

Dow Industrial Slogs to New Record High

August 7, 2017 – U.S. stocks advanced on Friday following a stronger-than-expected July payrolls report with non-farm jobs up 209,000 last month, topping economists’ consensus forecast by 29,000. The U.S. dollar strengthened as wage growth rose 0.3% (the largest increase in five months) and new manufacturing jobs exceeded projections. Separate data showed the headline unemployment rate declined to a 16-year low of 4.3% from 4.4% even as the labor force participation rate increased to 62.9% from 62.8%. The U-6 underemployment rate held steady at 8.6%. Meanwhile, second quarter earnings is over two-thirds complete with benchmark companies within the S&P 500 continuing to report earnings per share growth of over 10%. Wall Street investors also waded through heightened political risks after U.S. special Counsel Robert Mueller convened a federal grand jury to help collect information on his probe into Russian meddling into the 2016 elections. Through Friday, the Dow Industrials closed higher for nine straight days, its longest sustained rally since February, with the last eight sessions ending at all-time highs.

In other key economic data last week, pending home sales rebounded 1.5% in June, providing evidence of stabilization after a three-month downturn. The MNI Chicago PMI manufacturing business activity index expanded at a slower pace for July, coming in at 58.9, shy of estimates and a June reading of 65.7. Meanwhile, personal outlays rose just 0.1% in June, while incomes were unchanged, missing expectations for a 0.4% increase. June factory orders rose 3% in June, the most in eight months, while the U.S. trade deficit narrowed by 5.9% to an eight-month low in June as a weaker dollar helped exports grow by 1.2% and imports fell 0.2%.

For the week, the S&P 500 rose 0.23%, the Dow Industrials gained 1.20%, and the NASDAQ Composite slipped 0.34%. The S&P 500 ended the week just one-point below its record high, while the NASDAQ Composite finished within 1.1% of its all-time high. Within the S&P 500, a total of 7 of its 11 major sector groups ended negative last week, with Energy (-1%), Materials (-0.79%) and Consumer Staples (-0.60%) down the most. Financials (+1.88%), Utilities (+1.52%) and Industrials (+0.81%) posted the strongest gains. West Texas Intermediate (WTI) crude oil futures declined by \$0.31 last week, ending at \$49.58/barrel, while gold futures declined by 0.86%. The U.S. Dollar Index edged higher, up 0.30% to 93.542, and Treasury prices inched higher, sending the yield on 10-year Treasury notes down 2.7 basis points last week ending at 2.263%.

What We’re Reading

[Low Inflation Warrants Rate Pause ↗](#)

[Oil Slips As OPEC Meets with Non-Members ↗](#)

[North Korea Outraged Over U.N. Sanctions ↗](#)

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Week’s Economic Calendar

Monday, Aug 7: No major releases;

Tuesday, Aug 8: Small Business Optimism, JOLTS;

Wednesday, Aug 9: Mortgage Applications Activity, Productivity & Costs, Wholesale Trade;

Thursday, Aug 10: Jobless Claims, Producer Price Index;

