

Market Commentary – 30 June 2016

Stocks continue to rally

Shares were up across the board Thursday. But for the month of June, results were mixed.

Equity Markets

European stocks advanced for a third day in choppy trading. There was a slew of new economic data to evaluate along with continuing political turmoil in the UK and a speech by Bank of England's Mark Carney. Governor Carney noted that the BoE would probably need to add more stimulus to Britain's economy over the summer which sent shares higher and the pound lower. The FTSE jumped 2.3 percent; the CAC added 1.0 percent; the DAX gained 0.7 percent and the SMI was 0.5 percent higher. Surprisingly, the only index covered here to advance in June was the FTSE — it was up a comfortable 4.4 percent. The CAC, DAX and SMI lost 6.0 percent, 5.7 percent and 2.4 percent respectively.

BMW declined after Bloomberg reported that BMW, Mobileye and chip maker Intel are in talks regarding a possible partnership on autonomous cars. Adidas Group advanced after extending its long-term relationship with rapper and fashion designer Kanye West. Utility RWE and E.ON climbed. Deutsche Bank retreated after it once again failed the Federal Reserve's annual stress tests which are conducted to gauge how such firms would fare in a new financial crisis. Santander, which also failed, dropped in Madrid. Airbus Group was down while Safran gained after their European rocket joint venture became a full-fledged operational company. Tullow Oil soared after the company said it expects its TEN project to deliver oil within the next three to six weeks. Rio Tinto climbed

after it said it has transferred its 53.8 percent shareholding in Bougainville Copper Limited to an independent trustee.

Helped by a slower decline in energy prices, Eurozone harmonized index of consumer prices turned positive in June. The HICP edged up 0.1 percent from a year ago after slipping 0.1 percent in May. It was the first increase in five months.

Germany's retail sales increased for the first time in three months in May. Retail sales were up 0.9 percent on the month reversing a 0.3 percent decline in April. Final estimate of UK first quarter gross domestic product was up 0.4 percent on the quarter and 2.0 percent from the same quarter a year ago.

US stocks advanced for a third straight day as the Bank of England raised the prospect of stimulus and consumer staple shares gained on news of Mondelez International's \$23 billion bid for Hershey which was turned down later in the day. The Dow Jones industrials and Nasdaq both were up 1.3 percent while the S&P was 1.4 percent higher. For the month of June, the Dow was up 0.8 percent while the S&P added 0.1 percent. However, the Nasdaq lost 2.1 percent.

Consumer goods, utilities and banks rallied. Cable channel Starz jumped after agreeing to be acquired by Lions Gate Entertainment. Hershey surged after reports that Mondelez has made an overture to acquire the candy maker. Hershey stock soared before trading was halted. Mondelez shares advanced. Late in the day, Hershey spurned the offer. General Mills, Campbell Soup and Kellogg advanced. Darden Restaurants declined after the parent of Olive Garden forecast a profit for its fiscal 2017 that fell short of expectations. The company also reported total sales

for its fiscal fourth quarter that missed forecasts. Pier 1 Imports slumped after the company reported disappointing quarterly results.

Bank stocks were up after the firms got clearance from the Federal Reserve to raise their dividends and buy back shares. Many of them announced plans to do so immediately after the Fed's announcement late Wednesday. Huntington Bancshares and Citizens Financial Group gained. Deutsche Bank slid after the Federal Reserve rejected its plans to return capital to shareholders through dividend increases and share buybacks.

Most **Asian** stocks advanced Thursday. Sterling strengthened slightly and the yen was virtually unchanged thanks to easing concerns about Brexit. An overnight increase in crude oil prices above the \$50 a barrel level led to higher oil stocks in the Asia-Pacific region.

The Shanghai Composite slipped 0.1 percent ahead of factory and service sector activity data on Friday. The Hang Seng however rallied 1.8 percent. For the month of June, the former added 0.4 percent while the latter edged 0.1 percent lower.

The Nikkei gave up early gains to close 0.1 percent higher on the day. Fujitsu, Advantest, Mitsubishi Heavy Industries and Sharp Corp climbed while J Front Retailing, Mazda Motor and Alps Electric dropped. Japan's industrial output tumbled 2.3 percent in May on the month when it rose 0.5 percent. In June, the Nikkei plummeted 9.6 percent.

The S&P/ASX rallied 1.8 percent while the All Ordinaries added 1.7 percent on growing expectations that central banks around the world will increase stimulus following the Brexit decision last week. The big four banks advanced along with miners BHP Billiton, Rio Tinto and Fortescue. Energy stocks Santos, Oil Search, Origin Energy and Woodside Petroleum also were higher on the day. Qantas was up on reporting a 4.2 percent increase in passenger numbers for May. Mayne Pharma Group soared after raising capital. The S&P/ASX was down 2.7 percent on the month while the All Ordinaries lost 2.5 percent.

The Kospi added 0.7 percent after industrial output rebounded in May to snap two straight months of annual decline, thanks to brisk industrial activities in the automobile and semiconductor sectors. The index was down 0.7 percent on the month. The Sensex was up 1.0 percent on the last day of June and added 1.2 percent for the month.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was down 75 US cents to US\$1,320.75. Copper futures were up 0.9 percent to US\$2.21. WTI spot crude was down US\$1.51 to US\$48.37. Dated Brent spot crude was down 93 US cents to US\$49.68. The US dollar was up against the yen, euro and pound. It was down against the Swiss franc and the Canadian and Australian dollars. The Dollar Index was up 0.5 percent. The yield on US Treasury 30 year bond was down 1 basis point to 2.30 percent while the yield on the 10 year note slipped 3 basis points to 1.48 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

Japan posts May data for the consumer price index, household spending and unemployment.

It also releases second quarter Tankan and June final manufacturing PMI.

China reports both the June CFLP and Caixin manufacturing PMIs.

June manufacturing PMIs will also be released for the Eurozone, Germany, France, Spain, Italy and the UK.

The Eurozone will post May unemployment.

In the US, June manufacturing PMI and ISM manufacturing indices will be reported.

May construction spending will be released.

June global manufacturing PMI is also scheduled to be released.

	Index	2016 June 30	Daily Change	% Change Daily
North America				
United States	Dow	17929.99	235.3	1.3
	NASDAQ	4842.67	63.4	1.3
	S&P 500	2098.86	28.1	1.4
Canada	S&P/TSX Comp	14064.54	27.8	0.2
Europe				
UK	FTSE 100	6504.33	144.3	2.3
France	CAC	4237.48	42.2	1.0
Germany	XETRA DAX	9680.09	67.8	0.7
Italy	MIB	16197.78	250.9	1.6
Spain	Ibex 35	8163.30	58.0	0.7
Sweden	OMX Stockholm 30	1323.57	14.0	1.1
Switzerland	SMI	8020.15	41.2	0.5
Asia/Pacific				
Australia	All Ordinaries	5310.41	89.4	1.7
Japan	Nikkei 225	15575.92	9.1	0.1
Hong Kong	Hang Seng	20794.37	358.3	1.8
S. Korea	Kospi	1970.35	14.0	0.7
Singapore	STI	2840.93	48.2	1.7
China	Shanghai Comp	2929.61	-2.0	-0.1
Taiwan	TAIEX	8666.58	80.0	0.9
India	Sensex 30	26999.72	259.3	1.0
Data Source — Haver Analytics				