Weekly Update

Consumer-Price Climb Hints at Higher Inflation

As of February 16, 2018

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The Economy

- Consumer prices jumped by a greater-than-expected 0.5% in January and by 2.1% year over year, driven by broad-based increases in apparel, housing, gasoline and food. The more-closely-followed core rate (which excludes food and energy) held steady at 1.8%. Economists suggested that economic expansion and tight labor markets could continue pushing prices higher and support additional interest-rate increases by the Federal Reserve (Fed) in 2018. Producer prices rose by 0.4% for the month on growing energy expenses.
- Import prices increased by 1.0% in January, driven by higher energy costs; nonfuel prices also gained. Year-over-year growth climbed by 3.6%, as a weak U.S. dollar continued to support underlying inflation. Export prices advanced by 0.8% in January, bringing the year-over-year gain to 3.4%.
- Housing starts unexpectedly soared to a 10-year high of 9.7% in January, after a weather-related decline in December. Analysts said that confidence in the economy provided a tailwind as builders increased construction.
- Initial jobless claims grew by 6,000 to 230,000 in the week ending February 10 as labor-market conditions remained tight. The more-stable four-week average edged higher by 3,500 to 228,500. Continuing claims climbed by 15,000 to 1.94 million, but remained near a 45-year low in the week ending February 3. Analysts commented that the labor market has begun to drive wage growth, which could soon lead to inflationary pressures.
- Retail sales softened by 0.3% in January as consumer spending pivoted lower. The report cited a drop in motor-vehicle sales following hurricane-related replacement demand and weather-related weakening in building materials.
- The Philadelphia Fed Survey showed that regional manufacturing growth accelerated during January; workforce measurements remained solidly above neutral, indicating optimism about increases in future manufacturing activity.
- Mortgage-purchase applications slid by 6% in the week ending February 9, due to a recent trend of slowly rising mortgage rates, which hit their highest level in four years. Refinancing activity (which is sensitive to even small rate changes) dropped by 2% in the same period.
- The preliminary February estimate of the University of Michigan's consumer sentiment index was the second highest in 14 years, as enthusiasm for tax reform outpaced concerns about recent market volatility.
- The eurozone's economy expanded by 0.6% in the fourth quarter, according to initial estimates, pointing to a continued wide-ranging recovery in the region.
- U.K. retail sales rebounded by a slight 0.1% in January; increased non-food spending was mitigated by a decline in food purchases.
- Japan's fourth-quarter gross domestic product expanded by just 0.1%, according to the preliminary reading—the eighth consecutive quarterly gain. Private consumption was healthy, while net exports and investment spending detracted.

U.S. Economic Calendar

- February 21: Mortgage Applications, PMI Composite Flash, Existing Home Sales, FOMC Minutes
- February 22: Jobless Claims, Leading Indicators

Stocks

- Global equity markets rallied this week. Emerging markets rose by more than developed markets.
- U.S. equity sector performance was positive across the board. Information technology and financials had the largest gains, while energy and telecommunications were up the least. Growth stocks had the edge over value stocks, and small-company stocks beat large-company stocks.

Bonds

- Global bond markets moved higher this week. Global government bonds outperformed, while high-yield bonds and global corporate bonds lagged.
- Treasury yields climbed, with the 10-year yield hitting a new four-year high as inflationary concerns mounted.

The Numbers as of February 16, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	4.1%	1.6%	17.3%	521.3
MSCI EAFE ($)	3.3%	0.4%	17.0%	2058.7
MSCI Emerging Mkts ($)	5.2%	3.8%	27.2%	1202.6
US & Canadian Equities				
Dow Jones Industrials ($)	4.3%	2.0%	22.3%	25219.4
S&P 500 ($)	4.3%	2.2%	16.4%	2732.2
NASDAQ ($)	5.3%	4.9%	24.5%	7239.5
S&P/ TSX Composite (C$)	2.8%	-4.6%	-2.5%	15461.7
UK & European Equities				
FTSE All-Share (£)	2.8%	-5.0%	1.3%	4012.3
MSCI Europe ex UK (€)	2.2%	-2.6%	5.9%	1309.8
Asian Equities				
Topix (¥)	0.3%	-4.4%	12.0%	1737.4
Hong Kong Hang Seng ($)	5.4%	4.0%	29.1%	31115.4
MSCI Asia Pac. Ex-Japan ($)	4.1%	1.4%	23.5%	577.4
Latin American Equities				
MSCI EMF Latin America ($)	5.3%	10.0%	16.8%	3110.1
Mexican Bolsa (peso)	2.2%	-1.0%	3.3%	48872.6
Brazilian Bovespa (real)	4.5%	10.6%	24.6%	84524.6
Commodities ($)				
West Texas Intermediate Spot	4.2%	2.1%	15.6%	61.7
Gold Spot Price	3.1%	3.6%	9.3%	1353.8
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.9%	0.9%	7.4%	489.0
JPMorgan Emerging Mkt Bond	0.0%	-2.6%	3.7%	786.6
10-Year Yield Change (basis points*)				
US Treasury	2	46	42	2.87%
UK Gilt	1	39	32	1.58%
German Bund	-4	28	36	0.70%
Japan Govt Bond	-1	1	-4	0.06%
Canada Govt Bond	-3	27	57	2.32%
Currency Returns**				
US$ per euro	1.3%	3.4%	16.2%	1.241
Yen per US$	-2.3%	-5.7%	-6.1%	106.28
US$ per £	1.4%	3.8%	12.3%	1.402
C$ per US$	-0.2%	-0.1%	-3.9%	1.256

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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