Weekly Update

Tight Housing and Rising Manufacturing

As of September 22, 2017

BPU INVESTMENT MANAGEMENT INC.

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The Economy

- The Federal Reserve (Fed) left interest rates unchanged in September despite moderate economic expansion, citing declining inflation; it did hint at a third rate hike before the end of 2017, while another three hikes are projected for 2018. Perhaps most significantly, the central bank also confirmed it would begin unwinding its $4.5 trillion balance sheet in October.
- Import prices increased by 0.6% in August, the biggest advance in seven months, mostly due to higher fuel costs; year-over-year growth climbed by 2.1%, an indication of a rebound in underlying inflation. Export prices also advanced by 0.6% in August, bringing the year-over-year gain to 2.3%.
- Housing starts dipped 0.8% in August, as a pick-up in single-family home construction was offset by instability in the multifamily home segment. The report suggested that housing may hinder economic growth as labor shortages and rising material costs continue to present headwinds.
- Existing-home sales unexpectedly eased by 1.7% in August to an annualized rate of 5.35 million, due to constrained availability and weak wage growth amid price appreciation in the housing market.
- Initial jobless claims fell by 23,000 to 259,000 in the week ending September 16; an increase in claims from hurricane-affected Florida was offset by a drop in filings from hurricane-impacted Texas and an otherwise-strong job market. The four-week moving average (considered a more reliable measure of unemployment trends) rose by 5,500 to 268,750. Continuing claims jumped by 44,000 to 1.98 million in the week ending September 9.
- Purchasing managers reported accelerating manufacturing growth in September, according to Markit's preliminary survey. Expansion in the service sector appeared to settle, but at still-healthy levels.
- The Philadelphia Fed Survey showed that regional manufacturing growth expanded during September; new orders and shipments both had historically strong readings.
- The Conference Board's index of leading economic indicators recorded a better-than-expected 0.4% in August, its eighth straight monthly increase—pointing to continued economic strengthening.
- Mortgage-purchase applications retreated 11% in the week ending September 15, as the long holiday weekend and higher rates hampered volume. Refinancing activity, which is highly rate-sensitive, slumped 9% in the same period.
- Inflation in the eurozone rose 0.3% in August, driven by higher energy costs, while the year-over-year rate confirmed the earlier flash estimate at 1.5%.
- U.K. retail sales improved by 1.0% in August despite recent inflationary pressures on consumers—likely boosting the odds that the Bank of England will raise interest rates later this year.
- The Bank of Japan maintained its short-term interest-rate target and government-bond purchase rate, pointing to the country's stable economic recovery.

U.S. Economic Calendar

- September 26: S&P Corelogic Case-Shiller HPI, New Home Sales, Consumer Confidence
- September 27: Mortgage Applications, Durable Goods, Pending Home Sales
- September 28: GDP, International Trade, Jobless Claims
- September 29: Personal Income and Outlays, Consumer Sentiment

Stocks

- Global equities were higher this week. Emerging markets continued to outpace developed markets.
- U.S. equity sectors were mixed. Telecommunications and financials were the top performers, while utilities and consumer staples lagged. Value stocks continued to lead growth stocks and small-company stocks beat large-company stocks again.

Bonds

- Global bond markets were lower this week. High yield bonds outperformed, followed by corporate bonds. Global government bonds lagged.
- U.S. Treasury yields rose, with the yield on U.S. 2-year Treasurys at an almost nine-year high, after the Fed suggested a third rate hike was still likely in 2017 and maintained its view for three additional hikes in 2018.

The Numbers as of September 22, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	0.2%	15.2%	15.0%	486.1
MSCI EAFE ($)	0.3%	16.9%	14.0%	1969.3
MSCI Emerging Mkts ($)	0.5%	28.5%	20.3%	1108.2
US & Canadian Equities				
Dow Jones Industrials ($)	0.4%	13.1%	21.5%	22349.6
S&P 500 ($)	0.1%	11.8%	14.9%	2502.6
NASDAQ ($)	-0.3%	19.4%	20.4%	6426.9
S&P/ TSX Composite (C$)	1.9%	1.1%	4.5%	15456.1
UK & European Equities				
FTSE All-Share (£)	1.2%	3.5%	6.5%	4008.9
MSCI Europe ex UK (€)	0.7%	10.0%	14.7%	1332.0
Asian Equities				
Topix (¥)	1.6%	9.6%	23.1%	1664.6
Hong Kong Hang Seng ($)	0.3%	26.7%	17.3%	27880.5
MSCI Asia Pac. Ex-Japan ($)	0.4%	26.8%	18.7%	540.8
Latin American Equities				
MSCI EMF Latin America ($)	-0.3%	27.3%	22.7%	2979.0
Mexican Bolsa (peso)	0.8%	10.2%	4.9%	50314.4
Brazilian Bovespa (real)	-0.6%	25.1%	27.7%	75316.6
Commodities ($)				
West Texas Intermediate Spot	0.8%	-6.3%	9.0%	50.3
Gold Spot Price	-2.1%	12.3%	-3.4%	1294.9
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.5%	6.7%	-0.8%	481.6
JPMorgan Emerging Mkt Bond	-0.5%	8.7%	3.8%	803.1
10-Year Yield Change (basis points*)				
US Treasury	6	-19	64	2.26%
UK Gilt	5	12	65	1.35%
German Bund	2	24	54	0.45%
Japan Govt Bond	1	-1	6	0.03%
Canada Govt Bond	2	39	101	2.11%
Currency Returns**				
US$ per euro	0.0%	13.6%	6.6%	1.195
Yen per US$	1.1%	-4.2%	11.2%	112.07
US$ per £	-0.5%	9.6%	3.4%	1.352
C$ per US$	1.2%	-8.2%	-5.4%	1.234

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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Newlin Archinal CFP®, CRPC®, AIF®
Vice President
BPU Investment Management, Inc.
One Oxford Centre
301 Grant Street, Suite 3300
Pittsburgh, PA 15219
P: 412.288.9150
F: 412.288.9180
www.bpuinvestments.com
Member FINRA/SIPC & an SEC registered investment advisor

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