



Weekly Market Update

Markets are volatile following Fed's decision not to raise rates

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- Citing low inflation and concerns about global economic developments, the Fed holds rates steady.
- U.S. and European equity markets turn lower in the wake of the Fed's decision.
- After rising through mid-week in anticipation of a rate hike, U.S. Treasury yields reverse course, on track to close lower for the week.
- We remain cautiously optimistic about the S&P 500's path for the rest of the year and would view inevitable bouts of volatility as potential buying opportunities.

September 18, 2015

The past week was dominated by the Federal Reserve's September 17 decision not to raise short-term interest rates, which have remained near 0% since December 2008. More perspective on the Fed's decision—including our [Weekly Market Perspective Video featuring TIAA-CREF Portfolio Manager Stephanie Link](#)—along with additional insights related to interest rates and the implications for investors—are available [here](#).

Equities

After a cautious start to the week, U.S. equity markets staged a mid-week rally, then turned mixed on September 17 immediately following the Fed's rate announcement, ending the day in negative territory. In early trading on September 18, U.S. and global markets were sharply lower as investors began to digest the Fed's comments about weaker U.S. inflation and global growth concerns. We anticipate volatility to continue in the near term. Current market headlines are available [here](#).

Fixed income

Amid tight liquidity, fixed-income markets appeared to be anticipating a rate hike. By mid-week, U.S. Treasury yields had risen by approximately 10 basis points (0.10%) across the yield curve, with the bellwether 10-year note closing at 2.30% on September 16, and the highly rate-sensitive 2-year note at 0.82%, a four-year high. (Yield and price move in opposite directions.)



Financial Services

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The Fed's reference to softening inflation and global economic concerns as reasons for not raising rates ignited a rally in Treasuries, and the 10-year yield was back down to 2.16% as of morning trading on September 18. Meanwhile, returns for "spread" products (higher-yielding, non-U.S. Treasury securities) were mostly negative for the week, with high-yield corporate bonds notably underperforming.

A full slate of data releases goes unnoticed by the markets

With investors fixated on the Fed's decision, the past week's mixed economic data did little to sway markets. Among the reports:

- Labor markets continued to hold steady, as **first-time unemployment claims** fell to 264,000, and the less-volatile four-week moving average edged down to 275,000.
- **Retail sales** ticked up 0.2% in August (a strong 0.7% excluding autos), while July's results were revised higher, providing further evidence that consumer spending has strengthened.
- In contrast to the better consumer results, **industrial production** dropped 0.4% in August, hindered by the strong dollar and weak global demand.
- **Housing starts** dipped 3.0% in August and were revised sharply downward for July. Over the first eight months of 2015, starts have advanced 11.3% compared to the same period in 2014. Meanwhile, **homebuilder confidence** continued its steady rise, with the NAHB index hitting a near 10-year high in August.
- **Mortgage applications** tumbled, as borrowers remained on the sidelines awaiting the Fed's decision. **Building permits**, however, a forward-looking indicator, climbed in August.
- U.S. **consumer prices** fell 0.1% in August, the first one-month decline this year, pulled down by a sharp drop in gasoline prices. Stripping out volatile food and energy costs, so-called "core" consumer prices rose by only 0.1%.
- **Regional manufacturing indexes** slipped in August, as both the Empire State Index and Philly Fed survey slowed.
- The index of **leading indicators** published by The Conference Board increased 0.1% in August, suggesting economic growth will remain moderate heading into year-end.

Outlook

For U.S. stocks, we would not be surprised to see a pullback in the S&P 500 Index and would view a decline as a buying opportunity. Investor sentiment remains negative—a contrarian indicator that often serves as a springboard for a market advance, in line with our outlook for the index to move to, and perhaps past, its May highs.

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We remain positive on European equities, which seem to have “decoupled” from the volatility emanating from China. Further supporting our view are clear signs that Europe’s recovery is being driven by domestic demand. At the same time, we are mindful of potential volatility in the Eurozone ahead of upcoming elections in Spain, France, and Greece.

Economic releases from China have been a bit of a mixed bag. Consumer and service-sector activity have picked up, and housing prices rose in August for the fourth straight month. While the manufacturing sector continues to struggle, there are signs of a bottom. Overall, we do not expect a recession or market crash, but rather growth at lower levels.

If that holds true, and if China avoids further dramatic currency devaluations, the emerging markets could rally strongly heading into year-end. Valuations are attractive, and investor sentiment is even more negative than in the U.S., creating potential opportunities.

In fixed-income markets, while extended periods of low rates have historically been good for bond investors, there is now some concern that a global economic slowdown could potentially increase the level of defaults. In the meantime, upcoming U.S. and Chinese economic data releases could serve as important inflection points for markets.



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