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Equity markets pulled lower in week

Ignoring the Trump-shaped elephant in the room, the market had plenty of data to consider this week, principal among them being employment. Jobs data out of Europe was generally good, although the positive new jobs number in Friday's US labour report was partly tempered by weak wage growth. Corporate earnings were another focus, with positive profit 'beats' by tech giants Apple and Facebook garnering the headlines. At an overall market level however, many stock markets ended the week in negative territory.

One challenge in trying to determine what moved markets on any given day is that it requires some post-fact rationalisation. At the moment, the narrative tends to be simplified to: Markets up? Trump effect! Markets down? Trump effect! Quite often, there is a tendency to grab the biggest news of the day and shoehorn the market move into that reason-sized hole. On Monday, the US S&P 500 had its worst day since November's elections with the executive order on immigration a widely-cited reason – technology firms that source highly-skilled workers from overseas were among the poorest performers on the day.

Jobs, jobs, jobs
Plentiful jobs can produce a halo effect, spurring wage increases and confidence to spend as people feel more secure in employment. House-buying activity accelerates, boosting mortgage lenders and consumer product sales – which is why many investors pore over the likes of the US labour report for signals. For example, the 36,000 increase in construction payrolls was the highest in 10 months. Retailers added almost 46,000 jobs. However, wage growth disappointed – hourly pay increased 2.5% year-on-year, which was down on the December growth rate of 2.8%.

In the stock market, companies that operate within these sectors have generally experienced share price gains in recent times as investors have favoured cyclical stocks. Trump this week stated that he plans to 'do a big number' on the Dodd-Frank Act, a post-crisis set of regulations that aimed to reduce bank recklessness. He then signed directives to move this agenda forward, an action that lifted bank shares in the week. A repeal of the Volcker Rule, part of the Act, would allow banks to once again engage in proprietary trading for its own benefit, rather than for its clients.

It's Groundhog Day… again
"It's gonna be cold, it's gonna be grey, and it's gonna last you for the rest of your life." Despite the relatively mild winter in these parts, in the US all eyes turn to Punxsutawney Phil at Gobblers Knob in Pennsylvania on 1st February to determine if winter is over. Phil the groundhog reportedly glimpsed his shadow, which 131 years of tradition means six more weeks of winter. However, General Beauregard Lee (Georgia's groundhog meteorologist) did not see his shadow and thus predicted an early spring. So you can have your alternative facts, it just depends on where you live and whether you believe groundhogs can predict the weather, and that there are people who can understand groundhogese.

What has this to do with markets? Not a lot. But it's a timely reminder that investors should do some research, look for credible sources and avoid crackpot forecasters. That is not to say one has to adopt a consensus view – while the wisdom of crowds has some merit, herding behaviour also means that some investment positions can become over-bought/over-sold. Just make sure that the rationale for any contrarian investment decision is based on something more than confirmation bias, the entrails of a badger, or advice from a rodent.

Earnings season rumbles on
A good place for investors to start is company earnings reports. And there were a lot of big hitters providing quarterly updates this week. As noted, Apple and Facebook reported upbeat numbers that the market reacted well to – Apple sold more iPhones in a single quarter than ever before, while Facebook had a record 1.86 billion active users at the end of 2016. Energy giant ExxonMobil missed targets with a 51% fall in profits to $7.8bn in 2016, part of which came from a $2bn write-off on the value of undeveloped US gas fields. However, rising oil prices improves the viability of its shale operations and Exxon expects to more than double output from the Permian Basin region of the US – a level it says it could sustain for decades. The stock still finished the week 3% lower.

Eurozone economy in reasonable shape
The eurozone economy is showing signs of recovery as data reflected a fall in unemployment while growth and inflation picked up. Inflation leapt to a four-year high of 1.8% in January, up from 1.1% in December, although the core (ex-energy) rate was unchanged at 0.9%. The region's jobless rate fell to a near-seven year low of 9.6%, while GDP registered growth of 0.5% in the fourth quarter of 2016, up from 0.4% in Q3.

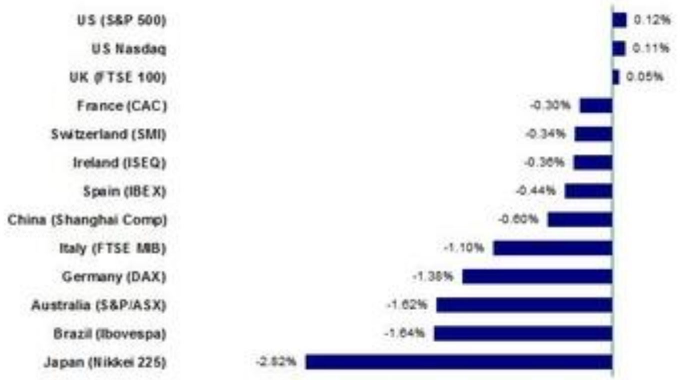
German inflation rose to an annual rate of 1.9% in January, intensifying calls in the euro area's largest economy for an end to European Central Bank stimulus. Sensitivity to rising prices is historically high in Germany, but if the ECB was to prioritise German interests it would arguably confirm Donald Trump's characterisation of the EU as a vehicle for Germany.

Currency market manipulators

It seems reasonable (yes, in a post-fact rationalisation kind of way) to suggest that the new US administration's railing against the currency market manipulators is actually responsible for moving foreign exchange rates. By accusing Germany of running an undervalued deutsche mark under cover of the euro to exploit its EU trading partners and the US, along with similar attacks on Japan and China, Trump's team has been a major factor in recent US dollar weakness. The greenback fell for the sixth week in a row. But with rising inflation, sustained US job creation and an upgraded economic growth outlook, the US Federal Reserve is expected to push through at least two quarter percentage point interest rate increases in 2017. Assuming interest rates remain unchanged in most other countries, logic ordinarily would indicate a stronger dollar as investors are more likely to direct money to the US to take advantage of those higher rates.

Source: All information is from Bloomberg Finance LP as at 3 February 2017 unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed.

A Week on the Markets



Source: Bloomberg Finance LP. Capital returns in local currency for the week to Friday 3 February 2017

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