

Weekly Update

Tariff Talk Tanks

Stocks March 2, 2018



INVESTMENT MANAGEMENT INC.

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The Economy

- President Donald Trump met with steel-industry executives to announce plans for a 25% tariff on steel imports and a 10% tariff on aluminum imports. This sent the U.S. stock market reeling, with the S&P 500 Index and the Dow Jones Industrial Average closing the week down, by 2.04% and 3.05%, respectively.
- A downward revision to fourth-quarter gross domestic product (GDP) produced a second estimate of 2.5% annualized growth. Consumer spending increased by 3.8%, the fastest rate in three years—but was driven by heightened demand for overseas products, which detracts from GDP growth.
- The Institute for Supply Management's manufacturing purchasing managers' index (PMI) remained in expansion territory for the eighteenth straight month as it hit a 14-year high in February, driven by robust new orders, export orders and new hiring. A similar report from Markit also showed expansion in the manufacturing sector, with new orders at a 13-month high.
- Personal income expanded by 0.4% in January, with wages and salaries rising by 0.5%. Consumer spending advanced by just 0.2%, partly due to a decline in vehicle sales. The core personal consumption expenditures reading (which excludes food and energy and is the Federal Reserve's preferred measure of inflation) inched 0.3% higher for the period; the year-over-year reading was unchanged at 1.5%.
- January new-home sales tumbled by 7.8% to an annualized rate of 593,000, a five-month low. Analysts attributed the slowdown to rising mortgage rates, uncooperative weather, higher home prices and the recent elimination of tax breaks for some homebuyers.
- Durable-goods orders slid by a greater-than-expected 3.7% in January. Orders for non-defense capital goods eased by 0.2%, while transportation equipment registered a sharp decline. Softer capital goods shipments (used to calculate equipment spending in GDP) suggested weakening economic momentum.
- The trade deficit widened slightly in January to \$74.4 billion. (Wider trade deficits hurt GDP). Exports dropped by 2.2% on weakness in capital goods and industrial supplies; imports fell by 0.5%, primarily within consumer goods and capital goods.
- Initial jobless claims shrank by a greater-than-expected 10,000 to 210,000 in the week ending February 24, as labor-market conditions neared a 50-year low. The more-stable four-week moving average fell by 5,000 to 220,500. Continuing claims increased by 57,000 to 1.93 million in the week ending February 17, but remained near a 45-year low.
- Eurozone annual inflation eased slightly to 1.2% in February, from 1.3% in January, according to the flash estimate.
- Activity in China's manufacturing sector remained in expansion territory in February for the ninth consecutive month; strength in new orders offset a moderation in output and new export orders.
- Japan's PMI report showed decelerated expansion in the manufacturing sector in February, as slowdowns in output growth and new orders countered an 11-year high reading in employment.

U.S. Economic Calendar

- March 5: PMI Services Index, ISM Non-Manufacturing Index
- March 7: International Trade, Consumer Credit
- March 9: Employment Situation

Stocks

- Equity markets around the world declined this week.
- U.S. equity sector performance was negative across the board. Telecommunications and information technology led, while materials and industrials lagged. Growth stocks outpaced value stocks, and small-company stocks beat large-company stocks.

Bonds

- Global bond markets were mixed this week. High-yield bonds outperformed, while global corporate and global government bonds lagged.
- Treasury yields rose as investors fretted about an impending trade war, following President Trump's tariff announcement.

The Numbers as of March 2, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI (\$)	-2.3%	-0.2%	14.6%	511.9
MSCI EAFE (\$)	-2.1%	-1.4%	15.0%	2022.4
MSCI Emerging Mkts (\$)	-2.0%	2.9%	27.3%	1192.3
US & Canadian Equities				
Dow Jones Industrials (\$)	-3.0%	-0.7%	16.8%	24538.1
S&P 500 (\$)	-2.0%	0.7%	13.0%	2691.2
NASDAQ (\$)	-1.1%	5.1%	23.8%	7257.9
S&P/TSX Composite (C\$)	-1.6%	-5.1%	-0.9%	15389.4
UK & European Equities				
FTSE All-Share (£)	-2.3%	-7.6%	-2.8%	3899.7
MSCI Europe ex UK (€)	-1.5%	-2.8%	4.0%	1308.2
Asian Equities				
Topix (¥)	-3.0%	-6.0%	9.2%	1708.3
Hong Kong Hang Seng (\$)	-2.2%	2.2%	28.9%	30583.5
MSCI Asia Pac. Ex-Japan (\$)	-1.2%	1.2%	23.7%	576.6
Latin American Equities				
MSCI EMF Latin America (\$)	-3.1%	8.3%	18.6%	3062.5
Mexican Bolsa (peso)	-2.2%	-3.6%	0.6%	47561.9
Brazilian Bovespa (real)	-1.9%	12.1%	30.0%	85612.3
Commodities (\$)				
West Texas Intermediate Spot	-3.5%	1.4%	16.4%	61.3
Gold Spot Price	-0.7%	1.1%	7.0%	1320.7
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	-0.2%	0.3%	7.4%	486.3
JPMorgan Emerging Mkt Bond	0.1%	-2.2%	3.6%	790.0
10-Year Yield Change (basis points*)				
US Treasury	0	46	38	2.86%
UK Gilt	-5	29	26	1.47%
German Bund	0	23	33	0.65%
Japan Govt Bond	2	2	0	0.07%
Canada Govt Bond	-4	16	51	2.20%
Currency Returns**				
US\$ per euro	0.3%	2.7%	17.3%	1.233
Yen per US\$	-1.1%	-6.2%	-7.6%	105.71
US\$ per £	-1.3%	2.1%	12.4%	1.379
C\$ per US\$	2.0%	2.5%	-3.8%	1.289

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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