Weekly Update

Hope for Red October on GDP Growth

October 26, 2018

Member FINRA/SIPC, a registered investment advisor

The Economy

- Friday saw the broad-market S&P 500 Index fall over 10% from its recent peak, yet mostly recover by the end of the day. A key trigger for the jump in market volatility and selloff in risk assets was the Federal Reserve's move to raise interest rates in September. Global equity markets were also hit hard this week, with the FTSE 100 Index in correction territory and on track for its worst monthly performance in a decade, largely due to Brexit-related uncertainty.
- Despite a slowdown in U.S. business and residential investment, third-quarter gross domestic product (GDP) advanced by 3.5%, as historically low unemployment and robust consumer confidence promoted consumer spending (which drives over two-thirds of GDP). Overall economic growth remains in strong territory, but has decelerated from last quarter.
- The trade deficit expanded by more than expected in September to $76 billion. Imports rose by 1.5%, while exports increased by 1.8%—boosted by shipments of industrial supplies, motor vehicles and consumer and capital goods, reflecting strong domestic demand. A larger trade deficit detracts from GDP.
- Durable-goods orders eased in September by 0.8%, mainly within transportation and defense goods—primarily the volatile aircraft component, which saw a 17.5% drop in orders after increasing by 63.7% in August.
- A preliminary reading of the manufacturing purchasing managers' index pointed to recovering growth in October, which analysts say reflects gains in new orders. The report also pointed to swelling cost pressure, which may support the case for an additional interest-rate hike this year.
- Mortgage-purchase applications rose by 2% in the week ending October 19, while refinancing activity (which can be sensitive to even small rate changes) jumped by 10%. Economists point out that fewer borrowers can benefit from refinancing as many already locked in lower rates that were available a few years ago.
- New-home sales plunged by 5.5% to an annualized rate of 553,000 in September, hitting a two-year low. The report widely missed expectations and suggested that the trend in higher mortgage rates may continue to provide a headwind to buyers. However, the homebuilders' index experienced a small reversal in October, potentially signaling a bottoming-out.
- Initial jobless claims grew by 5,000 to 215,000 in the week ending October 20. The more stable four-week moving average was unchanged at 211,750. Continuing claims dropped by 5,000 to 1.63 million.
- In the U.K., the CBI Industrial Trends Survey conveyed easing production, moderating price increases and waning business optimism due to ongoing Brexit concerns.
- Japan's manufacturing index rallied in October due to growth in output, new orders and employment.
- China's manufacturing sector was sluggish in October, with declines across business confidence, market growth and sales growth indexes.

U.S. Economic Calendar

- October 29: Personal Income and Outlays
- October 30: Consumer Confidence
- October 31: Mortgage Applications
- November 1: Jobless Claims, Construction Spending
- November 2: International Trade

Stocks

- Global equity markets declined this week. Emerging markets fared better than developing markets.
- U.S. equity sector performance was negative this week. Consumer staples and utilities led, while industrials and energy lagged. Value stocks outpaced growth stocks, and small-cap stocks beat large-cap stocks.

Bonds

- Global bond markets were negative this week. Global government bonds led, followed by investment-grade corporate bonds and high-yield bonds.
- The 10-year Treasury yield moved lower to 3.08%.

The Numbers as of October 26, 2018	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-2.7%	-6.3%	-2.6%	480.8
MSCI EAFE ($)	-3.5%	-13.0%	-10.4%	1784.1
MSCI Emerging Mkts ($)	-2.3%	-18.1%	-14.4%	949.0
US & Canadian Equities				
Dow Jones Industrials ($)	-3.0%	-0.1%	5.5%	24684.5
S&P 500 ($)	-4.0%	-0.7%	3.7%	2656.2
NASDAQ ($)	-3.8%	3.8%	9.3%	7167.2
S&P/ TSX Composite (C$)	-3.9%	-8.3%	-6.4%	14871.7
UK & European Equities				
FTSE All-Share (£)	-1.8%	-10.0%	-7.6%	3800.4
MSCI Europe ex UK (€)	-1.8%	-8.8%	-10.2%	1227.2
Asian Equities				
Topix (¥)	-5.7%	-12.2%	-9.0%	1596.0
Hong Kong Hang Seng ($)	-3.3%	-17.4%	-12.4%	24717.6
MSCI Asia Pac. Ex-Japan ($)	-3.1%	-18.2%	-14.7%	466.1
Latin American Equities				
MSCI EMF Latin America ($)	-1.4%	-5.8%	-6.8%	2665.2
Mexican Bolsa (peso)	-3.5%	-7.3%	-6.6%	45770.5
Brazilian Bovespa (real)	1.2%	11.6%	12.3%	85254.8
Commodities ($)				
West Texas Intermediate Spot	-2.2%	11.9%	28.4%	67.6
Gold Spot Price	0.5%	-5.5%	-2.9%	1233.9
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.1%	-3.2%	-1.4%	469.2
JPMorgan Emerging Mkt Bond	-0.3%	-5.2%	-4.3%	766.0
10-Year Yield Change (basis points*)				
US Treasury	-11	67	62	3.08%
UK Gilt	-19	19	0	1.38%
German Bund	-11	-7	-6	0.35%
Japan Govt Bond	-4	7	4	0.11%
Canada Govt Bond	-11	35	36	2.39%
Currency Returns**				
US$ per euro	-0.9%	-5.0%	-2.1%	1.141
Yen per US$	-0.7%	-0.8%	-1.9%	111.79
US$ per £	-1.9%	-5.0%	-2.5%	1.283
C$ per US$	-0.2%	4.1%	1.8%	1.308

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.

Index Definitions:

FTSE/Russell 100 Index: The FTSE/Russel 100 Index measures the performance of shares from the 100 largest companies listed on the London Stock Exchange.

S&P 500 Index: The S&P 500 Index is a capitalization-weighted index made up of 500 widely held large-cap U.S. stocks.

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