



INCISIVE INVESTOR

WEEK IN REVIEW: Fed Stays Steady at the Helm

Review of the week ended September 23, 2016

- **Fed makes case for late-2016 hike**
- **BOJ shifts policy focus**
- **OECD: World economy in low-growth trap**

Investors were breathing a sigh of relief after important meetings of Bank of Japan and US Federal Reserve rate-setters. The market took in stride the BOJ's policy shift and the Fed's signal that tighter policy is likely later this year. Oil prices got a lift from talks between Saudi Arabia and Iran ahead of next week's OPEC meeting. Saudi Arabia is said to have offered a production cut in return for Iran capping its output. West Texas Intermediate crude oil rose to \$46.25 per barrel from \$42.80 a week ago. US 10-year Treasury note yields fell to 1.62% this week from 1.69% last Friday. The Dow was up 0.3%, the S&P 500 was up 0.79% and the NASDAQ was up 0.80% for the week.

Fed signals rate hike before year-end

The Federal Open Market Committee, the Federal Reserve's rate-setting body, said the case for a hike in the federal funds rate is strengthening, the clearest indication to date that it hopes to hike rates by the end of 2016. A November hike is unlikely given

that there is not a scheduled press conference associated with that meeting. Also, the November meeting is scheduled to take place just days before the presidential election, another deterrent to a policy change. While signaling that a rate hike is likely in the months ahead, Fed officials lowered their economic growth forecast and trimmed the number of rate hikes they foresee in 2017 from three to two.

Bank of Japan Tries Something New

After a comprehensive review of its monetary policy, the Bank of Japan this week altered its policy mix. Previously, the BOJ had focused on expanding the money supply to spur economic growth and inflation. After not having had much success on either front, the bank this week adopted an interest rate target. Going forward, it will seek to keep the 10-year Japanese government bond yield at around zero. This may allow the long end of the Japanese yield curve to steepen, a

development that would be welcomed by Japanese insurance companies and pension plans, which have struggled in a low-yield environment.

OECD says the Global economy is stuck in low-growth trap

The weak global economy will persist into 2017, warns the Organization for Economic Co-Operation and Development, predicting that global gross domestic product will rise an anemic 2.9% this year and 3.2% next year. Brexit impacts offset gradual improvement in emerging market commodity-producing economies, according to the OECD. Weak global trade is the main drag on growth, it said.

Real estate becomes its own sector

Real estate was launched as its own sector by Standard and Poor's this week, the first addition to the lineup since 1999. Previously, real estate-linked equities were part of the financial sector. Many of the companies in the sector are real estate investment trusts.

The Federal government rolls out

self-driving car guidelines

With momentum building in the autonomous automobile space, the US government this week set out guidelines for vehicle producers. The National Highway Transportation Administration asserted oversight over the software that operates autonomous vehicles. The federal guidelines are meant to outline best practices for the safe design, development and testing of automated vehicles before their commercial sale or operation on public roads, according to one report.

Housing sector has demand but not much supply

US existing homes sales dipped 0.9% in August versus economists' expectations for a 1.1% rise. The National Association of Realtors attributes the drop to tight inventories. There is a 4.6 month supply on the market at the present sales rate, below the 6 month supply that realtors deem a healthy balance between supply and demand. The median house price rose 5.1% from a year ago to \$240,000 in

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THE WEEK AHEAD

- **ECB President Mario Draghi testifies before the European Parliament's Committee on Economic and Monetary Affairs on Monday, September 26**
- **Oil ministers from OPEC gather in Algiers to discuss a production freeze from Monday, September 26 to Wednesday, September 28**
- **Fed chair Janet Yellen testifies before the House Financial Services Committee on Wednesday, September 28**
- **Yellen speaks at a Kansas City Fed forum on Thursday, September 29**
- **Revised Q2 US GDP data are released on Thursday, September 29**
- **The US fiscal year ends on Friday, September 30, requiring quick congressional action to keep the government open**



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