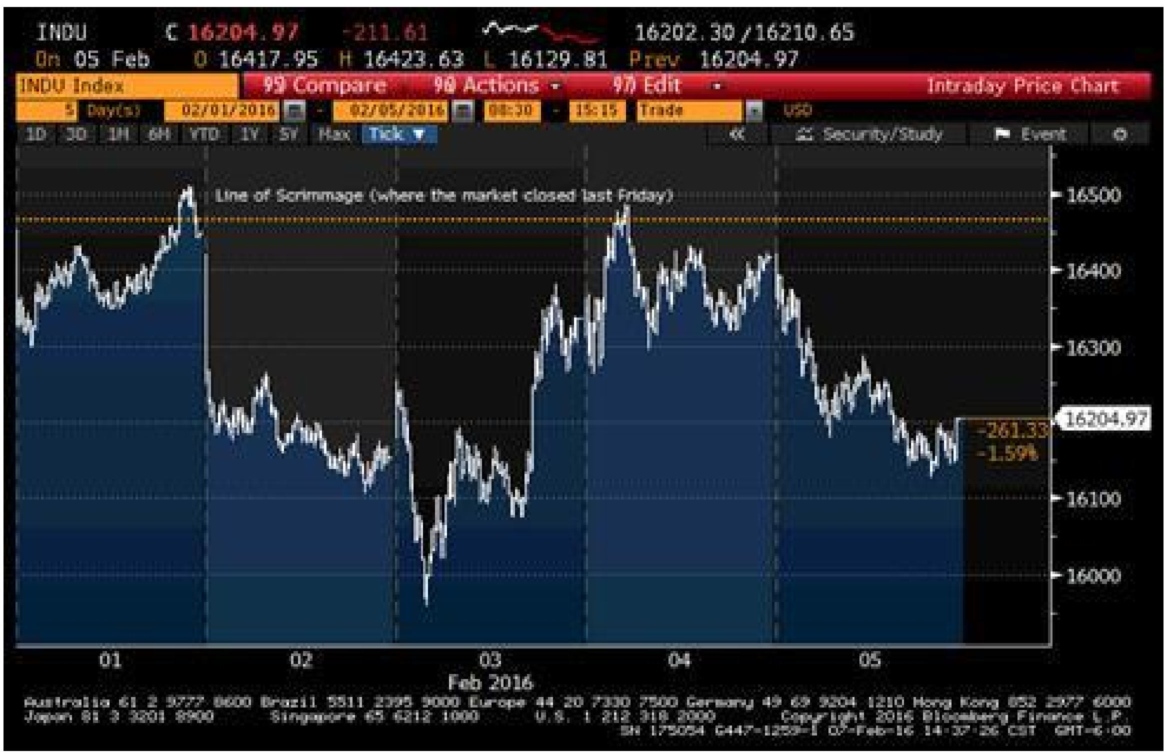
Market Update: 2/7/2016
Written By: Doug Ciocca

Good afternoon,

As the football-viewing world prepares for Super Bowl 50, I wanted to check in re: last week's action on the playing field of the financial markets.

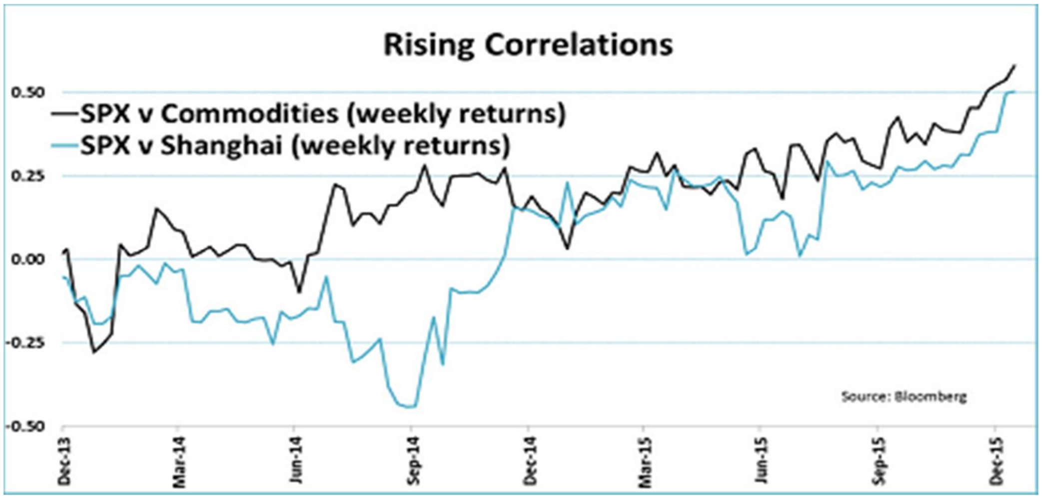
In general, it was a week where stock investors were stopped for a loss.

