

Weekly Update

Stocks Buoyant on Bullish News

January 4, 2019



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The Economy

- U.S. equity markets advanced in the first week of the year in response to the U.S. economy adding a robust 312,000 jobs last month. Stocks also rallied on comments made by Federal Reserve (Fed) Chairman Jerome Powell that the central bank will take a more cautious approach to interest-rate hikes, easing fears of a tighter monetary policy in the short-term.
- Nonfarm payrolls expanded by a better-than-expected 312,000 in December. Average hourly earnings rose by 3.2% year over year, and the jobless rate inched up from a historical low of 3.7% to 3.9%. The U.S. dollar jumped in response to the positive reading.
- The Markit manufacturing purchasing managers' index (PMI) softened to 53.8 in December from 55.3 in November, hitting a 15-month low amid decelerating manufacturing activity and waning optimism. Most U.S. manufacturers reported higher costs due to the rise in prices from tariffs. The reading also hinted at signs of slower demand growth. A similar report from the Institute for Supply Management echoed these findings. Despite the slipping readings, activity in the manufacturing sector remained in expansion mode.
- Motor-vehicle sales registered a soft finish for the year. Rising interest rates have weighed heavily on new sales (higher interest rates translate to more expensive monthly car payments for consumers, discouraging vehicle purchases).
- Initial jobless claims increased by 15,000 to 231,000 in the week ending December 29. The more stable four-week moving average grew modestly by 750 to 218,750. Continuing claims expanded by 32,000 to 1.74 million.
- Mortgage-purchase applications dropped by 8.0% in the week ending December 28, while refinancing activity (which can be sensitive to even small rate changes) shrank 12.0%. Despite the recent decline in mortgage rates in the past month, many Americans have put home buying on hold due to stock-market turmoil. The average interest rate on a 30-year fixed-rate mortgage dipped to 4.84%, the lowest level in three months.
- China's manufacturing PMI decelerated from 50.2 in November to 49.7 in December. Output production nevertheless moved slightly higher in the month.
- The eurozone's December manufacturing PMI slipped to 51.4 from 51.8 in November, recording the slowest pace of growth since February 2016. Soft new orders and a net decline in export trade weighed on the reading, while production increased modestly. Business confidence regarding output hit the lowest level since December 2012.

U.S. Economic Calendar

- January 7: Markit Services PMI
- January 8: International Trade, Job Openings and Labor Turnover Survey (JOLTS), Consumer Credit
- January 9: Mortgage Applications
- January 10: Jobless Claims
- January 11: Consumer Prices

Stocks

- Global equity markets were negative this week; developed markets led emerging markets.
- U.S. equity sector performance was mostly positive. Energy and telecommunication led, while utilities and information technology lagged. Value stocks beat growth stocks, and small-cap stocks outperformed large-cap stocks.

Bonds

- Global bond markets were mostly positive this week. Global government bonds led, followed by global corporate bonds and global high-yield bonds.
- The 10-year Treasury bond yield retreated to 2.66%.

| The Numbers as of January 4, 2019 | 1 Week | YTD | 1 Year | Friday's Close |
|---|--------|-------|--------|-------------------|
| Global Equity Indices | | | | |
| MSCI ACWI (\$) | -1.0% | -1.6% | -14.3% | 448.2 |
| MSCI EAFE (\$) | -0.1% | -0.6% | -18.1% | 1710.2 |
| MSCI Emerging Mkts (\$) | -1.4% | -1.7% | -20.4% | 949.6 |
| US & Canadian Equities | | | | |
| Dow Jones Industrials (\$) | 1.6% | 0.4% | -6.6% | 23432.2 |
| S&P 500 (\$) | 1.7% | 0.8% | -7.2% | 2528.2 |
| NASDAQ (\$) | 2.3% | 1.5% | -4.8% | 6735.4 |
| S&P/TSX Composite (C\$) | 1.4% | 0.7% | -12.1% | 14423.0 |
| UK & European Equities | | | | |
| FTSE All-Share (£) | 1.6% | 1.6% | -11.7% | 3733.6 |
| MSCI Europe ex UK (€) | -0.5% | -0.9% | -15.7% | 1155.0 |
| Asian Equities | | | | |
| Topix (¥) | -1.5% | -1.5% | -21.1% | 1471.2 |
| Hong Kong Hang Seng (\$) | 0.5% | -0.8% | -16.6% | 25626.0 |
| MSCI Asia Pac. Ex-Japan (\$) | -2.2% | -2.5% | -20.2% | 465.1 |
| Latin American Equities | | | | |
| MSCI EMF Latin America (\$) | 4.9% | 5.0% | -9.0% | 2694.0 |
| Mexican Bolsa (peso) | 2.2% | 1.8% | -14.8% | 42386.1 |
| Brazilian Bovespa (real) | 4.5% | 4.5% | 16.8% | 91840.8 |
| Commodities (\$) | | | | |
| West Texas Intermediate Spot | 5.8% | 5.6% | -22.7% | 48.0 |
| Gold Spot Price | 0.4% | 0.2% | -2.7% | 1284.5 |
| Global Bond Indices (\$) | | | | |
| Barclays Global Aggregate (\$) | 0.8% | 0.6% | -0.7% | 481.8 |
| JPMorgan Emerging Mkt Bond | 0.5% | 0.6% | -4.3% | 775.0 |
| 10-Year Yield Change (basis points*) | | | | |
| US Treasury | -6 | -3 | 21 | 2.66% |
| UK Gilt | 1 | 0 | 4 | 1.28% |
| German Bund | -3 | -3 | -23 | 0.21% |
| Japan Govt Bond | -4 | -4 | -10 | -0.04% |
| Canada Govt Bond | -3 | -4 | -16 | 1.92% |
| Currency Returns** | | | | |
| US\$ per euro | -0.4% | -0.6% | -5.5% | 1.140 |
| Yen per US\$ | -1.6% | -1.1% | -3.8% | 108.47 |
| US\$ per £ | 0.3% | -0.1% | -6.0% | 1.274 |
| C\$ per US\$ | -1.7% | -1.7% | 7.3% | 1.340 |
| 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. | | | | |

Index Definitions:

S&P 500 Index: The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks.

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