

Equities rise, dollar strengthens as Fed rate hike arrives

Weekly Snapshot



World Equities
European Sovereign Bonds



Gold
Oil
Corporate Bonds
Industrial Metals

Week in Review

- The dominant news of the week was undoubtedly the Federal Reserve's decision to **raise the official borrowing cost by 0.25%** on Wednesday evening. The move was as expected, but Fed Chair Janet Yellen surprised some market participants by forecasting three rate rises in 2017, up from the two previously expected. The **more 'hawkish' stance** (more likely to raise rates at a faster rate) is on the back of strengthening economic data, and a recent rise in inflation expectations.
- The **dollar rose** and briefly **hit a 14 year high** against a selection of global currencies, before retreating slightly towards the end of the week. US treasuries also sold off, with the yield (which moves inversely to price) on the policy sensitive two year bill finishing the week at 1.25%, **the highest level since 2009**.
- Economic data in the US continued to be positive**, with a poor retail sales figure the only blip in a week that included encouraging figures for homebuilders and small businesses. **European stocks also enjoyed a good week**, closing at their highest level in 2016.

| | Index | 1 Week Return 09.12.16 to 16.12.16 | | Year to Date Return 31.12.15 to 16.12.16 | |
|---------------|---------------------------|---------------------------------------|--------|---|--------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| Global (euro) | FTSE World (total return) | 1.5% | 1.5% | 13.4% | 13.4% |
| US | S&P 500 | 0.1% | 1.7% | 10.5% | 14.9% |
| Europe | FTSE Europe Ex. U.K. | 1.9% | 1.9% | -0.7% | -0.7% |
| Ireland | ISEQ | 1.5% | 1.5% | -4.5% | -4.5% |
| UK | FTSE 100 | 1.6% | 1.7% | 12.1% | -1.3% |
| Japan | Topix | 1.2% | 0.8% | 0.1% | 7.3% |
| Hong Kong | Hang Seng | -2.6% | -1.1% | -0.3% | 3.3% |
| Bonds | Merrill Lynch Euro over 5 | 0.8% | 0.8% | 3.7% | 3.7% |

The **global index** was positive once again, returning 4.3% (in euro terms), as a weaker euro helped enhance returns for Irish investors. Oil paused for breath last week and finished down 1.25%, but remains up over

40% year-to-date. **Gold had another negative week** and was down 1.9%, with its return for the year now standing at 7.4%. **The US 10 year bond** yield rose again, for the sixth consecutive week, as the Fed rate

move and general interest rate cycle continues to weigh on its valuation outlook. **The euro weakened once more** against the dollar with the EUR/USD rate closing at 1.05, from 1.06 a week ago.

The Week Ahead

| Tuesday 20 December | Thursday 22 December | Friday 23 December |
|--|---|--|
| The Bank of Japan meets for its final rate decision of the year. The consensus expects no change in the current policy, with the base rate remaining at -0.1%. | The third estimate of US Q3 GDP is released where the expectation is for an upward revision to 3.3% (quarter-on-quarter) from 3.2% at the last reading. | The UK sees the final release of their own Q3 GDP data, where it is expected to be confirmed at 0.5% (quarter-on-quarter), which represents no change from the last release. |

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