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WEEKLY MARKET UPDATE

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Soft US Data, and Less Pressure for Fed Rate Hikes

Global equities were mixed this past week, with markets continuing to focus on central bank policy – which appears to be reaching its effective limits in places like Europe and Japan. The S&P 500 Index was up a little over one half of 1%, reversing the trajectory of the prior week's performance, the third worst week of 2016. After dropping 2.45% on Friday of the prior week, the widely-followed index bounced back on Monday, posting the largest gain of the week with a 1.47% return as investors jumped in after the prior weeks' pullback.

The index gave back the day's gain on Tuesday with a -1.45% return as energy, materials, and telecommunication services led the way down. **The catalyst for the Tuesday pullback came from the International Energy Agency, who released their oil market report for September indicating that growth in global oil demand is slowing more quickly than previously expected.** The agency forecast that the surplus in the global oil market will last into late 2017, longer than previously expected. A month ago, the prediction was for the market would return to balance this year.

Try as the US Federal Reserve might to prepare the markets for an eventual hike in short-term interest rates, soft US economic data and a spike in market volatility combined to lower the odds of a move at next week's Federal Open Market Committee meeting or at the final meeting of the year in December. While there is a meeting in early November, markets widely expect the Fed to refrain from changing policy just days before a presidential election. Sub-par August retail sales (-0.3%) and a dip in industrial production (-0.4%) were widely viewed as allowing the Fed to hold rates steady in the months ahead despite a mild uptick in consumer prices (0.2%). The advance in CPI was led by medical costs and rents.

In contrast to the United States, the UK economy is holding up relatively well in the wake of the widely-followed Brexit referendum. UK August retail sales dipped 0.2%, but gangbuster July sales were revised even higher, to 1.9% from 1.4% previously, the biggest gain in 14 months. Meanwhile, the UK unemployment rate held steady at 4.9% in the three months to July, the Office of National Statistics reported. The Bank of England's Monetary Policy Committee met Thursday and held policy steady, but indicated it could ease

again before the end of the year if necessary.

Even China's economy is showing signs of modest improvement, according to recent data. In August, industrial output advanced 6.3% while retail sales rose 10.6%. Fixed asset investment held steady at 8.1%. While many observers remain concerned over China's debt build-up, recent economic stabilization reduces the odds of further near-term monetary stimulus from the People's Bank of China.

Finally, the Japanese press this week reported that, in a strategy shift, the Bank of Japan may explore pushing policy rates deeper into negative territory. Quantitative easing has been the centerpiece of the BOJ strategy up to now, but the bank is reaching the limits of assets available for purchase. It is thought that concentrating policy on negative rates and buying fewer long-term bonds may cause the Japanese yield curve to steepen, potentially taking some of the pressure off of insurance companies and pension funds. It is believed that the BOJ has abandoned any thought of buying foreign government bonds, which would open the central bank up to charges of currency manipulation.

THE WEEK AHEAD

- ***Tuesday:*** US housing starts and building permits
- The Bank of Japan and the US Federal Reserve hold rate-setting meetings concluding on Wednesday
- ***Thursday:*** US existing home sales data, and ECB president Mario Draghi speaks
- ***Friday:*** Flash purchasing managers' indices

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