

Summer Doldrums Yield Mostly Tepid Gains

July 25, 2016 — The S&P 500 posted its fourth consecutive – albeit modest and in light volume– weekly gain, as investors welcomed an increase in M&A activity, positive earnings surprises, and generally improving economic data. Despite finishing at a new record high, it was the first week the S&P 500 changed by less than 1% since early June. The NASDAQ Composite paced these gains last week, led by a 2% jump in technology shares, with the sector now up 11.36% since the June 27 post-Brexit low. The NASDAQ Composite is now just 2.3% below its all-time high reached a year ago. With 126 companies in the S&P 500 already reporting results, earnings in the index are on track to contract 4.4% in the second quarter from the prior year, better than the 5.8% consensus decline earlier forecast.

In key economic data last week, June housing construction starts rose significantly higher than forecast, rising to a four month high and ending the quarter on a high note. The Chicago Fed's National Activity Index also topped forecasts, rising in June into positive territory with 40 of its 85 monthly indicators contributing to the gain. Meanwhile, the Philadelphia Fed's regional area business outlook fell unexpectedly in July. Lastly, Markit Economics' preliminary July U.S. manufacturing PMI increased from 51.3 to 52.9.

For the week, the S&P 500 rose 0.64%, the Dow Industrials crept 0.29% higher, and the NASDAQ Composite advanced 1.41%. Six of the ten major sectors posted gains last week, led by Technology (+2.02%), Utilities (+1.46%), and Healthcare (+1.24%). Energy (-1.28%) led among laggards. It was the slowest trading week so far this year, with approximately 5.9 billion shares changing hands which, according to the WSJ, is around 1.7 billion fewer than the average at this time of the year. The US Dollar Index strengthened during the week, ending at 97.467, while gold declined a second week, down 1.12%. Oil also declined a second week, falling 5.27% to end the week at \$44.19 per barrel. Treasuries edged lower, lifting the yield on benchmark 10-year Treasury notes by just 1.5 basis points to 1.567%.

What We're Reading

[Weak Oil Softens Stocks ↗](#)

[Democrat Convention Begins; Moves More Left ↗](#)

[Fed Unlikely to Raise Rates in July ↗](#)

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Week's Economic Calendar

Monday, July 25: Dallas Fed Manufacturing Survey;

Tuesday, July 26: FOMC Meeting Begins, S&P Case-Shiller Home Prices, New Home Sales, and Consumer Confidence;

Wednesday, July 27: Mortgage Applications Activity, Durable Goods Orders, FOMC Decisions;

Thursday, July 28: U.S. Trade Deficit, Jobless Claims, Kansas City Fed Mfg Index;

Friday, July 29: U.S. Trade Deficit, Jobless Claims, Kansas City Fed Mfg Index.

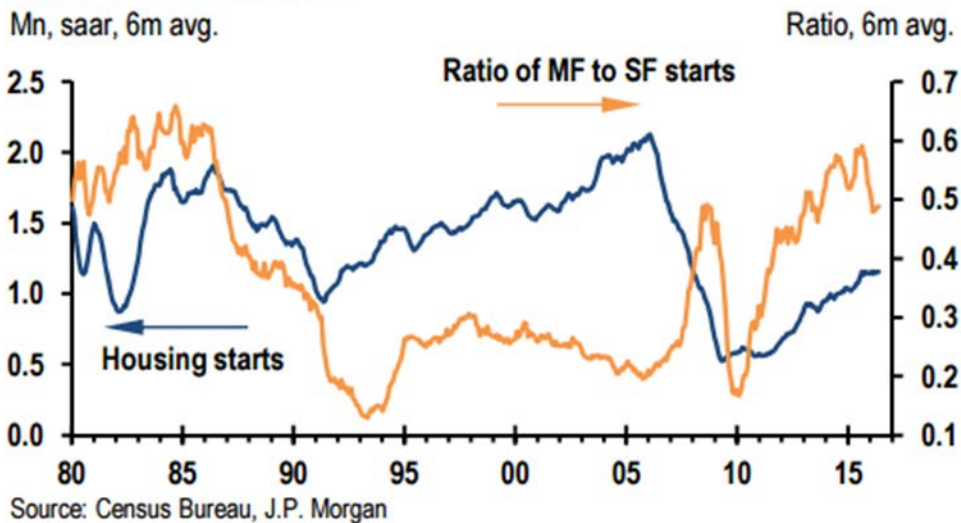
Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.29%	3.57%	3.15%	6.58%	4.02%	6.11%
S&P 500	0.64%	3.74%	4.56%	7.72%	5.17%	10.97%
NASDAQ Composite	1.41%	5.36%	4.29%	2.56%	-0.14%	13.67%
Russell 3000	0.67%	3.89%	4.66%	7.66%	3.88%	10.41%
MSCI EAFE	0.00%	2.63%	-2.15%	-1.91%	-9.28%	0.78%
MSCI Emerging Markets	0.24%	4.50%	4.03%	11.20%	-4.30%	-0.66%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.13%	0.16%	2.39%	5.48%	5.94%	3.95%
Barclays Municipal	-0.04%	-0.21%	1.85%	4.12%	6.90%	5.75%
Barclays US Corp High Yield	0.28%	3.06%	5.45%	12.39%	5.60%	4.30%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-2.37%	-4.72%	1.98%	7.91%	-11.00%	-13.22%
S&P GSCI Crude Oil	-5.27%	-8.57%	1.05%	19.30%	-10.14%	-25.51%
S&P GSCI Gold	-0.25%	0.83%	8.25%	25.59%	21.82%	-0.14%

Source: Morningstar

Chart of the Week: Housing Starts Jump in June; Activity Shifts Toward Single-Family

Figure 1: Housing starts



Housing starts increased 4.8% to 1.189 million on a seasonally-adjusted annual rate in June. This was above expectations and was one of the strongest months for starts in the expansion to date. Economists at JPMorgan believe that starts will continue to trend higher over time, but the pace of growth has moderated somewhat. However, along with this moderation there also has been a shift toward more single-family units, which has favorable implications for GDP growth.

In the chart above, Multifamily (MF) housing construction outpaced single-family (SF) construction for much of the expansion to date. Over the five years through June, multifamily starts increased at a 19% annualized pace, while single-family starts increased 12%. The orange line, representing the ratio of multifamily to single-family starts, hit its highest level in decades around the middle of 2015, but had been moving lower until the June report.

With the housing data expected to continue to increase over time, JPMorgan economists look for further gains in residential investment. They also think that residential spending (and GDP growth) will benefit from the growing shift toward single-family housing activity because single-family housing units typically account for more investment per unit than multifamily units.

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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 **Citigroup U.S. Economic Surprise Index** is a weighted historical standard deviation measure of U.S. economic data surprises of actual data releases versus Bloomberg survey median levels. Calculated daily in a rolling three-month window, when the index is positive the reading suggests that economic releases have on balance [been] beating economists' consensus forecasts. The weights of economic indicators are derived from relative high-frequency spot foreign exchange impacts of 1 standard deviation data surprises. The indices also employ a time decay function to replicate the limited memory of markets.

The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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 **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 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 1000 Index** comprises the 1,000 largest companies in the U.S. equity market, and is a subset of the Russell 3000 Index. The Russell 1000 is a market capitalization-weighted index, meaning that the largest companies constitute the largest percentages in the index, affecting performance more than the smallest index members. The inception date for the Russell 1000 and 3000 indices was January 1, 1984.

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 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 **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 USD_X 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.

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.