First Trust
Monday Morning OUTLOOK
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Events vs. Data

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If you're an investor looking for a reason to be worried, there are plenty of headlines to light the fuse. Widening war in the Middle East, turmoil in eastern Ukraine (or is that western Russia?), a debt default by Argentina…problems with some Portuguese bank…Ebola…tapering.

It's not a short list, and equities are down roughly 3% since their peak on July 24th.

Maybe, just maybe, a long-awaited stock-market correction has begun. We can't confirm or deny that prediction. All we know for certain is that this would be about the 43rd correction analysts have called in just the past 24 months.

What we do know is that the fundamentals do not suggest anything terribly serious is wrong with the US stock market. Don't take this the wrong way. These events are all important. They matter. But in the long sweep of history, they don't yet rise to the level of world changing events. Most of us have experienced much worse in our lifetimes.

Compared to the Yom Kippur War, the recent conflict between Israel and Gaza is small. And an interesting by-product of this current conflict is that more Arab countries are now supporting Israel.

Meanwhile, Putin's Russia is playing an increasingly weak hand trying to foment a border crisis with Ukraine. The recent downing of Malaysian Airlines flight 17 has pushed Europe into sanctions that hurt Putin's inner circle in its most vital organ. That would be their wallets.

Yes, Argentina isn't going to pay all its debts. But, given its history, why is this news? Since its independence in 1816, Argentina has been in default or rescheduling about 1/3rd of the time. We'd be more surprised if Argentina always paid its debts on time.

Ebola is certainly a scary headline, but projecting some turning point for the market due to Bird Flu, Swine Flu or even AIDS back in the 1980s was an overreaction.

Fear makes any one of these seem a potentially cataclysmic event, but the same could be said about hundreds of things that have happened in the past 200 years. The one thing we're sure of is that the economic fundamentals haven't changed much and that the market remains undervalued.

Real GDP in the second quarter rose 4% at an annual rate after a weather-related drop in Q1 of 2.1%. Moreover, revisions to 2013 show that real GDP grew 3.1% in the four quarters of 2013. By the way, some analysts used year-over-year data for 2013 to show a 2.2% gain in real GDP, but this is like using your average net worth for the year to reflect your financial health, not what you had at year-end.

The job market is showing steady gains, with another 209,000 added to payrolls in July. That's the sixth straight month above 200,000, the first time that's happened since 1997. And it looks like more of the same in August: initial unemployment claims are at a four-week average of 297,000, the lowest since April 2006.

In addition, the manufacturing sector looks like it's firing on all cylinders. The ISM Manufacturing Index beat on the upside, hitting 57.1 in July, the highest since 2011.

Construction plunged in June, but that's a very volatile indicator from month to month and the trend is still up, with a gain of 26% since the bottom in early 2011.

Technical analysis is not our area of expertise, which is why we have to be agnostic about whether we're in a correction. But if it is a correction, we think a rebound would be soon to follow.

We still believe the bull market will remain intact until a recession is on the way, the equity market gets overpriced, or monetary policy gets tight. None of these are here yet and we don't expect them anytime soon.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-5 / 9:00 am	Factory Orders – Jun	+0.6%	**+0.6%**		-0.5%
9:00 am	ISM Non Mfg Index – Jul	56.5	**56.7**		56.0
8-6 / 7:30 am	Int'l Trade Balance – Jun	-$44.9 Bil	**-$45.3 Bil**		-$44.4 Bil
8-7 / 7:30 am	Initial Claims – Aug 2	304K	**301K**		302K
2:00 pm	Consumer Credit– Jun	$18.7 Bil	**$18.6 Bil**		$19.6 Bil
8-8 / 7:30 am	Q2 Non-Farm Productivity	+1.5%	**+1.8%**		-3.2%
7:30 am	Q2 Unit Labor Costs	+1.2%	**+0.9%**		+5.7%