RB

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AND THAT'S THE WEEK THAT WAS…
For the Week Ended August 22, 2014

Market Matters…

Market/Index	Year Close (2013)	Qtr Close (06/30/14)	Previous Week (08/15/14)	Current Week (08/22/14)	YTD Change	Week Change
Dow Jones Industrial	16,576.66	16,826.60	16662.91	17,001.22	**2.56%**	**2.03%**
NASDAQ	4,176.59	4,408.18	4464.93	4,538.55	**8.67%**	**1.65%**
S&P 500	1,848.36	1,960.23	1955.06	1,988.40	**7.58%**	**1.71%**
Russell 2000	1,163.64	1,192.96	1141.65	1,160.34	**-0.28%**	**1.64%**
Global Dow	2,483.62	2607.35	2574.33	2,606.36	**4.94%**	**1.24%**
Fed Funds	0.25%	0.25%	0.25%	0.25%	**0 bps**	**0 bps**
10 yr Treasury (Yield)	3.04%	2.52%	2.34%	2.40%	**-64 bps**	**6 bps**

It's a "crazy" world after all. From a geopolitical standpoint, the tragic conflicts continue. An American journalist was murdered by Islamic extremists in response to the airstrikes in Iraq; in Gaza, another broken ceasefire led to the execution of several alleged "conspirators" by Hamas terrorists; in the Ukraine, Russian trucks crossed into rebel-held territory in violation of a prior arrangement. For the most part, investors have turned a blind eye to these tragedies and markets have surged forward in recent times. Though sanctions have been enacted, the direct repercussions on multinational and domestic corporations have been limited thus far, but still the loss of life and traumatic disruptions to daily existence in these regions are severe and cannot simply be disregarded.

Earnings season is quickly coming to a close as retailers put the finishing touches on a relatively successful period for corporate growth. **Home Depot** posted better-than-expected profits and issued favorable guidance for the quarters to follow, a positive sign for the overall housing industry. Likewise, rival **Lowe's** reported solid earnings, though lowered its outlook for the full year. **Target** continues to struggle from it prior security breach as reduced traffic forced another downward revision, while **TJX** (TJ Maxx and Marshalls) bested expectations and raised its forecast for the year. In the deep discounter world, **Dollar General** made a $9 billion offer for **Family Dollar**, though the target subsequently rejected the overture and remained focused on the $8.5 billion potential deal with **Dollar Tree**. Botox manufacturer **Allergen** also continued to reject **Valeant**'s $53 billion hostile takeover bid and is soliciting interest from other potential acquirers like **Salix Pharmaceuticals**.

Despite some decent earnings results from the "too big to failers" of the financial world, a few biggies have ongoing issues of their own to resolve. **Bank of America** is now on the hook to the tune of $16.65 billion over its prior "questionable" mortgage practices (thanks **Countrywide**) in what would be the largest settlement reached between US regulators and a single company. **Citigroup** may be on the verge of losing its long-standing retail banking presence in Japan as it considers a sale of its retail unit on weak loan growth and other ongoing concerns in the region.

Stocks pushed higher on the successful earnings season and strong economic data as the S&P 500 roared back into record territory and the Blue Chip Dow Jones again crossed the 17k barrier. Investors took a mild break after a four day winning streak for the two major indexes as Fed watchers attempted to interpret Chair Yellen's latest remarks about future interest rate policy. Still volume remained light as last minutes summer vacations near an end. Meanwhile, junk bonds have been on a roll as of late as large institutional investors have been taking advantage of the yields in excess of riskless treasuries after nervous individuals bailed from this high yield fixed income arena earlier in the year. Oil dropped to levels not seen since January on declining international demand, though lower than expected supplies sparked late-week buying. And geopolitical tensions weigh on energy traders' minds as well.

Economic Calendar

Date	Release	Comments
August 19	CPI (07/14)	Slowest pace since February
	Housing Starts (07/14)	Highest level of construction since November
August 20	Fed Meeting Minutes	Debated whether to raise rates sooner than expected
August 21	Jobless Claims (08/16/14)	3rd time in past 5 weeks the gauge dropped below 300,000
	Existing Home Sales (07/14)	4th consecutive monthly increase in sales
	Leading Economic Indicators (07/14)	Rose by most in 4 months
The Week Ahead		
August 25	New Home Sales (07/14)	
August 26	Durable Goods Orders (07/14)	
	Consumer Confidence (08/14)	
August 28	Jobless Claims (08/23/14)	
	GDP (2nd quarter revised)	
August 29	Personal Spending/Income (07/14)	

When the Fed talks… So just how will Janet Yellen handle her newfound fame? In the days, weeks, months to come, the "to hike or not to hike" question will remain fresh on everyone's mind. It's already happening. Once upon a time, analysts debated about stimulus and the duration of the bond buying program. Now that the labor markets appears to be on the mend and inflation is suddenly creeping back into the national dialogue (premature?), the constant talk revolves around the timing of the next rate hike. A recent Wall Street Journal survey showed that many economists fear that Yellen and friends will wait too long before acting again. Most believe that mid-2015 sounds about right for the move, but worry that a continuation of the labor rebound combined with low rates could lead to price pressures and a negative effect on the economy. For her part, Yellen told a group of Central Bankers at a global policy conference that the Fed is taking a "pragmatic" approach and will continue to move cautiously in term of raising rates. While the unemployment rate has clearly fallen, she still believes numerous other factors must be considered to determine the actual state of labor. The minutes of the most recent Fed meeting confirmed that the debate continues, no consensus has been reached (not even close), and the "experts" need more time to evaluate the state of affairs.

The data du jour showed an economy on the rebound with housing, of all sectors, leading the charge. Housing starts jumped to their highest level since November (though much of the rise was reflective of apartment construction and not houses) and a home builder confidence index rose again this month. Even existing home sales climbed by 2.4% from June, the fourth straight monthly gain, but still remain below last year's level. Initial claims for unemployment benefits fell again in the latest week to levels not seen (consistently) in eight years. For the third time in the past five week, claims declined below 300k and even the less volatile four-week average stands near this attractive level. For now, inflation does not seem to be kicking in on the solid labor results as CPI grew at its slowest pace since February, a sign many feel will allow Yellen to take her time.

On the global front, the news is not quite as solid. Activity in the euro-zone remains lackluster at best as the purchasing managers' index dropped in August, prompting worry about a sluggish third quarter. Still, the 18-nation currency union depicts expansion (at a declining pace) though the two biggest economies (Germany and France) also gave back some ground last month. Similarly, China's **HSBC** index fell to a three-month low, but still remains in expansion mode (ever-so-slightly).

On the Horizon…"Back to school" should mean "back to work" though some feel the light volume and reduced trading activity could linger until after Labor Day. With earnings season in the rearview mirror (for the most part), analysts will focus on the numerous releases with an eye toward future Fed policy moves. And sadly, geopolitical tensions remain atop the headlines.