Weekly Update

Oil Strikes Gold

May 11, 2018

BPU INVESTMENT MANAGEMENT INC.

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The Economy

- Oil prices climbed above $70 per barrel to their highest level in more than three years, driven by new U.S. sanctions against Iran, the world's fifth-largest crude-oil producer. Some members of the Organization of Petroleum Exporting Countries remain concerned that geopolitical tensions may continue to push prices higher—which could eventually weaken demand.
- Consumer prices increased by 2.5% year over year in April, while producer prices expanded by 2.6% in the same period. Modest-to-moderate inflation pressures could further extend both price indexes, according to analysts. Tariffs may also boost producer prices, but have only made a small ripple across the index thus far.
- Job openings (a measure of labor demand) remained near historically high levels in March, jumping from 6.05 million to 6.55 million, according to the Department of Labor. Hires declined slightly to 5.43 million and still lagged the number of available jobs. Analysts said a lack of qualified candidates could hinder business expansion. Hourly wage growth improved by 2.6% year over year.
- Mortgage-purchase applications fell by 0.4% in the week ending May 11 despite lower mortgage rates, as affordability was still an issue for potential homebuyers. Refinancing activity (which is sensitive to even small rate changes) retreated by 1%.
- Initial jobless claims remained 211,000 in the week ending May 11 after edging higher to in the prior week from a recently-registered 48-year low. The more-stable four-week moving average moved lower by 5,500 to 216,000. Continuing claims grew by 30,000 to 1.79 million in the week ending April 28.
- Total import prices inched 0.3% higher in April, driven by the increased cost of petroleum. Export prices advanced by 0.6% for the month despite a drop in agricultural prices, bringing the year-over-year gain to 3.4%. Capital-goods exports, which comprise a significant portion of exported goods, expanded by 0.4% in the month and by 2% year over year.
- A preliminary reading for May showed that the University of Michigan's consumer sentiment index held steady. A small gain in the expectations component offset a modest dip in current conditions. Overall, the report showed moderate strength in both consumer spending and inflation.
- China's trade balance with the U.S. pivoted from a $4.98 million deficit in March to a $28.78 million surplus in April. Seasonally-adjusted exports ascended 27.2% during the same month, a sharp contrast to the 14.9% decline in March.
- Growth of consumer prices in China slowed from 2.1% to 1.8% year over year in April, primarily on lower food prices. This was the second consecutive annual decline following a spike in February. Producer prices grew by 3.4% year over year in April, the first increase in inflation following five months of decline. Prices for production materials also gained in the annual period, as did the cost of and ferrous metals and raw chemicals.

U.S. Economic Calendar

- May 14: Consumer Credit
- May 15: Retail Sales
- May 16: Mortgage Applications, Housing Starts, Industrial Production
- May 17: Jobless Claims, Philadelphia Fed, Leading Indicators

Stocks

- Global equity markets rose this week, led by emerging markets.
- U.S. equity sectors were mostly positive. Energy and financials outperformed, while consumer staples and utilities lagged. Growth stocks led value stocks; small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were mostly down this week. High-yield bonds outperformed. Corporate bonds and global government bonds lagged.
- Treasury yields rose following the release of a flat preliminary consumer-sentiment report and investor expectations of slower-than-anticipated interest-rate increases.

The Numbers as of May 11, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.7%	0.8%	12.7%	517.2
MSCI EAFE ($)	0.6%	-0.3%	10.0%	2043.8
MSCI Emerging Mkts ($)	1.8%	-0.2%	15.6%	1156.5
US & Canadian Equities				
Dow Jones Industrials ($)	2.3%	0.5%	18.7%	24831.2
S&P 500 ($)	2.4%	2.0%	13.9%	2727.7
NASDAQ ($)	2.7%	7.2%	21.0%	7402.9
S&P/ TSX Composite (C$)	1.6%	-1.4%	2.8%	15983.3
UK & European Equities				
FTSE All-Share (£)	2.0%	0.5%	4.7%	4242.0
MSCI Europe ex UK (€)	0.9%	1.2%	1.4%	1361.8
Asian Equities				
Topix (¥)	1.3%	-1.2%	13.1%	1795.0
Hong Kong Hang Seng ($)	4.0%	4.0%	23.9%	31122.1
MSCI Asia Pac. Ex-Japan ($)	1.6%	-0.1%	15.4%	569.0
Latin American Equities				
MSCI EMF Latin America ($)	1.2%	2.1%	7.8%	2887.5
Mexican Bolsa (peso)	-0.6%	-5.3%	-5.7%	46728.9
Brazilian Bovespa (real)	2.5%	11.5%	26.2%	85220.2
Commodities ($)				
West Texas Intermediate Spot	1.4%	17.0%	47.8%	70.7
Gold Spot Price	0.7%	1.2%	7.9%	1322.1
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.3%	-1.0%	4.1%	479.9
JPMorgan Emerging Mkt Bond	0.1%	-4.3%	-0.9%	773.3
10-Year Yield Change (basis points*)				
US Treasury	2	56	58	2.97%
UK Gilt	4	25	28	1.44%
German Bund	2	13	13	0.56%
Japan Govt Bond	0	0	-1	0.05%
Canada Govt Bond	5	33	77	2.38%
Currency Returns**				
US$ per euro	-0.2%	-0.5%	10.0%	1.194
Yen per US$	0.2%	-3.0%	-4.0%	109.31
US$ per £	0.1%	0.2%	5.1%	1.354
C$ per US$	-0.4%	1.7%	-6.6%	1.279

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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