



# WEEKLY MARKET UPDATE

October 10, 2016



## Tepid Data, Fed on Track for Hike

Last week the S&P 500 Index launched October and the fourth quarter of 2016 into negative territory, declining 0.60%, following the previous three weeks of gains. **Monday began the week with tepid economic news.** August construction spending fell in the face of expectations for a small increase, and the Markit US Manufacturing Purchasing Managers Index (“PMI”) number came in at its lowest level since June 2016. That weakness aside, recent data mean a December rate hike from the Fed is still the base case for markets.

**Friday’s employment report followed a similar theme, with US September nonfarm payrolls rising 156,000, and the national unemployment rate rising to 5% as more workers entered the labor force.** The employment report was somewhat weaker than expected at the headline level, but not weak enough to dent anticipation of a quarter-point hike in the federal funds target by the US Federal Reserve before the end of the year. The market is pricing in a roughly 72% chance of a hike at the final Federal Open Market Committee meeting of the year in December. On the bright side, average hourly earnings rose 2.6% on an annual basis.

There is a reason the Fed has bided its time on the rate hike front. **Despite the unprecedented monetary stimulus being deployed by the world’s central banks, global inflation has fallen to its lowest level since the immediate aftermath of the financial crisis.** The Organization for Economic Cooperation and Development (“OECD”) reported that inflation for the Group of 20 nations fell to 2.1% in August. **That’s the lowest level since October 2009.** Somewhat ominously, the biggest drops came in China and India, who are among the fastest-growing global economies. The Indian central bank this week cut its policy rate at the first meeting led by new Reserve Bank of India governor Urjit Patel.

Interestingly, Bloomberg News reported that the European Central Bank will begin to taper its quantitative easing program. The report prompted a backup in yields in Europe and elsewhere. However, the ECB was quick with a rebuttal to such speculation. **An ECB spokesman said, and the subsequent release of the minutes of the last meeting of the Governing Council showed, that no discussion of tapering had taken place.**

**Serving to buttress the ECB’s denial, Eurozone**

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**composite PMI continues to decline.** While the Eurozone manufacturing sector has shown a recent uptick, the services sector is dragging down the composite PMI. The composite index fell to 52.6 in September, the lowest level since January 2015. The index peaked at 54.3 last December.

**Finally, in some good news, or at least the avoidance of a disastrous outcome, Florida was spared Matthew's worst.** The monster storm, potentially a catastrophic Category 4 or 5 hurricane, stayed just off Florida's east coast, bringing heavy rain and high winds but sparing the populous region from a direct hit.

We encourage prayers and tangible support for the thousands along the southeast Atlantic coast that remain without power and face disheartening damage and cleanup as they rebuild their lives in the days and months ahead.

#### RELEASES THIS WEEK

- **Wednesday:** The minutes of the Fed September meeting
- **Thursday:** China releases trade data
- **Friday:** US retail sales numbers, and Fed chair Janet Yellen speaks in Boston

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