

Stocks Little Changed Last Week

September 25, 2017 – U.S. stocks ended narrowly mixed on Friday and on the week as Wall Street stayed near the sidelines after North Korea intensified its threats against the United States. President Trump responded by authorizing sanctions against individuals and corporations doing business with North Korea. Meanwhile, central bank policy also garnered investors’ attention last week after FOMC policy members left interest rates unchanged at 1%-1.25% on Wednesday. The Federal Reserve also confirmed that they will begin reducing their balance sheet by \$10B in October, while their so-called “dot plot” chart of members’ rate expectations forecast one more rate hike this year (likely in December). San Francisco Fed President John Williams said he individually forecasts gradual rate increases over the next few years to reach a “new normal lending rate of 2.5%.”

In key economic data, homebuilder confidence declined more than forecast in September as builders grew concerned about rising lumber prices, caused in large part by from Hurricanes Harvey and Irma. Housing starts fell 0.8% in August, while building permits jumped 5.7% to the highest level since January. Headline import prices rose 0.6% last month, while import prices, excluding oil, rose 0.3%. Export prices also increased by 0.6%. The Philadelphia Fed’s business outlook survey index rose beyond projections in September and its component for prices-paid jumped to the highest level since March. The jump suggests that low inflation may be transitory, as Fed Chair Janet Yellen has stated. Lastly, the Conference Board’s index of leading economic indicators rose 0.4% last month, topping estimates for a 0.3% increase.

For the week, the S&P 500 rose 0.09%, the Dow Industrials gained 0.36% and the NASDAQ Composite declined by 0.33%. Small cap stocks widely outperformed, with the Russell 2000 Index advancing 1.35% last week. Within the S&P 500, only 5 of its 11 major sector groups registered gains, led by Telecom (+3.80%), Financials (+2.65%) and Energy (+1.98%). Real Estate (-2.79%), Utilities (-2.70%) and Consumer Staples (-2.31%) led to the downside. U.S. crude oil prices rose by just \$0.22/barrel last week as OPEC members gathered for a meeting in Vienna. The U.S. Dollar Index crept 0.03% higher to finish the week at 92.171, while Treasury prices eased, sending the yield on 10-year Treasury notes up 4.8 basis points to 2.251%

What We’re Reading

[Support Tepid for Healthcare Repeal Bill ↗](#)

[Tax Reform Details Due This Week ↗](#)

[Oil Reaches July 2015 High ↗](#)

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Week’s Economic Calendar

Monday, Sept 25: Chicago Fed National Activity, Dallas Fed Mfg Survey;

Tuesday, Sept 26: Case-Shiller Home Prices, New Home Sales, Consumer Confidence;

Wednesday, Sept 27: Mortgage Applications Activity, Durable Goods Orders, Pending Home Sales;

Thursday, Sept 28: Final 2Q GDP, Jobless Claims, Intl Trade in Goods, Corporate Profits;

