

## Equities Erode a Second Week

**May 9, 2016** — Stocks extended declines into a second week on continued signs of slowing global growth. Predominately negative economic data weighed on investor sentiment last week, culminating in Friday’s weak payrolls report. The U.S. economy added 160,000 new jobs in April, the fewest in seven months. While the S&P 500 rose 0.32% on Friday, with investors reasoning that sluggish job growth lessened the likelihood of a June Fed interest rate hike, the benchmark index has retreated 2.2% since its recent April 20 high. The MSCI Emerging Markets Index lost 4.1% last week as investors withdrew \$1.3 billion out of ETFs that invest in stocks and bonds in developing markets, ending 11 weeks of net inflows.

In key economic data last week, the Institute for Supply Management’s PMI readings of manufacturing activity slowed for a second month in April, while construction climbed to its highest level in eight years. ADP Research said private payrolls rose the least in three years as service jobs rose below trend and manufacturing jobs declined. Lastly, U.S factory orders rose more than expected in March, but not enough to erase a 4.2% drop from year-ago levels.

For the week, the S&P 500 fell 0.33%, extending its two-week decline to 1.65%; the Dow Industrials slipped 0.19%; and the NASDAQ Composite lost 0.74%. Five of the ten major sector groups finished lower last week, led by Energy (-2.95%), Materials (-1.97%) and Industrials (-1%). Consumer Staples (+1.74%) and Utilities (+0.88%) gained the most. The US dollar index gained 0.87% over the week, ending at 93.888, while gold futures rose 0.3%. Treasuries prices climbed higher for a second week, pulling the yield on 10-year Treasury notes down 5.4 basis points to end at 1.78%.

### What We’re Reading

[Saudi Arabia Appoints New Oil Minister ↗](#)

[Chinese Global Trade Contracts ↗](#)

[Contrasting Leading Equity Indices ↗](#)

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### Week’s Economic Calendar

**Monday, May 9:** Labor Market Conditions Index;

**Tuesday, May 10:** JOLTS, Wholesale Trade;

**Wednesday, May 11:** MBA Mortgage Applications;

**Thursday, May 12:** Jobless Claims, Import & Export Prices;

**Friday, May 13:** Retail Sales, Producer Prices, Business Inventories, Consumer Sentiment.

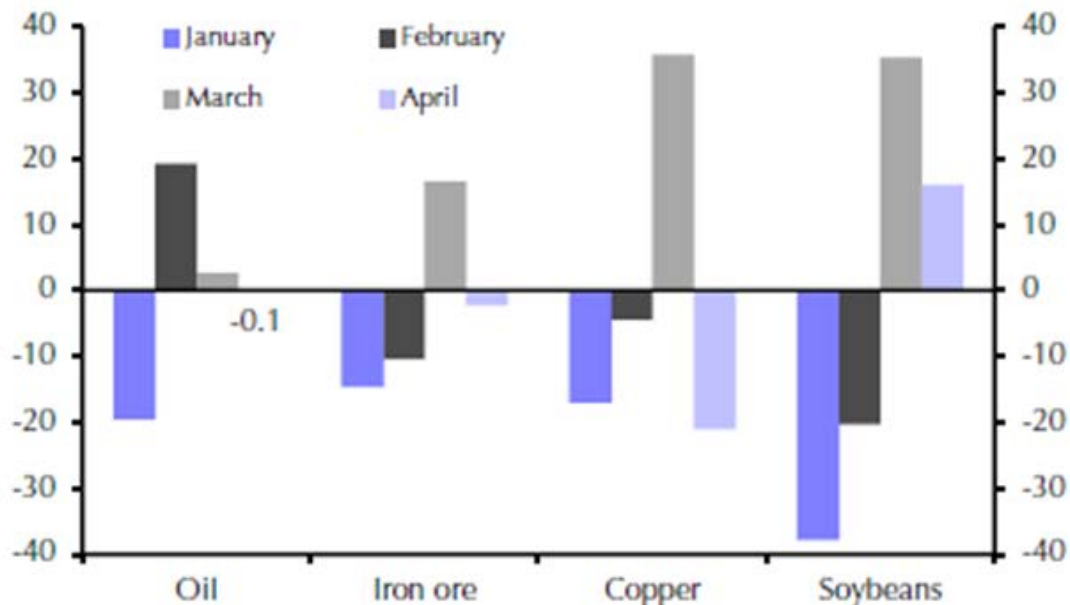
## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-0.19%	-0.19%	9.48%	1.81%	-0.57%	5.82%
S&P 500	-0.33%	-0.33%	10.04%	1.40%	1.08%	10.66%
NASDAQ Composite	-0.74%	-0.74%	8.91%	-4.99%	-2.50%	13.15%
Russell 3000	-0.51%	-0.51%	10.69%	1.08%	-0.47%	10.14%
MSCI EAFE	-3.03%	-3.03%	5.93%	-3.23%	-11.78%	0.60%
MSCI Emerging Markets	-4.11%	-4.11%	9.37%	1.92%	-20.66%	-6.11%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.17%	0.17%	1.95%	3.60%	3.78%	2.46%
Barclays Municipal	0.31%	0.31%	1.21%	2.74%	6.03%	3.63%
Barclays US Corp High Yield	-0.94%	-0.94%	9.36%	6.40%	-1.98%	1.98%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-2.48%	-2.48%	10.39%	6.26%	-20.09%	-14.28%
S&P GSCI Crude Oil	-2.46%	-2.46%	43.31%	20.93%	-26.44%	-22.48%
S&P GSCI Gold	0.31%	0.31%	11.81%	22.10%	8.73%	-4.11%

