MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

October 31, 2016

Interest Rates in the Spotlight (and an election too!)

Global equities were modestly lower this week, while interest rates around the world continued their recent strength. **Major domestic benchmarks faced headwinds as investors continued to digest a stream of third-quarter earnings reports.** The technology-heavy Nasdaq Composite Index lagged the large-cap benchmarks, held back by poor performance from heavily weighted Apple and Amazon.com, which declined following poorly received profits and guidance. The small-cap benchmarks also lagged.

Credit markets continue to expect a December rate hike from the US Federal Reserve, as well as the tapering of extraordinarily accommodative monetary conditions from other major central banks during 2017. The yield on the 10-year US Treasury note rose to 1.85% from 1.75% a week ago.

Firmer economic data, particularly in Europe and the United Kingdom, helped extend the recent move higher in most global bond yields. The Citigroup Economic Surprise Index, which measures how economic data fares relative to expectations, has shown a marked uptick of late, as both the Eurozone and the UK have displayed unexpected resiliency in the wake of the surprise Brexit outcome in June. German 10-year bunds are solidly in positive territory, ending the week around 0.17%. UK 10-year gilts are at post-Brexit highs of 1.26% after strong Q3 GDP data, while the aforementioned US 10-year yields are trading near 1.85%, the highest level in four months.

The United States enjoyed its best quarter of economic growth in two years in the third quarter, according to data released by the Bureau of Economic Analysis. Gross domestic product ("GDP") expanded at a 2.9% annual rate, boosted by a rise in inventories and on a narrower trade deficit. **The GDP report was far from unmitigated good news, however. Consumption, which had kept the economy afloat in prior quarters, was muted in Q3.**

Eurozone political dysfunction was on display for all the world to see last week. The signing of the Comprehensive Economic and Trade Agreement (CETA) between the European Union and Canada was derailed Thursday by a dispute in the parliament of the Belgian region of Wallonia over agricultural competition. All 28 member states were therefore forced to vote on the Wallonian amendments to the agreement, and Canadian Prime Minister

Justin Trudeau was forced to cancel a planned signing ceremony in Brussels on Thursday. **The unexpected roadblock calls into question the workability of EU political structures and serves as ammunition for anti-EU populist political movements.**

One week and one day until the elections. Friday brought some interesting fireworks, and we are rather confident that more is yet to come from/against both sides. **Regardless, we encourage you to exercise your incredible privilege to vote.** We cannot control what the markets will do before and following the election (expect some noise), but at least we can control what happens with our vote.

QUICK HITS

- The market has remained stuck in a trading range since the S&P 500 Index established a record high in August—as of the end of the week, this index had not managed to string together three consecutive daily gains in over a month.
- By the end of the week, analysts polled by data and analytics firm FactSet were predicting an overall rise in year-over-year profits for the S&P 500 of 1.6%. This would mark the first increase in six quarters.

THE WEEK AHEAD

- ***Monday:*** Eurozone GDP and CPI numbers are released, as well as the core PCE price index, the US Fed's favorite inflation measure
- ***Tuesday:*** The Bank of Japan meets to set interest rates
- Tuesday and Wednesday: Manufacturing PMIs are released globally
- ***Wednesday:*** The Fed's rate setting committee meets
- ***Thursday:*** The Bank of England meets to set interest rates
- ***Friday:*** The US employment report is released

Visit our Blog

DISCLAIMER