Weekly Market Update

Solid jobs report boosts odds of December rate hike and weighs on U.S. equities

WILLIAM RIEGEL, CHIEF INVESTMENT OFFICER, TIAA-CREF ASSET MANAGEMENT

- U.S. stocks advance for the sixth straight week, while European stocks lose ground.
- Hawkish Fed commentary and October's payroll numbers push U.S. Treasury yields higher.
- Although the U.S. economy's growth trajectory hasn't meaningfully changed recently, wages are finally beginning to rise.
- We fully expect the Fed to raise rates in December, but the timing of the rate hike itself is less important than the ultimate pace of tightening.

November 6, 2015

Equities

Global equities were mixed this week, as investors were cautious prior to the November 6 release of October's U.S. employment report.

In the U.S., the S&P 500 Index got off to a fast start to begin the week, leaving it just short of its May record-high close. However, stocks faded as the week wore on. October's strong jobs report fanned concerns that the Federal Reserve will raise rates in December, leaving the index with a gain of about 1% for the week.

Europe's STOXX 600 Index returned -1.57% in U.S. dollar terms (+1.2% in local currency terms) for the week, a reflection of the euro's falling from about 1.10 to 1.07 versus the U.S. currency. European Central Bank (ECB) President Mario Draghi drove the euro lower by reiterating his stance that the ECB remains prepared to ease monetary policy in December.

Stocks in China rallied. Since bottoming in late August, Chinese equity markets have now entered bull-market territory, defined as a rise of more than 20% from recent lows.

Fixed income

Recent hawkish comments by Federal Reserve officials, combined with October's better-than-expected jobs report, helped push U.S. Treasury yields higher. The yield on the Bellwether 10-year U.S. Treasury rose from 2.16% at the start of the week to 2.32% on November 6. (Yield and price move in opposite directions.) The yield on the two-year Treasury note, which is highly sensitive to changes in the

Financial Services

Fed's rate policy outlook, jumped from 0.75% to 0.91% during the week, its highest level in more than five years.

Returns for spread sectors (higher-yielding, non-Treasury securities) were broadly negative for the week through November 5. High-yield corporate bonds, though, bucked that trend with a modest gain, supported by their fourth straight week of inflows. Current updates are available here. For additional insights from TIAA-CREF professionals, view our Weekly Market Perspective Video.

October's jobs report far exceeds forecasts

The U.S. economy generated 271,000 jobs in October, while the unemployment rate edged down from 5.1% to 5.0%, its lowest level since April 2008. Most importantly, average hourly wages topped expectations by rising 0.4% in October and 2.5% versus a year ago. While the underlying economy's trajectory has not materially changed recently, this report provides evidence that wages, which have struggled to gain traction, are finally beginning to rise.

Other U.S. economic releases were mixed. Among the reports:

- **First-time unemployment claims** rose to 260,000, but remained well below the key 300,000 level, and the less-volatile four-week moving average also increased, to 262,750, near a 42-year low.
- **U.S. service-sector activity** approached a 10-year high by climbing to 59.1 in October, easily topping forecasts and well above the 50 mark separating expansion from contraction, according to the non-manufacturing index published by the Institute for Supply Management (ISM).
- **U.S. manufacturing** improved to 54.1 in October, according to Markit's Purchasing Manager's Index (PMI), an encouraging sign after the sector's pace of expansion hit a two-year low during the third quarter. Meanwhile, a similar manufacturing index from the ISM fell to 50.1.
- The **U.S. trade deficit** sank 15% in September, to $40.3 billion, down from a revised $48 billion in August. Exports rose after falling to a three-year low In August, and imports dipped.

Outlook

October's substantial increase in payrolls, and in particular, a long-awaited boost in wages, support our view that the Fed will raise rates in December; Chair Janet Yellen has viewed sustained wage growth as a key determinant of the health of the U.S. labor market. The equity correction that took place in August and September also points toward a December rate "liftoff," as stocks tend to pull back about four months before the start of a tightening cycle. What will be key for markets, though, is not when the Fed finally pulls the trigger but its communications regarding the ultimate pace of rate hikes, which we believe will be slow and measured.

Solid jobs report boosts odds of December rate hike

For U.S. equities, the S&P 500's rise of more than 10% from its September bottom increases the likelihood of a correction. That said, we believe any decline will be shallow, offering potential buying opportunities. Looking toward year-end, investor sentiment remains at negative levels that may be a sign of a possible advance. In fixed-income markets, we continue to believe the best opportunities are available in the U.S., with short-dated asset-backed and commercial mortgage-backed securities among the sectors offering reasonable value.

TIAA-CREF Asset Management provides investment advice and portfolio management services to the TIAA-CREF group of companies through the following entities: Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, and Teachers Insurance and Annuity Association® (TIAA®). Teachers Advisors, Inc. is a registered investment advisor and wholly owned subsidiary of Teachers Insurance and Annuity Association (TIAA). Past performance is no guarantee of future results.

Foreign stock market returns are stated in U.S. dollars unless noted otherwise.
Please note that equity and fixed income investing involve risk.

© 2015 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund (TIAA-CREF), 730 Third Avenue, New York, NY 10017

C27957