

## Equity Momentum Falters on Earnings Concern

**August 22, 2016** — U.S. stocks mostly stalled near record highs last week amid signs that investors are losing patience awaiting a rebound in corporate profits. After digesting second quarter results, Wall Street analysts now forecast that S&P 500 companies' earnings may decline by 0.9% in the third quarter. That stands in contrast with a consensus estimate of a 0.8% increase a week ago. Stocks are still up around 9% from their steep two-day selloff following the British vote to leave the European Union. Equities have been buoyed by earnings coming in better than expected and a still dovish outlook on interest rates.

In key domestic economic data, retail sales disappointed with an unchanged reading for July, missing forecasts for a 0.4% increase. Housing starts recovered markedly in July, rebounding 2.1%, following a 0.8% June decline. Also positive, the Conference Board's Index of Leading Economic Indicators rose 0.4%, exceeding economists' consensus forecast. Producer prices declined last month, down 0.4%, while consumer prices were flat.

For the week, the S&P 500 rose 0.06%, the Dow Industrials slipped 0.13%, while the NASDAQ Composite gained 0.16%. Five of the ten major sectors posted gains, led by Energy (+2.16%), Materials (+1.28%), and Industrials (+0.78%). Telecom (-3.84%), Utilities (-1.26%), and Consumer Discretionary (-0.67%) fell the most. The US Dollar Index weakened last week, slipping to 94.511. U.S. oil futures surged over 9% last week on continued speculation that OPEC oil talks may slow future production. Treasury prices fell last week, pushing the yield higher on benchmark 10-year Treasury notes to 1.579%.

### What We're Reading

[Iraq to Boost Oil Production ↗](#)

[Fed Vice Chair Signals 2016 Rate Hike ↗](#)

[BlackRock Boosts EM View ↗](#)

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### Week's Economic Calendar

**Monday, August 22:** Chicago Fed National Activity Index;

**Tuesday, August 23:** New Home Sales, Richmond Fed Mfg Index;

**Wednesday, August 24:** Mortgage Applications Activity, PMI Mfg Index, Existing Home Sales;

**Thursday, August 25:** Durable Goods Orders, Jobless Claims;

**Friday, August 26:** 2Q GDP Revision, Intl Trade Goods, Corporate Profits, Consumer Sentiment.

## Market Watch

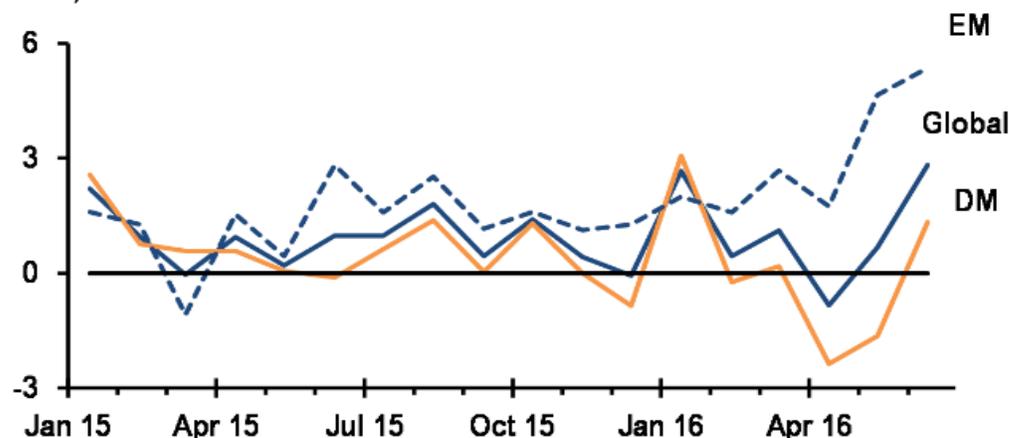
Source: Morningstar

Stocks	1-Week	MTD	3-Months	YTD	1-Year	3-Years
Dow Jones Industrial Aver	-0.13%	0.65%	6.41%	6.47%	6.92%	7.31%
S&P 500	0.06%	0.67%	7.65%	8.39%	7.36%	12.23%
NASDAQ Composite	0.16%	1.62%	11.50%	5.50%	5.67%	14.81%
Russell 3000	0.10%	0.67%	8.19%	8.46%	6.34%	11.69%
MSCI EAFE	-0.58%	0.86%	5.59%	1.29%	-3.40%	1.54%
MSCI EM	0.08%	4.35%	17.81%	16.63%	10.95%	1.19%
<b>Bonds</b>						
Barclays US Agg Bond	-0.18%	-0.29%	2.34%	5.68%	5.36%	4.58%
Barclays Municipal	-0.03%	0.03%	1.57%	4.42%	6.88%	6.29%
Barclays US Corp High Yield	0.53%	1.77%	6.74%	13.99%	8.61%	5.32%
<b>Commodities</b>						
Bloomberg Commodity	2.60%	2.34%	1.91%	9.97%	-2.36%	-12.74%
S&P GSCI Crude Oil	8.70%	18.05%	0.90%	32.59%	18.95%	-22.82%
S&P GSCI Gold	0.22%	-0.83%	7.05%	26.98%	19.31%	-0.48%

## Chart of the Week: Keeping an Eye on Manufacturing; Brexit Fears Over-Hyped

Figure 4: Manufacturing output

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Source: J.P. Morgan

The prevailing smaller-than-expected fallout from Brexit has bolstered the global growth outlook, which according to JPMorgan, calls for a return to trend-like 2.6% growth during the second half of the year. This represents expansion about a half a percentage-point above the pace reported in the first half of 2016. As we see in the chart above, improved industrial production (IP) data in June supports this call, and so far the indications are positive for July. Impending reports from tech-heavy Taiwan and Singapore should also help.

The June/July gain in the global Purchasing Manager's Index (PMI) also sent a positive signal. The global PMI, which already was positioned for 2.25% IP growth in July, is due on September 1. Investors will also watch the U.S. August durable goods report for signs that business equipment spending may start to improve. Lastly, the firming in oil and metals prices this year should spell relief, reducing the pressure on commodity producers while boosting pricing power and corporate earnings more broadly.

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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 USDY 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.