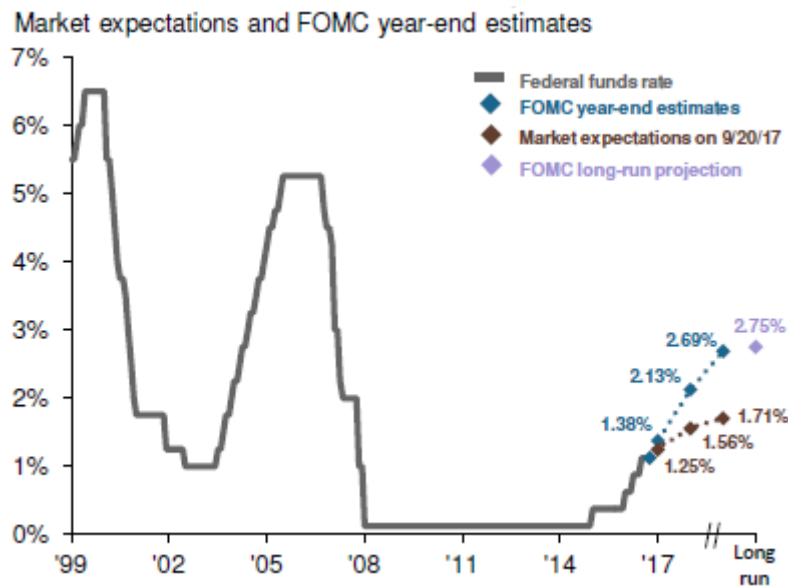
Friday, Sept 29: Personal Income and Outlays, Chicago PMI, Consumer Sentiment.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.36%	1.83%	4.45%	13.09%	21.53%	9.18%
S&P 500	0.09%	1.34%	3.29%	13.43%	17.34%	10.15%
NASDAQ Composite	-0.33%	0.02%	3.33%	20.36%	21.76%	13.72%
Russell 3000	0.25%	1.54%	3.38%	12.91%	17.19%	9.96%
MSCI EAFE	0.70%	2.51%	5.33%	19.99%	17.55%	4.30%
MSCI Emerging Markets	0.03%	1.46%	10.32%	30.16%	22.43%	4.36%
Bonds						
Barclays Agg Bond	-0.15%	-0.38%	0.42%	3.24%	0.31%	2.79%
Barclays Municipal	-0.16%	-0.19%	0.82%	5.00%	1.30%	3.41%
Barclays US Corp High Yld	0.21%	0.60%	2.00%	6.69%	9.07%	5.31%
Commodities						
Bloomberg Commodity	-0.38%	0.30%	7.22%	-2.43%	-0.03%	-10.26%
S&P GSCI Crude Oil	0.44%	7.26%	18.53%	-5.70%	9.38%	-17.69%
S&P GSCI Gold	-2.09%	-1.87%	3.85%	12.66%	-3.51%	2.13%

Chart of the Week: FOMC Brings Down Long-Term Projection

Chart 1



Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.

The Federal Reserve's September policy decisions and communications last week were largely as expected, with no change in short-term interest rates and confirmation that the Fed's balance sheet normalization plan will commence in October, following the path laid out at the June FOMC meeting. Policy committee members cited continued strength in the labor market and moderate economic growth as the deciding factors. Regarding future interest rates, FOMC participants continue to expect one more federal funds rate hike this year, and three further interest rate increases in 2018.

Chart 1 shows that longer-term rate estimates were revised slightly lower, with 20bps shaved off of 2019 and the long-run estimate moving from 3.0% to 2.75%. While policy outcomes were largely as expected, the path laid out for interest rates and the balance sheet, combined with a weak dollar and the potential for a more expansionary fiscal policy, may apply more upward pressure on long-term bond yields than seems priced into the market. According to J.P. Morgan, the Fed's communications suggest a more hawkish path of policy actions despite the dovish tone and careful wording by Fed Chair Janet Yellen's comments.

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Glossary

The **Barclays U.S. Treasury: U.S. TIPS Index** includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

The **Bloomberg Barclays US Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly

The **Bloomberg Barclays U.S. Corporate (Investment Grade) Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-US private-sector industrial, utility and financial issuers. Certificates of deposit are also included. Launched in July 1973, securities included must be rated investment grade (Baa3/BBB-/BBB- or higher). Eligible senior and subordinated corporate securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 10.75 years. The index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. 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. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly

The **Bloomberg U.S. Treasury Floating Rate Bond Index** is a rules-based, market value-weighted index engineered to measure the performance of floating rate U.S. Treasury bonds. The index inception date is January 31, 2014—the first month-end following the U.S. Treasury's issuance of a floating rate bond. Historical performance and characteristics are available from January 31, 2014, when floating rate notes were offered and first traded, the first new Treasury security since the introduction of Treasury-Inflation-Protected Securities (TIPS) in 1997.

The **Bloomberg Barclays US Convertible Bond > \$500MM Index** is designed to represent the market of US convertible securities, such as convertible bonds, with outstanding issue sizes greater than \$500 million.

The **Bloomberg Commodity Index** is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index;

and no group can represent more than 33% of the index. However, between rebalancings, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.

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. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

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 ACWI Index** 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 country indexes include: 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** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets Index** 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 **NASDAQ-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization.

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 **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 **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.

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

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 USDY 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