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Weekly Market Update

September 21, 2015

The Fed Passes, for Now

Global stocks made headway last week in the days leading up to the highly anticipated meeting of the Federal Reserve, but gave back the gains on Friday. The S&P 500 index closed flat for the week with a return of -0.13%, and is now down -0.59% for the month of September. Equity markets in the U.S. had rebounded on strengthening U.S. economic data. However, the Fed cited concern about global weakness in its decision to leave interest rates unchanged.

Last week was a relatively slow one for domestic economic data reporting, and the news was mixed but positive on balance for the week. Manufacturing numbers reported on Tuesday were disappointing, but retail sales figures were positive. The S&P 500 responded to the retail data by climbing most of the day and returning a healthy 1.28%. Thursday brought more positive data points in the form of lower than expected U.S. initial jobless claims of 264k, lower than the previous week's 275k and the consensus estimate of 275k.

But it was the Fed decision that overshadowed the data. Stocks dropped quickly at the Fed's announcement on Thursday, then rallied to their highs for the day. As the day wore on, investors digested the concerns expressed about global weakness, taking indices lower in the last hour of trading and a 0.24% loss for the day. Stocks declined further on Friday as the Fed's cautious comments furthered weighed on investor sentiment.

There was other positive news the market chose to overlook last week. Building permits rose 3.5% in August to an annualized rate of 1.17 million, above expectations. Permits for single-family homes rose to 699,000, the highest since January 2008. Housing starts fell 3% in August, slightly more than expected, after the expiration of an affordable housing tax credit boosted multifamily home construction in June and July. And positive news on the inflation front continues, as the Consumer Price Index ("CPI") has increased just 0.2% over the past year. The core measure, which excludes food and energy, has risen 1.8%. In good news for consumers, energy costs have fallen 15% over the past year.

The week brought discordant notes from abroad, however. China's industrial output was

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disappointing, growing just 6.1% year over year in August versus a median forecast of 6.6%. Elsewhere, the rating agency S&P cut Japan's long-term credit rating one level to A+, reflecting the country's weak economic growth and persistent low inflation. Although the devalued yen has boosted exports, the economic recovery there remains anemic. Japan's public debt, already unsustainably high, is projected to grow to a staggering 2.5 times GDP in 2016.

Janet Yellen cited low inflation, "recent global economic and financial developments," and "heightened uncertainties abroad" in the Fed's decision not to raise interest rates. Positive economic data here at home, however, support the expectation of most Fed officials that the central bank will raise rates before year end.

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