

FOR RETAIL INVESTORS

WEEKLY MARKET ROUND-UP UP, UP AND AWAY

WEEK ENDING 16 DECEMBER 2016



US FEDERAL RESERVE RAISES RATES FOR THE SECOND TIME IN A DECADE

The US stock market continued its recent heady run, shrugging off the news that the US Federal Reserve (Fed) had raised interest rates for only the second time since the onset of the global financial crisis (see below). European stock markets followed suit, despite continued worries over the health of indebted Italian banks. By contrast, the strong rise in the dollar, following the rate increase, unnerved Chinese investors and caused the renminbi to weaken. The price of gold also softened. The price of the yellow metal typically falls when interest rates rise.



FED RAISES RATES, KEEPS MUM ON TRUMP POLICIES

The Fed increased interest rates for the second time since 2006, by 0.25%, as was widely expected by investors. But the central bank also forecast a faster pace of rate increases in 2017, given the strength of the US economy and the prospect of fresh stimulus from the incoming Trump administration. At a press conference, Janet Yellen, Fed chair, was tight-lipped about what the rate-setters actually expect from the next US president. 'There is considerable uncertainty about how economic policies may change, and what effect they will have on the economy,' she said.



CHINA ON TARGET BUT FACES TRUMP TWITTER TANTRUMS

Observers of the Chinese economy took cheer from strong electricity production, up 7% in November, compared to a year earlier. Electricity data, seen as a proxy for economic activity, is often a focus for those sceptical of China's official economic growth figures. Meanwhile, China's President Xi Jinping expressed confidence that the economic growth target of at least 6.5% for 2016 would be met. A fly in China's ointment is Donald Trump's flurry of criticisms. Trump, who recently broke protocol by talking to Taiwan's president, said he may cast aside the US's 'One China' policy, its longstanding diplomatic acknowledgment of China's claim of territorial unity.



JAPAN DONS ITS POKER FACE

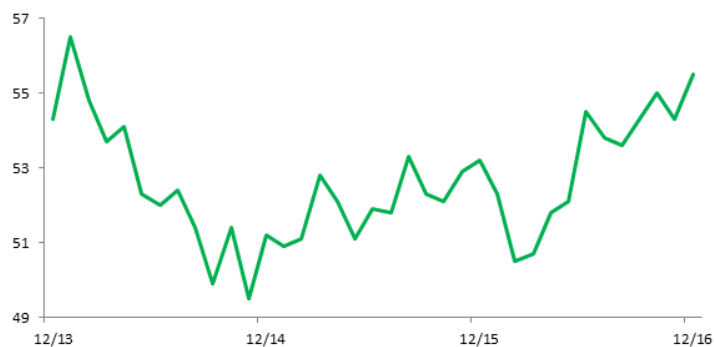
While China has long embraced the casino culture – Macau is seen by many as a gaming Mecca – casinos are illegal in neighbouring Japan. Up until now. Despite public support for legalisation at almost single-digit levels, according to some recent polls, Prime Minister Shinzo Abe and his government pushed through legislation last week that, they hope, could create a bigger gaming market than Macau. Now the race begins between Japan's leading cities as to which will host the first integrated resorts – those that include casinos, hotels, conference and entertainment facilities; Tokyo, Osaka and Yokohama lead the way.



MEDIA MOGULS JOSTLE FOR CONTROL OF EUROPEAN TV

France-based pay TV and music giant, Vivendi, has gone hostile by snapping up a 12% stake in Silvio Berlusconi's Italy-based Mediaset, announcing its intention to buy more. An earlier attempt to work together had fallen apart and ended up in the courts. Shares in Mediaset soared 36% the day after news of the stake building broke. Meanwhile, Rupert Murdoch's US-based 21st Century Fox, behind shows such as *The Simpsons*, has made formal bid of £10.75 per share for the 61% of UK-based Sky it does not already own. Shares in Sky jumped 18%. Sky's directors have recommended the offer, which is, however, below Sky's share price in January.

GERMANY'S FESTIVE CHEER



Source: Bloomberg as at 15 December 2016.

The German manufacturing purchasing managers' index (PMI) – a much used gauge of economic health – provided some welcome festive cheer as data showed German manufacturers continue to thrive. Indeed, the PMI measure reached its highest level since early 2014. Europe's largest economy appears to be in particularly rude health and this is expected to feed through to the job picture. Elsewhere in the region, France also reported strong manufacturing numbers. Both countries go to the polls in 2017; any political uncertainty has the potential to affect their economic prospects.

MARKET DATA – % CHANGE IN WEEK ENDING 16/12/2016

	LAST VALUE	% CHANGE
EQUITIES		
FTSE All-Share (UK)	3,807	+0.88%*
MSCI All Country World	422	-0.50%*
S&P 500 (US)	2,262	+0.14%*
Stoxx 600 (Europe)	359	+1.27%*
Topix (Japan)	1,551	+1.66%*
MSCI Asia ex Japan	519	-2.20%*
MSCI Emerging Markets	859	-2.18%*
FIXED INCOME		
Bloomberg Barclays Global Aggregate bond index, GBP-hedged – total return	751	-0.31%
10-year Gilt yield	1.45	-0.01%**
10-year US Treasury yield	2.56	0.09%**
10-year Bund yield	0.31	-0.05%**
10-year Japanese government bond yield	0.08	0.02%**
COMMODITIES		
Gold (US\$, per troy ounce)	1135	-2.15%
Brent Crude (US\$, per barrel)	54.3	-0.07%
CURRENCIES		
GBP/USD	1.24	-1.11%
GBP/EUR	1.19	-0.03%

Source: All data sourced from Bloomberg as at 12:00pm, 16 December 2016. *In GBP terms. **Yields move inversely to prices.

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