Weekly Update
Steadfast GDP Growth Prevails in Second Quarter
September 28, 2018

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The Economy

- Second-quarter gross domestic product (GDP) advanced by 4.2%, its highest annualized growth rate since 2014, primarily on strong consumer spending and business expenditures. Economists predict that GDP growth may decelerate in the third quarter due to tariff battles between the U.S. and China.
- The trade deficit expanded by more than expected in August to $75.8 billion, its highest level in six months. Imports rose by 0.7%, while exports slid by 1.6% on weakness in vehicles and consumer goods. A larger trade deficit detracts from GDP.
- Durable-goods orders rebounded by 4.5% in August after a 1.7% loss in July; however, excluding civilian aircrafts, orders improved by a softer-than-expected 0.1%.
- Consumer confidence surged in September to its highest levels since the dot-com fever of October 2000, reinforced by an optimistic outlook on employment and income.
- The S&P CoreLogic Case-Shiller Home Price Index inched up 0.1% in July and gained 5.9% year over year. The housing sector continues to face headwinds due to construction labor constraints and high prices.
- Mortgage-purchase applications increased by 2.9% in the week ending September 21, while refinancing activity (which can be sensitive to even small rate changes) grew by 3%. Analysts attribute the recent growth to healthy demand, but continue to note that rising mortgage rates are handicapping already-strained housing affordability.
- The aftermath of Hurricane Florence led to initial jobless claims jumping by 12,000 to 214,000 and the more stable four-week moving average rising by 1,500 to 206,250 in the week ending September 22; analysts expect claims to further increase into the following one-week period. Continuing claims dropped by 13,000 to 1.67 million in the week ending September 15
- Personal income expanded by 0.3% in August, with the wages and salaries component rising by 0.5%. Consumer spending advanced by 0.3% 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) was flat for the month and grew by 2% year over year, maintaining the central bank's 2% inflation target.
- Industrial profit growth in China sunk to a five-month low in August as U.S.-China trade disputes have begun to weigh on Chinese manufacturers. Analysts noted that factories with foreign investments appeared to be hit hardest by escalating trade rifts.
- Economic sentiment in the eurozone narrowed in September on lower confidence levels in the industry sector. Industrial production sentiment in the eurozone weakened to 4.7 from 5.6 in August.
- Japan retail sales grew by 0.9% in August. This is a positive indication for private consumption and a boon for economic growth in the third quarter.

U.S. Economic Calendar

- October 1: PMI Manufacturing Index
- October 3: Mortgage Applications
- October 4: Jobless Claims, Factory Orders
- October 5: International Trade, Consumer Credit

Stocks

- Global equity markets declined this week. Emerging markets fared better than developing markets.
- U.S. equity sector performance was mixed this week. Telecommunications and healthcare led, while materials and financials 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 led, followed by investment-grade corporate bonds and global government bonds.
- The 10-year Treasury yield ticked higher, hovering slightly below 3.06%, after the Federal Reserve hiked interest rates this week.

The Numbers as of September 28, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.5%	2.4%	8.4%	525.4
MSCI EAFE ($)	-0.5%	-3.2%	1.1%	1985.9
MSCI Emerging Mkts ($)	0.0%	-9.2%	-2.0%	1051.3
US & Canadian Equities				
Dow Jones Industrials ($)	-1.1%	7.0%	18.2%	26457.7
S&P 500 ($)	-0.6%	9.0%	16.1%	2913.5
NASDAQ ($)	0.7%	16.6%	24.7%	8046.4
S&P/ TSX Composite (C$)	-0.9%	-0.8%	3.0%	16080.6
UK & European Equities				
FTSE All-Share (£)	0.0%	-2.2%	2.7%	4127.9
MSCI Europe ex UK (€)	0.4%	-0.5%	-0.2%	1338.1
Asian Equities				
Topix (¥)	0.7%	0.0%	8.4%	1817.3
Hong Kong Hang Seng ($)	-0.6%	-7.1%	1.3%	27788.5
MSCI Asia Pac. Ex-Japan ($)	-0.7%	-7.7%	-0.1%	525.8
Latin American Equities				
MSCI EMF Latin America ($)	1.7%	-8.4%	-10.2%	2591.3
Mexican Bolsa (peso)	0.4%	0.3%	-1.2%	49520.1
Brazilian Bovespa (real)	-0.2%	3.8%	7.8%	79271.3
Commodities ($)				
West Texas Intermediate Spot	2.0%	21.2%	42.1%	73.3
Gold Spot Price	-0.4%	-8.7%	-7.4%	1192.5
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.3%	-2.2%	-1.0%	474.1
JPMorgan Emerging Mkt Bond	0.8%	-3.5%	-2.7%	780.0
10-Year Yield Change (basis points*)				
US Treasury	-1	65	74	3.05%
UK Gilt	2	38	20	1.57%
German Bund	1	5	-1	0.47%
Japan Govt Bond	0	8	6	0.13%
Canada Govt Bond	-1	38	29	2.42%
Currency Returns**				
US$ per euro	-1.2%	-3.3%	-1.5%	1.161
Yen per US$	0.9%	0.8%	1.1%	113.62
US$ per £	-0.3%	-3.5%	-3.0%	1.304
C$ per US$	0.0%	2.7%	3.9%	1.291

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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