RB

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AND THAT'S THE WEEK THAT WAS…
For the Week Ended August 15, 2014

Market Matters…

Market/Index	Year Close (2013)	Qtr Close (06/30/14)	Previous Week (08/08/14)	Current Week (08/15/14)	YTD Change	Week Change
Dow Jones Industrial	16,576.66	16,826.60	16,553.93	16662.91	**0.52%**	**0.66%**
NASDAQ	4,176.59	4,408.18	4,370.90	4464.93	**6.90%**	**2.15%**
S&P 500	1,848.36	1,960.23	1,931.59	1955.06	**5.77%**	**1.22%**
Russell 2000	1,163.64	1,192.96	1,131.35	1141.65	**-1.89%**	**0.91%**
Global Dow	2,483.62	2607.35	2532.94	2574.33	**3.65%**	**1.63%**
Fed Funds	0.25%	0.25%	0.25%	0.25%	**0 bps**	**0 bps**
10 yr Treasury (Yield)	3.04%	2.52%	2.43%	2.34%	**-70 bps**	**-9 bps**

"It's a small world after all." While investors may try hard to focus exclusively on company fundamentals or even the occasional (often silly) technical indicator (Super Bowl winners notwithstanding), they cannot help but take geopolitical developments into consideration when making portfolio decisions. Over the past few months, news from Iraq, Gaza, and Russia/Ukraine has dominated headlines and certain ramifications even overshadow earnings season and the traditional weekly economic releases. Will the current uncertainties in Iraq lead to more serious instabilities in this already long troubled country? How does the "war on terror" in Gaza impact the future of this strategically important region of the world? How is trade (particularly in Europe) being affected by concerns in Russia and will new sanctions hinder long-term growth across the globe?

All in all, second quarter earnings growth should be considered successful with S&P 500 companies on track to increase 7.9%, well above the 6.2% rate expected when the season began. This week, retailers took their turns on the conference calls as **Macy's** and **Wal-Mart** fell short of expectations and both reduced their outlooks for the full year. On the other hand, **Kohl's** posted a slight improvement and **J.C. Penney** continued its turnaround with its third straight month of rising sales. In the banking world, **SNL Financial** reported that the "too big to failers" posted their second highest combined profits in 23 years, despite their disappointing trading revenues and the continued low interest rate environment. Credit quality has been on the mend and banks have been able to lower their loan loss reserves. Additionally lending activity has been on the rise. In transaction news, **Kinder Morgan** plans to consolidate its businesses and will "merge" its four public companies into one.

Regulators are back in the news as the SEC is investigating "alternative mutual funds," a controversial hedge fund-like product that has gained in popularity among small investors. With inflows rising in this fund category, the SEC remains concerned that "mom and pop" may not truly understand the risks of such underlying strategies generally used by only the most sophisticated investors (many of whom may not understand the strategies themselves).

With "back to school" soon to become reality (and in progress by some unfortunate kiddos), traders used the past week for those last minute vacations and equity volume was considered light. In fact, Thursday was the second slowest day of activity on the Dow. The indexes were mostly positive with the Blue Chips pushing back into positive territory for the year, though late-week developments in the Ukraine prevented investors from getting too far ahead of themselves, given the ongoing global conflicts. Some again turned to the safe-haven of treasuries. Oil fell to its lowest level since early 2014 as supplies remain elevated and the demand outlook appears sluggish at best. News that Europe's growth rate was lower than expected also prompted some energy selling and prices remains comfortably below the critical $100/barrel level. Enjoy those final summer vacations…at least until Labor Day.

Economic Calendar

Date	Release	Comments
August 13	Retail Sales (07/14)	Virtually unchanged last month
August 14	Jobless Claims (08/09/14)	Highest level since June
August 15	PPI (07/14)	Only a slight increase
	Industrial Production (07/14)	Climbed steadily in July
The Week Ahead		
August 19	CPI (07/14)	
	Housing Starts (07/14)	
August 20	Fed Meeting Minutes	
August 21	Jobless Claims (08/16/14)	
	Existing Home Sales (07/14)	
	Leading Economic Indicators (07/14)	

With the labor market continuing to improve, most analysts have expected consumer activity to follow suit. Thus far, retailers' earnings' results have been lackluster at best and, this week, July retail sales were reported as essentially unchanged from last month's level. Additionally, the latest **Thomson Reuters/**University of Michigan sentiment index came in below expectations. Still, plenty of positive signs of the domestic economy remain. Industrial production climbed by 0.4% in July on increased auto output as the manufacturing sector starts the second half of the year on a solid note. Producer prices rose ever-so-slightly, just enough to remove questions of potential "deflation," but still price pressures remain well off the radar screen for the average self-proclaimed economist (though not necessarily the average Fed policymaker). Though jobless claims jumped by 21k in the latest weekly release, the numbers remain well below the levels of last year and consistent with an improving labor market.

The news in Europe was not quite as favorable as the euro-zone experienced stagnant growth in the second quarter and even high-and-mighty Germany saw its output fall more than anticipated. In fact, a closely watched German economic sentiment index dropped to its lowest level since late 2012 as folks become more worried about trade prospects with Russia and the impact of sanctions. Japan's GDP also slowed sharply in the quarter (6.8% contraction) as the sales tax increase put a significant halt to discretionary spending and the gov may be forced to reexamine stimulus actions. The impact of China's stimulus remains in question for now as housing sales have fallen by more than 10% thus far in 2014 and lending also declined in July after a very promising June.

All eyes and ears remain on the Fed as it nears the end of its low (near-zero) interest rate policy. St. Louis Fed Prez Bullard raised some eyebrows (and opened some eardrums) this week when he proclaimed that falling unemployment and rising inflation (a pre-PPI comment) may prompt the policymakers to act sooner than later and that first rate hike may happen as early as the first quarter 2015.

On the Horizon…Investors understand that earnings season has proven better than predicted so the final stragglers may find less interest in their results than in prior quarter (particularly with last-minute vacations and back to school planning). While the domestic economy and corporate world clearly look to be on the rebound, investors continue to worry about the hibernating consumer and the impact of the many geopolitical debacles across the globe. While Gaza may seem distant and Ukraine's trade may not be all too significant, the ramification of the ongoing turmoil could prove more consequential than meets the eye (and investors are watching). Housing numbers highlight next week's releases and the Fed minutes give another glimpse into the minds of the policymakers (and the timing of that next rate move). Trading activity should pick up as school resumes and perhaps some long absent investors will find bargains in the recent pullback. Bear in mind, when last some of them noticed, Dow 17k was a reality; now it's just a (not so) distant memory.