



WEEKLY MARKET UPDATE

December 7, 2015

The Economy: Strong Enough for Rate Hikes?

Markets endured an up-and-down week wrestling with uncertainty about whether the economy is strong enough to handle expected Fed rate hikes next week (December 16). In a reversal from last week, broader indexes edged up slightly, while further down the capitalization scale there was weakness in the S&P Midcap Index (-1.32%) and the S&P Smallcap Index (-1.27%).

The major economic news event for the week was the release of the November Non-Farm Payroll report on Friday. Once again, the news was positive, as 211,000 jobs were added and the large cap indexes celebrated with a strong rally, erasing losses earlier in the week. The labor market remains resilient despite a slowing global economy, a higher dollar, lower commodity demand and weakening manufacturing data.

The recent pattern of good news/bad news continued last week. NYMEX crude oil briefly dropped below \$40 per barrel after OPEC decided to maintain output at 31.5 barrels per

day to protect market share. While negative for oil company earnings, lower energy prices continue to benefit consumers, and expectations for consumer spending remain bullish.

The ISM manufacturing index posted its worst reading since 2009 due to elevated inventory levels, which led customers to order fewer goods. Mitigating that negative data point was the November ISM non-manufacturing (think “Services”) index, which fell from the previous month but remained above 50 at a still-strong 55.9. Non-manufacturing activities make up a majority of the US economy, and continued strength in this sector will support the Federal Reserve’s decision to raise rates next Wednesday, assuming the consensus expectation turns out to be the correct one. Stay tuned.

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