Weekly Update
Treasury Yield Terror or False Alarm?
August 16, 2019

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The Economy

- Major U.S. stock indexes succumbed to renewed fears of slowing economic growth this week. The Dow Jones Industrial Average fell by more than 800 points on August 14, while the S&P 500 Index shed approximately 3% the same day.
- The 30-year U.S. Treasury yield sank below 2% to an all-time low. Many investors regarded this week's yield-curve inversion—caused by the 10-year Treasury yield dipping below the 2-year Treasury yield—as a possible sign of impending economic recession. Some economists shrugged off the inversion, viewing it as a distorted signal.
- Industrial production slid by 0.2% in July. Output has been weak for the past few months, squeezed by the global economic slowdown. Overall capacity utilization (the percentage of resources used to produce goods in manufacturing, mining, and electric and gas utilities for all facilities in the U.S.) slipped to 77.5% from 77.8% in June.
- Consumer sentiment missed preliminary expectations for August and hit a six-month low, sinking from 98.4 to 92.1. The impending U.S. tariff hike on China and worries of a possible recession were cited as contributing factors.
- According to the Department of Labor's Consumer Price Index, upward pressures on gasoline and rent pushed up the average cost of living in the U.S. by 0.3% in July as overall inflation remained stable. Core consumer prices (which exclude food and energy) also rose by 0.3%, primarily within apparel, cars and tobacco.
- Mortgage-purchase applications grew by 2.0% in the week ending August 9, while refinancing activity (which can be sensitive to even small rate changes) saw an explosive 37.0% increase. During the week ending August 16, the average 30-year fixed-rate mortgage dropped from 4.01% to 3.93%, the lowest level in almost three years.
- Total import prices rose by 0.2% in July. Prices for petroleum imports surged by 1.9% for the month. Export prices increased by 0.2%, driven by a 0.4% gain in food prices. Underlying trends indicate continued subdued inflation.
- Initial jobless claims rose by 9,000 to 220,000 in the week ending August 10. The more stable four-week moving average picked up by 1,000 to 213,750. Continuing claims jumped by 39,000 to 1.73 million in the week ending August 3.
- Retail sales climbed by 0.7% in July, primarily on the strength of e-commerce shopping. Electronics and clothing stores also pushed the overall reading higher. The report is an optimistic sign for the next personal consumption expenditures report and should help boost second-quarter gross domestic product.
- Housing starts rose by 4.0% in July. The reading signaled developers' expectations of fewer new-home sales in the coming months. However, permits improved by 8.4% to an annual rate of 1.336 million, offering some hope for future homebuilding activity.
- Industrial production in the eurozone contracted by 1.6% in June. Weakness in capital goods and non-durable consumer goods led the broad-based drop.

U.S. Economic Calendar

- August 21: Mortgage Applications, Existing Home Sales
- August 22: Jobless Claims, Purchasing Managers' Indexes, Leading Indicators
- August 23: New Home Sales

Stocks

- Global equity markets were negative this week; developed markets lagged emerging markets.
- U.S. equities were lower. Energy and financials underperformed, while the consumer staples and utilities sectors outperformed. Growth stocks beat value stocks, and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield moved lower to 1.55%.
- Global bond markets were positive this week. Global government bonds led, followed by global corporate bonds and high-yield bonds.

The Numbers as of August 16, 2019	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	-2.4%	9.3%	-2.7%	497.9
MSCI EAFE ($)	-2.3%	4.5%	-6.5%	1797.3
MSCI Emerging Mkts ($)	-1.8%	-0.2%	-5.7%	963.5
US & Canadian Equities				
Dow Jones Industrials ($)	-1.5%	11.0%	1.3%	25886.0
S&P 500 ($)	-1.0%	15.2%	1.7%	2888.7
NASDAQ ($)	-0.8%	19.0%	1.1%	7896.0
S&P/ TSX Composite (C$)	-1.2%	12.8%	-0.5%	16150.7
UK & European Equities				
FTSE All-Share (£)	-1.8%	5.9%	-6.2%	3893.7
MSCI Europe ex UK (€)	-1.9%	9.3%	-3.2%	1273.7
Asian Equities				
Topix (¥)	-1.2%	-0.6%	-12.0%	1485.3
Hong Kong Hang Seng ($)	-0.8%	-0.4%	-5.0%	25734.2
MSCI Asia Pac. Ex-Japan ($)	-1.2%	1.5%	-6.8%	484.3
Latin American Equities				
MSCI EMF Latin America ($)	-6.8%	0.5%	1.7%	2579.2
Mexican Bolsa (peso)	-2.7%	-5.5%	-18.1%	39338.7
Brazilian Bovespa (real)	-4.0%	13.6%	29.9%	99817.2
Commodities ($)				
West Texas Intermediate Spot	0.7%	20.8%	-16.2%	54.9
Gold Spot Price	0.9%	18.1%	28.5%	1513.0
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.7%	7.5%	8.6%	514.8
JPMorgan Emerging Mkt Bond	-1.1%	11.7%	12.0%	860.5
10-Year Yield Change (basis points*)				
US Treasury	-19	-113	-131	1.56%
UK Gilt	-2	-81	-78	0.46%
German Bund	-11	-93	-101	-0.69%
Japan Govt Bond	-1	-23	-33	-0.23%
Canada Govt Bond	-12	-82	-110	1.15%
Currency Returns**				
US$ per euro	-1.0%	-3.3%	-2.5%	1.109
Yen per US$	0.6%	-3.0%	-4.1%	106.35
US$ per £	0.9%	-4.8%	-4.5%	1.215
C$ per US$	0.4%	-2.7%	0.9%	1.327

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 returns are for illustrative purposes only and do not represent actual fund performance.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.