Weekly Update
Fed Raises amid Trade Tremors
March 23, 2018

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The Economy

- As telegraphed, the Federal Reserve (Fed) raised its target federal funds rate (the overnight lending rate it charges banks to borrow money) by 0.25% in Jerome Powell's first meeting as Fed Chair, citing an upgrade in the Fed's economic forecast and confidence in the active job market. The central bank indicated the likelihood of two more hikes in 2018. Such increases by the Fed can have a downstream effect of pushing credit-card and loan rates higher.
- President Trump announced new tariffs on certain targeted Chinese exports and proposed plans to impose U.S. investment restrictions on China. However, Trump also said the U.S. would continue to engage with China to lessen the existing trade imbalance diplomatically.
- A preliminary reading of Markit's March purchasing managers' index (PMI) pointed to economic growth, but at a slower rate than the previous month. Services came in below expectations but remained in solid expansion territory; manufacturing hit a three-year high, driven by orders, production and employment. The report also indicated swelling pricing pressure that supports the case for additional interest-rate increases this year.
- Durable-goods orders climbed by a better-than-expected 3.1% in February, driven by civilian aircraft orders and core capital goods, suggesting growth in business investment and strengthening economic momentum.
- Initial jobless claims grew by 4,000 to 229,000 in the week ending March 17, as labor-market strength remained near multi-decade highs. The less-volatile four-week moving average rose by 2,250 to 223,750. Continuing claims fell by 57,000 to 1.83 million in the week ending March 10, a 45-year low. Analysts suggested that the robust job market should begin to drive wage growth later this year.
- Existing-home sales rebounded higher by 3.0% in February to an annualized rate of 5.54 million, despite tight supply and rising mortgage rates that sidelined many potential buyers. Economists reported that the acute shortage of homes remained a concern. February new-home sales eased lower by 0.6% to an annualized rate of 618,000.
- The Conference Board's index of leading economic indicators recorded a better-than-expected 0.6% gain in February, its fourth straight monthly increase, supported by strength in unemployment claims. The reading, used by economists to gauge the health of the U.S. economy, pointed to continued vitality.
- Economic growth in the eurozone slowed to a 14-month low in March, according to preliminary data from the composite PMI, with services and manufacturing both decelerating. Analysts commented that the slowdown could provide a temporary headwind to eurozone inflation.
- The Bank of England left interest rates at 0.5% in a contested vote by members of the rate-setting Monetary Policy Committee and noted that future rate hikes could come sooner than previously anticipated to keep a hold on inflation.

U.S. Economic Calendar

- March 27: S&P CoreLogic Case-Schiller HPI, Consumer Confidence
- March 28: Mortgage Applications, GDP, International Trade in Goods
- March 29: Jobless Claims, Personal Income and Outlays

Stocks

- Global equity markets fell this week. Emerging markets lagged developed markets.
- U.S. equity sector performance was negative. Information technology and financials underperformed, while energy and utilities stocks outperformed the broader market. Value stocks outpaced growth stocks; small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were higher this week. Global government bonds outperformed, global corporate bonds remained close to flat and high-yield bonds lagged.
- Treasury yields had their largest intraday decline in 10 months—after hitting a three-week high earlier in the week—amid renewed trade war fears following President Trump's announcement of new tariffs directed at China.

The Numbers as of March 23, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-2.7%	-0.9%	13.6%	508.5
MSCI EAFE ($)	-1.4%	-1.7%	12.4%	2016.0
MSCI Emerging Mkts ($)	-1.4%	3.3%	23.6%	1196.7
US & Canadian Equities				
Dow Jones Industrials ($)	-5.7%	-4.8%	13.9%	23533.2
S&P 500 ($)	-6.0%	-3.2%	10.3%	2588.3
NASDAQ ($)	-6.5%	1.3%	20.2%	6992.7
S&P/ TSX Composite (C$)	-3.1%	-6.1%	-1.4%	15219.9
UK & European Equities				
FTSE All-Share (£)	-3.2%	-9.3%	-4.2%	3830.3
MSCI Europe ex UK (€)	-2.3%	-4.1%	1.5%	1290.0
Asian Equities				
Topix (¥)	-4.1%	-8.4%	8.8%	1664.9
Hong Kong Hang Seng ($)	-3.8%	1.3%	24.6%	30309.3
MSCI Asia Pac. Ex-Japan ($)	-1.5%	1.5%	20.9%	578.1
Latin American Equities				
MSCI EMF Latin America ($)	-0.2%	7.1%	16.9%	3029.0
Mexican Bolsa (peso)	-2.1%	-5.8%	-4.5%	46482.8
Brazilian Bovespa (real)	-0.6%	10.4%	32.8%	84374.6
Commodities ($)				
West Texas Intermediate Spot	5.6%	9.0%	40.1%	65.8
Gold Spot Price	2.5%	3.2%	8.1%	1347.4
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.4%	1.2%	6.8%	490.7
JPMorgan Emerging Mkt Bond	-0.3%	-2.4%	2.9%	788.9
10-Year Yield Change (basis points*)				
US Treasury	-3	41	39	2.81%
UK Gilt	1	26	22	1.44%
German Bund	-4	10	10	0.52%
Japan Govt Bond	-1	-2	-3	0.02%
Canada Govt Bond	6	15	51	2.20%
Currency Returns**				
US$ per euro	0.5%	2.9%	14.6%	1.236
Yen per US$	-1.1%	-7.0%	-5.5%	104.84
US$ per £	1.4%	4.6%	12.9%	1.414
C$ per US$	-1.7%	2.4%	-3.6%	1.287

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 returns are for illustrative purposes only and do not represent actual fund performance.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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