

Weekly Update

Trade Talk Triggers Wild Ride

April 6, 2018



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The Economy

- Stocks ended the week lower after President Trump threatened new tariffs on an additional \$100 billion of Chinese products, resulting in threats of immediate retaliation from the Chinese government.
- The trade deficit widened by 1.6% in February to a post-recession high of \$57.6 billion. Exports expanded by 2.3% but were offset by imports—primarily capital goods, an optimistic sign for domestic business investment—which rose 1.3% to a record high. A wider trade deficit detracts from economic growth.
- The Institute for Supply Management's manufacturing purchasing managers' index (PMI) inched lower but remained near its 14-year high set in February, driven by strength in new and export orders. A similar report from Markit also showed strength in new orders and business expectations at a three-year high.
- The Institute for Supply Management's index of non-manufacturing activity eased slightly from strong readings in January and February, but registered accelerated growth in new orders and employment. A similar report from Markit Economics also showed a pick-up in hiring.
- The U.S. economy added 103,000 jobs in March—missing economists' expectations and coming in well below the previous month's gain. The unemployment rate held at 4.1%, the lowest level since December 2000. Hourly wage growth improved by 2.7% year over year.
- Initial jobless claims jumped by 24,000 to 242,000 in the week ending March 31, as labor-market strength remained near multi-decade highs. The less-volatile four-week moving average rose by 3,000 to 228,250. Continuing claims fell by 64,000 to 1.81 million in the week ending March 24, a 45-year low. Analysts are optimistic that the robust job market and wage growth could strengthen consumer spending.
- Mortgage-purchase applications declined by 2% in the week ending April 4, as mortgage rates remained close to a four-year high. Refinancing activity (which is sensitive to small rate changes) dropped by 5% in the same period.
- Retail sales in the eurozone edged up by a disappointing 0.1% in February, as consumer spending remained soft. The report cited a decline in non-food purchases, particularly electrical goods and furniture. Analysts said the data likely supported the absence of inflationary pressures in the near-term.
- The Chinese government announced retaliatory 25% tariffs on approximately 100 U.S. products on April 2 as the S&P 500 Index declined more than 2%, touching its early February low and falling into correction territory with a peak-to-trough decline of more than 10%.
- Japan's March PMI report showed decelerating expansion in both the manufacturing and services sectors for the second consecutive month.

U.S. Economic Calendar

- April 10: Producer Prices
- April 11: Mortgage Applications, Consumer Prices, FOMC Minutes
- April 12: Jobless Claims, Import and Export Prices
- April 13: Consumer Sentiment, Job Openings and Labor Turnover Survey

Stocks

- Global equity markets rose this week. Developed markets were higher, while emerging markets fell.
- All U.S. equity sectors were negative. Information technology and industrials underperformed, while energy and utilities stocks outperformed the broader market. Value stocks led growth stocks; small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were lower this week. High-yield bonds outperformed, followed by corporate bonds. Global government bonds lagged.
- Treasury yields rose early in the week as fears of a global trade war with China eased, but fell back after renewed trade tensions saw investors return to safe-haven assets.

The Numbers as of April 6, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI (\$)	0.5%	-0.9%	13.6%	508.6
MSCI EAFE (\$)	0.4%	-1.8%	13.1%	2014.2
MSCI Emerging Mkts (\$)	-0.4%	0.7%	21.1%	1166.5
US & Canadian Equities				
Dow Jones Industrials (\$)	-0.7%	-3.2%	15.8%	23932.8
S&P 500 (\$)	-1.4%	-2.6%	10.5%	2604.5
NASDAQ (\$)	-2.1%	0.2%	17.6%	6915.1
S&P/TSX Composite (C\$)	-1.0%	-6.1%	-3.0%	15220.6
UK & European Equities				
FTSE All-Share (£)	1.5%	-6.4%	-0.8%	3953.5
MSCI Europe ex UK (€)	1.2%	-2.5%	2.1%	1311.9
Asian Equities				
Topix (¥)	0.2%	-5.4%	16.2%	1719.3
Hong Kong Hang Seng (\$)	-0.8%	-0.2%	23.0%	29844.9
MSCI Asia Pac. Ex-Japan (\$)	-0.6%	-1.5%	16.8%	560.8
Latin American Equities				
MSCI EMF Latin America (\$)	1.4%	8.7%	16.5%	3074.9
Mexican Bolsa (peso)	4.0%	-2.8%	-2.2%	47950.3
Brazilian Bovespa (real)	-1.0%	10.6%	31.6%	84531.9
Commodities (\$)				
West Texas Intermediate Spot	-4.4%	2.7%	20.0%	62.1
Gold Spot Price	0.3%	1.9%	6.3%	1331.5
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	-0.5%	0.8%	6.2%	488.7
JPMorgan Emerging Mkt Bond	0.2%	-1.6%	3.1%	795.3
10-Year Yield Change (basis points*)				
US Treasury	3	37	43	2.77%
UK Gilt	5	21	30	1.39%
German Bund	0	7	23	0.50%
Japan Govt Bond	0	0	-1	0.05%
Canada Govt Bond	5	10	59	2.14%
Currency Returns**				
US\$ per euro	-0.3%	2.3%	15.4%	1.228
Yen per US\$	0.6%	-5.1%	-3.5%	106.89
US\$ per £	0.5%	4.3%	13.0%	1.409
C\$ per US\$	-1.0%	1.6%	-4.8%	1.277

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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