Weekly Update
Stocks Slump as Jobs Jump, Bond Yields Push Higher
October 5, 2018

BPU INVESTMENT MANAGEMENT INC.

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The Economy

- Bond yields climbed to multiyear highs as strong economic data and easing trade tensions boosted investor optimism on global growth. The positive economic developments also reinforced expectations that the Federal Reserve (Fed) will continue its path of steady rate increases. The 10-year Treasury note is a closely-watched barometer of investor sentiment toward growth and inflation.
- The U.S. unemployment rate fell by 0.2% to 3.7% in September, its lowest level since December 1969. Hiring grew by just 134,000 in September, its smallest gain in a year, while wages advanced by 2.8% year over year. Economists said the anemic hiring rate highlights the challenges faced by employers in finding qualified workers.
- The U.S. gauge for oil, West Texas Intermediate expanded by 21% on heightened geopolitical risks, including looming U.S. sanctions on Iran. These oil sanctions are expected leave a supply gap, which, combined with existing supply disruptions in Venezuela, could lead to substantial crude-oil shortages—and, in turn, likely drive prices even higher.
- The U.S. trade deficit expanded by 6.4% to $53.2 billion in August, a six-month high. Imports increased by 0.6%, driven by vehicles, while exports declined by 0.8%. Analysts suggest that Americans have been spending more on foreign goods due to a strengthening U.S. economy. A wider trade deficit detracts from economic growth.
- The aftermath of Hurricane Florence led to a slump in motor-vehicle sales in September. Economists noted that residents of areas impacted by the hurricane have been dealing with the storm's aftereffects rather than shopping for new cars.
- The Institute for Supply Management's manufacturing index dipped in September, but overall remained in positive territory. New orders slowed slightly and costs increased during the month; despite these factors, production rose to its highest level since January 2018.
- Mortgage-purchase applications inched upward by 0.1% in the week ending September 28, while refinancing activity (which can be sensitive to even small rate changes) dropped by 0.1%. Interest rates for a 30-year fixed-rate mortgage were little changed from the prior week. Homebuyers continued to be sidelined by lean home listings and lofty prices.
- Initial jobless claims declined by 7,000 to 207,000 in the week ending September 29. The more stable four-week moving average widened by 750 to 207,000. Continuing claims fell by 13,000 to 1.66 million in the week ending September 22.
- Consumer credit growth in the U.K. dropped to its lowest rate in three years in August. Analysts suggested the reading hints at a cooling economy. However, retailers in the U.K. reported strong sales for the summer.
- Retail sales in the eurozone slipped by 0.2% in August. The drop came despite a decrease in unemployment and wage-growth acceleration.

U.S. Economic Calendar

- October 10: Mortgage Applications, Wholesale Trade, Producer Prices
- October 11: Jobless Claims, Consumer Prices
- October 12: Consumer Sentiment, Import and Export Prices

Stocks

- Global equity markets declined this week. Developing markets fared better than emerging markets.
- U.S. equity sector performance was mostly negative this week. Energy and utilities led, while consumer discretionary and telecommunications lagged. Value stocks outgained growth stocks; large-cap stocks beat small-cap stocks.

Bonds

- Global bond markets were negative this week. High-yield bonds led, followed by investment-grade corporate bonds and global government bonds.
- The 10-year Treasury yield moved higher, hovering slightly below 3.24%.

The Numbers as of October 5, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-1.2%	1.0%	5.5%	518.2
MSCI EAFE ($)	-1.6%	-5.3%	-1.6%	1941.6
MSCI Emerging Mkts ($)	-3.6%	-12.8%	-8.4%	1010.4
US & Canadian Equities				
Dow Jones Industrials ($)	0.0%	7.0%	16.1%	26447.1
S&P 500 ($)	-0.9%	8.0%	13.2%	2887.9
NASDAQ ($)	-3.2%	12.8%	18.3%	7788.4
S&P/ TSX Composite (C$)	-0.8%	-1.6%	1.1%	15945.7
UK & European Equities				
FTSE All-Share (£)	-2.4%	-4.6%	-2.2%	4028.2
MSCI Europe ex UK (€)	-0.8%	-2.4%	-3.3%	1313.2
Asian Equities				
Topix (¥)	-1.4%	-1.4%	6.5%	1792.7
Hong Kong Hang Seng ($)	-4.4%	-11.2%	-6.4%	26572.6
MSCI Asia Pac. Ex-Japan ($)	-3.9%	-11.3%	-5.8%	505.3
Latin American Equities				
MSCI EMF Latin America ($)	2.4%	-6.7%	-12.1%	2638.0
Mexican Bolsa (peso)	-3.0%	-2.7%	-4.9%	48031.0
Brazilian Bovespa (real)	4.0%	8.0%	7.7%	82489.0
Commodities ($)				
West Texas Intermediate Spot	1.5%	23.0%	46.4%	74.3
Gold Spot Price	0.7%	-8.0%	-5.6%	1201.4
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.9%	-3.2%	-1.8%	469.2
JPMorgan Emerging Mkt Bond	-1.1%	-4.6%	-4.3%	771.1
10-Year Yield Change (basis points*)				
US Treasury	17	83	88	3.23%
UK Gilt	15	53	34	1.72%
German Bund	10	15	12	0.57%
Japan Govt Bond	3	11	11	0.16%
Canada Govt Bond	17	56	50	2.60%
Currency Returns**				
US$ per euro	-0.7%	-4.0%	-1.6%	1.152
Yen per US$	0.0%	0.9%	0.8%	113.70
US$ per £	0.7%	-2.9%	0.0%	1.312
C$ per US$	0.3%	3.0%	3.0%	1.295

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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