

Weekly Update

Consumer Prices Pick Up the Pace

July 13, 2018



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The Economy

- Consumer prices reached a six-year high of 2.9% in the one-year period ending June, while the more closely followed core rate (which excludes food and energy) gained 2.3% in the annual period. For the month, consumer prices edged up by 0.1% as higher automobile and medical costs were mitigated by declining energy prices. Moderate inflation pressures could further extend both price indexes, supporting the Federal Reserve's (Fed) current pace of gradual rate hikes. Producer prices rose by 0.3% for the month and by 3.4% for the year, primarily due to tariff-related acceleration of steel and metal prices.
- Total import prices eased by 0.4% in June, driven by recent U.S. dollar strength. Year-over-year growth climbed by 4.3%. Export prices advanced by 0.3% for the month, as lower agricultural prices mitigated a slight increase in industrial supplies, and 5.3% in the one-year period.
- Job openings (a measure of labor demand) decreased to 6.64 million in May from a record 6.84 million in April, according to the Department of Labor, but continued to exceed the number of unemployed. The hires figure improved, from 5.58 million to 5.75 million, lagging the number of available jobs; analysts said an increase in the quits rate implied that job seekers are growing confident in securing new positions with better pay or benefits.
- Initial jobless claims moderated by 18,000 to 214,000 in the week ending July 7. The more-stable four-week moving average fell by 1,750 to 223,000. Continuing claims decreased by 3,000 to 1.74 million in the week ending June 30, lingering near an historic low.
- Mortgage-purchase applications gained 7% in the week ending July 6. Refinancing activity (which can be sensitive to even small rate changes) declined by 4%. Economists suggested that the robust labor market helped support the gains in purchase applications as mortgage rates fell, but remained near their highest level in more than seven years.
- Outstanding consumer credit (which measures non-mortgage debt) jumped by 7.6% in May, the fastest pace in six months. Economists said the surge was likely the result of increased consumer spending, driven by recent tax reform and a strong job market.
- The preliminary estimate of University of Michigan's July consumer sentiment index revealed a slight decline, as investors grew more concerned about the eventual impact of recent tariff proposals.
- Industrial production in the eurozone expanded by 1.3% in May, mainly in capital goods, consumer durables and intermediates.
- Industrial production in the U.K. trended lower by 0.4% in May and slowed in the annual period to 0.8%. Manufacturing output rebounded in the month; the sector gained 1.1% year over year.
- President Donald Trump proposed a 10% tariff on \$200 billion worth of Chinese exports. China said it would take this latest threat to the World Trade Organization.
- Producer prices in Japan advanced by 0.2% in June; higher energy costs outpaced price drops for electrical machinery and equipment; producer prices grew by 2.8% year over year.

U.S. Economic Calendar

- July 16: Retail Sales
- July 17: Industrial Production
- July 18: Mortgage Applications, Housing Starts, Beige Book
- July 19: Jobless Claims, Philadelphia Fed Business Outlook

Stocks

- Global equity markets were higher this week. Emerging markets fared better than developed markets.
- Most U.S. equity sectors were positive. Information technology and industrials led, while telecommunications services and utilities lagged. Growth stocks outgained value stocks; large-cap stocks beat small-cap stocks.

Bonds

- Global bond markets were down this week, as global government bonds underperformed; high-yield bonds and corporate bonds outperformed.
- Treasury yields rose as economic data supported the case for the Fed to hike interest rates twice more this year.

The Numbers as of July 13, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI (\$)	0.8%	0.2%	9.1%	514.1
MSCI EAFE (\$)	-0.2%	-4.1%	3.2%	1966.1
MSCI Emerging Mkts (\$)	1.0%	-7.6%	2.8%	1070.2
US & Canadian Equities				
Dow Jones Industrials (\$)	2.3%	1.2%	16.1%	25019.4
S&P 500 (\$)	1.5%	4.8%	14.4%	2801.3
NASDAQ (\$)	1.8%	13.4%	24.7%	7826.0
S&P/TSX Composite (C\$)	1.1%	2.1%	9.4%	16555.6
UK & European Equities				
FTSE All-Share (£)	0.6%	-0.2%	4.1%	4213.2
MSCI Europe ex UK (€)	0.6%	-1.6%	-0.2%	1324.2
Asian Equities				
Topix (¥)	2.3%	-4.8%	6.9%	1730.1
Hong Kong Hang Seng (\$)	0.7%	-4.7%	8.3%	28525.4
MSCI Asia Pac. Ex-Japan (\$)	0.8%	-5.6%	4.3%	537.6
Latin American Equities				
MSCI EMF Latin America (\$)	1.8%	-9.2%	-4.4%	2568.0
Mexican Bolsa (peso)	-1.2%	-1.9%	-5.0%	48395.4
Brazilian Bovespa (real)	2.1%	0.3%	17.5%	76598.9
Commodities (\$)				
West Texas Intermediate Spot	-3.8%	17.5%	54.1%	71.0
Gold Spot Price	-1.1%	-4.9%	2.0%	1242.2
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	-0.5%	-1.5%	1.6%	477.6
JPMorgan Emerging Mkt Bond	0.3%	-3.8%	-0.9%	777.6
10-Year Yield Change (basis points*)				
US Treasury	0	42	48	2.83%
UK Gilt	0	8	-3	1.27%
German Bund	5	-9	-26	0.34%
Japan Govt Bond	1	-1	-4	0.04%
Canada Govt Bond	0	9	23	2.14%
Currency Returns**				
US\$ per euro	-0.5%	-2.7%	2.5%	1.169
Yen per US\$	1.7%	-0.3%	-0.8%	112.33
US\$ per £	-0.4%	-2.1%	2.3%	1.324
C\$ per US\$	0.6%	4.7%	3.4%	1.316
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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