

## Market Commentary – 29 April 2016

### Stocks ended the week and month on a down note

Disappointing earnings and data pressured shares to the downside.

### Equity Markets

**European** stocks were down on Friday and for the week. However, they managed to advance in April. Investor sentiment took a hit after the sharp sell-off in the US on Thursday along with the weak performance in Asia. The Bank of Japan's surprise decision to refrain from adding stimulus measures and Thursday's disappointing US GDP data continued to weigh on the markets. Investors exited riskier investments at the end of the week in favour of safe havens. Gold prices were sharply higher Friday and silver prices advanced to a 15-month high. Mining and resource stocks benefited from the surge in metal prices. The FTSE declined 1.3 percent, the SMI retreated 1.7 percent, the CAC lost 2.8 percent and the DAX dropped 2.7 percent. For the week, the FTSE lost 1.1 percent, the SMI declined 1.8 percent and the CAC and DAX were down 3.1 percent and 3.2 percent respectively.

Puma was down after the sportswear firm issued a cautious outlook for full-year sales and profitability after reporting a 4 percent rise in first-quarter profit. Banks including Deutsche Bank, Commerzbank, BNP Paribas, Société Générale and Crédit Agricole also closed lower. Automakers including BMW, Daimler, Volkswagen, Renault and Peugeot also retreated. Sanofi tumbled a day after revealing that it has made an unsolicited all-cash takeover offer worth \$9.3 billion for Medivation. Shire advanced after its first quarter EPS rose to \$3.19 from \$2.84 last year. British Airways parent IAG dropped after cutting its full-year capacity growth target. Shares of Restaurant Group tumbled after the owner of

Chiquito and Frankie & Benny's brands issued a 2016 profit warning and announced departure of its finance director. Britain's largest state owned lender Royal Bank of Scotland was down after its first quarter net loss widened from last year. Swiss Re was down in Zurich after its quarterly profit fell and the company said it foresees a challenging environment.

Eurozone gross domestic product climbed 0.6 percent from prior quarter after increasing 0.3 percent in the fourth quarter. April flash harmonized index of consumer prices declined 0.2 percent from a year ago.

**US** stocks were down Friday as health care and technology companies continued to report weak first quarter results, but thanks to some late buying, they managed to avoid major losses. Stocks opened lower and fell further throughout the morning, extending a downturn from the day before and followed a rout in European indexes.

The Dow Jones industrials gave up 0.3 percent, the S&P was down 0.5 percent and the Nasdaq lost 0.6 percent. On the week, the Dow and S&P both lost 1.3 percent while the Nasdaq was 2.8 percent lower. The Dow and S&P managed to edge up for the month while the Nasdaq did not.

Health care companies took the biggest losses after a bout of weak earnings reports. Gilead Sciences was down after it said its results were hurt by big discounts and rebates on its costly hepatitis C medicines. Amgen reported relatively solid results but declined anyway. Molina Healthcare declined after it slashed its full-year guidance because of higher medical care costs in Ohio and Texas, expenses related to recent acquisitions and pharmacy costs especially in Puerto Rico. Cepheid also retreated after analysts were disappointed with its revenue projections for the second quarter.

Among the tech stocks that declined were Seagate Technology, Western Digital and Apple, which is in a deep two-week slide and has fallen for seven days in a row. Amazon advanced after it said its revenue jumped 28 percent in the first quarter and the company turned a far bigger profit than analysts expected. Newell Brands gained after it gave a strong outlook for the year after its reported solid results in the first quarter. Expedia was up after it reported a bigger adjusted profit and greater sales than expected. Rovi said it will buy digital video recording company TiVo for about \$1.1 billion in cash and stock. Both companies advanced.

March personal income climbed by 0.4 percent while personal spending edged up only 0.1 percent. With income rising faster than spending, the personal savings rate rose to 5.4 percent in March from 5.1 percent in February, reaching its highest level in thirteen months.

**Asian** stocks extended their losses from the previous session on Friday, although markets in Australia managed to cling to positive territory. While oil prices slid in Asia after sharp overnight gains, the yen continued its rise against the dollar, keeping investors cautious. Japanese markets were closed for the Showa Day holiday.

Chinese and Hong Kong shares fell as a spate of bond defaults as well as increasing volatility in the commodity market despite a government crackdown on speculation kept investors on edge ahead of the Labor Day holiday. The Shanghai Composite was down 0.2 percent while the Hang Seng lost 1.5 percent. On the week, the former lost 2.2 percent while the latter gained 1.4 percent.

