Weekly Update
Turkey Tariff Talk Compounds Currency Crisis

August 10, 2018

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The Economy

- President Donald Trump threatened to double tariffs on Turkish aluminum and steel imports, boosting the U.S. dollar by more than 20% against the Turkish lira and further exacerbating the country's currency crisis. Economists and regulators are concerned that currency troubles will cause Turkey's default rate on foreign loans to increase—especially those from European banks, which have lent significant amounts of money to the country.
- Job openings (a measure of labor demand) increased to 6.66 million in June, according to the Department of Labor, and continued to exceed the number of unemployed. Hirings declined from 5.75 million to 5.65 million, lagging the number of available jobs. The quits rate accelerated, which analysts said implies increased confidence among job seekers in securing new positions with better pay or benefits.
- Outstanding consumer credit (which measures non-mortgage debt) cooled in June. Economists suggested the decline was likely the result of prudent spending habits generally seen during the first half of each year. According to the Federal Reserve (Fed), banks' credit-card issuance standards tightening in the second quarter may also account for some of the slowdown.
- Mortgage-purchase applications slid by 2% in the week ending August 3. Refinancing activity (which can be sensitive to even small rate changes) declined by 5%, sinking to their lowest level since early 2000. Economists indicated that higher interest rates are taking a toll on mortgage activity.
- Initial jobless claims fell by 5,000 to 213,000 in the week ending August 4. The more stable four-week moving average declined by 500 to 214,250. Continuing claims increased by 29,000 to 1.75 million in the week ending July 28, lingering near a historic low.
- Producer prices remained flat in July and inflation pressures were subdued for the month. Energy prices slackened by 0.5% in contrast to a 0.8% increase in June, while electric power prices fell by 1.6% for the month. Consumer prices, however, painted a different picture, with both the overall guage and the core measure (which excludes food and energy) rising by 0.2% in July. The year over year increase in core consumer prices was 2.4%, the biggest gain in 10 years, which may persuade the Fed to assume a more hawkish outlook
- U.K. gross domestic product growth (GDP) surged by 0.4% in the second quarter. However, according to analysts, positive economic factors will likely be counterbalanced by a slowdown in the global economy and continued Brexit-related uncertainty.
- Japan's GDP growth rallied to an annualized rate of 1.9% in the second quarter, boosted by a jump in consumer spending. Analysts point out that Japan's growth outlook nevertheless remains tepid due to its rapidly aging population and sluggish inflation.

U.S. Economic Calendar

- August 14: Import and Export Prices
- August 15: Mortgage Applications, Retail Sales,
  August 16: Housing Starts, Jobless Claims,
  August 17: Consumer Sentiment, Leading Indicators

Stocks

- Global equity markets increased this week. Emerging markets fared better than developed markets.
- U.S. equity sector performance was mostly negative this week. Consumer discretionary and telecommunications led, while consumer staples and industrials lagged. Growth stocks outgained value stocks; small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were mostly positive this week. High-yield bonds and global government bonds outperformed, while investment-grade corporate bonds were generally flat.
- The 10-year Treasury yield topped 3.0% after the FOMC upgraded its economic outlook, yet declined later in the week as investors remained on edge about continued trade tensions.

The Numbers as of August 10, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	0.4%	1.7%	10.4%	521.6
MSCI EAFE ($)	0.3%	-3.1%	3.1%	1987.3
MSCI Emerging Mkts ($)	0.5%	-6.9%	2.1%	1078.7
US & Canadian Equities				
Dow Jones Industrials ($)	-0.6%	2.4%	15.9%	25313.3
S&P 500 ($)	-0.3%	5.9%	16.2%	2832.2
NASDAQ ($)	0.3%	13.6%	26.1%	7839.1
S&P/ TSX Composite (C$)	-0.6%	0.7%	8.3%	16323.9
UK & European Equities				
FTSE All-Share (£)	0.1%	-0.3%	3.9%	4210.7
MSCI Europe ex UK (€)	0.2%	0.3%	3.9%	1349.1
Asian Equities				
Topix (¥)	-1.3%	-5.4%	6.4%	1720.2
Hong Kong Hang Seng ($)	2.5%	-5.2%	3.4%	28366.6
MSCI Asia Pac. Ex-Japan ($)	1.7%	-4.9%	3.5%	541.9
Latin American Equities				
MSCI EMF Latin America ($)	-3.5%	-6.2%	-3.7%	2652.2
Mexican Bolsa (peso)	-1.9%	-2.0%	-5.0%	48384.3
Brazilian Bovespa (real)	-6.1%	0.0%	14.1%	76431.9
Commodities ($)				
West Texas Intermediate Spot	-1.3%	11.9%	39.2%	67.6
Gold Spot Price	-0.3%	-7.2%	-5.6%	1211.8
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.0%	-1.9%	-1.1%	475.7
JPMorgan Emerging Mkt Bond	-0.6%	-4.2%	-2.2%	774.3
10-Year Yield Change (basis points*)				
US Treasury	-8	47	67	2.87%
UK Gilt	-9	5	16	1.24%
German Bund	-9	-11	-10	0.32%
Japan Govt Bond	-1	5	4	0.10%
Canada Govt Bond	-6	25	44	2.30%
Currency Returns**				
US$ per euro	-1.4%	-5.0%	-3.1%	1.140
Yen per US$	-0.4%	-1.7%	1.5%	110.81
US$ per £	-1.8%	-5.5%	-1.6%	1.277
C$ per US$	1.0%	4.4%	3.0%	1.312

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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