Weekly Update

Equities Find Solace in Corporate Earnings

January 25, 2019

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The Economy

- U.S. stock markets moved higher in response to robust earnings reports that boosted confidence in the economy. Equities also gained on the prospect that the Federal Reserve (Fed) may stop shrinking its balance sheet, as it has done since October 2017 in a reversal of its crisis-era bond-buying program; economists implied that halting the balance sheet reduction program also has the potential to ease financial conditions.
- The U.S. partial government shutdown extended to a record 35 days; the Trump administration's top economist warned that the U.S. economy may not grow at all if the shutdown continues.
- The Conference Board's index of leading economic indicators (used by economists to gauge the health of the economy) softened by 0.1% in December—primarily due to last month's equity rout and a sharp deceleration in manufacturing orders. Economists say the reading further signals a slowing rate of U.S. economic growth.
- The flash Purchasing Managers' Index (which provides an early estimate of output in the manufacturing and services sectors) widened from 53.6 to 54.5 in January, primarily within manufacturing. Purchasing managers' optimism also improved during the month.
- Mortgage-purchase applications contracted by 2.0% in the week ending January 18, while refinancing activity (which can be sensitive to even small rate changes) fell by 5.0%. The average interest rate on a 30-year fixed-rate mortgage rose marginally to 4.75%. Overall, mortgage demand cooled after two weeks of healthy gains.
- Existing-home sales retreated by 6.4% in December, registering its lowest reading in approximately three years. Economists along with the National Association of Realtors struggled to explain the sizable decline. Economists speculated that it could be attributed to a drop in consumer confidence, as the weakness does not reflect the lower current mortgage rates.
- Initial jobless claims slumped by 14,000 in the week ending January 19. The more stable four-week moving average narrowed by 5,750 to 215,000. Continuing claims fell by 24,000 to 1.71 million.
- The European Central Bank opened the door to new stimulus measures to aid the region's deteriorating economy. Its recent comments signal a tone of caution among major central banks as they navigate the U.S.-China trade negotiations as well as disruptive political events such as Brexit.
- U.K business momentum weakened in January, according to the Confederation of British Industry's monthly survey findings. Business confidence and export confidence both deteriorated at a faster-than-expected pace. The disappointing report arrived in the face of heightened Brexit-related worries, a key issue for U.K. manufacturers.
- Japan's All Industry Index dwindled by 0.3% in November, with services and industry posting considerable losses. The industrial production index contracted by 1.0% after rising 2.9% in the previous month.

U.S. Economic Calendar

- January 29: International Trade, Consumer Confidence
- January 30: Mortgage Applications, GDP
- January 31: Jobless Claims, Personal Income and Outlays
- February 1: Consumer Sentiment, Construction Spending,

Stocks

- Global equity markets were mixed this week; developed markets led emerging markets.
- U.S. equity sector performance was largely negative. Information technology and utilities led, while consumer staples and energy lagged. Growth stocks beat value stocks, and small-cap stocks outperformed large-caps.

Bonds

- Global bond markets were mostly positive this week. Global corporate bonds and global government bonds led, while high-yield bonds lagged.
- The 10-year Treasury bond yield dipped lower to 2.75%.

The Numbers as of January 25, 2019	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-0.8%	5.3%	-12.2%	479.8
MSCI EAFE ($)	-0.5%	4.4%	-17.9%	1795.5
MSCI Emerging Mkts ($)	0.1%	5.6%	-19.3%	1019.4
US & Canadian Equities				
Dow Jones Industrials ($)	0.1%	6.0%	-6.3%	24737.2
S&P 500 ($)	-0.3%	6.3%	-6.2%	2663.6
NASDAQ ($)	0.1%	8.0%	-3.3%	7164.9
S&P/ TSX Composite (C$)	0.2%	7.1%	-5.3%	15341.5
UK & European Equities				
FTSE All-Share (£)	-1.9%	2.1%	-10.4%	3751.9
MSCI Europe ex UK (€)	-0.3%	5.4%	-11.3%	1228.9
Asian Equities				
Topix (¥)	0.5%	4.8%	-16.9%	1566.1
Hong Kong Hang Seng ($)	1.8%	6.7%	-15.6%	27569.2
MSCI Asia Pac. Ex-Japan ($)	-0.3%	4.2%	-18.4%	497.3
Latin American Equities				
MSCI EMF Latin America ($)	0.3%	12.1%	-10.2%	2876.8
Mexican Bolsa (peso)	-1.3%	4.8%	-14.0%	43659.2
Brazilian Bovespa (real)	1.6%	11.1%	16.7%	97677.2
Commodities ($)				
West Texas Intermediate Spot	-0.6%	17.8%	-18.5%	53.5
Gold Spot Price	1.2%	1.3%	-4.8%	1297.7
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.4%	0.5%	-2.3%	481.5
JPMorgan Emerging Mkt Bond	0.9%	3.7%	-1.0%	799.5
10-Year Yield Change (basis points*)				
US Treasury	-4	6	13	2.75%
UK Gilt	-5	3	-11	1.30%
German Bund	-7	-5	-42	0.19%
Japan Govt Bond	-2	-1	-9	0.00%
Canada Govt Bond	-6	1	-27	1.98%
Currency Returns**				
US$ per euro	0.5%	-0.4%	-7.9%	1.142
Yen per US$	-0.3%	-0.2%	0.1%	109.48
US$ per £	2.7%	3.6%	-6.6%	1.322
C$ per US$	-0.3%	-3.1%	6.8%	1.322

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:

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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