Fixed-income isn’t what it used to be. As the Wall Street Journal reports, the total amount of global government bonds that bear negative yields—meaning it costs you to have the government hold your money—has now climbed to a massive $13 trillion.
This figure is likely to grow as yields continue to plumb the depths of negative territory, giving global investors little choice but to seek income in other places.

For some, it’s corporate debt. But even these securities have fallen significantly since the start of the year, many below zero. Bloomberg reports that roughly $512 billion worth of European, investment-grade corporate bonds now offer a negative yield.

It’s not much better in the U.S. Blue chip Walt Disney just issued a 10-year bond with the low, low yield of 1.85 percent.

For other investors, it’s American municipal bonds, which still offer attractive, tax-free income, not to mention low volatility and low default rates. Back in May, I shared with you how yield-starved foreign investors were piling into munis at an impressive clip, even though they’re ineligible to take advantage of the tax benefit. But no matter—at least it’s not costing them to participate, unlike a growing percentage of negative-yielding government debt.

Negative bond yields have also boosted demand for gold, which has had two of the most spectacular quarters in modern history. Although it doesn’t provide any income, the yellow metal has been treasured as an exceptional store of value, especially in times of political and macroeconomic uncertainty. Gold stocks are up more than 115 percent year-to-date, as measured by the NYSE Arca Gold Miners Index.

(Gold prices are also being supported right now by the likelihood that we’ve reached “peak gold.” According to my friend Pierre Lassonde, cofounder of Franco-Nevada, new discoveries have fallen steadily since the 1980s, while current mine production has not kept up with demand. Swiss financial services firm UBS puts gold prices near $1,400 by year’s end.)
Are Stocks the New Bonds?

The hunt for yield has also inevitably landed many income investors in dividend-paying stocks. According to Reuters, about 60 percent of S&P 500 Index stocks now offer dividend yields that exceed the 10-year Treasury yield, which hit an all-time low of 1.36 percent earlier this month.

**Dividend-Paying Stocks Looking Even More Attractive**

Through July 2016

![Graph showing S&P 500 Dividend Yield and 10-Year Treasury Yield from 2008 to 2016](source: S&P Dow Jones Indices, U.S. Global Investors)

This is one of the main reasons why recent cash flows into U.S.-based stock funds have been so strong. Money goes where it’s most respected. In the week ended July 13, ETF and mutual fund equity funds took in a whopping $33.5 billion in net new money, the largest positive weekly net inflow of the year.

Meanwhile, Treasury bond funds have been witness to some huge outflows. For the week ended July 25, the iShares 7-10 Year Treasury Bond ETF lost $90.5 million. Back in April, foreign investors unloaded nearly $75 billion in U.S. Treasuries, the single largest monthly amount since transactional recordkeeping began in 1978.

**Increasing Dividends over the Past Three Years**

In selecting the best dividend-paying stocks, we like to identify those that have grown their payments the most over the past three years. The leader by far is Alabama-based Vulcan Materials, which has increased its dividend a jaw-dropping 1,900 percent, according to FactSet data. Many financial groups,
including Regions Financial and Zions Bancorporation, have also been very generous in rewarding shareholders.

**S&P 500 Index Companies with the Largest Dividend Growth**
Three-Year Period as of July 2016

The challenge going forward has to do with corporate earnings. Dividend growth is largely driven by earnings, which are expected to be down **3.7 percent in the second quarter** once all companies have reported. This will mark the sixth consecutive quarter of declines.

Energy stocks lead the way down, with crude oil prices at nearly three-month lows after falling over 20 percent since early June.

Apple is perhaps the largest contributor to declines this quarter. The iPhone-maker posted net income of $7.8 billion, a massive 27 percent drop from the $10.7 billion it recorded during the same period last year.

