



Weekly Market Update

Equity markets breathe a sigh of relief as a Greek deal is reached

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Article Highlights

- Greece agrees to harsh austerity measures in exchange for a new bailout package.
- Stocks in the U.S. and Europe rally on news of the deal.
- Markets can now shift focus to economic fundamentals and corporate earnings.
- Long-term U.S. Treasury prices rise amid mixed economic data.
- Despite some soft June data releases, we are maintaining our GDP forecast for Q2.
- While a September Fed rate hike remains in play, we believe the odds favor a December move.

July 17, 2015

Greece relents and remains in the Eurozone

After months of twists and turns, Greece and its international creditors agreed on a bailout deal designed to keep the debt-strapped country in the Eurozone. Following a series of last-minute negotiations, the Greek government agreed to enact measures that include significant pension adjustments and tax increases, stepped-up tax enforcement, and structural economic reforms. In exchange, Greece will receive a €7 billion “bridge” package, followed by an additional €86 billion package, pending further negotiations.

Equities

Buoyed by the news out of Greece and better-than-expected economic data from China, the S&P 500 Index rose 2.3% for the week through July 16 before giving back some gains on July 17. The week’s solid performance was also supported by a promising start to the second-quarter corporate earnings season. So far, earnings are on track for a 3% gain, versus expectations for a 5% decline. In Europe, the STOXX 600 Index surged 4.4%, its best weekly advance in six months.



Financial Services

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Chinese stocks enjoyed a relatively quiet week amid an easing of some of the government's recently imposed trading restrictions, which were intended to halt a sharp selloff in domestic equity markets that began in June. Meanwhile, China reported GDP growth of 7% compared to the same period a year ago. A reacceleration in China could boost other emerging-market Asian economies, which have lagged.

Fixed income

Disappointing retail sales data helped push long-term U.S. Treasury yields lower. (Yield and price move in opposite directions.) After beginning the week at 2.42%, the bellwether 10-year yield dropped to 2.35% during afternoon trading on July 16. In her semiannual testimony before Congress, Fed Chair Janet Yellen reiterated her view that the Fed will begin to raise rates this year if economic indicators warrant. Markets took this news in stride, perhaps comforted by previous Fed assurances that the pace of hikes will be gradual, or optimistic that economic weakness could delay rate "liftoff" until next year.

Most U.S. "spread" products (higher-yielding, non-U.S. Treasury securities) performed well, as positive headlines out of Greece and China led to increased risk appetites.

Current updates are available [here](#). For additional insights from TIAA-CREF professionals, view our [Weekly Market Perspective Video](#).

Despite some weakness in June, we believe the U.S. economy remains on track

June is shaping up to be softer than we initially expected, although the data is generally in line with our forecast for 2.3% second-quarter GDP growth. June's more modest improvement does sap some of the momentum that we had anticipated heading into the second half of the year, but we view the trickle of disappointing news as a "giveback" from a stronger May, rather than a fundamental change in the economy's growth trajectory. Among the week's reports:

- **First-time unemployment claims** fell sharply, to 281,000, following a spike the previous week. New claims have now been under the key 300,000 level since late February. Meanwhile, the less-volatile four-week moving average edged up to 282,500.
- **Retail sales** unexpectedly fell by 0.3% in June (-0.1% ex-autos), while sales for both April and May were revised downward slightly.
- **Homebuilder confidence** remained at its highest level in 10 years in June, according to the monthly NAHB survey.
- **Building permits**, a forward-looking indicator, climbed to an almost eight-year high in June, bolstered by steady job gains, low mortgage rates, and gradually easing lending standards.
- After hitting its highest level of the year in May, **small business sentiment** slid in June as measured by the NFIB's small-business optimism index.

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- **Consumer sentiment** fell more than expected, based on the preliminary July reading of the University of Michigan index.
- The **Citi Economic Surprise Index** rose in June after falling for several months. This index is a gauge of the extent to which economic data releases have diverged from consensus forecasts.

The Eurozone economy reclaims the spotlight

With Greece likely to fade from the headlines for the time being, markets can once again shift their attention to Eurozone's economic fundamentals, which we believe are poised to improve heading into the second half of the year. Encouraging signs include a pickup in auto registrations, along with positive job outlooks and expectations for increased capital expenditures in the region's "Big Four" economies (Germany, France, Italy, and Spain). On the other hand, Eurozone corporate earnings revisions have been disappointing, and the Citi Economic Surprise Index has leveled off after rising in May.

Outlook

It is too soon to tell whether the decision to keep Greece in the Eurozone was the "right" one. In some ways, agreeing to the deal may be the easiest part of this drawn-out process for Greece and its European partners. Harsh reforms must be implemented, which carry their own political and economic risks. Longer-term concerns include reconciling the divergent views between hard-line Germany and more accommodative France, and the need for further fiscal and monetary integration. For now, at least, the parties have demonstrated the determination to keep the union together.

As for the Fed, a September rate hike remains in play, although we believe the odds favor a December move. Our current forecast is for a 1% annual increase in the fed funds rate through 2017, but these moves will be highly data dependent.

In U.S. equity markets, our year-end target remains 2,300 for the S&P 500, while we view fixed income as reasonably priced at current spreads and interest-rate levels. As events in Greece and China become less prominent, bond markets will once again turn their attention to upcoming data releases, the timing and pace of Fed tightening, and Europe's growth trajectory.



Financial Services

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