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AND THAT'S THE "YEAR" THAT WAS…
For the Quarter (Year) Ended December 31, 2014

Market Matters…

Market/Index	2013 Close	2014 Close	1st Qtr Return	2nd Qtr Return	3rd Qtr Return	4th Qtr Return	2014 Return
Dow Jones Industrial	16,576.66	17,823.07	-0.72%	2.24%	1.29%	4.58%	7.52%
NASDAQ	4,176.59	4,736.05	0.54%	4.98%	1.93%	5.40%	13.40%
S&P 500	1,848.36	2,058.90	1.30%	4.69%	0.62%	4.39%	11.39%
Russell 2000	1,163.64	1,204.70	0.81%	1.70%	-7.65%	9.35%	3.53%
Global Dow	2,483.62	2,501.69	0.82%	4.13%	-2.79%	-1.30%	0.73%
Fed Funds	0.25%	0.25%	0 bps	0 bps	0 bps	0 bps	0 bps
10 yr Treasury (Yield)	3.04%	2.17%	-32 bps	-20 bps	-1 bps	-34 bps	-87 bps

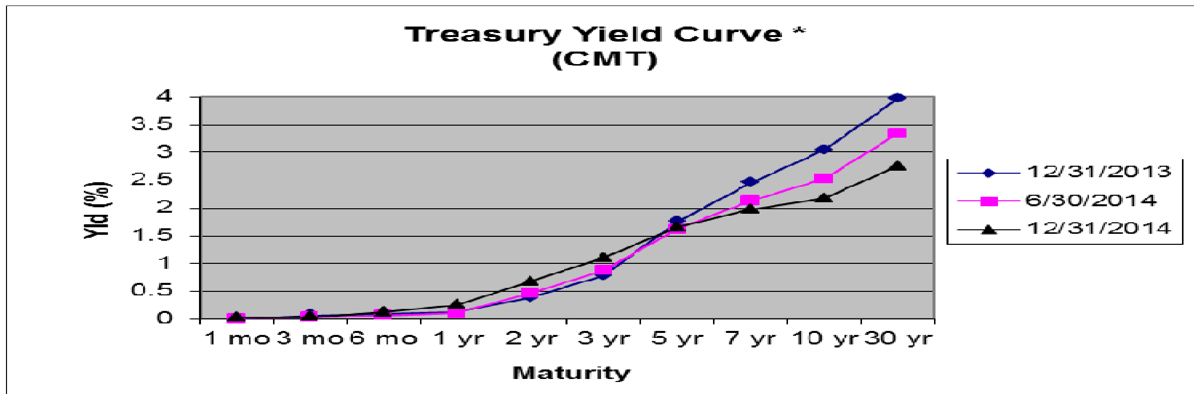
Entering the homestretch quarter of the year, investors were hopeful for a sixth straight annual gain for the Blue Chip Dow. While the S&P 500 and the tech-heavy Nasdaq seemed comfortably on track for a positive year, the Dow offered less certainty and the small-cap Russell 2000 remained "in-the-red." Investors had already overcome a dismal winter season that contributed to a poor start to the markets; they struggled with geopolitical challenges in Ukraine/Russia and the Middle East and concerns about once all-powerful China; they welcomed positive economic reports, enhanced boardroom activity that implied corporate confidence, and a Fed that appeared in no rush to raise rates if such a move meant derailing the economy.

The final three months brought…a mid-term election that implied more gridlock to the Nation's Capital (how will immigration reform and Cuban relations work out, Prez O?); better-than-expected earnings; stimulus moves in both Japan and China; an end to the Fed's bond buying program; and, oh yes, an outright plunge in the price of crude. Through all the developments (and the accompanying volatility), stocks continued their trek into record-setting territory; the Dow Jones closed at all-time highs on 38 occasions, the Russell 2k turned "black;" and the S&P and Nasdaq rewarded investors with double-digit gains. All in all, not a bad way to spend a year.