But let’s give the tech giant a break—it just sold its one billionth iPhone this week, despite a decrease in sales for the second straight quarter. I must also add here that Apple is the undisputed dividend king, having paid out $2.9 billion in the first quarter alone.
Standouts this earnings season included Facebook, Amazon and Alphabet (Google)—three quarters of the FANG tech stocks—all of which crushed expectations. Mark Zuckerberg’s social media giant handily beat analysts’ estimates on the top and bottom lines as well as ad revenue, which totaled $6.2 billion during the quarter. This helped add $5 billion to Facebook’s market capitalization, pushing it ahead of Warren Buffett’s Berkshire Hathaway.

Buffett was also surpassed this week by Amazon CEO Jeff Bezos, whose wealth leaped $2.6 billion after an extraordinary earnings report. He’s now the world’s third-richest man.
Netflix, on the other hand, reported a disappointing 59 percent loss in profits, from $40.5 million in the first quarter to $16.7 million. The popular streaming service added only 1.7 million subscribers during the quarter, far below its guidance of 2.5 million.

**Banks on the Chopping Block?**

Well, there’s no questioning it now: Donald Trump and Hillary Clinton have both been anointed as our presidential candidates. Many wondered if Bernie Sanders would try to disrupt the nomination process and insist on a brokered convention, similar to what Franklin Roosevelt did in 1932. Sanders’ supporters certainly put up a fight, but in the end, Clinton prevailed.

Last week I suggested that the only thing Trump and Clinton have in common with each other is they’re both in favor of increasing infrastructure spending. It’s now come to my attention that no matter who wins, there could be an effort to break up the big banks, as both parties’ platforms include an interest in reviving the Glass-Steagall Act of 1933. The goal, of course, would be to prevent another financial crisis, but whether the banking act would actually work is up for debate.
Another solution might be to break up the regulatory bodies into two separate branches—one overseeing banks, the other overseeing all other financial and investment institutions, from brokers to insurance companies to mutual fund companies. Each side would have its own unique set of rules and regulations. What’s good for banks isn’t necessarily good for investment firms, and vice versa, because they’re often playing very different games.

We expect referees to be experts in their particular sport. That only makes sense. But imagine if all competitive sports, from basketball to hockey to softball, suddenly drew from the same pool of referees. Games would be conducted a lot less efficiently. Officials would constantly be putting on and taking off different hats. One game’s set of rules might mistakenly (and awkwardly) be applied to a completely different game.

This is what’s happening in the financials industry as a whole.

As I always say, regulations are often well-intentioned. There’s a reason why they exist. We need them to maintain a level and fair playing field.

At the same time, it’s important that they be commonsense and not hinder or prohibit everyday, lawful business activity.
Index Summary

- The major market indices finished mixed this week. The Dow Jones Industrial Average lost 0.75 percent. The S&P 500 Stock Index fell 0.07 percent, while the Nasdaq Composite climbed 1.22 percent. The Russell 2000 small capitalization index gained 0.58 percent this week.
- The Hang Seng Composite lost 0.64 percent this week; while Taiwan was down 0.32 percent and the KOSPI rose 0.29 percent.
- The 10-year Treasury bond yield fell 12 basis points to 1.45 percent.

Domestic Equity Market

S&P 500 Economic Sectors
(Percentage return for each sector group from Friday to Friday, July 22, 2016 – July 29, 2016)

Strengths

- Information technology was again the best performing sector for the second consecutive week, increasing by 1.55 percent vs. an overall decrease of -.07 percent for the S&P 500.
- Linear Tech (LLTC US) was the best performing stock for the week (up 24 percent) as Analog (ADI US) will buy LLTC for a stock and cash combination of $14.8 billion, with an enterprise value of $30 billion. The deal consists of $46 in cash per Linear share, and 0.2321 of a share of ADI, which ADI values at $60 per Linear share.
- Facebook crushed earnings. The social-media giant announced adjusted earnings of $0.97 a share on a 59 percent jump in revenue to $6.44 billion, easily beating both the top and bottom lines. Daily active users and monthly active users spiked 17 percent and 15 percent. Google also beat earnings. The company reported revenue of $17.5 billion, compared to expectations of $16.9 billion, and earnings-per-share of $8.42, compared to $8.03 expected.
Weaknesses

- Energy was the worst performing sector for the week, again, falling 2.06 percent vs. an overall decrease of 0.07 percent for the S&P 500.
- Stericycle Inc. (-18 percent) was the worst performing stock for week on the back of a second-quarter miss announced today. They reported lower-than-expected revenue for the second quarter and provided a downbeat outlook.
- Shell was hit hard by the troubled oil market. The company announced profit crashed by more than 70 percent in the second quarter to $1 billion. "Lower oil prices continue to be a significant challenge across the business, particularly in the upstream (business)," CEO Ben van Beurden said in the earnings statement.

