

## MONTHLY MACROSCAN

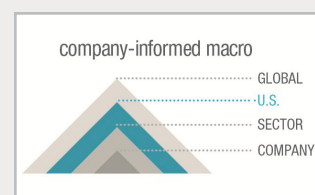
## Back on Track









Janus' company-informed outlook  
on key U.S. macroeconomic indicators



JANUS

After a slow and unfortunate start to the year due to weather disruptions, it appears that the U.S. economy is back on track. Companies were telling us that they were simply looking for a reprieve from the horrible weather so that everyone could get back to work; recent economic data is now confirming that story. With a strong and resilient consumer, and business spending finally recovering, we see the U.S. economy pushing ahead, although we have downgraded our full-year GDP estimate to 2.5% from 3% after the subpar 1Q weather-related release.



	FACTORS	TREND	OUTLOOK
<b>CONSUMER</b>			
	<ul style="list-style-type: none"> <li>Consumer confidence held on through the volatility in the first quarter.</li> <li>Home prices are up 12.9% year over year (YoY), according to the S&amp;P/Case-Shiller 20-City Index.</li> <li>Nonfarm payroll growth is back in the game, up 288K in April. Job growth averaged 194K/month in 2013 and 214K in the first few months of 2014, with the unemployment rate sitting at 6.3%.</li> </ul>		<ul style="list-style-type: none"> <li>Consumer resilience in 2013 bodes well for 2014 spending. Despite getting off to a slow start due to severe cold weather patterns, consumers are recovering nicely.</li> <li>While housing is off to a slow start due to the weather, we continue to expect home price appreciation, which should boost personal net worth and spur construction sector job creation.</li> <li>We believe the unemployment rate will trend around 6.5% as people exit and re-enter the labor force.</li> </ul>
<b>BUSINESS</b>			
	<ul style="list-style-type: none"> <li>The pace of business capital expenditures is starting to recover — now up 5.9% YoY — but has not been as robust as expected due to the weather disruptions in 1Q.</li> <li>The Institute for Supply Management (ISM) manufacturing index edged up to 54.9 in April after weather disruptions in 1Q.</li> </ul>		<ul style="list-style-type: none"> <li>Businesses remain cautious, but we believe 2014 will offer sufficient clarity on fiscal policy and demand to allow them to move forward.</li> <li>We believe full-year gross domestic product (GDP) growth will rise to 2.5% in 2014.</li> </ul>
<b>INFLATION</b>			
	<ul style="list-style-type: none"> <li>Inflation is moving down and out of the pipeline, as reflected in the core Consumer Price Index (CPI) easing to a 1.7% YoY growth rate. The core personal consumption expenditures (PCE) price index is even weaker, at 1.2%.</li> <li>Commodity prices are low. Oil is trending around \$100/barrel and gold is below \$1,300/ounce.</li> </ul>		<ul style="list-style-type: none"> <li>We expect core CPI to rise to 1.9% YoY in 2014, compared with 1.7% in 2013.</li> <li>Consumers should benefit from lower overall commodity prices. However, wages are not yet outpacing inflation, which essentially creates a net neutral effect.</li> </ul>
<b>FISCAL &amp; MONETARY POLICY</b>			
	<ul style="list-style-type: none"> <li>Congress passed a budget deal that will keep discretionary spending at \$1.012 trillion for fiscal year 2014; it is looking at a similar bill for 2015. The debt ceiling was raised until March 15, 2015.</li> <li>The Federal Reserve (Fed) has tapered its quantitative-easing (QE) program by \$40 billion, reducing its monthly bond purchases to \$45 billion.</li> </ul>		<ul style="list-style-type: none"> <li>With a budget deal reached and the government funded through March 15, 2015, we see fiscal headwinds finally fading.</li> <li>While the Fed has begun to taper QE, we do not expect a short-term interest rate hike before mid-2015 and the market is questioning if we will see Fed policy error.</li> </ul>



## MONTHLY MACROSCAN: KEY IMPLICATIONS

- We see the U.S. economy regaining momentum and pushing ahead, but **have downgraded our full-year GDP forecast to 2.5% from 3% after the subpar 1Q weather-related release.**
- We see the **unemployment rate** bouncing around as people exit and re-enter the labor market, **ultimately ending the year at 6.5%.**
- Our key themes for 2014 remain intact: **less fiscal drag, low inflation and continued accommodative monetary policy.**

Equipment rental company **United Rentals** said that commercial construction appears to be in a broader recovery.

**JPMorgan** reports a very strong auto industry rebound in March with the highest new auto sales since 2007, coming off a slower start to the year due to bad weather.

**Delta Air Lines** is seeing gains in corporate contract revenue, despite some weather impact in January and February.

company-informed macro



### Janus Company-Informed Macro Perspective

Fundamental credit research has been at the core of the Janus fixed income process for over 25 years. Not only does in-depth credit research anchor our fixed income investment process, it also serves as the foundation for our macroeconomic views. While most macroeconomic forecasts originate from government data, we start at the bottom, aggregating individual company data from our fundamental research to arrive at a company-informed macro view at the company, sector, U.S. and global levels. We believe this approach differentiates us from our peers and other macroeconomic data providers.



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The opinions are those of the fixed income team as of May 2014 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

The Core Personal Consumption Expenditures Price Index (personal consumption expenditures prices excluding food and energy) measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

S&P/Case-Shiller Home Price Indices are constant-quality house price indices for the United States. There are multiple Case-Shiller home price indices: a national home price index, a 20-city composite index, a 10-city composite index, and twenty individual metro area indices.

The ISM Manufacturing Report On Business is based on data compiled from purchasing and supply executives nationwide. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

The Consumer Price Index (CPI) represents changes in prices of all goods and services purchased for consumption by urban households. The core CPI represents changes in prices of all goods, excluding volatile food and energy prices.

In preparing this document, Janus has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources.

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