

MARKET INSIGHTS

Weekly Market Recap

U.S. | October 8, 2018

The week in review

- Markit/ISM mfg. PMI at 55.6/59.8
- Markit/ISM non-mfg. PMI at 53.5/61.6
- Unemployment rate fell to 3.7%
- Average hourly earnings up 2.8% y/y
- ADP/nonfarm payrolls up 230K/134K
- Trade balance widened to -\$53.2B

The week ahead

- NFIB survey
- Consumer and producer prices
- Consumer sentiment

Thought of the week

As trade tensions continue to rise between the U.S. and China, investors are concerned with how China might retaliate. One theory is China may look to sell its \$1.171 trillion dollars¹ of U.S. Treasury holdings, with the intent of forcing yields higher and raising borrowing costs in the U.S. However, we believe this outcome is unlikely. Global central banks hold foreign exchange reserves for a number of reasons, most prominently for currency management purposes. Equally, the depth, credit quality and liquidity of the U.S. bond market provide the PBoC with a pool of safe-haven assets that can quickly be sold to stabilize its currency. If China were to sell its Treasuries, it would need to find another source that could provide the same liquidity and yield, something that isn't currently available in the global economy. In addition, China owns much of its foreign currency reserves in USD. As shown in this week's chart, by selling Treasuries, it would, in effect, deplete its dollar holdings, which could result in upward pressure on the yuan. China is still heavily dependent on trade (accounting for roughly 19% of its GDP), and a stronger yuan would make its goods less attractive to global buyers. While other factors may push the yuan in either direction, we believe China is unlikely to sell Treasuries in retaliation, but instead turn its attention to U.S. business operations in China.

WEEKLY DATA CENTER

Equities	Level	Index Returns (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
S&P 500	2886	-0.95	-0.95	9.52	15.27	54.48
Dow Jones 30	26447	0.00	0.00	8.83	18.75	69.75
Russell 2000	4056	-3.78	-3.78	7.29	9.31	49.01
Russell 1000 Growth	1012	-2.36	-2.36	14.33	21.73	65.50
Russell 1000 Value	770.80	0.12	0.12	4.04	8.07	41.36
MSCI EAFE	1927	-2.34	-2.34	-3.30	0.83	24.78
MSCI EM	1001	-4.48	-4.48	-11.54	-6.73	32.06
NASDAQ	7788	-3.18	-3.18	13.74	19.51	68.58

Fixed Income	Yield	Levels (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
U.S. Aggregate	3.60	-0.94	-0.94	-2.53	-2.10	2.91
U.S. Corporates	4.21	-1.06	-1.06	-3.37	-2.30	8.49
Municipals (10yr)	2.86	-0.53	-0.53	-1.19	-0.69	5.89
High Yield	6.60	-0.44	-0.44	2.12	2.42	25.72

Key Rates	Levels (%)					
	10/5/18	9/28/18	9/28/18	12/29/17	10/5/17	10/5/15
2-yr U.S. Treasuries	2.88	2.81	2.81	1.89	1.49	0.61
10-yr U.S. Treasuries	3.23	3.05	3.05	2.40	2.35	2.07
30-yr U.S. Treasuries	3.40	3.19	3.19	2.74	2.89	2.90
10-yr German Bund	0.55	0.47	0.47	0.43	0.45	0.57
3-mo. LIBOR	2.41	2.40	2.40	1.69	1.35	0.32
3-mo. EURIBOR	-0.32	-0.32	-0.32	-0.33	-0.33	-0.05
6-mo. CD rate	0.67	0.66	0.66	0.48	0.46	0.36
30-yr fixed mortgage	4.96	4.96	4.96	4.22	4.12	3.99
Prime Rate	5.25	5.25	5.25	4.50	4.25	3.25

