Weekly
VANTAGE POINT

Aug 21-25, 2017 Recap

Best Weekly Gain in a Month

August 28, 2017 – U.S. stocks rebounded from two days of selling on Friday, but still recorded the strongest weekly performance in over a month. Friday's rebound was sparked by comments within Fed Chair Janet Yellen's Jackson Hole, Wyoming speech which were not as hawkish as many economists had expected. The euro reached a two and a half year high against the dollar in relief that European Central Bank President Mario Draghi did not decry the currency's valuation in his Jackson Hole speech. Equities soared on Tuesday after President Trump's top economic advisor, Gary Cohn, said he expects tax reform measures to pass this year and confirmed he has no plans to resign in protest over the president's reactions to recent violence in Charlottesville, Virginia. Wall Street also kept an eye on Hurricane Harvey, which was expected to make landfall near Rockport, Texas on Friday night.

In other key economic data last week, seasonally-adjusted home prices climbed 1.6% during the second quarter this year, and a regional manufacturing activity index reading from the Richmond Federal Reserve bank topped projections for August (14 vs. 10 expected). New home sales sank 9.4% in July, with only the Midwest region posting an increase. Existing home sales fell 1.3% in July to an 11-month low, with persistently low inventory levels keeping used home sales essentially flat over the past year and a half. An early reading of durable goods orders fell 6.8% in July, but core orders excluding transportation-related goods climbed 0.5%, following a 0.1% June increase. The VIX Volatility Index retreated nearly 21% last week. The pullback reflected a large degree of investor relief from earlier fears of hawkish outlooks from attendees at the Kansas City Fed's annual Jackson Hole Economic Policy Symposium.

For the week, the S&P 500 rose 0.75%, the Dow Industrials gained 0.64% and the NASDAQ Composite advanced 0.80%. Within the S&P 500, 10 of the 11 major sector groups posted gains last week, led by Real Estate (+2.29%), Telecom (+1.98%) and Materials (+1.28%). Consumer Discretionary (+0.41%) rose the least, while Consumer Staples (-0.97%) lagged. U.S. crude oil prices pared prior week gains, falling 1.62% to end the week at $47.87/barrel, while gold futures edged 0.58% higher to close the week at $1,291.37/ounce. The U.S. Dollar Index retreated by 0.74% to 92.740. Treasury prices edged higher, sending the yield on 10-year Treasury notes down 2.8 basis points to 2.167%. Over the past three weeks the S&P 500 has narrowed its gap below its 2,481 August 7 all-time high to 1.5%.

What We're Reading

Gas Prices Surge Even as Crude Tumbles ↗

No Clear Message from Jackson Hole ↗

Houston Forecast: 50 Inches of Rain ↗

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Week's Economic Calendar

Monday, Aug 28: Advance Trade in Goods

Tuesday, Aug 29: Consumer Confidence Index, Case-Shiller Housing Prices

Wednesday, Aug 30: ADP Private Sector Jobs Report, GDP.

Thursday, Aug 31: Jobless Claims, Personal Income, Consumer Spending, Core Inflation, Chicago PMI, Pending Home Sales

Friday, Sept 1: Non-farm Payrolls, Markit Manufacturing PMI, Construction Spending, Consumer Sentiment.

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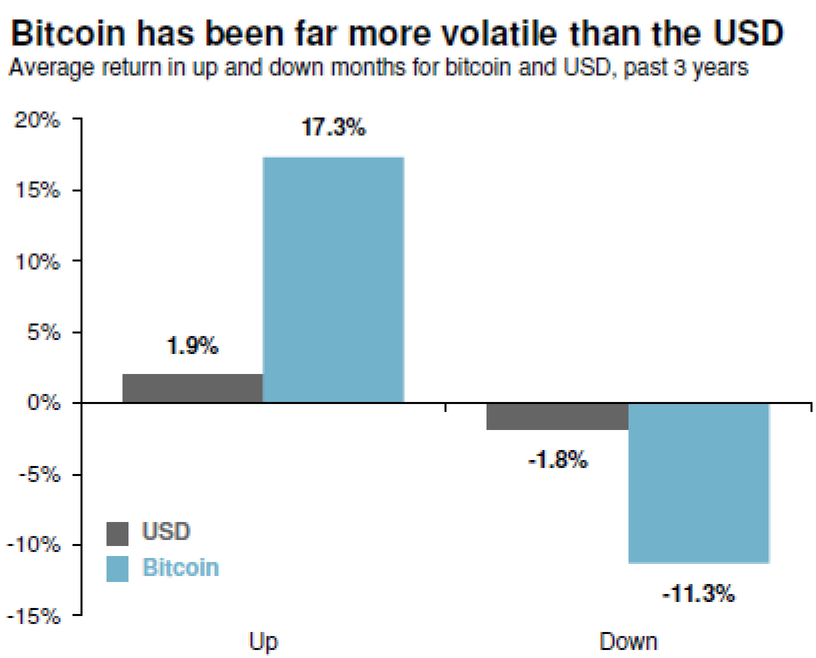
Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.64%	-0.35%	3.47%	10.38%	18.26%	8.50%
S&P 500	0.75%	-0.90%	1.67%	10.58%	14.82%	9.21%
NASDAQ Composite	0.80%	-1.16%	1.25%	17.26%	21.61%	12.51%
Russell 3000	0.85%	-1.12%	1.48%	9.75%	14.53%	8.75%
MSCI EAFE	0.61%	-0.21%	2.40%	16.84%	16.33%	2.75%
MSCI Emerging Markets	2.46%	1.93%	8.14%	27.91%	23.60%	2.37%
Bonds						
Barclays Agg Bond	0.16%	0.65%	1.29%	3.38%	0.30%	2.66%
Barclays Municipal	0.15%	0.63%	1.49%	5.06%	0.75%	3.47%
Barclays US Corp High Yld	0.32%	-0.37%	0.97%	5.70%	8.37%	4.69%
Commodities						
Bloomberg Commodity	0.09%	-1.23%	-0.23%	-4.31%	-1.40%	-12.47%
S&P GSCI Crude Oil	-1.62%	-4.58%	-2.11%	-10.89%	1.14%	-19.95%
S&P GSCI Gold	0.49%	1.92%	3.02%	12.69%	-2.02%	0.49%

Chart of the Week: Bitcoin Value Has Surged, Yet Fails as Currency

Chart 1



Source: Bloomberg, FactSet, J.P. Morgan Asset Management.

Bitcoin was created in 2009 as the world's first cryptocurrency and is up 620% in dollar terms over the past three years, garnering attention from investors. While this has clearly made bitcoin a highly profitable short-term investment, in the long run, cryptocurrencies like bitcoin were created to act as a currency, and they have yet to prove their capability. Standard economic theory states that money has three functions: a medium of exchange, a store of value, and a unit of account. As a medium of exchange, it is hardly used to facilitate transactions: only three (3) of the top 500 online retailers accept bitcoin in 2017.

As a unit of account, suppliers and purchasers must be able to attribute a value to their goods and services in terms of bitcoin. With low adoption amongst retailers, they are not inclined to take on that risk. As a store of value, bitcoin again fails: as Chart 1 illustrates, the monthly price movements of bitcoin are far more volatile than that of the U.S. dollar, with average monthly price moves in excess of 10% in either direction. According to J.P. Morgan, while bitcoin may see further price volatility in the near term, its shortcomings as a currency cast a shadow over its long-term prospects.

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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 **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

*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 **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*

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