

Financial Market Update

Friday, October 10, 2014

THE WEEK IN REVIEW

Similar to last week, there were fewer workers filing for unemployment benefits in the week ending October 4. Initial claims dropped 1,000 to 287,000 while the less volatile four-week average fell 7,250 to 287,750. The declining trend in unemployment claims shows that layoffs are decelerating, which is a positive indicator for the overall employment picture. Meanwhile, private employers increased the amount of jobs available in the month of August. According to the Bureau of Labor Statistics, there were 4.835 million unfilled jobs in August (up from 4.605 million in July), making it the highest level of job openings since January 2001. Additionally, the report showed an increase in many industries, and in all four regions.

The price of oil (WTI) fell below \$85 a barrel for the first time since November 2012, reaching 23-month lows as global markets fall. West Texas Intermediate Crude is now trading about 20% below its June peak, while North Sea Brent is down 22% in that period and trading near a four-year low. The reason for this price drop is a function of supply and demand; as many countries are boosting production, including the U.S. and Russia, demand is simultaneously receding, creating an excess and therefore a price slump. This drop comes at an unfortunate time for Russia, a country that has much of its foreign status and political influence riding on other nations' dependence on Russian oil, most notably Europe. This fallout in price could potentially have significant effects on Europe's bargaining power with Russia and Russian equity prices. As OPEC production continues to rise we can expect prices to fall further as official forecasts call for a milder winter in the U.S., which should keep demand for energy low.

This week has not been a favorable one for U.S. equity markets, but more importantly than the absolute returns is the shift in investor sentiment. Monday and Tuesday we witnessed nearly a 2% drop for the S&P 500 before a major Fed-propelled rally on Wednesday. This came in the form of a Fed minutes release with a dovish tone warning about a weakening global outlook and unforeseen strength in the dollar. Markets skyrocketed as this message hinted at delayed rate hike expectations, with the Dow, NASDAQ, and S&P 500 all moving up over 1.5% in the span of three hours. Thursday brought a monumental drop with the Dow falling 334 points (2%) as investors continued to fear the end of Q3, while recognizing an impending slowdown in global growth. This weakness continued on Friday to some extent, but mainly in the tech sector. The broad markets recovered nicely on Friday as gains in consumer-oriented stocks offset weak tech stock performance from Tesla and Microchip, among others.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	16,544.10	-2.74%	-0.20%	11.93%
NASDAQ	4,276.24	-4.46%	2.39%	15.14%
S&P 500 LargeCap	1,906.15	-3.07%	3.13%	15.03%
S&P 400 MidCap	1,304.59	-4.33%	-2.83%	5.91%
S&P 600 SmallCap	617.50	-2.96%	-7.22%	3.00%
MSCI EAFE	1,786.21	-0.34%	-6.75%	1.95%
MSCI Emerging Markets	1,008.33	1.11%	0.56%	2.20%
Barclays Agg		0.58%	5.09%	5.01%
Barclays Intermediate G/C		0.48%	2.94%	2.94%
Treasury Long		1.54%	18.10%	14.95%
Merrill High Yield		0.04%	3.85%	6.92%
FTSE/NAREIT All REIT Index		1.39%	11.65%	14.20%
Bloomberg Commodity Index		0.16%	-6.00%	-7.77%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.01%	0.02%	0.05%
2-Year Treasury	0.43%	0.57%	0.34%
5-Year Treasury	1.54%	1.79%	1.42%
10-Year Treasury	2.29%	2.54%	2.68%
30-Year Treasury	3.02%	3.27%	3.73%
Municipal Bond Yields (10 Yr)	2.10%	2.26%	2.62%

UPCOMING WEEK

Significant economic releases to keep an eye on next week:

- Wednesday, October 15: PPI and Retail Sales
- Thursday, October 16: Jobless Claims, Industrial Production, and Philadelphia Fed Survey
- Friday, October 17: Housing Starts



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