Financial Market Update

Friday, December 19, 2014

THE WEEK IN REVIEW

The FOMC met this week, amid chatter about when the Fed was going to raise interest rates and if the go-to ‘considerable time’ language would be removed when discussing the timing of potential rate increases. As was largely expected, the ‘considerable time’ qualifier was removed from the Fed’s statement and replaced with language stating they instead would be ‘patient’ when considering when to raise rates. Chairman Janet Yellen noted in a follow-up press conference the change in language does not represent a change in Fed intention. Yellen also noted the economic recovery remains on track despite a weaker-than-anticipated housing recovery and the Fed is on track to raise interest rates but would likely keep rates near zero at least through the first quarter. She also outlined economic parameters necessary to be reached in order for rates to be raised and that they would be raised gradually thereafter, potentially reaching a more normalized level by 2017.

Following the Fed release on Wednesday, equity markets rallied and yields on Treasury securities rose. On Thursday, the S&P gained 48 points, for its biggest one-day gain since January 2013. Friday finished the three-day rally, erasing December gains and putting stocks into the black for the month.

On Tuesday, The Bank of Russia unexpectedly raised interest rates 6.5 percentage points to 17% in order to try to halt a recent slide in the ruble’s value. The tactic did not work, with the ruble falling against the U.S. dollar to a record low. The ruble remains down significantly against the dollar year to date amid declining oil prices and Western sanctions which have impacted the Russian economy as of late. Oil continued its tumble this week, with WTI briefly touching $54.11 on Thursday, its lowest price in five years.

In other economic news, industrial production for November rose 1.3% following a revised 0.1% gain in October, and ahead of analyst expectations for a 0.7% rise. Manufacturing, utilities, and consumer goods output all contributed to the rise, while mining, which includes oil, fell. The housing recovery continues, albeit sluggishly, with housing starts for November falling 1.6% after a rebound in October. Single-family home starts fell, while multifamily starts rose. The Consumer Price Index fell 0.3% for November mostly due to lower gasoline and energy prices. The less volatile core CPI (excluding food and energy) rose 0.1%. Following a strong report at the end of November, initial jobless claims fell for the third straight week to 289,000 for the week ended December 13. The four-week average, a less volatile measure, fell slightly to 298,750.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,804.80	3.03%	7.41%	10.05%
NASDAQ	4,765.38	2.40%	14.10%	17.43%
S&P 500 LargeCap	2,070.65	3.42%	12.03%	14.43%
S&P 400 MidCap	1,449.42	3.36%	7.96%	11.12%
S&P 600 SmallCap	685.48	3.11%	2.91%	6.07%
MSCI EAFE	1,767.33	0.01%	-7.74%	-4.73%
MSCI Emerging Markets	935.12	-0.35%	-6.74%	-5.61%
Barclays Aggregate		-0.40%	5.64%	5.37%
Bloomberg Non-US Govt Bond		0.22%	9.97%	9.57%
Bloomberg Treasury Index		-0.62%	5.84%	5.26%
Bloomberg High Yield Index		0.28%	0.36%	0.58%
FTSE/NAREIT All REIT Index		1.45%	22.36%	23.16%
Bloomberg Commodity Index		-1.90%	-13.59%	-14.26%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.03%	0.00%	0.07%
2-Year Treasury	0.65%	0.52%	0.37%
5-Year Treasury	1.65%	1.64%	1.64%
10-Year Treasury	2.16%	2.36%	2.93%
30-Year Treasury	2.76%	3.08%	3.91%
Municipal Bond Yields (10 Yr)	2.11%	2.29%	2.77%

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

Despite a shortened week due to the Christmas holiday, a number of economic releases are scheduled for next week. Existing home sales for November will be released Monday with expectations for 5.18 million, a slight decrease from October levels. New home sales are due out Tuesday, with no expected change from the October level. The housing recovery is expected to continue, albeit slowly. The third estimate for third quarter GDP is also due Tuesday, and is expected to be revised up to 4.5% from 3.9%. Also being released next week are durable goods orders, consumer sentiment, and personal income and outlays, all on Tuesday.

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