



Arlo Associates Weekly Market Summary

20th November 2016

Good morning,

These were the top market stories from last week:

US equities continued their post-election rally, with most major indices reaching record highs over the week. Financials remain the strongest performer due to the expectation of higher bond yields boosting lending margins and lower regulation under the trump administration. The S&P 500 reached a record high of 2,187.6 mid-week and is now 6.75 percent up year-to-date.

A December hike in US interest rates is increasingly likely, following the comments by Fed Chair Janet Yellen on Thursday that rates should rise 'relatively soon'. It is predicted that 'Trumponomics' will lead to increased inflation, in turn leading to higher interest rates; as a result, the futures market is pricing in the chance of a December hike at 98 percent.

The European Central Bank is likely to extend its quantitative easy program, as president Mario Draghi warned that 'all instruments available' would be used to increase inflation to its 2 percent target – inflation in October for the Eurozone was only 0.5 percent. A sell-off in European government bonds continued, with yields on Italian and Portuguese 10-year bonds reaching 12-month and 9-month highs, respectively.

The Chinese yuan fell to ¥6.8729 against the greenback, the lowest value in 8-years, increasing speculation that the central bank is taking a more 'hands-off' approach to its currency policy. The weakening of the yuan is due to uncertainty of China-US trade relations under a Trump administration, including comments made by the President-elect that he would increase tariffs on Chinese imports.

The Nikkei 225 index rose 3.4 percent, as Japanese equities were boosted by the strongest two-week gain of the US dollar against the yen since 1988. Local markets were also helped by better than expected GDP growth data, and the first fixed rate debt buying program of short-term Japanese government bonds.

Oil recorded its first weekly gain in over a month, on hopes that OPEC will agree a program to limit production by the end of the month. This modest increase was against the downward price pressure from a stronger dollar and a rise in the US rig count. WTI and Brent crude closed at \$45.69 and \$46.86 a barrel, respectively.

In other financial news;

- **Mexico's central bank raised the benchmark interest rate by 50 basis points**, in an effort to strengthen the peso following its post-election crash against the dollar.
- **Volkswagen have announced 30,000 job cuts**, with 23,000 coming from Germany, as the company deals with the aftermath of the emissions scandal.
- **Investment bank JP Morgan Chase will pay \$264m**, to settle claims that it hired the children of high-power Chinese officials in a bid to gain business in China.
- **Shareholders of Tesla Motors have agreed the takeover of SolarCity**, in a \$2.6bn deal that was controversial due to Elon Musk being the biggest shareholder.
- **Facebook have announced a buyback program worth \$6bn**, which will begin in the first quarter of 2017 and pushed the share price up over 1 percent.

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