

Market Commentary – 22 December 2016

Stocks sagged in light pre-holiday trading

International investors were sorry that the Dow did not top 20,000.

Equity Markets

European stock markets were mixed Thursday in subdued pre-holiday trading. The health of the Italian banking system weighed on the shares of most European banks. The FTSE was up 0.3 percent while the SMI edged up 0.1 percent. The DAX slipped 0.1 percent and the CAC (up 0.81 point) was virtually unchanged.

Deutsche Börse declined after the stock exchange operator announced it is exercising a third and also final call option on shares to increase its stake in Tradegate. Deutsche Bank and Commerzbank were lower. ThyssenKrupp and Salzgitter also declined. In Paris, Sanofi, which has been in advanced talks to buy Actelion, climbed. Actelion jumped in Zurich after the drug maker officially entered into exclusive negotiations with prospective bidder Johnson & Johnson.

In London, insurance giant Legal & General Group slipped after appointing Jeff Davies as its Group Chief Financial Officer. Randgold Resources and Fresnillo gained along with gold prices. Nokia retreated in Helsinki after filing a number of lawsuits against Apple for patent infringement. Monte dei Paschi dropped in Milan, in choppy trading. The bank is attempting to raise enough capital to avoid nationalization. BP advanced in London. The energy sector rose as oil prices were supported by a pause in the dollar rally and optimism that crude producers will abide by an agreement to limit output.

Germany's import prices increased for the first time in four years in November. Import prices were up 0.3 percent from a year ago. They were up a monthly 0.7 percent. At the same time, export prices were 0.3 percent higher on the year after slipping 0.1 percent in October. Export prices climbed 0.5 percent on the month.

In the **US**, stocks retreated Thursday with the Dow Jones industrials slipping 0.1 percent, the S&P declining 0.2 percent and the Nasdaq retreating 0.4 percent. Trading was thin ahead of the holidays and is expected to drift through the end of the year.

The US government put Alibaba back on a blacklist of marketplaces that sell counterfeit goods and said the company is slow to respond when companies complain about knockoffs. Chinese regulators have also said Alibaba doesn't do enough to prevent fake items from being sold on its sites. Bed Bath & Beyond slumped after it reported weaker sales than expected. Target, Staples, Gap, Nordstrom and Dollar Tree also were lower. Red Hat declined after the open-source software company reported disappointing revenue in the third quarter and its fourth-quarter sales projections were also lower than expected. Airline stocks including JetBlue, Alaska Air and Delta retreated.

A slew of economic data were released today. Briefly, third quarter gross domestic product was revised upward to an annualized pace of 3.5 percent for the final estimate. November durable goods orders tumbled 4.6 percent almost wiping out October's 4.8 percent gain. However, excluding transportation, orders were up 0.5 percent on the month while core capital goods were 0.9 percent higher. November personal income

was unchanged on the month while consumer spending was up a less than anticipated 0.2 percent.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was down US\$2.30 to US\$1,131.35. Copper futures were up 0.3 percent to US\$2.51. WTI spot crude was up 15 US cents to US\$52.64. Dated Brent spot crude was up 24 US cents to US\$54.70. The US dollar was up against the yuan and the Canadian and Australian dollars. However, it declined against the yen, euro and pound. It was virtually unchanged against the Swiss franc. The Dollar Index was up 0.1 percent. The yields on both US Treasury 30 year bond and the 10 year note were up 1 basis point to 3.13 percent and 2.55 percent respectively.

In Asia, stocks here were mostly lower in thin pre-holiday trade Thursday. Crude oil futures were slightly higher in Asia after falling overnight as the US EIA report showed an unexpected build in oil inventories.

The Nikkei and Topix both edged down 0.1 percent prior to the release of a slew of US economic data later in the global market day. The markets in Japan are closed Friday for the Emperor's birthday. Banks including Mitsubishi UFJ Financial, Sumitomo Mitsui Financial and Mizuho Financial declined. Electronic parts maker TDK retreated after it agreed to buy US-based chip maker InvenSense for about \$1.3 billion. Honda Motor advanced after Honda R&D, the R&D subsidiary of the automaker, announced that it is entering into discussions with Waymo, an independent company of Alphabet to integrate its self-driving technology with Honda vehicles.

Both the S&P/ASX and All Ordinaries were 0.5 percent higher. The big four banks advanced after analysts upgraded the Australian companies' earnings over the next 12 months. Miners BHP Billiton and Rio Tinto fell slightly, but Fortescue Metals Group gained on the day. Caltex Australia was lower after it agreed to buy Gull New Zealand.

The Shanghai Composite edged up 0.1 percent on fears of a liquidity crunch in the wake of a recent bond scandal. The Hang Seng tumbled 0.8 percent.

The Kospi was 0.1 percent lower after investors adopted a cautious stance ahead of the final estimate of third quarter US GDP which was released later the global market day. The Sensex continued its decline, this time sliding 1.0 percent. A slew of factors including higher oil prices, concerns over Italy's troubled banks, caution ahead of the upcoming GST council meeting and fears that demonetization could impact the country's economic growth significantly in the short term kept investors nervous.

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

France and the UK report final third quarter gross domestic product.

France also releases November consumption of manufactured goods.

Canada reports October monthly GDP.

In the US, November new home sales and December consumer sentiment will be reported.

		2016	Daily	% Change
	Index	Dec 22	Change	Daily
North America				
United States	Dow	19918.88	-23.1	-0.1
	NASDAQ	5447.42	-24.0	-0.4
	S&P 500	2260.96	-4.2	-0.2
Canada	S&P/TSX Comp	15335.23	29.3	0.2
Europe				
UK	FTSE 100	7063.68	22.3	0.3
France	CAC	4834.63	0.8	0.0
Germany	XETRA DAX	11456.10	-12.5	-0.1
Italy	MIB	19121.26	-94.3	-0.5
Spain	Ibex 35	9333.60	-38.1	-0.4
	OMX Stockholm			
Sweden	30	1519.54	-5.9	-0.4
Switzerland	SMI	8237.98	4.5	0.1
Asia/Pacific				
Australia	All Ordinaries	5691.77	29.7	0.5
Japan	Nikkei 225	19427.67	-16.8	-0.1
	Topix	1543.82	-1.1	-0.1
Hong Kong	Hang Seng	21636.20	-173.6	-0.8
S. Korea	Kospi	2035.73	-2.2	-0.1
Singapore	STI	2882.04	-19.7	-0.7
China	Shanghai Comp	3139.56	2.1	0.1
Taiwan	TAIEX	9118.75	-85.5	-0.9
India	Sensex 30	25979.60	-262.8	-1.0
Data Source — Haver Analytics				