

## Market Recap 26-02-2017

### United States

Last week was a particular good one for American equities. Indeed, the Dow Jones Index scored four record high closures in a row, up 0.96% from last week's close. Smaller gains were scored also by the S&P 500 (+0.69%) and the Nasdaq Composite (+0.12%). It is worth noting how the last S&P 500 close at 2367 has already overcome the average price target that analysts had for the index at year-end (2364).

On Tuesday, the news that the Kraft Heinz-Unilever deal fell apart lifted the food sector stocks. As speculation about new M&A deals in the sector increased, the Dow Jones U.S. Food and Beverages Index rose 1.13% on the day. Players like Mondelez (+5.81%), J.M. Smucker (+4.40%) and General Mills (+3.02%) were among the biggest gainers of the day.

On Friday, the U.S. Attorney General Jeff Sessions made clear his intentions to reverse an Obama-era decision to phase out the federal use of private prisons. This had a positive effect on private prisons' stock, with GEO Group up 3.27% and Corrections Corp. up 3%. Both stocks have doubled their market cap since the day of the presidential elections. Finally, the news that GOP Border Tax Plan doesn't have White House support sent the retail sector higher.

The yield on 10 year Treasuries fell 10 basis points over the week. Wednesday's Federal Reserve minutes showed that officials thought a rate increase may be appropriate "fairly soon". The report caused a slight depreciation of USD over the day but did not contain enough clear direction to cause a major market move.

As to FX, the EURUSD closed at 1.056, 0.5% lower than last week's close, mainly because of the advances of Marine Le Pen in the French presidential campaign. The USD appreciated also 0.64% against the Yen, while it depreciated by more than 2.5% against the Mexican Peso. The WTI crude oil closed the week 1.1% higher at \$53.99 despite the new record of U.S. Crude stockpiles.

Next week's most important events are the publications of the quarterly GDP on Tuesday, the ISM Manufacturing Index on Wednesday and the Non-Farm Payrolls on Friday.

### Eurozone

European stock markets closed the week in retreat, following the profit-taking in the US markets after the recent record-breaking rally. Volatility went up on Friday, after the low levels of last week. While the DAX closed on Friday at 11804.03 (-0.40% from last week) and the CAC 40 closed at 4845.24 (-0.43% from last week), in Milan the FTSE MIB closed at 18596.66 (down by 2.65% from last week) and the IBEX 35 closed at 9453.5 (-1.16%). The EUROSTOXX 50 closed at 3308 (-0.04% from last week), far from the local maximum of 3354 reached on Tuesday.

For what concerns the industries breakdown, telecommunications are the best performers of the week (+1.98% of the EURO STOXX Telecommunications), supported by the merger activity of Deutsche Telekom. Bad week for banks and financials instead. The EURO STOXX Financials closed the week at -1.90%, with banks down by 2.98%. In Milan, also Unicredit, after the success of the €13bn monster capital increase, closed the week in downturn with a daily -2.25%. Basically flat all the other sectors.

Week performance of the Euro through the week. On Wednesday the EURUSD went as low as 1.05, before coming back to 1.055-1.0575 by Friday evening.

On Tuesday, the European Commission review underlined how persisting imbalances keep weighting on the economic recovery of the Eurozone. France and Italy were nominated for their public deficits and low productivity growth, and Germany was urged to reduce its current account surplus (currently at 8.8% of GDP) by increasing investment spending, which would give more sustainability to the current growth path and benefit the sluggish recovery of its trading partners

Some timid good news about the health of the Eurozone economic recovery came during the week: the Markit PMI for the Eurozone were all above consensus on Tuesday, with Manufacturing, Services and Composite respectively at 55.5, 55.6 and 56.0. The Ifo Business Climate recorded a value of 111, above the consensus of 109.6. The Italian inflation rate YoY jumped to +1% in January, while inflation YOY in the Euro Area was confirmed at 1.8%, thus decreasing deflation risks across the continent.

