Weekly Update

Rising Rates Restrain Homebuyers

May 25, 2018

Member FINRA/SIPC, a registered investment advisor

The Economy

- Existing-home sales slipped by 1.4% in April to an annualized rate of 5.46 million despite an increase in supply, as higher mortgage rates sidelined potential buyers. New-home sales fell by 1.5% to an annualized rate of 662,000 during the month.
- Mortgage-purchase applications moved 2% lower in the week ending May 18, the seventh straight weekly decline, as mortgage rates climbed to their highest level in more than seven years. Refinancing activity (which can be sensitive to even small rate changes) retreated by 4% to an 18-year low.
- Minutes from the Federal Open Market Committee's (FOMC) May meeting revealed that a majority of its members foresee continued economic growth and have limited concern over tariffs or trade wars. The FOMC also indicated that its inflation target was "symmetric" (that is, the FOMC anticipates inflation to reach 2% and is willing to allow it to edge higher than 2.5%) and that increases above 2% would not necessarily cause a more aggressive tightening pace.
- A preliminary reading of Markit's purchasing managers' index (PMI) pointed to accelerating growth in May. The services sector advanced for the twenty-seventh consecutive month, mostly within backlogs; manufacturing neared a four-year peak due to backlogs and payroll growth. The report also pointed to swelling cost pressure, linked to higher oil-related costs, which supports the case for additional interest-rate hikes this year.
- Durable-goods orders shrank by a worse-than-expected 1.7% in April, mainly on fewer civilian aircraft orders. When excluding transportation equipment, durable goods orders rose by 0.9%—supported by gains in capital goods (suggesting strength in business investment) and tariff-impacted pricing for primary and fabricated metals.
- Oil prices slid as members of the Organization of Petroleum Exporting Countries and Russia suggested raising output caps and revealed their intention to increase production.
- Initial jobless claims edged 11,000 higher to 234,000 in the week ending May 19. The more-stable four-week moving average grew by 6,250 to 219,750. Continuing claims increased by 29,000 to 1.75 million in the week ending May 12, but stayed close a 45-year low. Economists remained confident that the job market was close to (if not at) full employment.
- Eurozone economic growth slowed to an 18-month low in May, according to preliminary data from the composite PMI, with services and manufacturing both decelerating. Analysts said this could provide a temporary headwind to eurozone inflation.
- The U.K. economy inched 0.1% higher during the first quarter and by 1.2% year over year, according to the revised gross domestic product (GDP) reading, amid continued Brexit-related concerns.
- Japanese manufacturing expanded at its slowest rate in nine months, as output and new orders slowed.

U.S. Economic Calendar

- May 29: S&P Corelogic Case-Shiller HPI, Consumer Confidence
- May 30: Mortgage Applications, GDP, International Trade in Goods, Beige Book
- May 31: Jobless Claims, Personal Income and Outlays
- June 1: Employment Situation, PMI Manufacturing Index, ISM Manufacturing Index, Construction Spending

Stocks

- Global equity markets declined this week.
- U.S. equity sectors were mixed but mostly positive. Utilities and information technology outperformed, while energy and materials lagged. Growth stocks led value stocks; large-cap stocks beat small-cap stocks.

Bonds

- Global bond markets were up this week. Global government bonds led followed by corporate bonds and high-yield bonds.
- Treasury yields fell after the FOMC released meeting minutes that suggested the central bank is open to allowing inflation run just above its 2% target.

The Numbers as of May 25, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.2%	0.4%	10.7%	514.9
MSCI EAFE ($)	-1.2%	-1.4%	6.9%	2023.0
MSCI Emerging Mkts ($)	-0.2%	-2.0%	11.9%	1135.1
US & Canadian Equities				
Dow Jones Industrials ($)	0.2%	0.2%	17.4%	24753.0
S&P 500 ($)	0.3%	1.8%	12.7%	2720.7
NASDAQ ($)	1.1%	7.7%	19.8%	7434.1
S&P/ TSX Composite (C$)	-0.5%	-0.8%	4.3%	16079.8
UK & European Equities				
FTSE All-Share (£)	-0.4%	0.8%	3.4%	4255.2
MSCI Europe ex UK (€)	-1.4%	-0.1%	0.6%	1343.4
Asian Equities				
Topix (¥)	-2.4%	-2.5%	12.2%	1771.7
Hong Kong Hang Seng ($)	-1.5%	2.2%	19.3%	30588.0
MSCI Asia Pac. Ex-Japan ($)	-0.2%	-0.7%	13.1%	565.8
Latin American Equities				
MSCI EMF Latin America ($)	-0.7%	-5.2%	5.1%	2681.2
Mexican Bolsa (peso)	-1.1%	-8.5%	-8.6%	45149.0
Brazilian Bovespa (real)	-5.0%	3.3%	24.8%	78920.3
Commodities ($)				
West Texas Intermediate Spot	-4.7%	12.4%	39.6%	67.9
Gold Spot Price	0.9%	-0.2%	3.7%	1303.7
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.5%	-1.4%	1.8%	478.2
JPMorgan Emerging Mkt Bond	1.1%	-4.0%	-1.3%	775.6
10-Year Yield Change (basis points*)				
US Treasury	-13	53	68	2.93%
UK Gilt	-18	13	28	1.32%
German Bund	-17	-2	4	0.40%
Japan Govt Bond	-2	-1	-1	0.04%
Canada Govt Bond	-14	30	89	2.35%
Currency Returns**				
US$ per euro	-0.9%	-2.9%	4.0%	1.166
Yen per US$	-1.2%	-2.9%	-2.1%	109.46
US$ per £	-1.2%	-1.5%	2.9%	1.331
C$ per US$	0.7%	3.2%	-3.8%	1.297

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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