



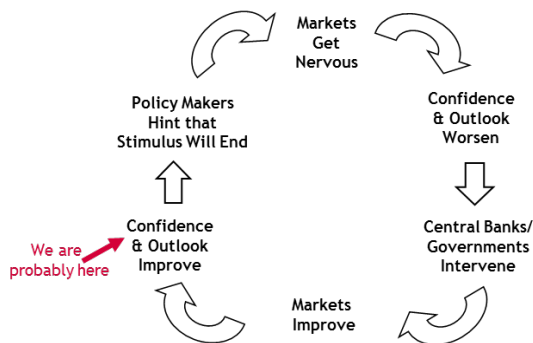
Weekly Market Insight

May 20, 2016

By Benjamin Tal

The latest minutes from the Fed's April meeting reveal a more hawkish tone, with many participants appearing to be okay with a June move (if we see some improvement). While the market doesn't really believe that the Fed will move in June, some are talking about the possibility of a July move. Such a change in expectations is usually not very constructive for markets. The relationship between the Fed and the market can be described by the chart below.

Chart - The Cycle



The cycle started during the financial crisis, markets got nervous (for a good reason), confidence and outlook worsened, and the Fed came to the rescue by cutting rates and introducing QE1. As you may recall, it actually worked and markets rebounded, leading to improved confidence and outlook. At one point during that stage, the Fed started to hint about the possibility of ending QE1. That was met with a very nervous reaction by the market. Once again, confidence and outlook worsened, and the Fed backtracked and went ahead with QE2, and the cycle continued.

I believe that this cycle still isn't broken. Yes, the Fed raised rates in December 2015, but earlier this year the communication from the Fed was that rates will rise four times by year-end—a pace that was probably too rapid for the market, judging by its negative reaction. So more recently, the Fed has changed its tone, and downgraded its expectations to only two hikes by year-end. This *de facto* easing was an important factor behind the recent improvement in US equity markets.

So my guess is that we are at a stage in which we see some improvement in confidence and outlook, helped by better US macro numbers. If history is any guide, the tweets coming from the Fed about the possibility of accelerating the hiking trajectory, will be met with some nervousness in the market. It's difficult to say how long this merry-go-round will continue, but it's clear that it's moving much faster than earlier in the cycle, as the time lag between cause and effect is much shorter.

Turning to China, the country is obviously in a structural slowdown, but it seems that currently it is experiencing a cyclical acceleration. And that acceleration is not exactly a good thing. The real and ultimate test of the Chinese authorities' commitment to its reform agenda is the potential increase in the unemployment rate in the country due to the ongoing restructuring of the economy. And judging by recent actions, it seems that authorities are a bit anxious. M1 money supply is rising by more than 20% on a year-over-year basis, and a lot of that credit is going to old fashioned real estate. We all know that it's not a good idea, given China's overcapacity in that sector. But for now the better number might fool the market. This will not last.