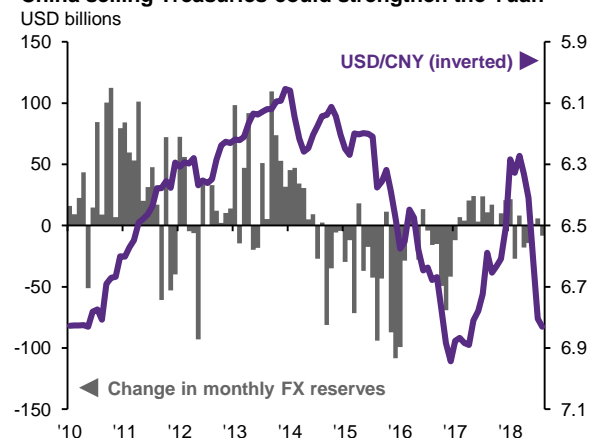
Index Characteristics	Levels			
	NTM P/E	P/B	Div. Yld.	Mkt. Cap (bn)
	16.60	3.34	1.76	52.44
	15.85	4.06	1.97	N/A
	21.35	2.06	1.22	1.28
	20.72	7.20	1.08	26.43
	14.07	2.10	2.33	35.61
	13.30	1.62	3.18	20.54
	10.70	1.57	2.70	14.00
	21.57	4.49	0.96	5.07

Currencies	Levels		
	10/5/18	12/29/17	10/5/17
\$ per €	1.15	1.20	1.17
\$ per £	1.31	1.35	1.31
¥ per \$	113.75	112.65	112.65

Commodities	Levels		
	10/5/18	12/29/17	10/5/17
Oil (WTI)	74.27	60.46	50.79
Gasoline	2.87	2.47	2.57
Natural Gas	3.13	3.69	2.80
Gold	1204	1291	1275
Silver	14.64	16.87	16.66
Copper	6183	7157	6511
Corn	3.14	3.19	3.16
BBG Idx	179.90	179.96	172.15

CHART OF THE WEEK

China selling Treasuries could strengthen the Yuan

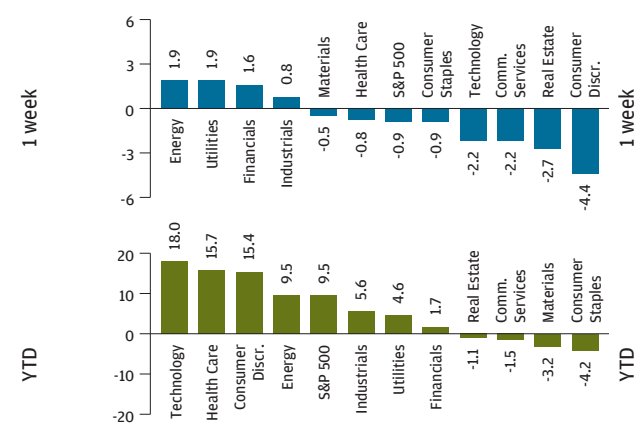


STYLE RETURNS

	V	B	G
L	0.1	-0.9	-2.4
M	-1.1	-2.1	-3.6
S	-2.4	-3.8	-5.0

	V	B	G
L	4.0	9.5	14.3
M	2.0	5.2	9.4
S	4.5	7.3	9.9

S&P 500 SECTOR RETURNS



Please see important disclosure on next page.

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Chart of the Week: Source: FactSet, Federal Reserve System, People's Bank of China, J.P. Morgan Asset Management.¹ Treasury holdings are as of July 2018. Data are as of August 31, 2018.

Thought of the week: Source: FactSet, Federal Reserve System, People's Bank of China, J.P. Morgan Asset Management.¹ Treasury holdings are as of July 2018. Data are as of August 31, 2018.

