

Market Commentary – 31 August 2016

Global stocks mostly lower

Investors are waiting for Friday's US employment report for August.

Equity Markets

European stocks were mixed Wednesday swinging between modest gains and losses over the course of the day. However, the markets turned definitively to the downside in late trading. A larger than expected build in U.S. crude oil inventories weighed on investor sentiment. The FTSE was down 0.6 percent and the DAX retreated 0.6 percent. Both the CAC and SMI lost 0.4 percent. The CAC was barely down for the month of August (1.59 points). The FTSE was up 0.8 percent, the DAX added 2.5 percent and the SMI gained 0.9 percent on the month.

Gold and mining stocks extended their losses from the previous session. Anglo American, BHP Billiton, Fresnillo, Antofagasta, Glencore and Rio Tinto declined as did Randgold Resources. Bank stocks added to their gains from the prior session. Reports of a possible merger between German banking giants Commerzbank and Deutsche Bank helped to fuel the continued gains among financial stocks. Commerzbank climbed after German Manager Magazin reported that Deutsche Bank had in the past explored a possible merger with its German rival. Deutsche Bank also advanced. Société Générale, Crédit Agricole and BNP Paribas gained.

Bayer, Merck, Fresenius and Fresenius Medical Care retreated. In Paris, Bouygues advanced 1 after the industrial group confirmed its 2016 outlook after posting a narrower first-half loss. Iliad gained on reporting a double-digit rise in underlying profit during the first six months of the year.

Biotechnology company bioMérieux rallied after its first-half net consolidated income jumped 45 percent from last year. Punch Taverns advanced after reporting a solid set of results for the 52 weeks to August 20. Barclays, HSBC Holdings and Lloyds Banking Group all advanced after a series of encouraging reports on the British economy.

Eurozone August flash harmonized index of consumer prices edged up 0.2 percent on the year for a second month. July unemployment rate remained at 10.1 percent in July. German retail sales were up 1.7 percent on the month in July. French consumer spending declined 0.2 percent in July. It was the fourth consecutive monthly decline.

In the **US** stocks were lower Wednesday. Energy companies declined with the price of oil and as makers of chemicals and other materials took losses as stocks wrapped up a quiet month. Interest rate uncertainty continued to weigh on the markets prior to the release of the employment report Friday. The Dow Jones industrials lost 0.3 percent while the S&P and Nasdaq retreated 0.2 percent. In August, the Dow slipped 0.2 percent and the S&P lost 0.1 percent. The Nasdaq however, added 1.0 percent. Volatility and trading volumes dropped off during August with the major indices moving in a narrow range.

H&R Block dropped after it reported a bigger first-quarter loss and less revenue than expected. The company recently sold its bank business, which reduced revenue. Brown-Forman slumped after its sales fell short of estimates. Brown-Forman said its results were hurt by weak sales in emerging markets and the strong dollar, which makes American goods more expensive overseas. Energy prices slumped after weekly crude oil stockpiles increased by 2.3 million barrels last week, a bigger gain than

expected. Gasoline stockpiles however shrank. Chevron, Exxon Mobil and Schlumberger retreated.

According to the ADP private employment report, American businesses added 177,000 jobs in August. July pending home sales index was 111.3, a level that is 1.3 percent above the revised level of 109.9 for June. The index hit a recent peak in April at 115.0.

Asian stocks were mixed after oil prices slipped on a stronger US dollar and Fed Vice Chair Stanley Fischer's upbeat assessment of the US economy made it clear that a rate increase would be possible at the Fed's next policy meeting in September. While a drop in the yen following stronger-than-expected August US consumer confidence data helped Japanese shares post strong gains, Australian shares led regional losses amid a sell-off in resource stocks. Now investors are focused on Friday's US employment report.

