



Brounes & Associates

4607 BRAEBURN DR. • BELLAIRE, TEXAS 77401 • 713.962.9986 • ron@ronbrounes.com

AND THAT'S THE WEEK THAT WAS... For the Week Ended May 17, 2013

Market Matters...

Market/Index	Year Close (2012)	Qtr Close (03/31/13)	Previous Week (05/10/13)	Current Week (05/17/13)	YTD Change
Dow Jones Industrial	13,104.14	14,578.54	15,118.49	15,354.40	17.17%
NASDAQ	3,019.51	3,267.52	3,436.58	3,498.97	15.88%
S&P 500	1,426.19	1,569.19	1,633.70	1,666.12	16.82%
Russell 2000	849.35	951.54	975.16	996.28	17.30%
Global Dow	1,995.96	2,110.73	2,209.53	2,234.73	11.96%
Fed Funds	0.25%	0.25%	0.25%	0.25%	0 bps
10 yr Treasury (Yield)	1.76%	1.85%	1.90%	1.95%	19 bps

Benghazi talking points, IRS treatment of conservative groups, Associated Press' phone records... the Republicans must have thought that Christmas came early this year. With White House scandals galore providing numerous occasions for reprimands and opportunistic face time, politicians seem to be little worried about budget issues. Fortunately, the Congressional Budget Office reported that the federal deficit is expected to contract to \$642 billion this fiscal year, after four prior periods of \$1 trillion-plus. In February, the estimate was closer to \$850 billion, but higher tax receipts and big "bailout" payments from **Fannie** and **Freddie** have prompted outlook revisions. Though analysts warn that the budget windfall will prove short-term in nature, Congress has enjoyed some quality time to do what they do best.

As earnings season winds down, the numbers have been decent with 70% of S&P companies beating forecasts and profits projected to grow 3.4% from last year. Unfortunately sales have come in below expectations and many companies have warned about the quarters ahead. Retailers took to the stage this week as **Macy's** reported solid results. Likewise, **Wal-Mart's** earnings and revenues were strong, though same-store sales declined in the US after six straight gains and its CFO expressed concern that "our consumers are still stretched." **JC Penney** posted a wider-than-expected loss and blamed former exec Johnson for its continued woes (again). Shifting to techs, **Cisco's** numbers depicted improving revenue from services sales, though **Dell** missed analysts' expectations as Michael continues to make his case that the company will compete more effectively once it is taken private. (Some shareholders wonder whether he is deliberately "sandbagging" numbers to promote his deal.) In transaction news, IPOs are back in favor, a positive development for the economy as moneys can be used to reduce corporate debt or invest back into biz operations. Dollars raised this year could be the most since pre-recession 2007. Both **Macy's** and **Southwest Airlines** announced dividend boosts and enhanced stock buyback programs.

Stocks continued their bullish trek into record-setting territory as investors remained on a buying spree despite certain economic and earnings concerns. Hedge fund manager David Tepper (**Appaloosa** with \$15 billion under management) added to the enthusiasm by proclaiming his "definitely bullish" sentiment and the inflation numbers seemed to give the Fed more time to monitor their moves without rushing into tapering mode (of its bond buying program). Margin debt has increased to levels not seen since mid-2007 as small investors express continued confidence, though analysts feel that such a philosophy deserves close monitoring and warn about a new bubble mentality in the midst. With rates still at historically low levels, Brazil's oil giant **Petrobras** raised \$11 billion in the fixed income markets through the largest dollar-denominated bond sale by an emerging market company. Oil prices remained volatile as traders weighed sluggish crude demand data against an unexpected decline in inventories. Gasoline demand continued to slide heading into the crucial summer travel season. **BP** and **Royal Dutch Shell** were among the energy giants investigated in a European price fixing scandal. Any White House involvement?

Economic Calendar

Date	Release	Comments
May 13	Retail Sales (04/13)	Solid showing despite declining sales as gas stations
May 15	PPI (04/13)	Biggest one-month decline since February 2010
	Industrial Production (04/13)	Output decreased across most major categories
May 16	Jobless Claims (05/11/13)	Largest one-week increase since November 2012
	CPI (04/13)	Prices barely growing at all, raising deflation concerns
	Housing Starts (04/13)	Building permits hit highest levels in nearly 5 years
May 17	Leading Eco. Indicators (04/13)	Highest level since June 2008
The Week Ahead		
May 22	Existing Home Sales (04/13)	
	Fed Meeting Minutes	
May 23	Jobless Claims (05/18/13)	
	New Home Sales (04/13)	
May 24	Durable Goods Orders (04/13)	

The Organization for Economic Cooperation and Development's composite leading indicators predicted a better-than-expected increase in global growth in the months ahead. The OECD believes that US, Japan, and even perennial weak link Europe should lead the charge, while China and Brazil may struggle with slower growth (though still impressive by comparative standards). Industrial production in the euro-zone soared in March, though contracting GDP in both France and Italy offset the enthusiasm. Additionally, despite an expanding GDP (ever-so-slightly) in Germany, a **ZEW** institute survey suggested that continued progress will be slow at best. **Fitch** raised its credit rating on Greece as it continues to make progress in its budget woes and seems unlikely to exit the euro-zone (at least until its next bailout request). China's industrial output increased by 9.3% and retail sales surged by 12.8% in April. Despite showings that would make most other countries jealous, both numbers came in below expectations. Japan's GDP, on the other hand, expanded by a better-than-expected 3.5% in the quarter.

Closer to home, rumors about the hibernating consumers have proven false thus far. Retail sales climbed a bit in April even as gasoline prices dropped and related activity at service stations plummeted the most since December 2008. Similarly, consumer sentiment as measured by the **Thomson-Reuters/University of Michigan** index jumped to its highest level since July 2007. Housing continued to recover from its prior doldrums and lead the economic resurgence. A US homebuilders' confidence index rose to its best showing since February 2007 and permits for future residential building were reported at the highest level in five years. While investors focused on the positives, news from manufacturing was less impressive. Industrial production dropped in April as seasonal weather factors hindered demand and the NY Fed reported that regional activity contracted last month as well. Jobless claims jumped last week by the largest amount since November 2012 as the euphoria from the recent labor releases came to a halt (for now). Inflation remains non-existent in both wholesale and retail, though some mumblings of the "D" word (deflation) can be heard in the background. Fortunately, the week ended on a solid note as the Conference Board's Leading Economic Indicators posted its best reading since June 2008.

The inflation numbers give the Fed more leeway in planning for a departure from its current \$85 billion a month bond buying program and the policymakers do not seem too worried about a Japan-like deflationary period. SF Fed Prez Williams claimed this week that he would consider tapering the bond purchases, though the week's releases probably bought them some more time to (over-)analyze.

On the Horizon... Though the book essentially has been closed on earnings season, analysts should monitor the news from **Best Buy**, **Home Depot**, **Gap**, and **Target** for indications about future consumer activity. Fed minutes give more insight into the bond buying tapering discussions. For now, investors seem to have blinders on as they focus on more records instead of earnings or the economy.