

Market Commentary – 30 September 2016

Global stocks ended the week mixed

Shares were mostly lower for the week and month but positive for the third quarter.

Equity Markets

European stocks were mixed Friday with some indices erasing early losses after it was reported that Deutsche Bank may be near a \$5.4 billion settlement with the US Department of Justice. Markets were expecting far harsher terms. The FTSE however, retreated 0.3 percent as did the SMI. The CAC edged 0.1 percent higher and the DAX added 1.0 percent. For the week, only the OMX managed to close in positive territory. In September, the FTSE added 1.7 percent and the CAC edged up 0.2 percent. The DAX and SMI retreated 0.8 percent.

Deutsche Bank jumped 6.4 percent. Commerzbank was down but well off the session lows, a day after suspending its dividend for the first time and announcing 9,600 jobs over the next four years. Banco Santander lowered its profitability targets for 2018. Airbus Group advanced after it unveiled a new restructuring plan that involves merging with its plane making unit.

Among the many data releases, German retail sales retreated while those in France increased. Final second quarter UK GDP was revised upward. Eurozone flash harmonized index of consumer prices were up 0.4 percent on the year for the fourth consecutive reading above zero and its higher mark since July 2014.

In the US, stocks advanced Friday thanks to technology shares. On the day, the Dow Jones industrials were up 0.9 percent while both the S&P and Nasdaq added 0.8 percent. The Dow was up 0.3 percent for the week thanks to Friday's gain but down 0.5 percent for the month of September. The S&P were 0.2 percent higher on the week but 0.1 percent lower for September. The Nasdaq edged up 0.1 percent for the week and jumped 1.9 percent in September. All three indices advanced in the third quarter.

The technology sector led the way, as groups unveiled stronger than expected earnings and upbeat outlooks. Meanwhile, defensive sectors that are seen as bond proxies because of their dividend yields struggled, reducing their gains for the year. Friday's rally was in response to a report that Deutsche Bank may pay a substantially smaller fine to US regulators over the alleged mis-selling of mortgage-backed securities than was feared. Bank stocks recovered from a sharp drop as Deutsche Bank tried to reassure investors about its financial health. JPMorgan Chase and Citigroup gained.

Costco Wholesale rose after the retailer reported a profit that was larger than expected. Shares of companies that make and sell household necessities also climbed. Procter & Gamble and Walmart advanced. Cognizant Technology Solutions tumbled after the company said it was investigating possible bribes paid to officials in India. Qualcomm and NXP Semiconductors climbed on reports the companies might combine. Apple stock surged, partly on indications of strong sales for the newest iPhones. Microsoft and Alphabet gained also gained. Mentor Graphics stock climbed after a fund tied to the activist investor Paul Singer doubled its stake in the company. McCormick was up after it reported bigger-than-expected profits and raised its estimates for the year.

August personal income climbed 0.2 percent after climbing by 0.4 percent in July. However, personal spending was virtually unchanged following a 0.4 percent increase in July. The Chicago business barometer jumped to 54.2 in September from 51.5 in August. University of Michigan September consumer sentiment was 91.2 — up from 89.8 in August.

Asian stocks here were mostly lower on Friday as a rally in oil prices stalled and growing worries about the European banking system hit financial shares. But despite weekly and monthly losses, the indices all advanced in the third quarter.

The Shanghai Composite added 0.2 percent Friday. Markets in China will be closed all of next week for the National Day holiday. The index was also up 0.2 percent for the week but lost 2.6 percent in September. The Hang Seng dropped 1.5 percent Friday and lost 1.6 percent for the week. However, the Hang Seng added 1.4 percent in September.

The Nikkei and Topix were both down 1.5 percent Friday. They lost 1.8 percent and 2.0 percent respectively for the week and retreated 2.6 percent and 0.5 percent in September. Stocks in Japan were dragged down by disappointing economic data including the CPI which dropped 0.5 percent on the year, indicating that deflation remains firmly entrenched. Consumer spending was also disappointing. The one ray of sunshine was industrial production, which gained on the month.

