over a quarter of all financial institutions have lowered their credit line rates for small biz with yearly sales below \$50 million. Residential lending is on the rise as the housing sector strengthens and folks who previously could not have qualified are buying cars on credit again. While naysayers are balking about “forgetting the past,” major banks are on the offensive and taking measures to fight off new regulations and lawmakers’ continued efforts to reign in “too big to fail.”

The latest jobless claims release revealed continued progress on the labor front as the four-week moving average fell to the lowest level since pre-recession November 2007. Given such optimistic stats, economists are growing more certain that the Federal Reserve will begin tapering (slowing) its \$85 billion per month bond buying program by the end of the year. Still, despite the improvements in weekly claims for unemployment benefits, the jobless rate hovers around 7.5%. By contrast, the last time the claims’ levels were this low, unemployment stood at 5%. This week, Fed Chair Bernanke spoke about ongoing risks in areas such as runs on money-market funds that may be beyond the policymakers’ and regulators’ controls despite the enhanced oversight. While the Fed may be close to reducing some of its stimuli, other central banks are continuing to make new tightening moves as both Australia and Bank of Korea surprised investors by cutting their respective lending rates. Many analysts believe that such actions have helped boost the valuations of the global equity markets (but what happens when they end?).

Germany’s manufacturing sector may be on the mend as orders increased in March and industrial production expanded for the second consecutive month. China reported an increasing trades surplus, another relief for investors worried about a slowdown in this key global economic Superpower. Consumer prices also rose in China so prospects for additional stimulus have been diminished (for now). The Japanese yen dropped below the key 100 mark vs. the dollar for the first time in four years as the Bank of Japan aggressively looked to stimulate the country’s growth. A lower-valued yen should enhance the competitiveness of Japan’s goods and services abroad.

***On the Horizon...***After virtually nothing on the economic calendar, investors must get their dissecting hats back on as they welcome news from manufacturing, retail, inflation, labor, and housing. Though fewer folks seem to be paying attention to earnings at this point in the season, they may overanalyze more than normal next week as retailers (**Macy’s, Wal-Mart, Kohl’s, Nordstrom**) reveal just how much they have been impacted from the increased payroll taxes since the beginning of the year. As the markets continue to push upward into uncharted territories, some investors will toy with the idea of locking in some profits, while others will jump onboard more aggressively in fear of missing the “bulls on parade.” And, of course, the rumors will fly about the Fed and its future moves. (Buy/Sell the rumor...)