



INCISIVE INVESTOR

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WEEK IN REVIEW: MARKET SNAPS 3-WEEK WINNING STREAK

Review of the week ended December 2, 2016

- **US nonfarm payrolls rise to 178,000; jobless rate lowers**
- **Global manufacturing division builds on increases**
- **Europe prepares for votes in Italy and Austria**
- **OPEC agrees to cease production**
- **Mnuchin is nominated for US treasury secretary**

U.S. stocks finished mostly higher on Friday but weekly losses for the S&P 500 and Nasdaq Composite Index may indicate that the aggressive post-election rally might be running out of steam. Both indexes snapped three-week winning streaks. The S&P 500 ended the week 1% lower. The Nasdaq Composite Index finished down 2.7% on the week. U.S. stocks' momentum faded this week as a blistering rally that sent benchmarks to a series of record highs cooled. Treasury yields finished higher for a fourth straight week.

Interest rates and oil prices both rose. A long-debated OPEC production cut was announced on Wednesday, helping push the price of West Texas Intermediate crude up to \$51 a barrel from \$47.50 a week ago. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX) edged up to 14 from 12.6 last week. The yield on the US 10-year Treasury note rose to 2.40% from 2.37% a week ago.

US labor market maintains course

The US economy added 178,000 new jobs in November, in line with market expectations. The unemployment rate dropped to 4.6%, the lowest in nearly a decade. However, average hourly earnings were disappointing. A drop of 0.1% was reported in November after rising 0.4% in October. Economists had expected earnings to rise 0.2%. Earlier in the week, the United States reported upwardly revised gross domestic product figures for the third quarter. GDP was revised up to an annual rate of 3.2% while after-tax corporate profits advanced a robust 5.2%, the first rise since late 2014. Solid recent economic data, combined with reflation hopes in the wake of the US election, have pushed US yields significantly higher in the past several weeks. To illustrate the point, the Bloomberg Barclays Global Aggregate Bond Index suffered Bond Index suffered the worst monthly loss in its history in November, declining 4%.

Italy heads to the polls to vote on Sunday

A poll on constitutional reform takes place in Italy this Sunday. Prime Minister Matteo Renzi has vowed to resign if the referendum goes down to defeat. Polling ahead of the vote suggests the referendum won't pass, though a number of undecided voters still remain. A defeat would add momentum to the anti-establishment mood among voters in both the US and Europe. The stability of the European Union could be called into question if anti-establishment momentum continues to build ahead of key federal elections in the Netherlands, France and Germany in 2017. Thursday, French president François Hollande, whose approval rating stands at just 4%, announced that he will not stand for reelection next year, becoming the first French president since World War II not to seek a second term.

OPEC finally agrees on production cut

OPEC leaders met this week in Vienna and agreed to cut production by OPEC members by 1.2 million barrels per day and by 600,000 barrels per day by non-members, including Russia. The deal is the first of its kind in eight years. OPEC hopes the agreement will result in a reduction in

inventories over the coming months, which they hope will coincide with a pickup in demand while the production curbs are in place.

Trump Nominates Wall Street pro for Treasury Secretary

President-elect Donald Trump announced he is nominating Steven Mnuchin as treasury secretary. Mnuchin is a former Goldman Sachs executive and hedge fund manager. Tax reform and reducing regulation are high on Mnuchin's agenda. Additionally, Trump nominated financier Wilbur Ross to serve as commerce secretary. Ross said increasing US exports will be his focus, along with negotiating favorable bilateral trade deals.

Trump intervenes to preserve Carrier jobs in US

President-elect Trump intervened to prevent Carrier Corporation, a subsidiary of United Technologies Corporation, from closing a plant in Indiana and moving its production to Mexico. After the deal, about 1,100 jobs will be preserved in Indianapolis in exchange for about \$7 million in tax incentives from the state of Indiana over the next ten years.

THE WEEK AHEAD

- **Italy holds a constitutional reform poll on Sunday, December 4**
- **UK releases Q3 GDP figures on Wednesday, December 7**
- **Japan reports Q3 GDP on Wednesday, December 7**
- **The European Central Bank Governing Council meets to set rates on Thursday, December 8**