

Financial Market Update

Friday, January 2, 2015

THE WEEK IN REVIEW

The final week of the year centered on the domestic stock market indices, and whether they will finish at, or near, an all-time high. The DJIA started the week above the 18,000 level only to fall back slightly and close the year out at 17,823.07, with a total return, including dividends, of 10.04% for the year. The S&P 500 Index finished the year above the 2,000 level with a return of 13.69%. The annualized return on the S&P 500 index, going back to 1926 is 10.10%. As you move down market capitalizations the returns were positive, but trailed the S&P 500 Index. Midcap stocks, as measured by the S&P 400, returned 9.77% for 2014, while small cap stocks, as measured by the S&P 600, returned 5.76%.

All domestic indices finished lower on the week, with the largest drop coming Friday as we begin a new trading year. With very light volume in a shortened trading week, the biggest economic data was released Friday morning. The Institute for Supply Management (ISM) manufacturing index dropped to 55.5% in December, down from 58.7% in November, lower than analysts' forecast of 57%. Also, U.S. construction spending fell 0.30% in November, while economists polled had expected a 0.20% increase.

Within the S&P 500 Index, Southwestern Airlines (LUV) was the best performing stock for 2014 with a return of 125%, while Transocean Energy (RIG) was the worst performing stock (-68%). Among the sectors in the S&P 500, Utilities performed the best, rising more than 28%, while the energy sector was the only sector to finish in negative territory for the year with a return of -10%. This marks the sixth straight year of positive performance among all the domestic equity asset classes.

Oil continued to slide this week, and finished the year down over 40%. Oil traded above \$100/barrel as recently as July, and finished out the year trading below \$60/barrel. The latest victim of the slide in energy prices was Linn Energy. On Friday morning, the company slashed its dividend and capital spending plans for 2015, with its budget assuming \$60/barrel.

European stocks underperformed domestic stocks on the year, and finished out the final few trading days of 2014 in negative territory. The trend seemingly continued as the first trading day of 2015 also came with a negative return. The euro fell at the start of the year, trading at its lowest level against the U.S. dollar in four years. ECB President Mario Draghi spoke this week, highlighting the increased possibility of deflation, and signaled the ECB may be closer to launching a full-scale quantitative easing program. The European market started the new year out in positive territory only to fall after the PMI data showed activity grew at a slower pace in December.

INDEX	LEVEL	WEEK	YTD	12 MOS
DJ Industrial Average	17,832.99	-1.22%	0.06%	7.58%
NASDAQ	4,726.81	-1.67%	-0.20%	13.17%
S&P 500 LargeCap	2,058.20	-1.33%	-0.03%	11.50%
S&P 400 MidCap	1,451.31	-1.05%	-0.08%	8.19%
S&P 600 SmallCap	699.86	-0.68%	-0.71%	4.44%
MSCI EAFE	1,774.91	-0.84%	N/A	-7.34%
MSCI Emerging Markets	956.28	0.39%	N/A	-4.63%
Barclays Aggregate		0.37%	0.32%	5.97%
Bloomberg Non-US Govt Bond		0.23%	0.01%	11.09%
Bloomberg Treasury Index		0.52%	0.01%	6.19%
Bloomberg High Yield Index		0.13%	N/A	1.56%
FTSE/NAREIT All REIT Index		-0.10%	1.37%	23.61%
Bloomberg Commodity Index		-2.46%	-0.45%	-17.41%

KEY TREASURY RATES	CURRENT WEEK	1 MONTH AGO	1 YEAR AGO
3-Month T-Bill	0.02%	0.02%	0.06%
2-Year Treasury	0.66%	0.54%	0.38%
5-Year Treasury	1.61%	1.60%	1.72%
10-Year Treasury	2.12%	2.29%	2.99%
30-Year Treasury	2.69%	3.01%	3.92%
Municipal Bond Yields (10 Yr)	2.06%	2.18%	3.00%

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 upcoming week will focus on the ISM non-manufacturing data coming out on Tuesday, along with factory orders for the month of November. On Wednesday the ADP numbers will be announced, followed by the weekly jobless claims on Thursday. Friday, before the market opens, will bring both the unemployment data along with the nonfarm payrolls.



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