Opportunities

- Verizon will acquire Yahoo for $4.8 billion. It will scoop up Yahoo's search, mail, content, and ad-tech businesses. The deal will double Verizon's digital advertising business, which is now poised to reach an estimated 4.5 percent share of the U.S. internet advertising market, according to eMarketer. Yahoo is the latest piece of Verizon's $10 billion plan to challenge Facebook and Google. Now, with its Yahoo acquisition, Verizon can expand some content offerings, with the company lauding Yahoo's 1 billion monthly active users, including 600 million monthly active mobile users.
- Strong earnings by Amazon has pushed the company's market cap to surpass Berkshire Hathaway. The company's cloud web service arm has been largely responsible for driving the company's growth.

Threats

- Deutsche Bank is facing a massive lawsuit. The investment bank is being sued by investors who bought $5.4 billion of preferred securities tied to the subprime mortgage market, Reuters reports. U.S. District Judge Deborah Batts ruled that investors who purchased the securities in November 2007 and February 2008 were allowed to pursue claims. Additionally, the bank’s profit crashed in their latest quarterly earnings report. Net income crashed to $21.99 million, down from more than $879.8 million a year earlier. "We have continued to derisk our balance sheet, to invest in our processes, and to modernize our infrastructure," CEO John Cryan said in the earnings statement. "However, if the current weak economic environment persists, we will need to be yet more ambitious in the timing and intensity of our restructuring."
- Fiat Chrysler inflated its sales. An internal review found that the automaker inflated its sales from mid-2015 by 5,000 to 6,000 vehicles, Automotive News reports, citing two sources at Fiat Chrysler Automobiles. According to the report, the numbers were inflated at least partially because of pressure to keep the company's 75-month year-over-year monthly sales streak alive.
- Caterpillar put the global economy on watch. Caterpillar, the world's largest maker of massive industrial equipment, lowered its 2016 earnings forecast on Tuesday, saying it did not expect economic conditions or its key industries to improve.
Strengths

- The Fed says there are now fewer reasons to be worried about the U.S. economy. "Near-term risks to the economic outlook have diminished," the Fed’s policy statement said on Wednesday. "On balance, payrolls and other labor market indicators point to some increase in labor utilization in recent months."
- New home sales surged to an eight-year high. New home sales rose 3.5 percent in June at a seasonally adjusted annual rate of 592,000, the best level since February 2008, according to the Census Bureau. Economists had forecast that sales would rise 1.6 percent at a seasonally adjusted annual rate of 560,000, according to Bloomberg.
- With Japanese bonds a notable exception, several other major 10-year bonds were driven higher on Friday by the Bank of Japan (BOJ) stimulus disappointment and weaker-than-expected second-quarter GDP. Yields on the U.S. 10-year fell to 1.4531 percent, Bunds to -0.119 percent, and Gilts to 0.685 percent.

Weaknesses

- The service sector is growing at its weakest pace in five months. The flash services purchasing manager's index (PMI) for July came in at 50.9. Economists had forecast that it would improve to 52 from 51.4 in June, according to Bloomberg.
- The Conference Board’s consumer confidence index fell to 97.3 in July. Economists had forecast the index to slip to 96 this month, after improving to 98 last month.
- Durable goods orders plunged by more than expected. They fell 4 percent in June, way more than economists’ expectations of a 1.4 percent drop. This was the second-straight monthly decline — the steepest in nearly two years — which suggests manufacturers are still struggling to overcome a sales slowdown.

