

Financial Market Update

Friday, January 23, 2015

THE WEEK IN REVIEW

On Thursday the European Central Bank announced the long-awaited details of its strategy to fuel the euro zone economy and stave off deflation through quantitative easing. The plan involves purchasing 60 billion euros (about \$70 billion) in bonds per month, which is more than expected. The ECB also announced it will cut the interest rate it charges on loans to commercial banks. Already at its lowest level in 11 years, the moves caused the euro to fall even further against the dollar, yen and pound. European equity markets welcomed the news as the STOXX index rallied 5% for the week.

Domestic equity markets also rallied as the Dow Jones Industrial Average, the S&P 500 Index and the NASDAQ Composite Index all closed higher, erasing last week's losses.

On Monday official data showed China's GDP grew 7.3% in Q4 2014, just above the consensus forecast for 7.2% growth despite concerns about overcapacity, housing weakness, and slower overall global demand. For the full year, GDP expanded by 7.4%, down slightly from the 7.7% increase in 2013 and the slowest growth since 1990. The IMF lowered its forecast for GDP growth in China to 6.8% from 7.1%, mainly due to the slowdown in property and investment.

In housing news this week, the Commerce Department reported single family housing starts rose to their highest annual level since 2007. The pace of construction started on new homes rose 4.4% in December to an annual rate of 1.09 million, ahead of projections of 1.04 million. For the full year, housing starts increased nearly 9% from the prior year. Existing home sales increased 2.4% in December, but fell 3.1% for the full year. The median existing home price reached its highest level in seven years, up 5.8% over 2013.

Through Friday morning, 89 S&P 500 companies have reported Q4 2014 earnings. Earnings for these companies were up 3.5% and revenue increased 2.2%. While reported earnings are weaker than recent quarters, they are better than the 1% earnings growth that analysts were forecasting. This week's most notable announcements were Netflix and IBM which both reported earnings well above consensus expectations. Several companies slightly beat analyst estimates including Verizon Communications, Johnson & Johnson, American Express, EBay, and General Electric. McDonald's and UPS both reported earnings below analyst estimates.

| INDEX | LEVEL | WEEK | YTD | 12 MO |
|-----------------------------|-----------|--------|--------|---------|
| DJ Industrial Average | 17,672.60 | 0.92% | -0.84% | 9.11% |
| NASDAQ | 4,757.88 | 2.66% | 0.46% | 12.78% |
| S&P 500 LargeCap | 2,051.82 | 1.60% | -0.34% | 12.22% |
| S&P 400 MidCap | 1,455.79 | 1.74% | 0.23% | 8.01% |
| S&P 600 SmallCap | 683.82 | 1.10% | -1.33% | 3.50% |
| MSCI EAFE | 1,780.11 | 2.19% | 0.29% | -7.11% |
| MSCI Emerging Markets | 983.53 | 2.72% | 2.85% | 2.03% |
| Barclays Aggregate US | | -0.19% | 1.16% | 6.44% |
| Bloomberg Non-US Govt Bond | | 0.25% | 1.14% | 11.59% |
| Bloomberg US Treasury Index | | -0.23% | 1.72% | 7.20% |
| Bloomberg High Yield Index | | 0.25% | -0.20% | 0.19% |
| FTSE/NAREIT All REIT Index | | 0.82% | 7.16% | 26.54% |
| Bloomberg Commodity Index | | -2.11% | -3.06% | -19.72% |

| KEY BOND RATES | WEEK | 1 MO AGO | 1 YR AGO |
|-------------------------------|-------|----------|----------|
| 3-Month T-Bill | 0.02% | 0.01% | 4.00% |
| 2-Year Treasury | 0.49% | 0.74% | 0.36% |
| 5-Year Treasury | 1.31% | 1.74% | 1.60% |
| 10-Year Treasury | 1.79% | 2.26% | 2.78% |
| 30-Year Treasury | 2.37% | 2.85% | 3.68% |
| Municipal Bond Yields (10 Yr) | 1.89% | 2.11% | 2.65% |

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 we will see reports for durable goods, new home sales, and fourth quarter GDP. Durable goods are expected to increase 0.5% compared to a 0.7% decline in November. New homes sales are predicted to increase 2.7% over the prior month to a 450,000 annual rate. The first estimate for GDP for the final quarter of 2014 calls for an increase of 3.1%. That's a decline from 5% growth in the third quarter, mainly due to weaker business spending.



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