SIM INVESTMENT& NETWORKING CLUB

SIM INC Monthly Market Analysis Report
S&P 500 Outlook

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Department: Trading & Research

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Summary

- Chances of September rate hike is possible but not probable
- Rate hikes not priced into the market. More downside if a September rate hike happens
- Expects an increase in volatility

Fundamental Analysis

US equity closed sharply lower on Friday because there's a possibility that federal reserve might increase interest rates this month. The selloff was triggered by the anticipation of a rate hike. Boston Fed President Eric Rosengren warned that waiting too long to raise rates will threaten to overheat the U.S. economy and increase financial instability.

There are signs showing that the economy is picking up thus, a September rate hike is still offered for discussion as supported by the following reasons. Firstly, the average payroll growth in recent months is in excess of the Fed's expectations. Next, there is improving signs of consumer spending hence, overall GDP growth. Finally, the economy still indicates relatively favorable financial conditions and favorable beige book results. Hence, despite the lack of economic growth, the possibility of a rate hike is fundamentally sound.

However, contrary to the strong economic numbers, there were contradicting numbers that might suggest that there will not be a September rate hike.

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The fundamentals that dragged the market

Weak job report

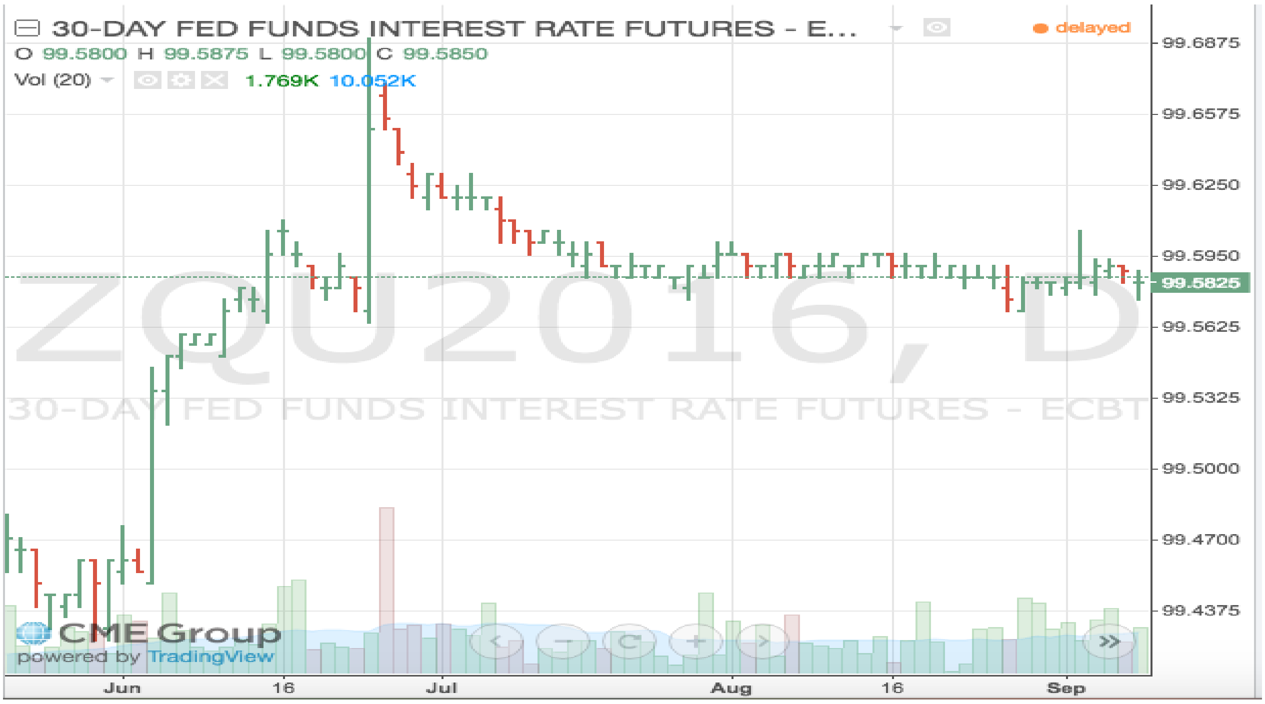
What culminated a week after the dissatisfying non-farm payroll, likely suggests that the Federal Reserve might not call for a rate hike soon. This shows that the economy is in a fragile state. The economy added 151,000 jobs in August but the unemployment rate remains at 4.9%. The wage growth slowed to a mediocre gain of 0.1%, falling short of some economists' expected gain of 0.3%. A disappointing non-farm pay roll is a reflection of a weak economy. August has traditionally been a difficult month for jobs numbers and 2016 proved to be no exception.

