



Monthly Market Insights
from Joe Terranova,
Chief Market Strategist

JANUARY 2015

2015 begins with incredibly high expectations for U.S. assets, the U.S. economy, and S&P 500® (SPX) earnings strength. Elevating expectations higher is the 130-year decennial pattern precedent of positive returns for most calendar years ending in 5. As with the start of every year, a patient and deliberate allocation approach is warranted. My preferred strategy is to let most of January pass before allocating capital to global risk assets. What to do while waiting? Be prudent, observe where the early fund flows go, digest the economic data, and await the mid-month release of SPX Q4 2014 earnings before making investment decisions. Here are eight “vital signs” to keep in your sights.

1

FIRST 5 TRADING DAYS
Spot Oil Vulnerability

Unfortunately, SPX direction might be influenced by the spot price of oil during the first five trading days of January. Vulnerability will be heightened as funds allocating toward commodity indexes will purchase less West Texas Intermediate (WTI) crude oil futures than in years past. The 2015 index weighting for WTI will be reduced in all major commodity index funds, which generally allocate in the first five days of January trading.

2

WEDNESDAY, JANUARY 7
FOMC Minutes

The December 17 FOMC meeting statement and post meeting press conference were the catalysts for significant SPX appreciation. The statement and the quarterly summary of economic projections were clearly more dovish, indicating that the FOMC’s focus is less on domestic economic strength and more on subdued inflation and global economic weakness. I expect the meeting minutes will fill in the blanks as to why three committee members dissented and whether the markets are justified to expect a rate hike in the late summer, at the September 17 FOMC meeting, versus the late spring, following the April 29 or June 17 meeting.

3

FRIDAY, JANUARY 9
U.S. Labor Report

Last month’s (November) nonfarm payroll report exceeded all expectations, with the headline figure adding 321,000 jobs, which was the strongest month since January 2012. Private payrolls increased by 314,000. The unemployment rate held steady at 5.8% as did the labor force participation rate at 62.8. Expectations for the December report are lower, with many expecting revisions to November’s report. If the December report matches November’s strength, it would come as a surprise and a conundrum, suggesting the need for the FOMC to lift rates in the late spring and forcing the market to adjust expectations once again.

4

WEDNESDAY, JANUARY 14
U.S. Retail Sales

Improving labor and falling energy costs are providing a tailwind stimulus to the consumer. The nearly 50% decline in oil since late June has provided close to \$100 billion for consumers to spend. November retail sales growth of 0.7% was the strongest monthly sales figure since 1.5% in March 2014. The December retail sales report should be a blockbuster. The combination of the holiday shopping season, the improving labor market, and falling energy costs could add up to a retail sales figure that could quite possibly challenge the 2.2% growth recorded in March 2010.

5

THURSDAY, JANUARY 22
ECB Meeting

As 2014 ended, the euro currency traded to 1.22, its lowest level since 1.2043 in 2012. In 2015, the European Central Bank (ECB) must provide evidence to the market that it will expand its balance sheet. One of the reasons behind taking a deliberate and patient approach to the new year is the shift in the ECB meeting schedule. ECB meetings will no longer be conducted on the first Thursday of each month. For 2015, meetings will be held every six weeks, with the first three scheduled for Thursday, January 22, Thursday, March 5, and Wednesday, April 15.

6

MONDAY, JANUARY 26
134 SPX Companies Report Earnings This Week

Although earnings season technically begins January 12, the last week of the month is the most important with 134 S&P 500 companies expected to report, highlighted by Caterpillar, Apple, ConocoPhillips, Ford, Facebook, Amazon, Visa, and Google. This week should tell us whether earnings tailwinds are persisting. While expectations are high, earnings over multiple quarters have matched and exceeded expectations.

7

TUESDAY, JANUARY 27
President Obama's State of the Union Address

More than likely, President Obama will deliver his State of the Union address to the 114th Congress on this date. There is a remote chance that the speech will be moved one week earlier to Tuesday, the 20th. The importance of this speech is to gain an understanding of whether President Obama, the Republican Senate, and the Republican House will be able to cross party aisles and move forward much needed fiscal policies in 2015.

8

WEDNESDAY, JANUARY 28
U.S. FOMC Meeting Concludes

At its first meeting of 2015, the FOMC will have a full month of economic data, corporate earnings, and global central bank meeting statements to digest. Fed Chair Janet Yellen will not hold a press conference after this meeting. There are eight FOMC meetings scheduled for 2015:

- | | |
|-----------------|--------------------|
| > January 27-28 | > July 28-29 |
| > March 17-18* | > September 16-17* |
| > April 28-29 | > October 27-28 |
| > June 16-17* | > December 15-16* |

**followed by Fed Chair press conference*

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 "embracement 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.

For more information, visit Virtus.com

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