RB

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AND THAT'S THE WEEK THAT WAS…
For the Week Ended October 17, 2014

Market Matters…

Market/Index	Year Close (2013)	Qtr Close (09/30/14)	Previous Week (10/10/14)	Current Week (10/17/14)	YTD Change	Week Change
Dow Jones Industrial	16,576.66	17,042.90	16,544.10	**16,380.41**	**-1.18%**	**-0.99%**
NASDAQ	4,176.59	4,493.39	4,276.24	**4,258.44**	**1.96%**	**-0.42%**
S&P 500	1,848.36	1,972.29	1,906.13	**1,886.76**	**2.08%**	**-1.02%**
Russell 2000	1,163.64	1,101.68	1,053.32	**1,082.33**	**-6.99%**	**2.75%**
Global Dow	2,483.62	2,534.53	2,431.07	**2,409.20**	**-3.00%**	**-0.90%**
Fed Funds	0.25%	0.25%	0.25%	**0.25%**	**0 bps**	**0 bps**
10 yr Treasury (Yield)	3.04%	2.51%	2.28%	**2.20%**	**-84 bps**	**-8 bps**

"Most key equity indexes are holding on to single-digit gains (sorry small caps) and decent economic numbers and a strong dollar could bring a late charge." Those (not-so) prophetic words closed the quarterly Brounes & Associates commentary, but unfortunately that prognostication is not coming to fruition (but the new quarter is still young, right?). With a new Ebola scare AND some real concerns about the Eurozone economy and inflation picture (AND dissention in the midst) AND plunging crude prices impacting energy stocks, investors decided to sell, sell, and sell some more as all the gains for the year were wiped out in a matter of days. Bargain hunters emerged late week as domestic earnings and economic news still remain positive, but so many uncertainties still exist for the home stretch.

Financials led the earnings charge this week and the results were favorable for the most part. A soon-to-be-leaner **Citigroup** performed well on improved trading activity; likewise **Goldman Sachs** benefited from fixed income trading to produce its first revenue gain in more than a year; **Bank of America** topped expectations as the "too-big-to-failer kept expenses down (just not legal expenses); finally **Morgan Stanley** got a boost from its investment banking and wealth management groups. Elsewhere, **GE** posted solid profits with higher across-the-board industrial orders. The conglomerate also played the transaction game as it will be acquiring **Milestone Aviation** for just under $2 billion. Big Pharma **AbbVie** apparently has far less interest in completing its previously announced $54 billion major acquisition of **Shire** now that the gov is clamping down on overseas inversion deals that some believe are done primarily for the tax benefits (and AbbVie's sudden disinterest may confirm that view).

The "friendly" folk at OPEC cannot seem to agree on much these days and the disarray is contributing to a bearish energy market. While Venezuela has long favored cutting production, Saudi Arabia is more interested in protecting its market share and is reducing prices. Iraq also slashed its prices in order to court more Asian and Euro customers who are becoming more cost-sensitive given their current economic challenges. Meanwhile, the International Energy Agency dramatically cut its forecast for global demand growth. Prices plunged below $80/barrel at one point during the week as traders focused on the perceived supply/demand mismatch before drifting slightly higher by the end of the week.

With memories of 2008 not so far away, investors struggled through more heavy selling with down days of 223 and 173 on the Dow and some very high volatility. In fact the Blue Chip index was even down over 400 points during one trading session before rebounding to a lesser triple digit loss. The key indexes followed the Dow's lead and dropped into negative territory (temporarily) on a year-to-date basis and the safe-haven 10-year Treasury's yield even fell below 2% (temporarily) for the first time in 16 months. Late in the week, bottom fishers emerged on news that the ECB may be enacting new stimulus. The quarter is off to a horrid start for stocks, but maybe the Brounes & Associates prophesy still has a chance?

Economic Calendar

Date	Release	Comments
October 15	Retail Sales (09/14)	1st decline in sales since January
	PPI (09/14)	1st decline in more than a year
	Beige Book	Tone was largely positive
October 16	Jobless Claims (10/11/14)	Fell to a 14-year low last week
	Industrial Production (09/14)	Largest monthly increase since May 2010
October 17	Housing Starts (09/14)	Rebounded on the strength of apartment construction
The Week Ahead		
October 21	Existing Home Sales (09/14)	
October 22	CPI (09/14)	
October 23	Jobless Claims (10/18/14)	
	Leading Economic Indicators (09/14)	
October 24	New Home Sales (09/14)	

While the friendly folks at OPEC do not seem to be playing well with each other, the Eurozone finds itself in a similar predicament and almighty Germany is taking the brunt of everyone else's frustrations. This week, Germany's own economic minsters cut their outlook for growth for the next two years and many fear that the entire Eurozone will spiral out of control and into recession. The European Central Bank even reached out to member governments about taking "bold measures" to reform their economies and the US Treasury department was critical of Germany for relying too heavily on exports to drive growth and taking too few steps to elevate its own consumer activity. Chancellor Merkel lashed out at critics and rejected their calls for enhanced public spending. Germany's ZEW survey depicted a significant decline in economic sentiment and the research institute implied that Europe's largest economy could contract in the third quarter. On all the negative news (and a flight-to-quality), Germany's 10% year yield fell to a 0.8% record low.

While China is holding off on rate cuts and more aggressive stimulus moves, the central bank may be injecting some $30 billion (or 200 billion yuan) into its financial system in efforts to get its banks to start lending again. Analysts are worried that China may miss its targeted 7.5% growth rate (and that's bad?) for the first time since 1998 though the central bank is walking a fine line by attempting to increase lending without weighing down its economy with massive debt. Any thoughts or advice, Chair Yellen?

Closer to home, the domestic numbers still look pretty good as jobless claims fell to a 14-year low, a sign of an improving labor market, and industrial production experienced its best showing since May 2010. Housing starts also climbed on enhanced apartment construction and the National Association of Home Builders sentiment index remained above the key 50 threshold (revealing expansion) for the fourth straight month. PPI actually declined in September on falling oil prices, another indicator that the Fed can take its time in shifting policy. On the downside, retail sales dropped in September for the first time since January, raising concerns about the upcoming holiday season. However, given the positive signs in labor and the moneys that folks will be saving on gasoline, analysts are hoping that consumer activity picks up in the months to come. In fact, the **Thomson-Reuters/**University of Michigan preliminary October sentiment index surprisingly jumped in its latest release. The Fed released it Beige Book this week which reported "modest" or "moderate" growth in 11 of the 12 districts. While the report was deemed positive with few reports of weakness, some Fed watchers point out that the survey was conducted prior to the recent newfound concerns about the global economy.

On the Horizon…Will the ECB look to enact more aggressive moves? Will Germany become a team player? Is Ebola just the latest "much ado about nothing" scare? Earnings season moves on as biggees like **IBM**, **Procter & Gamble** and **McDonalds** take their turns and housing tops the economic headlines. So after the massive pullback, any thoughts about putting those gas savings to work in the markets?