

MARKET COMMENTARY

FOR THE WEEK OF FEBRUARY 23, 2015

An agreement on Friday between Greece and its creditors – seen variously as a short-term fix or capitulation by that nation's new leadership – was still enough to send stocks here and across the Atlantic soaring.

The Dow gained its first nominal high of the year, the S&P 500 posted its third in the past week, the NASDAQ closed in on 5,000 and Europe's Stoxx 600 climbed to a seven-year peak.

Going into Friday, the prospects for any agreement seemed slim, as the proposals offered by Greece's leaders were rebuffed, and they were, in turn, given an ultimatum, which they all but dismissed. Nonetheless, on Friday, after the third emergency meeting by the eurozone's finance ministers in one week, an accord was reached. The four-month plan ensures that Greece will get the last tranche of its €240 billion (\$273 billion) bailout to keep it solvent and, in return, Greece will today submit a proposal detailing the austerity steps it will take to earn that money. However, the agreement states that Greece will "refrain from any rollback of measures" of the terms agreed to by previous governments or "unilateral changes to the policies and structural reforms that would negatively impact fiscal targets, economic recovery or financial stability." As Germany's Finance Minister Wolfgang Schäuble put it after the deal was announced, "Being in government is a date with reality, and reality is often not as nice as a dream."

The problems, however, were myriad, including the fact that Greece will almost certainly still need money in four months and that the plan it submits today might be rejected, especially after Greece's Finance Minister Yanis Varoufakis quickly lapsed back into the pugnacious tone that had so annoyed the

Key Market Data

Week ending...	2/13/2015	2/20/2015	Change
S&P 500 Index	2,096.99	2,110.30	+0.63%
MSCI EAFE Index	1,839.35	1,866.73	+1.49%
BarCap U.S. Aggregate Bond Index	1,933.37	1,924.09	-0.48%
10-Year Treasury Note Rate	2.019%	2.136%	+11.7 basis pts.

eurozone's ministers, saying that Friday's deal would be "dead and buried" if creditors didn't accept Greece's proposed plan.

Around the rest of the eurozone

Elsewhere in Europe, there was cause for optimism at week's end when a closely watched economic indicator, Markit's composite purchasing managers' index, came in at 53.5 in February, a seven-month high. But there was one more cloud hanging over the eurozone as Russia defied the recently brokered ceasefire with Ukraine by moving arms and troops across the border to aid the

separatists. European leaders and President Obama threatened a new round of sanctions if the incursions continued. Meanwhile, because of the existing sanctions and the low price of oil, Moody's downgraded Russia's credit rating to junk.

The Fed remains "patient"

The minutes of the Fed's most recent meeting on Jan. 27 and 28 indicated that it will not be hasty in raising its benchmark rate, still concerned about the fragility of the economic revival and the specter of slow inflation. While some members felt the time had come to raise rates, a majority, including Chairwoman Janet Yellen, believed that acting too early "might dampen the apparent solid recovery" and were inclined "toward keeping the federal funds rate at its effective lower bound for a longer time." The bond market staged a rally after the minutes were released, but it soon fizzled out, and yields rose as the week progressed. This week, Fed watchers will get a chance for further speculation when Ms. Yellen delivers her semiannual report to Congress.

Inflation slows

With the job market having rebounded, the Fed's primary concern is inflation, and last week the producer price index took its biggest dip in more than five years because of lower gas prices, meaning the Fed could hold off longer than expected. The PPI fell 0.8% in January after decreasing 0.2% in December. Over the previous 12 months, prices were unchanged after being up 1.1% in December, the weakest year-over-year reading since the government began keeping track in 2010. Core prices, excluding food and energy, fell 0.1% after having risen 0.3% in December, and were up 1.6% over the past year compared to 2.1% the month before.

In other news, the Commerce Department said that housing

starts fell 2% in January to an annualized rate of 1.07 million but were up 18.7% from a year earlier. Building permits dipped 0.7% to 1.05 million, up 8.1% from January 2014. The National Association of Home Builders/Wells Fargo sentiment index fell to 55 in February from 57 in January. Manufacturing output rose 0.2% in January, the Fed reported, and was up 5.6% from a year earlier. Overall, industrial production increased 0.2% after having dropped 0.3% in December, and was up 4.8% from last January; capacity utilization was unchanged at 79.4%. Plus, first-time jobless claims fell 21,000 to 283,000, while the four-week moving average was down 6,500 to 282,250.

Japan underperforms

Japan's government said that fourth-quarter GDP was 2.2%, an improvement after two quarters of contraction seen as the result of new sales taxes that came into effect last April, but well below the forecast of 3.7%.

Walmart and wages

Walmart, the nation's largest private employer, raised its minimum wage to \$9 an hour, a signal that the more competitive job market was forcing it to act or lose workers to competitors.

A look ahead

In addition to keeping an eye on Ms. Yellen's trip to Capitol Hill, investors will weigh releases on existing, new and pending home sales, the S&P/Case-Shiller home price index, Markit's services and composite PMIs, the consumer price index, durable and capital goods orders, and consumer confidence. The government will also release its first revision of fourth-quarter GDP, expected to fall from 2.6% to 2.1%, largely because of a wider trade gap.

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subject to higher volatility than larger, more established companies and may be less liquid. With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. This also holds true for bond mutual funds. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds or market value of bond funds that you own. At maturity, however, the issuer of the bond is obligated to return the principal to the investor. The longer the maturity of a bond or of bonds held in a bond fund, the greater the degree of a price or market value change resulting from a change in interest rates (also known as duration risk). Bond funds continuously replace the bonds they hold as they mature and thus do not usually have maturity dates, and are not obligated to return the investor's principal. Additionally, high yield bonds and bond funds that invest in high yield bonds present greater credit risk than investment grade bonds. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund.

All index references and performance calculations are based on information provided through Bloomberg. Bloomberg is a provider of real-time and archived financial and market data, pricing, trading, analytics and news.

Standard and Poor's 500 Index® (S&P 500®) is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Standard & Poor's offers sector indices on the S&P 500 based upon the Global Industry Classification Standard (GICS®). This standard is jointly maintained by Standard & Poor's and MSCI. Each stock is classified into one of 10 sectors, 24 industry groups, 67 industries and 147 sub-industries according to their largest source of revenue. Standard & Poor's and MSCI jointly determine all classifications. The 10 sectors are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

The MSCI EAFE Index measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.

Barclays Capital US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$250 million.

The 10-year Treasury Note Rate is the yield on U.S. Government-issued 10-year debt.

The Markit Purchasing Managers' Indices are monthly economic surveys of selected companies. They provide insight into the private sector economy by tracking variables such as output, new orders, employment and prices across key sectors.

The STOXX Europe 600 (Price) Index is a broad based capitalization-weighted index of European stocks designed to provide a broad yet liquid representation of companies in the European region. The equities use free float shares in the index calculation. The index was developed with a base value of 100 as of December 31, 1991. This index uses float shares.

The U.S. Department of Labor Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

The National Association of Home Builders-Wells Fargo Housing Market Index (HMI) is based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months as well as the traffic of prospective buyers of new homes.