Energy Leads, Technology Bleeds

April 25, 2016 — U.S. equity markets ended mixed on Friday, as disappointing earnings from technology and internet companies drove the NASDAQ 100 Index to its largest weekly decline since February 5th. While earnings for S&P 500 companies are so far surpassing analysts' consensus forecasts by an average of 4%, first quarter results from many mega-cap tech stocks have weighed negatively on the broader market. The NASDAQ 100 Index, representing performance of the 100 largest non-financial and international stocks listed on NASDAQ, fell 1.51% last week. The S&P 500 gained modestly last week, ending slightly below the 2,100 level it reached on Wednesday, a level it has crossed 40 times since the start of 2015. Of the 130 S&P 500 member companies to so far report results, 82% have exceeded their earnings estimates, while 59% have topped sales forecasts.

In key economic data last week, homebuilders broke ground on fewer new homes in March, dropping to the lowest level since October, while building permits fell to fewest in a year. Spring home sales quickened, reaffirming market strength, with existing home sales topping economists' projections in March. Over the past year, used single-family home sales are up 2.6%, while multi-family units are down 6.6%. Manufacturing data however, continues to be challenging and raises concerns about a potential second quarter rebound. The Philadelphia Fed manufacturing survey index disappointed in April, slipping into contraction this month following a gain in March.

For the week, the S&P 500 gained 0.53%, the Dow Industrials rose 0.59% and finished the week above the 18,000 level for the first time this year, while the NASDAQ Composite fell 0.65%. Five of the ten major sector groups posted gains last week, led by Energy (+5.21%), Financials (+2.79%) and Healthcare (+2.61%). Utilities (-3.24%), Consumer Staples (-2.08%) and Technology (-2.04%) fell the most. Oil prices rose 4.84% last week, ending at a five-month high of $43.73/bbl. The International Energy Agency re-confirmed their forecast this week that non-OPEC oil production will decline by around 700,000 barrels a day this year. The US Dollar Index ended at 95.116 on Friday, up 0.44% on the week, while the Bloomberg Commodities Index gained 3.31%. Treasuries prices declined a second week as equities continued to rally, pushing the yield on 10-year Treasury notes up 13.6 basis points to end at 1.889%.

What We're Reading

First Quarter Earnings: Disappoint Centers on Energy & Technology ↗

China Debt Reaches Record High; 1Q Debt Pace Accelerated 50% YoY ↗

Saudi Prince Wants to Reduce Oil Dependency ↗

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Week's Economic Calendar

Monday, April 25: New Home Sales, Dallas Fed Manufacturing Survey;

Tuesday, April 26: FOMC Meeting Begins, Durable Goods Orders, S&P Case-Shiller Home Prices, Consumer Confidence;

Wednesday, April 27: U.S. Trade Deficit, Pending Home Sales, FOMC Decisions

Thursday, April 28: Advance 1Q GDP, Weekly Jobless Claims;

Friday, April 29: Personal Income & Outlays, Employment Costs, Chicago PMI, Consumer Sentiment.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.59%	1.80%	11.87%	3.32%	-0.19%	7.31%
S&P 500	0.53%	1.65%	10.31%	3.02%	1.42%	12.56%
NASDAQ Composite	-0.65%	0.78%	7.22%	-1.66%	-1.37%	16.32%
Russell 3000	0.66%	1.88%	10.85%	2.86%	-0.31%	12.13%
MSCI EAFE	1.30%	3.35%	9.68%	0.24%	-8.39%	3.27%
MSCI Emerging Markets	-0.14%	1.12%	19.43%	6.89%	-17.30%	-3.50%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.43%	-0.02%	2.14%	3.02%	1.95%	2.20%
Barclays Municipal	-0.11%	0.54%	1.24%	2.22%	4.64%	3.52%
Barclays US Corp High Yield	1.10%	3.13%	9.56%	6.59%	-1.88%	2.63%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	3.31%	5.38%	10.47%	5.82%	-17.33%	-14.02%
S&P GSCI Crude Oil	4.84%	14.06%	35.85%	18.06%	-22.09%	-21.14%
S&P GSCI Gold	-0.37%	-0.45%	12.20%	16.02%	3.62%	-4.70%

Source: Morningstar

Chart of the Week: Bullish Oil Outlook Still Intact Amid Constrained Supply & Recovering Demand

Chart 1: Oil Prices (US$ per Barrel)

