A bumpy road for stocks leads to the Fed and China.

The economy

- U.S. stocks lost ground during the week ending August 18, due to investors' uncertainty regarding the direction of Federal Reserve (Fed) monetary policy, as well as worries about China's weakening economy.
- Minutes from the Federal Open Market Committee's (FOMC) July meeting revealed that the committee members remain focused on curbing inflation despite the steady downward trend in the U.S. consumer-price index (CPI) over the past year. Most committee participants maintained their belief that there are "significant upside risks to inflation, which could require further tightening of monetary policy." However, several FOMC members expressed the view that the Fed should take a more measured approach, noting that, "with the stance of monetary policy in restrictive territory, risks to the achievement of the Committee's goals had become more two-sided, and it was important that the Committee's decisions balance the risk of an inadvertent overtightening of policy against the cost of an insufficient tightening." While FOMC members agreed that the U.S. banking system was "sound and resilient," they acknowledged that tightening credit conditions for individuals and businesses could hamper economic growth.
- The meeting minutes also noted that FOMC members no longer believe that the U.S. economy will slip into recession this year. Nonetheless, committee participants also commented that U.S. gross domestic product (GDP) growth in 2024 and 2025 would not meet expectations, possibly resulting in an uptick in the unemployment rate.
- In recent weeks, China, the world's second-largest economy, has experienced relatively weak credit growth, a downturn in exports, and a year-over-year decline in consumer prices. Lower demand for goods and services from Chinese consumers could have a negative impact on other countries' exports of iron ore, crude oil, factory equipment, and luxury goods into the country. U.S.-based manufacturers of chemicals and heavy machinery have cautioned that they may experience a slowdown of sales in China. Additionally, late in the week, property developer China Evergrande filed for protection under Chapter 15 of the U.S. bankruptcy code, which safeguards non-U.S. companies that are undergoing debt restructurings from creditors seeking to sue the firms or to freeze their assets in the U.S.
- U.S. consumers have continued to open their wallets. The Census Bureau reported that U.S. retail sales—a gauge of consumer spending, which comprises more than two-thirds of the country's gross domestic product (GDP)—increased 0.7% in July, up sharply from the 0.3% gain in June, and 1.6% during the previous 12-month period. Core sales, which exclude motor vehicles and parts, as well as gasoline stations, rose 0.4% for the month and 3.9% year-over-year. Nonstore retailers, and food services and drinking places posted the most notable gains versus the same period in 2022. Conversely, sales for gasoline stations declined significantly as the average retail price for all grades of gasoline tumbled 20% over the previous 12 months.
- According to Freddie Mac, the average interest rate on a 30-year fixed-rate mortgage rose 0.13% to a 22-year high of 7.09% for the seven-day period ending August 17—the fourth consecutive weekly increase—weighing on home affordability.
- High interest rates continue to hinder activity in the housing market. The Mortgage Bankers Association (MBA) reported that mortgage applications in the U.S. were down 0.8% during the week ending August 11, compared to the previous seven-day period. The MBA's Refinance Index decreased 2% from the previous week and plummeted 35% versus the same period in 2022, as many current homeowners have mortgages that they were able to secure before interest rates began to rise sharply in the first quarter of last year. The Purchase Index decreased 0.2% and 26% for the week and year-over-year, respectively.

Stocks

- Global equities closed down for the week. Emerging markets fared better than developed markets.
- U.S. equities fell during the week. Information technology and healthcare were the strongest-performing sectors, while real estate and financials lagged. Growth stocks led value, while large caps outperformed small caps.

Bonds

- The 10-year U.S. Treasury note yield increased to 4.25% during the week.
- Global bond markets declined for the week.
- High-yield bonds led the markets, followed by corporate bonds and government bonds.

The Numbers as of August 18, 2023	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-2.4%	10.4%	2.0%	668.3
MSCI EAFE ($)	-2.8%	6.4%	6.3%	2069.0
MSCI Emerging Mkts ($)	-2.4%	1.8%	-3.5%	973.9
US & Canadian Equities				
Dow Jones Industrials ($)	-2.2%	4.1%	1.5%	34500.7
S&P 500 ($)	-2.1%	13.8%	2.0%	4369.7
NASDAQ ($)	-2.6%	27.0%	2.5%	13290.8
S&P/ TSX Composite (C$)	-2.9%	2.2%	-2.2%	19818.4
UK & European Equities				
FTSE All-Share (£)	-3.5%	-2.8%	-4.8%	3961.9
MSCI Europe ex UK (€)	-1.7%	7.9%	5.8%	1597.6
Asian Equities				
Topix (¥)	-2.9%	18.3%	12.4%	2237.3
Hong Kong Hang Seng ($)	-5.9%	-9.3%	-9.2%	17950.9
MSCI Asia Pac. Ex-Japan ($)	-2.8%	-0.8%	-4.8%	501.4
Latin American Equities				
MSCI EMF Latin America ($)	-3.5%	9.9%	4.9%	2339.8
Mexican Bolsa (peso)	0.0%	9.8%	9.2%	53233.0
Brazilian Bovespa (real)	-2.3%	5.2%	1.4%	115400.2
Commodities ($)				
West Texas Intermediate Spot	-2.3%	1.2%	-10.2%	81.3
Gold Spot Price	-1.3%	3.6%	7.5%	1889.6
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-1.0%	-0.4%	-3.9%	444.1
JPMorgan Emerging Mkt Bond	-1.8%	2.5%	1.2%	787.1
10-Year Yield Change (basis points*)				
US Treasury	9	37	137	4.25%
UK Gilt	15	101	236	4.67%
German Bund	0	5	152	2.62%
Japan Govt Bond	5	21	43	0.64%
Canada Govt Bond	7	41	87	3.71%
Currency Returns**				
US$ per euro	-0.7%	1.6%	7.8%	1.087
Yen per US$	0.2%	10.8%	6.9%	145.31
US$ per £	0.3%	5.4%	6.7%	1.274
C$ per US$	0.8%	0.0%	4.7%	1.355

Source: Bloomberg. Equity-index returns are price only, others are total returns.

*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.

Important information

Index returns are for illustrative purposes only and do not represent actual investment 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.

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