

Equities Edge Higher, Sixth Gain in Seven Weeks

August 15, 2016 — U.S. stocks edged lower on Friday after an unexpected stall-out on last month’s retail sales, but the S&P 500 eked out its sixth weekly gain in the past seven weeks. The NASDAQ Composite finished at a new all-time high for a second week. Energy shares led the advance as crude oil posted its strongest weekly gain since April, while earnings results from the leading department stores boosted optimism. Notably, the MSCI EAFE Index of developed markets (excluding the U.S. and Canada) and the MSCI Emerging Markets Index each advanced 2.8% last week.

In key domestic economic data, Commerce officials said retail sales were unchanged last month, unable to sustain an upwardly revised 0.8% June increase. Excluding autos, retail sales fell 0.3%. The Producer Price Index (PPI) fell 0.4%, the largest pullback since last September, widely below economists’ outlook for a 0.1% increase. On the bright side, the reports lowered expectations that Fed may hike rates in September. Other data last week showed wholesale inventories and trade sales expanded in June, while the University of Michigan’s early August consumer sentiment index climbed slightly from a three-month low in July, but trailed Wall Street’s consensus forecast.

For the week, the S&P 500 rose 0.12%, the Dow Industrials gained 0.18%, and the NASDAQ Composite gained 0.24%. Seven of the ten major sectors posed gains, led by Energy (+1.54%), Consumer Staples (+0.77%), and Consumer Discretionary (+0.57%). Materials (-0.68%), Healthcare (-0.61%) and Financials (-0.60%) lagged. Total trading volumes were soft last week, nearly 12% below the 20-day average. The US Dollar Index weakened last week, slipping 0.491% to end at 95.722. U.S. oil futures gained +6.43% last week to end at \$44.49/barrel on speculation OPEC oil talks may help stabilize the market. Treasuries rose, pulling the yield lower on benchmark 10-year Treasury notes to 1.514%.

What We’re Reading

Oil Rebounds on Production Freeze Talk ↗

Oil Recovery Pushes Stocks Higher ↗

Brexit May Be Delayed Until 2019 ↗

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Week’s Economic Calendar

Monday, Aug 15: Empire State Mfg Survey, Housing Market Index ;

Tuesday, Aug 16: Consumer Price Index, Housing Starts, Industrial Production, e-Retail Sales;

Wednesday, Aug 17: MBA Mortgage Applications, FOMC Minutes;

Thursday, Aug 18: Jobless Claims, Philly Fed Survey, Leading Indicators;

Friday, Aug 19: No major releases.

Market Watch

Source: Morningstar

Stocks	1-Week	MTD	3-Months	YTD	1-Year	3-Years
Dow Jones Industrial Aver	0.18%	0.78%	4.83%	6.61%	6.73%	6.40%
S&P 500	0.12%	0.61%	6.39%	8.32%	7.02%	11.26%
NASDAQ Composite	0.24%	1.46%	10.81%	5.33%	5.03%	13.92%
Russell 3000	0.11%	0.58%	6.88%	8.36%	5.98%	10.64%
MSCI EAFE	2.85%	1.45%	4.72%	1.88%	-4.35%	1.73%
MSCI EM	2.80%	4.27%	14.12%	16.54%	8.19%	0.72%
Bonds						
Barclays US Agg Bond	0.42%	-0.11%	2.13%	5.87%	5.57%	4.17%
Barclays Municipal	0.18%	0.05%	1.46%	4.45%	6.82%	6.01%
Barclays US Corp High Yield	0.88%	1.24%	6.02%	13.39%	7.96%	4.96%
Commodities						
Bloomberg Commodity	0.25%	-0.26%	-0.75%	7.19%	-7.24%	-12.82%
S&P GSCI Crude Oil	7.69%	8.61%	-4.78%	21.98%	2.98%	-24.65%
S&P GSCI Gold	-0.09%	-1.05%	5.47%	26.69%	19.50%	0.22%

Chart of the Week: Global 3Q Outlook Improves, Although U.S. & China Retail Sales Disappoint

Table 1: Global real GDP

%q/q, saar (Current forecast shaded)

	2Q16	3Q16		
		Current	Last week	4 weeks ago
J.P. Morgan	2.1	2.5	2.5	2.2
Global Nowcaster	2.1	2.7	2.5	2.2
Global PMI model	2.2	2.2	2.2	2.2

Source: J.P. Morgan

J.P. Morgan's bottom-up forecast for third quarter 2016 global GDP growth is unchanged at a 2.5% annualized rate this week. This forecast projects a 1.6% gain in the Developed Markets and 4.0% growth in Emerging Markets. If realized, both regions will have accelerated quarter-over-quarter. We received a number of 2Q GDP reports this week with offsetting country results, keeping the global aggregate unchanged from last week. Second-quarter GDP results surprised to the upside in Hong Kong, Russia, and Romania but disappointed in Hungary, Malaysia, and Singapore. The Eurozone's revised 2Q GDP release was a touch weaker at 1.1% (vs. 1.2% in the preliminary release), though this is stronger than the soft national production data suggested.

Turning to the current quarter, as the above chart indicates, the GDP Global Nowcast for third quarter global growth rose notably this week, to a solid 2.7% annualized pace from 2.5% last week. While this is encouraging, we note that most nowcast model projections are unavailable at the start of the tracking quarter. The data for 3Q are now in hand for the July global PMIs and auto sales. Both are moving in the right direction with the July manufacturing PMI up a solid 1.7 percentage points and auto sales up 1.4% month-over-month (MoM).

At the country level, the latest July activity reports from the U.S. and China suggest caution. U.S. July retail sales disappointed, though this follows a quarter in which total goods consumption surged nearly 10%. Similarly, China's retail sales decelerated to an 0.8% month-over-month pace from a 1.5% clip in June. Industrial production also decelerated in China with a weak 0.2% month-over-month increase in July.

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Glossary

The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI Emerging Markets is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

The **Russell 1000 Index** comprises the 1,000 largest companies in the U.S. equity market, and is a subset of the Russell 3000 Index. The Russell 1000 is a market capitalization-weighted index, meaning that the largest companies constitute the largest percentages in the index, affecting performance more than the smallest index members. The inception date for the Russell 1000 and 3000 indices was January 1, 1984.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **S&P Growth Index** is a float adjusted, market capitalization weighted index of 317 stocks drawn from the S&P 500 Index that exhibit strong growth characteristics. S&P Dow Jones Indices uses three factors to measure growth: sales growth, the ratio of earnings change to price, and momentum.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.

The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.

The **S&P Value Index** is a float adjusted, market capitalization weighted index of 364 stocks drawn from the S&P 500 Index that exhibit strong value characteristics. S&P Dow Jones Indices uses three factors to measure value: the ratios of book value, earnings and the sales to price sales metric.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.