First Trust

# Weekly Market Commentary & Developments

Week Ended November 8th, 2013

## US Economy and Credit Markets

Yields and Weekly Changes:

| | | | |
|---|---|---|---|
| 3 Mo. T-Bill: | 0.06 (+02 bps) | GNMA (30 Yr) 6% Coupon: | 110-17/32 (2.31%) |
| 6 Mo. T-Bill: | 0.09 (+01 bps) | Duration: | 3.61 years |
| 1 Yr. T-Bill: | 0.10 (+01 bps) | 30-Year Insured Revs: | 137.4% of 30 Yr. T-Bond |
| 2 Yr. T-Note: | 0.31 (unch) | Bond Buyer 40 Yield: | 5.11 (+05 bps) |
| 3 Yr. T-Note: | 0.59 (unch) | Crude Oil Futures: | 94.32 (-0.29) |
| 5 Yr. T-Note: | 1.41 (+04 bps) | Gold Futures: | 1,287.60 (-25.60) |
| 10 Yr. T-Note: | 2.75 (+13 bps) | Merrill Lynch High Yield Indices: | |
| 30 Yr. T-Bond: | 3.85 (+15 bps) | U.S. High Yield: | 6.45% (+07 bps) |
| | | BB: | 5.12% (+08 bps) |
| | | B: | 6.48% (+06 bps) |

Treasury prices ended a choppy week much lower after a jobs report on Friday sent yields much higher. Treasuries started the week higher as investors speculated on the latest signals from the Federal Reserve regarding monetary policy. On Monday, St. Louis Fed President James Bullard said that the central bank should be patient on deciding when to taper while Dallas Fed President Richard Fisher said that the taper could come sooner than expected. Tuesday saw Treasuries drop as the Non-Manufacturing Composite came in at 55.4, which was better than the expected number of 54.0. After a slight rebound on Wednesday, Treasury prices rallied further on Thursday as the European Central Bank cut its key lending rate from 0.50% to 0.25%, and investors worried about underlying fundamentals in the GDP number, which reiterated views that accommodative monetary policy would continue. On Friday the Change in Nonfarm Payrolls (204,000) was much higher than expected (120,000), which caused equities to rally even though the positive economic news may lead the Fed to taper sooner than expected. This caused Treasuries to drop significantly as yields had the largest one day increase since July. The expectation of tapering sooner than expected also caused Gold prices to drop significantly on Friday. Major economic reports (and related consensus forecasts) for next week include: Wednesday: Nov 8 MBA Mortgage Applications, October Monthly Budget Statement (-$104.0B); Thursday: Nov 9 Initial Jobless Claims (330,000), September Trade Balance (-$39.0B); Friday: October Import Price Index (-1.6% YoY, -0.4% MoM), November Empire Manufacturing (5.00), October Industrial Production (0.2% MoM), October Capacity Utilization (78.3%).

## US Stocks

Weekly Index Performance:

| | | |
|---|---|---|
| DJIA: | 15,761.78 | (+0.9%) |
| S&P 500: | 1,770.61 | (+0.5%) |
| S&P MidCap: | 1,285.86 | (-0.4%) |
| S&P Small Cap: | 632.84 | (+1.0%) |
| NASDAQ Comp: | 3,919.23 | (-0.1%) |
| Russell 2000: | 1,099.97 | (+0.4%) |

Market Indicators:

| | |
|---|---|
| Strong Sectors: | Materials, Financials, Energy |
| Weak Sectors: | Telecom, Utilities, Consumer Discretionary |
| NYSE Advance/Decline: | 1,240/ 1,961 |
| NYSE New Highs/New Lows: | 389/ 107 |
| AAII Bulls/Bears: | 45.5%/ 21.8% |

After digesting an array of mostly positive economic data, the S&P 500 ended a volatile week higher. A strong-than-expected 3rd quarter GDP growth rate of 2.8% easily outpaced last quarter's 2.5% and the first quarter's 1.1% rate. Despite the partial US government shutdown, the US October job report was surprisingly strong as 204,000 jobs were added versus economist estimates of only 120,000. In stock news, **Twitter, Inc**. soared 73% above its initial offer price of $26 on its first trading day and is currently valued at $23.5 billion or 20 times 2014 revenue. **Tesla Motors**, Inc. fell nearly 15% for the week after vehicle sales missed some analyst estimates as shares are priced for perfection. **Walt Disney Co.** profit increased 12% as investments in new attractions led to higher prices and higher occupancy at Disney parks. In addition, the consumer products segment benefited from the popularity of "Planes and "Monsters University" movies. **Gap Inc.** jumped nearly 10% on strong comparable store sales of 4% and the pre-announcement of higher earnings. Looking ahead to next week, the strength of the consumer will be tested as **Wal-Mart Stores Inc., Kohl's Corp., Macy's Inc. DR Horton Inc.** are all expected to announce earnings. With 448 of the S&P 500 names reporting earnings to date, corporate fundamentals remain strong as S&P 500 earnings have increased by 4.1% y/y and 67.9% of names had positive earnings surprises versus 64.5% a year ago. Despite equities approaching fair value, we believe stocks continue to offer the best risk/reward of any asset class as earnings growth and better capital allocation through buy backs and dividend increases can lead shares higher.