

September: “Danger” or “Exception”?

Key economic indicators and capital market events for September 2014 by Joe Terranova, Chief Market Strategist



September is viewed as a potential “danger” month for the S&P 500® Index, largely based on its recent history of very ugly returns. Since 2000, the S&P 500 suffered losses in six Septembers, including five with declines greater than 5%, from -11% in 2002 (the second worst September on record since -11.9% in 1974) to -9.5% in 2008 and -7.2% in 2011. Conversely, September has also been an “exception” month for the Index, registering eight positive returns since 2000, including the last two years, with +2.4% in 2012 and +2.8% in 2013. The best return for September since 1950 was +8.7% in 2010. All told, over the last 64 years, September’s returns have been positive 29 times and negative 35 times, with an overall average Index return of -0.6%. What will September 2014 bring? Despite an undeserved negative reputation, historical evidence doesn’t provide an answer. I suspect monitoring the following capital markets events throughout the month will be much more constructive.

September 2014

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1 Labor Day U.S. Markets Closed China PMI	2 10:00 AM: U.S. ISM Manufacturing	3	4 ECB & BOE Meetings	5 8:30 AM: U.S. Nonfarm Payroll Report	6
7	8 D.C. Back in Session	9	10	11	12 8:30 AM: U.S. Retail Sales	13
14	15 8:30 AM: Empire State Mfg. Survey	16	17 2:00 PM: FOMC Announcement 2:30 PM: FOMC Press Conference	18 10:00 AM: U.S. Philly Fed Mfg. Survey	19	20
21	22 10:00 AM: U.S. Existing Home Sales	23	24 10:00 AM: U.S. New Home Sales	25	26	27
28	29 9:00 AM: U.S. S&P/Case-Shiller Home Price Index	30				

Times shown are Eastern Time.

September indicators / events of note:

China PMI

China PMI (purchasing managers' index) provides a monthly gauge of China's manufacturing sector, which, when combined with the monthly U.S. ISM Manufacturing Index value, gives a clear picture of global manufacturing health. A PMI value above 50 indicates growth, below 50 contraction.

ISM Manufacturing

The ISM Manufacturing Index, issued by the Institute of Supply Management, gives a monthly measure of the health of U.S. manufacturing based on an in-depth survey of 300 manufacturing firms. An index value of 50 is the dividing line between an expanding or slowing economy. Data released is for the previous month.

ECB and BOE Meetings

Both the European Central Bank (ECB) and the Bank of England (BOE) release their respective monetary policy announcements on the same day.

Nonfarm Payroll Report

Private, nonfarm payroll data is part of the Labor Department's monthly U.S. Employment Situation report. This data gives the true employment story, is the best gauge of the economy's direction, and has the power to move markets.

D.C. Back in Session

Congress reconvenes from its six-week summer recess on Monday, September 8.

Retail Sales

U.S. retail sales data is released monthly by the Department of Commerce. Retail sales measure total receipts for sales of durable and nondurable goods. Consumer spending accounts for two-thirds of GDP and is therefore a key element in economic growth.

You should be watching:

Growth is very quietly accelerating once again in China, as China PMI has recently trended upward. Last month's 51.7 was the highest reading since May 2011. Keep in mind that it was only back in February when markets were debating whether an ominous sub-50 print was about to occur as a 50.2 was traced out.

The evidence continues to stack up for a "goods over services" investment strategy. A prime example is the strength of this report over the past few months. Last month's 57.1 was the highest reading for 2014 and the strongest since April 2011. Expectations are equally strong for the upcoming report, with consensus estimates coming in at 56.7.

Given recent soft European economic data, it is paramount to once again focus on the ECB meeting. Expect the ECB's governing council to acknowledge a worsening inflation picture for Europe, which is the first step toward initiating broad-based asset purchases. Consensus estimates are for quantitative easing to be implemented in the eurozone in December, with a possible trillion dollar asset purchase package.

Europe and the U.S. are in two distinctly different economic positions, a fact that will be highlighted in the 24-hour span between the ECB meeting's conclusion and the release of the U.S. nonfarm payroll report for August. Last month's report was consistent with continued improvement in the labor market, with the headline figure at 209,000 and private payrolls at 198,000. Consensus estimates for the upcoming report are for a headline figure between 200,000 and 220,000, and private payrolls from 190,000 to 210,000. The unemployment rate is expected to fall back to 6.1%.

As the Senate and House return to Washington D.C., their immediate need will be to tackle the looming spending bill's September 30 deadline. With the November midterm election fast approaching, expect a quick, temporary fix in the form of passing a continuing resolution (CR) that will fund the government until December 1. The CR will likely include a temporary fix for the U.S. Export-Import Bank, but once the bill expires, that will become a hotly debated topic.

Last month's retail sales report presented broad-based weakness that motivated several consensus estimates for Q3 GDP to be lowered by one- to two-tenths. Current estimates for Q3 GDP are 3%. This month's sales report encompasses the "earlier" back-to-school season. With expectations so high, there is no room for disappointment.

September indicators / events of note:

U.S. Empire State Manufacturing Survey

This monthly indicator provides useful intelligence on regional manufacturing conditions within the New York Federal Reserve district and is a useful indicator of national manufacturing trends.

