Weekly Update

Fed Pledges Patience in Raising Rates

February 22, 2019

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The Economy

- The Federal Reserve (Fed) announced that it intends to maintain interest rates throughout 2019, shifting to neutral monetary policy (which neither stimulates nor restrains economic growth). Almost all policymakers were in favor of maintaining this "patient" approach, according to the Federal Open Market Committee's most recent meeting minutes.
- The Conference Board's index of leading economic indicators (used to gauge the health of the economy) softened by 0.1% in January, primarily due to the partial government shutdown, which has since reversed due to the since-ended partial government shutdown.
- U.S. homebuilder sentiment moved higher in February, boosted by lower mortgage rates and continued strength in the job market. The report (produced by the National Association of Home Builders) also hinted that the overall housing sector, which suffered during most of 2018, should improve early this year.
- Durable-goods orders grew by 1.2% in December, mainly within aircraft and vehicle orders. The positive report masked weakness in business investment as new orders for core capital goods slid by 0.7%. Machinery, computers and communication equipment (all essentials to the capital-goods category) posted significant declines.
- Initial jobless claims contracted by 23,000 in the week ending February 16, retreating from early-year increases driven by the partial government shutdown. The more stable four-week moving average rose by 4,000 to 235,750.
- Existing-home sales fell by 1.2% in January, its lowest reading in approximately three years. Sharply rising mortgage rates since 2016 has stifled the housing market, according to the National Association of Realtors. The issue has been compounded by land and labor shortages causing tight inventory and higher home prices.
- Mortgage-purchase applications advanced by 1.7% in the week ending February 15, while refinancing activity (which can be sensitive to small rate changes) improved by 6.4%. The average interest rate on a 30-year fixed-rate mortgage fell to 4.66%.
- A preliminary estimate showed that eurozone consumer confidence improved during February as fundamentals stabilized. However, analysts said the final reading could reverse as March deadlines approach for Brexit and trade negotiations.
- Initial estimates for Markit's composite purchasing managers' index showed slowing growth in the eurozone, as a decline in manufacturing offset gains in the services sector.
- Consumer prices fell by 1.0% in the eurozone in January, driven by weakness in energy. Core inflation, which excludes volatile energy and food prices, grew by a modest 1.2% year over year. Inflation in the region is expected to remain minimal due to unresolved trade issues with China and the ongoing slowdown in global growth.
- Japan's trade deficit widened in January. A year-over-year decline in exports of 8.4% was attributed to weaker regional trade flows, especially to Asian markets.

U.S. Economic Calendar

- February 26: Housing Starts, Consumer Confidence
- February 27: Mortgage Applications, International Trade in Goods
- February 28: GDP, Jobless Claims
- March 1: Industrial Production, Consumer Sentiment

Stocks

- Global equity markets were positive this week; emerging markets led developed markets.
- U.S. equity sector performance was mostly positive. Utilities and materials led, while energy and health care lagged. Value stocks beat growth stocks, and small-cap stocks outperformed large-caps.

Bonds

- Global bond markets were positive this week. Global government bonds led, followed by global corporate bonds and high-yield bonds.
- The 10-year Treasury bond yield edged slightly lower to 2.66%.

The Numbers as of February 22, 2019	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	0.7%	10.1%	-3.2%	501.7
MSCI EAFE ($)	1.5%	8.6%	-9.3%	1867.0
MSCI Emerging Mkts ($)	2.0%	8.8%	-12.5%	1051.0
US & Canadian Equities				
Dow Jones Industrials ($)	0.5%	11.6%	4.2%	26022.6
S&P 500 ($)	0.5%	11.3%	3.1%	2789.0
NASDAQ ($)	0.7%	13.4%	4.4%	7524.3
S&P/ TSX Composite (C$)	1.1%	11.8%	3.3%	16015.6
UK & European Equities				
FTSE All-Share (£)	-0.4%	7.2%	-1.4%	3938.1
MSCI Europe ex UK (€)	0.6%	9.8%	-3.4%	1280.4
Asian Equities				
Topix (¥)	2.0%	7.7%	-7.8%	1609.5
Hong Kong Hang Seng ($)	3.3%	11.5%	-6.9%	28816.3
MSCI Asia Pac. Ex-Japan ($)	2.2%	9.2%	-9.6%	520.9
Latin American Equities				
MSCI EMF Latin America ($)	-0.3%	12.0%	-8.5%	2874.3
Mexican Bolsa (peso)	1.6%	4.9%	-10.8%	43686.8
Brazilian Bovespa (real)	0.2%	11.2%	12.8%	97743.4
Commodities ($)				
West Texas Intermediate Spot	2.7%	25.8%	-8.9%	57.1
Gold Spot Price	1.1%	4.0%	0.2%	1332.9
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.3%	0.9%	-0.6%	483.4
JPMorgan Emerging Mkt Bond	0.1%	4.5%	2.2%	805.3
10-Year Yield Change (basis points*)				
US Treasury	-1	-3	-27	2.66%
UK Gilt	0	-12	-39	1.16%
German Bund	-1	-15	-61	0.09%
Japan Govt Bond	-2	-4	-9	-0.04%
Canada Govt Bond	0	-8	-41	1.89%
Currency Returns**				
US$ per euro	0.3%	-1.2%	-8.1%	1.133
Yen per US$	0.2%	0.9%	3.7%	110.68
US$ per £	1.3%	2.3%	-6.5%	1.305
C$ per US$	-0.7%	-3.6%	3.5%	1.315

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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