



INCISIVE INVESTOR

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WEEK IN REVIEW: MARKETS ARE DOWN, YIELDS ARE UP

Review of the week ended October 28, 2016

- **Global yields extend rise**
- **US Q3 GDP grew at fastest pace in 2 yrs**

U.S. stocks turned negative in afternoon trading on Friday, reversing their earlier gains after the Federal Bureau of Investigation said it was restarting a probe into Hillary Clinton's emails, adding a new dose of political uncertainty into the markets.

Major indexes had traded higher earlier in the session, supported by a strong GDP reading, but the news prompted a sharp turnaround and extended the week-to-date declines of the S&P 500 and Nasdaq. With the afternoon shift, the Dow lost its week-to-date gain. Dow is to close 0.2% lower for the week, while the S&P is set for a 0.9% drop and the Nasdaq is on pace for a weekly loss of 1.2%.

Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), edged up to 15.25 from 14 a week ago. Oil prices declined this week. West Texas Intermediate crude fell to \$49.25 from \$51 last Friday. The yield on the 10-year US Treasury note rose to 1.85%

from 1.75% a week ago.

GLOBAL NEWS

Yields extend rise

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. 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 US 10-year yields are trading near 1.85%, the highest level in four months.

US GDP growth improves

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. The economy expanded at a 2.9% annual rate.

CORPORATE NEWS

GE and Baker Hughes in oil service talks

General Electric and Baker Hughes are in talks to potentially combine their oil services operations into a separately listed company. The deal would be worth in excess of \$20 billion, according to press reports.

Qualcomm makes bet on autos

Chip maker Qualcomm has agreed to buy NXP Semiconductors, the world's largest developer of chips for use in automobiles, for \$38 billion, the largest-ever deal in the semiconductor space. The move is seen as a big bet on the ever-increasing use of technology in cars and would lower Qualcomm's dependence on the mobile phone market.

Amazon disappoints, Alphabet stronger

Amazon was one of the biggest movers of the day, dropping 5.2% to \$776.13 following disappointing earnings late Thursday. While the e-commerce giant's revenue came in line with forecasts, earnings were below expectations.

On the upside, Alphabet rose 0.3% to \$819.54 following stronger than expected earnings on Thursday.

Chevron, Exxon mixed

In the energy sector, both Chevron and Exxon reported sharp drops in quarterly earnings, hurt by weak oil prices. However, Chevron rose 3.8% as it returned to profitability following three straight quarters of losses. The stock was the biggest percentage gainer among Dow components. Exxon however fell 2.46% after reporting its ninth straight quarter of falling revenue.

THE WEEK AHEAD

- **Eurozone GDP and CPI numbers are released on Monday, October 31**
- **The core PCE price index is released on Monday, October 31**
- **The Bank of Japan meets to set interest rates on Tuesday, November 1**
- **The Fed's rate setting committee meets on Wednesday, November 2**
- **The US employment report is released on Friday, November 4**