

Stocks Rally for a Third Week

November 28, 2016 - U.S. stocks rose for a third straight week, and for the first time since 1999 all four major benchmark indices, including the Russell 2000, simultaneously reached new all-time highs. Strong economic data and the prospects of tax cuts and meaningful fiscal spending after Donald Trump won the November 8th presidential election has fueled equity optimism along with increased speculation on Federal Reserve rate hikes. This in turn sparked a US dollar rally with the greenback strengthening against all but two of the major world currencies this month. Small-caps stocks, as measured by the Russell 2000 Index, have benefited the most, gaining 16.55% over the past 15 consecutive trading sessions, its longest rally since 1996. European stocks also capped a third week of gains, with the Stoxx Europe 600 finishing at a one-month high.

In key economic news, Existing Home Sales rose 2% in October, reaching the highest level since February 2007, and follows an upwardly revised 3.5% gain the month prior. Durable Goods Orders jumped 4.8% last month, well above economists' consensus forecast of 1.7%, following an increase of 0.4% in September. On the other hand, New Home Sales fell 1.9% after a revised 1.2% September gain. Lastly, the University of Michigan's final November reading of consumer confidence reached a six-month high of 93.8, up from 87.2 in October.

For the week, the S&P 500 ended the Thanksgiving holiday-shortened week up 1.45%, and the Dow Industrials rose over 284-points (1.51%). The NASDAQ Composite gained 1.46% and the small-cap focused Russell 2000 Index added 2.41%. Ten of the 11 major sector groups extended gains last week, led by Telecom (+4.69%), Materials (+2.74%), and Industrials (+2.28%). Healthcare (-0.32%) fell for a second week. Gold rebounded from a nine-month low, while the US Dollar Index edged higher on the week, strengthening from 101.21 to 101.49. Treasuries weakened fractionally, sending the yield on 10-year Treasury notes up just 0.2 basis points to 2.358%.

What We're Reading

[Searching for Fertile Ground ↗](#)

[Base Metals Reach 2007 High ↗](#)

[OPEC's Last Ditch Effort ↗](#)

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Week's Economic Calendar

Monday, November 28: Dallas Fed Mfg Survey;

Tuesday, November 29: 3Q GDP, Corporate Profits, Case-Shiller Home Prices, Consumer Confidence;

Wednesday, November 30: Mortgage Applications, ADP Employment Report, Personal Income & Outlays, Chicago PMI, Pending Home Sales;

Thursday, December 1: Chain Store Sales, Jobless Claims, PMI Mfg, ISM Mfg, Construction Spending ;

Friday, December 2: November Non-farm Payrolls.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.51%	5.57%	3.81%	9.91%	7.50%	6.02%
S&P 500	1.45%	4.33%	2.43%	10.45%	8.28%	9.37%
NASDAQ Composite	1.46%	4.22%	3.89%	9.08%	6.83%	11.89%
Russell 3000	1.58%	5.24%	3.10%	11.38%	8.71%	9.07%
MSCI EAFE	1.29%	-1.71%	-3.46%	-2.06%	-3.31%	-1.95%
MSCI Emerging Markets	1.34%	-5.40%	-4.40%	10.02%	4.75%	-3.12%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.20%	-2.53%	-3.27%	2.33%	2.09%	2.74%
Barclays Municipal	-0.44%	-2.96%	-4.45%	-0.12%	0.67%	3.97%
Barclays US Corp High Yield	0.51%	-0.75%	0.39%	14.69%	11.98%	4.19%

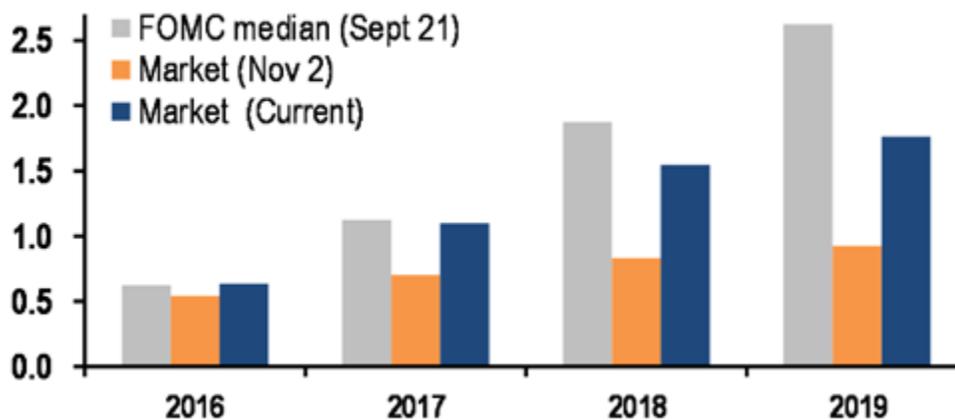
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	2.43%	0.18%	0.07%	8.54%	3.67%	-11.68%
S&P GSCI Crude Oil	-0.65%	-1.71%	-2.68%	24.35%	7.00%	-21.18%
S&P GSCI Gold	-2.53%	-7.23%	-10.84%	11.39%	10.38%	-1.65%

Source: Morningstar

Chart of the Week: Interest Rate Outlooks to 2019

Fed Funds Rate Projections

%pa, year-end



Source: J.P.Morgan; Market projection is OIS

JPMorgan's outlook calls for a sharp pickup in global headline inflation and a more moderate pickup in real economic growth as past shocks from the collapse in commodity (oil) prices and the slide in emerging markets demand growth fades. The business sector could see the biggest improvement as pricing power and corporate profits recover in goods-producing industries, likely driving a pickup in business expenditures (capex). So as the global economy solidifies its bounce-back from the disappointing first half of this year, prior expectations for the world's major central banks are also reemerging—though with somewhat more modest aspirations. The Fed began the

year looking for four hikes and is nearing year-end with only one hike likely. Although much has happened in the three weeks since the Fed last met, incoming U.S. data has generally have been favorable.

Looking forward, JPMorgan expects the Fed is likely to be sensitive to data, including this Friday's November payrolls report. Any increase near the 180,000 forecast should nearly cement a December 14th rate hike. However, the roughly 4% jump in the trade-weighted US dollar since the election is raising concerns about downside risks to economic growth and inflation in the first half of next year—similar to the events a year ago that delayed the Fed. This contrast is depicted in Figure 3 above, with Federal Reserve FOMC policymakers again being more aggressive in their year-end key lending rate forecasts (in gray) for the next three years. Market-driven forecasts in Fed Funds futures, both before the election and after, are more moderate.

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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 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 SmallCap 600** measures the small-cap segment of the U.S. equity market. Introduced in 1994, the index is designed to track the performance of 600 small-size companies in the U.S., reflecting this market segment's distinctive risk and return characteristics. The index measures a segment of the market that is typically known for less liquidity and potentially less financial stability than large-caps, the index was constructed to be an efficient benchmark composed of small-cap companies that meet investability and financial viability criteria.

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.