

Market Commentary – 31 May 2016

Most global stocks retreated Tuesday

Mixed economic data send investors to the side lines before Friday's US employment report.

Equity Markets

European stocks were down Tuesday. Trading was light on Monday thanks to holidays in the US and the UK. Investors are looking to the impending May US jobs report along with developments from the European Central Bank meeting Thursday. The FTSE was down 0.6 percent, the CAC declined 0.5 percent and both the DAX and SMI lost 0.7 percent. For the month of May, the FTSE slipped 0.2 percent while the CAC, DAX and SMI gained 1.7 percent, 2.2 percent and 3.2 percent respectively.

Economic data were mixed. Flash harmonized index of consumer prices for May declined 0.1 percent on the year after slipping 0.2 percent in April. The unemployment rate was 10.2 percent for the second month. Germany's retail sales dropped for a second month, this time by 0.9 percent in April.

Volkswagen tumbled after its sales and profits fell in the first three months of the year. Both Deutsche Bank and Commerzbank declined. In Paris, Air France-KLM declined after the airline said it is in exclusive discussions to sell a 49.99 percent stake in its airline catering unit, Servair, to China's HNA Group for an enterprise value of €475 million. Peugeot was down on a report the Peugeot family plans to hold informal talks with the French government to discuss the future of its stake in Peugeot PSA Citroen.

In London, EasyJet was down after the budget airline imposed a new rule that stops passengers trying to pass through security barriers with less than 30 minutes before take-off. Alliance Trust advanced after confirming it had received an informal merger proposal from the investment trust of British financier Jacob Rothschild. Nestle was down in Zurich. The company has agreed to pay DBV Technologies as much as €100 million to develop and market an experimental milk allergy test for infants. ITV, Standard Chartered and Kingfisher declined. Miners Glencore, BHP Billiton, Antofagasta and Rio Tinto retreated.

US stocks were mostly lower after declines in energy and consumer goods companies outweighed gains elsewhere. The price of crude oil turned lower in the afternoon, taking big oil companies down with it. The Dow Jones industrials were down 0.5 percent and the S&P slipped 0.1 percent. The Nasdaq, however, added 0.3 percent. In May, the Dow managed to edge up 0.1 percent, the S&P gained 1.5 percent and the Nasdaq added 3.6 percent.

Exxon Mobil and Chevron declined along with Boeing. Westar Energy rallied after agreeing to be acquired by Great Plains Energy for \$8.5 billion, or \$60 per share in cash and stock. The deal will give Great Plains a total of 1.5 million customers in Kansas and Missouri. Great Plains Energy slid. Violin Memory advanced along with other memory-based storage systems developers. Biotechnology, railroad and computer hardware stocks also rallied.

April consumer spending rose 1 percent led by a big jump in purchases of autos and other durable goods. Wages and salaries, the most important income component, gained a solid 0.5 percent. Standard & Poor's/Case-Shiller 20-city home price index increased 5.4 percent in March compared with a year earlier. A limited supply of homes for sale in many markets

has helped push up prices. However, May consumer confidence surprisingly declined. The index dropped to 92.6 from 94.7 in April. The Chicago business activity index contracted in May.

Asian stocks were mixed Tuesday even though the Shanghai Composite and Hang Seng posted gains on optimism that the odds of mainland Chinese stocks winning MSCI inclusion have increased.

The Shanghai Composite jumped 3.3 percent — the biggest single day's gain in two months. The gain was driven by speculation that mainland shares will be included in a global index next month. The Hang Seng added 0.9 percent. For the month of May, the Shanghai Composite was down 0.7 percent while the Hang Seng lost 1.2 percent.

The Nikkei added 1.0 percent Tuesday and was up 3.4 percent in May. April industrial output rose 0.3 percent from the month before, beating expectations for a 1.5 percent fall despite factory shutdowns sparked by the Kumamoto earthquakes. While the jobless rate held steady at 3.2 percent, household spending declined 0.4 percent from a year ago marking the third decline of four months this year. Automakers Honda Motor, Nissan, Toyota and Mazda advanced. Panasonic climbed on a Nikkei report that the company will end production of liquid crystal display television panels.

The S&P/ASX and All Ordinaries both lost 0.5 percent. Positive economic data added to speculation that the Reserve Bank of Australia will keep its monetary policy unchanged next week. The S&P/ASX was up 2.4 percent while the All Ordinaries added 2.5 percent in May. The big four banks retreated. Miners were mixed.

The Kospi was up 0.8 percent but lost 0.5 percent in May. The Sensex slipped 0.2 percent on the day but jumped 4.1 percent on the month.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was down US\$4.15 to US\$1,212.10. Copper futures were down 1.3 percent to US\$2.09. WTI spot crude was down 39 US cents to US\$48.94. Dated Brent spot crude was down 7 US cents to US\$49.69. The US dollar was up against the pound, yen and the Canadian dollar. It

declined against the euro, Swiss franc and the Australian dollar. The Dollar Index was up 0.2 percent. The yields on both the US Treasury 30 year bond and the 10 year note slipped 1 basis point to 2.64 percent and 1.84 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

China's May manufacturing PMI and CFLP PMI will be released.

Japan posts May manufacturing PMI.

Australia reports first quarter gross domestic product.

May manufacturing PMIs will also be posted for India, France, Germany, the UK, US and the Eurozone.

Switzerland reports first quarter gross domestic product.

In the US, May ISM manufacturing and April construction spending will be released.

The Federal Reserve will publish its Beige Book in preparation for its FOMC meeting on June 14 and 15.

| | | 2016 | Daily | %Change |
|-------------------------------|----------------|----------|--------|---------|
| | Index | May 31 | Change | Daily |
| North America | | | | |
| United States | Dow | 17787.13 | -86.1 | -0.5 |
| | NASDAQ | 4948.05 | 14.6 | 0.3 |
| | S&P 500 | 2096.95 | -2.1 | -0.1 |
| Canada | S&P/TSX Comp | 14065.78 | -20.9 | -0.1 |
| Europe | | | | |
| UK | FTSE 100 | 6230.79 | -40.0 | -0.6 |
| France | CAC | 4505.62 | -23.8 | -0.5 |
| Germany | XETRA DAX | 10262.74 | -70.5 | -0.7 |
| Italy | MIB | 18025.25 | -266.1 | -1.5 |
| Spain | Ibex 35 | 9034.00 | -82.9 | -0.9 |
| | OMX Stockholm | | | |
| Sweden | 30 | 1369.48 | -10.3 | -0.7 |
| Switzerland | SMI | 8216.42 | -61.4 | -0.7 |
| Asia/Pacific | | | | |
| Australia | All Ordinaries | 5447.80 | -25.8 | -0.5 |
| Japan | Nikkei 225 | 17234.98 | 167.0 | 1.0 |
| Hong Kong | Hang Seng | 20815.09 | 185.7 | 0.9 |
| S. Korea | Kospi | 1983.40 | 16.3 | 0.8 |
| Singapore | STI | 2791.06 | -5.7 | -0.2 |
| China | Shanghai Comp | 2916.62 | 94.2 | 3.3 |
| Taiwan | TAIEX | 8535.59 | -0.3 | 0.0 |
| India | Sensex 30 | 26667.96 | -57.6 | -0.2 |
| *markets closed | | | | |
| Data Source — Haver Analytics | | | | |