C.F. WHITTELSEY HOLDINGS

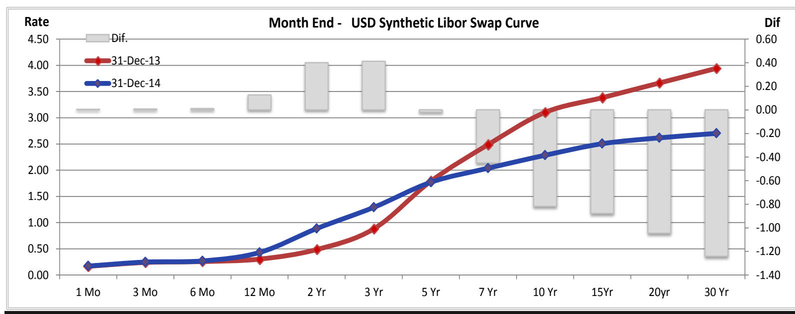
Weekly Market Review

December 28, 2014 — January 02, 2015

"The low inflation rates experienced globally may also allow for a more gradual normalization process than typically occurs... with so little wage and price pressure, and relatively slow productivity growth, it is possible that rates may not normalize at the same level they were prior to the financial crisis"- Eric Rosengren—Boston Fed President

A Quick Glance at 2014 Events that Impact Banks

The WSJ published a great article on Wednesday Dec 31, 2014 on major events of the year which I recommend. I put together a quick bank specific version



- Oil prices tank

Energy prices play a large role in both inflation and in spending. On the inflation side, lower energy prices result in lower inflation, one of the key metric of the Fed's dual mandates of price stability and is currently running below the Feds target of 2% PCE. More disposable income is available for consumers as they pay less at the pump, which should result in increased spending on discretionary goods. Another impact has been an increase in consumer confidence

- Crimea gets annexed by Russia, Ukraine falls into war, Israel and Hamas fight, and Ebola outbreaks

All these events had significant political and social ramifications. Lives were lost, territories dominated, and instability was created. The impact was unanimously a flight to safety play. When global instability is a concern, investors take risk off by moving their assets into US treasuries and MBSs. More demand pushes yields down and prices up. Most people believed 2014 would be a year of higher rates, however, we got significantly lower yields in the long end and slightly higher yields in the mid term which resulted in a flatter yield curve.

- The US labor market improves, dollar rises, Fed gets a bit more hawkish

The US labor market was stronger than many anticipated, despite a weak start with GDP going negative. Jobless claims declined from around 360 to 290k, 2.7 million jobs were added, there are more job openings than any other time in 13 years, and the unemployment rate sits at around 5.8%. The dollar is at its highest in years (relative to OECD currency basket) which allows for cheaper imports (yet more expensive exports). All this considered (and much more), the Fed developed a slightly more hawkish tone.

- Banks face big fines

Banks face the largest fines ever from mismanaging foreclosures, shoddy origination practices, the Libor scandal, FX scandals, and numerous other legacy issues.

- Europe notably weak

Europe was one of the biggest disappointments of the year with anemic economic growth (some surprising weakness out of Germany) and continued large unemployment. The value proposition of US debt versus nearly any European debt is obvious making US a safer and higher yielding investment which continues to push yields down. 2015 will dictate the power of words as Draghi attempts to keep order in the European financial markets.