Weekly Update

Fed Foregoes Rate Hike

As of May 5, 2017

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The Economy

- The Federal Reserve (Fed) left interest rates unchanged in May despite moderate economic expansion, citing weakened consumer spending and low unemployment. The central bank gave no indication on the timing of the next hike; two or three are expected before the end of the year.
- The U.S. economy added 211,000 jobs in April, exceeding the forecasted 185,000, led by business services. Unemployment declined by 0.1% to 4.4%, the lowest level since May 2001. Average hourly wages grew by a modest 0.3%, but were 2.5% higher compared to a year ago. The strong overall report increases the likelihood of an interest-rate hike at the next Fed meeting.
- Initial jobless claims decreased by 19,000 to 238,000 in the week ending April 29. The four-week moving average (considered a more reliable gauge of unemployment) rose by 750 to 243,000. Continuing claims for the week ending April 22 declined by 23,000, while the four-week moving average of continuing claims fell by 18,000 to a 17-year low of 1.989 million,.
- Personal incomes improved by 0.2% in March, while consumer spending was unchanged against expectations for a boost. Personal consumption expenditures—the Fed's preferred inflation measure—fell below the central bank's 2% target, to 1.8% year over year.
- The Institute for Supply Management's manufacturing purchasing managers' index (PMI) expanded by less than expected in April, despite strength within new export orders and production. A similar report from Markit showed that manufacturing was solid but may be losing momentum, as new orders, production and purchasing activity all declined during the month.
- Construction spending moved 0.2% lower in March, but was 3.6% higher year over year. Both the private non-residential and public components were surprisingly weak for the month, while private residential gained on continued demand for new housing.
- Mortgage purchase applications increased by 4.0% in the week ending April 28, as homebuyers returned to the market. Refinancing applications dropped by 5.0% in response to higher mortgage rates.
- The trade deficit eased to $43.7 billion in March from a revised $43.8 billion in February. Imports contracted by 0.7% on diminished demand for capital goods; exports reduced by 0.9%, partly due to drops in industrial supplies, autos and consumer-goods shipments.
- The eurozone economy expanded by 0.5% in the first quarter, the fastest pace in a year, according to preliminary estimates.
- Economic growth in China cooled during April, according to the PMI composite reading. Output and new-order growth slowed within the manufacturing sector, as did business activity and new orders in the services sector.
- Japan's PMI composite dipped in April from a 19-month high recorded in March; both manufacturing and service-sector activity nevertheless remained in expansion territory.

U.S. Economic Calendar

- May 9: Job Openings and Labor Turnover
- May 10: Mortgage Applications, Import and Export Prices
- May 11: Jobless Claims, Producer Price Index
- May 12: Consumer Price Index, Retail Sales, Business Inventories

Stocks

- Global equities were positive across the board this week, particularly international developed markets.
- U.S. equity sectors were mostly positive. Information technology and financials outperformed, while telecommunication services and energy lagged. Growth stocks outperformed value stocks and large-company stocks beat small-company stocks.

Bonds

- Global bonds were lower this week. Global government bonds were weakest, followed by global high-yield bonds and global corporate bonds.
- U.S. Treasury yields ended higher this week after a solid labor report strengthened the likelihood that the Fed would raise interest rates in June.

The Numbers as of May 5, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	0.4%	8.3%	15.6%	457.1
MSCI EAFE ($)	1.1%	10.0%	12.9%	1853.2
MSCI Emerging Mkts ($)	0.2%	13.7%	21.1%	980.1
US & Canadian Equities				
Dow Jones Industrials ($)	0.3%	6.3%	18.9%	21006.7
S&P 500 ($)	0.5%	7.1%	16.9%	2397.3
NASDAQ ($)	0.9%	13.3%	29.3%	6100.8
S&P/ TSX Composite (C$)	-0.1%	1.8%	14.2%	15569.5
UK & European Equities				
FTSE All-Share (£)	1.1%	3.4%	19.2%	4006.8
MSCI Europe ex UK (€)	1.9%	10.7%	21.2%	1340.0
Asian Equities				
Topix (¥)	1.2%	2.1%	19.3%	1550.3
Hong Kong Hang Seng ($)	-0.6%	11.3%	19.7%	24476.4
MSCI Asia Pac. Ex-Japan ($)	0.1%	14.2%	19.8%	487.3
Latin American Equities				
MSCI EMF Latin America ($)	-0.3%	10.8%	19.9%	2592.4
Mexican Bolsa (peso)	0.4%	8.4%	9.5%	49457.8
Brazilian Bovespa (real)	0.5%	9.1%	27.2%	65702.5
Commodities ($)				
West Texas Intermediate Spot	-6.3%	-14.0%	4.3%	46.2
Gold Spot Price	-3.1%	6.5%	-3.8%	1228.2
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.3%	2.6%	-2.3%	463.3
JPMorgan Emerging Mkt Bond	-0.1%	5.5%	8.9%	779.5
10-Year Yield Change (basis points*)				
US Treasury	7	-10	60	2.35%
UK Gilt	3	-12	-35	1.12%
German Bund	10	21	26	0.42%
Japan Govt Bond	0	-3	15	0.02%
Canada Govt Bond	-1	-18	19	1.54%
Currency Returns**				
US$ per euro	0.9%	4.6%	-3.6%	1.100
Yen per US$	0.9%	-3.8%	4.9%	112.51
US$ per £	0.2%	5.2%	-10.4%	1.298
C$ per US$	0.1%	1.7%	6.3%	1.366

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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