Also this week the French Presidential campaign has been the main driver of the European markets. The polls showed alternatively the Republican candidate Fillon back on course to qualify for the run-off in the Presidential election and Emmanuel Macron strengthened by the centrist Francois Bayrou's decision not to stand in the election and to give his support to the independent candidate. All the polls give Marine Le Pen as the front-runner for the first round, with a solid 26% of preferences. Even though an alliance among moderates at the second-round vote would make a Front National victory unlikely, the profound anti-Euro rhetoric of Le Pen and the fragmentation of the electorate are upsetting the markets. The ten-year OAT/Bund spread reached a maximum of 83.6bps on Wednesday, before dropping to 72bps on Friday. Similarly, also the ten year BTP/Bund spread increased to 197.6bps and the Bonos/Bund went as high as 158.5 bps. The ten-year Bund rate fell to 18.6bps on Friday and the two-year yield fell to -0.947%, its lowest intraday level on record, pushed by its counterpart role in short trades on the two-year Treasury notes.

Relevant news of next week will be the consumer and business confidence and the economic sentiment of the Eurozone on Monday; French GDP growth and inflation rates on Tuesday; unemployment change and inflation rate in Germany and Markit Manufacturing PMI for Eurozone, Germany, Italy and Spain on Wednesday; GDP growth and unemployment change in Spain on Thursday; Italian GDP growth in Q4 and retail sales growth in the Eurozone on Friday.

## **UK**

Current bank rate set by BoE is at 0.25%, while core inflation rate stands at 1.8% well above expected inflation of 1.4%. Next decision regarding bank rate will be announced on 16 March.

FTSE 100 equity index decreased 39bp from 7,265 to 7,237. Gilt 10Y started the week with a yield of 1.21%, and ended it at 1.08%, falling 13bp. GBP-USD increased slightly during the week, but retreated at the end, staying flat at 1.246. GBP-EUR also remained still, ending the week at 1.1797. Manufacturing PMI is expected to be announced on Wednesday, construction PMI on Thursday, and services PMI on Friday.

Demand for UK-made goods reached a two-year high in the three months to February, but the fall in the pound is expected to drive up prices in coming months, according to the latest survey of the manufacturing sector by the CBI. The data are the latest evidence of a shift in the economy from the services sector towards manufacturing. However, the services sector accounts for about 80 per cent of the economy, while manufacturing makes up only 10 per cent, so modest growth in the latter is unlikely to offset a slowdown in services.

Bank of England revised up forecast growth in 2017 from 1.4 to 2 per cent. The bank has not changed its long-term view on Brexit, Mr Andy Haldane (chief economist at BoE) said, but had "learnt" new information about the

world including that consumer spending was resilient and global growth was stronger than thought. Roughly half of the revision was due to government spending announced at the Autumn Statement in November, Mr Haldane said.

## **Rest of the World**

In Japan, Nikkei 225 Stock Average gained 0.25% with the broad-based TOPIX Index advancing 2.1% and a mild JPY regaining on Friday the slight decline accumulated during the week against the USD. Positive signals for the economy came from the rise of Nikkei Japan Flash Manufacturing PMI which together with an increase in employment marked the sixth and highest month of expansion. In Asia, China, continues its effort to tackle the problematic house pricing bubble while trying to shift to a consumer based economy, slightly experiencing a decrease in home prices, while the Bank of Korea held interest rates still as expected.

Brazilian stocks lost some footing following the Brazil central bank announcement to cut interest rates by 75 basis point. This represents a commitment and effort to pull the endangered Brazilian economy out of the recession which is currently affecting the overall local market, signalling a possible path for faster easing policies in the short future. Still on interest rates, Colombia's central bank surprisingly decreased the benchmark interest rate by a quarter point to 7.25 per cent on Friday in its intent to fight falling inflation (at 5.47% YoY in January 2017) and low oil prices.

Finally, Canadian stocks plunged the most in five months due to disappointing earnings and dividends across gold companies, weak oil prices and preoccupations over President Donald Trump's border tax proposals.

Important dates for the week ahead are Tuesday for Indian GDP growth, Japan Retail Sales and Industrial Production YoY, Wednesday for Australia's GDP growth and other local economic indicators, while Friday for Japan consumer confidence, monthly unemployment and inflation rate.

Tags: US, Eurozone, UK, DJIA, S&P 500, NASDAQ, food sector, treasuries, DAX, CAC 40, FTSEMIB, IBEX 35, telecoms, financials, EU, PMI, Ifo, inflation, French elections, spread widening, FTSE 100, GDP growth revision, Nikkei 225, Bank of Korea, TOPIX, Brazil, interest rate cut, Colombia, Canadian stocks, FX