Potential Rate Hike

A Federal Reserve rate hike would be unprecedented and would break the central bank tradition to sit on the fence during election year. Hence, a September hike is a close call but it is highly likely to happen in December instead. Today's data supports the case for an increase in the fed funds rate in the foreseeable future as the labor market meanders toward full employment. However, it is not sufficiently compelling to support a rate hike on September 21st.

Economists have said the Fed would normally increase rates if job growth was at a level of at least 100,000 new jobs, preferably 150,000. This increase in jobs indicates that unemployment rate is low despite the slow pace of jobs increasing. If there are at least 100,000 new jobs available, it would hence imply that the labor market is healthy and economy remains stable.

Fed Funds Interest Rate Future



source: CME's 30-day Fed Funds Interest Rate Futures

Fed Funds Interest Rate Futures is indicating a 42% chance of a September Rate Hike. The low probability is due to one reason or another: either there is low expectation of a rate hike happening in September or a rate hike is not priced in. As September hike is highly unlikely, the federal reserves might signal for a December hike during the September FOMC meeting.

Technical Analysis

Source: Tradingview

S&P500 bullish trend was disrupted abruptly. Therefore, a selloff was triggered. Firstly, by hawkish remarks made by the normally dovish Boston Fed President Eric Rosengren. Secondly, by the beign book result.

The historically unprecedented narrow trading range of the S&P 500 was snapped on Friday by the biggest decline in 53 sessions. Friday's closing loss of 2.45% was the largest since the 3.59% selloff on June 24th.

However, price reached 2130, resisted by the trend line and previous resistant level of 2126. The price has penetrated the 50days moving average indicating the possibility of a future bullish sentiment.

Conclusion

It is possible for S&P500 bearish trend to continue based on the following factors:

- Price took a nose dive and penetrated the 50days moving average. It is currently touching the previous resistant level and the constructed trendline.

- Even though a September rate hike is not probably, we expect an increase in volatility caused by the uncertainty it. All eyes will be on September FOMC meeting.

- The further decline in oil price because of the receding hopes for a production freeze due to the disputes between Saudi Arabia and Iran will add pressure to the market.

- Potential policies advocated by presidential candidates, Hilary Clinton and Donald Trump, have not been priced into the market. The market will definitely be paying a close attention to their comments.

Our fundamental analysis is unanimously aligned with our technical analysis. We recommend a short in S&P500. However, market will be face with extreme turbulence prior to FOMC meeting so it is recommended to enter any position with caution.

The week ahead: September 12—16

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- Monday: No major reports scheduled
- Tuesday: Federal budget report, U.S. Department of the Treasury
- Wednesday: U.S. import and export price indexes, U.S. Bureau of Labor Statistics
- Thursday: Retail sales, business inventories, U.S. Census Bureau; Producer Price Index, U.S. Bureau of Labor Statistics; industrial production and capacity utilization, U.S. Federal Reserve
- Friday: Consumer Price Index, U.S. Bureau of Labor Statistics; Thomson Reuters/University of Michigan Index of Consumer Sentiment, preliminary result

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