

# Weekly Update

## Decreasing Commodities Diminish Outlook

July 20, 2018



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### The Economy

- Commodity prices—which are sometimes used to forecast the pace of global economic growth due to their high correlation with world economic activity—were pressured into correction territory this week on a resurgent U.S. dollar and heightened trade-war fears. Economists say that lower commodity prices have the potential to erode at profitability, which can deter capital investments and ultimately hamper global demand.
- Retail sales surged by 0.5% in June as consumer spending trended higher after a soft start to the year, driven by strong motor-vehicle and restaurant sales. Analysts tied the reading to a healthy job market and accelerated economic growth. The positive consumer-spending trend has a dark side, however, as the personal-saving rate decreased—fueling concerns about a rising U.S. debt crisis, with outstanding consumer credit having doubled to \$24.6 billion year over year in June.
- Industrial production rebounded by 0.6% in June. Manufacturing volume also accelerated, by 0.8% due to a 7.8% increase in motor-vehicle output. Capacity utilization, the ratio of realized-to-potential economic output, improved slightly.
- Mortgage-purchase applications weakened by 7% in the week ending July 13, while refinancing activity (which can be sensitive to even small rate changes) increased by 2%. Economists suggested that purchase applications fell as buyers struggled to find affordable homes due to tight inventories. Housing starts for June tumbled 12.3%, highlighting the growing concern that home prices are rising at more than twice the rate of income growth.
- Initial jobless claims eased by 8,000 to 207,000 in the week ending July 14. The more stable four-week moving average fell by 2,500 to 220,500. Continuing claims rose by 8,000 to 1.74 million in the week ending July 7, maintaining a near-historic low.
- The Conference Board's index of leading economic indicators expanded by 0.5% in June, its eighth straight monthly increase, driven by widespread component strength. The reading, used by economists to gauge the health of the U.S. economy, pointed to ongoing growth.
- Manufacturing growth in the mid-Atlantic region was stronger than expected for July, according to Federal Reserve (Fed) of Philadelphia survey findings, reinforced by a sharp rise in input prices. New-order measurements also improved in June.
- Foreign demand for long-term securities tumbled in May. Foreign accounts sold \$26.6 billion of stocks, the largest selloff in four years. This induces concern about foreign participation in the U.S. stock market and the impact it may have on future growth.
- Japan's merchandise trade balance shifted from a deficit to a surplus in June, backed by a 6.7% increase in exports. Growth was mainly driven by exports to the European Union, which rose by 9.3% for the month.
- Eurozone inflation inched 0.1% higher in June, as measured by the harmonized index of consumer prices, sending the annual inflation rate to 2.0%. The reading is expected to have little impact on the European Central Bank's policy outlook.

### U.S. Economic Calendar

- July 23: Existing Home Sales
- July 24: PMI Composite
- July 25: Mortgage Applications, New Home Sales
- July 26: Jobless Claims, International Trade

### Stocks

- Global equity markets declined this week. Developed markets fared better than emerging markets.
- U.S. equity sectors were mixed. Financials and industrials led, while telecommunications and energy lagged. Growth stocks outperformed value stocks; small-cap stocks beat large-cap stocks.

### Bonds

- Global bond markets were mostly negative this week. High-yield bonds outperformed, while investment-grade corporate and government bonds underperformed.
- Treasury yields rose as economic data supported the case for the Federal Reserve to hike interest rates twice more this year.

The Numbers as of July 20, 2018	1 Week	YTD	1 Year	Friday's Close
<b>Global Equity Indices</b>				
MSCI ACWI (\$)	-0.1%	0.3%	7.7%	514.4
MSCI EAFE (\$)	-0.1%	-3.9%	1.7%	1970.9
MSCI Emerging Mkts (\$)	-1.4%	-8.4%	0.1%	1060.6
<b>US &amp; Canadian Equities</b>				
Dow Jones Industrials (\$)	0.2%	1.4%	15.9%	25058.1
S&P 500 (\$)	0.0%	4.8%	13.3%	2801.8
NASDAQ (\$)	-0.1%	13.3%	22.4%	7820.2
S&P/TSX Composite (C\$)	-0.8%	1.4%	7.7%	16435.5
<b>UK &amp; European Equities</b>				
FTSE All-Share (£)	0.3%	0.1%	3.2%	4224.5
MSCI Europe ex UK (€)	0.6%	-0.7%	1.3%	1335.8
<b>Asian Equities</b>				
Topix (¥)	0.9%	-4.0%	6.9%	1745.0
Hong Kong Hang Seng (\$)	-1.1%	-5.7%	5.6%	28224.5
MSCI Asia Pac. Ex-Japan (\$)	-1.3%	-6.4%	1.5%	533.2
<b>Latin American Equities</b>				
MSCI EMF Latin America (\$)	0.2%	-8.7%	-5.6%	2583.2
Mexican Bolsa (peso)	1.0%	-0.9%	-4.4%	48908.2
Brazilian Bovespa (real)	2.6%	2.8%	21.0%	78571.3
<b>Commodities (\$)</b>				
West Texas Intermediate Spot	-0.8%	16.6%	50.6%	70.5
Gold Spot Price	-1.0%	-5.9%	-1.3%	1229.5
<b>Global Bond Indices (\$)</b>				
Barclays Global Aggregate (\$)	-0.3%	-1.7%	0.1%	476.5
JPMorgan Emerging Mkt Bond	-0.2%	-3.5%	-1.4%	779.6
<b>10-Year Yield Change (basis points*)</b>				
US Treasury	7	49	63	2.89%
UK Gilt	-4	4	3	1.23%
German Bund	3	-5	-16	0.37%
Japan Govt Bond	-1	-1	-4	0.04%
Canada Govt Bond	4	13	29	2.18%
<b>Currency Returns**</b>				
US\$ per euro	0.3%	-2.4%	0.8%	1.172
Yen per US\$	-0.8%	-1.1%	-0.4%	111.47
US\$ per £	-0.7%	-2.8%	1.2%	1.314
C\$ per US\$	-0.2%	4.5%	4.3%	1.314
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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