

Weekly Update

Argentina Tangos with Currency Crisis

August 31, 2018



Member FINRA/SIPC,
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The Economy

- Argentina's central bank hiked its benchmark interest rate to a world-record 60% after the peso plummeted against the U.S. dollar this week. The peso's plunge further exacerbated the country's precarious economic situation and investor concern over the nation's ability to pay its debts.
- Second-quarter U.S. gross domestic product (GDP) grew by 4.2%, the highest annualized growth rate since 2014, powered by robust business and consumer spending. The strength of the latter moderated slightly, but remained favorable at 3.8% after seeing its slowest growth in five years in the first quarter.
- The trade deficit grew more than expected in July to \$72.2 billion, its highest level in five months. Imports rose by 0.9%, while exports slid by 1.7% on weakness in vehicles and consumer goods. Economists noted that exports were anchored by a rising dollar. A larger trade deficit detracts from GDP growth.
- Consumer confidence surged in August to its highest levels since the early dotcom fever of October 2000, reinforced by an optimistic outlook on employment and income.
- Personal income expanded by 0.3% in July, with the wages and salaries component rising by 0.4%. Consumer spending advanced by 0.4% for the month. The core personal consumption expenditures reading (which excludes food and energy and is the Federal Reserve's (Fed) preferred measure of inflation) moved 0.2% higher for the month and grew by 2% year over year, hitting the central bank's 2% inflation target.
- Fed Chair Jerome Powell's comments at the central bank's annual conference in Jackson Hole, Wyoming, were widely perceived as dovish, reflecting a potentially leisurely pace on future interest-rate hikes.
- Initial jobless claims increased by 3,000 to 213,000 in the week ending August 25. The more stable four-week moving average dipped by 1,500 to 212,250. Continuing claims contracted by 5,000 to 1.73 million in the week ending August 18, lingering near a historic low.
- Mortgage-purchase applications slipped lower by 1% in the week ending August 24. Refinancing activity (which can be sensitive to even small rate changes) fell by 3%. Despite stabilizing interest rates, mortgage applications resumed their downward trajectory after a surge in the prior week.
- The S&P CoreLogic Case-Shiller Home Price Index inched 0.1% higher in June and gained 6.3% year over year. The housing sector continues to face headwinds due to construction labor constraints and high prices. However, analysts remained confident in their belief that homes should become more affordable, which should help stimulate sales.
- The Ifo Business Climate Index, a leading indicator for economic activity in Germany, ticked higher in August beating analyst expectations. German officials have expressed concern of Turkey's economic troubles spilling into the eurozone and are weighing options of throwing a lifeline to keep Turkey afloat.
- Retail sales in Japan gained 0.1% in July, missing expectations and falling from the previous month's reading of 1.5%.

U.S. Economic Calendar

- September 4: PMI Manufacturing Index
- September 5: Mortgage Applications, International Trade
- September 6: Jobless Claims, Employment Report

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Stocks

- Global equity markets increased this week. Developing markets fared better than emerging markets.
- U.S. equity sector performance was mostly positive this week. Information technology and consumer discretionary led, while telecommunications and utilities lagged. Growth stocks outgained value stocks; large-cap stocks beat small-cap stocks.

Bonds

- Global bond markets were mostly negative this week. High-yield bonds outperformed. Investment-grade corporate bonds and global government bonds underperformed.
- The 10-year Treasury yield declined as trade tensions resurfaced.

The Numbers as of August 31, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI (\$)	0.9%	2.2%	9.6%	524.3
MSCI EAFE (\$)	1.0%	-3.6%	2.4%	1976.2
MSCI Emerging Mkts (\$)	0.7%	-8.7%	-2.7%	1057.8
US & Canadian Equities				
Dow Jones Industrials (\$)	0.7%	5.0%	18.3%	25961.5
S&P 500 (\$)	0.9%	8.5%	17.3%	2900.2
NASDAQ (\$)	2.1%	17.5%	26.2%	8111.9
S&P/TSX Composite (C\$)	-0.5%	0.5%	7.0%	16282.3
UK & European Equities				
FTSE All-Share (£)	-1.6%	-2.7%	0.8%	4106.1
MSCI Europe ex UK (€)	0.5%	-0.5%	3.2%	1338.4
Asian Equities				
Topix (¥)	1.5%	-4.5%	7.3%	1735.4
Hong Kong Hang Seng (\$)	0.8%	-6.8%	-0.3%	27888.6
MSCI Asia Pac. Ex-Japan (\$)	1.5%	-5.6%	1.0%	537.9
Latin American Equities				
MSCI EMF Latin America (\$)	-2.1%	-13.7%	-15.1%	2439.3
Mexican Bolsa (peso)	-0.2%	0.3%	-3.3%	49519.9
Brazilian Bovespa (real)	0.8%	0.6%	8.5%	76850.3
Commodities (\$)				
West Texas Intermediate Spot	0.0%	15.5%	47.8%	69.8
Gold Spot Price	-0.4%	-8.1%	-8.9%	1200.2
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	0.0%	-1.6%	-1.4%	477.2
JPMorgan Emerging Mkt Bond	-0.5%	-4.9%	-4.4%	768.2
10-Year Yield Change (basis points*)				
US Treasury	5	46	75	2.87%
UK Gilt	15	24	39	1.43%
German Bund	-2	-10	-4	0.33%
Japan Govt Bond	1	6	10	0.11%
Canada Govt Bond	-3	18	38	2.23%
Currency Returns**				
US\$ per euro	-0.1%	-3.3%	-2.5%	1.161
Yen per US\$	-0.1%	-1.4%	1.0%	111.12
US\$ per £	0.9%	-4.1%	0.2%	1.296
C\$ per US\$	0.2%	3.8%	4.5%	1.305

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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