International Stock Indexes

Thursday, May 19, 2016

Index (Region/Country)	DAILY						52 WEEK			
	High	Low	Close	Chg	% Chg - +	YTD % chg	High	Low	% Chg	3-yr % chg
Global										
The Global Dow (World)	2293.93	2263.91	2272.6	-23.97	-1.04	-2.7	2635.85	2047.44	-13.8	0.6
The Global Dow Euro (World)	1927.32	1902.03	1909.75	-7.4	-0.39	-5.7	2258.32	1699.54	-14.4	5.2
DJ Global Index (World)	304.35	300.82	302.01	-2.73	-0.89	-1.9	341.51	272.15	-11.6	1.3
DJ Global ex U.S. (World)	205.25	202.66	202.87	-2.91	-1.42	-3.5	245.28	184.52	-17.3	-3.4
Asia Pacific										
DJ Asia-Pacific TSM (Asia-Pacific)	1339.23	1324.95	1326.68	-12.26	-0.92	-4.5	1594	1190.45	-16.2	-3
All Ordinaries (Australia)	5433.1	5367.5	5385.6	-34.9	-0.64	0.8	5774.9	4816.6	-4.9	1.4
S & P/ASX 200 (Australia)	5371.1	5303.1	5323.3	-32.9	-0.61	0.5	5777.2	4765.3	-6	0.9
Dow Jones China 88 (China)	245.44	243.75	244.08	-0.61	-0.25	-14.9	408.69	224.92	-34.3	4.1
Shanghai Composite (China)	2829.4	2801.55	2806.91	-0.61	-0.02	-20.7	5166.35	2655.66	-38	7.1
Hang Seng (Hong Kong)	19793.46	19646.35	19694.33	-132.08	-0.67	-10.1	28249.86	18319.58	-28.4	-5.2
S & P BSE Sensex (India)	25714.56	25351.99	25399.72	-304.89	-1.19	-2.7	28504.93	22951.83	-8.7	7.8
Jakarta Composite (Indonesia)	4739.32	4691.57	4704.22	-30.14	-0.64	2.4	5320.9	4120.5	-11.5	-2.9
Nikkei 300 (Japan)	272.5	267.97	268.9	-0.65	-0.24	-13.6	343.2	242.81	-19.6	1.8
Nikkei Stock Avg (Japan)	16841.04	16590.16	16646.66	1.97	0.01	-12.5	20868.03	14952.61	-17.6	3.2
Topix Index (Japan)	1352.57	1332.09	1336.56	-1.82	-0.14	-13.6	1691.29	1196.28	-18.8	2.2
Kuala Lumpur Composite (Malaysia)	1635.43	1621.08	1633.76	-1.96	-0.12	-3.5	1795.04	1532.14	-9	-2.6
S & P/NZX 50 (New Zealand)	6982.64	6898.95	6903.62	-79.01	-1.13	9.2	6982.63	5546.88	19.7	14.5
KSE 100 (Pakistan)	36809.31	36306.13	36685.05	366.84	1.01	11.8	36685.05	30564.5	12.5	21.3
PSEI (Philippines)	7539.25	7427.33	7427.33	-106.97	-1.42	6.8	7835.38	6084.28	-5.2	0.7
Straits Times (Singapore)	2775.45	2731.48	2740.11	-37	-1.33	-4.9	3460.85	2532.7	-20.3	-7.4
Kospi (South Korea)	1954.29	1942.48	1946.78	-9.95	-0.51	-0.7	2146.1	1829.81	-8.3	-0.7
Colombo Stock Exchange (Sri Lanka)	6686.18	6648.13	6648.13	-32.02	-0.48	-3.6	7498.78	5862.35	-8.6	1.4
Weighted (Taiwan)	8166.96	8067.33	8095.98	-63.7	-0.78	-2.9	9712.84	7410.34	-15.5	-1.1
SET (Thailand)	1400.97	1384.12	1385.86	-14.64	-1.05	7.6	1526.25	1224.83	-9.2	-5.2
Europe										
Stoxx Europe 600 (Europe)	337.08	333.9	333.91	-3.67	-1.09	-8.7	408.88	303.58	-18.1	2.6
Stoxx Europe 50 (Europe)	2825.79	2788.89	2789.04	-39.13	-1.38	-10	3524.55	2566.26	-20.8	-0.4
Euro Stoxx 50 (Euro zone)	2949.6	2917.61	2919.22	-37.21	-1.26	-10.7	3688.72	2680.35	-20.9	1.2
Euro Stoxx (Euro zone)	316.05	312.93	313.28	-3.3	-1.04	-9.2	380.63	284.92	-17.7	3.4
ATX (Austria)	2214.36	2179.56	2182.99	-28.37	-1.28	-8.9	2640.72	1957.05	-17.3	-4.4
