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30 May 2014

Market Action

- US equity markets closed the month of May posting gains. It marks the fourth month in the year that stocks have posted gains. The S&P 500 and Dow Jones closed Friday at record highs

- Despite gains in equities the week was marked by considerable uncertainty. Yields on bonds continued to fall, closing below 2.50% for the US 10 yr. In addition a number of markets have seen low volatility, crystallizing a lack of clear direction for the immediate future.

- The revision to GDP growth for Q1 in the US revealed economic contraction of -1%. Markets shrugged off the figures relying more on optimism for Q2 and the rest of the year

- Data from Europe revealed troubling trends in credit growth. Analysts and commentators used the revelation as further evidence that Mario Draghi will unveil steps to stimulate the Eurozone through a negative deposit rate and encouraging securitisation

- The start of the week in Japan was highlighted by supposed tension between Central Bank Governor Kuroda and Prime Minister Abe over the pace of reform. By the end of the week the narrative on Japan had turned positive thanks to strong inflation data and praise from economists on Abenomics

- M&A activity picked up energy this week as big names such as Nestle, Apple, Pilgrim Foods, and Siemens either completed purchases or were rumored to be in serious talks. M&A news has buoyed markets so far in 2014

- Gold fell to its lowest level in over four months. Some analysts credit the drop to deescalating geopolitical tensions while others insist investors are jumping into risk markets in light of expected ECB stimulus

- The Chicago PMI reported on Friday came in at its highest level since 2011, strongly surpassing expectations

Returns

| | Weekly | Weekly (%) | Monthly (%) | Year to Date (%) |
|--------------------|------------|------------|-------------|------------------|
| Equities | | | | |
| U.S. | | | | |
| Dow Jones | 110.90 | 0.67% | 0.82% | 1.68% |
| S&P 500 | 23.04 | 1.21% | 2.10% | 5.00% |
| Nasdaq | 56.81 | 1.36% | 3.11% | 2.40% |
| Europe | | | | |
| FTSE | 28.71 | 0.42% | 0.95% | 1.41% |
| DAX | 175.26 | 1.79% | 3.54% | 5.78% |
| Asia | | | | |
| Nikkei | -99.79 | -0.69% | 0.41% | -9.72% |
| Shanghai | 4.64 | 0.23% | 0.63% | -3.33% |
| Currencies | | | | |
| EUR/\$ | 0.0002 | 0.01% | -1.73% | -0.29% |
| Yen/\$ | -0.1 | -0.10% | -0.35% | -2.92% |
| UK/\$ | -0.0065 | -0.39% | -0.75% | 1.92% |
| Bonds | | | | |
| 10 Year Treasury | -0.06 | -2.56% | -7.30% | -17.50% |
| Moody's AAA | -0.04 | -0.95% | -1.43% | -8.79% |
| Commodities | | | | |
| WTI | \$ (1.42) | -1.36% | 3.85% | |
| Brent | | | | |
| Crude | \$ (0.99) | -0.90% | 1.88% | |
| Gold | \$ (41.00) | -3.17% | -2.95% | 2.08% |

| As of 05/29 | Returns (%) | | |
|------------------------|-------------|---------|-------|
| Sector Name | 5-Day | 1-Month | YTD |
| Basic Materials | 0.51 | 1.45 | 5.2 |
| Communication Services | 0.61 | 4.83 | 2.65 |
| Consumer Cyclical | 1.32 | 2.27 | 0.43 |
| Consumer Defensive | 0.27 | 3.24 | 6.7 |
| Energy | 0.2 | 2.78 | 9.39 |
| Financial Services | 1.21 | 4.84 | 3.63 |
| Healthcare | 0.61 | 2.49 | 9.85 |
| Industrials | 1.28 | 2.47 | 5.31 |
| Real Estate | 1.11 | 3.42 | 8.98 |
| Technology | 2.29 | 3.65 | 5.35 |
| Utilities | 0.84 | 1.66 | 13.86 |

Economic Calendar: June 2-June 6

| Date | Release | For | Est |
|------|-------------------------|------|----------|
| 6/02 | PMI Manufacturing Index | May | NA |
| 6/02 | ISM Manufacturing Index | May | 55.8% |
| 6/02 | Construction Spending | Apr | 0.8% |
| 6/03 | Factory Orders | Apr | 0.8% |
| 6/04 | ADP Employment | May | NA |
| 6/04 | International Trade | Apr | -\$40.8B |
| 6/04 | Productivity and Costs | Q1 | -2.9% |
| 6/04 | ISM Non-Manufacturing | May | 55.5% |
| 6/05 | Jobless Claims | 5/31 | 311K |
| 6/06 | Nonfarm Payrolls | May | 200K |
| 6/06 | Unemployment Rate | May | 6.4% |

Recommended Reads

[Big Investors Replace Banks in \\$4.2 Trillion Repo Market](#)
Financial Times

[A Better Solution for Too Big to Fail Banks](#)
Charles Calomiris

[Draghi and the Case for Securitisation](#)
Money Supply Blog, Financial Times

[Niall Ferguson and a History of Central Bank Balance Sheet Expansions](#)
Wall Street Journal

Image of the Week: Calm Before the Storm or Peace on Earth?

Source: Attain Capital Management



Current Environment ... Driven by Record Low Volatility

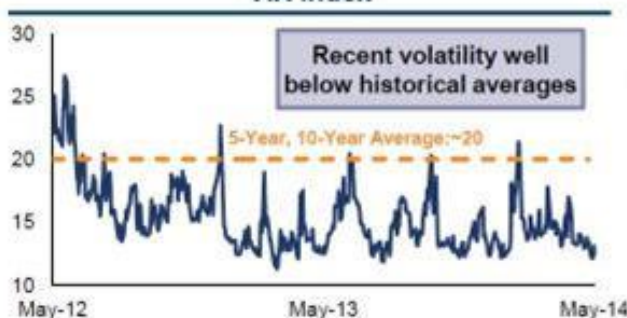
- Historically low volatility across a variety of asset classes
 - Discourages hedging and delays opportunistic investing
- Volatility impacted by low real yields, fewer central bank surprises, limited forward GDP visibility

Tightest 10 Year Treasury Yield Ranges (%)

| Three Months Ending | Range |
|---------------------|-------|
| May 2014 | 0.20% |
| April 1978 | 0.22% |
| August 1998 | 0.24% |
| 35-Year Average | 0.85% |

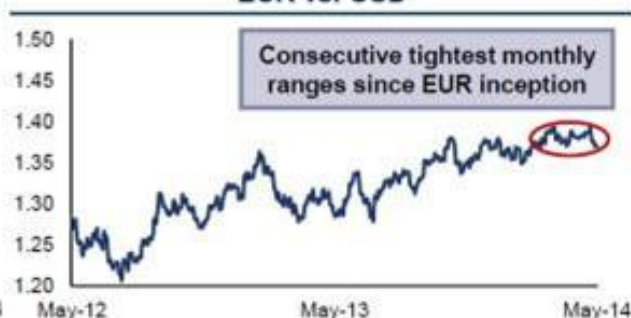
Tightest 3 month band in the last ~35-year period

VIX Index



Source: Bloomberg as of 5/16/14

EUR vs. USD



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