The Shanghai Composite was up 0.4 percent led by gains in property stocks after Nexus Capital raised its stake in Vanke's Hong Kong-listed shares. However, the Hang Seng was down 0.2 percent. For the month of August, the Shanghai Composite added 3.6 percent and the Hang Seng, 5.0 percent.

The Nikkei added 1.0 percent on the last day of the month as the yen weakened and disappointing industrial output data underscored the need for more stimulus. Industrial production was flat in July while a measure of housing starts rose more than expected in the last quarter. Canon, Panasonic, Toshiba and Mazda Motor advanced. Mitsubishi UFJ Financial was higher on a Nikkei report that Google will partner with the country's largest bank to launch its digital wallet platform in Japan.

Both the S&P/ASX and All Ordinaries retreated 0.8 percent as a stronger dollar weighed on commodity-related stocks and Reserve Bank of Australia data showed domestic credit growth continued to slow in July. Miners BHP Billiton, Fortescue Metals and Rio Tinto dropped even as iron ore prices snapped a four-session losing streak. Atlas Iron soared after narrowing its annual loss. Gold miners Newcrest Mining, Evolution Mining, Northern Star Resources and Regis Resources were down after

gold prices hit two-month lows overnight on US interest rate hike worries. Both indices lost 2.0 percent in August.

The Kospi was down 0.2 percent but gained 0.9 percent on the month. The Sensex was up 0.4 percent to hit its highest level in more than a year even as gains remained capped somewhat ahead of GDP data for the first quarter due later in the day. Second quarter GDP disappointed — it was up 7.1 percent from a year ago, down from 7.9 percent in the first quarter. In August the Sensex added 1.4 percent.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was down US\$8.90 to US\$1,309.25. Copper futures were virtually unchanged at US\$2.08. WTI spot crude was down US\$1.54 to US\$44.81. Dated Brent spot crude was down US\$1.33 to US\$47.04. The US dollar was up against the yen and Canadian dollar. It declined against euro, pound, and the Australian dollar. It was virtually unchanged against the Swiss franc. The Dollar Index was virtually unchanged. The yield on US Treasury 30 year bond was unchanged at 2.23 percent while the yield on the 10 year note was up 1 basis point to 1.58 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

China posts August CFLP and Markit manufacturing PMIs.

Japan and India report final August manufacturing PMI.

Australia releases July retail sales and quarterly new capital expenditures data.

In Europe, final manufacturing PMIs will be released for the Eurozone, Germany, France, Italy and the UK.

In the US, second quarter productivity & costs will be posted. August manufacturing PMI along with the ISM manufacturing index and July construction spending will be released. Weekly jobless claims, money supply and Fed balance sheet will also be reported.

	Index	2016 Aug 31	Daily Change	% Change Daily
North America				
United States	Dow	18400.88	-53.4	-0.3
	NASDAQ	5213.22	-9.8	-0.2
	S&P 500	2170.95	-5.2	-0.2
Canada	S&P/TSX Comp	14597.15	-87.7	-0.6
Europe				
UK	FTSE 100	6781.51	-39.3	-0.6
France	CAC	4438.22	-19.3	-0.4
Germany	XETRA DAX	10592.69	-64.9	-0.6
Italy	MIB	16943.38	52.0	0.3
Spain	Ibex 35	8716.80	31.4	0.4
	OMX Stockholm			
Sweden	30	1418.14	-0.3	0.0
Switzerland	SMI	8202.13	-33.9	-0.4
Asia/Pacific				
Australia	All Ordinaries	5529.41	-44.1	-0.8
Japan	Nikkei 225	16887.40	162.0	1.0
Hong Kong	Hang Seng	22976.88	-39.2	-0.2
S. Korea	Kospi	2034.65	-5.1	-0.2
Singapore	STI	2820.59	-7.8	-0.3
China	Shanghai Comp	3085.49	10.8	0.4
Taiwan	TAIEX	9068.85	-41.7	-0.5
India	Sensex 30	28452.17	109.2	0.4
Data Source — Haver Analytics				