Weekly Update

Fed Raises Rates, Signals More to Come

As of March 17, 2017

INVESTMENT MANAGEMENT INC.

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The Economy

- The Federal Reserve (Fed) raised the federal funds target rate by 0.25% this week and forecast two additional rate hikes for this year, citing stabilizing inflation and solid U.S. job-market gains.
- Consumer prices advanced by 0.1% in February, bringing year-over-year growth to 2.7%. Apparel and recreation prices led the monthly gain (each up 0.6%), while energy contributed most in the one-year period (rising 15%). Producer prices benefitted from strength within energy and services, gaining 0.3% for the month and 2.2% annually, to the highest point since March 2012. Housing prices expanded by 0.3% in February, while medical-care prices moved 0.1% higher.
- Decreased utility production during an unseasonably temperate February kept headline industrial production flat; the manufacturing component of the reading climbed by 0.5%, driven by business equipment and auto production — the largest monthly increase since July 2015.
- Retail sales edged up by only 0.1% in February as a delay in tax-refund processing hurt consumer spending. Core retail sales, which exclude autos, gas, building materials and food services, grew by 0.2%. January's total reading was revised from 0.4% to 0.6%, and its core reading was revised from 0.8% to a surprisingly strong 1.2%.
- February's single-family housing starts were boosted by a better-than-expected 3%, the best level since October 2007, due to unusually warm weather, a strengthening economy and that contributed to heightened demand; total housing starts jumped 6.2% year-over-year. Single-family permits reached the highest point in almost 10 years despite a decline of 6.2% in the month.
- Initial jobless claims fell by 2,000 to 241,000 in the week ending March 11 — a sign that the job market continues to tighten. The four-week moving average (widely seen as a more reliable gauge of unemployment) grew by a slight 750 to 237,250. Continuing claims fell 30,000 to 2.03 million for the week ending March 4.
- Industrial production in the eurozone expanded by 0.9% in January, on a rebound in capital goods and energy; non-durable consumer goods and durables and intermediates struggled.
- The Bank of England left interest rates unchanged at 0.25% despite a strong labor market and inflation recently hitting a two-year high. The central bank also left its asset-purchase program unchanged, maintaining a conservative stance until the Brexit process becomes clearer.
- Industrial production in China rose by 0.6% in February, led by manufacturing and utilities, bringing year-over-year growth to 6.3%.
- Pointing to Japan's continued moderate economic recovery, Bank of Japan officials left both its short-term interest-rate target and government-bond purchase rate unchanged.

U.S. Economic Calendar

- March 22: Existing Home Sales, Mortgage Applications
- March 23: Jobless Claims, New Home Sales
- March 24: Durable Goods Orders, PMI Manufacturing Flash, PMI Services Flash

Stocks

- Global equities moved higher this week. Emerging markets enjoyed a particularly strong performance.
- Most U.S. sectors were positive this week. Utilities and telecommunications services led, while healthcare and financials lagged. Growth stocks outpaced value stocks and small-company stocks beat large-company stocks.

Bonds

- Global bonds did well this week. Global government bonds outperformed, followed by corporate and high-yield bonds.
- U.S. Treasury yields fell slightly this week as investors interpreted the Fed's latest announcement as less hawkish than expected.

The Numbers as of March 17, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.3%	7.0%	13.9%	451.4
MSCI EAFE ($)	1.9%	6.7%	8.0%	1796.8
MSCI Emerging Mkts ($)	4.0%	11.7%	17.9%	963.2
US & Canadian Equities				
Dow Jones Industrials ($)	0.1%	5.8%	19.6%	20914.6
S&P 500 ($)	0.2%	6.2%	16.5%	2378.3
NASDAQ ($)	0.7%	9.6%	23.6%	5901.0
S&P/ TSX Composite (C$)	-0.1%	1.3%	13.7%	15490.5
UK & European Equities				
FTSE All-Share (£)	1.0%	4.3%	18.7%	4038.4
MSCI Europe ex UK (€)	0.7%	5.1%	12.4%	1272.3
Asian Equities				
Topix (¥)	-0.5%	3.1%	15.2%	1565.9
Hong Kong Hang Seng ($)	3.1%	10.5%	18.6%	24309.9
MSCI Asia Pac. Ex-Japan ($)	3.2%	12.0%	16.4%	477.8
Latin American Equities				
MSCI EMF Latin America ($)	3.3%	12.1%	22.7%	2624.7
Mexican Bolsa (peso)	3.2%	6.5%	7.0%	48593.4
Brazilian Bovespa (real)	-0.7%	6.6%	26.1%	64209.9
Commodities ($)				
West Texas Intermediate Spot	0.6%	-9.2%	21.3%	48.8
Gold Spot Price	2.3%	6.6%	-2.7%	1229.4
Global Bond Indices ($)				
Barclays Global Aggregate ($)	1.0%	0.9%	-2.2%	455.4
JPMorgan Emerging Mkt Bond	0.6%	3.0%	8.6%	761.2
10-Year Yield Change (basis points*)				
US Treasury	-8	6	60	2.50%
UK Gilt	1	1	-21	1.24%
German Bund	-5	23	20	0.43%
Japan Govt Bond	-1	3	12	0.08%
Canada Govt Bond	-5	4	47	1.76%
Currency Returns**				
US$ per euro	0.6%	2.1%	-5.1%	1.074
Yen per US$	-1.8%	-3.7%	1.1%	112.67
US$ per £	1.8%	0.4%	-14.4%	1.239
C$ per US$	-0.9%	-0.7%	2.8%	1.335

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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