

A Third Week of Equity Losses

May 16, 2016 — The Dow Industrials and S&P 500 declined Friday, extending losses into a third week, their longest losing streak since January. Investors were primarily put off by weak first quarter earnings announcements within retail, particularly among brick and mortar-based apparel firms, falling to a three-month low. An improving retail sales report for April, up 1.3% from -0.3% in March, did little to limit Friday's losses. On a year-over-year basis however, retail sales are up 3%. Despite a strong start, the S&P 500 ended the week with a three-day slide of 1.8% and finished below its 50-day moving average for the first time in two months.

In other key economic data last week, a reading of small business optimism improved one point in April to 93.6, while March job openings waiting to be filled jumped by 149,000 to 5.76 million, the second-largest total since July. Import prices rose in April, but at less than half the amount forecast and remain down 5.7% from a year ago. Weekly claims for unemployment benefits rose to a one-year high, but stayed below the 300,000 level for a 62 consecutive week. Lastly, producer prices rebounded in April, while an early reading of May consumer sentiment also improved.

For the week, the S&P 500 fell 0.44%, extending its three-week decline to 2%; the Dow Industrials lost 1.16%; and the NASDAQ Composite fell 0.36%. All ten sector groups ended negative, with Consumer Discretionary erasing its YTD gain, similarly joining Technology, Healthcare, and Financials in the red this year. The US dollar index gained 0.77% over the week, ending at 94.608, while gold futures lost 1.15%. Treasuries prices climbed higher for a third week, pulling the yield on 10-year Treasury notes down 7.9 basis points to end at 1.70%.

What We're Reading

[Goldman Sachs Raises Oil Outlook ↗](#)

[Understanding Global Growth Views ↗](#)

[Moody's Cuts Saudi Credit Rating ↗](#)

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Week's Economic Calendar

Monday, May 16: Empire State Mfg., Housing Market Index;

Tuesday, May 17: Consumer Price Index, Housing Starts, Industrial Production;

Wednesday, May 18: MBA Mortgage Application Activity, FOMC Minutes;

Thursday, May 19: Jobless Claims, Philadelphia Fed Business Outlook;

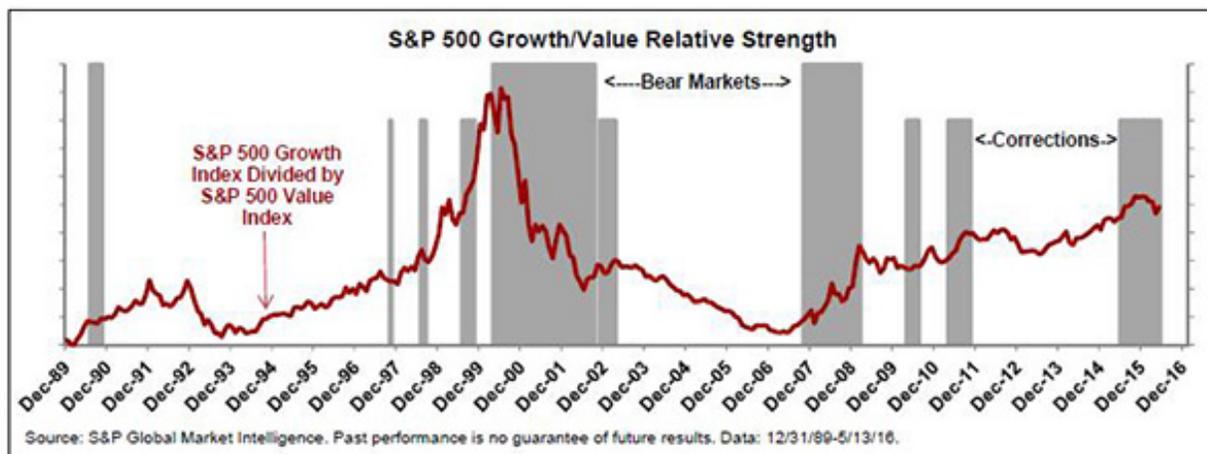
Friday, May 20: Existing Home Sales.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-1.16%	-1.34%	9.78%	0.63%	-2.90%	5.13%
S&P 500	-0.44%	-0.77%	10.35%	0.96%	-0.31%	10.09%
NASDAQ Composite	-0.36%	-1.11%	9.12%	-5.33%	-4.13%	12.48%
Russell 3000	-0.51%	-1.02%	11.17%	0.56%	-1.93%	9.53%
MSCI EAFE	-0.28%	-3.31%	10.86%	-3.50%	-13.33%	0.06%
MSCI Emerging Markets	-1.12%	-5.18%	12.45%	0.78%	-21.08%	-6.35%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.28%	0.45%	2.07%	3.89%	4.20%	2.69%
Barclays Municipal	0.25%	0.56%	1.17%	2.99%	6.36%	3.79%
Barclays US Corp High Yield	0.45%	-0.49%	12.04%	6.88%	-1.57%	2.17%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.29%	-1.22%	12.05%	7.63%	-19.39%	-13.80%
S&P GSCI Crude Oil	4.71%	2.13%	46.98%	26.62%	-23.69%	-21.07%
S&P GSCI Gold	-1.50%	-1.20%	2.87%	20.26%	4.57%	-3.88%

