Weekly Update
Market Misfires as Correction Hits
As of February 9, 2018

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The Economy

- After generating the best January performance in more than 20 years, the S&P 500 Index turned negative this week—erasing its year-to-date gains before ultimately entering "correction" territory when it fell as much as 10% from its recent peak. On the fixed-income side, however, investors have been more comfortable to hold risk, resulting in credit-quality spreads remaining close to their narrowest levels of the year.
- The trade deficit widened by 5.3% in December to a post-recession high. Exports expanded by 1.8% but were outpaced by imports (primarily consumer goods), which jumped by 2.9% to a record high. A wider trade deficit detracts from economic growth.
- The Institute for Supply Management's index of non-manufacturing activity remained solid in January, with accelerated growth in new orders and employment. A similar report from Markit Economics also showed increases in hiring activity and new orders, but a slight slowdown in output.
- Job openings (a measure of labor demand) remained near historically strong levels in December despite falling from a revised 5.98 to a seven-month low of 5.81 million, according to the Department of Labor's Job Openings and Labor Turnover Survey. Hires held steady at 5.49 million, still lagging the number of available jobs. Analysts suggested that the survey's low ratio of unemployed individuals to job openings may point to ongoing pressure on employers to offer higher wages.
- Initial jobless claims shrank by a greater-than-expected 9,000 to 221,000 in the week ending February 3, as labor-market conditions continued to tighten. The less volatile four-week moving average cooled by 10,000 to 224,500. Continuing claims remained near a 45-year low, falling by 33,000 to 1.92 million in the week ending January 27.
- Outstanding consumer credit (which measures non-mortgage debt) grew by 5.8% in December after rising by 9.8% in November. Economists said the report offers confidence in near-term consumer spending, consistent with strong labor and stock markets—but also suggests a possible lack of sustainability as debt burdens increase.
- Mortgage-purchase applications were unchanged in the week ending February 2, due to recently accelerating interest rates. Refinancing activity (which is often sensitive to even small rate changes) picked up 1% in the same period.
- The eurozone's PMI composite for January showed the fastest pace of growth in more than a decade. Strength in the services component was driven by solid readings in new orders, output charges and overall optimism.
- The Bank of England (BoE) left interest rates at 0.50% in a unanimous vote by members of the rate-setting Monetary Policy Committee, but also noted that future rate hikes may come sooner than previously anticipated in order to keep a hold on inflation.
- Japan's PMI composite revealed accelerating growth in January, supported by gains in jobs and new orders.

U.S. Economic Calendar

- February 14: Mortgage Applications, Consumer Price Index, Retail Sales
- February 15: Jobless Claims, Philadelphia Fed, PPI, Industrial Production
- February 16: Housing Starts, Import and Export Prices, Consumer Sentiment

Stocks

- Global equity markets declined this week. Emerging markets fell by more than developed markets.
- U.S. equity sector performance was negative across the board. Utilities and materials had the smallest declines, while energy and financials were down the most. Growth stocks had the edge over value stocks and small-company stocks beat large-company stocks.

Bonds

- Global bond markets moved lower this week. Global government bonds outperformed, while global corporate bonds and high-yield bonds lagged.
- Treasury yields rose and the 10-year yield remained near a four-year high after the BoE indicated the possibility of reduced global central-bank stimulus.

The Numbers as of February 9, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-5.8%	-2.4%	14.5%	500.7
MSCI EAFE ($)	-4.8%	-1.4%	16.6%	2022.7
MSCI Emerging Mkts ($)	-5.5%	0.4%	25.7%	1163.1
US & Canadian Equities				
Dow Jones Industrials ($)	-5.2%	-2.1%	19.9%	24190.9
S&P 500 ($)	-5.2%	-2.0%	13.5%	2619.6
NASDAQ ($)	-5.1%	-0.4%	20.3%	6874.5
S&P/ TSX Composite (C$)	-3.5%	-7.1%	-3.6%	15053.8
UK & European Equities				
FTSE All-Share (£)	-4.5%	-7.6%	-0.8%	3902.9
MSCI Europe ex UK (€)	-3.9%	-3.7%	5.9%	1295.9
Asian Equities				
Topix (¥)	-7.1%	-4.7%	14.4%	1732.0
Hong Kong Hang Seng ($)	-9.5%	-1.4%	25.4%	29507.4
MSCI Asia Pac. Ex-Japan ($)	-5.6%	-0.8%	23.1%	564.9
Latin American Equities				
MSCI EMF Latin America ($)	-5.1%	5.4%	16.6%	2980.4
Mexican Bolsa (peso)	-5.1%	-3.1%	1.3%	47848.4
Brazilian Bovespa (real)	-3.7%	5.9%	24.5%	80898.7
Commodities ($)				
West Texas Intermediate Spot	-9.5%	-2.0%	11.7%	59.2
Gold Spot Price	-1.7%	0.5%	6.4%	1312.6
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.5%	0.0%	6.3%	484.6
JPMorgan Emerging Mkt Bond	-1.1%	-1.8%	4.5%	793.0
10-Year Yield Change (basis points*)				
US Treasury	1	45	46	2.85%
UK Gilt	-1	38	33	1.57%
German Bund	-2	32	43	0.74%
Japan Govt Bond	-2	2	-3	0.07%
Canada Govt Bond	-1	31	67	2.35%
Currency Returns**				
US$ per euro	-1.8%	2.0%	14.9%	1.224
Yen per US$	-1.3%	-3.5%	-3.9%	108.79
US$ per £	-2.1%	2.3%	10.6%	1.382
C$ per US$	1.3%	0.1%	-4.2%	1.259

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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