



Arlo Associates Weekly Market Summary

18th December 2016

Good morning,

These were the top market stories from last week:

The Federal Reserve increased interest rates by 25 basis points, setting the new range at 0.50-0.75 percent, in a move widely anticipated by the markets. Less expected was the news that policymakers are predicting three rate hikes in 2017, as the Fed holds more confidence that inflation will reach their 2 percent target in the near future.

Yields on US 10-year Treasury notes rose to 2.58 percent, a two-year high, as the bond market reviewed the Fed's plans negatively. US equities had a mixed week, with financials falling whilst utility shares outperformed. The Dow came within half a percent of 20,000, before slipping back to end the week at 19,843 – a 0.4 percent weekly gain.

European equities were boosted by the US interest rate hike, with the Euro Stoxx 50 gaining 1.97 percent over the week, as a stronger US dollar provides a welcome tailwind for European exporters. A flurry of data released was also positive, in particular inflation rose to 0.6 percent in November, up from 0.1 percent a year earlier.

The Bank of England kept rates at 0.25 percent, and announced that they expect inflation to hit 2.7 percent in 2017 due to the pounds decline since the Brexit vote. They also altered their forecasts of the timing of Brexit's impact on the economy, raising growth forecasts in 2017 but lowering forecasts in 2018.

Japanese equities posted a sixth consecutive week of gains, with a weaker yen making local companies more profitable. The impact of rising share prices but a weaker currency has hurt dollar-based investors, although if the yen remains stable in 2017 then it could mean positive returns for all Japanese equity investors next year.

Oil prices rose to a 17-month high on Friday, as signs remained strong that producers will adhere to the global pact to cut output. A two-year supply overhang will be tackled quickly once OPEC and non-OPEC producers cut 1.8m barrels per day from January. Both WTI and Brent crude gained to finish at \$51.90 and \$55.25, respectively

In other financial news;

- **Mexico's central bank has raised interest rates by 50 basis points**, in an effort to stabilise the falling peso which has declined 10% since the US elections.

- **BP have been awarded a local stake in Abu Dhabi's onshore oil concession**, with the emirate being given 2 percent of the British oil company in return.
- **Yahoo announced 1bn user accounts were breached in 2014**, making it twice the size of the 2013 hack and sending Yahoo shares 6 percent lower.
- **Goldman Sachs is to pay the US government \$56.5m**, to settle a class action lawsuit accusing it of rigging the interest rate in the derivatives market.
- **21st Century Fox have agreed to pay £11.7bn to takeover Sky**, and will see Rupert Murdoch's company own 100% of the UK broadcaster - valued at £18.5bn.

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