Financial Market Update

Friday, November 28, 2014

THE WEEK IN REVIEW

A series of economic reports this week posted a mostly upbeat picture of the economy, although a few sour notes were mixed in as well. Third quarter GDP was revised upward to 3.9% from the previous figure of 3.5%. Looking at the elements of GDP, consumer spending, which amounts to 70% of economic activity, increased 2.2% for the quarter, upwardly revised from 1.8%. Business investment in equipment also heavily contributed to the increase, revised to 10.7% from 7.2%. Combined, the second and third quarter GDP figures mark the strongest six-month reading in more than ten years.

In contrast, the Consumer Confidence index figure unexpectedly declined to a five-month low, indicating that consumers are still uncertain about the economy despite its recent upward trends. The index, at 88.7, fell short of analysts' expectations of 98.5. The main contributors to the decline were Americans' outlook on business conditions. Also released this week, new home sales rose in October to 458,000, a 0.7% increase from September, with monthly gains in the Midwest and Northeast largely offset by declines in the South and West.

American equity markets were little changed this week, as is often the case during the Thanksgiving week. In light trading, markets mostly shrugged at economic releases and traded sideways to slightly higher, in-line with the recent overall trend. Large-cap stocks have been the leaders in 2014 and the S&P 500 continues to post record high levels, with year-to-date total returns of approximately 14%. In contrast, small-cap stocks have inched forward only about 3% this year, as measured by the Russell 2000 index. Foreign stocks also drifted this week. European exchanges gained slightly on expectations for more stimulus and asset purchases from the European Central Bank.

Interest rates ticked lower, as some of the week's economic releases underscored the uneven nature of the U.S. economic recovery. Money flows continue to seek out the safety and relative yield of the U.S. Treasury market. The benchmark 10-year U.S. Treasury yield slipped several basis points throughout the week to close at 2.18%.

Oil continued its slide, reversing last week's bounce, and setting five-year lows. OPEC agreed on Thursday to keep its production ceiling unchanged at 30 million barrels per day, causing the commodity to plummet on Friday over 5%. Brent has declined over 30% in 2014, thanks to soft global demand, higher U.S. production, and a strong dollar. Sliding oil prices continue to pressure domestic energy equities, including the exploration and production sector, and oilfield service companies. On the other hand, stocks of companies that are heavy users of energy products, such as airlines, utilities, and package-delivery companies are benefiting.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,828.24	0.00%	7.55%	13.42%
NASDAQ	4,791.63	1.91%	14.73%	19.54%
S&P 500 LargeCap	2,067.56	0.72%	11.86%	16.85%
S&P 400 MidCap	1,442.63	0.32%	7.46%	12.20%
S&P 600 SmallCap	686.48	1.41%	3.15%	5.79%
MSCI EAFE	1,842.63	0.62%	-3.81%	0.86%
MSCI Emerging Markets	1,012.62	0.82%	0.99%	2.18%
Barclays Agg		0.64%	5.70%	4.95%
Barclays Intermediate G/C		0.43%	3.26%	2.51%
Treasury Long		2.14%	20.87%	18.09%
Merrill High Yield		0.58%	4.24%	4.88%
FTSE/NAREIT All REIT Index		2.66%	21.29%	27.26%
Bloomberg Commodity Index		-3.79%	-9.83%	-8.68%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.01%	0.01%	0.06%
2-Year Treasury	0.49%	0.40%	0.29%
5-Year Treasury	1.50%	1.52%	1.37%
10-Year Treasury	2.18%	2.30%	2.74%
30-Year Treasury	2.91%	3.07%	3.82%
Municipal Bond Yields (10 Yr)	2.22%	2.12%	2.71%

UPCOMING WEEK

Next week will provide a few significant economic data points regarding the economy in November. On Tuesday, construction spending along with motor vehicle sales will be posted. Expectations are for a 0.5% increase in construction spending, and vehicle sales of 16.6 million. Wednesday's ISM Non-Manufacturing index is expected to post a reading of 58.0, showing continued signs of growth in the service sector. November's employment figures will be released Friday. Expectations are for 230,000 jobs to have been added, with the unemployment rate dropping to 5.7%.

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