Opportunities

- According to Naomi Richman, a managing director at Moody’s Investor Services, Chicago still has time to fix its pension problem, but must reverse the direction of its mounting retirement debt. Last year, Mayor Rahm Emanuel pushed through a record $543 million property tax increase that has helped shore up public-safety pensions. Moody’s says that actions like that demonstrate a willingness to take on the issues. Another positive is that as opposed to defaulted governments such as Detroit and Puerto Rico, Chicago has a strong economy.
- Municipal bond funds recorded a 43rd straight week of inflows, according to a Bloomberg News report early on Friday. Today’s weaker-than-expected second-quarter U.S. GDP data may help to perpetuate the trend: GDP came in at 1.2 percent for the second quarter, well below expectations for 2.5 percent. First-quarter data, previously reflecting a rate of 1.1 percent, were revised down to 0.8 percent.
- Morgan Stanley thinks oil is headed lower. In a note to clients, Morgan Stanley wrote: "We see worrisome trends for supply, demand, refined products, the macro and positioning that may all
coalesce in late summer. Hence, our bearish bias." The firm thinks oversupply could push the energy component into the "mid-30s." A drop in oil prices would be positive for domestic consumption.

Threats

- U.S. inflation expectations and indicators of economic strength usually move in tandem, as growth spurs the prospect for future price increases. However, that hasn’t been the case lately as concerns about global growth have been contrary to signs of U.S. domestic strength. The Fed’s Five-Year Forward Breakeven Inflation Rate, a measure of expected inflation, touched the lowest since at least 1999 this month, even as Citigroup’s U.S. Economic Surprise Index, which measures whether data beat or missed forecasts, surged to the highest level since January 2015. These diverging trends are worrisome and create uncertainty for economists and investors.

According to the Tax Foundation, a non-partisan Washington group that examines tax policy, the exemption of interest taxation on municipal bonds should be reviewed as part of any effort to reform the tax code. The Tax Foundation is the latest group pushing to remove the tax exemption for munis, an action that would be a major threat to the asset class.

- Appearing on NBC, Republican presidential nominee Donald Trump suggested that the U.S. could pull out of the World Trade Organization. According to AFP, Trump told host Chuck Todd: "We'll renegotiate or pull out. These trade deals are a disaster, Chuck. World Trade Organization is a disaster."
Gold Market

This week spot gold closed at $1,351.00, up $25.55 per ounce, or 2.16 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, rose 5.70 percent. Junior miners underperformed seniors for the week as the S&P/TSX Venture Index traded up 3.40 percent. The U.S. Trade-Weighted Dollar Index slumped 1.99 percent.

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<th>Event</th>
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<th>Prior</th>
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<tr>
<td>Jul-26</td>
<td>Hong Kong Exports YoY</td>
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<td>Jul-26</td>
<td>U.S. Consumer Confidence Index</td>
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<td>U.S. Durable Goods Orders</td>
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<td>Jul-28</td>
<td>Germany CPI YoY</td>
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<td>Jul-28</td>
<td>U.S. Initial Jobless Claims</td>
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<td>Jul-29</td>
<td>Eurozone CPI Core YoY</td>
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<td>Jul-29</td>
<td>U.S. GDP Annualized QoQ</td>
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<td>U.S. Change in Nonfarm Payrolls</td>
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Strengths

- The best performing precious metal for the week was platinum, up 6.11 percent and finishing the month up 11 percent. Palladium, however, was even stronger, surging 17 percent for the month. Both metals have benefited from better auto sales in China and concerns over potential labor
strikes in South Africa.

- Energy and mining investment has collapsed to its lowest level in nearly 15 years, according to Macquarie Research, and appears to have hit bottom. This could be a sign that it is due for a rotation upwards with the recent strength in precious metal prices.

**Energy and Mining Investment Has Likely Bottomed**

Energy and Mining-Related Investment As A Share of Non-Residential Investment

- In addition, healthy inflation has returned, according to the core PCE price index, which increased at a pace of 1.9 percent annualized in the first half of the year. Private sector wages and salaries also increased 2.6 percent over the last year.
Platts reported that both Chinese and Russian banks increased their gold purchases during the month of June, after they had both slowed their gold purchases in May. Russia added around 18 metric tons, and China added around 15 metric tons. China is now the sixth-largest holder of gold reserves, and Russia is the seventh-largest. The two countries have accounted for over 95 percent of total central bank purchases of gold in the last two years, in their efforts to diversify away from foreign currency.

