First Trust

Weekly Market Commentary

Week Ended May 23, 2014

US Economy and Credit Markets			
Yields and Weekly Changes:			
3 Mo. T-Bill:	0.02 (-01 bps)	GNMA (30 Yr) 6% Coupon:	112-14/32 (1.67%)
6 Mo. T-Bill:	0.05 (unch.)	Duration:	3.67 years
1 Yr. T-Bill:	0.08 (unch.)	30-Year Insured Revs:	152.91% of 30 Yr. T-Bond
2 Yr. T-Note:	0.36 (+02 bps)	Bond Buyer 40 Yield:	4.51 (-14 bps)
3 Yr. T-Note:	0.81 (+03 bps)	Crude Oil Futures:	104.35 (+2.33)
5 Yr. T-Note:	1.56 (+03 bps)	Gold Futures:	1,291.70 (-1.7)
10 Yr. T-Note:	2.52 (-01 bps)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.35 (-05 bps)	U.S. High Yield:	5.98% (+02 bps)
		BB:	4.68% (+04 bps)
		B:	5.98% (unch.)

Treasury prices fell through the week before rising Friday as investors became cautious regarding risk as Ukraine is set to hold elections over the weekend. Through the start of this year expectations were for US Yields rising as the Federal Reserve unwound its asset purchases. The opposite has held true. In May, the 10-year yield reached its lowest level since October, 2013 and inflation does not seem to be an immediate concern to investors. While domestic economic reports have a Goldilocks feel of “not too hot and not to cold,” Europe is an area of concern for investors as its economic growth remains suppressed and the ECB worries about the possibility of deflation throughout the Euro area. In sum, US Treasuries remain a safe haven in a risky world. Wednesday’s May 16 MBA Mortgage Applications was the first significant economic report of the week and showed applications rising .9% in the previous week as yields continue to decline. Thursday’s initial jobless claim report was unfavorable as 326,000 new claims were filed. Estimates were for 310,000 new applicants. The Federal Reserve continues to indicate monetary policy will be made with regard to both inflation targets as well as full employment in the economy, the duel mandate. April Existing Home Sales numbers were also released Thursday and were slightly below expectations. Then Friday, the April New Home Applications report surprising to the positive. Major economic reports (and related consensus forecasts) for the upcoming shortened, but still busy, holiday week include: Tuesday: April Durable Goods orders (-.7%) and May Consumer Confidence Index (83); Wednesday: May 23 MBA Mortgage Applications; Thursday: First Quarter Annualized GDP (-.5%) and May 24 Initial Jobless Claims (318,000, -8,000); Friday: April Personal Income (.3%), Personal Spending (.2%) and University of Michigan Confidence (82.5).

US Equities				
Weekly Index Performance:			**Market Indicators:**	
DJIA:	16,606.27	(+0.70%)	Strong Sectors:	Info Tech, Consumer Discretionary, Materials
S&P 500:	1,900.53	(+1.21%)		
S&P Midcap:	1,369.66	(+1.27%)	Weak Sectors:	Utilities, Telecom, Energy
S&P Smallcap:	650.03	(+1.71%)		
NASDAQ Comp:	4,185.81	(+2.33%)	NYSE Advance/Decline:	2,107/ 1,115
Russell 2000:	1,126.19	(+2.11%)	NYSE New Highs/New Lows:	290/78
			AAII Bulls/Bears:	30.4% / 26.4%

Markets continued to trade higher as the S&P 500 closed above 1,900 for the first time on Friday. Dovish comments from the Federal Reserve minutes released Wednesday was the main market driver. Federal Reserve policy makers commented that further stimulus doesn’t currently risk igniting a higher inflation rate. Economic data was mixed for the week with the U.S. PMI index showing strong growth in output and new U.S. homes sales increasing for the first time this year, while Initial Jobless Claims came in higher-than-expected. Turning to earnings, a number of retailers reported lackluster results due to the harsh winter conditions in the 1st quarter. **TJX Companies, Inc., Staples, Inc., Urban Outfitters, Inc.** all traded lower following disappointing earnings reports. Despite **Home Depot Inc.** missing expectations due to delayed spring purchases from the colder temperatures, shares gained over 2% for the week on a strong recovery in sales for May and management seeing no material slowdown in the housing market. **Dollar Tree, Inc.** reported solid results with strong comps and better-than-expected gross margins. In addition, **Tiffany’s & Co.** also bucked the retail trend by reporting strong global sales as Japanese sales rose by 20% and profits gained 50%. Next week’s holiday shortened trading week lacks market-moving economic data points. Investors are looking ahead to the June 6th release of May’s non-farm payroll report. Longer term we remain constructive on the equity markets as economic data though mixed is more positive than negative and with interest rates remaining low for the near future, equities remain a better option for putting money to work for most investors.