Most Equity Averages Slip Amid Tech Selling

July 31, 2017 – U.S. stocks ended mostly lower Friday, as an outsized earnings miss by a leading online retailer rattled global investors, offsetting optimism from an in-line second quarter GDP report. Only the Dow Industrials ended positive on Friday and for the week, reaching new all-time highs for three consecutive sessions. The S&P 500 and NASDAQ Composite both snapped three weeks of gains, albeit ending just fractionally lower. Even as the majority of technology mega caps posted street-beating earnings, a number reported varying degrees of either soft revenue and/or lackluster forward guidance, sending the NASDAQ 100 down 0.2% for the week and 0.7% below its Wednesday record high. In another sign of Wall Street's tech jitters, around $2.5 billion was withdrawn last week from the largest ETF that tracks the NASDAQ 100. Outflows accelerated on Wednesday, the day the VIX Volatility Index reached its longest period of record low volatility, a tenth day the index traded below a 10 level. On Friday, the Commerce Department released its first of three estimates of second quarter GDP growth, coming in at 2.6%, which is more than double the 1.2% pace of first quarter growth, which was downwardly revised from 1.4%.

In other domestic economic data, 2Q employment costs rose 0.5%, below projections for a 0.6% increase and following a 0.8% rise in the first quarter. The University of Michigan's final reading of consumer sentiment for July dipped to a nine-month low of 93.4 month-over-month from 95.1 but topped projections for 93.2. Existing home sales contracted 1.8% to an annualized pace of 5.52 million in June, while home prices in the 20-city S&P Corelogic Case-Shiller home price index have risen 5.69% year-over-year through May. Lastly, the Conference Board's Index of Consumer Confidence reached a four-month high of 121.1 for July, in stark contrast with results from the University of Michigan's sentiment index.

For the week, the S&P 500 fell less than one point for a fractional 0.0013% loss, the Dow Industrials advanced 1.16%, and the NASDAQ Composite declined 0.19%. Within the S&P 500, a total of 6 of its 11 major sector groups posted gains last week, led by Telecom (+6.99%), Energy (+1.90%), and Real Estate (+0.54%). Healthcare (-1.26%), Industrials (-0.62%), and Technology (+0.62%) were the worst performers. West Texas Intermediate (WTI) crude oil futures surged 8.61% last week, ending at $49.71/barrel after U.S. crude inventories fell for a fourth straight week. Gold futures posted a third weekly gain, rallying 1.16% to finish at $1,269.65/ounce. Likewise, the U.S. Dollar Index weakened for a third week, ending at 93.259 (-0.64%) and falling by 1.36% last week, while Treasury prices eased slightly. The yield on 10-year Treasury notes rose by 5.2 basis points last week ending at 2.29%.

What We're Reading

Dow Flirts With 22,000 ↗

Oil Reaches Two Month High↗

Tax-Filing Insights on Obamacare ↗

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Week's Economic Calendar

Monday, July 31: Chicago PMI, Pending Home Sales, Dallas Fed Manufacturing;

Tuesday, Aug 1: Personal Income & Outlays, PMI Mfg., ISM Mfg., Construction Spending;

Wednesday, Aug 2: Mortgage Applications, ADP Private Jobs;

Thursday, Aug 3: Jobless Claims, Challenger Job Cuts, PMI Services, ISM Non-Mfg., Factory Orders;

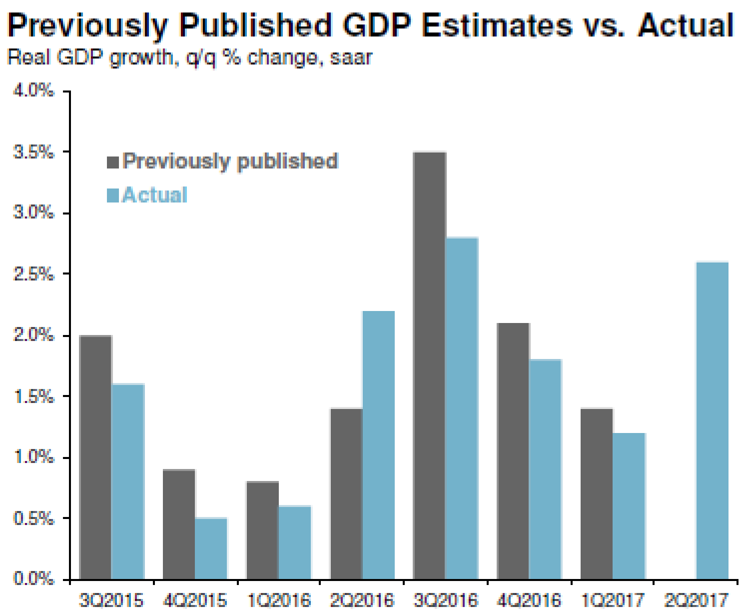
Friday, Aug 4: Non-Farm Payrolls, U.S. Trade Deficit.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.16%	2.25%	4.25%	10.46%	18.29%	8.73%
S&P 500	0.00%	2.13%	4.21%	11.67%	16.33%	10.00%
NASDAQ Composite	-0.19%	3.85%	5.70%	19.13%	25.12%	14.12%
Russell 3000	-0.05%	1.98%	3.95%	11.09%	16.48%	9.70%
MSCI EAFE	0.23%	2.61%	6.19%	16.78%	19.66%	2.22%
MSCI Emerging Markets	0.29%	5.63%	9.85%	25.10%	24.19%	1.86%
Bonds						
Barclays Agg Bond	-0.21%	0.43%	1.10%	2.72%	-0.25%	2.62%
Barclays Municipal	-0.09%	0.77%	2.00%	4.36%	0.26%	3.48%
Barclays US Corp High Yield	0.21%	1.10%	2.12%	6.08%	10.83%	5.02%
Commodities						
Bloomberg Commodity	1.82%	2.36%	0.80%	-3.02%	1.93%	-12.98%
S&P GSCI Crude Oil	8.61%	7.97%	0.77%	-7.46%	20.85%	-21.22%
S&P GSCI Gold	1.13%	2.66%	0.55%	10.73%	-4.92%	-0.78%

Chart of the Week: Downward Trend in GDP Revisions

Chart 1



Source: Bureau of Economic Analysis, J.P. Morgan Asset Management.

After a slow-growth start to the year, U.S. economic growth handily accelerated in the second quarter. Data released last week showed real annualized GDP growth of 2.6% in second quarter of 2017 – over twice as fast as in the first quarter – driven by healthy contributions from both consumption and nonresidential investment. However, growth in six of the past seven quarters was revised lower and, while these revisions still leave average growth during the expansion at 2.1%, this pace has not been enough to trigger an acceleration in wages, as evidenced by weak growth in Friday's employment cost index report.

The apparent failure of health care reform keeps in place the taxes devoted to paying for the so-called Affordable Care Act, while recent statements from Congressional and Trump administration officials are suggesting later and smaller fiscal stimulus than what was expected immediately after the election. According to J.P. Morgan, overall, recent data suggest a reduced risk of economic overheating. While this could support continued moderate gains for equities and only modest increases in interest rates, high valuations in both U.S. stocks and bonds, combined with lukewarm U.S. economic growth, underscore the importance of international diversification.

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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 subindicies of the Municipal Index have historical data to January 1980. In addition, several subindicies 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 SMCI 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 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*