



# INCISIVE INVESTOR

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## WEEK IN REVIEW: WAGES UP, STOCKS AT RECORD LEVELS

### Review of the week ended January 6, 2017

- **US adds 156,000 jobs, wages up most since 2009**
- **Yuan volatility causes concern amid tight liquidity**
- **2016 US auto sales set record**
- **Holiday sales down for many retailers**

Modest gains on Wall Street pushed the S&P 500 and Nasdaq Composite to record levels, while the Dow closed a fraction below the closely watched 20,000 level, following a December U.S. jobs report that investors interpreted as generally positive.

All three benchmarks posted solid weekly gains, continuing the postelection rally on Wall Street.

The main indexes maintained gains after news reports that multiple people had been shot and killed Friday at the Fort Lauderdale-Hollywood International Airport.

The S&P 500 closed 0.4%, higher at 2,276, with eight of the 11 main sectors were finishing with gains, led by technology and financials shares. Over the week, the benchmark index gained 1.7%.

The Dow Jones Industrial Average 0.3%, to 19,963.80, after coming within a whisker to the psychologically important 20,000 level. At session highs, the Dow hit 19,999.63, setting an

intraday record. The blue-chip index rose 1% over the week.

The Nasdaq Composite was the day's best performer among stock-market indexes, advancing 0.6%, to 5,521.06, a new record. The tech-heavy index gained 2.6% over the week.

The Ten-year US Treasury note yields fell to 2.40% from a pre-Christmas level of 2.53%. Oil prices firmed modestly, with West Texas Intermediate crude rising to \$53.90 from \$53.25 before the holidays. Global Brent rose to \$56.90 from \$55.80. The Chicago Board Options Exchange Volatility Index (VIX) was little changed at 11.45.

### **GLOBAL NEWS**

#### **December US payrolls solid yet subdued**

The United States added 156,000 new jobs in December while the unemployment rate increased to 4.7%. A 2.9% annual rise in average hourly earnings was the most attention-grabbing aspect of Friday's report. It was the largest yearly gain in wages since 2009.

Rising wages, unless offset by gains in worker productivity, could negatively impact corporate earnings down the road. Wage increases may also keep the US Federal Reserve on guard for additional rate hikes in the months ahead. The US reported a wider trade deficit on Friday, with a fall in exports likely to trim economic growth estimates for the fourth quarter. The deficit expanded to \$45.2 billion in November, a nine-month high, from \$42.4 billion in October.

### **China defends yuan despite losses**

It was a wild week for China's yuan. On Thursday, overnight offshore deposit rates were heightened to 80% in an attempt to squeeze out speculative short positions in the currency. That move set off a frantic short-covering rally, but the rally was largely reversed on Friday. In a further attempt to keep funds from leaving China, the government introduced additional capital controls effective 1 January and encouraged state-owned enterprises to sell foreign currencies. It is believed that China is attempting to stabilize the currency in advance of US president-elect Donald Trump's inauguration on 20 January.

Auto sales in the US sets record

Global auto manufacturers sold a record-setting 17.55 million new cars and light trucks in the US in 2016, according to research firm Autodata. Sixty percent of the sales were classified as light trucks since SUVs fall into that category. In 2015, 17.48 million units were sold, 56% of them light trucks.

### **Australian trade return positive**

For the first time in nearly three years, Australia recorded a trade surplus in November. Rebounding commodity prices helped lift the trade account into the black, and the data suggest that the economy might avoid a technical recession after shrinking by 0.5% in Q3.

### **Holiday sales down for many US retailers**

Many US retailers struggled this holiday season as sales continued to migrate to the Internet. Two notable cases were Macy's and Sears, traditional anchor tenants of US shopping malls, which each announced the closure of more than 100 stores. Additionally, Sears announced the sale of its iconic Craftsman tool brand to Stanley Black & Decker for \$900 million.

## THE WEEK AHEAD

- **The Eurozone releases unemployment figures on Monday, January 9**
- **The minutes of the December meeting of the ECB Governing Council are released on Thursday, January 12**
- **China releases December trade figures on Friday, January 13**
- **US retail sales figures for December are reported on Friday, January 13**