Financial Market Update

Friday, September 19, 2014

THE WEEK IN REVIEW

The highly anticipated Fed monetary policy meeting concluded without significant changes to the language or interpretation of when the Fed might begin to raise interest rates. The Fed reiterated that it would keep rates low for a "considerable time," and in the press conference following the meeting Janet Yellen would not define what "considerable time" meant to avoid locking the Fed into a calendar deadline. Despite continued insistence that the decision to raise rates would be "data dependent," the Fed raised its median estimate for the federal funds rate to 1.375% at the end of 2015, up from the 1.125% estimate at their June meeting.

This week's economic reports generally supported the Fed's stance of staying the course for now, and not indicating any urgency to raise interest rates. Industrial production unexpectedly slipped 0.1% in August following a gain of 0.2% in July. Consensus estimates were for a 0.3% gain. This represented the first decline since January, and was mainly due to a drop in the production of automotive products after a strong July reading for the sector. The Producer Price Index (PPI) was unchanged for August, and increased 1.8% on a year-over-year basis. The report for the Consumer Price Index (CPI) was also tame as both the headline CPI and the core number came in lower than expected. The CPI declined 0.2% in August after gaining 0.1% in July. Excluding food and energy, the core CPI was unchanged versus expectations for a 0.2% increase. Another weaker-than-expected report came from the housing sector as housing starts for August fell 14.4%, following a strong July that saw an increase of 22.9%. The multifamily segment of the housing market remains strong.

Initial jobless claims fell 36,000 to a lower-than-expected level of 280,000 for the week ending September 13. The four-week average moved slightly below 300,000, near the lowest levels of the recovery. Continuing claims also showed improvement as the latest data presented a new recovery low of 2.429 million.

Treasury yields were relatively flat for the week as concerns waned over an earlier-than-expected rate increase in 2015. The 10-year U.S. Treasury yield remains at its highest levels in two months.

Domestic equity markets rallied on the Fed report and investors' rising confidence that Janet Yellen can smoothly execute an exit strategy from its historic quantitative easing program. Markets were further buoyed by the much anticipated Alibaba IPO on Friday. Alibaba is the largest U.S. IPO in history, raising $21.8 billion. European markets rose as Scotland voted against becoming an independent country. Markets in Asia were strong with the Nikkei closing the week at a seven-year high on continued weakness in the yen.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,279.74	1.72%	4.24%	13.09%
NASDAQ	4,579.78	0.27%	9.65%	22.40%
S&P 500 LargeCap	2,010.40	1.25%	8.77%	19.47%
S&P 400 MidCap	1,419.19	-0.20%	5.71%	14.72%
S&P 600 SmallCap	665.65	0.16%	0.02%	11.17%
MSCI EAFE	1,903.37	0.15%	-0.64%	6.73%
MSCI Emerging Markets	1,056.37	-0.49%	5.35%	6.19%
Barclays Agg		-0.37%	3.62%	3.95%
Barclays Intermediate G/C		-0.22%	1.92%	2.17%
Treasury Long		-1.63%	12.31%	10.08%
Merrill High Yield		0.07%	4.81%	8.55%
FTSE/NAREIT All REIT Index		-0.33%	11.82%	6.92%
Bloomberg Commodity Index		-1.50%	-4.98%	-8.09%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.01%	0.03%	0.00%
2-Year Treasury	0.56%	0.43%	0.34%
5-Year Treasury	1.81%	1.58%	1.49%
10-Year Treasury	2.57%	2.40%	2.75%
30-Year Treasury	3.29%	3.21%	3.80%
Municipal Bond Yields (10 Yr)	2.29%	2.18%	2.73%

UPCOMING WEEK

We will get a look at August housing data as existing home sales will be reported on Monday, and new home sales will be reported on Wednesday. Investors will be watching to see if the data points to a rebound in what has been a sluggish housing market so far this year.

On Thursday, the U.S. Census Bureau will release data for durable goods orders for the month of August which are expected to show a decline from July's strong data. On Friday we get the first revision to second quarter GDP, which is expected to show a slight improvement over the originally reported 4.2% increase.

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