Source: Morningstar

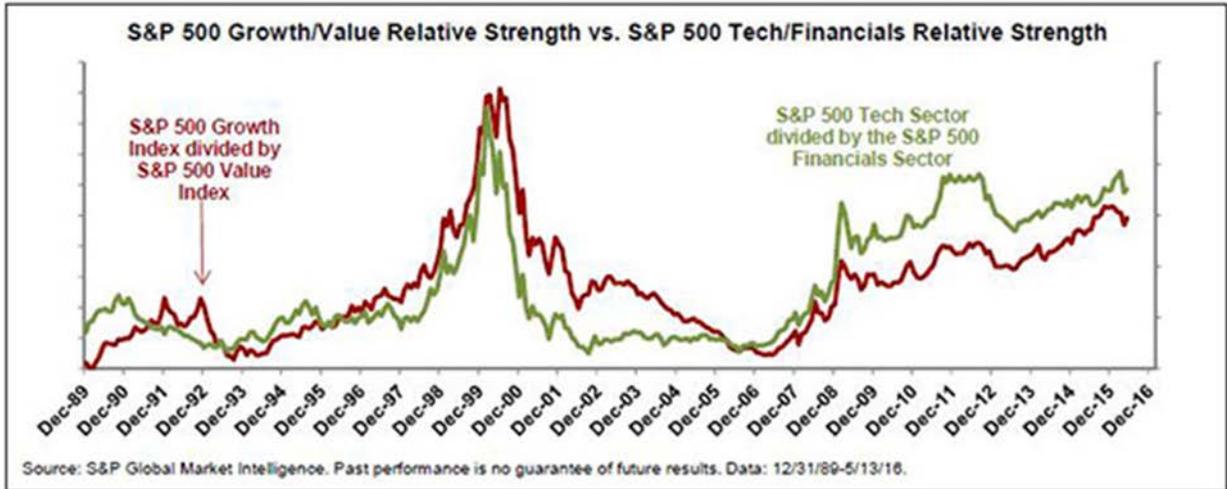
Chart of the Week: Growth Typically Outpaces Value; Yet Sector Composition Plays a Key Role



Historically speaking, the performance of the S&P 500 Growth Index outpaces the S&P 500 Value Index. According to S&P Global Market Intelligence, since 1989 the general tendency has been to say that value does best at the beginning of bull markets, while growth outperforms as the bull market matures.

In the chart above, overlaying the relative strength chart of the S&P 500 Growth vs. Value Indices (growth divided by value) onto periods in which the S&P 500 suffered through corrections (declines of 10%-20%) and bear markets (declines >20%), we see that there has been a leaning toward value during the early period after the conclusion of bear markets, followed by a gravitation toward growth as the bull market matures and stumbles through corrections.

Interestingly, the relative strength line looks strikingly similar to the S&P 500 Technology Sector leading up to and subsequent to the bursting of the Tech Bubble of the late 1990s and early 2000s. What's more, the line also looks similar to that for the S&P 500 Financials sector before and after the financial crisis of late 2007-2009. Taking that thought further, could it be that the actions of the S&P 500 Growth vs. Value relative strength be largely explained by the relative performances of the S&P 500 Financials and Tech sectors? An S&P study of correlations suggests so.



The correlation of monthly percent changes in both the growth/value and tech/financials relative strength calculations generates a coefficient of 73%, a pretty convincing result.

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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 **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.