# Weekly Update

## Political Uncertainty Underscores Equity Decline

March 16, 2018

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### The Economy

- Political uncertainty and increasing concerns over the possibility of a global trade war led to a week of declines for U.S. equity markets.
- The preliminary March estimate of the University of Michigan's consumer sentiment index jumped more than two points to 102.0, the highest in 14 years, as recent market volatility subsided.
- Consumer prices grew by 0.1% in February and by 2.2% year over year; higher housing and clothing costs were mitigated by declining transportation and communications prices. The more-closely-followed core rate (which excludes food and energy) held steady at 1.8%. Economists suggested that near-term inflationary pressures would likely remain muted in the absence of accompanying wage increases. Producer prices rose by 0.2% for the month, primarily due to higher airfare and lodging prices.
- Import prices edged 0.4% higher in February, as elevated costs of capital goods and consumer goods were only slightly mitigated by a drop in energy prices. Year-over-year growth climbed by 3.5%, as a weak U.S. dollar continued to support underlying inflation. Export prices advanced by 0.2% in February, bringing the year-over-year gain to 3.3%.
- Retail sales unexpectedly fell for the third straight month, softening by 0.1% in February as consumer spending extended its trend lower. The report cited a continued decline in motor-vehicle sales following hurricane-related replacement demand. Analysts said the data seemed inconsistent with a strong U.S. job market and recent tax reform that increased take-home pay for consumers.
- Initial jobless claims shrank by 4,000 to 226,000 in the week ending March 10, as labor-market conditions remained near a 50-year low. The more-stable four-week moving average fell by 750 to 221,500. Continuing claims increased by 4,000 to 1.88 million in the week ending March 3.
- The Philadelphia Fed Survey showed that regional manufacturing growth remained robust despite decelerating during March; workforce measurements remained solidly above neutral, indicating optimism about future manufacturing activity.
- Job openings (a measure of labor demand) remained near historically strong levels in January, increasing to a far higher-than-expected 6.31 million, according to the Department of Labor's Job Openings and Labor Turnover Survey. Hires increased but held fairly steady at 5.58 million, still lagging the number of available jobs. Analysts suggested that the survey's low ratio of unemployed individuals to job openings pointed to ongoing pressure in finding qualified candidates.
- Industrial production in the eurozone pivoted lower by 1.0% in January; declines in energy production, consumer durables and intermediates led the overall weakness.
- China's industrial production grew by 0.6% in February and by 7.2% year over year. Utilities output saw accelerated expansion, while manufacturing benefited from solid output growth.

### U.S. Economic Calendar

- March 21: Mortgage Applications, Existing-Home Sales, FOMC Announcement
- March 22: Jobless Claims, PMI Composite Flash, Leading Indicators
- March 23: Durable Goods Orders, New-Home Sales

### Stocks

- Global equity markets declined this week. Emerging markets outperformed developed markets.
- U.S. equity performance was negative, except for the utilities sector. Materials and financials lagged. Growth stocks outpaced value stocks, and small-company stocks beat large-company stocks.

### Bonds

- Global bond markets were higher this week. Global government bonds outperformed, global corporate bonds remained flat and high-yield bonds lagged.
- Treasury yields fell after weak consumer-price data suggested cooling inflation, and the firing of Secretary of State Rex Tillerson cast doubts over U.S. foreign policy in the near-term.

| The Numbers as of March 16, 2018 | 1 Week | YTD | 1 Year | Friday's Close |
|---|---|---|---|---|
| **Global Equity Indices** | | | | |
| MSCI ACWI ($) | -0.6% | 1.8% | 15.8% | 522.5 |
| MSCI EAFE ($) | 0.3% | -0.1% | 14.0% | 2047.9 |
| MSCI Emerging Mkts ($) | 0.7% | 5.0% | 26.3% | 1216.2 |
| **US & Canadian Equities** | | | | |
| Dow Jones Industrials ($) | -1.5% | 0.9% | 19.2% | 24946.5 |
| S&P 500 ($) | -1.2% | 2.9% | 15.6% | 2752.0 |
| NASDAQ ($) | -1.0% | 8.4% | 26.8% | 7482.0 |
| S&P/ TSX Composite (C$) | 0.9% | -3.1% | 1.0% | 15711.3 |
| **UK & European Equities** | | | | |
| FTSE All-Share (£) | -0.9% | -6.3% | -1.8% | 3957.1 |
| MSCI Europe ex UK (€) | -0.3% | -2.0% | 3.7% | 1318.9 |
| **Asian Equities** | | | | |
| Topix (¥) | 1.2% | -4.5% | 10.4% | 1736.6 |
| Hong Kong Hang Seng ($) | 1.6% | 5.3% | 29.7% | 31502.0 |
| MSCI Asia Pac. Ex-Japan ($) | 1.3% | 3.3% | 23.1% | 588.3 |
| **Latin American Equities** | | | | |
| MSCI EMF Latin America ($) | -2.5% | 7.8% | 16.1% | 3048.3 |
| Mexican Bolsa (peso) | -2.3% | -3.9% | -1.3% | 47445.1 |
| Brazilian Bovespa (real) | -1.8% | 11.0% | 29.0% | 84833.9 |
| **Commodities ($)** | | | | |
| West Texas Intermediate Spot | 0.5% | 3.2% | 27.9% | 62.3 |
| Gold Spot Price | -0.6% | 0.6% | 7.1% | 1314.0 |
| **Global Bond Indices ($)** | | | | |
| Barclays Global Aggregate ($) | 0.4% | 1.0% | 7.5% | 489.5 |
| JPMorgan Emerging Mkt Bond | 0.1% | -2.0% | 4.0% | 791.5 |
| **10-Year Yield Change (basis points*)** | | | | |
| US Treasury | -5 | 44 | 30 | 2.84% |
| UK Gilt | -6 | 24 | 18 | 1.43% |
| German Bund | -8 | 15 | 12 | 0.57% |
| Japan Govt Bond | -2 | -1 | -4 | 0.04% |
| Canada Govt Bond | -13 | 9 | 34 | 2.14% |
| **Currency Returns**** | | | | |
| US$ per euro | -0.2% | 2.3% | 14.1% | 1.229 |
| Yen per US$ | -0.7% | -5.9% | -6.4% | 106.02 |
| US$ per £ | 0.7% | 3.2% | 12.8% | 1.394 |
| C$ per US$ | 2.2% | 4.2% | -1.7% | 1.310 |

**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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