Weekly Update
Decreasing Commodities Diminish Outlook

July 20, 2018

Member FINRA/SIPC,
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The Economy

- Commodity prices—which are sometimes used to forecast the pace of global economic growth due to their high correlation with world economic activity—were pressured into correction territory this week on a resurgent U.S. dollar and heightened trade-war fears. Economists say that lower commodity prices have the potential to erode at profitability, which can deter capital investments and ultimately hamper global demand.
- Retail sales surged by 0.5% in June as consumer spending trended higher after a soft start to the year, driven by strong motor-vehicle and restaurant sales. Analysts tied the reading to a healthy job market and accelerated economic growth. The positive consumer-spending trend has a dark side, however, as the personal-saving rate decreased—fueling concerns about a rising U.S. debt crisis, with outstanding consumer credit having doubled to $24.6 billion year over year in June.
- Industrial production rebounded by 0.6% in June. Manufacturing volume also accelerated, by 0.8% due to a 7.8% increase in motor-vehicle output. Capacity utilization, the ratio of realized-to-potential economic output, improved slightly.
- Mortgage-purchase applications weakened by 7% in the week ending July 13, while refinancing activity (which can be sensitive to even small rate changes) increased by 2%. Economists suggested that purchase applications fell as buyers struggled to find affordable homes due to tight inventories. Housing starts for June tumbled 12.3%, highlighting the growing concern that home prices are rising at more than twice the rate of income growth.
- Initial jobless claims eased by 8,000 to 207,000 in the week ending July 14. The more stable four-week moving average fell by 2,500 to 220,500. Continuing claims rose by 8,000 to 1.74 million in the week ending July 7, maintaining a near-historic low.
- The Conference Board's index of leading economic indicators expanded by 0.5% in June, its eighth straight monthly increase, driven by widespread component strength. The reading, used by economists to gauge the health of the U.S. economy, pointed to ongoing growth.
- Manufacturing growth in the mid-Atlantic region was stronger than expected for July, according to Federal Reserve (Fed) of Philadelphia survey findings, reinforced by a sharp rise in input prices. New-order measurements also improved in June.
- Foreign demand for long-term securities tumbled in May. Foreign accounts sold $26.6 billion of stocks, the largest selloff in four years. This induces concern about foreign participation in the U.S. stock market and the impact it may have on future growth.
- Japan's merchandise trade balance shifted from a deficit to a surplus in June, backed by a 6.7% increase in exports. Growth was mainly driven by exports to the European Union, which rose by 9.3% for the month.
- Eurozone inflation inched 0.1% higher in June, as measured by the harmonized index of consumer prices, sending the annual inflation rate to 2.0%. The reading is expected to have little impact on the European Central Bank's policy outlook.

U.S. Economic Calendar

- July 23: Existing Home Sales
- July 24: PMI Composite
- July 25: Mortgage Applications, New Home Sales
- July 26: Jobless Claims, International Trade

Stocks

- Global equity markets declined this week. Developed markets fared better than emerging markets.
- U.S. equity sectors were mixed. Financials and industrials led, while telecommunications and energy lagged. Growth stocks outgained value stocks; small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were mostly negative this week. High-yield bonds outperformed, while investment-grade corporate and government bonds underperformed.
- Treasury yields rose as economic data supported the case for the Federal Reserve to hike interest rates twice more this year.

The Numbers as of July 20, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.1%	0.3%	7.7%	514.4
MSCI EAFE ($)	-0.1%	-3.9%	1.7%	1970.9
MSCI Emerging Mkts ($)	-1.4%	-8.4%	0.1%	1060.6
US & Canadian Equities				
Dow Jones Industrials ($)	0.2%	1.4%	15.9%	25058.1
S&P 500 ($)	0.0%	4.8%	13.3%	2801.8
NASDAQ ($)	-0.1%	13.3%	22.4%	7820.2
S&P/ TSX Composite (C$)	-0.8%	1.4%	7.7%	16435.5
UK & European Equities				
FTSE All-Share (£)	0.3%	0.1%	3.2%	4224.5
MSCI Europe ex UK (€)	0.6%	-0.7%	1.3%	1335.8
Asian Equities				
Topix (¥)	0.9%	-4.0%	6.9%	1745.0
Hong Kong Hang Seng ($)	-1.1%	-5.7%	5.6%	28224.5
MSCI Asia Pac. Ex-Japan ($)	-1.3%	-6.4%	1.5%	533.2
Latin American Equities				
MSCI EMF Latin America ($)	0.2%	-8.7%	-5.6%	2583.2
Mexican Bolsa (peso)	1.0%	-0.9%	-4.4%	48908.2
Brazilian Bovespa (real)	2.6%	2.8%	21.0%	78571.3
Commodities ($)				
West Texas Intermediate Spot	-0.8%	16.6%	50.6%	70.5
Gold Spot Price	-1.0%	-5.9%	-1.3%	1229.5
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.3%	-1.7%	0.1%	476.5
JPMorgan Emerging Mkt Bond	-0.2%	-3.5%	-1.4%	779.6
10-Year Yield Change (basis points*)				
US Treasury	7	49	63	2.89%
UK Gilt	-4	4	3	1.23%
German Bund	3	-5	-16	0.37%
Japan Govt Bond	-1	-1	-4	0.04%
Canada Govt Bond	4	13	29	2.18%
Currency Returns**				
US$ per euro	0.3%	-2.4%	0.8%	1.172
Yen per US$	-0.8%	-1.1%	-0.4%	111.47
US$ per £	-0.7%	-2.8%	1.2%	1.314
C$ per US$	-0.2%	4.5%	4.3%	1.314

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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