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Market Month: February 2015



The Markets

After a disappointing January, equities rebounded in fine style in February. The S&P 500 and Russell 2000 hit new all-time highs, and the S&P had its strongest month since October 2011. The Nasdaq continued to be the strongest year-to-date performer, while a temporary bailout extension for Greece helped benefit the Global Dow.

Oil prices stabilized around \$50 a barrel, which helped boost consumers' spending power. The U.S. dollar gained strength, though not as much as it did in January, while gold fell below \$1,200 per ounce before rebounding to roughly \$1,212. And as investors regained confidence in equities, the benchmark 10-year Treasury yield rose as prices fell.

Market/Index	2014 Close	Prior Month	As of 2/27	Month Change	YTD Change
DJIA	17823.07	17164.95	18132.70	5.64%	1.74%
Nasdaq	4736.05	4635.24	4963.53	7.08%	4.80%
S&P 500	2058.90	1994.99	2104.50	5.49%	2.21%
Russell 2000	1204.70	1165.39	1233.37	5.83%	2.38%
Global Dow	2501.66	2441.41	2581.89	5.75%	3.21%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	2.17%	1.68%	2.03%	35 bps	-14 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- U.S. economic growth in Q4 2014 was less robust than initially thought. The Bureau of Economic Analysis revised its estimate of gross domestic product downward from 2.6% to 2.2%, primarily because imports were higher and private inventory investment was less than the previous estimate.
- The U.S. economy added 257,000 jobs in January, and the Bureau of Labor Statistics figures for jobs created in November and December were revised upward substantially. Even more encouraging, average hourly earnings rose 12 cents to \$24.75. However, because more jobs drew more workers back into the workforce, the unemployment rate was little changed at 5.7%; it has been within 0.1% of that level since October.
- The eurozone's finance ministers agreed to a four-month extension of Greece's current bailout in exchange for the promises of Greece's newly elected government to reform tax laws, pensions, privatization of key assets, and trade policies. However, the International Monetary Fund and the European Central Bank expressed skepticism about whether Greece would follow through.
- In her semiannual testimony before Congress, Federal Chair Janet Yellen continued to lay the groundwork for a rate increase later this year. Without specifying a time frame, she said that a rate increase likely would not occur until at least June.

Key Dates/Data Releases

3/2: Personal income/spending, ISM manufacturing report, construction spending
3/3: Auto sales
3/4: ISM services report, Fed "beige book" report
3/5: Business productivity, factory orders, ECB meeting
3/6: Unemployment/payrolls, balance of trade
3/10: JOLTS job turnover report
3/12: Retail sales, business inventories
3/13: Wholesale inflation
3/16: Empire State manufacturing survey, industrial production
3/17: Housing starts
3/18: FOMC announcement
3/19: Philly Fed manufacturing survey
3/20: Options expiration
3/23: Home resales
3/24: Consumer inflation, new home sales
3/25: Durable goods orders
3/27: Q4 GDP (final)
3/30: Personal income/spending
3/31: Home prices

- Lower gas prices helped cut consumer inflation by 0.7% in January, according to the Bureau of Labor Statistics. That's the biggest monthly decline since 2008, and left the annual inflation rate for the past 12 months at -0.1%. Meanwhile, falling energy prices also cut wholesale prices 0.8% during the month. That was the single biggest monthly drop since November 2009, and left the Producer Price Index roughly where it was 12 months ago.
- Sales of existing homes in January fell 4.9% to their lowest level in nine months, but the National Association of Realtors® said they were still 3.2% higher than last January. The Commerce Department said new-home sales also slumped 0.2% during the month. Meanwhile, a 0.1% increase in home prices in December contributed to a 4.5% year-over-year gain in the S&P/Case-Shiller 20-City Composite Index. The western half of the country saw the strongest gains, while the Midwest and Northeast lagged.
- Durable goods orders were up 2.8% in January; according to the Commerce Department, that was the biggest monthly increase since last July. New orders for nondefense capital equipment saw a slight 0.6% gain. And according to the Federal Reserve, industrial production rose 0.2% in January and increased at an annual rate of 4.3% in Q4. However, both the Empire State and Philly Fed manufacturing surveys showed growth slowing slightly in February.
- After a measure of non-manufacturing activity in China showed that growth had virtually flat-lined in January, China's central bank eased its reserve requirements for the country's commercial banks, which should make more money available for lending. The People's Bank of China also cut its benchmark one-year lending and deposit rates by 25 basis points.
- The Federal Communications Commission voted to regulate Internet service as a public utility, much as telephone service is regulated. The decision will enable the commission to enforce so-called "net neutrality" and prevent service providers from charging for priority access or interfering with traffic. However, telecom and cable companies are expected to challenge the decision in court.

Eye on the Month Ahead

The announcement and press conference following the Federal Reserve's March meeting will be a focus for investors, who will watch to see if language about "patience" disappears from the discussion of future interest rate increases.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

IMPORTANT DISCLOSURES

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