Weekly Update

Powell Pledges Fed Support to Sustain U.S. Economic Expansion

August 23, 2019

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The Economy

- In a speech at the Federal Reserve's (Fed) Jackson Hole Symposium, Fed Chair Jerome Powell reaffirmed the central bank's commitment to support the U.S. economy in the face of "significant" challenges, including Brexit, a slowdown in Germany and the escalating trade war between the U.S. and China.
- U.S. equity markets were battered to end the week ending August 23 after President Trump accelerated the trade war with China, ordering U.S. companies to start looking for alternatives to Chinese goods. Major U.S. stock indexes fell sharply; the S&P 500 Index shed over 2%.
- IHS Markit's composite purchasing managers' index (PMI) (which combines manufacturing and services data) remained above 50 in August. However, the manufacturing component of the reading dipped to 49.9, sliding into contraction territory for the first time in nearly a decade. Economists suggested that the U.S./China trade war may be hastening the economic slowdown.
- The Conference Board's index of leading economic indicators rebounded by 0.5% in July after contracting in June for the first time this year. Despite the report's broad-based strength, manufacturing components remained feeble.
- New-home sales registered a weaker-than-forecasted 635,000 in July. The trade war has pushed up the cost of building materials and hampered builders' ability to produce affordable housing.
- Existing-home sales trended higher by 2.5% in July, from an annualized rate of 5.29 million to 5.40 million. Lower mortgage rates and a robust job market helped. One dim spot in the report was a 1.6% dip in supply, which could limit homebuyers' choices and undermine the total value of home sales.
- Mortgage-purchase applications sunk by 4.0% in the week ending August 16, as the average 30-year fixed-rate mortgage dropped from 3.93% to 3.90%, a three-year low; refinancing activity (which can be sensitive to even small rate changes) expanded by a modest 0.4%.
- Initial jobless claims dropped by 12,000 to 209,000 in the week ending August 17. The more stable four-week moving average picked up by 500 to 214,500. Continuing claims slid by 54,000 to 1.67 million in the week ending August 10.
- The U.K.'s CBI Industrial Trends Survey recovered in August. The total orders balance, export orders and output volume components drove the reading higher. Despite this improvement, the slowdown in the global economy and Brexit uncertainty continued to take a toll on manufacturing in the U.K.
- The flash PMI report for the eurozone showed soft manufacturing and services data in August.

U.S. Economic Calendar

- August 26: Durable Goods Orders
- August 27: Consumer Confidence, S&P CoreLogic Case-Shiller Home Prices Index
- August 28: Mortgage Applications
- August 29: Jobless Claims, Gross Domestic Product, International Trade in Goods
- August 30: Personal Income and Outlays, Consumer Sentiment

Stocks

- Global equity markets were positive this week; developed markets outpaced emerging markets.
- U.S. equities were lower. Materials and communication services underperformed, while the utilities and consumer discretionary sectors outperformed. Growth stocks beat value stocks, and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield moved lower to 1.53%.
- Global bond markets declined this week. Global government bonds lagged, followed by global corporate bonds; high-yield bonds were higher.

The Numbers as of August 23, 2019	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.0%	11.7%	-1.5%	508.9
MSCI EAFE ($)	1.0%	6.4%	-6.1%	1829.3
MSCI Emerging Mkts ($)	0.6%	1.0%	-6.9%	975.7
US & Canadian Equities				
Dow Jones Industrials ($)	-1.0%	9.9%	-0.1%	25628.9
S&P 500 ($)	-1.4%	13.6%	-0.3%	2847.4
NASDAQ ($)	-1.8%	16.8%	-1.6%	7751.8
S&P/ TSX Composite (C$)	-0.9%	11.7%	-2.0%	16004.5
UK & European Equities				
FTSE All-Share (£)	0.1%	6.1%	-6.4%	3898.6
MSCI Europe ex UK (€)	1.3%	12.2%	-1.6%	1308.3
Asian Equities				
Topix (¥)	1.1%	0.5%	-11.5%	1502.3
Hong Kong Hang Seng ($)	1.7%	1.3%	-5.8%	26179.3
MSCI Asia Pac. Ex-Japan ($)	0.7%	3.0%	-7.2%	491.3
Latin American Equities				
MSCI EMF Latin America ($)	-0.8%	0.9%	4.3%	2588.0
Mexican Bolsa (peso)	1.3%	-4.3%	-19.9%	39855.5
Brazilian Bovespa (real)	-2.4%	10.8%	28.8%	97391.5
Commodities ($)				
West Texas Intermediate Spot	-1.4%	19.2%	-21.4%	54.1
Gold Spot Price	0.9%	19.1%	28.5%	1527.0
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.3%	7.0%	7.4%	512.3
JPMorgan Emerging Mkt Bond	-0.1%	12.0%	11.7%	862.9
10-Year Yield Change (basis points*)				
US Treasury	-3	-116	-130	1.53%
UK Gilt	2	-80	-79	0.48%
German Bund	1	-92	-102	-0.68%
Japan Govt Bond	0	-23	-33	-0.23%
Canada Govt Bond	1	-80	-109	1.17%
Currency Returns**				
US$ per euro	0.4%	-2.9%	-3.5%	1.114
Yen per US$	-0.9%	-3.9%	-5.2%	105.45
US$ per £	1.1%	-3.7%	-4.2%	1.228
C$ per US$	0.2%	-2.5%	1.6%	1.330

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.

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