

## Oil

Oil prices surged and the stock market fell following a U.S. drone strike that killed a senior Iranian general in charge of Iran's proxy forces fighting throughout the Middle East. This drone strike was the latest in a series of escalations between the U.S. and Iran.

**Our Take:** The killing of this general represents a major escalation by targeting an Iranian government official rather than Iran's proxy forces. The increase in oil prices is a headwind to growth and especially manufacturing at a time when capital markets are looking for stabilization in growth. While significant, the magnitude of the crude price surge is much less than previous price increases due to Mideast geopolitical concerns. This smaller magnitude indicates the importance of U.S. shale production to diversification of global crude supplies.

## ISM Manufacturing Index





The ISM manufacturing index surprisingly slipped in December, falling from 48.1 to 47.1.

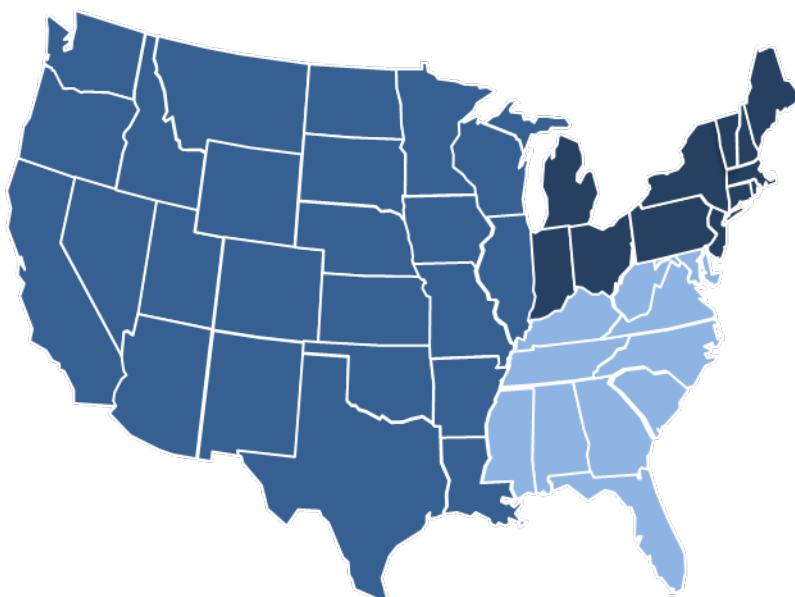
**Our Take:** Weakness in some of the manufacturing index components hit lows not seen since 2009. While production cuts at Boeing could have been a cause of the decline, reports at lows not seen since the Great Recession certainly do not instill a great deal of confidence that the manufacturing sector is going to recover soon.

## Municipals

The Federal Reserve Bank of Philadelphia released projections indicating that nine states' economies are expected to contract within the next six months. This marks the largest number of states since July 2009. West Virginia's economy is expected to contract the most. According to the projections, other states that are expected to have shrinking economies in the next six months include Connecticut, Delaware, Kentucky, Montana, New Jersey, Oklahoma, Pennsylvania, and Vermont.

**Our Take:** Growing economies help alleviate state funding concerns, while shrinking economies often expose problems. If the predictions come to fruition, relative borrowing costs for these nine states would likely rise.

-  **Christopher Hodges**  
Northeast  
443-326-1875  
chodges@reinhart-partnersinc.com
-  **Christopher Rhyne, CIMA®**  
Southeast + PR  
336-817-8206  
crhyne@reinhart-partnersinc.com
-  **Joel Dykman**  
West + AK, HI  
608-609-4141  
jdykman@reinhart-partnersinc.com
-  **Internal Support**  
262-241-7065



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