

## Market Commentary – 31 October 2016

### Once again, oil prices pressured stocks

Trading was mixed on the last day of October.

### Equity Markets

**European** stocks retreated Monday thanks to the weak performance of the energy sector. Crude oil prices dropped below \$48 a barrel on concerns that OPEC will be unable to come to an agreement on the level of production cuts. Investors were cautious before the Federal Reserve's policy announcement on Wednesday.

The FTSE was down 0.6 percent. However, it added 0.8 percent for the month of October. The CAC was down 0.9 percent but up 1.4 percent for the month. The DAX retreated 0.3 percent and added 1.5 percent for the month. Only the SMI, which lost 1.0 percent Monday also was down in October by 3.8 percent.

Deutsche Bank and Commerzbank were lower. Total and Technip declined. Royal Dutch Shell, BP and Tullow Oil retreated. WPP rallied after its third-quarter revenue growth beat expectations. Sika surged in Zurich after a Swiss court blocked Saint-Gobain's attempt to take over the Swiss chemical manufacturer. Saint-Gobain was down in Paris. In London, banks were boosted by last week's well-received earnings from Barclays and Lloyds.

Third quarter Eurozone flash gross domestic product climbed 0.3 percent on the quarter for a second quarter. Flash October harmonized index of consumer prices was up 0.5 percent from a year ago. September German

retail sales declined the most in two years — down 1.4 percent on the month after sliding 0.3 percent in August.

After markets here were closed for the day, Bank of England's governor Mark Carney announced that he will extend his period as governor past 2018, but has declined to serve a full eight-year term, pledging to stand down once Britain leaves the EU in June 2019. In a letter to the chancellor, Mr Carney said he was "honoured" to serve longer than he had originally intended and, by extending his term until Britain had left the EU, hoped his decision would "help contribute to securing an orderly transition to the UK's new relationship with Europe".

In the **US**, stocks were little changed on Monday helped by positive economic data and mergers announced over the weekend. The Dow Jones industrials slipped 0.1 percent while both the S&P (down 0.26 point) and Nasdaq (down 0.97 point) were virtually unchanged. Volume was light. The three indices declined for the month of October. The Dow was down 0.9 percent — it was the third consecutive monthly decline. The S&P retreated 1.9 percent and the Nasdaq lost 2.3 percent. It was also Nasdaq's third consecutive monthly decline.

Investors were cautious before the FOMC meeting announcement on Wednesday. Crude oil prices dropped sending energy companies lower thanks to doubts about whether OPEC members would agree on production cuts. Uncertainty regarding the US presidential election that is just a week away in light of a new review of Democratic candidate Hillary Clinton's emails raised the level of investor caution.

General Electric announced it would merge its oil and gas division with Baker Hughes, creating a new company with \$32 billion in annual

revenue. GE stock rose while Baker Hughes declined. CenturyLink announced it was purchasing a competitor, Level 3 Communications, for \$24 billion. CenturyLink was down while Level 3 rose. Zimmer Biomet Holdings shares plunged after the medical devices company's quarterly report. Lumber Liquidators sank after the company said it could not provide a timeline for potential settlements with regulators, or an outlook for its business. Nike dropped on a broker downgrade.

September personal income climbed 0.3 percent on the month following August's 0.2 percent gain. Personal spending increased 0.5 percent following a 0.1 percent dip in August.

**Asian** stocks were mostly lower Monday thanks to lower oil prices amid further evidence of disagreement between OPEC members about output levels and the FBI announcement of a new probe into Hillary Clinton's email use. Traders waited for manufacturing PMIs for China, the US and Europe. Central bank meetings also loomed with the Reserve Bank of Australia and Bank of Japan announcing policies on Tuesday.

The Shanghai Composite edged down 0.1 percent after the political bureau of the Communist Party of China's Central Committee asked policymakers to guard against financial risks and rein in asset bubbles. The Hang Seng also slipped 0.1 percent. In October, the Shanghai Composite was up 3.2 percent while the Hang Seng lost 1.5 percent.