**Weaknesses**

- The worst performing precious metal for the week was gold, although still positive, up 2.16 percent. Most of the gains came after the Federal Open Market Committee (FOMC) meeting, as the U.S. durable goods orders dropped 4 percent in June, more than expected and the most since August 2014. Gross domestic product rose at an annualized rate of just 1.2 percent last quarter, while forecasts had called for a 2.5 percent increase.
- Gold showed some weakness in trading sessions earlier in the week, related to rising speculation that the Fed will raise rates sometime this year. In addition, the Bloomberg Dollar Spot Index gained for three weeks in a row, and purchases in gold-backed exchange-traded funds have backed off from their three-year high earlier in the month.
- Anti-corruption measures in China have taken a toll on gold jewelry consumption, with demand falling 17.4 percent compared to last year. Meanwhile, the investment-related demand for gold has picked up, with gold bar and coin purchases up 25.3 percent and 17.3 percent, respectively. China’s Ministry of Industry and Information Technology estimates that the country’s gold
consumption will increase to 1,200 tonnes by 2020 from 986 tonnes in 2015.

Opportunities

- The chief investment officer of TD Asset Management, Bruce Cooper, has shifted to a “maximum overweight” allocation to gold for its portfolios. The firm oversees more than $230 billion. Cooper is watching for Germany to shift away from its austerity approach and notes that if Hillary Clinton and the Democrats win the election and unveil fiscal stimulus, inflation could pick up in the global economy.

- Amid the gold rally this year, Barrick Gold Corp. plans to continue its plans to sell off peripheral assets, starting with its share in the Australian Kalgoorlie Super Pit. Barrick reported that it made $968 million in debt repayments this year, nearly half of the target amount. Gold producers have had a mixed quarter for earnings as Newmont Mining and Agnico Eagle Mines beat estimates while Goldcorp and Kinross Gold missed. In fact, Agnico Eagle’s CEO, Sean Boyd, is optimistic for the future, stating that it’s not too late for investors to participate in this rally. Boyd cited the “tremendous amount of debt in the system,” along with strong demand from China and India.

- Klondex Mines’ planned acquisition of the Hollister asset looks like a positive move for the mining company. The Hollister location has historically produced high grades of around 30 grams per metric ton of gold, and since the location is in direct proximity with the Midas Mill, there are several Klondex team members who have direct experience there. Klondex’s announced $100 million financing to fund the acquisition was met with three times the demand for the shares. Klondex released its second-quarter production results for the Fire Creek and Midas mines, exceeding analyst expectation. In addition, the Hollister and True North acquisition, completed earlier this year, significantly raises its production growth.

Threats

- SkyBridge Capital, a firm which profited from gold during the surge in 2010 and 2011, now puts forth a cautious outlook for gold. A senior portfolio manager at the investment firm states that bullion’s rally could be hindered if the Fed decides to raise rates more quickly than expected, even though the fundamentals for gold are supportive. SkyBridge managed $12.6 billion as of May 31 and does not have any exposure to gold and precious metals currently.

- Macquarie Research published a report this week with the outlook that fiscal policy will result in “financial repression for decades.” The firm calls the low rate policies an “implicit tax on savings” leading to weak consumption, and in turn, lack of investment by companies and stagnant wage growth. In addition there is a lot of pressure on entitlement programs such as pension funding.

