Weekly Update
Markets Turbulent on Mixed News
October 19, 2018

BPU INVESTMENT MANAGEMENT INC.

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The Economy

- U.S. markets experienced more volatility this week, with major indexes posting outsized one-day moves higher and lower as investors digested news that was both good (healthy employment numbers and corporate profits) and bad (rising interest rates and ongoing trade-war fears).
- The Conference Board's index of leading economic indicators (used by economists to gauge the health of the economy) expanded by 0.5% in September on widespread component strength, signaling ongoing economic stability in the U.S.
- Industrial production grew by 0.3% in September, its fourth consecutive monthly increase, particularly within manufacturing and mining. Output over the third-quarter remained solid, but significantly lower compared to the prior three-month period—prompting concerns of slowing momentum.
- Retail sales inched up by a weaker-than-expected 0.1% in September. Economists pointed to dwindling consumer spending at restaurants, grocery stores and gas stations despite elevated optimism and improving economic fundamentals.
- Mortgage-purchase applications fell by 6% in the week ending October 12, while refinancing activity (which can be sensitive to even small rate changes) plummeted by 9%. The average 30-year fixed mortgage rate reached its highest level since 2011.
- Housing starts slid by 5.3% in September, confirming another weak month in residential construction. Permits, an indicator of future homebuilding activity, fell by 0.6% to an annual rate of 1.24 million. Rising prices for homebuilders flashed a red signal for the housing market. Contractors are paying more for materials, but are unable to pass these additional costs on to homebuyers.
- Job openings (a measure of labor demand) swelled to 7.14 million in September, continuing to exceed the number of employed, according to the Department of Labor. Hiring remained at 5.78 million during the month, lagging the number of available jobs. The quits rate decreased slightly and remained at 2.7% among private-sector employees.
- Initial jobless claims drifted lower by 4,000 to 210,000 in the week ending October 13. The more stable four-week moving average rose by 2,250 to 211,750. Continuing claims dipped by 13,000 to 1.64 million.
- Inflation in the U.K. dropped sharply in September. After hitting a six-month high in August, the rate of inflation decelerated by 0.1% in consumer prices, decreasing the year-over-year consumer price index by 0.3%. Economists suggested that the report would likely ease pressure on the Bank of England to raise interest rates in the near future.
- Industrial production in Japan grew at a slower pace in August, while retail sales sped to their fastest rate in eight months. The labor market in Japan also remains tight and price pressures have strengthened.
- Consumer prices in China accelerated in September while factory prices diminished. The persistent slowdown of factory prices has been hurting company profits.

U.S. Economic Calendar

- October 24: New Home Sales, Housing Price Index, Mortgage Applications, PMI Composite
- October 25: Durable Goods Orders, Jobless Claims
- October 26: GDP, Consumer Sentiment

Stocks

- Global equity markets declined this week. Developing markets fared better than emerging markets.
- U.S. equity sector performance was mixed this week. Consumer staples and utilities led, while consumer discretionary and energy lagged. Value stocks outpaced growth stocks, and 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 to 3.20%.

The Numbers as of October 19, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.1%	-3.6%	-0.3%	494.5
MSCI EAFE ($)	0.1%	-9.7%	-7.7%	1852.4
MSCI Emerging Mkts ($)	-0.9%	-16.2%	-13.1%	970.9
US & Canadian Equities				
Dow Jones Industrials ($)	0.5%	3.0%	9.9%	25463.3
S&P 500 ($)	0.2%	3.7%	8.2%	2772.2
NASDAQ ($)	-0.6%	7.9%	12.8%	7452.1
S&P/ TSX Composite (C$)	0.5%	-4.4%	-2.1%	15488.2
UK & European Equities				
FTSE All-Share (£)	0.5%	-8.4%	-6.3%	3868.5
MSCI Europe ex UK (€)	0.8%	-7.0%	-7.8%	1251.3
Asian Equities				
Topix (¥)	-0.6%	-6.9%	-2.1%	1692.9
Hong Kong Hang Seng ($)	-0.9%	-14.6%	-9.2%	25561.4
MSCI Asia Pac. Ex-Japan ($)	-0.9%	-15.6%	-12.4%	480.6
Latin American Equities				
MSCI EMF Latin America ($)	1.4%	-4.6%	-8.4%	2697.3
Mexican Bolsa (peso)	-0.2%	-4.0%	-5.3%	47356.8
Brazilian Bovespa (real)	1.6%	10.3%	10.4%	84251.4
Commodities ($)				
West Texas Intermediate Spot	-3.1%	14.4%	34.8%	69.1
Gold Spot Price	0.6%	-6.0%	-4.7%	1227.4
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.2%	-3.1%	-2.3%	469.9
JPMorgan Emerging Mkt Bond	0.0%	-4.7%	-4.7%	769.8
10-Year Yield Change (basis points*)				
US Treasury	3	79	88	3.20%
UK Gilt	-6	39	30	1.58%
German Bund	-4	4	6	0.46%
Japan Govt Bond	0	10	8	0.15%
Canada Govt Bond	0	45	48	2.50%
Currency Returns**				
US$ per euro	-0.5%	-4.2%	-2.9%	1.151
Yen per US$	0.3%	-0.1%	0.0%	112.57
US$ per £	-0.7%	-3.3%	-0.7%	1.306
C$ per US$	0.7%	4.3%	5.0%	1.311

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.

Newlin Archinal CFP®, CRPC®, AIF®
Vice President
BPU Investment Management, Inc.
One Oxford Centre
301 Grant Street, Suite 3300
Pittsburgh, PA 15219
P: 412.288.9150
F: 412.288.9180
www.bpuinvestments.com
Member FINRA/SIPC & an SEC registered investment advisor

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