

# Financial Market Update

Friday, January 9, 2015

## THE WEEK IN REVIEW

The first week of 2015 was a busy and volatile one for economic data and financial markets. The biggest influence on market movements this week was the continuing weakness in the price of oil. Oil futures tumbled approximately 8% during the week to trade near the lowest levels since the dark recession days of 2009. The commodity has now lost approximately half of its value in three months. Initially, oil weakness was considered by the U.S. equity market to be largely positive, by increasing consumers' discretionary income. However, with prices reaching near the levels where many oil projects are no longer marginally profitable, there has been growing concern about a possible financial crisis in a foreign nation, such as Russia or Venezuela, bouncing back to our markets.

Also moving markets this week, in an echo of 2011, was anxiety over the unity of the European Union. Markets fear that a win by the left-wing Syriza party in January 25th Greek elections will reignite the movement for Greece to renegotiate loan terms, and potentially exit the European Union and abandon the euro.

The week also had a number of economic releases. On Tuesday the December ISM Non-Manufacturing index was reported at 56.2%. While a reading above 50% indicates growth, the December figure was a decline from November, and fell short of analysts' estimates of 58.0%. That same day, the Commerce Department released data for factory orders which also disappointed. On Friday the Bureau of Labor Statistics revealed that the U.S. added 252,000 jobs in December, at the high end of analyst estimates, and revised upward the November payroll numbers. The unemployment rate dropped two-tenths of one percent to 5.6%. But, there were also some clouds in the report: average hourly wages fell 0.2% in December, and the labor force participation rate sank to 62.7%, to match the lowest level in over three decades.

Markets were volatile in reaction to all of this data and speculation, with daily changes of over 100 points in the Dow Jones Industrial Average each day of the week. All told, the S&P 500 index closed the week approximately 0.7% lower. The MSCI EAFE index of developed international markets dropped approximately 1.6% on the week, while the MSCI Emerging Markets index rose approximately 0.5%.

Ten-year Treasury yields fell on the week about 15 basis points, to 1.95%. Breaking through 2%, yields are approaching levels last held in 2012 and 2013. Ultra-low rates from other nations' Treasuries, concern over a possible oil-driven crisis, and doubts about the Fed's willingness to hike rates are depressing Treasury yields.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,737.37	-0.54%	-0.48%	7.86%
NASDAQ	4,704.07	-0.48%	-0.68%	13.18%
S&P 500 LargeCap	2,044.81	-0.65%	-0.68%	11.26%
S&P 400 MidCap	1,441.28	-0.69%	-0.77%	7.56%
S&P 600 SmallCap	680.47	-0.41%	-1.75%	4.48%
MSCI EAFE	1,733.84	-1.62%	-2.31%	-8.39%
MSCI Emerging Markets	958.83	0.54%	0.26%	-0.44%
Barclays Aggregate US		0.44%	0.68%	6.60%
Bloomberg Non-US Govt Bond		0.44%	0.48%	11.61%
Bloomberg US Treasury Index		0.64%	0.92%	7.06%
Bloomberg High Yield Index		-0.25%	-0.26%	0.77%
FTSE/NAREIT All REIT Index		2.77%	4.19%	26.05%
Bloomberg Commodity Index		-0.23%	-0.68%	-15.29%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.02%	0.03%	0.04%
2-Year Treasury	0.56%	0.61%	0.43%
5-Year Treasury	1.42%	1.62%	1.75%
10-Year Treasury	1.95%	2.21%	2.97%
30-Year Treasury	2.53%	2.87%	3.88%
Municipal Bond Yields (10 Yr)	1.97%	2.16%	2.84%

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

## UPCOMING WEEK

Next week will feature important year-end economic figures, including the NFIB Small Business Optimism Index on Tuesday, and Retail Sales on Wednesday. Thursday and Friday bring the Producer Price Index and the Consumer Price Index, respectively, giving insight into inflation. Fourth-quarter earnings releases begin in earnest as well, with Alcoa kicking things off on Monday. Other major earnings releases next week include many banks (JP Morgan, Wells Fargo, Bank of America), as well as BlackRock, Intel, and Schlumberger.



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