Weekly Market Review

By: Jim Rambo, Allegheny Research Team

The Week Ending May 19, 2018

It was a less than a spectacular week for economic data releases. Weekly initial jobless claims came in a little higher than the consensus expectation. This wasn't a big concern considering jobless claims are near a 10-year low. The U.S. Census Bureau's Monthly Retail Trade Survey only rose slightly indicating the softness in consumer spending continues. Mortgage applications fell 2.7% for the week. Mortgage refinancing fell twice as much compared to mortgages for purchases. Also, monthly housing starts for April were below expectations.

The yield curve steepened last week with the 10-year Treasury hitting 3.1%, a seven-year high. The expectation of rising inflation as well as quantitative tightening by the Fed has upward pressure on rates in the U.S. Rising rates are a headwind for bonds. The Bloomberg Barclays Aggregate Bond Index was down 0.5% for the week and is down 2.7% so far for the year.

Because U.S. rates are rising while most of the rest of the world rates are still being held low by monetary policies, the U.S. Dollar has been steadily appreciating. The logic works like this – if you are a European investor, and you would like to lend U.S. dollars to take advantage of the higher rates on U.S. loans, first, you need to acquire the U.S. Dollars that you plan to lend. This rising demand causes the U.S. Dollar to appreciate. There are benefits and drawbacks to a strengthening currency. From the U.S. consumer's perspective, a strong dollar means that goods priced in foreign currencies are cheaper. However, from a U.S. multinational business perspective, goods priced in U.S. Dollars become more expensive for international customers.

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811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com