Weekly Update
Emerging-Market Rout Impacts Equities
September 7, 2018

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The Economy
- Emerging-market stocks retreated to fresh lows this week due to growing uncertainty about global markets, yet avoided bear-market territory due to a hiccup in the U.S. dollar rally and a recovery in commodities. Investor optimism in emerging markets continued to wither in the face of rising interest rates, a still-strong U.S. dollar and impending tariffs on foreign imports.
- The U.S. trade deficit sharply expanded by 9.5% to $50.1 billion in July after reaching a 19-month low in June. Imports increased by 0.9%, boosted by imports of computers and computer accessories, while exports declined by 1%. A wider trade deficit detracts from economic growth.
- The Institute for Supply Management’s manufacturing purchasing managers’ index (PMI) expanded to a 14-year high in August, primarily on a surge in new orders, production and employment.
- Mortgage-purchase applications grew by 1% in the week ending September 1, while refinancing activity (which can be sensitive to even small rate changes) declined by 1%. Purchase applications returned to positive territory on a year-over-year basis, yet weekly gains remained undermined by a housing market that has generally faltered this summer.
- Construction spending grew by a lower-than-expected 0.1% in July. Commercial builders in the U.S. continued to express concerns about the rising cost of materials and sourcing skilled workers.
- Initial jobless claims declined by 10,000 to 203,000 in the week ending September 1. The more stable four-week moving average declined by 2,750 to 209,500. Continuing claims diminished by 3,000 to 1.71 million in the week ending August 25, but remained near a historic low.
- Factory orders fell in July as strength in nondurable goods was more than offset by fewer civilian aircraft orders. Analysts said the overall trend is still positive for the manufacturing sector.
- U.S. non-farm productivity remained unchanged for the quarter at 2.9%. Output surged by 5%, while hours worked decelerated quarter over quarter from 2.3% to 2.0%.
- The U.K. non-manufacturing PMI improved from 53.5 to 54.3 in August, the second highest level since February, reinforced by acceleration in growth of new orders.
- Retail sales in the eurozone declined by 0.2% in July due to weakness in food, drink and tobacco purchases. Second-quarter gross domestic product in the eurozone was unchanged.
- In a speech commemorating the thirtieth anniversary of stock-index-futures trading in Japan, Bank of Japan Governor Haruhiko Kuroda emphasized the importance of liquidity in futures markets and the risks of high-speed frequency trading.
- Producer prices in the eurozone advanced by 0.4% in July, the third consecutive monthly increase, primarily due to a 1.1% gain in energy prices during the period.

U.S. Economic Calendar
- September 10: Consumer Credit
- September 11: Job Openings and Labor Turnover Survey (JOLTS)
- September 12: Mortgage Applications, Producer Prices
- September 13: Jobless Claims, Consumer Prices
- September 14: Retail Sales, Import and Export Prices, Industrial Production, Business Inventories

Stocks
- Global equity markets declined this week. Developing markets fared better than emerging markets.
- U.S. equity sector performance was mostly negative this week. Information technology and energy lagged, while consumer staples and utilities led. Value stocks outgained growth stocks; large-cap stocks beat small-cap stocks.

Bonds
- Global bond markets were mostly negative this week. High-yield bonds, investment-grade corporate bonds and global government bonds underperformed.
- The 10-year Treasury yield declined as trade tensions resurfaced, while the spread between the yield on the 10- and 2-year Treasurys tightened to its narrowest level since July 2007. Economists say the flattening yield curve may signal an economic slowdown in the near future.

The Numbers as of September 7, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-1.7%	0.2%	7.2%	514.1
MSCI EAFE ($)	-2.4%	-6.7%	-1.8%	1914.4
MSCI Emerging Mkts ($)	-3.6%	-12.1%	-6.6%	1018.3
US & Canadian Equities				
Dow Jones Industrials ($)	-0.2%	4.9%	19.0%	25922.1
S&P 500 ($)	-1.0%	7.4%	16.5%	2872.3
NASDAQ ($)	-2.6%	14.4%	23.5%	7899.3
S&P/ TSX Composite (C$)	-1.1%	-0.8%	7.0%	16078.3
UK & European Equities				
FTSE All-Share (£)	-2.0%	-4.7%	-0.8%	4022.0
MSCI Europe ex UK (€)	-2.4%	-3.8%	-0.6%	1294.2
Asian Equities				
Topix (¥)	-2.9%	-7.3%	5.4%	1684.3
Hong Kong Hang Seng ($)	-3.3%	-9.8%	-2.0%	26973.5
MSCI Asia Pac. Ex-Japan ($)	-3.3%	-9.3%	-2.9%	516.9
Latin American Equities				
MSCI EMF Latin America ($)	-2.2%	-14.8%	-18.4%	2410.8
Mexican Bolsa (peso)	-1.5%	-1.1%	-2.8%	48820.7
Brazilian Bovespa (real)	-0.3%	0.0%	4.1%	76416.0
Commodities ($)				
West Texas Intermediate Spot	-3.2%	11.9%	37.7%	67.6
Gold Spot Price	-0.3%	-8.4%	-10.9%	1196.1
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.1%	-1.6%	-2.4%	476.9
JPMorgan Emerging Mkt Bond	-0.2%	-5.3%	-5.4%	764.9
10-Year Yield Change (basis points*)				
US Treasury	8	53	90	2.94%
UK Gilt	3	27	49	1.46%
German Bund	6	-4	8	0.39%
Japan Govt Bond	1	7	10	0.11%
Canada Govt Bond	6	25	35	2.29%
Currency Returns**				
US$ per euro	-0.4%	-3.7%	-3.9%	1.156
Yen per US$	0.0%	-1.5%	2.4%	111.02
US$ per £	-0.3%	-4.4%	-1.4%	1.292
C$ per US$	1.1%	4.8%	8.8%	1.318

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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