



# INCISIVE INVESTOR

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## WEEK IN REVIEW: FED RAISES RATES, STOCKS COOL SOMEWHAT

### Review of the week ended December 16, 2016

- **Federal funds target rate raised 25 basis points**
- **Trump picks Tillerson for secretary of state**
- **Global currencies fall versus US dollar**
- **US small-business owners' optimism rises**

U.S. stocks closed lower Friday, with the Dow industrials swinging to a loss, following reports that a Chinese warship seized an underwater U.S. Navy drone in international waters off the coast of the Philippines. The markets digested the Federal Open Market Committee's decision this week to raise the key federal funds target rate by 25 basis points to a range of 0.50% to 0.75% with little fanfare but cooled the next several days. While the move was expected, markets needed a breather to factor in the FOMC's statement that it would target three rate hikes in 2017, which was more than expected. The S&P 500 Index stalled this week and ended at just about even for the week. The Dow was curtailed from its advance to the psychologically important 20,000 level but finished up 0.4% for the week just beating out the NASDAQ which was up 0.3%. The

10-year US Treasury bond yield continued to climb upwards after the FOMC announcement, reaching as high as 2.58% this week, its highest level since September 2014.

### GLOBAL NEWS

#### **Markets not shaken by rate increase**

This week's FOMC decision to raise the federal funds rate by 25 basis points comes a full year after its last hike. While the yield on the 10-year US Treasury bond was about the same last year, the market environment was quite different then. This week's hike came amid rising euphoria in equity markets, as investors continued to reallocate from defensive and "bond-like" equity positions into riskier segments of the market. Equity market volatility is much lower this year.

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## **Trump nominates Exxon Mobil's Rex Tillerson as secretary of state**

President-elect Donald Trump this week announced his intention to nominate Exxon Mobil chief executive Rex W. Tillerson as secretary of state. The choice of Tillerson's was criticized by senators on both sides of the aisle, who object his business dealings with Russia and its president, Vladimir Putin. Tillerson has spent his entire career at Exxon. Trump also announced that former Texas governor Rick Perry is his choice for energy secretary.

## **US dollar gains over most Global currencies**

The US dollar continued to strengthen this week versus most major currencies. The Japanese yen has declined 11% since the

US presidential election, while the Mexican peso has fallen 10%. China's yuan has also slid, while its capital outflows have ticked up. Japan surpassed China as the largest holder of US government bonds this week. China's government has been selling foreign currency reserves in an effort to protect the yuan.

## **Small-business owners are growing optimistic**

The US NFIB small-business optimism index rose by 3.5 points in November to 98.4, beating consensus estimates and rising above its 42-year average. Small-business owners reported, however, that they are less optimistic about capital expenditures. Just 24% of those surveyed plan to spend on capex in the next 3 to 6 months.

## THE WEEK AHEAD

- **Eurozone wage figures are released on Monday, December 19**
- **Japanese trade data and unemployment figures are released on Monday, December 19**
- **The Bank of Japan meets to decide monetary policy on Tuesday, December 20**
- **Eurozone consumer confidence figures are released on Wednesday, December 21**
- **The United States announces estimates for Q3 GDP on Thursday, December 22**