

---

## MV Capital Management Weekly Market Flash

### The Winter of Economic Uncertainty

*March 7, 2014*

The markets seem to like what new Federal Reserve Chairwoman Janet Yellen has to say, which may be surprising since Ms. Yellen herself has expressed some confusion about the current economic data in front of the Fed. After one of the now seemingly routine DC snowstorms derailed the February 13<sup>th</sup> meeting, Ms. Yellen testified in front of the Senate Banking Committee on February 27<sup>th</sup> to discuss the recent soft economic data, weather woes, and the Fed's outlook for its bond buying program. Nonetheless, U.S. equities have continued on their merry way to successive record highs.

Ms. Yellen did not deviate much from the views of the Fed at the last meeting in January and the monthly tapering program remains in place. However, members' uncertainty over the current state of the economy has become increasingly apparent.

#### *Economic Data: A Mixed Bag*

Some less than stellar economic data have trickled in over the past couple of weeks. U.S. retail sales fell 0.4% (the most since June 2012), industrial production was down 0.3%, and housing data has been mixed. Questions remain about recent employment numbers: Thursday's jobless claims were 323,000 versus the projected 336,000, but the absolute level would seem to be a bright spot of sunshine. February's nonfarm payrolls were 175,000, an improvement over January, but the unemployment rate ticked up to 6.7%. The average monthly payroll gain for the December-February period is 129,000 versus 230,000 for the same period one year ago.

A question that has been on everyone's mind is how much these numbers can be attributed to the unusually harsh winter weather. The soft economic data "may reflect in part adverse weather conditions, but at this point it is difficult to discern exactly how much" stated Yellen, and any effects could be felt months down the road. Investors will be taking an especially hard look at the forthcoming spring numbers to see if there is a resumption of the more robust growth numbers we were starting to see last fall.

Despite the Fed's uncertainty on this issue, it is expected that March's FOMC meeting will see continued tapering, which would trim bond purchases another \$10 Billion to a total of \$55 Billion. Ms. Yellen did not think that the recent soft data was enough to constitute a continued bond buying program, but "if there's a significant change in the outlook, certainly [the Fed] would be open to reconsidering."

#### *QE: The Debate Continues*

While the consensus remains that QE is in its sunset phase, not all members of the Fed are gung-ho to be done with the program. Philadelphia Fed president, Charles Plosser, is "very worried about the potential unintended consequences" from the unwinding of the program and warned that it may be "many, many years" before the economy returns to growth rates seen before the recession. On Wednesday, U.S. GDP was revised downwards to 2.4% for Q4 2013, a disappointing revision from the initial report of 3.2%.

Elsewhere in the world, the Bank of England and Bank of Japan have followed the Fed's lead, both embarking on asset buying programs of their own and bringing interest rates to or maintaining them at historic lows. Plosser noted that pressure on central banks to provide stimulus to their struggling national economies is at "unhealthy highs", giving voice to doubts that the programs may be sustainable for much longer.

The Fed's effect on the fortunes of emerging markets currencies continues, exacerbated by various geopolitical flashpoints including the turmoil in Ukraine (and, by extension, Russia) and uncertainly in advance of India's forthcoming national elections. While none of these events by themselves may pose an extreme risk, the heightened baseline volatility in world asset markets is likely to be on the Fed's radar screen as they ponder the data ahead of this month's meeting.

Again, our baseline view is little changed: we expect to see the Fed continue with its QE taper and for macroeconomic data to show renewed strength as spring finally arrives. The next set of readings may tell us a great deal about where asset prices are headed in the coming months.

*Masood Vojdani*  
*President & CEO*

*Courtney Martin*  
*Investment Analyst*

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.