

Financial Market Update

Friday, January 16, 2015

THE WEEK IN REVIEW

Market volatility continued this week as U.S. retail sales for December came in much weaker than expected and corporate earnings season got off to an uninspiring mixed start. Retail sales dropped 0.9% in the month of December versus an expected gain of 0.1%. Core retail sales, excluding autos and gasoline, declined 0.3%, possibly indicating that the benefit of lower gasoline prices are being offset by sluggish wage growth and not translating into stronger consumer spending. Automobile sales slumped 0.7% and sales at electronics stores and general merchandise stores declined for the month.

On Friday, the labor department released the U.S. Consumer Price Index (CPI) for December. The total CPI declined the most in six years as it fell 0.4% for the month, led by declines in gasoline, apparel, and used car prices. On a year-over-year basis, the CPI rose 0.8%. The core CPI, excluding food and energy, was unchanged for the month and has increased 1.6% over the past 12 months. The tame inflation readings combined with December's declines in retail sales and average hourly earnings might give the Fed enough reasons to delay its first interest rate increase until the second half of 2015.

Total industrial production in the U.S. fell 0.1% in December. The decrease in the month reflected a decline in the output of utilities, as warmer than usual temperatures reduced demand for heating. Excluding utilities, industrial production rose 0.7% and manufacturing posted a gain of 0.3%, for its fourth consecutive monthly increase.

Switzerland's central bank surprised markets Thursday by removing its cap on the franc versus the euro, sending the franc surging as much as 41% versus the regional currency. The Swiss National Bank decided to drop its currency cap, set in September 2011 to shield the economy from the euro area's debt crisis, because it was no longer "sustainable," central bank President Thomas Jordan said.

Markets continued to be volatile in reaction to all of this data during the week and the S&P 500 declined in the first four days of the week before rallying on Friday. The S&P 500 index closed the week approximately 1.2% lower. The MSCI EAFE index of developed international markets rose approximately 0.9% on the week, while the MSCI Emerging Markets index was slightly lower.

Ten-year Treasury yields fell on the week about 13 basis points, to 1.82%. Moving further below the 2% threshold; 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	17,511.57	-1.27%	-1.75%	6.67%
NASDAQ	4,634.38	-1.48%	-2.15%	9.85%
S&P 500 LargeCap	2,019.42	-1.24%	-1.92%	9.40%
S&P 400 MidCap	1,430.89	-0.72%	-1.48%	5.83%
S&P 600 SmallCap	678.28	1.35%	-4.11%	0.50%
MSCI EAFE	1,744.97	0.89%	-1.69%	-8.95%
MSCI Emerging Markets	959.97	-0.15%	0.38%	-1.51%
Barclays Aggregate US		0.75%	1.62%	7.05%
Bloomberg Non-US Govt Bond		0.64%	1.10%	11.62%
Bloomberg US Treasury Index		1.21%	2.49%	8.14%
Bloomberg High Yield Index		-0.26%	-0.37%	0.22%
FTSE/NAREIT All REIT Index		2.01%	6.28%	26.08%
Bloomberg Commodity Index		-0.31%	-0.98%	-17.45%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.02%	0.03%	0.03%
2-Year Treasury	0.48%	0.55%	0.38%
5-Year Treasury	1.30%	1.52%	1.64%
10-Year Treasury	1.83%	2.06%	2.84%
30-Year Treasury	2.44%	2.69%	3.77%
Municipal Bond Yields (10 Yr)	1.82%	2.08%	2.71%

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

UPCOMING WEEK

Despite a shortened week due to Martin Luther King Jr. Day, a number of economic releases are scheduled for next week, many of which focus on the current state of the housing recovery. The housing market index for January is scheduled to be released Monday. The report, which provides a gauge of not only demand for housing, but also economic momentum, is expected to be slightly improved compared to last month's report. Housing starts will be released on Tuesday, with new home sales due out Friday. Also being released Friday will be leading indicators.



MAIN STREET ADVISORS

120 N LaSalle
33rd Floor
Chicago IL, 60602

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