Weekly
VANTAGE POINT

July 11-15, 2016 Recap

A Week for the Record Books

July 18, 2016 — Equity averages finished higher for the third consecutive week, as investors welcomed a positive start to the second quarter earnings season, calmed nerves over the Brexit vote and signals from the central banks of England and Japan that more stimulus is likely. Follow-through momentum from the July 8th blowout jobs report was affirmed by a flurry of generally improved economic data last week. As evidence, Citigroup's U.S. Economic Surprise Index has risen 14 of the past 15 trading days, reaching its highest level since January 2015. Despite a Friday interruption, due in part by the deplorable terrorist attack in Nice, France, the S&P 500 closed at record highs on four consecutive days last week, a streak not seen since November 2014.

In key economic data last week, survey results showed small business optimism expanded to the highest level since late last year, wholesale inventories edged higher in May, while sales rose in line with forecasts. Jobless claims were unchanged at 254,000, holding near the lowest level since mid-April. Retail sales increased 0.6% in June, registering its third monthly gain, with 11 of the 13 major categories showing improved demand. Also positive, a Federal Reserve report revealed that June manufacturing expanded at the fastest pace since January, while total industrial production, including mining and utility output, also topped forecasts with the biggest gain in 10 months.

For the week, the S&P 500 gained 1.51%, the Dow Industrials rose 2.04%, and the NASDAQ Composite advanced 1.47%. After falling to a three-month low after the Brexit vote, the S&P 500 has surged 8.1% since June 27th. Nine of the ten major sectors posted gains last week, led by Materials (+3.91%), Financials (+2.59%), and Industrials (+2.55%). Utilities (-1.05%) lagged. The US Dollar Index strengthened during the week, ending at 96.580, while gold retreated 2.11%, ending a six week winning streak. Oil was little changed, rising just $0.54 over the five days to end at $45.95/bbl. Treasuries fell last week, lifting the yield on benchmark 10-year Treasury notes by 19.3 basis points to 1.552%.

What We're Reading

Stocks Rally Over 8% Since Brexit Low ↗

GOP Convention Begins; Seen Unconventional ↗

Army Officers' Failed Coup Attempt in Turkey ↗

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Week's Economic Calendar

Monday, July 18: NAHB Housing Market Index;

Tuesday, July 19: Housing Starts;

Wednesday, July 20: MBA Mortgage Applications;

Thursday, July 21: Jobless Claims, Philly Fed Survey, Chicago Fed National Activity, Existing Home Sales, Leading Indicators;

Friday, July 22: PMI Manufacturing Index.

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Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	2.04%	3.27%	3.46%	6.26%	2.58%	6.14%
S&P 500	1.51%	3.08%	4.45%	7.04%	4.86%	11.03%
NASDAQ Composite	1.47%	3.89%	2.18%	1.13%	-0.12%	13.07%
Russell 3000	1.55%	3.21%	4.66%	6.95%	3.36%	10.46%
MSCI EAFE	3.66%	2.62%	-0.88%	-1.92%	-9.58%	1.41%
MSCI Emerging Markets	4.83%	4.25%	3.63%	10.93%	-5.19%	-0.65%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.78%	0.03%	1.82%	5.34%	5.96%	4.07%
Barclays Municipal	-0.43%	-0.17%	1.78%	4.16%	7.30%	5.67%
Barclays US Corp High Yield	1.37%	2.77%	6.31%	12.08%	4.20%	4.62%

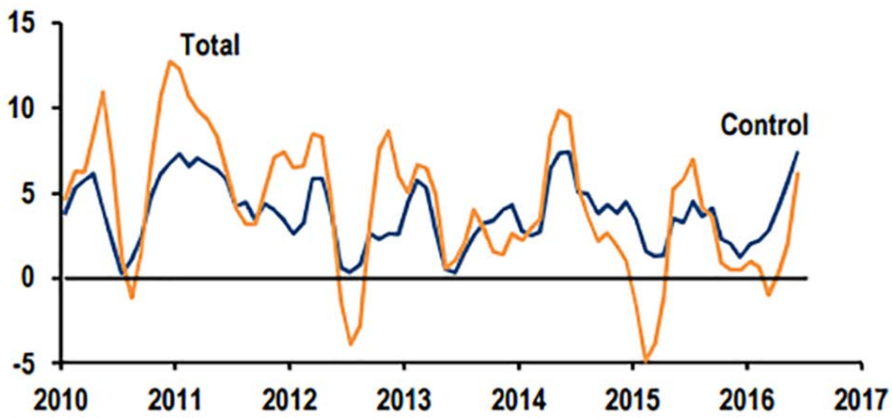
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	0.35%	-2.40%	7.92%	10.53%	-11.77%	-12.18%
S&P GSCI Crude Oil	2.41%	-3.48%	11.84%	25.94%	-9.91%	-23.91%
S&P GSCI Gold	-1.84%	1.08%	8.12%	25.91%	16.08%	1.27%

Source: Morningstar

Chart of the Week: GDP Forecasts Improve; Fed Likely Still Cautious

Figure 1: Retail sales

%3m/3m, saar



Source: Census, J.P. Morgan

Solid economic data has prompted JPMorgan to lift their second quarter GDP forecast from 2% to 2.2%. After the Brexit low, the firm also changed their outlook for the next Federal Reserve rate hike to December 2016, but they recognize the possibility of a September move if forthcoming economic data proves stellar. This past week's Fedspeak confirms the view and the data was solid, but may already be starting to slip behind the pace necessary for a September hike.

Retail sales capped a very strong second quarter by increasing a stronger-than-expected 0.6% in June, and sales in the important control group rose a solid 0.5%. As the Figure 1 chart above shows, including modest upward government revisions to April and May, control group sales increased at a 7.4% annual rate last quarter. However, the earlier reported decline in June auto sales implies that real consumer spending increased a more modest 0.2% for the month. Nonetheless, JPMorgan now estimates that real consumer spending increased at a 4.5% pace in the three months to end the second quarter, the best quarterly showing for the expansion.

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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 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.*