- BofAML notes that funding ratios for the top 100 corporate defined benefit pension plans are at all-time lows, due to the flattening of the yield curve, amidst the 70 percent rally in the S&P 500 Index and $400 billion in contributions. Pensions may switch to more funding through debt instruments (liability driven investing). A higher allocation to fixed income will likely lead to lower returns for pension plans, more equity outflows and more slow growth.
Strengths

- Gold rallied for a second straight week on weak economic data. The U.S. grew at a slower pace than initially expected in the second quarter, leading to weakness in the U.S. dollar and a strengthening of the yellow metal. In addition, U.S. durable goods orders posted recession-like drops, boosting the appeal of gold as a store of value in uncertain times.
- The best performing sector for the week was the S&P/TSX Capped Diversified Metals and Mining Index. The index of Canadian base metals companies rose 9.7 percent for the week following a number of strong quarterly production and earnings’ beats among its members.
- Chart Industries Inc., a U.S. manufacturer of specialty steel and aluminum equipment, was the best performing stock in the broader natural resource space, rallying 18.6 percent for the week. The stock outperformed after the company released quarterly results highlighting a surprise 15 percent growth in profits.

Weaknesses

- Oil prices dropped to three-month lows as speculators liquidated long positions. Surpluses in the gasoline market, coupled with record OECD crude stockpiles have led to a significant liquidation in speculative bullish positions. According to Reuters data, money managers have slashed their bullish bets by more than 30 percent compared to their peak holdings in April.
- The worst performing sector for the week was the S&P 500 Integrated Oil & Gas Index. The index of major U.S. integrated oil companies dropped 4.2 percent for the week as Exxon Mobil and Chevron reported disappointing earnings’ results. Exxon posted its worst profit since 1999 as weak crude production and lower refining margins weighed heavily on profits.
- The worst performing stock for the week in the S&P Global Natural Resources Index was Potash Corp. of Saskatchewan. The major producer of fertilizers dropped 8.1 percent for the week after reporting disappointing earnings and slashing its dividend to reflect weaker market fundamentals for fertilizers.

Opportunities

- Strong June data rounded off a good first half for global car sales. Global car and light truck sales in June 2016 were 5.6 percent higher, suggesting full-year growth should easily beat forecasts made at the start of the year, according to Macquarie Research. This is good news for many commodities such as aluminum and steel, but especially for platinum group metals which derive most of their demand from autocatalysts fitted to new vehicles.
China may hike its fiscal stimulus in the second half of the year. Zhang Yong, deputy head of the National Development and Reform Committee (NDRC), held a press conference following the G20 meeting stating that public investment will likely increase to supplement the lack of private investment that is weighing on China’s growth targets. Zhang also said that infrastructure projects will continue to be the focus of any direct intervention.

Commodities are at the bottom of the cycle according to the World Bank. In its latest quarterly outlook, the Washington-based lender pared back its forecast for price declines in 2016, and forecast a modest rebound next year. The World Bank joins others, including Citigroup, in forecasting a strengthening of fundamentals for raw materials in 2017.

**Threats**

- Caterpillar offered gloomy view on natural resource markets. The world’s leading heavy equipment maker slashed its outlook for the remainder of 2016 arguing global economic growth is subdued and unable to drive an industrial rebound. Caterpillar’s CEO Doug Oberhelman stated that it’s highly unlikely to see a rebound in mining, oil & gas, and rail activity to happen this year.
- U.S. gasoline inventories rose to the highest seasonal level in over 10 years. Altacorp analysts suggested that two years of an oversupplied crude market have finally generated an oversupplied gasoline market that most market participants feared. The most likely course is for refiners to correct the situation by slashing their utilization rates; however, this comes at the expense of crude demand, and may result in renewed crude inventory builds.
- Potash prices may remain lower for longer. Recent potash contracts in China and India settled at around $220 per metric ton, nearly $100/mt lower than the previous reference rate. As a result,
some market participants have idled high cost supplies. However, JP Morgan analysts argue that the probability of any meaningful price appreciation has diminished, considering there is now ample supply offline, which may restart as soon as prices show signs of recovery.

China Region

Strengths

- South Korea’s second-quarter GDP was in line with expectations, up 0.7 percent quarter-over-quarter and 3.2 percent year-over-year, slightly ahead of consensus estimates.
- Thailand’s SET Index continued its climb, reaching more new 52-week highs this week, even as the Thai baht continued its gain versus the U.S. dollar, finishing the week ahead of its April highs but just behind its March highs. This week the SET Index’s intraday high constituted a more-than-25-percent gain from its February lows.

