March 2, 2015

The Markets

“Well, I never heard it before,” said the Mock Turtle; “but it sounds uncommon nonsense.”

It was an Alice in Wonderland week. European countries, companies, and entrepreneurs were getting paid to borrow money, and ordinary Joes with money in some European banks got letters saying the banks would be charging to hold their money. *The New York Times* reported:

“The most profound changes are taking place in Europe’s bond market which has been turned into something of a charity, at least for certain borrowers. The latest example came on Wednesday when Germany issued a five-year bond worth nearly $4 billion with a negative interest rate. Investors were essentially agreeing to be paid back slightly less money than they lent.

Bonds issued by Switzerland, the Netherlands, France, Belgium, Finland, and even fiscally challenged Italy also have negative yields. Right now, roughly $1.75 trillion in bonds issued by countries in the eurozone are trading with negative yields which are equivalent to more than a quarter of the total government bonds…”

At the end of February, many European stock markets were showing high single-digit to low double-digit gains for the year.

Meanwhile, back in the United States, the background report that supported Fed Chair Janet Yellen’s semi-annual testimony before Congress highlighted the effects of the Fed’s EAT ME cake – also known as quantitative easing – which left its balance sheet at about $4.5 trillion (up from about $1 trillion in 2008). *Barron’s* speculated the effect of an unexpected rise in interest rates could negatively affect the Fed’s bond holdings with maturities greater than 10-years. “If long-term rates do rise faster than anyone now anticipates, the Fed may run into difficulties of navigation that could prove a tad destabilizing to the economy.”

Data as of 2/27/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.3%	2.2%	13.5%	15.5%	13.5%	5.8%
10-year Treasury Note (Yield Only)	2.0	NA	2.6	1.9	3.6	4.4
Gold (per ounce)	0.5	1.2	-8.9	-11.8	1.7	10.8
Bloomberg Commodity Index	0.7	-0.9	-22.4	-11.5	-4.9	-4.1
DJ Equity All REIT Total Return Index	-1.2	2.9	22.8	15.0	17.2	9.2

S&P 500, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

A MANUFACTURING RENAISSANCE IN AMERICA... REALLY? In the 1950s, manufacturing accounted for 30 percent of America’s gross domestic product (GDP), which is the value of all goods and services produced in the United States. Today, it comprises about 12 percent of GDP. That’s a big change and it was accompanied by a big shift in employment. In its heyday, manufacturing companies employed about 20 million people in America. Today, that number has fallen to about 12 million.

For decades, companies moved production facilities away from the United States to countries like China which offered lower manufacturing costs. Now, the trend is beginning to reverse. Lower energy prices and rising wages in emerging countries have companies moving manufacturing back to the United States. However, they’re running into a stumbling block – a shortage of skilled labor. A *BBC* report asked:

“…will Americans really contemplate going back to work on the factory floor? The companies all worried about a shortage of skilled workers. So, I went to meet students from the University of Tennessee. They told me they didn't see their future in manufacturing. Some wanted to finance those plants while others said that they weren't good enough at mathematics to work in advanced industries.”

The *2015 Manufacturing Institute and Deloitte Skills Gap* study confirmed the shortage of skilled manufacturing labor here in the United States and reported little is expected to change during the next decade. Through 2025, close to 3.5 million manufacturing jobs are likely to open but just 1.4 million will be filled because there are not enough workers with the right skill sets. The study found:

- 60 percent of available skilled production positions remain open
- 80 percent of manufacturing companies are willing to pay more than the going rates to attract skilled workers
- 82 percent of executives believe the skilled labor shortage will affect their ability to meet customers’ needs

The Economist was skeptical about a renaissance in U.S. manufacturing. It reported for the industry to flourish, America needs investment in research and development, improved schools and colleges, and changes to the tax system.

Weekly Focus – Think About It

“Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning.”
--Albert Einstein, Theoretical physicist

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
*Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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