Weekly Market Update (January 27 - 31, 2014)

The Weekly Market Update is published every Friday.
Edward Jones does not provide access to past weekly summaries.

Our Views

Stocks and interest rates dropped while volatility rose as ongoing emerging-market worries outweighed a positive report on the U.S. economy. The market has spoiled investors with strong gains lately – a 32% return last year and up 70% since the last 10% correction in 2011 – and very little volatility along the way. Given this extended period, the recent return of market volatility and the prospects of a pullback have been met with heightened attention and investor concern. The S&P 500 has fallen just 3.6% from its all-time high in mid-January. In our view, a well-defined investment strategy and the proper perspective means market uncertainty can be viewed as an opportunity. It gives long-term investors the chance to capitalize on their advantage of time and discipline.

The Stock & Bond Market

Led by the drop in energy and consumer staples sectors, stocks moved lower on the week. The Dow Jones Industrial Average fell 180 points to end the week at 15,699, down 1.1%. The S&P 500 declined 8 points, or 0.4%, to end at 1,783. Bond prices rose on the week, pushing the U.S. 10-year Treasury bond yield down 0.06% to end at 2.65%.

Index	Close	Week	YTD	Index	Close	Week	YTD
Dow	15,699	-1.1%	-5.3%	10-yr Treasury Yield	2.65%	-0.06%	-0.38%
S&P 500	1,783	-0.4%	-3.6%	Oil ($/bbl)	$97.44	0.8%	-1.0%

Source: Bloomberg. Past performance does not guarantee future results.

The Economy

Several decent economic reports were overlooked because attention was focused on international concerns.

- U.S. gross domestic product showed the economy grew by an annualized 3.2% in the final quarter of 2013. This brought GDP growth to 3.7% for the second half of the year, the strongest final six months of a year since 2003. Consumer spending, which represents about 70% of the economy, rose a robust 3.3% in the fourth quarter. Exports surged the most in three years, contributing nicely to economic growth, while government spending declined the most in a year. This strong growth came despite the government shutdown in October, which was a sizable drag on the economy.
- Consumer spending rose 0.4% in December, following a 0.6% monthly gain in November, both better than expected. Likely contributing to the strong spending results has been recent improvement in consumer confidence, which rose more than expected in January and has been on an upward trend since October. The strong personal spending came despite little change in personal income in December, up less than 0.1% from November.

- The Federal Reserve announced it will continue to reduce its monthly bond purchases, frequently called tapering, based on its assessment of better domestic economic growth.
- According to the S&P/Case-Shiller index, home prices rose 0.9% in November from October. This was the 22nd consecutive increase, and all 20 metro areas surveyed showed price gains. Compared with the year prior, home prices rose 13.9%, the fastest pace since February 2006. Pending home sales ended 2013 on a down note, declining 8.7% in December from November. This indicates that contracts signed, but not yet closed, were much worse than expected. Poor weather may have contributed to some of the decline.

The Week Ahead

The focus on emerging-market issues won't disappear, but the markets will get additional influence from a full economic calendar, including reports on manufacturing activity and vehicle sales. Friday's employment report will be the headliner, however, as investors look for confirmation that December's weak hiring figure was an outlier in an otherwise decent trend of sustained job growth.

For any questions or follow up please give me a call or email.

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