

RBF Weekly Market Commentary December 29, 2014

The Markets

With gas hovering around \$2 a gallon in many parts of the country, chances are you're smiling every time you fill up the tank.

The oil price drop, which is one of the biggest stories of 2014, is a twist on a familiar tale. Rising supply (production in non-OPEC countries, like the United States, increased) and falling demand (in Europe, Japan, and China) caused prices to move lower. In this case, they've moved a lot lower. Last summer, the price of crude oil was about \$107 a barrel. Last week, it finished below \$55 a barrel.

Overall, according to the *International Monetary Fund (IMF)*, lower oil prices are expected to be good news for the global economy. They're expected to have economic benefits for countries that import a lot of oil, like China and India. They also are a boon for U.S. consumers who have more money in their pockets when they pay less at the pump.

However, low oil prices aren't good for everyone. In the United States, oil-producing states like Texas, Louisiana, Wyoming, Oklahoma, and North Dakota may lose jobs and tax revenues. Outside the United States, oil exporters like Russia, Iran, Nigeria, and Venezuela are likely to suffer adverse consequences as a result of falling prices, including domestic unrest, according to *MarketWatch.com*. The *International Energy Agency (IEA)* said,

“...For producer countries, lower prices are a negative: the more dependent on oil revenues they are and the lower their financial reserves, the more adverse the impact on the economy and domestic demand. Russia, along with other oil-dependent but cash-constrained economies, will not only produce less but is likely to consume less next year.”

The supply and demand equation isn't likely to change soon. The *IEA* forecasts global demand growth will be relatively weak during 2015. Meanwhile, the Organization of the Petroleum Exporting Countries (OPEC) has done nothing to reduce supply, largely because of Saudi Arabia which is the second largest oil producer in the world. Saudi has reserves that make it better able to absorb the oil price shock than other oil exporters. It also has political motivations to keep oil prices low. These include punishing Iran and Russia for supporting Bashar Assad in the Syrian Civil War, according to the *International Business Times*.

If you want to know where oil prices may go, keep an eye on Saudi Arabia.

Data as of 12/26/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.9%	13.0%	18.2%	19.8%	13.1%	5.7%

10-year Treasury Note (Yield Only)	2.3	NA	3.0	2.0	3.8	4.3
Gold (per ounce)	-1.6	-2.0	-3.1	-9.2	1.3	10.3
Bloomberg Commodity Index	-2.0	-15.3	-16.5	-9.2	-5.3	-3.0
DJ Equity All REIT Total Return Index	1.3	29.6	29.5	16.5	16.2	8.5

S&P 500, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IT'S NOT THE 1 PERCENT, IT'S THE 0.1 PERCENT. They say history repeats itself. That seems to jibe with the findings of a brand new paper by Emmanuel Saez of the University of California, Berkeley, and Gabriel Zucman of the London School of Economics.

“Wealth concentration has followed a U-shaped evolution over the last 100 years: It was high in the beginning of the twentieth century, fell from 1929 to 1978, and has continuously increased since then. The rise of wealth inequality is almost entirely due to the rise of the top 0.1% wealth share, from 7% in 1979 to 22% in 2012—a level almost as high as in 1929... The increase in wealth concentration is due to the surge of top incomes combined with an increase in saving rate inequality.”

The pair found that the average real growth rate of wealth for the 160,000 families that comprise the top 0.1 percent was 1.9 percent from 1986 to 2012. As it turns out, income inequality has a snowballing effect on wealth distribution. The wealthiest people earn top incomes and save at high rates, which helps concentrate greater wealth in the hands of a few. It's interesting to note that top wealth-holders are younger today than they were in the 1960s.

In contrast, the riches of the bottom 90 percent did not grow at all from 1986 to 2012. Historically, the share of wealth divvied up among this group grew from 20 percent in the 1920s to 35 percent in the 1980s. However, by 2012, it had fallen to 23 percent. Pension wealth grew during the period, but not enough to offset the rapid growth of mortgage, consumer credit, and student loan debt.

Weekly Focus – Think About It

"History repeats itself, but the special call of an art which has passed away is never reproduced. It is as utterly gone out of the world as the song of a destroyed wild bird.

--Joseph Conrad, Polish author

Best regards,

Tony Kalinowski

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- * The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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- * Stock investing involves risk including loss of principal.

¹ <https://www.iea.org/oilmarketreport/omrpublic/>

¹ <http://www.washingtontimes.com/news/2014/dec/10/oil-prices-plummet-worldwide-as-opeac-infighting-in/>

¹ <http://www.ibtimes.com/saudi-arabias-oil-pricing-power-makes-it-country-watch-2015-1765920>

¹ <http://blog-imfdirect.imf.org/2014/12/22/seven-questions-about-the-recent-oil-price-slump/>

¹ <http://www.bloomberg.com/news/2014-12-18/good-times-for-texas-north-dakota-may-turn-bad-on-falling.html>

¹ <http://www.marketwatch.com/story/5-countries-that-will-be-the-biggest-losers-from-oils-slide-2014-11-20>

¹ <http://gabriel-zucman.eu/files/SaezZucman2014.pdf>

¹ http://www.brainyquote.com/quotes/keywords/history_repeats_itself.html#CdTcsOyfjqXl64qI.9

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