

# Financial Market Update

Friday, January 30, 2015

## THE WEEK IN REVIEW

The Fed met this week and kept interest rates unchanged and maintained its stance to be 'patient' in deciding when it will ultimately raise rates. The policymakers noted the economy continues to expand at a solid pace, citing strong job gains and a lower unemployment rate. They also expect near-term inflation to continue to fall largely due to plunging oil prices, but prices should gradually rise towards the two percent target over the medium term. All voting FOMC policy members backed the Wednesday policy statement, the first unanimous policy decision since June of last year.

The first reading of fourth quarter 2014 GDP came in at 2.6% growth, down from 5% growth in the third quarter and slightly below expectations of a 3.2%. However, the fall from the third quarter was not entirely unexpected, given the exceptionally strong growth in that quarter. Consumer spending was a strong point in the quarter, growing 4.3%, more than anticipated, as consumers were aided by a strengthening job market and lower gasoline prices. Growth was restrained due to weaker business and government spending and a widening trade gap. The first revision on fourth quarter GDP will be released in February, when more information is available.

Durable goods orders for December fell 3.4%, well below expectations for a 0.7% increase. November orders were revised down as well, casting doubt on whether businesses will be increasing investment in 2015. A dip in transportation was largely behind the miss, with aircraft orders falling greatly versus the previous month. Initial jobless claims for the week ended January 24 fell to 265,000, much larger than the 296,000 that was expected, the largest weekly decline since November 2012. The number helps to solidify the Fed's stance that the job market is improving, but expectations should also be tempered as the reporting week was shortened due to the Martin Luther King, Jr. holiday.

Housing had mixed news this week, as new home sales rose 11.6% in December and were 435,000 for all of 2014, a 1.2% year-over-year increase. The median price also rose in December, up 2.2% from November. However, the pending home sales index fell 3.7% in December with analysts expecting a 0.9% gain. Continued low mortgage rates and improvement in the jobs market may be contributing to the positive housing data, while fewer actual homes for sale could be holding it back.

Given the economic reports released this week and as earnings season continues to be largely lackluster, domestic equities had a rough week, with the S&P 500 falling and finishing January in the red. Caterpillar reported Q4 earnings this week that beat on revenue but missed on profit. The company warned of continued weakness in commodity prices and slowing sales out of China. Apple, on the other hand, had a record fourth quarter, shipping 74.5 million iPhones versus the expected 66.8 million.

| INDEX                       | LEVEL     | WEEK   | YTD    | 12 MO   |
|-----------------------------|-----------|--------|--------|---------|
| DJ Industrial Average       | 17,164.95 | -2.87% | -3.69% | 8.31%   |
| NASDAQ                      | 4,635.24  | -2.58% | -2.13% | 12.42%  |
| S&P 500 LargeCap            | 1,994.99  | -2.77% | -3.10% | 11.19%  |
| S&P 400 MidCap              | 1,435.10  | -1.42% | -1.19% | 8.81%   |
| S&P 600 SmallCap            | 670.38    | -1.90% | -2.60% | 6.24%   |
| MSCI EAFE                   | 1,782.70  | -0.28% | 0.44%  | -3.49%  |
| MSCI Emerging Markets       | 973.19    | -1.79% | 1.77%  | 3.93%   |
| Barclays Aggregate US       |           | 0.25%  | 1.76%  | 6.29%   |
| Bloomberg Non-US Govt Bond  |           | 0.47%  | 2.34%  | 13.14%  |
| Bloomberg US Treasury Index |           | 0.26%  | 2.39%  | 6.99%   |
| Bloomberg High Yield Index  |           | 0.32%  | 0.32%  | 1.22%   |
| FTSE/NAREIT All REIT Index  |           | -1.58% | 5.47%  | 25.06%  |
| Bloomberg Commodity Index   |           | -0.29% | -3.34% | -20.18% |

| KEY BOND RATES                | WEEK  | 1 MO AGO | 1 YR AGO |
|-------------------------------|-------|----------|----------|
| 3-Month T-Bill                | 0.00% | 0.01%    | 0.02%    |
| 2-Year Treasury               | 0.45% | 0.69%    | 0.35%    |
| 5-Year Treasury               | 1.15% | 1.68%    | 1.51%    |
| 10-Year Treasury              | 1.64% | 2.19%    | 2.70%    |
| 30-Year Treasury              | 2.22% | 2.76%    | 3.63%    |
| Municipal Bond Yields (10 Yr) | 1.79% | 2.12%    | 2.60%    |

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

## UPCOMING WEEK

On Monday, consumer spending and personal income for December will be reported, along with inflation numbers. Expectations are for a slight increase in personal income, a slight decline in consumer spending, and 0.0% inflation. The ISM Manufacturing Index for January will also be reported on Monday, and expectations are for a reading of 55.5%, a slight improvement over December's numbers. Thursday the trade deficit for December will be reported, with expectations for a \$36.8 billion deficit, a slight increase over November's deficit. The unemployment rate and wage growth for January will be reported on Friday, with expectations of 5.5% and a 0.3% gain, respectively.



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