



THE WEEK IN REVIEW

U.S. equities had a volatile trading week amid a slew of economic data. The most significant data point was the final reading on second quarter Gross Domestic Product (GDP), which surprised to the upside at 1.4%. Oil prices jumped higher mid-week as reports circulated that OPEC decided it would cut production in the near future. Thursday saw stocks plunge lower as concerns about the financial health of Deutsche Bank reemerged following reports that multiple hedge funds utilizing the bank's prime brokerage service had moved parts of their listed derivatives holdings to other firms. In early trading on Friday, U.S. equities were clawing back their losses from the prior trading session as speculation grew that Deutsche Bank would reach a smaller than-expected settlement with the U.S. Justice Department.

The market-implied probability of a Fed rate hike before the end of 2016 climbed from 55% to 59% this week. The key data points for investors seemed to be slightly better than-reported GDP and the Personal Consumption Expenditure Core Price Index (PCE) for August rising to a 1.7% year-over-year clip. While the year-over-year change in the core consumer price index has been over 2% for the entirety of 2016, the Fed's preferred measure, PCE, has held relatively steady, advancing 1.6% on a year-over-year basis for most of the year. The slight bump higher to 1.7% is a move towards the FOMC's target of 2% inflation. With consumer sentiment remaining relatively healthy, a hike in the federal funds rate could likely be implemented without causing too much harm to the real economy. In fact, one could argue that the recent rise in LIBOR rates has already tightened financial conditions for the real economy, so a rate hike should have a small impact. Avoiding deflation at all costs appears to be the FOMC's main objective at this point, so they will have to consider the potential for choking off inflation. Looking back at the last rate hike, the PCE went from advancing at an annual pace of 1.4% in December of 2015 to 1.7% by August, a steady climb that seems to suggest that the FOMC may have made a prudent move in December. Now, the FOMC looks to be building consensus around another December hike, which appears warranted.

On Monday, Pfizer announced that it would not split into separate companies, as many had speculated over the last few years. After shares initially opened down about 1%, they ended the day up 0.3%. In a pre-market statement, the company cited a belief that the combined entity is the better option to maximize shareholder value and future value creation. The company had hinted in its financial guidance on August 2nd that this would be the decision. The initial discussion arose when sell-side models indicated, and Pfizer concurred, that the company may have a higher sum-of-the-parts value than its market cap.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
GDP	1.4%	2%	▼
Case-Shiller Home Prices	5%	5.4%	▼
Durable Goods Orders	0%	-2.93%	▲
PCE Core YOY	1.7%	1.6%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18308.15	0.26%	5.07%	12.43%
NASDAQ	5312.00	0.12%	6.08%	14.97%
S&P 500 LargeCap	2168.27	0.17%	6.08%	12.93%
MSCI EAFE	1706.64	-0.59%	-0.56%	3.78%
Barclays Aggregate US		0.29%	6.04%	5.44%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.17%	0.32%	-0.02%
10-Year Treasury	1.62%	1.57%	2.04%

REPORTS DUE NEXT WEEK	LATEST
ISM Manufacturing	49.4
ISM Non-manufacturing	51.4
Factory Orders	1.9%
Nonfarm Payrolls	151,000
Unemployment Rate	4.9%

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

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