

## Stocks Finish Week With Back-to-Back Record Highs

**June 5, 2017** – U.S. stocks rallied Friday, finishing a holiday-shortened trading week with all three major domestic equity indices reaching new all-time highs on June 1 and 2. Yet the U.S. dollar weakened and Treasury securities advanced along with gold after the May jobs report disappointed, showing the economy added just 138,000 new jobs, missing forecasts for 180,000. Annualized wage growth remained steady at 2.5%, while the headline unemployment rate declined to 4.3%, a 16-year low, as the labor force contracted. Bullish sentiment prevailed, however, as several strategists said the jobs data was still strong enough for the Federal Reserve to raise interest rates in June. Including dividends, global equities excluding the U.S. are outperforming the S&P 500. The MSCI All Country World Index Ex-US has risen 15.2% year-to-date (YTD) versus 9.9% for the U.S. equity benchmark. The MSCI Emerging Markets Index fell 0.13% last week, slightly trimming its YTD gain to 18.44%.

In other key economic data last week, consumer spending rose 0.4% in April, the most since December. Household income also rose 0.4% last month, while the Case-Schiller 20-City Composite Home Price Index rose 5.9% from a year ago through March. The Conference Board’s reading of consumer confidence slipped in May, down slightly from a 16-year high two months ago. Pending sales of existing home fell 1.3% in April, hurt most by limited supply of homes available for sale. Private sector payroll data as tracked by ADP Research showed companies increased hiring to 253,000 in May, surpassing estimates for 180,000.

For the week, the S&P 500 rose 1.01%, the Dow Industrials climbed 0.60%, and the NASDAQ Composite advanced 1.55%. A total of 9 of the 11 major sector groups posted gains last week, with Telecom (+2.39%), Healthcare (+2.07%) and Materials (+1.74%) performing best. Technology shares gained 1.34% last week, advancing for a tenth day in the past 11 sessions. Energy (-2.16%) fell the most for a second week, followed by Financials (-0.69%). WTI crude oil prices fell 4.3% to \$47.66/barrel, for its biggest loss since May 5, as domestic oil output climbed to the highest level since August 2015. The U.S. Dollar Index weakened by 0.50% to 96.715, while gold added nearly 1% to finish at \$1,279.23/ounce. Treasuries rose, pulling the yield on 10-year Treasury notes down 8.7 basis points to 2.160%, its lowest level this year.

### What We’re Reading

[U.S. Dollar Recovers from Near 7-Month Low](#)

[Arab States Cut Ties with Qatar](#)

[Markets Face Three Big Geopolitical Risks This Week](#)

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### Week’s Economic Calendar

**Monday, June 5:** Productivity & Costs, PMI Services, ISM Non-Mfg, Labor Conditions, Factory Orders;

**Tuesday, June 6:** Job Openings and Labor Turnover Survey (JOLTS);

**Wednesday, June 7:** MBA Mortgage Applications Activity, Consumer Credit;

**Thursday, June 8:** Jobless Claims, Quarterly Services Survey;

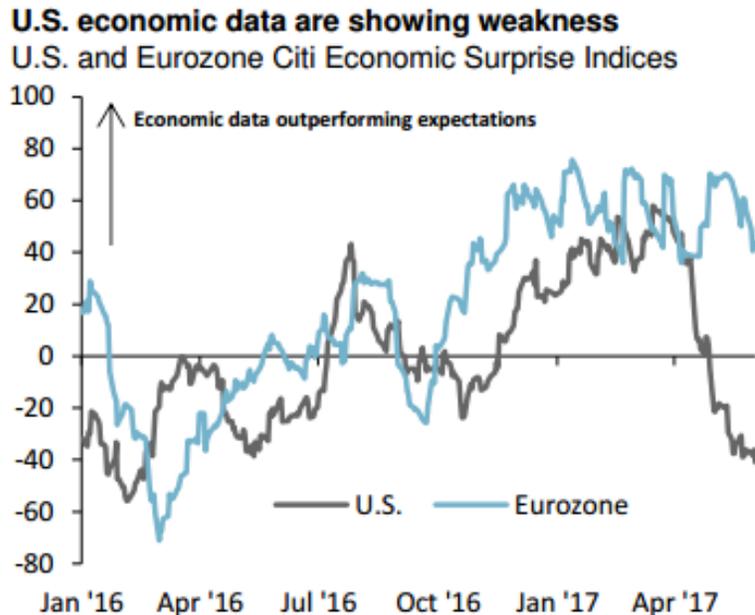
**Friday, June 9:** Wholesale Trade.

