Weekly Market Update

Global equities advance as the Fed's decision looms

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- U.S. and European equities post modest gains for the week despite ongoing Fed-induced volatility.
- Bond markets seek direction amid speculation about the Fed's tightening timetable and economic news out of China.
- Labor market conditions are a bright spot in a light week for U.S. data releases.
- We expect the Fed to raise rates at its September meeting, with signals about future hikes the key to market reaction.

September 11, 2015

Equities

Global equities concluded yet another volatile week, mostly driven by uncertainty over the timing of the Federal Reserve's first interest-rate hike since 2006 and ongoing worries about Chinese economic growth. In the U.S., the S&P 500 Index began the Labor Day-shortened week by surging 2.5% on September 8, one of its best single-day percentage gains of the year. Futures-related selling and falling oil prices pared that advance in subsequent sessions, leaving the index up about 1.4% for the week.

European stocks appeared to take their cues from the U.S. The STOXX 600 Index rose 0.7% in local currency terms—its best week in two months—and also advanced in U.S. dollar terms. Eurozone economic data was mostly positive, with second-quarter GDP growth revised upward to 0.4% from an initial estimate of 0.3%, and first-quarter growth revised from 0.4% to 0.5%. While Germany reported better-than-expected imports and exports in July, France's manufacturing and industrial sectors slipped to nine-month lows.

On the heels of weak trade data, China's finance ministry pledged to roll out additional fiscal policy measures to spur economic growth, including tax cuts for small businesses and additional funding for infrastructure projects. The prospect of further stimulus provided a mid-week boost to Chinese stocks, which ended a relatively calm week with a small gain.

Financial Services

Fixed income

Bond markets sought direction amid speculation over the Fed’s tightening timetable and economic news out of China. The yield on the bellwether 10-year U.S. Treasury note climbed from 2.13% at the start the week to nearly 2.25% in midweek trading before retreating somewhat by the afternoon of September 11. (Yield and price move in opposite directions.) The yield on the 2-year Treasury, which is highly sensitive to Fed policy, hovered around 0.71% on September 11, the level at which it began the week.

Returns for “spread” products (higher-yielding, non-U.S. Treasury securities) were mixed for the week through September 10. High-yield bonds were notable outperformers, buoyed by inflows after two consecutive weeks of outflows. Investment-grade issues posted a modest loss despite inflows for the first time since late July. Relative to Treasuries, spreads for both asset classes continued to narrow.

Emerging-markets debt endured more volatility. Standard and Poor’s downgraded Brazil’s credit rating to below investment grade, leading to wider spreads for both Brazilian corporate and sovereign bonds. (Moody’s and Fitch, the two other major rating agencies, maintained Brazil’s investment-grade status.)

Current updates are available here. For more TIAA-CREF insights on recent market volatility, view our Weekly Market Perspective Video.

A light week for U.S. economic releases

The week’s data releases were mixed to positive, including the following:

- **First-time unemployment claims** fell to 275,000, and the less-volatile four-week moving average was little changed at 275,750. In another sign of the improving labor market, job openings (as reported by the JOLTS report) hit a record high in July.
- **Small-business sentiment** edged higher in August, according to the NFIB index.
- **Consumer sentiment** dipped to its lowest level in a year, based on the preliminary September reading of the University of Michigan index. Against the backdrop of August’s equity market downturn, consumers expressed concerns about the economy and were less optimistic about future growth in jobs and wages.

Outlook

Overall, the environment for U.S. equities remains favorable, underpinned by the economy's stable, positive trend and mostly encouraging third-quarter corporate earnings estimates. In fixed-income markets, we continue to find risk-adjusted value in higher-quality U.S. investment-grade and high-yield corporate debt, as well as in select structured securities such as commercial mortgage-backed and asset-backed bonds.

As for the question that is foremost on the minds of investors and markets around the world, we expect the Fed to announce a rate hike at the conclusion of its September 16-17 meeting. Should the Fed decide to take action, the real impact won't be the move itself, but the Fed's signal about the pace and scope of future tightening. If the Fed's tone remains relatively dovish even with an initial rate hike, then there should be little market reaction or economic implications—until it signals a second increase in rates. Other central banks have taken steps to prepare for a change in Fed policy. In China, the central bank has intervened aggressively to prop up the yuan—a move possibly designed to calm markets in anticipation of higher rates.

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