Weekly Update
Consumer Spending Surge Jolts GDP
July 27, 2018

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Member FINRA/SIPC,
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The Economy

- Second-quarter gross domestic product (GDP) grew 4.1%, its highest annualized growth rate since 2014, primarily on strong business expenditures and a jump in exports ahead of expected retaliatory tariffs. Consumer spending also accelerated, by 4.0%, after growing by the slowest rate in five years during the previous quarter.
- A preliminary reading of Markit's purchasing managers' index (PMI) pointed to accelerating growth in July driven by the manufacturing sector; services expanded for the twenty-eighth consecutive month but slowed slightly from the previous month. The report also pointed to swelling cost pressure, which supports the case for additional interest-rate hikes this year.
- Initial jobless claims grew by 9,000 to 217,000 in the week ending July 21. The less-volatile four-week moving average fell by 2,750 to 218,000. Continuing claims decreased by 8,000 to 1.75 million in the week ending July 14, lingering near an historic low.
- The trade deficit widened in June to $68.3 billion (larger trade deficits detract from GDP growth). Imports rose by 0.6%, while exports slid 1.5% on weakness in vehicles and consumer goods.
- Durable-goods orders grew by a less-than-expected 1.0% in June, mainly on a boost in transportation equipment; growth in capital-goods shipments (used to calculate equipment spending in GDP) also suggested a possible strengthening of economic momentum.
- Existing-home sales slipped by 0.6% in June to an annualized rate of 5.38 million despite an increase in supply, as climbing prices sidelined potential homeowners. New-home sales fell by 5.3% to an annualized rate of 662,000 during the month. Both reports missed expectations and suggested that the trend higher in mortgage rates could continue to provide a headwind to buyers.
- Mortgage-purchase applications eased lower by 1% in the week ending July 20. Refinancing activity (which can be sensitive to even small rate changes) picked up 1%. Economists suggested that the robust labor market helped support the small gain in purchase applications, as mortgage rates were unchanged but remained near their highest level in more than seven years.
- The University of Michigan's consumer sentiment index slipped to a six-month low in July, as consumers remained concerned about how an all-out trade war might impact the economy.
- The European Central Bank (ECB) left eurozone interest rates unchanged in July. It also reaffirmed that its asset-purchase program will end in December 2018. This will mark the end of the ECB's quantitative easing program as it will cease injecting additional liquidity into its economy.
- Japanese manufacturing expanded at its slowest rate in 20 months, as output and new orders slowed.

U.S. Economic Calendar

- July 30: Pending Home Sales
- July 31: Personal Income and Outlays,
  S&P Corelogic Case-Shiller HPI, Consumer Confidence
- August 1: Mortgage Applications, PMI Manufacturing Index,
  ISM Manufacturing Index, FOMC Meeting Announcement
- August 2: Jobless Claims, Factory Orders
- August 3: Employment Situation, International Trade

Stocks

- Global equity markets gained this week. Emerging markets fared better than developed markets.
- Most U.S. equity sectors were positive. Energy and industrials led, while information technology and consumer discretionary lagged. Value stocks outgained growth stocks; large-cap stocks beat small-cap stocks.

Bonds

- Global bond markets were mostly negative this week. High-yield bonds outperformed, while investment-grade corporate and global government bonds underperformed.
- The 2-year Treasury yield rose to a 10-year high after the European Union offered concessions and agreed to buy more U.S. goods in order to avoid a trade war.

The Numbers as of July 27, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.1%	1.7%	9.1%	521.8
MSCI EAFE ($)	0.9%	-2.4%	3.4%	2002.3
MSCI Emerging Mkts ($)	1.8%	-6.0%	1.9%	1089.2
US & Canadian Equities				
Dow Jones Industrials ($)	1.6%	3.0%	16.8%	25451.1
S&P 500 ($)	0.6%	5.4%	13.9%	2818.8
NASDAQ ($)	-1.1%	12.1%	21.2%	7737.4
S&P/ TSX Composite (C$)	-0.3%	1.1%	7.9%	16385.2
UK & European Equities				
FTSE All-Share (£)	0.2%	0.3%	3.7%	4232.6
MSCI Europe ex UK (€)	1.3%	0.4%	2.8%	1350.8
Asian Equities				
Topix (¥)	1.8%	-2.3%	9.2%	1775.8
Hong Kong Hang Seng ($)	2.1%	-3.7%	6.2%	28804.3
MSCI Asia Pac. Ex-Japan ($)	1.1%	-4.6%	2.3%	543.4
Latin American Equities				
MSCI EMF Latin America ($)	2.2%	-4.3%	-1.0%	2707.9
Mexican Bolsa (peso)	1.6%	0.6%	-3.1%	49666.4
Brazilian Bovespa (real)	1.7%	4.6%	22.4%	79885.4
Commodities ($)				
West Texas Intermediate Spot	-2.5%	13.7%	40.1%	68.7
Gold Spot Price	-0.3%	-6.1%	-2.6%	1226.1
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.2%	-1.6%	0.0%	476.8
JPMorgan Emerging Mkt Bond	0.4%	-3.1%	-0.9%	783.1
10-Year Yield Change (basis points*)				
US Treasury	6	55	65	2.96%
UK Gilt	5	9	8	1.28%
German Bund	3	-2	-13	0.40%
Japan Govt Bond	7	6	3	0.10%
Canada Govt Bond	12	25	30	2.29%
Currency Returns**				
US$ per euro	-0.6%	-2.9%	-0.2%	1.166
Yen per US$	-0.4%	-1.5%	-0.2%	110.99
US$ per £	-0.2%	-3.0%	0.3%	1.310
C$ per US$	-0.6%	3.9%	4.1%	1.306

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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