Financial Market Update

Friday, November 7, 2014

THE WEEK IN REVIEW

With the mid-term elections behind us and the Republican Party gaining control of the Senate and solidifying numbers in the House, investors will begin to discount future policies and their impact on the markets and sectors. The equity markets have generally traded to the upside in the 6-12 month period following a mid-term election, with average gains above 10 percent. The combination of a Republican controlled Congress and a Democratic President has also been a favorable environment for the equity markets. Sectors that may benefit from future policies are energy and defense, while debate on provisions of the Affordable Care Act may impact hospitals and insurers.

The ISM Manufacturing Index for October was released earlier this week, and continued to show steady expansion in the manufacturing sector. Economic activity in the manufacturing sector expanded for the 17th consecutive month as the index posted a better-than-expected reading of 59 percent, an increase of 2.4 percent from September. The New Orders Index also rose in October to 65.8 percent, an increase of 5.8 points from the 60 percent reading in September. The gains were broad-based with 16 of the 18 manufacturing industries reporting growth in October. The numbers would suggest that modest U.S. GDP growth should continue into the fourth quarter.

The October non-farm payroll report came in a bit lighter than expected, but remained above 200,000 for the ninth straight month. Employers added 214,000 jobs in October versus the consensus of 231,000 jobs. However, a combined 31,000 more jobs were added to the revised August and September numbers. The unemployment rate dropped to 5.8 percent from 5.9 percent. While the job gains were broad based, the strongest hiring was in low-paying industries such as retailers, restaurants, and hotels. Average hourly pay is up only 2 percent year-over-year, barely ahead of the 1.7 percent inflation rate over the past year. Unemployment claims released on Thursday also came in at a new cycle low at 278,000. The four-week moving average also fell to 279,000, the best reading since April 2000 and indicating continued employment gains into November and December.

The European Central Bank met this week and held rates steady but continued to verbally indicate that more stimulus will be provided if economic conditions worsen or do not improve. At the press conference, Mario Draghi stated that the official statement was unanimously approved; quelling some worries that Draghi was facing criticism and disagreement from more hawkish members of the ECB.

The equity markets continued their sharp reversal from the early October selloff, and finished off another positive week with the major indices hitting new highs. Interest rates also traded within a narrower range for the week in comparison to the past month's volatility. The 10-year Treasury yield moved as high as 2.38 percent to start the week, but trended lower post-election.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,573.93	1.06%	6.02%	15.34%
NASDAQ	4,632.53	0.04%	10.92%	21.62%
S&P 500 LargeCap	2,030.44	0.60%	9.93%	18.59%
S&P 400 MidCap	1,429.74	0.73%	6.52%	14.34%
S&P 600 SmallCap	678.90	-0.09%	2.01%	10.50%
MSCI EAFE	1,804.10	-0.78%	-5.82%	0.62%
MSCI Emerging Markets	991.32	-2.44%	-1.13%	0.84%
Barclays Agg		-0.30%	4.92%	4.32%
Barclays Intermediate G/C		-0.25%	2.73%	2.18%
Treasury Long		-0.84%	17.78%	14.97%
Merrill High Yield		-0.05%	4.62%	5.74%
FTSE/NAREIT All REIT Index		-0.48%	18.94%	21.27%
Bloomberg Commodity Index		-0.51%	-6.42%	-4.09%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.02%	0.02%	0.04%
2-Year Treasury	0.37%	0.57%	0.31%
5-Year Treasury	1.42%	1.83%	1.33%
10-Year Treasury	2.20%	2.62%	2.59%
30-Year Treasury	2.97%	3.37%	3.66%
Municipal Bond Yields (10 Yr)	1.97%	2.27%	2.69%

UPCOMING WEEK

The week ahead will be a lighter data week as earnings season winds down, and only a few economic releases are scheduled.

Important consumer data will be released next week as retail sales for October and the latest Michigan Consumer Sentiment reading come out on Friday. Retail sales are expected to rebound and show a gain of 0.2 percent versus a decline of 0.3 percent in September. The Michigan Consumer Sentiment reading is expected to come in at its highest level of the year at 87.5.

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