



INCISIVE INVESTOR

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WEEK IN REVIEW: TRUMP BUILDING ADMINISTRATION

Review of the week ended December 9, 2016

- **US stocks reach new high**
- **ECB extends quantitative easing another year**
- **Renzi resigns in wake of Italy referendum**
- **China's imports and exports on the rise**

Stocks finished at records Friday as consumer sentiment surged and markets continued their Trump-inspired rally. The Dow Jones Industrial Index finished up with a weekly gain of 3.1%, while the S&P 500 index had a weekly gain of 3.1%. The Nasdaq Composite index closed up with a weekly gain of 3.6%.

On Thursday, five major stock indexes, including the Russell 2000 and the Dow Jones Transports finished in record territory. That was the first time in more than 18 years that they have all ended at all-time highs on the same day.

Oil prices slid slightly this week, with West Texas Intermediate crude falling 58 cents a barrel to \$51.10 and global Brent dropping 46 cents a barrel, to \$54.01, as of early Friday morning. The yield on the 10-year US Treasury note increased 8 basis points week over week, trading at 2.46% Friday, and was about 55 basis points higher than it was on November 8, Election Day in the US.

U.S. stocks open in record territory

Global stocks continued to post strong gains this week as investors moved out of defensive asset classes, taking on more risk. The strongest pockets of the US market since the election have been materials, industrials, energy, financials and technology.

Some of the major oil companies have had a good month, with BP, Chevron and Statoil all up over 7% over the past month. But the real high-fliers have been the independent producers and the oil services companies with over 23 independent oil companies boasting returns of over 30%. Others of interest were Hornbeck Offshore with an 87% return, Seadrill Limited up 68%, Atwood Oceanics up 67%, Transocean gaining 50%, Noble moving up 44%, Rowan up 40%, Weatherford with a 40% gain and Dril-Quip moving up 31%.

US investment-grade bond spreads narrowed as well, but slightly. Yields on municipal bonds also fell this week, indicating a reversal of a recent selloff in the asset class.

ECB continues QE program through 2017

The European Central Bank announced that it would extend its quantitative easing program until December 2017, although it reduced its monthly purchases to €60 billion from €80 billion. The ECB adjusted its rules to allow the purchase of bonds yielding less than its -0.4% deposit rate. Longer-dated German government bond yields increased, while shorter-term German yields fell. The euro declined about 1.39% against the US dollar.

Italians reject referendum on constitutional reform

Voters rejected the reform early last week, prompting Prime Minister Matteo Renzi to resign. The result continues the anti-establishment trend in the United States and Europe. Moody's cut Italy's sovereign rating outlook to negative from stable after the vote. The outlook change means the credit rating agency could downgrade Italian debt if current conditions remain the same. Shares of Italian banks fell after the vote. The Italian government is preparing to take a €2 billion controlling stake in the bank Monte dei Paschi, whose shares fell 15% on the week. The government plans to buy

junior bonds with the goal of encouraging private investors to raise a total of \$5.3 billion the bank needs to avoid forcing losses on its bondholders.

Austrian voters resists anti-establishment trend

Austrian voters elected pro-European candidate Alexander Van der Bellen as president this week, resisting the anti-establishment mood in the European Union. Van der Bellen won a close contest in May, but voting irregularities forced the week's runoff election.

Rise of China's exports

China's trade data surprised analysts this week as imports and exports both increased sharply in November. Exports rose 0.1 % year over year, reversing a 7.3% decline recorded in October, while imports grew 6.7%, the fastest pace since 2014. Despite these increases, however, China's imports and exports remained negative for the year through November. The yuan has fallen about 3% versus the US dollar since October, while China's foreign exchange reserves fell to their lowest level since March 2011. China's reserves fell \$69 billion in November, which was its fifth straight monthly decline.

THE WEEK AHEAD

- **China's industrial production and retail sales data are released on Monday, December 12**
- **The Federal Open Market Committee meets on Tuesday and Wednesday, December 14–15**
- **US business inventory, retail sales and industrial production data are released on Wednesday, December 14**
- **US Consumer Price Index, NAHB housing market index and jobless claims data are released on Thursday, December 15**