



December 2014: Market Review

Global equity markets were mixed in December, even as U.S. growth surged and falling oil prices gave consumers a boost. The Dow Jones Industrial Average rose 0.12% for the month, lifting its 2014 return to 10.04%. The S&P 500 Index lost (0.25%) in December, but added 13.69% for the year. Both indexes hit all-time highs during the month.

In U.S. economic news, the final reading of third quarter 2014 real gross domestic product showed annualized growth of 5.0%, making it the best quarter of U.S. growth since the third quarter of 2003. The Federal Reserve is expected to begin raising interest rates in 2015, although exactly when, by how much, and how quickly are matters of debate. The most recent S&P/Case-Shiller Home Price Index report showed that on a month-over-month basis, home prices rose 0.8% in October, while on a year-over-year basis, prices were 4.5% higher than last October, the smallest gain in two years. Among commodities, barrels of WTI crude oil ended the month at \$53, down from \$66 in November. Oil prices fell over 45% in 2014, affected by both wavering global growth and excess supply. Gold closed at \$1184 per troy ounce, up from \$1175 the previous month.

Growth-style equities and value-style equities were mixed across capitalizations in December. Among large cap stocks, the Russell 1000 Value Index gained 0.61% during the month, moving its year-to-date return to 13.45%, while the Russell 1000 Growth Index was down (1.04%), leaving it with a return of 13.05% in 2014. In small cap stocks, the Russell 2000 Growth Index added 2.97% and was up 5.60% for the year, while the Russell 2000 Value Index gained 2.73%, giving the index a return of 4.22% for the year. The Russell Midcap Index closed the month with a gain of 0.21% and added 13.22% in 2014.

International equity markets struggled in December in the face of slowing economic growth. Russia's economy, heavily dependent on energy production and exporting, is at risk of falling into a deep recession; the ruble fell nearly 40% in December. Japan announced additional stimulus at the end of December to jolt the economy out of recession, while central banks in Europe and China hinted at new actions intended to stimulate their respective economies. The MSCI EAFE Index ended December down (3.46%) and lost (4.90%) for the year. The MSCI Europe Index fell (4.30%) during the month, leaving the index down (6.18%) in 2014. The MSCI Pacific Index dropped (1.83%) and fell (2.70%) in 2014. The MSCI Emerging Markets Index lost (4.61%) in December and dropped (2.19%) for the year.

Among fixed income investments, the yield on the 10-Year Treasury closed December at 2.17%, the same as one month ago, but down from 3.03% at the end of 2013. The Barclays U.S. Aggregate Bond Index added 0.09% in December and gained 5.97% for the year. The Barclays U.S. Treasury Index was up 0.14% during the month, leaving it with a 2014 return of 5.05%. The Barclays Treasury 20+ Year Index gained 3.20% in December and rose 27.48% for the year. The Barclays Corporate High Yield Index closed the month down (1.45%), but added 2.45% in 2014.

U.S. equity markets have risen for six consecutive calendar years, and the accelerating strength of the U.S. economy makes a seventh seem possible; however, weak global growth, the prospect of rising U.S. interest rates, and relatively high equity valuations may prove to be difficult headwinds for markets to overcome.