

## Market Commentary – 29 July 2016

### Stocks advance in July

Stocks were mixed on the last day of the month and for the week.

### Equity Markets

**European** stocks rallied Friday but were mixed for the week. The markets fluctuated between small gains and losses throughout the session but crossed firmly into positive territory in late trading at the same time that the US markets bounced back from early weakness. Corporate earnings and economic data were mixed at the end of the trading week. The continued decline in crude oil prices had investors in a nervous mood. Traders were also disappointed by the easing measures announced by the Bank of Japan and the surprisingly weak US GDP report. The FTSE edged up 0.1 percent but slipped 0.1 percent on the week. The CAC gained 0.4 percent Friday and 1.3 percent from a week ago. The DAX advanced 0.6 percent and 6.8 percent on the week. The SMI added 0.4 percent on the day but retreated 0.8 percent from a week ago.

HeidelbergCement climbed after confirming its full-year outlook. Bayer rose after a court ruling in its favour over the company's Mirena Intrauterine Device. AXA Group jumped after announcing a global strategic partnership with Chinese e-commerce giant Alibaba Group Holding. EDF advanced after its board approved the Hinkley Point nuclear project. Essilor International sank despite reporting a 7.3 percent increase in first-half profit. Safran tumbled after saying it is in talks with five groups over the future of its identity and security business. Sanofi slipped after reporting its second quarter sales and profit fell on account of dwindling diabetes US sales and adverse currency moves.

Barclays surged after the lender announced plans to shed a range of unwanted business after reporting a 21 percent fall in its pre-tax profits for the first half of 2016. British Airways-owner International Consolidated Airlines Group declined after it reported robust second quarter results despite airline strikes, terrorism and sterling's post-Brexit plunge. Anglo American declined on a Bloomberg report that it has rebuffed informal approaches by Indian mining and metals tycoon Anil Agarwal. Pearson dropped after the company reported that its first-half loss before tax widened to £306 million from last year's loss of £132 million. ArcelorMittal gained after it kept its outlook for the full year after reporting a rise in second-quarter net profit. UBS was up after it reported a profit for the second-quarter that declined about 14 percent from the prior year. Banca Monte dei Paschi di Siena SpA jumped in Milan after saying it had received proposals related to its business from Swiss bank UBS AG.

Eurozone gross domestic product climbed 0.3 percent from the first quarter, when it grew 0.6 percent. A similar slower growth was last seen in the third quarter of 2015. The rate came in line with expectations. Eurozone consumer prices increased for the second straight month in July. Consumer prices climbed 0.2 percent on the year following a 0.1 percent rise in June.

In the **US**, stocks ended the week on a mixed note as the energy sector recovered along with the price of oil and Alphabet and Amazon turned in solid results. The Dow Jones industrials were down 0.1 percent while the Nasdaq added 0.1 percent and the S&P was up 0.3 percent. Only the Nasdaq advanced on the week (1.2 percent) while the Dow and S&P retreated 0.7 percent and 0.1 percent respectively. The story for the month of July was different. The Dow, Nasdaq and S&P were up 2.8 percent, 6.6 percent and 3.6 percent respectively.

Exxon Mobil had its smallest quarterly profit in 17 years, well below what had been predicted as the oil industry continued to grapple with low prices for crude. Chevron fared slightly better. While earnings dropped sharply from a year ago, Chevron's results still beat expectations. Exxon retreated and Chevron gained. Alphabet, the parent company of Google, advanced. The company reported earnings of \$8.42 per share compared with the anticipated \$8.04. Amazon shares were up after it reported a profit of \$1.78 per share. Amazon reported that it sold \$30.4 billion in goods in the quarter, up 31 percent from a year earlier. The Dow was dragged down by a drop in McDonald's along with Exxon.

US gross domestic product in the second quarter grew at a far lower than expected an annualized rate of 1.2 percent.

**Asian** stocks were mostly lower Friday after the Bank of Japan disappointed investors and oil prices slid lower. The Bank of Japan raised the target for exchange-traded fund purchases and doubled its dollar lending program in addition to the fiscal stimulus that the government had unveiled two days ago. However, investors were disappointed — the Bank kept its interest rate and the pace of monetary base expansion unchanged. Moreover, BoJ downgraded its projections for inflation and growth for fiscal 2016. The safe-haven Japanese yen soared.