The S&P/ASX and All Ordinaries lost 0.6 percent Friday. However, on the week, the indices managed to inch 0.1 percent higher each. The Kospi average dropped 1.2 percent after the country's industrial production fell at the fastest pace in 19 months in August. The Kospi was down 0.5 percent on the week and up 0.4 percent in September.

The Sensex inched 0.1 percent higher in cautious trading after witnessing its worst single-day loss in the last three months on Thursday following news of surgical strikes by the Indian army across the LoC in Pakistan-occupied Kashmir. The Sensex was down 2.8 percent on the week and slid 2.1 percent in September.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was up US\$4.40 to US\$1,322.50. Copper futures were up 0.9 percent to US\$2.21. WTI spot crude was up 41 US cents to US\$48.24. Dated Brent spot crude was up 38 US cents to US\$50.19. The US dollar was up against the yen and Swiss franc. It declined against the euro and the Canadian and Australian dollars. It was unchanged against the pound. The Dollar Index was down 0.1 percent. The yield on US Treasury 30 year bond was up 4 basis points to 2.32 percent while the yield on the 10 year note was up 3 basis points to 1.59 percent.

The Longer-Term Perspective

Markets historically fall from time to time in the course of their longer-term upward progress. Investors who are willing to accept periods of market volatility and stay invested for the long term are often well positioned to grow their wealth as markets subsequently recover.

We view the market reaction to them as a normal part of the investment cycle that, in itself, creates attractive opportunities for long-term investors.

Looking forward

Central Bank activities

October 4	Australia	Reserve Bank of Australia Monetary Policy Announcement
	India	Reserve Bank of India Monetary Policy Announcement

The following indicators will be released this week...

October 3

Eurozone - Manufacturing PMI (September)
 France - Manufacturing PMI (September)
 Germany - Manufacturing PMI (September)
 UK - Manufacturing PMI (September)
 Japan - Tankan Survey (Q3.2016)
 Japan, China & India - Manufacturing PMI (September)
 United States - Manufacturing PMI (September)
 ISM Manufacturing Index (September)
 Construction Spending (August)

October 4

Eurozone - Producer Price Index (August)

October 5

Eurozone - Composite & Services PMI (September)
 Retail Sales (August)
 France - Composite & Services PMI (September)
 Germany - Composite & Services PMI (September)
 Australia - Retail Sales (August)
 United States - ADP Private Employment (September)
 Factory Orders (August) & Services PMI (September)
 ISM Nonmanufacturing PMI (September)
 Canada - International Trade (August)
 UK - Services PMI (September)

October 6

Germany – Manufacturing Orders (August)
 Australia – Merchandising Trade (August)
 US - Initial Unemployment Claims (week ending prior Saturday)

October 7

Canada - Labour Force Survey (September)
 United States - Employment Situation Report (September)

		2016	Daily	% Change
	Index	Sep 30	Change	Daily
North America				
United States	Dow	18308.15	164.7	0.9
	NASDAQ	5312.00	42.9	0.8
	S&P 500	2168.27	17.1	0.8
Canada	S&P/TSX Comp	14725.98	-28.6	-0.2
Europe				
UK	FTSE 100	6899.33	-20.1	-0.3
France	CAC	4448.26	4.4	0.1
Germany	XETRA DAX	10511.02	105.5	1.0
Italy	MIB	16401.00	62.2	0.4
Spain	Ibex 35	8779.40	-16.9	-0.2
	OMX Stockholm			
Sweden	30	1439.08	4.3	0.3
Switzerland	SMI	8139.01	-25.2	-0.3
Asia/Pacific				
Australia	All Ordinaries	5525.15	-33.1	-0.6
Japan	Nikkei 225	16449.84	-243.9	-1.5
	Topix	1322.78	-20.5	-1.5
Hong Kong	Hang Seng	23297.15	-442.3	-1.9
S. Korea	Kospi	2043.63	-25.1	-1.2
Singapore	STI	2869.47	-16.2	-0.6
China	Shanghai Comp	3004.70	6.2	0.2
Taiwan	TAIEX	9166.85	-104.0	-1.1
India	Sensex 30	27865.96	38.4	0.1
Data Source — Haver Analytics				