Weekly Update

Jobs Jump as Unemployment Eases

As of August 4, 2017

INVESTMENT MANAGEMENT INC.

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The Economy

- The U.S. economy added 209,000 jobs in July, exceeding consensus forecasts by 31,000, led by hiring in factories and business services. The unemployment rate moderated by 0.1% to 4.3%, a 16-year low. Average hourly wages grew by 0.3% in the month, an improvement over recent disappointing reports.
- Personal income was unchanged in June, and consumer spending—a primary driver of economic growth and an indication of consumer confidence—rose just 0.1%. Personal consumption expenditures (the Federal Reserve's preferred inflation measure) moved 1.4% higher year over year, remaining below the central bank's 2% target and calling into question the likelihood of interest rates rising later this year.
- The trade deficit shrank to $43.6 billion in June from $46.4 billion in May. Imports fell by 0.2% as demand for household goods eased; exports climbed by 1.2%, partly driven by overseas demand for commodities and computer accessories. A narrowing trade deficit helps support economic growth.
- Construction spending moved 1.3% lower in June, but was 1.6% higher year over year. Private non-residential outlays were mostly unchanged, while weakness in the public non-residential sector drove the report downward. The decline in infrastructure spending was the largest in 15 years and raises concerns that construction may not support the economy as much as analysts had expected.
- The Institute for Supply Management's July manufacturing purchasing managers' index (PMI) improved on the strength of new export orders and production. A similar report from Markit also showed strength in new orders, but depicted an ongoing absence of inflationary pressure.
- Initial jobless claims slipped 5,000 to 240,000 in the week ending July 29. The four-week moving average (considered a more reliable gauge of unemployment) dropped 2,500 to 241,750. Continuing claims climbed 3,000 in the week ending July 22, while the four-week moving average of continuing claims rose 750 to 1.97 million. Unemployment remained historically low due to persistently robust demand for labor.
- Mortgage-purchase applications fell by 2% in the week ending July 28 as mortgage rates remained steady. Refinancing, which is highly rate-sensitive, dropped by 4% in the same period.
- The eurozone economy expanded by 0.6% in the second quarter, the fastest pace in a year, according to preliminary estimates.
- The Bank of England left interest rates unchanged at 0.25%, with members of the rate-setting Monetary Policy Committee divided over the outlook for inflation. The central bank also left its asset-purchase program unchanged, maintaining a conservative stance until the economic outlook becomes more certain.
- Activity in China's manufacturing sector remained strong during July, according to a PMI reading; increases in production and new orders offset a weaker reading in employment.
- Japan's PMI composite dipped in July; both manufacturing and service-sector activity nevertheless remained in expansion territory, albeit at a slower pace.

U.S. Economic Calendar

- August 7: Consumer Credit
- August 8: Job Openings and Labor Turnover Survey (JOLTS)
- August 9: Mortgage Applications, Productivity and Costs
- August 10: Jobless Claims, Producer Prices
- August 11: Consumer Prices

Stocks

- Global equities advanced this week, led by developed markets.
- U.S. equity sectors were mixed. Financials and utilities did best, while energy and materials lagged. Value stocks outperformed growth stocks and large-company stocks beat small-company stocks.

Bonds

- Global bond markets were higher on the week. Global government bonds led the overall advance, followed by global corporate bonds and global high-yield bonds.
- U.S. Treasury yields fell as investors grew uneasy about global economic growth after the Bank of England held interest rates at a record low and lowered its economic and inflation forecasts.

The Numbers as of August 4, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	0.4%	13.6%	16.0%	479.1
MSCI EAFE ($)	1.2%	16.1%	17.5%	1955.4
MSCI Emerging Mkts ($)	0.1%	23.4%	21.5%	1064.1
US & Canadian Equities				
Dow Jones Industrials ($)	1.2%	11.8%	20.4%	22092.8
S&P 500 ($)	0.2%	10.6%	14.4%	2476.8
NASDAQ ($)	-0.4%	18.0%	22.9%	6351.6
S&P/ TSX Composite (C$)	0.9%	-0.2%	5.0%	15257.4
UK & European Equities				
FTSE All-Share (£)	1.8%	6.2%	12.4%	4114.2
MSCI Europe ex UK (€)	0.4%	8.3%	17.0%	1310.7
Asian Equities				
Topix (¥)	0.6%	7.4%	27.2%	1631.5
Hong Kong Hang Seng ($)	2.2%	25.3%	26.2%	27562.7
MSCI Asia Pac. Ex-Japan ($)	0.2%	23.7%	21.3%	528.0
Latin American Equities				
MSCI EMF Latin America ($)	1.2%	18.8%	15.7%	2779.7
Mexican Bolsa (peso)	0.3%	12.5%	9.4%	51347.5
Brazilian Bovespa (real)	2.2%	11.1%	16.2%	66935.0
Commodities ($)				
West Texas Intermediate Spot	-0.3%	-7.7%	18.2%	49.6
Gold Spot Price	-0.9%	9.0%	-7.7%	1257.4
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.8%	6.8%	-0.6%	481.9
JPMorgan Emerging Mkt Bond	0.7%	7.5%	4.9%	794.6
10-Year Yield Change (basis points*)				
US Treasury	-3	-18	76	2.26%
UK Gilt	-4	-6	53	1.18%
German Bund	-7	26	56	0.47%
Japan Govt Bond	-1	2	14	0.07%
Canada Govt Bond	-11	20	87	1.92%
Currency Returns**				
US$ per euro	0.2%	12.0%	5.8%	1.178
Yen per US$	0.0%	-5.4%	9.3%	110.68
US$ per £	-0.7%	5.7%	-0.5%	1.305
C$ per US$	1.8%	-5.8%	-2.8%	1.266

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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