



# INCISIVE INVESTOR

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## WEEK IN REVIEW: MARKET TRADES FLAT

### Review of the week ended October 21, 2016

- **Markets not moving**
- **Fed Vice-Chair thinks employment and inflation targets almost reached**
- **UK inflation surges as pound slides**
- **China's economic growth steady at 6.7% in 3rd quarter**

The S&P 500, the Dow Jones Industrial Average and the Nasdaq Composite are trading nearly flat over the past 30-day period, according to FactSet data. Part of the sideways trade stems from uncertainty surrounding the coming U.S. presidential election, even as the winner appears to be more apparent since the final presidential debate. Also, just about a third of S&P 500 stocks are trading above their 50-day moving averages, suggesting that stocks are losing momentum. While it is early in the Q3 earnings season, reports so far suggest that the earnings recession of the past four quarters may be about to come to an end, with S&P 500 Index earnings expected to eke out a 0.5% advance this quarter. US oil prices edged higher, with West Texas Intermediate crude advancing to \$51 from just above \$50 last week. The yield on the US 10-year Treasury note was steady at about 1.75%.

### GLOBAL NEWS

#### **Fed's Fischer: We are very close**

US Federal Reserve Vice-Chair Stanley Fischer said this week that the central bank is very close to achieving its twin goals of full employment and inflation near 2%. The comment comes amid anticipation of a hike in the federal funds rate at the December meeting of the Federal Open Market Committee (FOMC). However, Fischer warned the Economic Club of New York that it is not that simple for the Fed to hike interest rates in a world where aging demographics, weak demand and low investment have trimmed global economic potential. Meanwhile, the Fed's Beige Book, prepared in advance of the November FOMC meeting, said that economic activity increased at a modest to moderate pace in most US regions.

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## **UK inflation moving up**

Inflation in the United Kingdom rose 1% in September, the fastest annual rate in two years. While the Office for National Statistics said there was no explicit evidence that the fall in the pound's exchange rate had pushed up prices, economists expect higher import costs resulting from the currency's post-Brexit depreciation to underpin inflation in coming months.

## **China's growth holding steady**

The Chinese economy continued to grow at an annual rate of 6.7% in the third quarter, unchanged from the prior two quarters. The economy appears to have stabilized after turbulence in late 2015 and earlier this year, but economists worry that much of the growth is being driven by an unsustainable credit surge

## **Mixed results for US data**

What little data there was from the US this

week were decidedly mixed, making it unlikely that the Fed will be dissuaded from nudging interest rates higher at its December meeting. The week's highlights included an uptick in the Philadelphia Fed Manufacturing Index (9.7 versus 5.3 expected) and existing home sales (3.2% versus 0.4% expected). Lowlights include a decline in housing starts (-9% decline in multifamily units. Single-family starts were solid).

## **GLOBAL CORPORATE NEWS**

### **BAT makes offer to acquire Reynolds**

British American Tobacco has made a \$47 billion offer to acquire the 58% of Reynolds American, Inc. it does not already own. The deal would create the world's largest publicly traded tobacco company.

AT&T has entered talks to possibly acquire Time Warner it was reported on Thursday but no details were available at press time.

## THE WEEK AHEAD

- **September US durable goods orders are reported on Thursday, October 27**
- **Japan reports its September consumer price index on Friday, October 28**
- **US preliminary Q3 GDP is released on Friday, October 28**