Weekly Update
Jobs Jump; Wages Weighed Down by Weak Productivity
As of July 7, 2017

BPU INVESTMENT MANAGEMENT INC.

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The Economy

- The U.S. economy added 222,000 jobs in June, exceeding the forecasted amount by 52,000, led by business services. Unemployment inched up by 0.1% to 4.4% due to an increase in labor-force participation. Average hourly wages grew by a disappointing 0.2% in the month and by 2.5% year over year, an indication of weak productivity. While some analysts might suggest that faster wage growth is needed for a strong economy, the report likely keeps the Federal Reserve on pace for another interest-rate hike later this year.
- The Federal Open Market Committee's (FOMC) June meeting minutes revealed division among its members over inflation and balance-sheet policy. FOMC members had differing perspectives on the proper timing of the central bank's balance-sheet reduction; some members preferred a deferred decision to allow additional time to assess the outlook for economic activity and inflation.
- The trade deficit eased to $46.5 billion in May from $47.6 billion in April. Imports fell by 0.1%, despite increased demand for capital goods; exports climbed by 0.4%, partly driven by overseas demand for U.S. technical and managerial services. A narrowing trade deficit helps support economic growth.
- Initial jobless claims rose by 4,000 to 248,000 in the week ending July 1. The four-week moving average (considered a more reliable gauge of unemployment) moderated by 750 to 243,000. Continuing claims climbed by 11,000 in the week ending June 24, while the four-week moving average of continuing claims rose by 6,750 to 1.946 million. Despite these increases, jobless claims remain historically low due to continued strong demand for labor.
- The Institute for Supply Management's May manufacturing purchasing managers' index improved on the strength of new export orders and production. A similar report from Markit, however, was significantly less optimistic: its index fell to a six-month low due to a slowdown in hiring and new orders.
- Construction spending was unchanged in May, but grew by 4.5% year over year. Gains in public construction spending offset weakened demand for construction in the private sector.
- Mortgage-purchase applications rose by 3.0% in the week ending June 30, pointing to renewed strength in the housing market despite a slight increase in rates. Refinancing, which is highly rate-sensitive, dropped by 0.4% in the same period.
- Eurozone producer prices dipped 0.4% in May, dropping the annual rate to 3.3%, as inflation in the region remained weak.
- Industrial production in the U.K. contracted by 0.1% in May as a result of reduced manufacturing output, particularly in motor vehicles; low wage growth continued to hold back consumer spending.
- The People's Bank of China made no major monetary policy changes in the second quarter, assuring that the domestic currency would be kept stable through the use of a prudent and neutral monetary policy.

U.S. Economic Calendar

- July 10: Consumer Credit
- July 11: Job Openings and Labor Turnover (JOLTS)
- July 12: Mortgage Applications
- July 13: Jobless Claims, PPI
- July 14: CPI, Retail Sales, Industrial Production, Consumer Sentiment

Stocks

- Global equities were lower this week. Emerging markets struggled, while developed markets fell slightly.
- U.S. equity sectors were mixed. Financials and industrials led, while telecommunications and energy slumped. Growth stocks outperformed value stocks and small-company stocks narrowly beat large-company stocks.

Bonds

- Global bonds were lower this week. Global government bonds led the overall decline, followed by global corporate and global high-yield bonds.
- U.S. Treasury yields rose as investors remained on alert about the possible end of global central banks' easy-money policies.

The Numbers as of July 7, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.4%	9.8%	16.7%	463.3
MSCI EAFE ($)	0.0%	11.8%	18.9%	1882.6
MSCI Emerging Mkts ($)	-0.5%	16.7%	21.7%	1006.2
US & Canadian Equities				
Dow Jones Industrials ($)	0.3%	8.4%	19.7%	21414.3
S&P 500 ($)	0.1%	8.3%	15.6%	2425.2
NASDAQ ($)	0.2%	14.3%	26.2%	6153.1
S&P/ TSX Composite (C$)	-1.1%	-1.8%	6.2%	15016.0
UK & European Equities				
FTSE All-Share (£)	0.5%	3.8%	14.4%	4020.8
MSCI Europe ex UK (€)	0.5%	7.7%	22.0%	1304.1
Asian Equities				
Topix (¥)	-0.3%	5.8%	31.1%	1607.1
Hong Kong Hang Seng ($)	-1.6%	15.2%	22.4%	25340.9
MSCI Asia Pac. Ex-Japan ($)	-0.5%	17.7%	21.3%	502.4
Latin American Equities				
MSCI EMF Latin America ($)	-0.6%	8.1%	14.9%	2529.2
Mexican Bolsa (peso)	0.4%	9.6%	10.2%	50045.0
Brazilian Bovespa (real)	-0.9%	3.5%	19.9%	62350.5
Commodities ($)				
West Texas Intermediate Spot	-3.9%	-17.7%	-2.0%	44.2
Gold Spot Price	-2.5%	5.1%	-11.0%	1211.6
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.5%	3.9%	-3.3%	468.9
JPMorgan Emerging Mkt Bond	-0.7%	5.4%	3.6%	779.1
10-Year Yield Change (basis points*)				
US Treasury	8	-6	100	2.39%
UK Gilt	5	7	52	1.30%
German Bund	11	37	74	0.57%
Japan Govt Bond	0	4	36	0.09%
Canada Govt Bond	12	16	91	1.88%
Currency Returns**				
US$ per euro	-0.2%	8.4%	3.1%	1.140
Yen per US$	1.4%	-2.6%	13.0%	113.91
US$ per £	-1.1%	4.4%	-0.2%	1.288
C$ per US$	-0.6%	-4.2%	-0.9%	1.288

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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