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CAPITAL ADVISORS

Weekly Market Update

February 8, 2016

Oil, China - Rinse & Repeat

The start of a new week is bringing the same old concerns that have bedeviled markets lately. Weakness in oil prices and continued concern about the global economy are dragging U.S. stocks lower again today, following overnight weakness in European markets. Chinese markets are closed all week for the lunar New Year holiday, but the Middle Kingdom made news nonetheless. A report over the weekend showing a sizable reduction in the country's foreign exchange reserves highlights the country's challenge to both stem capital flight and stabilize the exchange rate. China's foreign exchange reserves dropped $99.5 billion in January, which follows the $107.9 billion drop the month before.

China remains the world's largest foreign exchange reserve holder, but the central bank has continuously accessed those holdings since the August 2015 devaluation in an effort to prop up the currency. However, the effort has been anything but a success, as the interventions end up hurting market confidence, which then require more intervention, to no avail thus far.

The news over the weekend is of no help to U.S. equity markets, as the S&P 500 index lost ground last week, falling -3.04% and surrendering the gains it achieved the prior two weeks. The widely followed S&P 500 has continued its dismal start to the year, down -7.85% so far in 2016. Tuesday's market activity was highlighted by more rough news from the oil patch, declining most of the trading day and returning -1.87%, with energy stocks leading the way down as oil closed below $30 a barrel.

On Friday, the big news item was the U.S. jobless claims of 285K, higher than the consensus estimate of 278K and higher than the previous week's 278K. The market's reaction focused on the lower than expected unemployment rate of 4.9% (good), but also on the lower than expected 151k nonfarm payroll numbers (bad). Digging into the numbers, a hint of growing wage pressure in a slow-growth economy did little to cheer investors. The net result was another big decline, with the S&P down -1.84%, led by information technology and consumer discretionary stocks.

Seven of the ten major economic sectors had negative performance for the week.

Notably, crude oil closed the week at $30.89 a barrel, a decline of 8.12% from the previous week's close.

The oil weakness, China questions, and the strong U.S. dollar have combined to unnerve global equity markets, with investors hoping that the Fed will take note in monetary policy deliberations. Friday's mixed jobs reading gave a modest bump to the market's expectations of a March rate hike, but the overall odds of a rate hike next month remain low. Barring unexpected surprises on the economic data front, the next rate hike looks like a June event.

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