Financial Market Update

Thursday, October 30, 2014

THE WEEK IN REVIEW

The FOMC met this week and as expected kept interest rates unchanged. They also announced the end of Quantitative Easing, citing solid job gains and a lower unemployment rate as evidence of an improving labor market. In addition, the Fed maintained its pledge to keep interest rates low for a ‘considerable time’ following the end of Quantitative Easing, and committed to maintain current balance sheet asset levels. Equities slid immediately following the announcement, while 10-year treasury rates rose to their highest levels for the day.

GDP for the third quarter decelerated to 3.5% following a 4.6% jump in the second quarter after a sluggish winter. Despite the deceleration, the preliminary reading beat the median forecast analysts were expecting of 3.0%. Quarterly GDP performance reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, and government spending at the federal, state, and local levels. Notably, both inventory investment and consumer spending growth dropped in the third quarter reading compared to the second quarter, and could raise debate about when the Fed should start to increase interest rates.

Durable goods orders fell for a second straight month, with orders for September falling 1.3%. The decline was significantly less than the 18.3% decline in August, but below the 0.9% gain analysts were expecting. The decrease can be largely attributed to the volatile transportation sector, as excluding it orders fell a more meager 0.2%. Aircraft continues to be the largest laggard for transportation orders. Pending home sales increased 0.3% in September after falling 1.0% in August, but below expectations of a 1% gain, despite a recent drop in mortgage rates and pickup in hiring. With continuing tight credit and low inventories, demand has likely plateaued headed into the end of 2014.

Consumer confidence hit a new post-recovery high of 94.5 in October, beating the previous high of 93.4 in August. The last time the index posted a reading this high was in October 2007, just ahead of the recession. The strength comes from the expectations component, which hit a score of 95.0 on optimism for outlook of both income and jobs. Jobless claims increased by 3,000 to reach 287,000 for the week ended October 25, while the 4-week average edged lower for the seventh straight week. As a result of the relatively strong economic data and as-expected Fed behavior, equities were in the black for the week to date.

Oil continued its decline this week following a report by Goldman Sachs in which the bank cut its first quarter forecast for the price of WTI oil to $75 from $90, and said it would ultimately fall to $70 in 2015. Citing more confidence in the sustainability and scale of U.S. production, Goldman believes the price needs to fall to $75 a barrel for there to be a slowdown in output growth.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,195.42	1.30%	3.73%	12.66%
NASDAQ	4,566.14	0.37%	9.33%	17.65%
S&P 500 LargeCap	1,994.64	0.62%	7.91%	15.46%
S&P 400 MidCap	1,401.67	0.28%	4.40%	10.13%
S&P 600 SmallCap	663.58	-0.10%	-0.29%	6.21%
MSCI EAFE	1,805.63	0.57%	-5.74%	-1.43%
MSCI Emerging Markets	1,004.88	1.24%	0.22%	-0.95%
Barclays Agg		-0.39%	5.15%	4.08%
Barclays Intermediate G/C		-0.40%	2.92%	2.19%
Treasury Long		-0.83%	18.53%	13.18%
Merrill High Yield		0.08%	4.71%	5.88%
FTSE/NAREIT All REIT Index		1.01%	17.94%	16.84%
Bloomberg Commodity Index		0.60%	-6.21%	-6.86%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.01%	0.02%	0.03%
2-Year Treasury	0.48%	0.57%	0.31%
5-Year Treasury	1.58%	1.76%	1.32%
10-Year Treasury	2.30%	2.49%	2.54%
30-Year Treasury	3.04%	3.20%	3.64%
Municipal Bond Yields (10 Yr)	2.12%	2.23%	2.50%

UPCOMING WEEK

ISM Manufacturing Index for October will be released on Monday, with expectations for a modest decline to 55.9% following a reading of 56.6% in September. The trade deficit for September will be released on Wednesday, and expectations are for a widening gap to $41.7 billion.

Nonfarm payroll along with the unemployment rate for October is due Friday. The expectation is for jobs added to decrease slightly to 244,000 while the unemployment rate remains steady at 5.9%

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