The Nikkei advanced 0.6 percent Friday in volatile trading but was 0.3 percent lower on the week. In July however, the index jumped 6.4 percent. Banks and insurers paced gains after the BoJ refrained from expanding negative interest rates and ensured smooth funding in foreign currencies. Mitsubishi UFJ Financial Group, Mizuho Financial Group and Dai-ichi Life Insurance advanced. Realty stocks bore the brunt of the selling, with Mitsui Fudosan and Mitsubishi Estate both tumbling.

The Shanghai Composite was down 0.5 percent and 1.1 percent on the week. Investors were worried that regulatory changes are coming to restrict investments by small banks in the rapidly growing \$3.5 trillion wealth management product industry. The Hang Seng lost 1.3 percent on the day and 0.3 percent for the week. In July the Shanghai Composite added 1.7 percent while the Hang Seng was 5.3 percent higher.

Both the S&P/ASX and All Ordinaries added 0.1 percent Friday and were up 1.2 percent on the week. Investors hoped the Reserve Bank of Australia may cut interest rates at its August 2 policy meeting. Investors shrugged off a report, which showed Australian private sector credit growth has slowed sharply in June. Banks ANZ, NAB advanced. Mayne Pharma Group rallied after settling a patent infringement lawsuit. Sleep treatment specialist ResMed jumped on reporting a 15 percent increase in fourth-quarter revenue. Miners BHP Billiton, Rio Tinto and Fortescue Metals Group retreated even though iron ore prices climbed overnight. Both indices soared 6.3 percent in July.

The Kospi was down 0.2 percent Friday but added 0.3 percent for the week. The index was up 2.3 percent in July. The Sensex tumbled 0.6 percent Friday after the Bank of Japan disappointed and investors looked for progress on the crucial GST Bill. However, the index was up 0.9 percent on the week and 3.9 percent in July.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was up 25 US cents to US\$1,342.00. Copper futures were up 0.6 percent to US\$2.22. WTI spot crude was up 46 US cents to US\$41.60. Dated Brent spot crude was up 30 US cents to US\$43.53. The US dollar was down against all of its major counterparts including the yen, euro, pound, Swiss franc and the Canadian and Australian dollars. The Dollar Index dropped 1.1 percent. The yield on US Treasury 30 year bond was down 4 basis points to 2.18 percent while the yield on the 10 year note declined 5 basis points to 1.45 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

### August 2

Australia

Reserve Bank of Australia Monetary Policy Announcement

### August 4

UK - Bank of England Monetary Policy Announcement & Minutes

UK - Bank of England Quarterly Inflation Report

		2016	Daily	% Change
	Index	July 29	Change	Daily
<b>North America</b>				
United States	Dow	18432.24	-24.1	-0.1
	NASDAQ	5162.13	7.2	0.1
	S&P 500	2173.60	3.5	0.2
Canada	S&P/TSX Comp	14582.74	30.0	0.2
<b>Europe</b>				
UK	FTSE 100	6724.43	3.4	0.1
France	CAC	4439.81	19.2	0.4
Germany	XETRA DAX	10337.50	62.6	0.6
Italy	MIB	16846.86	324.2	2.0
Spain	Ibex 35	8587.20	108.0	1.3
	OMX Stockholm			
Sweden	30	1386.66	4.6	0.3
Switzerland	SMI	8127.20	32.1	0.4
<b>Asia/Pacific</b>				
Australia	All Ordinaries	5643.96	7.2	0.1
Japan	Nikkei 225	16569.27	92.4	0.6
Hong Kong	Hang Seng	21891.37	-283.0	-1.3
S. Korea	Kospi	2016.19	-4.9	-0.2
Singapore	STI	2868.69	-49.9	-1.7
China	Shanghai Comp	2979.34	-15.0	-0.5
Taiwan	TAIEX	8984.41	-92.2	-1.0
India	Sensex 30	28051.86	-156.8	-0.6
Data Source — Haver Analytics				