## Market Watch

| Stocks                      | 1-Week | MTD    | 3-Month | YTD     | 1-Year | 3-Year  |
|-----------------------------|--------|--------|---------|---------|--------|---------|
| Dow Jones Industrial Avg.   | 0.60%  | 0.94%  | 0.97%   | 7.31%   | 18.89% | 8.19%   |
| S&P 500                     | 1.01%  | 1.14%  | 2.92%   | 9.91%   | 18.32% | 10.52%  |
| NASDAQ Composite            | 1.55%  | 1.73%  | 7.90%   | 17.72%  | 28.36% | 15.53%  |
| Russell 3000                | 1.10%  | 1.31%  | 2.74%   | 9.37%   | 18.56% | 10.13%  |
| MSCI EAFE                   | 1.73%  | 1.43%  | 10.40%  | 15.64%  | 19.13% | 1.95%   |
| MSCI Emerging Markets       | -0.13% | 1.01%  | 8.92%   | 18.44%  | 28.38% | 1.90%   |
| Bonds                       |        |        |         |         |        |         |
| Barclays Agg Bond           | 0.49%  | 0.19%  | 2.40%   | 2.57%   | 1.66%  | 2.71%   |
| Barclays Municipal          | 0.43%  | 0.12%  | 3.18%   | 4.07%   | 1.54%  | 3.54%   |
| Barclays US Corp High Yield | 0.31%  | 0.21%  | 1.79%   | 5.01%   | 13.93% | 4.78%   |
| Commodities                 |        |        |         |         |        |         |
| Bloomberg Commodity         | -1.98% | -0.60% | -5.16%  | -5.65%  | -4.57% | -14.78% |
| S&P GSCI Crude Oil          | -4.30% | -1.37% | -9.41%  | -11.28% | -3.07% | -22.52% |
| S&P GSCI Gold               | 0.69%  | 0.38%  | 3.84%   | 11.16%  | 5.58%  | 0.96%   |

## Chart of the Week: Economic Data Weakens; More in U.S. vs. Europe

Chart 1



Source: Citigroup, FactSet, JP Morgan Asset Management

Despite strength in consumer confidence, U.S. economic data, as measured by Citigroup's "Citi Surprise Index," has continued to come in below economists' expectations. While slow real GDP growth for the first quarter (recently revised to 1.2% from 0.7% annualized) was thought to be a transitory event, it has since been followed by weaker-than-expected economic data early in the

second quarter. J.P. Morgan notes that weaker data, combined with high U.S. equity valuations, suggest that a more thoughtful approach for equity investing may be warranted. While it is true that when compared to fixed income, U.S. equities are still relatively attractive, it is worth noting that there are still compelling equity stories outside the U.S. borders.

As shown in Chart 1, European economic data has been outperforming, both relative to expectations and relative to the U.S. Stronger European data, coupled with more attractive equity valuations and optimistic earnings expectations, make for a convincing equity opportunity in Europe. Given the current environment for U.S. equities – and economic data – it is increasingly important for investors to be positioned correctly, including being diversified both globally and across various asset classes.

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## Glossary

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 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 subindices of the Municipal Index have historical data to January 1980. In addition, several subindices 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 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.

**Citigroup U.S. Economic Surprise Index** measures the reaction to US economic news by comparing how much actual economic data deviates from the expectations of economists. Expectations are measured through a Bloomberg survey of economists which takes place before the release of the economic data and the median value of the survey results are calculated.

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 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 MSCI 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 **Nikkei 225 Stock Average** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The constituents are changed at the beginning of October every year based on an annual review by Nikkei, Inc. The Nikkei average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 22.5

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.

The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market.

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 futures 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*

**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