Weekly
VANTAGE POINT

Stocks Weaken Ahead of 2016 Election

November 7, 2016 U.S. stocks posted their worst week since the run-up to the British vote to leave the European Union as investors refrained from making big bets ahead of this week's presidential election. Also weighing on sentiment, a U.K. court ruling last week threatens to delay Brexit. The MSCI All-Country World Index fell to a four-month low, while the Stoxx Europe 600 slumped 3.6% last week. Moreover, the CBOE VIX Volatility Index rose near a four-month high, as the IBD/TIPP Presidential Poll, the most accurate poll since 2004, showed prospects for Donald Trump and Hillary Clinton have tightened with the race for the White House now too close to call.

Meanwhile, the odds for a December Federal Reserve rate hike moved up to 82% from 69% a week ago after the Labor Department said October payrolls rose by 161,000, following 191,000 in September that was revised higher from 156,000 originally reported. Average hourly wages climbed 2.8% from a year earlier, the fastest pace of wage growth in seven years. The S&P 500 slumped for a ninth consecutive day on Friday, its longest stretch of declines since December 1980, while the NASDAQ Composite's nine-day decline is its longest since 1984. The MSCI Emerging Markets Index fell a fourth day, down 2.57% last week and off 3.38% over the past two weeks.

For the week, the S&P 500 fell 1.89%, its fifth weekly loss, the Dow Industrials lost nearly 273 points (-1.50%), and the NASDAQ Composite sank 2.70%. All 11 major sector groups ended negative, with Technology (-2.74%), Telecom (-2.29%), and Energy (-2.16%) falling the most. Materials (-0.65%) and Utilities (-1.08%) declined the least. The US Dollar Index weakened by 1.32% last week, lower for a sixth day, ending at 97.065. Amid continued oil glut concerns, crude oil prices plunged 9.51% last week, its worst weekly drop in nearly 10 months, ending at $44.07/barrel. Treasury securities increased in price last week, pushing the yield on 10-year Treasury notes down 7.1 basis points to 1.777%.

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What We're Reading

Clinton Gets FBI Boost↗

Similar Market Patterns Provide Caution↗

Comey's Secondary Decision Not a Cure-all ↗

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Week's Economic Calendar

Monday, November 7: Labor Conditions Index, Consumer Credit ;

Tuesday, November 8: ELECTION DAY, Small Business Optimism, JOLTS ;

Wednesday, November 9: Mortgage Applications Activity, Wholesale Trade;

Thursday, November 10: Weekly Jobless Claims, Treasury Budget, Fed Balance Sheet ;

Friday, November 11: Consumer Sentiment.

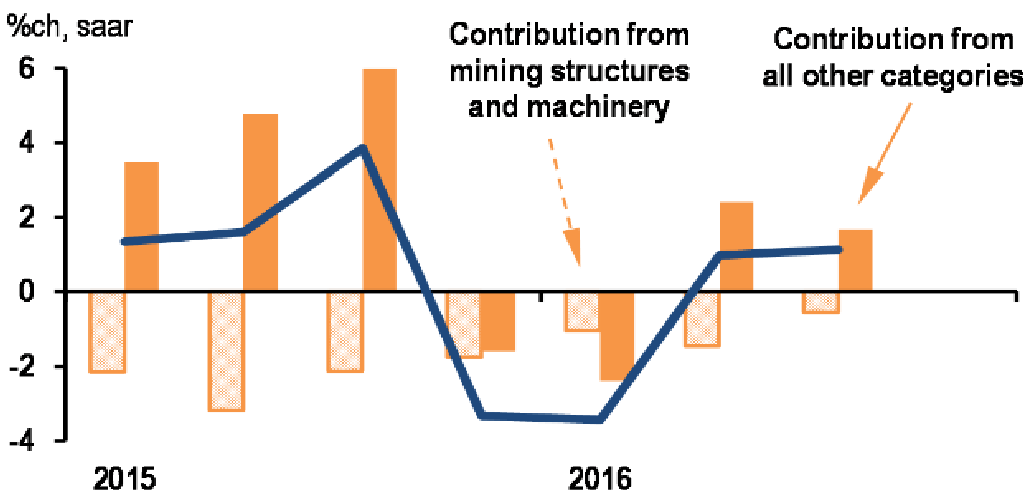
Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-1.50%	-1.40%	-2.53%	2.66%	0.12%	4.58%
S&P 500	-1.89%	-1.88%	-3.15%	3.88%	1.39%	7.92%
NASDAQ Composite	-2.70%	-2.68%	-2.03%	1.86%	-0.59%	9.97%
Russell 3000	-1.86%	-1.92%	-3.25%	3.81%	0.96%	7.19%
MSCI EAFE	-1.55%	-1.56%	-0.86%	-1.91%	-4.18%	-1.60%
MSCI Emerging Markets	-2.57%	-2.74%	0.87%	13.11%	3.77%	-2.72%
Bonds						
Barclays Agg Bond	0.24%	0.16%	-0.59%	5.15%	4.88%	3.60%
Barclays Municipal	0.25%	0.17%	-1.20%	3.10%	4.33%	4.97%
Barclays US Corp High Yield	-1.10%	-0.84%	2.24%	14.59%	8.85%	4.26%
Commodities						
Bloomberg Commodity	-3.04%	-1.89%	-0.65%	6.30%	-3.44%	-12.13%
S&P GSCI Crude Oil	-9.51%	-5.95%	5.10%	18.98%	-4.85%	-22.48%
S&P GSCI Gold	2.17%	2.47%	-4.60%	23.04%	17.89%	-0.26%

Source: Morningstar

Chart of the Week: The Slowdown in Business Capital Expenditures

Figure 1: Growth in real business capital spending



Source: J.P. Morgan

As this JPMorgan Figure 1 chart above shows, over the last eight quarters, real private nonresidential fixed investment—a broad measure of business capital expenditures—has averaged annualized growth of just 0.2%, down from 5.6% over the prior two years. And its contribution to annualized GDP growth has dropped from 0.7%-pt to 0.0%-pt. Most of this reflects sharp declines in oil industry activity and the strong dollar's drag on U.S. manufacturers. But even as these

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factors have waned recently, growth in capital expenditures has remained sluggish.

This chart also breaks out the contribution to growth made by the two categories most closely tied to oil activity. First is contribution from crude and natural gas mining structures and mining and oilfield machinery. Investment in these categories has fallen precipitously since late 2014 in reaction to low oil prices, while the contribution from "all other categories of expenditures" has been more volatile. Figure 1 shows that the drag on overall capital expenditures was largest early in 2015 before waning steadily through 3Q16.

At the core of JPMorgan's U.S. economic outlook for the last several years has been the view that the rate of potential GDP growth has slowed. The firm believes that demographics are driving a decline in labor force growth at the same time that we have encountered a slowdown in technological progress. With weak labor force growth and a shortage of new technologies driving investment, JPMorgan expects capital stock and capital expenditures to grow slowly by historical standards as the economy settles into its new, lower rate of trend growth. And there is little in the recent data on profits, business sentiment, or capital goods orders to suggest a near-term uptick relative to this trend. They thus look for only a modest acceleration in capital expenditures next year. If oil prices remain stable, there should be a swing back to positive growth in related capital expenditures. But oil activity has now fallen to such a low level that even robust growth rates would add little to GDP growth. Lastly, JPMorgan forecasts that non-energy capital expenditures should grow at modestly positive rates as the overall economy decelerates toward trend growth.

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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 ACWI** 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 market country indexes included are: 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** (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.*

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*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 **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 **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.*

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