



INCISIVE INVESTOR

WEEK ENDED 26 AUGUST 2016

WEEK IN REVIEW: YELLEN SIGNALS HIGHER RATES LIKELY

Global equities were little changed on the week, with many market participants sidelined in advance of US Federal Reserve Chair Janet Yellen's remarks from Jackson Hole on Friday morning. The yield on the 10-year US Treasury note fell to 1.54% from 1.58%. On the oil front, West Texas Intermediate crude fell to \$47.65 from \$48.00 a week ago. Global Brent crude edged lower to \$49.94 from \$50.46.

Fed's Yellen opens door to Fed rate hike

Speaking at the Federal Reserve Bank of Kansas City conference in Jackson Hole, Wyoming, Fed chair Yellen prepared markets for a hike in the federal funds rate perhaps as early as the next Federal Open Market Committee meeting in September, depending on the outcome of next Friday's US employment report. Markets are increasingly pricing in a hike by the end of 2016.

US home sales uneven

Sales of new homes surged 12.4% in July to the highest level since October 2007, and 31% compared with a year ago. However, sales of existing homes, which outnumber new home sales by a factor of eight, fell 3.2% in July, muddying the outlook for the overall housing

sector. A scarcity of affordable inventory is stifling existing home sales, the National Association of Realtors reports.

US economic data roundup

Q2 US GDP was revised modestly lower, to an annual rate of 1.1% from an initial 1.2% reading. The US trade deficit shrank in July to \$59.0 billion from \$63.3 billion in June. Durable goods orders were surprisingly strong, rising 4.4% in July versus a consensus estimate for a 3.7% rise. Core capital goods orders rose a robust 1.6%

S&P warns of Mexican ratings downgrade

Credit rating agency Standard and Poor's downgraded its outlook for Mexico's sovereign debt rating this week, citing disappointing economic growth and a rising debt load. The warning means there is at least a one in three chance of a ratings downgrade over the next two years. Mexico is currently rated BBB+ by S&P.

Medivation acquired by Pfizer

Pharma giant Pfizer agreed to purchase biotech firm Medivation this week in a \$14 billion deal. Medivation is best known for its prostate cancer drug Xtandi.

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THE WEEK AHEAD

- ▶ The US reports personal income and spending and the core personal consumption expenditures price index, the Fed's preferred inflation measure, on Monday, 29 August
- ▶ Global manufacturing purchasing managers' indices are released on Thursday, 1 September
- ▶ The US August employment report is released on Friday, 2 September