Weekly Update

Manufacturing Up, Joblessness Down as Presidency Changes Hands

As of January 20, 2017

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The Economy

- Federal Reserve (Fed) Chair Janet Yellen suggested in her speech at Stanford University that the central bank will adhere to its plan of gradual rate hikes, dismissing the possibility that U.S. economic growth will pick up in the foreseeable future. Yellen cited multiple long-term forces — including weak foreign demand, an aging U.S. population and rising interest rates — as impediments to near-term growth. Her conservative perspective runs counter to investors who believe the Trump administration's policies will boost growth that could lead to faster inflation.
- The Philadelphia Fed Survey showed major improvement for the struggling industrial sector in January. Standouts from the report included input prices (which reached their highest level since February 2012) and selling prices (the best reading since July 2008), new orders and general conditions (both of which hit their best levels since November 2014), and employment, which saw its best reading since April 2015.
- Initial jobless claims fell by a significant 15,000 in the week ending January 14 to a much lower-than-anticipated 234,000 — a sign that the job market continues to tighten. The four-week moving average, which takes into account layoffs over the past month and is widely seen as a more reliable gauge of unemployment, fell by 10,250 to 246,750, its lowest level since November 1973. Continuing claims also decreased 47,000 to 2,046,000 for the week ending January 7.
- Consumer prices advanced 0.3% in December, bringing year-over-year growth to 2.1%. Energy prices led, posting their fourth consecutive monthly gain. Housing prices increased 0.3% and medical-care prices inched up by 0.2%. On the negative side, apparel prices fell 0.7%, while food prices were flat for the month.
- Housing starts grew by 11.3% in December, led by the multi-unit segment, which jumped 57%; single-family housing starts declined 4%. Permits fell by 0.2% for the month, a greater decline than expected; although single-family permits rose 4.7% and multi-units dropped 9%, demonstrating that the supply of single-family homes has not yet caught up with demand for them.
- Mortgage purchase applications fell 5% in the week ending January 13. Refinancing applications jumped 7%, likely due to a drop in mortgage rates.
- The U.K. saw increased inflation in December. Consumer prices grew by 0.5%, led by transport and food and non-alcoholic drinks. The monthly boost was sufficient to lift the annual inflation rate to 1.6%, the highest yearly gain since July 2014.
- The European Central Bank (ECB) left interest rates unchanged at its January meeting. Its asset-purchase program will remain at 80 billion euros per month until the end of March, and then reduced to 60 billion through year-end, as announced in late 2016. ECB President Mario Draghi emphasized the need for significant monetary accommodation in order to stabilize prices.
- China's gross domestic product rose 6.7% for 2016 and grew by 6.8% in the fourth quarter year over year. Although private-business investing was down in 2016, a combination of bank lending, monetary stimulus and fiscal spending helped.

U.S. Economic Calendar

- January 24: PMI Flash, Existing Home Sales
- January 26: International Trade, Jobless Claims, New Home Sales
- January 27: Durable Goods Orders, GDP, Consumer Sentiment

Stocks

- U.S. stocks were largely negative this week; the Dow Jones and S&P 500 Index both had their second consecutive weekly loss. Global equities were mixed.
- U.S. sectors were mostly positive. Consumer staples and telecommunications led while healthcare and financials lagged. Large-company stocks beat small-company stocks and growth stocks outperformed value stocks.

Bonds

- Global bond markets were negative this week. Global high-yield bonds did best, followed by global government bonds. Global corporate bonds lagged.
- U.S. Treasury yields rose this week after Trump's inauguration speech reinforced his protectionist campaign stance, which investors fear could hurt the economy.

The Numbers as of January 20, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.6%	1.7%	19.6%	428.8
MSCI EAFE ($)	-0.9%	1.7%	12.8%	1712.2
MSCI Emerging Mkts ($)	-0.2%	3.7%	29.9%	894.5
US & Canadian Equities				
Dow Jones Industrials ($)	-0.3%	0.3%	24.8%	19827.3
S&P 500 ($)	-0.1%	1.5%	21.5%	2271.3
NASDAQ ($)	-0.3%	3.2%	24.2%	5555.3
S&P/ TSX Composite (C$)	0.3%	1.7%	29.2%	15547.9
UK & European Equities				
FTSE All-Share (£)	-1.7%	0.8%	22.9%	3902.7
MSCI Europe ex UK (€)	-1.0%	0.5%	10.9%	1217.2
Asian Equities				
Topix (¥)	-0.7%	1.0%	17.8%	1533.5
Hong Kong Hang Seng ($)	-0.2%	4.0%	23.4%	22885.9
MSCI Asia Pac. Ex-Japan ($)	0.1%	4.6%	24.5%	446.2
Latin American Equities				
MSCI EMF Latin America ($)	0.1%	3.7%	53.3%	2426.4
Mexican Bolsa (peso)	0.3%	1.5%	12.5%	46331.6
Brazilian Bovespa (real)	1.4%	7.1%	71.1%	64521.2
Commodities ($)				
West Texas Intermediate Spot	0.1%	-2.4%	85.4%	52.4
Gold Spot Price	0.7%	4.5%	10.1%	1205.5
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.3%	0.1%	1.6%	451.9
JPMorgan Emerging Mkt Bond	-0.3%	1.1%	13.7%	747.4
10-Year Yield Change (basis points*)				
US Treasury	7	2	43	2.46%
UK Gilt	7	19	-24	1.43%
German Bund	8	22	-3	0.42%
Japan Govt Bond	2	2	-17	0.07%
Canada Govt Bond	3	3	48	1.75%
Currency Returns**				
US$ per euro	0.5%	1.7%	-1.6%	1.070
Yen per US$	0.0%	-2.1%	-2.7%	114.51
US$ per £	1.5%	0.2%	-13.1%	1.237
C$ per US$	1.6%	-0.9%	-6.6%	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.

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