



Monthly Market Insights  
from Joe Terranova,  
Chief Market Strategist

## DECEMBER 2014

Looking ahead to 2015, we are on the verge of the historically positive “decennial pattern” where, since 1885, ALL years ending in 5 have been positive years for the stock market. For nearly every one of those years, the market price low was established in the first quarter, with the exception of 1965 and 2005, when the low occurred in the second quarter. With the S&P 500® (SPX) at an all-time high, many events that investors needed to pay attention to at the start of the year remain a high priority. The following six “vital signs” top my list for December.

**Wishing you an abundance of health and happiness in the new year.**

**1**

**MONDAY, DECEMBER 1**

### **U.S. ISM Manufacturing**

Manufacturing continues to be the driving force of the U.S economy and is, therefore, high on the list of economic conditions the FOMC will monitor heading into 2015. Last month’s 59.0 index reading was the strongest since March 2011. Additionally, the mid-November regional manufacturing “Philly Fed” index posted a 40.8, its highest level since late 1993. Concern should only be elevated if this month’s ISM reading cools to below 55, a level we have not seen since May 2014.

**2**

**THURSDAY, DECEMBER 4**

### **European Central Bank Meeting**

As persistent low growth and deflation ail the eurozone, ECB President Mario Draghi appears to be moving closer to implementing full-scale quantitative easing measures. Most importantly, I expect markets are focused on whether Mr. Draghi can expand the central bank’s balance sheet, which has actually declined by 200 billion euros since 2012. Any ECB QE implementation would likely first involve purchases of corporate and agency debt. I expect new purchases of government bonds would be used only as a last resort.

**3**

**FRIDAY, DECEMBER 5**

### **U.S. Labor Report**

The October nonfarm payrolls headline figure came in weaker than expected, at +214,000, with private payrolls at +209,000. The unemployment rate fell to 5.8% and the labor force participation rate was 62.8. Expectations for November’s report are basically unchanged: +205,000 to +225,000 for the headline figure, +195,000 to +215,000 for private payrolls, and a slight drop in the unemployment rate from 5.8% to 5.7%.

**4**

**THURSDAY, DECEMBER 11**

### **U.S. Spending Authority Bill Deadline**

While the markets do not anticipate a government shutdown, one would occur if legislation were not passed to further fund the government after September’s temporary federal budget extension. D.C. never fails to surprise with its dysfunction, so it is prudent to keep this date circled on the calendar.

5

SUNDAY, DECEMBER 14

**Japan Elections**

Japanese Prime Minister Shinzo Abe has curiously dissolved the lower house of parliament and called for a snap election. Japan's economy has fallen into recession, and Abe's approval rating has dropped from 75% in the second quarter of 2013 to slightly below 50% today. Abe's party holds 294 of the 475 seats in the lower chamber, and I expect he will maintain that majority. If he does, come January he can embark upon the "third arrow" of his Abenomics policy: structural reform. If he were to stunningly lose seats, that could set up an internal challenge from his own party for next year's election. The yen will be a key market indicator to watch in the days ahead.

6

WEDNESDAY, DECEMBER 17

**U.S. FOMC Meeting Concludes**

The Fed's Open Market Committee's final meeting of 2014 will also include the quarterly release of economic projections and a follow-up press conference with Chair Janet Yellen. The next meeting will be held January 28, and does not include economic projections or a press conference. Expect much of the press conference to center on whether the Fed will keep the "considerable time" language in its guidance for when interest rates may rise, as well as the pace of rate increases once the first increase is announced.

**JOSEPH M. TERRANOVA**, *Chief Market Strategist, Virtus Investment Partners*

Joe Terranova is chief market strategist for Virtus Investment Partners, a position he was elevated to in 2009, after having started with the company as chief alternatives strategist. In his current role, Mr. Terranova works with Virtus' regional sales teams and the financial advisors who sell the company's investment products, providing insight into the domestic and global investing landscape and has represented Virtus as a keynote speaker for several financial institutions. He is a member of the Virtus Investment Oversight Committee.

Prior to joining Virtus in 2008, Mr. Terranova spent 18 years at MBF Clearing Corp., rising to the position of director of trading for the company and its subsidiaries. In this capacity, he managed more than 300 traders and support staff for MBF, one of the New York Mercantile Exchange's largest firms. His work was highlighted as the feature story in the June 2004 issue of Futures magazine.

Mr. Terranova is perhaps best known for his risk management skills, honed while overseeing MBF's proprietary trading operations during some of the most calamitous times for the U.S. markets, including the first Gulf War, the 1998 Asian Crisis, 9/11, and the collapse of Amaranth Advisors. In 2003, he was one of the first Wall Street professionals to make an early call for higher energy, natural resources, and commodity prices. In June 2008, he cautioned investors to move to the sidelines in commodities and, in March 2009, he encouraged investors to ignore the global "embrace of pessimism" and overweight equities. Before joining MBF, Mr. Terranova held positions at both Swiss Banking Corp. and JP Morgan Securities.

Mr. Terranova has been an ensemble member of the CNBC Fast Money franchise since 2008. He also frequently contributes exclusively to CNBC's other business programs. He is the author of "Buy High, Sell Higher" (Business Plus, 2012), a book about the "new rules" of investing based on his years as a professional trader.

Mr. Terranova is strongly committed to charitable causes benefiting children. He founded and funds the 501(c) South Nassau Rock organization, which provides specialized athletic experiences for children, and works with Nassau County to sponsor the improvement of baseball and outdoor ice rink facilities. In 2007, he established "Bossy's Bunch," a program that rewards academic excellence among elementary school students, with New York Islanders Hall of Fame hockey player Mike Bossy. In 2013, he expanded his charity work with the Islanders, creating and sponsoring the "Courier of Courage" program, which acknowledges children who have overcome hardships, disabilities, or illness.

Mr. Terranova earned a bachelor's degree in finance from the Peter J. Tobin College of Business at St. John's University in New York.

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