Bel-20 (Belgium)	3369.44	3338.36	3342.95	-10.22	-0.3	-9.7	3849.12	3130.76	-11.1	7
PX 50 (Czech Republic)	877.4	870.1	873.2	-0.21	-0.02	-8.7	1041	845.9	-14.5	-3.9
OMX Copenhagen (Denmark)	863.83	856.57	857.44	-2.37	-0.28	-5.4	923.55	745.49	-2.5	19.4
OMX Helsinki (Finland)	7667.39	7608.06	7619.22	-69.8	-0.91	-11.4	8875.7	7257.23	-13.9	5.9
CAC 40 (France)	4314.23	4274.57	4282.54	-36.76	-0.85	-7.6	5196.73	3896.71	-16.8	2.3
DAX (Germany)	9899.86	9773.72	9795.89	-147.34	-1.48	-8.8	11864.59	8752.87	-17.4	5.3
BUX (Hungary)	26118.76	25742.56	25742.85	-283.36	-1.09	7.6	27271.78	20610.76	16	11.1
FTSE MIB (Italy)	17810.33	17498.18	17545.56	-168.06	-0.95	-18.1	24031.19	15773	-26.1	-0.1
AEX (Netherlands)	432.26	427.2	428.27	-6.19	-1.42	-3.1	503.52	382.61	-14.7	5.2
All-Shares (Norway)	660.92	647.84	647.86	-12.82	-1.94	-0.2	704.17	552.32	-8	6.8
WIG (Poland)	46579.81	45694.16	45751.68	-858.15	-1.84	-1.5	56990.6	42152.7	-19.7	-0.2
PSI 20 (Portugal)	4850.35	4808.47	4824.93	-29.02	-0.6	-9.2	6103.63	4460.63	-20.9	-7.6
RTS Index (Russia)	912.82	885.42	885.42	-41.4	-4.47	17	1051.21	628.41	-15.5	-14.3
IBEX 35 (Spain)	8785.2	8669.6	8674.7	-100.4	-1.14	-9.1	11595.4	7746.3	-25.2	0.4
SX All Share (Sweden)	475.47	471.44	471.44	-5.69	-1.19	-6.7	546.34	435.21	-12.8	6.6
Swiss Market (Switzerland)	7961.5	7904.11	7908.79	-65.14	-0.82	-10.3	9526.79	7496.62	-15.6	-1.5
BIST 100 (Turkey)	77574.72	76479.04	77243.88	...	Closed	7.7	87791.06	68567.89	-12	-5.6
FTSE 100 (U.K.)	6165.8	6050.2	6053.35	-112.45	-1.82	-3	7040.9	5537	-13.7	-3.4
FTSE 250 (U.K.)	16881.51	16706	16730.11	-151.13	-0.9	-4	18263.46	15178.8	-7.8	4.4
Americas										
DJ Americas (Americas)	491.89	486.16	489.6	-2.51	-0.51	0.5	524.43	433.35	-6.6	4.8
Merval (Argentina)	12817.69	12351.04	12626.3	-203.63	-1.59	8.1	14173.87	9288.41	7.9	50.6
Sao Paulo Bovespa (Brazil)	50556.06	49588.26	50132.53	-429.17	-0.85	15.6	55112.05	37497.48	-9	-3.1
S & P/TSX Comp (Canada)	13817.32	13690.16	13817.32	-8.69	-0.06	6.2	15203.61	11843.11	-9.1	3.1
Santiago IPSA (Chile)	3100.57	3065.43	3074.41	-25.94	-0.84	4.4	3276.92	2759.77	-6.1	-5.3
IPC All-Share (Mexico)	45555.35	44898.43	45051.27	-499.93	-1.1	4.8	46191.51	40265.37	-0.1	2.5
Caracas General (Venezuela)	15382.24	15014.4	15363.68	349.28	2.33	5.3	16820.52	6624.05	131.9	172
Other Countries										
CASE 30 (Egypt)	7637.04	7477	7499.49	-137.55	-1.8	7	9121.92	5713.35	-16.6	11.4
Tel Aviv (Israel)	1408.73	1398.45	1398.45	-11.91	-0.84	-8.5	1723.56	1383.34	-18.5	4.6
Johannesburg All Share (South Africa)	52797.23	52094.91	52370.1	-427.13	-0.81	3.3	54609.01	46282.02	-3.2	8.1

*Europe, Australia, Far East; U.S.-dollar terms.

Three year percent change is annualized.

Sources: SIX Financial Information; Thomson Reuters, WSJ Market Data Group

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