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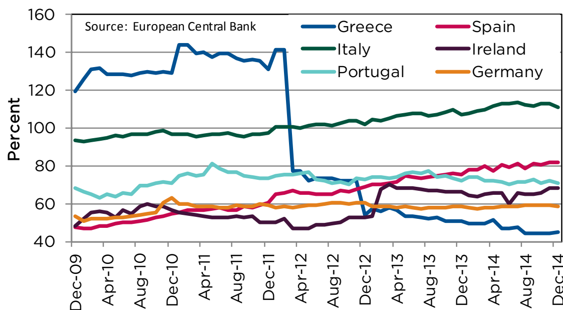
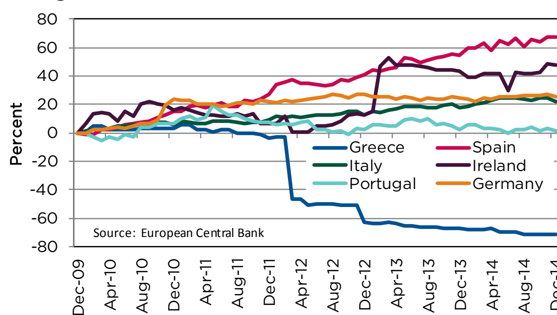
ECONOMIC REVIEW JANUARY 2015

European currency struggles punctuated a January that brought stocks lower as Euro fears were reanimated. Greek voters took to the polls to voice their disappointment over several years of austerity as a term for receiving continued loans, which sustained the country's finances for the past three years. The far left, anti-austerity party won enough seats to effectively control the fiscal and social agenda. The party's platform consisted of restructuring debt, rejecting austerity measures and restoring salaries and benefits to levels that preceded austerity. Voters took to the message after two years of disastrous GDP contraction and high unemployment. European lenders have provided multiple loans to the government on which the payback terms had recently been eased. With the next loan scheduled for the end of February and a firm rejection of any further borrowing from the new Greek leaders, the rest of the Eurozone worried about the effects if Greece was forced to leave the Euro. Without continued borrowing, the Greek government will default and lenders will be hesitant to consider new loans. Investors worried about potential default contagion spreading to other countries that received loans, including Spain, Portugal, Ireland and Italy. If Greece was allowed to not pay back loans, these countries would gain leverage to modify the terms of their own loans, further driving down loan values and putting banks' balance sheets at risk. German Chancellor Merkel cautioned Europe that the Greek election outcome would bring financial troubles for Greece and elevate the risk that other countries would fight to end austerity. Germany remains wary of shouldering the financial burden if loans are forgiven or deficit spending increases.

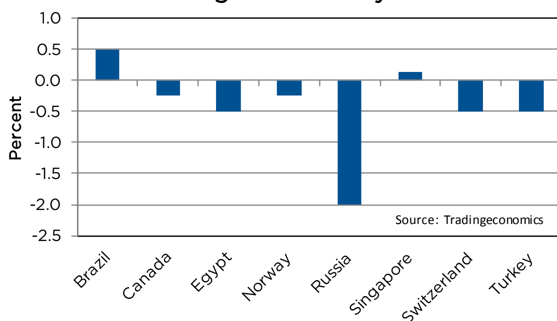
Government Debt as % of GDP



Change in Government Debt



Interest Rate Changes in January



Market Returns

As of January 31, 2015

	January	3 Months	One Year
S&P 500	-3.0%	-0.6%	14.2%
Russell 1000 Value	-4.0%	-1.4%	12.9%
Russell 1000 Growth	-1.5%	0.5%	14.6%
Russell 2000	-3.2%	-0.4%	4.4%
MSCI EAFE	0.5%	-1.7%	-0.4%
Emerging Markets	0.6%	-5.1%	5.2%
Barclays Agg	2.1%	2.9%	6.6%
3-Month T-Bills	0.0%	0.0%	0.0%

In response to the rapidly falling Euro, the Swiss National Bank announced the end of its Euro peg. Fearing further diminution of the Franc and possible inflation, the floor of 1.2 francs per Euro was lifted, granting an immediate rise in the currency's value. Many Swiss stocks immediately fell over 10%, as a stronger currency tends to hurt exports and undermine foreign currency reserve values. The Swiss Euro peg, enacted in 2011, helped stabilize the franc, as Swiss banks are important intermediaries in Europe's financial interactions with the rest of the world. To help manage inflows looking for the safety of a stronger currency, deposit rates were lowered to -0.75%.

Russia's central bank cut its main lending rate by 2%, citing an end to an inflationary scare that prompted last month's 6.5% rate increase. Sanctions against Russia continued to hamper the economy and an escalation of military support for Ukrainian separatists did not help the country's outlook for relief. Standard and Poor's lowered its credit rating on Russian debt to junk.

The Bank of Canada surprised markets with a 0.25% interest rate cut. The country had been battered by falling oil prices which threatened economic expansion and a soaring real estate market. Real estate prices in western Canada soared over the past decade as oil industry employment grew tremendously, causing an influx of new workers looking for living quarters. Toronto's commercial building boom is an offshoot from the revenues that oil and gas brought to Canada. Sustaining growth is a main reason that Canada is eager to complete the Keystone XL pipeline; otherwise it will construct pipelines to the coasts in order to bring oil to the world market.

U.S. GDP grew at a 2.6% rate in the fourth quarter. Consumer spending on clothing and energy were strong drivers for the expansion. Rising healthcare costs also positively contributed to GDP. The biggest detractor to growth was a surprise surge in imports. While the value of oil imports fell, the surge in consumer goods demand drove import growth. Ongoing cuts in federal defense spending detracted from GDP.

The Federal Reserve reiterated its capacity for patience to begin raising interest rates. A negative December inflation reading, due largely to lower gasoline prices, gave the Fed further backing for its stance on rates.

The European Central Bank confirmed a program to purchase €60 billion per month of sovereign bonds, covered bonds and asset-backed securities for at least 19 months. Germany raised objections over the plan, as it remained a stalwart against intervention and inflationary actions. Many of the Eurozone countries pined for monetary easing, as they do not have the industrial and export strength of Germany.

Oil inventories in the U.S. rose to record levels, even as prices fell. Oil companies around the world began massive layoffs and cancelled projects worth several billion dollars, as price uncertainty made committing to projects a gamble not worth taking. Saudi King Abdullah died, though the change in leadership is not expected to shift oil policy in the country.

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