Weekly Update
Second-Quarter GDP Reading Proves Consumers' Clout

August 30, 2019

The Economy

- The second reading of gross domestic product (GDP) showed that U.S. economic growth expanded by 2.0% during the second quarter. The reading was revised down from the initial 2.1% estimate in July. Consumer spending—the largest component of GDP—rose by 4.7%. Economists observed that a strong labor market has underpinned the brisk pace of consumer spending. The overall GDP reading suggested that economic growth continues to cool during its 11th year of expansion.
- Corporate profits in the U.S. rebounded by 1.7% during the second quarter as companies cut investments. American companies faced earnings pressure during the first quarter as rising labor costs, limited pricing power and a strong dollar made U.S. exports more expensive.
- Durable-goods orders jumped by 2.1% in July, primarily due to a surge in aircraft orders. Core capital goods orders (which is a gauge for business investment) improved by 0.4%. The report reflected improved confidence in the U.S. business outlook.
- The S&P CoreLogic Case-Shiller Home Price Index was unchanged in June, illustrating weak price traction in the housing market. Year-over-year gains registered 2.2%, the slowest annual growth in seven years. Economists found the sluggish results sobering and inconsistent with the ongoing steep decline in mortgage rates. Lower rates support housing demand and prices.
- The Conference Board's Consumer Confidence Index slipped from 135.7 in July to 135.1 in August. Despite increased volatility and escalating trade tensions, the reading did not give up as much ground as analysts expected.
- Mortgage-purchase applications sank by 4.0% in the week ending August 23. Refinancing activity (which can be sensitive to even small rate changes) expanded by a modest 0.4%. The average 30-year fixed-rate mortgage inched up from 3.55% to 3.58%.
- The University of Michigan consumer sentiment index diminished from 92.1 in July to 89.8 in August. The reading took its deepest dive since 2012, primarily driven by trade policy uncertainty and the potential for an economic downturn.
- The trade deficit contracted by $1.9 billion in July to $72.3 billion. Exports grew by 0.7%, headlined by consumer goods and automobiles. Total imports shrank by 0.4% due to a drop in capital goods.
- Initial jobless claims accelerated by 6,000 to 215,000 in the week ending August 24. The more stable four-week moving average was unchanged. Continuing claims rose by 22,000 to 1.69 million in the week ending August 17.
- Personal incomes grew by 0.1% in July. Wages and salaries rose by 0.2%, while consumer spending advanced by 0.6%. The core personal consumption price index (which excludes food and energy and is the Federal Reserve's preferred inflation measure) edged 0.2% higher in July, maintaining a 1.4% year-over-year rate.

U.S. Economic Calendar

- September 3: Construction Spending
- September 4: Mortgage Applications, International Trade
- September 5: Jobless Claims, Productivity and Costs, Factory Orders, Purchasing Managers' Services Index
- September 6: Employment Situation

Stocks

- Global equity markets were positive this week; developed markets outpaced emerging markets.
- U.S. equities powered higher. Industrials and telecommunications outperformed, while utilities and consumer staples underperformed. Value stocks beat growth stocks, and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield moved lower to 1.50%.
- Global bond markets increased this week. High-yield bonds led, followed by global government bonds and global corporate bonds.

The Numbers as of August 30, 2019	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI ($)	1.6%	11.7%	-2.9%	508.9
MSCI EAFE ($)	0.3%	6.5%	-7.3%	1831.4
MSCI Emerging Mkts ($)	-0.4%	0.5%	-8.3%	970.1
US & Canadian Equities				
Dow Jones Industrials ($)	3.0%	13.2%	1.6%	26403.3
S&P 500 ($)	2.7%	16.7%	0.8%	2924.8
NASDAQ ($)	2.7%	20.0%	-1.6%	7962.9
S&P/ TSX Composite (C$)	2.5%	14.7%	0.4%	16434.7
UK & European Equities				
FTSE All-Share (£)	1.4%	7.6%	-4.6%	3953.0
MSCI Europe ex UK (€)	1.8%	13.1%	-1.5%	1318.9
Asian Equities				
Topix (¥)	0.6%	1.2%	-13.1%	1511.9
Hong Kong Hang Seng ($)	-1.7%	-0.5%	-8.7%	25724.7
MSCI Asia Pac. Ex-Japan ($)	-0.7%	2.4%	-9.2%	488.6
Latin American Equities				
MSCI EMF Latin America ($)	0.9%	-0.4%	4.8%	2555.2
Mexican Bolsa (peso)	6.7%	2.2%	-14.3%	42549.6
Brazilian Bovespa (real)	3.6%	15.2%	32.5%	101217.0
Commodities ($)				
West Texas Intermediate Spot	1.8%	21.3%	-21.6%	55.1
Gold Spot Price	-0.3%	18.8%	27.0%	1523.1
Global Bond Indices ($)				
Barclays Global Aggregate ($)	0.1%	7.5%	7.9%	514.9
JPMorgan Emerging Mkt Bond	0.3%	12.4%	12.7%	865.9
10-Year Yield Change (basis points*)				
US Treasury	-4	-119	-136	1.50%
UK Gilt	0	-80	-98	0.48%
German Bund	-2	-94	-105	-0.70%
Japan Govt Bond	-4	-27	-38	-0.27%
Canada Govt Bond	-1	-80	-111	1.16%
Currency Returns**				
US$ per euro	-1.4%	-4.1%	-5.8%	1.099
Yen per US$	0.8%	-3.2%	-4.3%	106.21
US$ per £	-0.8%	-4.6%	-6.5%	1.217
C$ per US$	0.2%	-2.4%	2.6%	1.332

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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