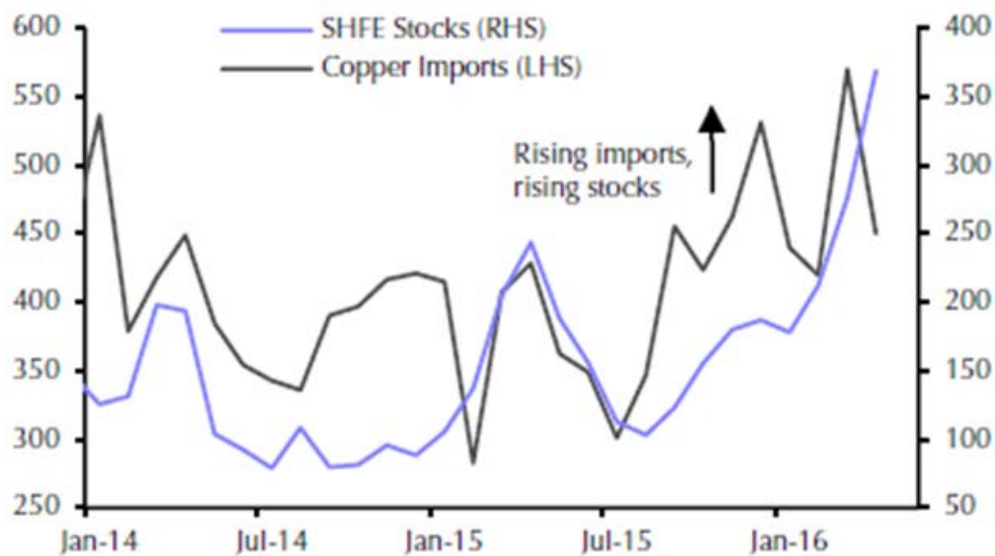
Source: Morningstar

## Chart of the Week: China's Commodity Imports Remain Robust; April Drop Reflects Seasonal Holiday Adjustments

Chart 1: China's Commodity Import Volumes (% m/m)



**Chart 2: China's Copper Imports & Stocks (Thousand Tonnes)**



The What We're Reading economic report on a slowdown in Chinese international trade, particularly imports, has attracted some negative headlines, but this largely reflects seasonal distortions. Specifically, distortions around the timing of China's weeklong Lunar New Year holiday and a slump in commodity prices a year earlier. In contrast, volume data show commodity demand remains firm.

Data published over the weekend show China's total imports fell by 10.9% year-over-year (YoY) in US dollar terms in April, compared with a drop of 7.6% in March. Import volumes of all the main commodities, save soybeans, dipped, however this followed a surge in imports in March (see Chart 1).

Soybeans imports surged for the second consecutive month, despite the recent uptick in prices. Soybean crushing margins in China are high in part due to rising pork prices. However, given the weak start to the year, soybeans imports are still only up by 12% YoY in January-April. Meanwhile, copper imports slipped back in April, but were still 5% higher than a year earlier. The recent strength in imports has coincided with an accumulation of exchange stocks in China, suggesting that physical demand has not been growing as strongly (see Chart 2).

Export volumes of steel and aluminium also slipped back last month, but that followed particularly strong overseas sales in March. Overall, the April import data point to solid Chinese commodity demand. Imports could slip in the next month or so as stocks may be drawn down but, according to Capital Economics, they expect the cyclical pick-up in Chinese economic activity to translate into higher commodity import demand for the year as a whole.

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*This report is created by Tower Square Investment Management LLC*

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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 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 **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.*