As the chart below from Bloomberg highlights, there were gyrations around the Dow's line of scrimmage for the first 4 days, but then a sack was delivered on Friday.

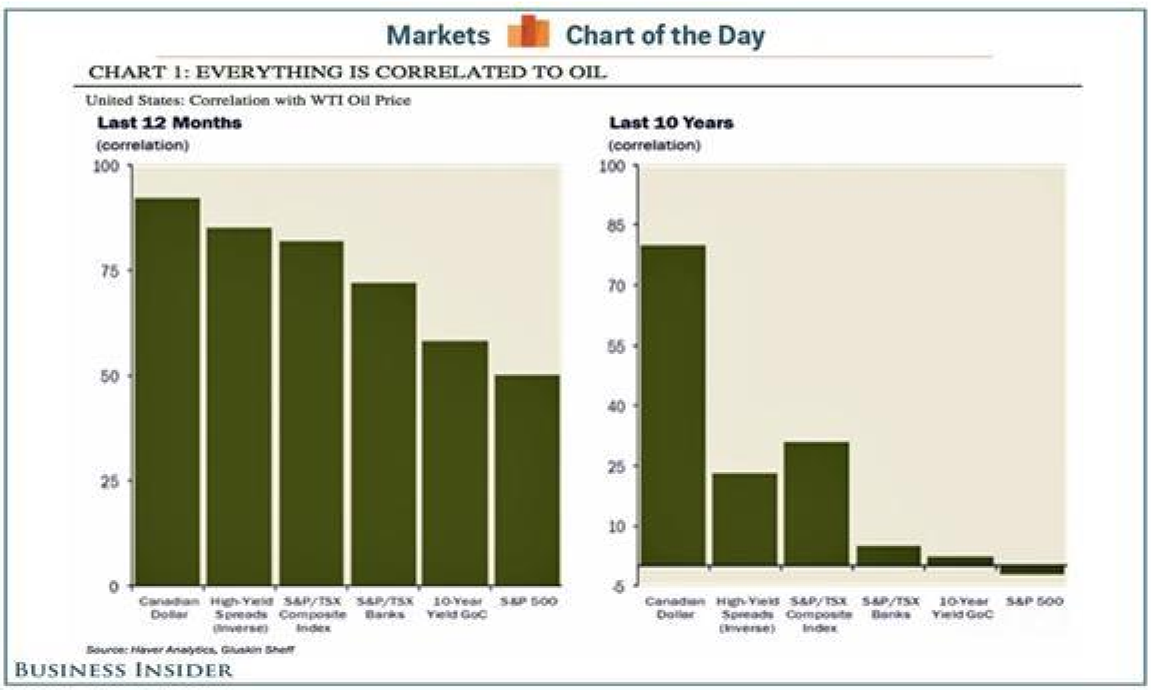


Attributions of the weakness last week leaned largely on the recurrent themes we've discussed throughout the year: concern over weakness in Chinese economic data and persistent commodity price declines in the context of a less accommodative domestic monetary policy.

