

Best Weekly Gain in Nearly Three Months

May 31, 2016 — U.S. stocks rose last Friday, sending the S&P 500 to a five-week high and its strongest weekly gain since March 4th. Equities recovered from a Friday dip sparked by a speech from Fed Chair Janet Yellen signaling a rate hike may be appropriate in “the coming months.” Commerce officials said their second of three first quarter GDP estimates was upwardly revised to 0.8% from 0.5%, while on Thursday the Atlanta Fed’s GDPNow forecast model for second quarter growth rose to 2.9% from 2.5%. The model adjusts its forecast with incoming economic data and officials said the increase came as private investment growth increased from -0.3% to 0.4% following a stronger-than-expected durable goods report.

After approximately two years in which speculation over the timing of rising interest rates has increased market volatility, investors are appearing more comfortable with the idea of a 2016 summer rate rise. Last week’s biggest surprise in economic data was on Tuesday, when new home sales in April surged nearly 17% to the highest annualized level since the beginning of 2008. Durable goods orders for April jumped 3.4%, topping forecasts for 0.5% and followed a 1.9% March increase. Lastly, the University of Michigan’s consumer confidence index rose less than forecast for May, as officials cited election concerns.

For the week, the S&P 500 gained 2.32%; the Dow Industrials advanced 2.13%; and the NASDAQ Composite jumped 3.48%, its best weekly gain since February 19th. All ten major sectors advanced on the week, led by Technology (+3.64%), Financials (+2.65%) and Healthcare (+2.19%). Energy (+1.50%) and Utilities (+1.23%) rose the least. The US dollar index gained 0.19% for third weekly gain, ending at 95.521, while gold futures sank nearly \$40/ounce, or -3.13%. Copper prices, regarded as an economic bellwether, rose 2.8% last week, its first weekly gain in a month. Treasuries prices edged lower last week, pushing the yield on 10-year Treasury notes up just 1.3 basis points to end at 1.852%.

What We’re Reading

[Markets “Well Prepared” for Summer Rate Hike ↗](#)

[Updated Odds for China A-Shares in MSCI Indices ↗](#)

[India’s Economy Grows Faster than Forecast ↗](#)

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Week’s Economic Calendar

Monday, May 30: Memorial Day, all markets closed;

Tuesday, May 31: Personal Income & Outlays, Home Price Index, Chicago PMI, Consumer Confidence, Dallas Fed Mfg Survey;

Wednesday, June 1: ADP Private Employment, Markit Mfg Index, ISM PMI Mfg., Construction Spending, Fed Beige Book;

Thursday, June 2: Challenger Job-Cut, Weekly Jobless Claims;

Friday, June 3: May Non-farm Payrolls, U.S. Trade Deficit, Factory Orders, and ISM Non-Mfg. Index.

Market Watch

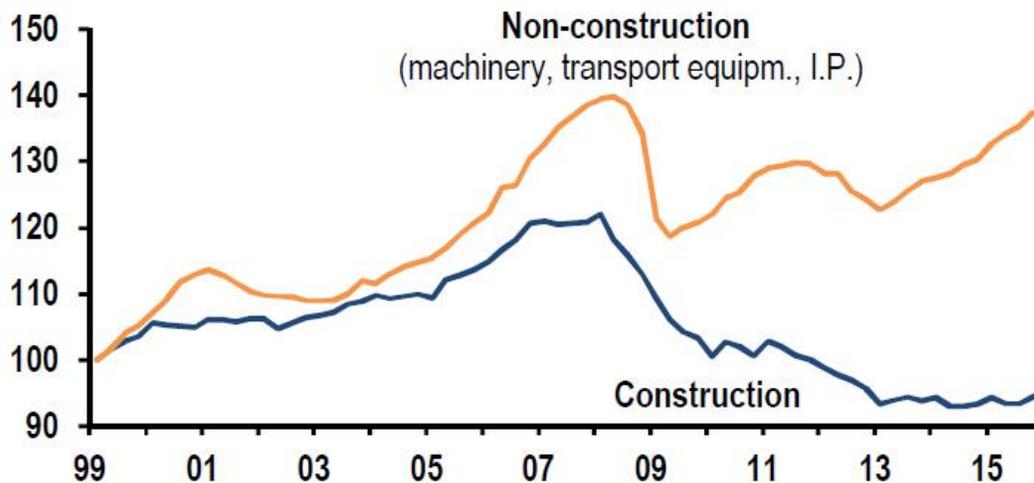
Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	2.13%	0.56%	7.41%	2.57%	-1.59%	5.31%
S&P 500	2.32%	1.89%	8.35%	3.67%	1.06%	10.68%
NASDAQ Composite	3.48%	3.52%	7.86%	-0.91%	-2.16%	13.95%
Russell 3000	2.41%	1.82%	8.87%	3.44%	-0.46%	10.22%
MSCI EAFE	2.21%	-0.86%	8.66%	-1.06%	-10.38%	1.59%
MSCI Emerging Markets	2.97%	-3.66%	9.73%	2.40%	-18.73%	-5.50%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.15%	-0.03%	1.42%	3.40%	3.14%	2.65%
Barclays Municipal	-0.16%	0.21%	1.31%	2.63%	6.03%	3.78%
Barclays US Corp High Yield	0.77%	0.48%	9.67%	7.91%	-0.88%	2.64%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	0.71%	-0.04%	13.34%	8.92%	-14.37%	-13.41%
S&P GSCI Crude Oil	1.90%	7.43%	50.49%	33.18%	-14.20%	-19.38%
S&P GSCI Gold	-3.13%	-5.72%	-0.30%	14.76%	2.54%	-4.28%

Source: Morningstar

Chart of the Week: Euro-Area Capital Spending Slowly Recovers; Construction Side Drag Lessens

Figure 1: Euro area real fixed capital spending

1Q99 = 100



Source: Eurostat, J.P. Morgan

The recovery in the Eurozone's overall capital spending is gathering steam. Last year, capital expenditures (capex) grew at a 3.4% annualized pace, slightly faster than in the 1999-2007 period. There are two very different parts to European capex, with spending on machinery, transport

equipment, and intellectual property recovering solidly. The “non-construction” spending has returned to the pre-2008 peak, grew by 5% last year, and is rising again as a share of the region’s GDP.

In contrast, Eurozone construction spending finally has stabilized but, as the chart above shows, it is not yet contributing significantly to the euro-area’s recovery. JPMorgan believes this may be because it was more overextended at the peak in 2007, at least when measured in nominal terms. There are tentative signs, however, that a turn in construction has begun. Both the construction confidence survey index and the construction PMI have been improving steadily over the past three years, while residential and commercial property prices have also been picking up.

For now, most of these signs point to only a modest turn. Yet given the very favorable financing conditions and significant scope for a cyclical recovery from low levels, the belief is there is a significant potential for the recovery in construction spending to strengthen.

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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 **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 Growth Index** is a float adjusted, market capitalization weighted index of 317 stocks drawn from the S&P 500 Index that exhibit strong growth characteristics. S&P Dow Jones Indices uses three factors to measure growth: sales growth, the ratio of earnings change to price, and momentum.

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 **S&P Value Index** is a float adjusted, market capitalization weighted index of 364 stocks drawn from the S&P 500 Index that exhibit strong value characteristics. S&P Dow Jones Indices uses three factors to measure value: the ratios of book value, earnings and the sales to price sales metric.

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.