Weekly Update

Fed Raises Rates Amidst Soft Economic Data

As of June 16, 2017

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The Economy

- The Federal Reserve (Fed) raised the federal funds target rate (the overnight lending rate it charges banks to borrow money) by 0.25% this week and forecast an additional rate hike for the year, citing a strengthening job market and increased business spending. The Fed also expects to initiate unwinding its $4.5 trillion balance sheet this year.
- Retail sales fell by 0.3% in May as consumer spending remained weak. Economists blamed dwindling auto purchases and discretionary spending for the unexpected decline. Lackluster retail sales indicate reduced consumer spending, which accounts for 70% of the U.S. economy.
- Consumer prices declined by 0.1% in May, bringing year-over-year growth to 1.9%. Weakness in energy, clothing and housing contributed to the softer-than-expected report. Producer prices were flat as a falling dollar and lower energy costs mitigated upward pricing pressure in food and services.
- Import prices retreated in May by 0.2%, mostly due to a 3.7% slide in petroleum, yet advanced by 2.1% in the one-year period. The drop was the largest in 15 months and could indicate that U.S. inflation has slowed. Export prices sank 0.7% lower in May, cutting the year-over-year gain to 1.4%; agricultural export prices significantly lagged, retreating by 1.6% in the month.
- Mortgage-purchase applications dropped by 3% in the week ending June 9, despite a decline in rates, as affordability continued to be an issue in the housing market. Refinancing continued to pick up, rising by 9% in the same period, as falling rates helped extend the rush to refinance.
- Initial jobless claims fell by 8,000 to 237,000 in the week ending June 10. The four-week moving average (considered a more reliable gauge of unemployment) rose by 1,000 to 243,000. Continuing claims climbed by 6,000, while the four-week moving average of continuing claims for the week ending June 3 was up 9,000 to 1.927 million.
- The Philadelphia Fed Survey showed slower—but strong—manufacturing growth in the region in June. Hiring and new orders were both solid.
- Housing starts dropped by a worse-than-expected 5.5% in May to the lowest level since November, due to adverse weather, labor shortages and rising materials prices.
- Industrial production in the eurozone improved by 0.5% in April; gains in non-durable consumer goods, durables and intermediates erased losses attributed to capital goods.
- The Bank of England left interest rates unchanged at 0.25% despite a strong labor market and increased inflation worries. The central bank also left its asset-purchase program unchanged, maintaining a conservative stance until the Brexit process becomes clearer.
- Industrial production in China rose by 0.5% in May, led by manufacturing, bringing year-over-year growth to 6.5%.
- Pointing to Japan's continued moderate economic recovery, Bank of Japan officials left both its short-term interest-rate target and government-bond purchase rate unchanged.

U.S. Economic Calendar

- June 21: Mortgage Applications, Existing Home Sales
- June 22: Jobless Claims, Leading Indicators
- June 23: PMI Composite Flash, New Home Sales

Stocks

- Global equities were down this week. Emerging markets declined by more than developed markets.
- U.S. equity sectors were mixed. Industrials and utilities outperformed, while information technology and materials lagged. Value stocks outperformed growth stocks and large-company stocks beat small-company stocks.

Bonds

- Global bonds gained this week. Global corporate bonds were strongest, followed by global government bonds and global high-yield bonds.
- U.S. Treasury yields fell after disappointing economic reports countered an expected rate hike by the Fed.

The Numbers as of June 16, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.5%	10.2%	18.5%	464.7
MSCI EAFE ($)	-0.8%	11.5%	19.6%	1877.0
MSCI Emerging Mkts ($)	-1.4%	16.4%	25.5%	1003.6
US & Canadian Equities				
Dow Jones Industrials ($)	0.5%	8.2%	20.6%	21384.3
S&P 500 ($)	0.1%	8.7%	17.1%	2433.2
NASDAQ ($)	-0.9%	14.3%	27.0%	6151.8
S&P/ TSX Composite (C$)	-1.7%	-0.5%	9.6%	15213.9
UK & European Equities				
FTSE All-Share (£)	-0.6%	5.5%	25.2%	4085.0
MSCI Europe ex UK (€)	-1.1%	9.0%	23.9%	1319.9
Asian Equities				
Topix (¥)	0.3%	5.1%	28.6%	1596.0
Hong Kong Hang Seng ($)	-1.6%	16.5%	27.9%	25626.5
MSCI Asia Pac. Ex-Japan ($)	-0.7%	17.5%	25.1%	501.5
Latin American Equities				
MSCI EMF Latin America ($)	0.0%	8.3%	22.3%	2534.9
Mexican Bolsa (peso)	0.5%	8.1%	9.1%	49341.6
Brazilian Bovespa (real)	-0.8%	2.4%	24.9%	61690.7
Commodities ($)				
West Texas Intermediate Spot	-2.4%	-16.7%	-3.2%	44.7
Gold Spot Price	-1.0%	8.8%	-3.7%	1254.6
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.1%	4.5%	-1.4%	471.6
JPMorgan Emerging Mkt Bond	0.0%	7.0%	9.0%	790.6
10-Year Yield Change (basis points*)				
US Treasury	-5	-29	57	2.15%
UK Gilt	1	-22	-9	1.02%
German Bund	1	7	30	0.28%
Japan Govt Bond	0	1	25	0.06%
Canada Govt Bond	10	-20	42	1.52%
Currency Returns**				
US$ per euro	0.0%	6.5%	-0.2%	1.120
Yen per US$	0.5%	-5.2%	6.3%	110.84
US$ per £	0.3%	3.6%	-10.0%	1.278
C$ per US$	-1.8%	-1.6%	2.0%	1.322

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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