



# WEEKLY MARKET UPDATE

*March 28, 2016*



## The Fed Gives, The Fed Takes Away

US stocks ended the holiday-shortened week lower, breaking a streak of five weekly gains, as five members of the US Federal Reserve's rate-setting committee suggested that a rate hike could come as early as April. However, only two of the five, Kansas City Fed president Esther George and St. Louis Fed president James Bullard, are voting members of the committee this year. Fed Chair Janet Yellen said at her press conference earlier this month that caution is warranted in removing monetary accommodation.

Markets rallied to begin the week before Mr. Bullard commented Wednesday that an interest rate hike is possible in April if economic conditions continue to improve. While the Federal Reserve halved its projection for 2016 rate increases during last week's meeting, a more upbeat tone since the meeting from many Fed officials drove a recovery in the dollar and a broad based sell-off in the commodity market. Federal funds futures are currently pricing in a rate hike in late 2016 to early 2017.

Meanwhile, conflicting survey data muddied

economic waters, continuing a "good news, bad news" trend that has been in place for several quarters now. Strong readings from the Empire State, Philadelphia, and Richmond Fed surveys sparked hope that the recent soft patch in US manufacturing has come to an end. But a tepid rise in Markit's US manufacturing purchasing managers' index dampened some of that optimism. The index rose less than expected, to a flash estimate of 51.4 in March from 51.0 in February. Economists had expected a rebound to 52.4.

In other mixed economic news, existing home sales fell more than forecasted in February as limited supply, weather, and higher asking prices curbed demand. Durable goods orders fell in February for the third time in four months, as aircraft and machinery orders saw large declines, while initial jobless claims came in slightly better than economist forecasts. With earnings season now past, markets will be focused on global economic data and the Fed in the coming weeks. The monthly unemployment report and ISM manufacturing will be key economic data points in the week ahead.

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Looking across the pond, Ifo, the German economic institute, released its monthly business climate index on Tuesday. The index rose to 106.7 from 105.7 in February, beating estimates of 106. Think-tank ZEW's gauge of investor sentiment improved to 4.3 in March from 1.0 the prior month, but fell short of the consensus forecast of 5.0. Uncertainty in the outlook for emerging markets, oil prices, and the value of the euro were sources of concern, the surveys noted.

And then there was Hungary, which put negative interest rates ("NIRP") back in the news this week. No central bank wants to resort to pushing policy rates below zero, but Hungary did just that, trimming its policy rate to -0.05% from 0.10%. Hungary is the first emerging market to adopt negative rates, joining the likes of the European Central Bank, the Bank of Japan, and the Swiss National Bank. By now, regular readers know how we here at MPCA feel about NIRP.

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