Thailand’s Baht and SET Index Continue to Improve

- By the week’s end, nearly all of the region’s currencies had positive total returns, particularly after the powerful moves in the foreign exchange markets that followed the Bank of Japan stimulus disappointment and weaker-than-expected U.S. second-quarter GDP data. Only the Malaysian ringgit finished slightly down on the week, largely a by-product of weaker oil prices.
Weaknesses

- Shares in Tech Pro Technology Development collapsed on Thursday and fell more than 94 percent this week after activist short-seller Glaucus Research Group questioned the company’s bookkeeping and rated the semiconductor device company a strong sell (with a lofty target price of exactly zero).
- Juggernaut Chinese insurer China Life Insurance issued a profit warning for the first half of 2016, saying net profits might drop as much as 70 percent year-over-year on lower investment income and difficult comps from 2015’s steep bull market.
- Singapore's Straits Times Index declined roughly 2.5 percent for the week, making the STI Index the worst-performing in the region.

Opportunities

- This weekend China releases official Manufacturing PMI and Non-Manufacturing PMI, and Caixin will release the Caixin China Manufacturing PMI as well. Expectations for official Manufacturing PMI are 50.0, even with June’s 50.0 print, while Caixin Manufacturing PMI expectations are for a July print of 48.8, up slightly from 48.6. Early next week we get Caixin’s Services PMI reading.
- The Chinese renminbi—both on- and offshore—strengthened this week, staving off recent concerns about currency weakness and onshore intervention. The weaker dollar and stronger Japanese yen provide the People’s Bank of China more breathing room.
- Guangzhou Automobile Group quickly shook off fears earlier this week that a supplier recall might possibly affect the company. The company confirmed to investors that recall costs will be borne by their Honda-JV, leading the stock to bounce back the day after the news and nearly recover the 52-week highs it made last week. Great Wall Motor Co. received a number of upgrades today following solid first-half data, while other auto names like Geely Automobile Holdings continue climbing. Geely hit new 52-week highs today.

Threats

- The China Banking Regulatory Commission is said to be considering clamping down on wealth management products in an effort to prevent potential future overinvestment in the domestic stock market, Bloomberg reports. While regulators surely aim to enhance stability in the equities markets, Chinese stocks sold off nonetheless on Wednesday after the reports.
- Reverberations from real and/or anticipated Back of Japan and Federal Reserve policies could continue to affect the currencies across the region in outsized fashion.
- The Philippines’ Secretary of Environment and Natural Resources Gina Lopez said that the Department of Environment and Natural Resources expects to complete its audit of seven mines in the southern part of the country this week, presenting a risk of additional mine closures.

Emerging Europe

Strengths
Turkey was the best-performing country this week, gaining 5.11 percent. Turkey’s currency, stocks and bonds were up on Tuesday after Prime Minister Binali Yildirim said the government plans to set up a multibillion-dollar fund to support economic growth.

Hungary’s forint strengthened after the government announced that a new car factory would be built, gaining 2.67 percent against the dollar this week. Daimler announced an investment of EUR 1 billion which would double Daimler’s contribution to Hungary’s GDP. Hungary, like other eastern European neighbors Czech Republic and Slovakia, relies on carmakers to power its economy.

The industrial sector was the best-performing sector among eastern European markets this week.

Weaknesses

- Czech Republic was the worst performing market this week, losing 1.08 percent.
- The Russian ruble was the worst-performing currency this week, losing 1.63 percent against the dollar. The ruble fell as oil fell to a near eight week low after data showed U.S. stockpiles unexpectedly increased. The Central Bank of Russia (CBR) left the rates unchanged at 10.5 percent as ruble weakness would compound the risk that inflation will exceed next year’s target amid uncertainty over wages and budget policy.
- The energy sector was the worst-performing sector among eastern European markets this week.

