



Arlo Associates Weekly Market Summary

12th December 2016

These were the top market stories from last week:

Most major US indices have now quadrupled since their 2009 lows, as the ‘Trump trade’ continues to push equities to record highs. The small-cap Russel 2000 index outperformed last week and is 21.83 percent up year-to-date, whilst the S&P 500 and Dow Jones Industrial Average are up 10.55 and 13.38 percent, respectively.

The Federal Reserve’s Open Market Committee will meet this week, and it is almost a certainty that short-term interest rates will be increased by 25 basis points to a range of 0.50-0.75 percent.

The ECB will continue its quantitative easing program until December 2017, although from April it will decrease its monthly bond purchases from €80bn a month to €60bn. ECB President Mario Draghi comforted investors by stating that the program will continue as necessary to increase inflation to the 2 percent target. Interest rates were kept at zero.

Japan’s TOPIX index is up 17 percent since the post US-election crash, and is pushing towards a multi-year high, as Japanese equities finish a fifth consecutive week in positive territory. This is on the back of a tumbling currency, due to the diverging monetary policies of the US Federal Reserve and the Bank of Japan, with the yen at ¥115 per US dollar – its weakest rate in over 10 months.

China’s currency reserves have fallen for a fifth consecutive month, losing \$69 billion in November alone to end at \$3.05 trillion – an 8-year low. This loss offset a greater-than-expected 6.7 percent surge in imports from a year ago, and a trade surplus last month of \$44.61 billion. Whilst these figures are promising, a protectionist US trade policy under Donald Trump is likely to weigh heavily on imports next year.

Oil prices are set to rally further, as non-Opec nations have agreed to a production cut in an effort to raise prices. The group of eleven, including Russia, will reduce output by 558,000 barrels a day which will be added to the 1.2 million barrels a day Opec have agreed to cut from January. This agreement will mark the first global pact in 15 years.

In other financial news;

- **India’s central bank has kept interest rates at 6.25 percent**, despite anticipation of a 25 basis point cut to offset the short-term impact of the demonetisation program.

- **Venezuela will replace high value banknotes with coins within 72 hours**, in an effort to reduce smuggling and combat food shortages.
- **McDonald's will move its non-US tax base to the UK**, from its current base in Luxembourg, which will mean paying UK tax on all non-US royalties.
- **Iran's state airline has ordered 80 Boeing passenger planes**, worth \$16bn at current prices, in the biggest Iran-US deal in over 35 years.

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