Arlo Associates Weekly Market Summary

4th December 2016

Good morning,

These were the top market stories from last week:

The US unemployment rate fell to a 9-year low last month, whilst the economy created 178,000 jobs, which leaves the Fed with few remaining obstacles for a rate hike this month. The prospect of higher interest rates boosted blue chips in the banking and energy sectors, with the Dow Jones Industrial Average outperforming, whilst the tech-heavy Nasdaq and small-cap Russell 2000 indices underperformed.

Global bonds lost $1.7 trillion in November, extending loses over the past two months to $2.8 trillion, according to the Bloomberg Barclays Global Aggregate Total Return Index. The index lost over 4 percent last month, the gauge's biggest ever monthly drawdown, and has led some investors to speculate that we are approaching the end of the 30-year bull market in bonds.

European equity funds lost over $2 billion over the week, as investor sentiment soured on the prospect that Italian voters would reject constitutional reform that would help its debt-ridden banks. In positive news, the European Central Bank expects inflation to hit their 2 percent target by 2019, which caused yields on German government bonds to rise to a 10-month high.

Japan's equities gained for a fourth consecutive week, however a further weakening in the yen against the dollar delivered more pain to non-yen based investors. During November, the TOPIX index gained 5.5 percent in yen terms but lost 2.3 percent when based back to US dollar.

China has increased efforts to halt the flight of capital, caused by wealthy Chinese nationals seeking US dollars to protect themselves against the depreciation of the yuan. The country's foreign exchange authority reduced the threshold for vetting overseas transactions from $50 million to $5 million, whilst increasing scrutiny of large cross-border deals by Chinese companies.

Oil prices surged to a 12-month high, following Wednesday's agreement to cut output by the OPEC group. The first cut in over eight years will see output fall by 1.2 million barrels a day from next year, with Saudi Arabia bearing almost half of the cuts – 500,000 barrels a day. WTI crude futures gained 12.2 percent to finish at $51.68, with Brent crude ending 15.3 percent higher at $54.46.

In other financial news;

- **Brazil's central bank has reduced the lending rate to 13.75 percent**, a 25 basis point cut, as inflation moved lower in an environment of poor growth.

- **Deutsche Bank's Global Market division has let go 3,400 customers**, as the bank attempts to lose clients that cost more to service than they earn fees from.

- **The Eurozone unemployment rate fell to 9.8 percent**, a 7-year low, and was well below the market forecasts of 10 percent.