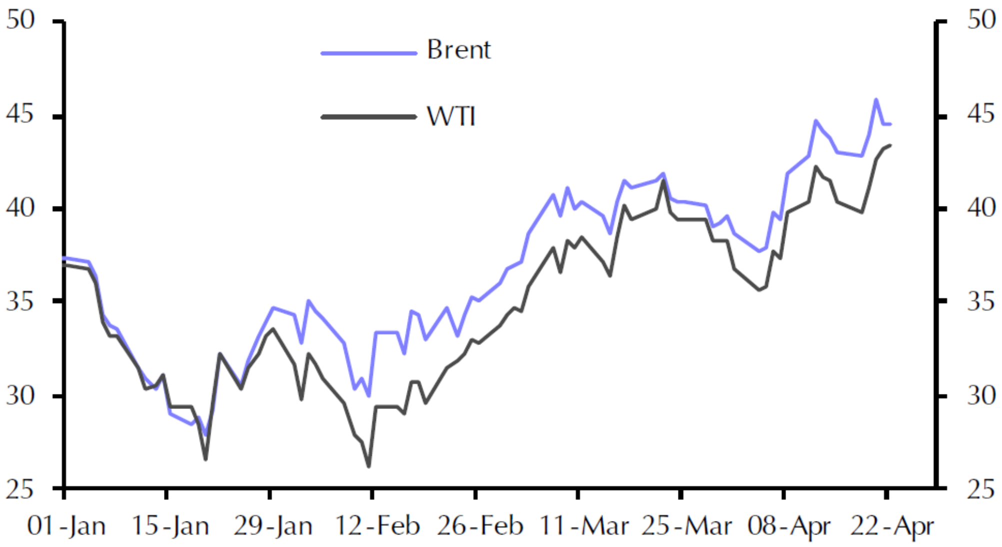
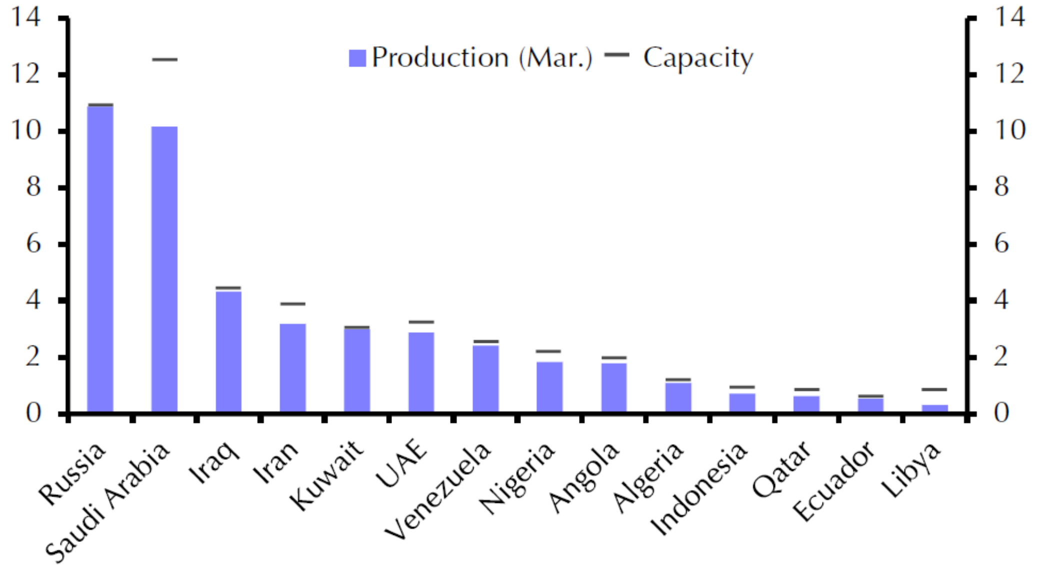


Chart 2: Oil Production (Million BpD)



Source: Capital Economics, Bloomberg

Oil prices dipped at the start of the week due to the failure to agree on an output freeze in Doha, Qatar on Sunday, April 17th. However, prices quickly rebounded and have continued to surge to their highest level this year (see Chart 1 above). This rebound was partly due to a short labor strike in Kuwait, which temporarily cut oil production by about 2 million barrels/day, but also an improvement in sentiment towards commodities in general. Comments from Saudi Arabia, made prior to the failure of the Doha meeting, that the country could ramp up its oil production were probably political grandstanding rather than a legitimate threat to flood the market, even though the country has more than enough spare capacity (see Chart 2, the line above the blue production level).

The recovery in oil prices has now taken Brent Oil above Capital Economics' 2016 year-end forecast of $45 per barrel. Therefore, it would not be surprising to see the rally pause for breath soon, but remains comfortable with their view that prices will recover further – to around $60 per barrel – by the end of 2017. Furthermore, the recovery is consistent with the big picture of constrained supply, recovering demand and improving sentiment that is expected to lift many commodity prices over the coming years. This is good news for equities, especially in emerging markets (EMs), but also carries risks for bond investors and US dollar bears. So far, U.S. inflation expectations have remained relatively subdued, but this may not last as oil continues to trend higher, creating a less dovish assessment for Fed interest rates, and thus vulnerability for the bond markets, especially Treasuries. However, this reassessment could also put renewed upward pressure on the US dollar against other major currencies, which is one potential catalyst for a temporary correction in commodity prices.

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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 **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 **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 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 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.*

*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 **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.*

*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.*