First Trust

Weekly Market Commentary & Developments

Week Ended January 3rd, 2014

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.07 (+01 bps)	GNMA (30 Yr) 6% Coupon:	111-10/32 (2.12%)
6 Mo. T-Bill:	0.09 (+01 bps)	Duration:	3.64 years
1 Yr. T-Bill:	0.11 (unch.)	30-Year Insured Revs:	137.15% of 30 Yr. T-Bond
2 Yr. T-Note:	0.40 (+01 bps)	Bond Buyer 40 Yield:	5.15 (+1 bps)
3 Yr. T-Note:	0.77 (unch.)	Crude Oil Futures:	94.24 (-6.08)
5 Yr. T-Note:	1.73 (-01 bps)	Gold Futures:	1,237.20 (+21.10)
10 Yr. T-Note:	3.00 (unch.)	Merrill Lynch High Yield Indices:	
30 Yr. T-Bond:	3.93 (-01bps)	U.S. High Yield:	6.33% (-01 bps)
		BB:	5.07% (unch.)
		B:	6.33% (-02 bps)

Treasury prices continued to trade lower and the 10-year Treasury Note saw its yield rise to 3% - its highest yield over two years. Yields suddenly increased this summer as Federal Reserve's announced plans to taper asset purchases. Higher yields can be concerning because they may result in reduced spending from higher mortgage rates, increased corporate borrowing costs and are seen as less-simulative than lower yields. By tapering, the Federal Reserve has signaled its belief that the U.S. economy can expand even in the face of bond purchase reductions. Additionally, strong economic reports from this week supported increased yields. Economic data was generally positive and included Monday's Personal Income and Spending November reports. While both enjoyed increases versus the prior month, Income came in less than expected and Spending came in as expected. According to the Commerce Department lower earnings partly resulted from farmers who continue to face depressed commodity prices due to record harvests. Tuesday's November Durable Goods Orders had a 3.5% increase MoM. Strengthening durable goods orders are representative of continued economic expansion. Initial jobless claims were 338,000 vs the prior week's 379,000 – a drop of 41,000. Gold came slightly off recent lows but is still well off where it started 2013 and Oil was basically flat. Supplies have been increasing helping support the price after it had fallen to the low $90 range in November. Major economic reports (and related consensus forecasts) for next week include: Tuesday: Consumer Confidence Index (76.3, +5.9); Wednesday: Initial Jobless Claims (345,000, +7,000) and ISM Manufacturing (56.9, -.4)

US Stocks

Weekly Index Performance:

DJIA:	16,469.99	(-0.1%)
S&P 500:	1,831.37	(-0.5%)
S&P MidCap:	1,333.78	(-0.2%)
S&P Small Cap:	660.06	(-0.7%)
NASDAQ Comp:	4,131.91	(-0.6%)
Russell 2000:	1,156.09	(-0.4%)

Market Indicators:

Strong Sectors:	Financials, Cons Disc, Health Care
Weak Sectors:	Energy, Utilities, Telecom
NYSE Advance/Decline:	1,583/ 1,599
NYSE New Highs/New Lows:	395/ 101
AAII Bulls/Bears:	43.1%/ 29.3%

After gaining ground to finish 2013 strong, equities sold off to start the new year as investors reduced their exposure to U.S. stocks. Despite inevitable tapering by the Federal Reserve and political brinkmanship in Washington, the Dow Jones Industrial Average posted its biggest annual gain in 18 years on improving company fundamentals and expanding multiples. Economic data was mostly positive for the holiday-shortened week as construction spending and manufacturing indexes posted stronger-than-expected numbers. In addition, pending home sales turned positive for the first time month-over-month since May. Turning to stock news, **Crocs, Inc.** gained over 20% after announcing **Blackstone Group LP** will invest $200 million and the company will hire a new CEO to try to turn around the sagging brand. **Phillips 66** rose for the week following the announcement that **Berkshire Hathaway Inc.** will buy their specialty products pipeline business for $1.4 billion in shares currently held by Warren Buffet's company. Mr. Buffet is boosting his bet on oil transportation as a U.S. drilling boom has caused pipeline operators to increase capacity. **Intrexon Corp.** jumped after announcing a research and development collaboration with **Johnson & Johnson.** Looking at the year ahead, equities still have the potential to run higher as the economic recovery continues to accelerate, and Europe, a recent drag on U.S. companies with foreign exposure, is on the mend. However, gains will most likely not repeat 2013's stellar performance as most of the market gain came from multiple expansion. With multiples near historic averages future gains are likely to come from earnings growth. Wall Street analysts expect earnings to grow by 10.6% for the S&P 500 in 2014. If growth comes near Street forecasts, 2014 could be a pleasant year for equity investors.