Abbreviations: Cons. Sent.: University of Michigan Consumer Sentiment Index; CPI: Consumer Price Index; EIA: Energy Information Agency; FHFA HPI: - Federal Housing Finance Authority House Price Index; FOMC: Federal Open Market Committee; GDP: gross domestic product; HPI: Home Price Index; HMI: Housing Market Index; ISM Mfg. Index: Institute for Supply Management Manufacturing Index; PCE: Personal consumption expenditures; Philly Fed Survey: Philadelphia Fed Business Outlook Survey; PMI: Purchasing Managers' Manufacturing Index; PPI: Producer Price Index; SAAR: Seasonally Adjusted Annual Rate

Equity Price Levels and Returns: All returns represent total return for stated period. Index: S&P 500; provided by: Standard & Poor's. Index: Dow Jones Industrial 30 (The Dow Jones is a price-weighted index composing of 30 widely-traded blue chip stocks.); provided by: S&P Dow Jones Indices LLC. Index: Russell 2000; provided by: Russell Investments. Index: Russell 1000 Growth; provided by: Russell Investments. Index: Russell 1000 Value; provided by: Russell Investments. Index: MSCI - EAFE; provided by: MSCI - gross official pricing. Index: MSCI - EM; provided by: MSCI - gross official pricing. Index: Nasdaq Composite; provided by: NASDAQ OMX Group.

MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.

Bond Returns: All returns represent total return. Index: Barclays US Aggregate; provided by: Barclays Capital. Index: Barclays Investment Grade Credit; provided by: Barclays Capital. Index: Barclays Municipal Bond 10 Yr; provided by: Barclays Capital. Index: Barclays Capital High Yield Index; provided by: Barclays Capital.

Key Interest Rates: 2 Year Treasury, FactSet; 10 Year Treasury, FactSet; 30 Year Treasury, FactSet; 10 Year German Bund, FactSet. 3 Month LIBOR, British Bankers' Association; 3 Month EURIBOR, European Banking Federation; 6 Month CD, Federal Reserve; 30 Year Mortgage, Mortgage Bankers Association (MBA); Prime Rate: Federal Reserve.

Commodities: Gold, FactSet; Crude Oil (WTI), FactSet; Gasoline, FactSet; Natural Gas, FactSet; Silver, FactSet; Copper, FactSet; Corn, FactSet. Bloomberg Commodity Index (BBG Idx), Bloomberg Finance L.P.

Currency: Dollar per Pound, FactSet; Dollar per Euro, FactSet; Yen per Dollar, FactSet.

S&P Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's Pricing database as provided by Standard & Poor's.

MSCI Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from MSCI and Price information from FactSet's Pricing database as provided by MSCI.

Russell 1000 Value Index, Russell 1000 Growth Index, and Russell 2000 Index Characteristics: Trailing P/E is provided directly by Russell. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's Pricing database as provided by Russell.

Sector Returns: Sectors are based on the GICS methodology. Return data are calculated by FactSet using constituents and weights as provided by Standard & Poor's. Returns are cumulative total return for stated period, including reinvestment of dividends.

Style Returns: Style box returns based on Russell Indexes with the exception of the Large-Cap Blend box, which reflects the S&P 500 Index. All values are cumulative total return for stated period including the reinvestment of dividends. The Index used from L to R, top to bottom are: Russell 1000 Value Index (Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values), S&P 500 Index (Index represents the 500 Large Cap portion of the stock market, and is comprised of 500 stocks as selected by the S&P Index Committee), Russell 1000 Growth Index (Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values), Russell Mid Cap Value Index (Measures the performance of those Russell Mid Cap companies with lower price-to-book ratios and lower forecasted growth values), Russell Mid Cap Index (The Russell Midcap Index includes the smallest 800 securities in the Russell 1000), Russell Mid Cap Growth Index (Measures the performance of those Russell Mid Cap companies with higher price-to-book ratios and higher forecasted growth values), Russell 2000 Value Index (Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values), Russell 2000 Index (The Russell 2000 includes the smallest 2000 securities in the

Russell 3000), Russell 2000 Growth Index (Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values).

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Unless otherwise stated, all data is as of October 8, 2018 or as of most recently available.

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