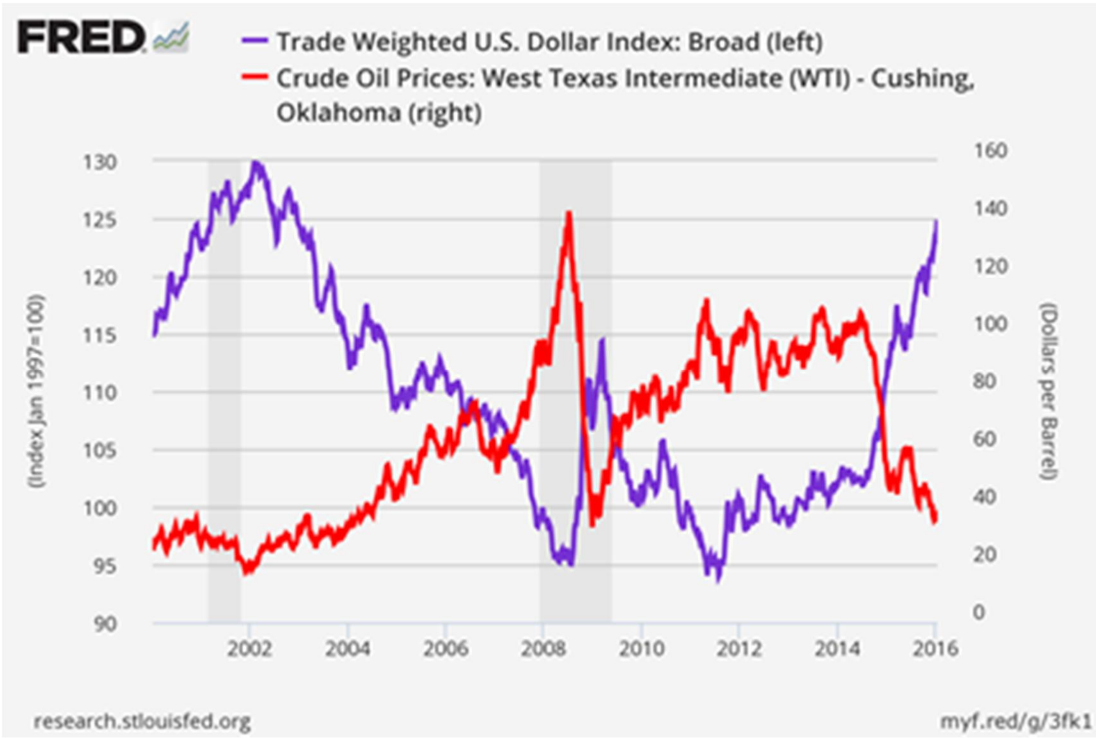
Said succinctly (and supported graphically from Bloomberg below): the market's clearing price (index level) is dropping as demand dearth (weakening global economies) is exacerbated by positive supply shocks (large amounts of oil and other commodities on the market).



Historically (see below) these types of correlations are counter to what we've been experiencing - particularly as it relates to the negative impact of oil prices on the financial markets:



If anything, we would expect some net benefit to economies and financial markets from lower energy prices. And while that may be forthcoming, I wanted to share another interesting chart that may muddle that intuition and that ties back to the earlier mention of the less accommodative monetary policy:



This chart from the St. Louis Fed shows the inverse relationship that strong currencies can have on items that are denominated in them.

To break it down:

- The Fed raised interest rates last December and has indicated an inclination to raise again in 2016, perhaps as many as 4 more times;
- The US Dollar's value is moving up as it offers investors a higher yield (a direct result of the Fed raising rates);
- Crude oil is denominated in US Dollars;
- Assets denominated in an appreciating currency become mathematically cheaper, as fewer units of that currency are needed to purchase a corresponding amount of that asset.

This week, Federal Reserve Chair Janet Yellen will address Congress for 2 days – offering insight on the state of, and outlook for, the US economy.

Any indication that the Fed may soften its rate-rising ambitions could dampen dollar strength, lift commodity prices and potentially allow for upward pressure on stock prices…..we'll see and we hope.

Lastly, this past week was also chock full of earnings reports. Not surprisingly, companies in the energy sector have stolen the spotlight for their stunningly poor results, but other industries (see below) have offered cheerier outlooks:

Earnings scorecard, report as of Feb 3, 2016

NAME	"GROWTH BLENDED (%)"		
	Q2 '15	Q3 '15	Q4 '15
S&P 500	-0.7%	-1.5%	-5.6%
Consumer Discretionary	9.2%	13.4%	7.1%
Consumer Staples	2.7%	-0.8%	-2.1%
Energy	-55.5%	-56.7%	-80.1%
Financials	6.8%	5.1%	0.7%
Health Care	15.3%	14.8%	9.3%
Industrials	-4.7%	-3.1%	-4.2%
Information Technology	4.6%	4.7%	-2.5%
Materials	4.2%	-15.8%	-20.6%
Telecommunication Services	8.5%	23.5%	28.2%
Utilities	6.5%	-0.2%	-4.3%

Source: FactSet

We'll keep in touch this week as we hear from Chair Yellen and others but until then, please root for the Panthers tonight (sorry Colorado clients!).

This is a purely an economical and not an emotional suggestion as 82% of the time that the NFC team wins the Super Bowl, the Dow Jones Industrial Average finishes higher for the year*!

Have a great evening, dc

* http://fortune.com/2016/01/20/super-bowl-predictor-2016/

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