Financial Market Update

Friday, December 12, 2014

THE WEEK IN REVIEW

Markets fell across the globe this week as oil prices continued to slide to their lowest level since 2009. Data reported Wednesday showed a surprising increase in U.S. supplies. In addition, OPEC lowered its demand forecast for 2015, saying it should be at the lowest level since 2003. This, along with a 5% decline in the Shanghai Composite Index, led domestic stocks to their worst decline in two months on Wednesday as the S&P 500 Index fell 1.6%. Chinese stocks fell following the announcement of a new rule prohibiting the use of low-grade corporate bonds as collateral for short-term lending. The goal of the new collateral rule is to control the amount of high-risk debt issuances. Profit taking after a 23% increase in the Shanghai Index in the past few weeks also weighed on investors in China. After a slight rebound on Thursday in China and here at home, reports that the PPI fell 0.2%, sharper than expected, led to another triple-digit loss for the Dow on Friday.

Retail sales continued to improve for a second consecutive month in November with a gain of 0.7%, the largest increase in eight months. Sales would have been even higher if not for the 0.8% decline in spending at gas stations due to lower gas prices. The drop in the price of oil has boosted consumers' discretionary income and confidence, leading consumers to spend more.

Economists are expecting additional improvement in consumer spending as a result of higher household income and stronger job growth. This is good news for the U.S. economy since consumer spending accounts for roughly two-thirds of U.S. economic activity.

Following on the strong payroll report last Friday, fewer Americans filed claims for jobless benefits last week. According to a report from the Labor Department, state claims for unemployment benefits declined by 3,000 in the week ended December 6 to 294,000. While the four-week moving average ticked up slightly, it held below the 300,000 level as it has for 13 straight months. The 13-week average of claims dropped to 289,000, the lowest since 2000.

In other economic news, the preliminary reading of the consumer confidence in December by the University of Michigan came in at 93.8%, above last month's report of 88.5 and the highest level since January of 2007. The Labor Department reported import prices fell 1.5% last month, the largest decline since 2012, as the cost of petroleum products tumbled.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,280.83	-3.78%	4.25%	9.79%
NASDAQ	4,653.60	-2.66%	11.42%	16.39%
S&P 500 LargeCap	2,002.33	-3.52%	8.35%	12.95%
S&P 400 MidCap	1,402.36	-2.90%	4.45%	9.23%
S&P 600 SmallCap	664.20	-2.79%	1.09%	6.02%
MSCI EAFE	1,787.39	-2.44%	-6.69%	-1.93%
MSCI Emerging Markets	946.04	-4.02%	-5.65%	-4.59%
Barclays Aggregate		0.43%	5.76%	5.47%
Bloomberg Non-US Govt Bond		-0.82%	10.11%	9.83%
Bloomberg Treasury Index		0.70%	5.98%	5.26%
Bloomberg High Yield Index		-1.70%	0.75%	1.02%
FTSE/NAREIT All REIT Index		-0.10%	20.61%	23.33%
Bloomberg Commodity Index		-1.28%	-11.91%	-12.32%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.02%	0.01%	0.07%
2-Year Treasury	0.54%	0.54%	0.32%
5-Year Treasury	1.51%	1.65%	1.53%
10-Year Treasury	2.08%	2.37%	2.88%
30-Year Treasury	2.74%	3.10%	3.89%
Municipal Bond Yields (10 Yr)	2.10%	2.23%	2.81%

Price return as of the last available closing price. Source data: Bloomberg and Morningstar and are believed to be correct but not verified.

UPCOMING WEEK

Next week's economic data will include reports on manufacturing, housing, and inflation. Industrial production is expected to increase 0.7% after a very slight 0.1% decline in October. Consensus expectations call for capacity utilization to increase to 79.3% from 78.9% the prior month. Housing starts are predicted to improve 3.1% after a surprising decline of 2.8% in October. Inflation as measured by the CPI Index is estimated to decline 0.1% (+0.1% ex food and energy), representing an annual increase of 1.4% (1.8% ex food and energy). No major changes are expected from the FOMC meeting mid-week, except perhaps the "considerable time" language that they have been using in reference to an expected increase in interest rates.

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