

# Financial Market Update

Friday, December 26, 2014

## THE WEEK IN REVIEW

Despite estimates for the housing market to continue its recovery, November's existing and new home sales both produced figures that were below expectations, further showing that volatility persists within the housing sector. Total existing home sales were down 6.1% in November to a seasonally adjusted annual rate of 4.93 million homes; below the consensus range of 4.97 to 5.35 million and the weakest sales rate since May. Sales of new homes for November were also disappointing with a rate of 438,000 vs. expectations of 460,000. While the new home sales pace rose in the West Coast by 14.8%, it declined in the Northeast, South and the Midwest by 12%, 6.4% and 6.3% respectively.

On a positive note, the Commerce Department reported that the US economy grew at its fastest pace in eleven years in the third quarter, 5% on a seasonally adjusted basis, up from the previous estimate of 3.9%. Consumer spending, which accounts for two-thirds of GDP, was revised up to 3.2% from 2.2% while growth in domestic demand came in at 4.1%, ahead of the 3.2% pace previously reported. Spending on equipment, intellectual property product and non-residential structures pushed business investment growth to an 8.9% pace as compared to the prior estimate of 7.1%. In a positive sign for fourth quarter GDP, consumer spending in November rose 0.6% and personal income was up 0.4%.

The initial report on orders for durable goods in November fell 0.7%. This was below expectations for a 3% increase as economists predicted 224 new plane orders at Boeing would boost the data. The number was flat when excluding volatile aircraft and defense orders. This represents an improvement over slight declines in October and September.

The Dow Jones Industrial Average surpassed the 18,000 mark this week for its 38th record close in 2014. Since reaching an intraday peak of 17,986.10 on December 5th, the index fell over 900 points through December 16th then rebounded over 1,000 points after the Fed announced it would use patience in raising interest rates in 2015. Overseas, the Shanghai Composite Index finished out a volatile week up 2.8% today and up 1.8% since last Friday.

While stocks have been on a tear, U.S. Treasuries suffered their worst day in over a year on Tuesday. The yield on the 10-year Treasury rose to 2.257%, a gain of 0.095 percentage points. The dollar strengthened against the yen and the euro. The euro now stands near a two-year low of \$1.22.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	18,053.71	1.40%	8.91%	10.37%
NASDAQ	4,806.86	0.87%	15.09%	15.68%
S&P 500 LargeCap	2,088.77	0.88%	13.01%	13.93%
S&P 400 MidCap	1,467.90	1.25%	9.34%	10.00%
S&P 600 SmallCap	699.86	1.40%	4.44%	4.50%
MSCI EAFE	1,789.40	0.41%	-6.59%	-4.72%
MSCI Emerging Markets	950.61	0.64%	-5.19%	-4.50%
Barclays Aggregate		-0.26%	5.50%	5.58%
Bloomberg Non-US Govt Bond		0.38%	10.83%	10.47%
Bloomberg Treasury Index		-0.44%	5.59%	5.41%
Bloomberg High Yield Index		0.59%	1.42%	1.46%
FTSE/NAREIT All REIT Index		1.13%	23.73%	23.20%
Bloomberg Commodity Index		-2.00%	-15.32%	-16.47%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.01%	0.01%	0.06%
2-Year Treasury	0.74%	0.52%	0.41%
5-Year Treasury	1.75%	1.56%	1.74%
10-Year Treasury	2.25%	2.25%	2.99%
30-Year Treasury	2.81%	2.95%	3.92%
Municipal Bond Yields (10 Yr)	2.13%	2.23%	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

The last days of 2014 along with the first days of 2015 will present several important economic releases. On Tuesday, the Consumer Confidence index will post its final figures with a consensus forecast of 94.0 after an unexpected fall last month to 88.7 from a post-recession high of 94.1 in October. Ending the week on Friday will be data on construction spending along with the ISM Manufacturing Composite Index. Construction spending is estimated to be up 0.4% after a 1.1% decline last month, while the ISM may be down slightly to 57.5 from 58.7 in October following a weak NY Empire survey. The current quarter average for the ISM index is on pace to be the strongest of the year.



MAINSTREET ADVISORS

120 N LaSalle  
33rd Floor  
Chicago IL, 60602

Opinions herein are as of the publication date; they are not statements of facts and may include "forward-looking statements" which may or may not be accurate over the long term. Report includes candid statements and observations regarding investment strategies, asset allocation, individual securities, and economic and market conditions. Statements, opinions or forecasts not guaranteed. Do not place undue reliance on forward-looking statements. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Indices and sector statistics are unmanaged and are a common measure of performance of their respective asset classes. Indices are not available for direct investment. Past performance is not indicative of future results. The value of investments and the income derived from investments can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur. Investing for short periods may make losses more likely. Not a deposit, not FDIC insured, may lose value, not bank guaranteed, not insured by any federal government agency.