Opportunities

- The European Central Bank (ECB) has approved Greece’s request to lift certain capital controls. Specifically, the following changes will take place. There will be no withdrawal restrictions for new deposits in cash, the cash withdrawal limit on available funds from abroad will increase from 10 percent to 30 percent, all restrictions on the repayment of loans will be lifted, and bank customers will be able to withdraw up to 840 euros every two weeks. Bank officials estimate the easing of capital controls could bring an immediate 2-3 billion euros cash inflow to Greek banks, strengthening the banks and giving a boost to the economy.
- The euro area’s unemployment has dropped from a peak of 12.1 percent to 10.1 percent, the lowest in five years. The European Commission economic sentiment index remained resilient in the euro area rising by 0.2 points to 104.6. On a country level only the U.K. disappointed with a 4.4 point drop. European Union consumer confidence came in at -7.9, no different from the prior reading. These indicators suggest that euro area’s economy will maintain growth momentum in the third quarter.
- Hungary’s economic sentiment index rose to the highest this year in July as business confidence improved and consumers became less pessimistic, bolstering government projections for accelerating economic growth following a dismal first quarter. Hungary’s economic sentiment index rose to zero from minus 3.7 in June, the business gauge jumped to 5.6 from 1.7 and the consumer confidence index improved to minus 16.1 from minus 19.2. The government expects economic growth of 2.5 percent in 2016 as retails sales, industrial output and EU funding are forecast to revive the expansion in the rest of the year.
- The preliminary euro-area PMI surveys for July show no trace of a Brexit confidence shock.
is good news for euro area recovery and for the ECB. The euro area composite fell slightly to 52.9 in July from 53.1 in June. Both the manufacturing (51.9) and service (52.7) components fell but continue to indicate an expansion in activity. The overall reading is consistent with Draghi’s assessment last Thursday that the euro area recovery is moving at a “steady and moderate pace.”

- JPMorgan is recommending investors take an overweight position in Russian stocks relative to their benchmarks as oil is seen rising to $55 per barrel. While Russian stocks are a relatively safe haven among peers in central and eastern Europe, Middle East and Africa, according to JPMorgan, the country’s assets remain vulnerable to moves in the energy market as oil and gas account for the bulk of export revenues.

- German Ifo current assessment component rose over July and now stands at 114.7 vs. 114.6 prior month. The expectations component fell but less than the consensus forecast. As a result, the business climate gauge, a combination of these two components came in at 108.3, well above the 10-year average of 105.7. This is another piece of soft data suggesting the country’s economy is unfazed by the Brexit vote.

- Russia’s GDP shrank 0.6 percent in the second quarter from a year earlier after a decline of 1.2 percent in the previous three months, the Economy Ministry said on Thursday. Russia’s economy contracted the least since it slipped into recession at the start of last year as industry and farming added to oil’s biggest quarterly gain since 2009 to steady the world’s biggest energy exporter. The Russian economy may be nearing the end of recession as contraction eases.

**Threats**

- According to Reuters, Turkey will miss its government’s economic growth forecasts for the next two years as tourism dips. Foreign arrivals were down 41 percent year-over-year in June (pre coup). The World Travel and Tourism Council estimates that travel and tourism account for 4.9 percent of Turkey’s GDP. The survey of 41 economists predicted the economy would grow 3.5 percent in 2016-2017, below the government’s respective forecasts of 4.5 percent and 5 percent.

- The large tick down in flash PMI reading suggests the U.K. economy could be in for a tough time in the coming quarters. The manufacturing gauge came in at 49.1 vs 52.1 in June. The service sector which accounts for about three-quarters of U.K. output, was 47.4 in July vs. 52.4 in June. That left the composite reading at 47.7, down from 52.4 in June. The outcome of the referendum has ushered in a period of uncertainty that is likely to prompt companies to delay investment and hiring and consumers to put off spending on big ticket items.
The European Commission on July 27 moved to advance its disciplinary procedure against Poland in a case that revolves around changes made to the country’s Constitutional Tribunal by the right wing and Eurosceptic Law and Justice Party. Critics say those changes have left the court paralyzed and unable to act as a check on parliamentary power.

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