Both the S&P/ASX and All Ordinaries managed to gain 0.5 percent as higher commodity prices lifted resource stocks and a \$1.1 billion takeover bid for Pacific Brands stirred speculation of more merger and acquisition activity. Both added 0.3 percent on the week and were up for the month. Economic reports painted a mixed picture with private sector credit rising modestly in March while the producer price index dipped 0.2 percent in the March quarter in contrast to a 0.3 percent rise in the preceding three months. Rio Tinto advanced after deciding to buy back A\$1.359 billion of bonds as part of efforts to reduce its debt. Fortescue Metals and BHP Billiton advanced. Atlas Iron jumped on securing court approval for debt

restructuring. Newcrest Mining and Evolution Mining rallied as gold prices hit a seven-week high. Woodside Petroleum and Santos also gained each after oil prices hit fresh 2016 highs Thursday, buoyed by a weaker dollar and speculation the global glut will ease. The Sensex was virtually unchanged Friday and added 1.0 percent for the week. The index also gained for the month of April.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was up US\$29.65 to US\$1,285.65. Copper futures were up 2.3 percent to US\$2.28. WTI spot crude was down 11 US cents to US\$45.92. Dated Brent spot crude was down 40 US cents to US\$47.37. The US dollar was down against the yen, euro and the Swiss franc. It advanced against the Australian dollar and was virtually unchanged against the pound and Canadian dollar. The Dollar Index was up 0.1 percent. The yields on US Treasury 30 year bond and 10 year note were unchanged at 2.68 percent and 1.83 percent respectively.

## 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

The following indicators will be released this week

### May 2:

Eurozone - Manufacturing PMI (April)  
Germany - Manufacturing PMI (April)  
France - Manufacturing PMI (April)  
Japan - Manufacturing PMI (April)

US - Manufacturing PMI (April)  
 US - ISM Manufacturing Index (April)  
 US - Construction Spending (March)

**May 3**

Eurozone - Producer Price Index (March)  
 UK - Manufacturing PMI (April)  
 China - Manufacturing PMI (April)

**May 4**

Eurozone - Services & Composite PMI (April) &  
 Retail Sales (March)  
 Germany - Services & Composite PMI (April)  
 France - Services & Composite PMI (April) &  
 Merchandise Trade (March)  
 Canada & US- International Trade (March)  
 US - Services PMI (April) 7 Factory Orders (March)  
 US - ISM Nonmanufacturing Index (April) &  
 ADP Private Employment (April)

**May 5**

UK - Services PMI (April)  
 Australia - Retail Sales (March)  
 & Merchandise Trade (March)  
 US - Initial Unemployment Claims (week ending prior Saturday)

**May 6**

Japan - Services PMI (April)  
 Canada - Labour Force Survey (April)  
 US - Employment Situation (April)

	Index	2016 Apr 29	Daily Change	% Change Daily
<b>North America</b>				
United States	Dow	17773.64	-57.1	-0.3
	NASDAQ	4775.36	-29.9	-0.6
	S&P 500	2065.30	-10.5	-0.5
Canada	S&P/TSX Comp	13951.45	65.0	0.5
<b>Europe</b>				
UK	FTSE 100	6241.89	-80.5	-1.3
France	CAC	4428.96	-128.4	-2.8
Germany	XETRA DAX	10038.97	-282.2	-2.7
Italy	MIB	18600.56	-376.1	-2.0
Spain	Ibex 35	9025.70	-243.3	-2.6
	OMX Stockholm			
Sweden	30	1360.71	-28.9	-2.1
Switzerland	SMI	7960.85	-138.6	-1.7
<b>Asia/Pacific</b>				
Australia	All Ordinaries	5316.00	26.6	0.5
Japan	Nikkei 225	*	*	*
Hong Kong	Hang Seng	21067.05	-321.0	-1.5
S. Korea	Kospi	1994.15	-6.8	-0.3
Singapore	STI	2838.52	-23.8	-0.8
China	Shanghai Comp	2938.32	-7.3	-0.2
Taiwan	TAIEX	8377.90	-96.0	-1.1
India	Sensex 30	25606.62	3.5	0.0
*Market closed				
Data Source — Haver Analytics				