

Weekly Update

Manufacturing Marches On

As of January 5, 2018



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The Economy

- The Institute for Supply Management's manufacturing purchasing managers' index (PMI) strengthened in December, remaining in expansion territory for the sixteenth straight month, driven by solid new orders and production. A similar report from Markit also showed acceleration in new orders as well as the fastest rate of job creation in over three years.
- The Federal Open Market Committee's December meeting minutes revealed disagreement among members regarding the rate hike last month; some wanted additional time to assess the economic activity and inflation outlook before making such a change. Members generally agreed that the recent tax-reform passage will likely boost consumer spending and business investment.
- The U.S. economy added 148,000 jobs in December—lower than economists' expectations of over 191,000, and less than strong gain in November. Unemployment held steady at 4.1%, its lowest level since December 2000. Wage growth nudged slightly higher, but remained historically low, rising by only 2.5% year over year.
- Initial jobless claims grew for the third straight week, by 3,000 to 250,000 in the week ending December 30. The less-volatile four-week moving average rose by 3,500 to 241,750. Continuing claims fell by 37,000 to 1.92 million in the week ending December 23. Economists believe the historically tight labor market will eventually drive wage growth higher as companies seek talented workers.
- The trade deficit widened by 3.2% in November to a six-year high. Exports expanded by 2.3% but were outpaced by imports, which jumped by 2.5% to a record high. A wider trade deficit detracts from economic growth.
- Mortgage-purchase applications edged 1% higher in the two-week period ending December 29 despite a slight rise in mortgage rates. Refinancing activity (which is sensitive to small rate changes) decreased by 7% in the same period.
- Eurozone producer prices moved 0.6% higher in November, driven by higher costs for energy and intermediate goods. Year-over-year prices grew by 2.8%. Producer-price changes typically correlate with movements in consumer inflation.
- Activity in China's manufacturing sector advanced at a faster pace during December, according to a PMI reading; strong output offset weakness in employment.
- Japan's PMI composite showed accelerated expansion in December, as gains in output growth and new orders mitigated deceleration in business confidence and employment.

U.S. Economic Calendar

- January 8: Consumer Credit
- January 9: Job Openings and Labor Turnover Survey
- January 10: Mortgage Applications, Import and Export Prices
- January 11: Jobless Claims, Producer Prices
- January 12: Consumer Price Index, Retail Sales

Stocks

- Global equities were higher this week. Emerging markets outpaced developed markets.
- Most U.S. equity sectors were positive. Information technology and materials led, while utilities and telecommunications underperformed. Growth stocks had the edge over value stocks and large-company stocks beat small-company stocks.

Bonds

- Global bond markets rose this week. High-yield bonds outperformed, followed by global government bonds. Corporate bonds lagged.
- Treasury yields rose and the yield curve flattened to a 10-year low, as analysts continued to report short-term expectations of economic growth coupled with a subdued outlook for inflation.

The Numbers as of January 5, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI (\$)	2.0%	2.0%	21.8%	523.3
MSCI EAFE (\$)	1.9%	1.9%	21.3%	2089.2
MSCI Emerging Mkts (\$)	2.9%	2.9%	35.3%	1192.6
US & Canadian Equities				
Dow Jones Industrials (\$)	2.3%	2.3%	27.1%	25295.9
S&P 500 (\$)	2.6%	2.6%	20.9%	2743.2
NASDAQ (\$)	3.4%	3.4%	30.0%	7136.6
S&P/TSX Composite (C\$)	0.9%	0.9%	4.9%	16353.7
UK & European Equities				
FTSE All-Share (£)	0.6%	0.6%	8.7%	4246.4
MSCI Europe ex UK (€)	1.8%	1.8%	11.8%	1369.4
Asian Equities				
Topix (¥)	3.5%	3.5%	20.9%	1880.3
Hong Kong Hang Seng (\$)	3.0%	3.0%	37.2%	30814.6
MSCI Asia Pac. Ex-Japan (\$)	2.3%	2.3%	33.1%	583.0
Latin American Equities				
MSCI EMF Latin America (\$)	4.6%	4.6%	23.1%	2959.0
Mexican Bolsa (peso)	1.1%	1.1%	6.8%	49896.6
Brazilian Bovespa (real)	3.5%	3.5%	27.4%	79071.5
Commodities (\$)				
West Texas Intermediate Spot	1.7%	1.7%	14.3%	61.4
Gold Spot Price	1.1%	1.1%	11.7%	1320.7
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	0.1%	0.1%	7.0%	485.0
JPMorgan Emerging Mkt Bond	0.2%	0.2%	8.3%	809.9
10-Year Yield Change (basis points*)				
US Treasury	7	7	13	2.47%
UK Gilt	6	6	-4	1.24%
German Bund	1	1	20	0.44%
Japan Govt Bond	2	2	0	0.06%
Canada Govt Bond	11	11	49	2.15%
Currency Returns**				
US\$ per euro	0.3%	0.3%	13.5%	1.204
Yen per US\$	0.4%	0.4%	-2.0%	113.09
US\$ per £	0.4%	0.4%	9.2%	1.357
C\$ per US\$	-1.2%	-1.2%	-6.1%	1.241
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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