Weekly Update

Fed Plays it Cool on Interest Rates

February 1, 2019

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The Economy

- U.S. equities rallied this week as Federal Reserve (Fed) Chairman Jerome Powell admitted that the case for continued interest-rate hikes has weakened. Central-bank officials vowed to remain patient as the Federal Open Market Committee determines the appropriate next steps in adjusting the federal-funds target range. Economists believe the Fed has shifted into risk-management mode.
- Jobs growth in January came in well above expectations, surging by an extraordinarily strong 304,000 in nonfarm payrolls—significantly outpacing expectations for 170,000 new hires.
- The fourth-quarter gross domestic product report was delayed due to missing data. Economists forecast approximately $3 billion in reduced output for 2019 due to the historically long partial government shutdown that concluded last week.
- Consumer confidence plummeted to an 18-month low in January, triggered by the 35-day partial government shutdown. Such a dramatic reaction to this type of shock event is not atypical and is generally short-lived.
- The S&P CoreLogic Case-Schiller Home Price Index grew only by 0.3% in November. Home-price gains have been slowing since last spring, as higher mortgage rates closed the door on affordability. However, analysts believe the housing market has the potential to blossom this spring if wages and employment both continue to gain.
- Mortgage-purchase applications slid by 2.0% in the week ending January 25, while refinancing activity (which can be sensitive to even small rate changes) fell by 6.0%, likely due to the average interest rate on a 30-year fixed-rate mortgage rising to 4.75%.
- Initial jobless claims jumped by 54,000 in the week ending January 26. The more stable four-week moving average advanced by 5,250 to 220,250. Jobless claims tend to be volatile around the holidays and may also reflect filings by non-federal government workers who were temporarily unemployed during the government shutdown.
- The employment cost index receded slightly in the fourth quarter, with wage and salary pressure 0.3% lower; however, the year-over-year rate remained a robust 3.1%.
- Economic sentiment in the eurozone retreated from 107.3 to 106.2 in January. Industry, services and retail trade were hit the hardest, amid Brexit apprehension along with concerns about a trade war between China and the U.S.
- Retail sales in Japan increased by 1.3% year over year in December. Consumer spending on clothes and home appliances particularly inflated. Retail sales represent a key barometer of strength of private consumption.
- U.K. consumer credit eased by 6.6% year over year in December, its slowest annual growth rate in four years. The Bank of England said that credit-card borrowing was particularly weak, stoking concerns of a decelerating economy.

U.S. Economic Calendar

- February 5: International Trade
- February 6: Mortgage Applications, Productivity and Costs
- February 7: Jobless Claims, Consumer Credit
- February 8: Wholesale Trade

Stocks

- Global equity markets were positive this week; emerging markets led developed markets.
- U.S. equity sector performance was largely positive. Energy and consumer staples led, while consumer discretionary and financials lagged. Growth stocks beat value stocks, and large-cap stocks outperformed small-caps.

Bonds

- Global bond markets were positive this week. Global corporate bonds led, followed by global government bonds and high-yield bonds.
- The 10-year Treasury bond yield retreated to 2.69%.

The Numbers as of February 1, 2019	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.4%	7.8%	-9.2%	491.2
MSCI EAFE ($)	1.0%	6.5%	-15.0%	1831.1
MSCI Emerging Mkts ($)	1.7%	8.7%	-15.9%	1049.9
US & Canadian Equities				
Dow Jones Industrials ($)	1.3%	7.4%	-4.3%	25061.2
S&P 500 ($)	1.5%	7.9%	-4.2%	2704.7
NASDAQ ($)	1.4%	9.5%	-1.7%	7263.9
S&P/ TSX Composite (C$)	0.9%	8.3%	-2.2%	15508.5
UK & European Equities				
FTSE All-Share (£)	2.7%	4.8%	-6.4%	3851.9
MSCI Europe ex UK (€)	0.0%	6.2%	-9.5%	1238.3
Asian Equities				
Topix (¥)	-0.1%	4.7%	-16.3%	1564.6
Hong Kong Hang Seng ($)	1.3%	8.1%	-14.4%	27930.7
MSCI Asia Pac. Ex-Japan ($)	1.3%	7.2%	-15.3%	511.4
Latin American Equities				
MSCI EMF Latin America ($)	2.4%	14.9%	-8.7%	2947.6
Mexican Bolsa (peso)	0.4%	5.2%	-13.4%	43798.9
Brazilian Bovespa (real)	0.2%	11.3%	14.5%	97861.3
Commodities ($)				
West Texas Intermediate Spot	3.3%	21.7%	-16.0%	55.3
Gold Spot Price	1.5%	2.8%	-1.8%	1317.7
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.9%	1.5%	-0.7%	486.2
JPMorgan Emerging Mkt Bond	0.6%	4.4%	-0.1%	804.8
10-Year Yield Change (basis points*)				
US Treasury	-7	0	-10	2.69%
UK Gilt	-6	-3	-28	1.25%
German Bund	-3	-8	-55	0.16%
Japan Govt Bond	-1	-2	-11	-0.01%
Canada Govt Bond	-2	-1	-41	1.96%
Currency Returns**				
US$ per euro	0.5%	-0.1%	-8.4%	1.146
Yen per US$	0.0%	-0.2%	0.1%	109.50
US$ per £	-0.9%	2.6%	-8.3%	1.308
C$ per US$	-1.0%	-4.0%	6.7%	1.309

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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