

Equity market rally losing steam ahead of Christmas holiday

WILLIAM RIEGEL, CHIEF INVESTMENT OFFICER, TIAA INVESTMENTS

Article Highlights

- The S&P 500 drifts lower after nearly setting another record high.
- Stocks in Europe and Japan also slip from 2016 peaks.
- Yields on both the 2- and 10-year U.S. Treasury edge lower.
- Third-quarter GDP growth is revised slightly higher in a mixed week for U.S. data releases.

Equity and fixed-income markets

Equity markets began the week on a positive note amid seasonally light trading. The S&P 500 Index climbed to within a point of its all-time high set on December 13 before moving lower. Investors still harbor hope for a so-called “Santa rally”—a rise in stock prices that is often observed in the week between Christmas and New Year. Overseas, Europe’s STOXX 600 Index and Japan’s Nikkei 225 Index both lost ground after notching 2016 highs.

In fixed-income markets, the yield on the bellwether 10-year U.S. Treasury declined from the prior week. For the year to date through December 21, the 10-year yield has risen 28 basis points (0.28%). Since closing at an all-time low of 1.37% on the heels of late June’s Brexit vote, however, it has surged 90 basis points (0.90%). The yield on the 2-year note, which on December 18 reached its highest level since 2009, also fell.

Current updates to the week’s market results are available [here](#).

GDP is revised higher in a mixed week for U.S. economic data

A number of U.S. data reports were released in the days leading up to Christmas. Among these:

- **GDP.** According to the government’s third and final estimate, the U.S. economy grew at an annual rate of 3.5% in the third quarter, above the prior estimate of 3.2%. This is the fastest pace of growth in more than two years. Strong consumer spending, business investment, and exports drove the upward revision.

- **Consumer spending** rose 0.2% in November following an upwardly revised 0.4% increase in October, while **personal income** flattened in November.
- **Existing home sales** improved 0.7% in November, to their fastest pace in nine years, and were up 15.4% compared to a year ago.
- **Durable goods** orders (aircraft, machinery, computer equipment, and other big-ticket items) fell 4.6%, their first drop in five months. However, orders for core capital goods, often viewed as a proxy for business investment, jumped 0.9%.
- **Inflation**, as measured by the Federal Reserve's preferred inflation barometer (the PCE index), was flat in November and up just 1.4% over the past 12 months. The "core" PCE index, which excludes food and energy costs, was also unchanged in November but increased 1.6% versus a year ago.
- The Conference Board's index of **leading economic indicators** was flat in November. Nonetheless, the underlying trends in the index suggest that the economy will continue expanding into the first half of 2017.

First-time unemployment claims climbed by 21,000, to 275,000, while the usually less-volatile four-week average rose by 6,000, to 263,750. Despite this upturn, the pace of layoffs remains subdued.



This material is prepared by and represents the views of Bill Riegel, and does not necessarily represent the views of TIAA Global Asset Management, its affiliates, or other TIAA Global Asset Management staff. These views are presented for informational purposes only and may change in response to changing economic and market conditions. This material should not be regarded as financial advice, or as a recommendation or an offer to buy or sell any product or service to which this information may relate. Certain products and services may not be available to all entities or persons. Past performance is not indicative of future results. Economic and market forecasts are subject to uncertainty and may change based on varying market conditions, political and economic developments.

TIAA Global Asset Management provides investment advice and portfolio management services through TIAA and over a dozen affiliated registered investment advisers.

© 2016 Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA), 730 Third Avenue, New York, NY 10017

C37631