Weekly Update
Trade War Spate Haunts Financial Markets
December 7, 2018

Member FINRA/SIPC, a registered investment advisor

The Economy
- The selloff in global equity markets deepened this week as fears of slowing economic growth resurfaced. Treasury bond yields plunged to fresh lows not seen since August amid a rush toward safe-haven investments. Analysts suggested that the trade war spate still haunts financial markets.
- The CBOE Volatility Index (or VIX) surged to its highest level in nine months this week. The VIX, also known as the fear index, reflects expectations for volatility in the S&P 500 Index and often spikes during periods of market uncertainty.
- The U.S. trade deficit expanded by 1.7% to a 10-year peak of $55.5 billion in October. Soybean exports continued to fall, while imports of consumer goods rose. Total imports grew by 0.2% to a record high of $266.5 billion due to strong domestic demand and a resurgent U.S. dollar.
- The Institute for Supply Management's manufacturing index advanced in November to a stronger-than-expected 60.6 from 60.3 in October. Business production gained, while net exports slid during the month. Tariff pressures, rising prices and low overseas demand are still areas of concern.
- Non-farm productivity increased by 2.3% in the third quarter—modestly outpacing estimates but slowing from an upwardly revised 3.0% surge in the second quarter. Output growth slid by 0.9% to a still-solid rate of 4.1%, while gains in hours worked slowed by 0.2% to a pace of 1.8%.
- Mortgage-purchase applications advanced by 1.0% in the week ending November 30, while refinancing activity (which can be sensitive to even small rate changes) leapt 6.0%. The recent decline in mortgage rates has reinvigorated the refinance market, but has had little influence on buyers. The average interest rate on a 30-year fixed-rate mortgage fell from 5.12% to 5.08%.
- Construction spending narrowed by 0.1% in October, declining for the third consecutive month. Homebuilders continued to grapple with rising costs of lumber, land and workers.
- Initial jobless claims contracted by 3,000 to 231,000 in the week ending December 1. The more stable four-week moving average widened by 4,750 to 228,000. Continuing claims fell by 74,000 to 1.63 million.
- Retail sales in the eurozone grew by a better-than-expected 0.3% in October—an improvement, but further acceleration is necessary in the face of deteriorating consumer confidence in order for sales to help lift fourth-quarter gross domestic product.
- China's non-manufacturing purchasing managers' index (PMI) improved in November, signaling strengthening demand for the services sector. However, Chinese companies have begun seeing deteriorating profit margins due to rising costs and weakening employment.
- Japan's PMI reversed from a six-month high of 52.5 in November. The decline was attributed to a fall in new orders, slower output and weaker business sentiment.

U.S. Economic Calendar
- December 10: Job Outlook and Labor Turnover Survey (JOLTS)
- December 11: Producer Prices
- December 12: Mortgage Applications, Consumer Prices
- December 13: Jobless Claims, Import and Export Prices
- December 14: Industrial Production

Stocks
- Global equity markets were negative across the board this week; developed markets fell significantly behind emerging markets.
- U.S. equity sector performance was largely negative. Utilities was the only positive performer this week; industrials and financials fell to last place. Value stocks beat growth stocks, and large-cap stocks outperformed small-cap stocks.

Bonds
- Global bond markets were mostly positive this week. Global government bonds and global corporate bonds led, while global high-yield bonds lagged.
- The 10-year Treasury yield marked its largest one-week decline in over three years this week as investors remained wary of slowing global growth and sustained trade tensions.

The Numbers as of December 7, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-2.4%	-6.6%	-4.4%	479.2
MSCI EAFE ($)	-2.8%	-14.3%	-12.0%	1758.4
MSCI Emerging Mkts ($)	-1.6%	-15.5%	-11.1%	978.9
US & Canadian Equities				
Dow Jones Industrials ($)	-4.5%	-1.3%	0.7%	24389.0
S&P 500 ($)	-4.6%	-1.5%	-0.1%	2633.1
NASDAQ ($)	-4.9%	1.0%	2.3%	6969.3
S&P/ TSX Composite (C$)	-2.6%	-8.6%	-7.5%	14807.6
UK & European Equities				
FTSE All-Share (£)	-2.9%	-12.1%	-7.8%	3710.7
MSCI Europe ex UK (€)	-4.0%	-11.4%	-12.0%	1191.5
Asian Equities				
Topix (¥)	-2.8%	-10.8%	-9.3%	1620.5
Hong Kong Hang Seng ($)	-1.7%	-12.9%	-7.9%	26063.8
MSCI Asia Pac. Ex-Japan ($)	-1.5%	-14.9%	-11.0%	484.7
Latin American Equities				
MSCI EMF Latin America ($)	-1.1%	-9.1%	-4.5%	2571.7
Mexican Bolsa (peso)	0.4%	-15.1%	-10.8%	41903.6
Brazilian Bovespa (real)	-1.6%	15.3%	21.6%	88115.1
Commodities ($)				
West Texas Intermediate Spot	3.3%	-12.9%	-7.2%	52.6
Gold Spot Price	2.1%	-4.6%	-0.4%	1246.7
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.8%	-2.4%	-1.8%	473.3
JPMorgan Emerging Mkt Bond	0.5%	-5.5%	-5.1%	763.7
10-Year Yield Change (basis points*)				
US Treasury	-14	45	49	2.85%
UK Gilt	-10	8	1	1.26%
German Bund	-6	-18	-4	0.25%
Japan Govt Bond	-3	1	0	0.06%
Canada Govt Bond	-20	2	22	2.07%
Currency Returns**				
US$ per euro	0.8%	-5.0%	-3.1%	1.141
Yen per US$	-0.8%	0.0%	-0.4%	112.69
US$ per £	0.0%	-5.7%	-5.4%	1.275
C$ per US$	0.2%	5.9%	3.6%	1.332

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.

Index Definitions:

S&P 500 Index: The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks.

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