



# Brounes & Associates

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## AND THAT'S THE WEEK THAT WAS... For the Week Ended May 24, 2013

### Market Matters...

Market/Index	Year Close (2012)	Qtr Close (03/31/13)	Previous Week (05/17/13)	Current Week (05/24/13)	YTD Change
Dow Jones Industrial	13,104.14	14,578.54	15,354.40	<b>15,303.10</b>	<b>16.78%</b>
NASDAQ	3,019.51	3,267.52	3,498.97	<b>3,459.14</b>	<b>14.56%</b>
S&P 500	1,426.19	1,569.19	1,667.47	<b>1,649.60</b>	<b>15.66%</b>
Russell 2000	849.35	951.54	996.28	<b>984.28</b>	<b>15.89%</b>
Global Dow	1,995.96	2,110.73	2,234.73	<b>2,207.98</b>	<b>10.62%</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%	1.95%	<b>2.01%</b>	<b>25 bps</b>

And the survey says...a few months into “sequester” (budget cuts) and more folks are starting to feel the pinch. A recent **ABC News/Washington Post** survey showed that 37% of all Americans have been impacted in some way by the automatic spending cuts that began in March. A previous **CBS News** poll released in early May found that 27% were affected. While politicians do not seem to be in any hurry to do much of anything these days (but place blame and bicker) about the cuts, the budget moves are strongly disapproved by a cross-section of the country, regardless of party affiliation: Dem – 58% disapproval, Republicans – 54%, and Independents – 58%. Of course, any cuts related to the IRS are strongly welcome by Republicans.) Congress took aim this week at **Apple** over the company’s “creative” tax policies which have helped it save billions on revenues earned overseas. (Where was the IRS?) While the investigation has found that Apple did nothing illegal, Senator John McCain said the moves give new meaning to its motto “think different.” On the other hand, Tea Party favorite, Senator Rand Paul, practically praised the company for its tax avoidance (now, that’s presidential material).

Retailers took to the earnings podium this week (is anyone even paying attention anymore?) and the results were mixed at best. **Home Depot** benefited from the resurging housing market, though **Lowe’s** lagged its stronger rival. **Gap** continued to experience a solid biz turnaround, though both **Target** and **Abercrombie & Fitch** reduced their outlooks for the year. **Best Buy** remained in cost-cutting mode and suffered another quarterly loss, though web-based sales improved during the period. In transaction news, **Yahoo** is buying **Tumblr** for \$1.1 billion; **Activis** is buying dermatology products maker **Warner Chilcott** for \$5 billion; **Valeant Pharmaceuticals** is acquiring **Bausch & Lomb** for about \$9 billion, and **Saks** just hired **Goldman Sachs** to look into strategic biz options (potential company sale). In other corporate news, Jamie Dimon kept his “Master of the Universe” status intact as **JP Morgan-Chase** shareholders voted to allow him to keep both his Chairman and CEO responsibilities. **Ford** will expand North American capacity to meet strong auto demand.

Equities dropped for the week for the first time since mid-April as investors took some profits from the solid rally, while they dissected comments from Fed Chair Bernanke and the wording of the Fed minutes. Some investors fear that the policymakers are growing closer to slowing the current \$85 billion a month bond buying program and the stimuli (or lack thereof) will negatively impact the growth of the economy. In fact, Japan’s Nikkei plunged by over seven percent in one day as concerned investors rushed to lock in profits after a 50% index run-up so far this year. Still US markets held up pretty well and Goldman Sachs analysts even increased their end-of-year target for the S&P 500. Oil prices hit a seven-week high early in the week before dropping over four straight days as rising gasoline inventories raised new concerns about future energy demand (particularly as more and more people are impacted by sequester).

## Economic Calendar

Date	Release	Comments
May 22	Existing Home Sales (04/13)	Highest level in more than three years
	Fed Meeting Minutes	Hesitant about their next step on monetary policy
May 23	Jobless Claims (05/18/13)	Suggested slow improvement in the labor market
	New Home Sales (04/13)	2 <sup>nd</sup> highest pace since July 2008
May 24	Durable Goods Orders (04/13)	Bounced back from poor March showing
<b>The Week Ahead</b>		
May 28	Consumer Confidence (05/13)	
May 30	Jobless Claims (05/25/13)	
	GDP (1 <sup>st</sup> quarter revised)	
May 31	Personal Income/Spending (04/13)	

After surging throughout the year on enhanced gov spending, a more aggressive Bank of Japan monetary policy, and expected economic growth, Japan's Nikkei index took a breather this week (to put it mildly) as some investors worried that the rally in risky assets (stocks) may have gone too far. China's manufacturing sector shrank after six straight months of expansion and investors grew concerned about a new contagion spreading across Asia. (Of course, most countries would kill to have similar "contracting" growth among its factories.) Though factory output in the euro-zone remained in contraction mode, the pace (of contraction) has slowed and activity seems to be on the verge of picking up steam. The Bundesbank predicts that the German economy will continue in its recovery in the second quarter and growth will exceed the sluggish 0.1% rate of the first three months of the year.

Closer to home, the news was pretty good on the economic front. Housing continued its rebounding ways as existing home sales jumped to its highest level since November 2009 and the median sales prices rose 11% vs. last April (2012), the fifth straight month with a double-digit year-over-year percentage increase. Additionally, new home sales climbed at its strongest pace since July 2008. Manufacturers breathed a sigh of relief as durable goods orders soared by 3.3% in April after March's relatively poor showing so hopefully factory activity is on the mend as well. Finally, initial claims for jobless benefits fell by over 20k, a solid showing for the jobs market.

The minutes of the Fed policy meeting revealed continued debate (but no consensus) on limiting the bond buying program with some policymakers still concerned that "sequester" could slow the economy in the months to come. For now, the officials do not seem overly worried about the low level of inflation (dare I say deflation?). For his part, Dr. B. told Congress that he and his cohorts could vote to start tapering the purchases at one of its next meetings, though any such move would not necessarily be permanent and the Fed would closely monitor how the economy reacts to determine the future of the program. In fact, SF Fed Prez Williams floated the idea that the central bankers could increase bond buying even after the tapering begins should signs within the economy warrant such a move. Fed President Bullard (St. Louis) supported the continuation of what he called an effective stimulus policy, while Prez Dudley (New York) explained that the Fed would eventually tweak the program, but the asset purchases could be decreased or even increased based on the data.

**On the Horizon...** Risky assets (stocks) across the globe have been on a tear and Japan's market showed the first indication that investors may be getting worried about "too far too fast." Domestic stocks have tumbled over the past few summers, though so far, the indexes are holding up nicely and investors do not seem too concerned about a sizable pullback. Memorial Day ushers in the summer and with gasoline inventories on the rise, consumers may reap the benefits of lower prices for the critical travel months. A light week on the economic calendar brings a few signs about the consumer as the confidence index and income/spending numbers give insight into the overall mindset in the aftermath of the tax hikes and budget cuts. (How come those tax hikes are not impacting Apple...any word, "President-to-be" Paul?)