The Nikkei slipped 0.1 percent while the Topix was virtually unchanged (up0.61 point). In October, the Nikkei surged 5.9 percent and the Topix jumped 5.3 percent. Alps Electric, Sumitomo Chemical, Mitsubishi Heavy Industries and Takeda Pharma tumbled. Nippon Yusen KK and Mitsui OSK Lines climbed each after the country's three biggest shipping firms announced plans to merge their container operations into one company by July 1. September industrial production was unchanged on the month after increasing 1.3 percent in August. Retail sales retreated for the seventh straight month amid continued weakness in domestic consumption.

Both the S&P/ASX and All Ordinaries added 0.6 percent after reports on private sector credit and inflation painted a mostly positive picture of the

economy. However, in October both indices were down 2.2 percent. ANZ Bank advanced higher after selling its retail and wealth business in five Asian countries to Singapore's DBS Bank. The other three big banks rose before the RBA's meeting on Tuesday. Rio Tinto gained after it agreed to sell its Simandou iron ore project to China's Chinalco. BHP Billiton rose while Fortescue Metals Group slipped.

The Kospi retreated 0.6 percent amid uncertainty over the future of the South Korean president, Park Geun-hye, in the wake of allegations that she let an old friend interfere in important state affairs. On the month, the Kospi was down 1.7 percent. The Sensex was closed for a holiday but edged up 0.3 percent in October.

These data reflect observations at 4:00 PM US ET. Gold at the afternoon London fixing was down US\$1.00 to US\$1,272.00. Copper futures were up 0.55 percent to US\$2.21. WTI spot crude was down US\$2.02 to US\$46.68. Dated Brent spot crude was down US\$1.41 to US\$48.30. The US dollar was up against the yen, Swiss franc and the Canadian dollar. However, it declined against the pound and Australian dollar. It was virtually unchanged against the euro and yuan. The Dollar Index was down 0.1 percent. The yield on US Treasury 30 year bond was down 4 basis points to 2.58 percent while the yield on the 10 year note slipped 2 basis points to 1.83 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 will release October CFLP and Caixin manufacturing PMIs.

Japan and India will report October manufacturing PMIs.

The Bank of Japan and the Reserve Bank of Australia announce their respective monetary policy decisions.

The UK reports its manufacturing PMI for October.

Canada releases August monthly GDP.

In the US, October ISM manufacturing index and September construction spending will be posted along with the manufacturing PMI.

	Index	2016 Oct 31	Daily Change	% Change Daily
<b>North America</b>				
United States	Dow	18142.42	-18.8	-0.1
	NASDAQ	5189.14	-1.0	0.0
	S&P 500	2126.15	-0.3	0.0
Canada	S&P/TSX Comp	14787.40	2.1	0.0
<b>Europe</b>				
UK	FTSE 100	6954.22	-42.0	-0.6
France	CAC	4509.26	-39.3	-0.9
Germany	XETRA DAX	10665.01	-31.2	-0.3
Italy	MIB	17125.05	-199.2	-1.1
Spain	Ibex 35	9143.30	-58.0	-0.6
	OMX Stockholm 30	1446.35	-13.0	-0.9
Switzerland	SMI	7827.74	-80.8	-1.0
<b>Asia/Pacific</b>				
Australia	All Ordinaries	5402.44	31.5	0.6
Japan	Nikkei 225	17425.02	-21.4	-0.1
	Topix	1393.02	0.6	0.0
Hong Kong	Hang Seng	22934.54	-20.3	-0.1
S. Korea	Kospi	2008.19	-11.2	-0.6
Singapore	STI	2813.87	-2.4	-0.1
China	Shanghai Comp	3100.49	-3.8	-0.1
Taiwan	TAIEX	9290.12	-16.8	-0.2
India	Sensex 30	*	*	*
*Market closed				
Data Source — Haver Analytics				