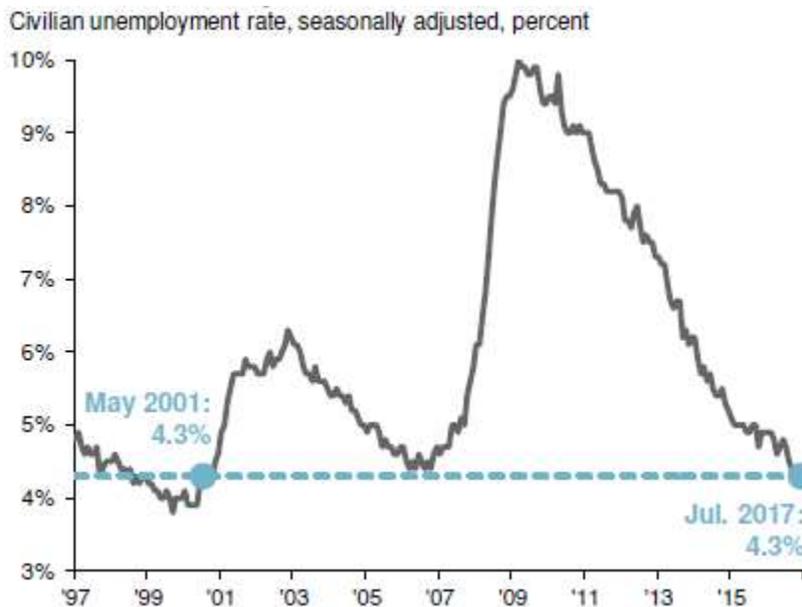
Friday, Aug 11: Consumer Price Index.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.20%	0.92%	5.45%	11.79%	20.40%	10.06%
S&P 500	0.23%	0.30%	4.20%	11.93%	16.84%	10.82%
NASDAQ Composite	-0.34%	0.07%	4.84%	18.72%	24.34%	14.50%
Russell 3000	0.09%	0.18%	3.97%	11.19%	16.84%	10.42%
MSCI EAFE	0.87%	0.60%	5.88%	17.80%	20.26%	3.36%
MSCI Emerging Markets	0.44%	0.13%	10.06%	25.66%	24.61%	2.31%
Bonds						
Barclays Agg Bond	0.16%	0.17%	1.55%	2.88%	-0.16%	2.67%
Barclays Municipal	0.20%	0.16%	2.14%	4.57%	0.45%	3.58%
Barclays US Corp High Yield	0.05%	0.04%	2.22%	6.14%	10.93%	5.50%
Commodities						
Bloomberg Commodity	-1.40%	-1.31%	1.56%	-4.38%	-0.12%	-13.07%
S&P GSCI Crude Oil	-0.26%	-1.18%	8.92%	-7.71%	18.26%	-20.39%
S&P GSCI Gold	-0.84%	-0.69%	2.93%	9.80%	-7.52%	-0.63%

Chart of the Week: Labor Market Tightness at 16-Year High

Chart 1



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management.

Last Friday's July employment report was a positive surprise, with non-farm payrolls rising by 209,000 last month. Despite an increase in the participation rate, the unemployment rate fell to 4.3%, matching the May 2017 reading as the lowest level seen in 16 years, as shown in Chart 1. The strength of the labor market should be welcomed by investors, as economic growth depends on both labor force and productivity growth. And while productivity growth remains subdued, the July employment report suggests that the labor market should provide support for moderate economic growth in the months ahead, according to J.P. Morgan.

Additionally, there have been few signs of inflation despite continued labor market tightness, as both consumer and producer price data due out this week are likely to show inflation remaining

in check. This should encourage the Fed to continue normalizing monetary policy gradually, likely commencing balance sheet reduction in October and hiking rates a third time in December. That said, the FOMC maintains that the process will be data-dependent. Nonetheless, J.P. Morgan believes this combination of moderate economic growth, low inflation and a tepid pace of policy change has created somewhat of a “Goldilocks scenario” for investors, and an attractive backdrop against which risk assets can continue to appreciate.

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Glossary

The **Barclays U.S. Treasury: U.S. TIPS Index** includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

The **Bloomberg Barclays US Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly

The **Bloomberg Barclays U.S. Corporate (Investment Grade) Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-US private-sector industrial, utility and financial issuers. Certificates of deposit are also included. Launched in July 1973, securities included must be rated investment grade (Baa3/BBB-/BBB- or higher). Eligible senior and subordinated corporate securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 10.75 years. The index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. 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. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly

The **Bloomberg U.S. Treasury Floating Rate Bond Index** is a rules-based, market value-weighted index engineered to measure the performance of floating rate U.S. Treasury bonds. The index inception date is January 31, 2014—the first month-end following the U.S. Treasury's issuance of a floating rate bond. Historical performance and characteristics are available from January 31, 2014, when floating rate notes were offered and first traded, the first new Treasury security since the introduction of Treasury-Inflation-Protected Securities (TIPS) in 1997.

The **Bloomberg Barclays US Convertible Bond > \$500MM Index** is designed to represent the market of US convertible securities, such as convertible bonds, with outstanding issue sizes greater than \$500 million.

The **Bloomberg Commodity Index** is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the

index; and no group can represent more than 33% of the index. However, between rebalancings, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.

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 **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The **MSCI EAFE Index** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

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

The **MSCI ACWI EX USA Index** is a float-adjusted market capitalization-weighted index that captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. With 1,852 constituents, the index covers approximately 85% of the global equity opportunity set outside the U.S. The index is reviewed quarterly—in February, May, August and November—with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover. During the May and November semi-annual index reviews, the index is rebalanced and the large and mid capitalization cutoff points are recalculated.

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 **NASDAQ-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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 **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

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.

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

*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 USD_X 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*