ECONOMY: Housing, Autos & Jobs Improve

Global monetary policies continued to ease in November, as the dollar continued to strengthen and oil prices continued to decline.

REPORTS ON BUSINESS
According to the Institute for Supply Management (ISM), economic activity in the manufacturing sector expanded for the 18th consecutive month. Respondents were upbeat about demand and new orders. The non-manufacturing sector grew in November for the 58th consecutive month. Respondents generally commented that business conditions are on track for continued growth.

CONSUMER CONFIDENCE SLIPS
The Conference Board Consumer Confidence Index®, which had rebounded in October, declined in November. “Consumer confidence retreated in November, primarily due to reduced optimism in the short-term outlook. Consumers were somewhat less positive about current business conditions and the present state of the job market; moreover, their optimism in the short-term outlook in both areas has waned. However, income expectations were virtually unchanged and gas prices remain low, which should help boost holiday sales.”

A SOLID MONTH FOR JOBS
The 321,000 new jobs for the month of November marked the best result of calendar 2014 and the best report since 2012. The jobs number was well ahead of the 12-month average of 228,000, and the consensus estimate of about 230,000. This was in spite of upward revisions to the jobs figures that totaled 44,000 for September and October combined.

AUTO SALES REBOUND
The U.S. has moved from a low of just over 9 million units sold in the depths of the recession to 17.1 million units in November 2014. That was considerably better than economists’ forecasts for November of 16.7 million units. The 17.1 million rate is the second-best rate of both the year 2014 and the entire recovery.

HOME PRICE RISE
The CoreLogic Home Price Index increased a hefty 0.5% in October, lifting the year-over-year growth rate to 6.1%, from the 5.3% reported in the prior month. Overall, home-price levels are still about 12.4% below the April 2006 peak, and about 13 states are at or very close to the previous prerecession high.

LOWER PRICES AT THE PUMP
The AAA national average gas price is now at $2.78, down from $3.00 in October, and an average of $3.50 in 2013. The $0.22 fall from the October average translates into a $30 billion cost savings for consumers.

EUROPEAN ECONOMY STAGNANT
Eurostat reported that the Eurozone economy grew 0.2% in the third quarter, after growth of just 0.1% in the second quarter. Support for Europe narrowly averting a third recession in six years came from a boost in trade from the falling euro—down almost 11% since May—and falling oil prices, which have dropped more than 25% during the same period.

RATE CUT IN CHINA
The People’s Bank of China cut the one year lending rate 0.4% to 5.6%, and the one year deposit rate was dropped to 2.75% from 3%.

JAPAN IN RECESSION
Despite a massive quantitative easing program, the Japanese economy appears to be in recession. After GDP shrank by 7.3% in the second quarter, it fell 1.6% in the third quarter. Two consecutive months of economic contraction is widely considered the mark of a recession.

NO BIDS IN RUSSIA
Russia had a less than successful bond auction with the sale of 18-month government bonds. Less than 10% of the 5 billion Ruble offering was accepted. Moreover, the yield came in at 10.06% while similar bonds went for less than 7% in January.
GLOBAL EQUITIES: Volatility Declines

**A LESS VOLATILE MONTH**
The volatility seen in October did not persist in November, as the S&P 500 finished up 2.7%. Consumer staples led the S&P 500 with a gain of 5%, while energy was the worst performing sector, down 8%. Large cap equities continue to lead small and mid-cap equities for the year.

**Q3 EARNINGS**
The earnings momentum continues for the S&P 500 as the Q3 earnings season comes to a close. S&P reports that 368 companies beat, 45 met, and 86 missed earnings expectations for the quarter. Based on the current results this equates to a reported 4.9% top line revenue growth and 8.9% earnings growth year over year.

**RUSSIAN IMPACT ON EMERGING MARKETS**
Russian currently ranks among the worst in terms of global equity market returns, down 30% YTD. The Russian Ruble has fallen 39% YTD against the U.S dollar, to a new all time low. Much of the decline in the Russian market is a result of the 32% drop in oil prices, since Russia is a major producer of oil, as well as the effects of U.S. and western sanctions imposed on Russia over the Ukrainian situation.
**FIXED INCOME: As Yields Fall, Bonds Rise**

**INVESTMENT GRADE OVER CREDIT**
Returns to bond investors were better than expected due to a widespread fall in yields in November. Except for global ex-U.S., high yield and emerging-market debt indices, bond investors fared reasonably well. The drop in yields helped long dated Treasury indices, while the Barclays U.S. Aggregate index returned 0.7% in November and a relatively strong 5.9% YTD.

**LOOKING FORWARD**
Despite the end of QE and the auspices of tighter monetary policies domestically, there are still factors that can keep long-term Treasury yields low. Long-term Treasury yields are influenced more by growth and inflation expectations than by monetary policies. Inflation continues to run below the Fed’s target. Moreover, the yield advantage Treasuries offer relative to most other developed-market government bonds could prevent long-term yields from spiking higher. Therefore, it is a possibility that the yield curve flattens in 2015, with short-term yields increasing more than long-term yields.

**MUNI’S – SLOW & STEADY**
While municipal bond market returns were not remarkable in November, it marked the 11th straight month of positive returns for the Barclays Municipal Index. Muni issuance for the month came in at $28.3 billion, bringing YTD supply to $295 billion with positive fund flows for 19 consecutive weeks. The longest-maturity muni’s now offer a yield advantage over Treasuries before tax, offering attractive relative value and compelling income.
HEDGE FUNDS FOLLOW EQUITIES HIGHER
Hedge funds posted slight gains in November as the HFRX Global Composite eked out a 0.3% gain. Global Macro hedge funds posted a 1.7% gain in November, marking the largest monthly gain in 5 years for the group. Commodity trading advisors also posted healthy gains for the month on the back of declining oil prices, and the strengthening U.S. dollar.

COMMODITY WEAKNESS CONTINUES
The commodities markets continue to be impacted by the decline in oil prices. Following suit, the Alerian MLP Index fell 2.6% in November, following a near 5% decline in October. U.S oil production has climbed nearly 77% in the past 6 years, while oil imports have fallen 25% over the same period. In a surprise move, OPEC did not reduce production at its most recent meeting. Rather, many assume that OPEC, led by Saudi Arabia, is willing to accept lower oil prices in an effort to negatively impact high cost suppliers. Many U.S. shale producers have breakeven production costs between $40-$60, and a continued price decline in oil may lead to lower production and investment.