Brexit Losses All But Erased

July 5, 2016 — Stocks rebounded last week as investors, backed by continued low rates and central bank assurances of greater stimulus if needed, speculated that while the Brexit vote is important, UK's departure from the bloc would not spark the region's collapse. The improved sentiment led a wave of short-sellers covering their bearish positions, causing the CBOE Volatility Index declined by over 42%, its largest weekly decline in history. All in all, the S&P 500 posted its strongest weekly advance in seven months, including three consecutive days of more than 1% gains, an occurrence that has happened only twice before since October 2011.

In key economic data last week, the final reading of first quarter GDP growth was upwardly revised to 1.1% from 0.8%, the S&P/Case-Shiller Home Price Index grew at a slightly slower year-over-year pace in April (5.03% vs. 5.15%), and the Conference Board's Consumer Confidence Index improved to an eight-month high. Meanwhile, personal incomes and spending both eased in May, pending home sales slowed in May to 2.4% YoY from 2.9% YoY, while the ISM Manufacturing Activity Index expanded at the fastest pace in more than a year.

For the week, the S&P 500 rose 3.27%, closing less than half a percent below its level before the Brexit vote. The Dow Industrials gained 3.18% and the NASDAQ Composite rebounded 3.31%. All ten major sectors advanced, led by Utilities (+4.17%), Telecom (+4.11%) and Healthcare (+4.04%). The US Dollar Index strengthened by 0.201% to 95.649, while gold futures gained 2% last week, capping a fifth weekly gain. Silver prices jumped to $19.59/ounce, its highest level since August 2014. WTI crude oil futures rebounded $1.35/barrel to end the week at $48.99. Treasuries prices advanced, dropping the yield on 10-year Treasury notes by 11.6 basis points to 1.445%.

What We're Reading

China's Services Activity Jumps in June ↗

Treasury Secretary Lew Sees No Financial Crisis from Brexit ↗

Bank of England Warns on Growth and Stability ↗

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Week's Economic Calendar

Monday, July 4: Independence Day national holiday. All markets closed.

Tuesday, July 5: Factory Orders;

Wednesday, July 6: U.S. Trade Deficit, ISM Non-Mfg Index, FOMC Minutes;

Thursday, July 7: Challenger Job Cuts, ADP Private Sector Jobs Report;

Friday, July 8: June Non-farm Payrolls Report, Consumer Credit.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	3.15%	0.11%	0.88%	3.01%	1.08%	6.22%
S&P 500	3.27%	0.21%	2.03%	4.06%	3.46%	11.53%
NASDAQ Composite	3.31%	0.42%	-0.73%	-2.25%	-1.79%	13.65%
Russell 3000	3.21%	0.25%	2.28%	3.88%	1.74%	10.97%
MSCI EAFE	3.47%	0.76%	1.46%	-3.70%	-10.13%	1.97%
MSCI Emerging Markets	4.45%	0.62%	2.58%	7.08%	-11.47%	-1.42%

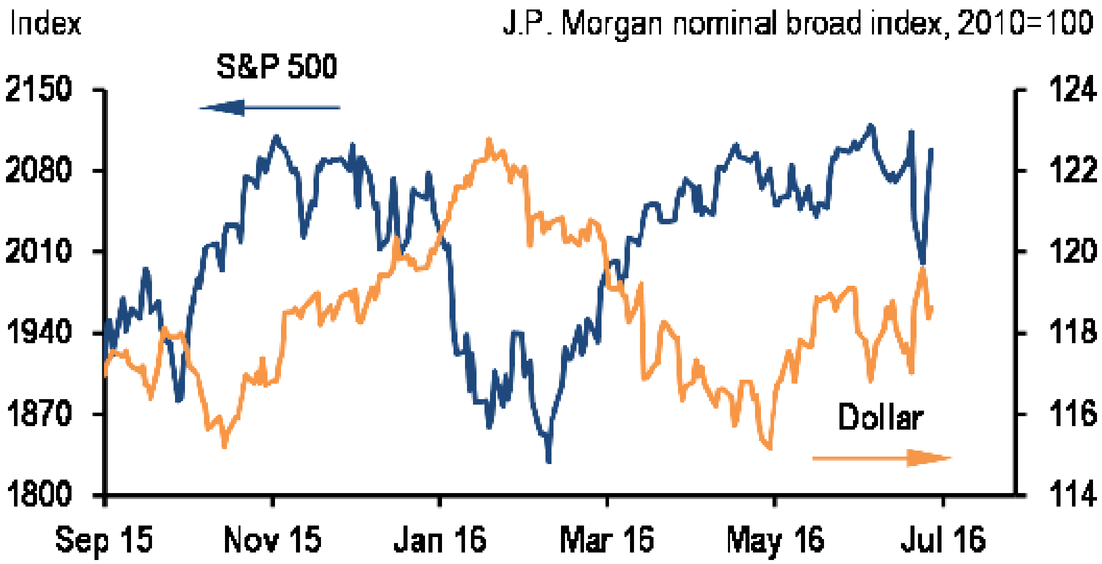
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.76%	0.21%	2.47%	5.53%	6.62%	4.11%
Barclays Municipal	0.20%	0.09%	2.65%	4.43%	7.90%	5.60%
Barclays US Corp High Yield	0.57%	0.39%	5.94%	9.49%	1.80%	4.27%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	3.14%	0.94%	15.14%	14.32%	-11.55%	-10.49%
S&P GSCI Crude Oil	2.83%	1.37%	33.16%	32.26%	-13.97%	-20.63%
S&P GSCI Gold	1.26%	1.39%	9.44%	26.30%	14.48%	2.16%

Source: Morningstar

Chart of the Week: Equity Levels/Dollar Normalizing Back Prior to Brexit Vote

Figure 1: US equity prices and trade-weighted dollar



Source: Standard and Poor's J.P. Morgan

It is still too early to assess the effects of the Brexit vote on the US economy, but according to the latest views by JPMorgan, their initial forecast that resulting impacts would be limited still seems correct. JPMorgan's immediate response was to lower their forecast of US real GDP growth in second half of 2016 by a modest quarter-point, (to 2.0% from 2.25%) and to push out their outlook for the first rate hike of 2016 until December. At the same time, the report showed that both business spending decisions and overall growth would be sensitive to a highly adverse financial market reaction.

Financial markets traded with big swings both before and after the Brexit decision, but the current values of both stock prices and the trade-weighted dollar are not much different than they were two months ago (see Figure 1 above). It is probably much too soon for even the weekly indicators to show effects of Brexit but, for what it is worth, the latest readings on both initial jobless claims and the weekly Bloomberg Consumer Comfort Index were in line with prevailing trends. The resiliency of the economy will also depend on its strength going into the Brexit shock. And the latest economic reports continue to indicate that real GDP expanded at around a 2.0% annualized rate in second quarter.

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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 **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 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.*

***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.*