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Global equities drift higher in a week of relative calm

WILLIAM RIEGEL, CHIEF INVESTMENT OFFICER, TIAA PUBLIC INVESTMENTS

Article Highlights

- Rising oil prices help the S&P 500 close in on its best week in nearly two months.
- A Greek debt package supports European stocks, which advance for the third week in a row.
- High-yield bonds outperform in a quiet week for fixed-income markets.
- U.S. housing data shines, while Q1 GDP is revised slightly upward, as we expected.

Equities

Amid thin volume ahead of the Memorial Day holiday, U.S. equities were headed for their best week in nearly two months. Buoyed by oil prices approaching $50 per barrel and solid housing data, the S&P 500 Index was up about 2% for the week through May 26. Investors also appeared more comfortable with the prospect of a Fed rate hike in June, while still hoping to parse any clues about timing from Fed Chair Janet Yellen's May 27 speech.

Stocks in Europe were poised to rise for the third week in a row, with the broad STOXX 600 Index gaining about 3% in local currency terms. Despite a drop in European manufacturing and services activity to a 16-month low and a subpar reading of German economic sentiment, investors cheered news of a tentative agreement by international creditors to unlock more bailout funds for Greece. The funding will help Athens avoid defaulting on large debt repayments this summer. In Asia, Chinese equities, which have been trading sideways for weeks, were little changed.

Current updates to the week's market results are available here.

Fixed income

Fixed-income markets were also calm in the face of a potential near-term move by the Fed. The yield on the bellwether 10-year U.S. Treasury note hovered around 1.84% for most of the week.

Returns for non-Treasury "spread sectors" were broadly, if modestly, positive, with high-yield and investment-grade corporate debt outperforming. Rising oil prices supported high-yield bonds, which have gained nearly 8% for the year to date through May 26.

GDP is revised upward, while housing data continues to shine

According to the government's second estimate, U.S. GDP grew at a 0.8% annual pace in the first quarter, compared to a previous estimate of 0.5%. Consumer spending, the economy's main engine, expanded at a 1.9% annualized rate, matching the previous forecast. Business investment lagged, however, as declining oil prices prompted energy companies to cut spending on capital projects, and a strong dollar hurt manufacturers by making U.S. exports more expensive overseas.

Other economic releases provided further evidence that the housing market has hit its stride, while manufacturing activity continues to lag. Among the week's reports:

- **New home sales** surged 16.6% in April, their biggest one-month jump in more than 24 years, and **pending home sales** leaped 5.1% to their highest level since February 2006. These reports follow the previous week's solid showings in homebuilder sentiment, housing starts, and existing home sales.

- **First-time unemployment claims** dropped by 10,000, to 268,000, a one-month low, while the less-volatile four-week moving average increased, by 2,750, to 278,500.

- **Consumer sentiment** improved in May, according to the University of Michigan index. Despite meager first-quarter GDP growth and a higher rate of inflation, consumers were optimistic about their financial prospects.

- **Manufacturing activity** dipped in May to 50.5, just above the 50 mark separating expansion from contraction, according to the "flash" (preliminary) reading of Markit's Purchasing Managers Index. Manufacturers reported a fall in production and softer new order growth.

- **Durable goods orders** (aircraft, machinery, computer equipment, and other big-ticket items) rose 3.4% in April, fueled by a spike in demand for commercial planes. Disappointingly, business investment fell for the fifth time in six months, as orders for core capital goods declined by 0.8%.

The week of May 27 will bring a raft of key U.S. economic releases, including several that the Fed will be watching closely: job growth, the unemployment rate, average hourly earnings, and consumer spending.