FOMC Meeting Announcement and Press Conference

Following the conclusion of its two-day September meeting, the Federal Open Market Committee (FOMC) releases its monetary policy statement and updated economic projections, followed by Chair Janet Yellen's quarterly press conference.

Philadelphia "Philly" Fed Manufacturing Survey

The Philly Fed monthly survey provides intelligence on manufacturing conditions within the Philadelphia Federal Reserve district, and is a useful indicator of broad manufacturing sector trends.

Existing Home Sales

This report provides sales-closing data on previously constructed homes, condos, and co-ops. Existing homes account for a larger share of the market than new homes and indicate housing market trends.

New Home Sales

Issued monthly by the U.S. Census Bureau, U.S. Commerce, and U.S. Housing Departments, this report reveals the number of newly constructed homes with a committed sale.

S&P/Case-Shiller Home Price Index

This index, released on a two-month lag, tracks changes in the value of residential real estate in 20 metropolitan regions across the U.S.

You should be watching:

This report will be the FOMC's last look at the manufacturing sector, which remains solidly in expansion territory and the economy's bright spot. Last month, the Empire manufacturing reading was +14.7, following a robust +25.6 for the previous month. There have been four consecutive months of double-digit readings, which is the first time this has occurred since Q1 2012.

This will be Janet Yellen's first post-FOMC meeting press conference since June 18. Expect the pace of asset purchases to be tapered from \$25 billion to \$15 billion per month, consisting of \$10 billion in U.S. Treasuries and \$5 billion in mortgage-backed securities.

Consistent with the strength exhibited by the Empire manufacturing report, the Philly Fed recorded a +28 reading last month, following +23.90 the previous month. There have now been five consecutive months of gains greater than +15, the first such occurrence since Q1 2011.

Money managers' economic focus will shift toward housing during the latter part of September. Certainly, the "wealth effect" produced by the strong returns of the capital markets is having a positive impact on a select portion of the population. Late September housing data will provide insight as to whether a new housing rebound is underway, which would add another positive catalyst for the wealth effect. Existing home sales rose 2.4% last month, and the monthly existing home supply has now fallen to less than six months.

Last month, new home sales declined 2.4%, the one disappointment in a string of positive housing data. Overall, new home sales on an annualized basis stand at 412,000, modestly below last year's 459,000 post-2008 high. I am seeking evidence that a new uptrend in housing might be emerging, which would be confirmed with a strong August new home sales report.

Heading into 2014, the value of homes was one of the metrics providing money managers with confidence that U.S. GDP was accelerating. The S&P/Case-Shiller Home Price Index was up nearly 14% year on year. Throughout 2014, the trend for strengthening home prices has moderated. Last month, a 9.34% year-on-year rise was reported, the slowest pace since early 2013. There is budding confidence once again that U.S. growth is accelerating, but for that to occur, home price values must reverse the modest near-term trend contraction.



JOSEPH M. TERRANOVA, *Chief Market Strategist, Virtus Investment Partners*

Joe Terranova is chief market strategist for Virtus Investment Partners, a position he was elevated to in 2009, after having started with the company as chief alternatives strategist. In his current role, Mr. Terranova works with Virtus' regional sales teams and the financial advisors who sell the company's investment products, providing insight into the domestic and global investing landscape and has represented Virtus as a keynote speaker for several financial institutions. He is a member of the Virtus Investment Oversight Committee.

Prior to joining Virtus in 2008, Mr. Terranova spent 18 years at MBF Clearing Corp., rising to the position of director of trading for the company and its subsidiaries. In this capacity, he managed more than 300 traders and support staff for MBF, one of the New York Mercantile Exchange's largest firms. His work was highlighted as the feature story in the June 2004 issue of *Futures* magazine.

Mr. Terranova is perhaps best known for his risk management skills, honed while overseeing MBF's proprietary trading operations during some of the most calamitous times for the U.S. markets, including the first Gulf War, the 1998 Asian Crisis, 9/11, and the collapse of Amaranth Advisors. In 2003, he was one of the first Wall Street professionals to make an early call for higher energy, natural resources, and commodity prices. In June 2008, he cautioned investors to move to the sidelines in commodities and, in March 2009, he encouraged investors to ignore the global "embracement of pessimism" and overweight equities. Before joining MBF, Mr. Terranova held positions at both Swiss Banking Corp. and JP Morgan Securities.

Mr. Terranova has been an ensemble member of the CNBC *Fast Money* franchise since 2008. He also frequently contributes exclusively to CNBC's other business programs. He is the author of *"Buy High, Sell Higher"* (Business Plus, 2012), a book about the "new rules" of investing based on his years as a professional trader.

Mr. Terranova is strongly committed to charitable causes benefiting children. He founded and funds the 501(c) South Nassau Rock organization, which provides specialized athletic experiences for children, and works with Nassau County to sponsor the improvement of baseball and outdoor ice rink facilities. In 2007, he established "Bossy's Bunch," a program that rewards academic excellence among elementary school students, with New York Islanders Hall of Fame hockey player Mike Bossy. In 2013, he expanded his charity work with the Islanders, creating and sponsoring the "Courier of Courage" program, which acknowledges children who have overcome hardships, disabilities, or illness.

Mr. Terranova earned a bachelor's degree in finance from the Peter J. Tobin College of Business at St. John's University in New York.

For more information, visit Virtus.com

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