MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

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What Brexit? US Payrolls, and Markets, Bounce Back

Last week the S&P 500 Index opened lower on Tuesday after the Independence Day holiday, but rallied for the rest of the week. The index posted a 1.33% return for the week and has gained 5.45% year-to-date as we start the second half of 2016. Concerns over global growth and prolonged financial turbulence due to the "Brexit" vote kept stocks at bay during the beginning of the week. This fear subsided at the Wednesday open as stocks rallied into Friday's close. Additionally, the yield on the US 10-year note slipped to 1.40% from 1.51% after closing at an all-time low of 1.375% earlier this week.

Stocks and commodities rallied Friday and two-year Treasuries slumped as strength in the June jobs report showed the US economy is still strong. Oil closed the week at $45.41 a barrel, decreasing -7.31% from the previous week. The decline in oil prices was the biggest weekly decline in five months. Eight of the ten economic sectors had positive performance for the week. The consumer discretionary sector was the best performing sector with a 2.32% return. The health care and information technology sectors followed with 2.02% and 1.78% returns, respectively. The energy sector -1.12% return was the worst performance of all the sectors and was followed by telecommunication services at -0.13%.

Markets fully expected May's weak nonfarm payroll figures to be revised higher when the June data were released on Friday. Instead, May payrolls were revised even lower, to 11,000 from 38,000. However, the good news was that the June payrolls report was far stronger than expected. June payrolls were up by 287,000, over 100,000 more than expected. The economy averaged 149,000 new jobs per month in May and June, a figure that will give the Fed a bit more confidence as it considers raising rates later this year.

Speaking of the Fed, minutes of the June Federal Open Market Committee ("FOMC") meeting released this past week show that rate setters were in no rush to hike rates, saying it was prudent to wait for additional economic data before proceeding. The committee also cited the uncertainty surrounding the Brexit referendum, which took place a week after the meeting, as a reason to hold rates steady.

Across the pond, the contest to occupy 10 Downing Street after the resignation of David Cameron was settled earlier today.

Home Secretary Theresa May will become Britain's second female prime minister after Andrea Leadsom, her only challenger, withdrew from the race to lead the ruling Conservative party. Interestingly, May was a "Remain" supporter in the Brexit campaign, while Leadsom supported the Leave side.

Finally, continuing with the theme of European impacts on global financial markets, many Italian banks remain saddled with crippling amounts of bad loans. However, bailing them out with government money is not an option until bond holders first take a hit, according to European Union rules. In Italy, retail investors are major holders of bank debt, making a so-called "bail-in" politically unpopular. Prime Minister Matteo Renzi is seeking flexibility from the EU in applying the rules, but is running into opposition from German Chancellor Angela Merkel. Fears of a systemic crisis may build until a resolution is worked out. Stay tuned.

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