In any given quarter, a mid-term victory by the pro-biz Republicans could have controlled the news cycle. Then again, a surprising rate cut in China, an equally surprising bond buy in Japan, and nonstop pontificating by ECB Prez Draghi about future non-traditional stimulus moves could have generated plenty of global interest. The great Fed debate about the next movement of rates could have been a hoot to follow. And yet, oil prices, the friendly folks at OPEC, and ongoing declining demand projections by the International Energy Agency (among others) dominated the headlines. During the past three months, traders must have "suddenly" recognized the mismatch between supply and demand; they lost all confidence in Saudi Arabia and friends to work together to stabilize the crude market; and they outright panicked. When all was said and done, oil prices had plummeted by 46% to fresh five year lows and barely topped the $50/barrel level (and just a few months ago, $100/barrel was the norm). Many fear that a massive energy sector on the decline could negatively impact the greater economy should prices remain low for an extended period; however, others point out that the drop in gasoline prices means greater household income and the potential for enhanced consumer activity. Only time will tell.

Stock indexes performed admirably for the year with utilities leading the charge with 24% gains and energy posting the steepest (10%) losses. Key indexes in both China (+53%) and Japan (7%) reaped the benefits of late stimulus moves and Europe was mixed as investors tried to interpret the ECB's next play. Fixed income surprisingly performed well on the uncertainty of Fed policy and the energy swoon; the 10-year yield stands just above the 2% level, and corporations have had ample opportunity to raise funds in the debt market. Welcome to 2015 (and $2 gasoline).

Economically Speaking…



Despite increasing globalization leading to a "small small world after all," the economies at home and abroad (and the associated central bank policies) could not be moving in more different directions. While labor growth and favorable manufacturing activity has led the domestic economic resurgence, our European counterparts continue to struggle with declining output, contraction, and potential "deflation." Even high and mighty Germany recently cut its growth outlook for the next two years and some fear the dreaded "R" (recession) is not far behind. While the Fed has been scaling back stimulus, the European Central Bank looks to be eyeing some pretty aggressive moves in the new year. In Asia, Japan's early year sales tax hike prompted an economic contraction, a credit rating downgrade, and ultimately an unexpected escalation of a prior bond purchase program. Still, Prime Minister Abe won reelection and a vote of confidence from the people. Similarly, China's manufacturing sector plunged into contraction mode; home prices declined for seven months in a row; and its central bank shocked the world with its first rate cut in two years as the 7.5% annual targeted growth rate looked to be in jeopardy for the first time in this millennium. So how will lower oil affect the world? It's anyone's guess for now.

At home, GDP grew by 5% in the third quarter, its fastest pace in over a decade and leading indicators depicted an economy continuing to expand nicely well into 2015. In November, over 300k folks were added to the nonfarm job market, its best showing since early 2012, while the unemployment rate stands at 5.8%, its lowest level since mid-2008. Manufacturing has remained comfortably in expansion mode for the past 18 months and inflation is nowhere close to the radar screen (thanks oil). Lower gas prices have contributed to positive consumer sentiment as the **Thomson Reuters/University of Michigan's** index rose to its highest level in almost eight years. Housing has become a bit of a concern as building activity appears to be on the decline and existing home sales dropped to a six-month low in its latest reading. And yet, the Fed expects the economy to continue in solid growth mode thanks to strength in labor and chose to end its bond buying program during the quarter. The jury is still out on the timing of the next rate hike and the sudden energy "crisis" has raised new alarms about the ultimate impact on the economy. Most Fed watchers expect a mid-2015 increase, though the latest statement from the open market committee meeting added that the policymakers will be "patient" in shifting monetary policy.

On the Horizon…It's all about the "bubbling crude, oil that is, black gold, Texas tea" (any Beverly Hillbillies fans out there?). While some analysts may have forecast a pullback in crude, few could have anticipated the speed and magnitude of the downturn. In the short-term, the consumer may take those extra bucks from the gas pumps and head to the malls; in the longer term, Big Oil may have to postpone (cancel) projects, lay off workers, and rethink advancements in areas like shale. For now, the domestic economic outlook looks sound and corporate profits are expected to post strong gains again in 2015. For now…

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