

Stocks Decline, Commodities Rally

May 2, 2016 — The largest two-day loss in nearly three months sealed the S&P 500 with a second weekly decline and capped the index with its weakest April performance since 2012, up just 0.39%. Stocks broadly declined Friday, hurt by continued US dollar weakness and mixed earnings reports. The US dollar fell to the lowest level in nearly a year as weak consumer spending and the slowest first quarter GDP growth pace in two years showed signs the world's largest economy is struggling to gain traction. The US dollar index fell 2.14% last week and lost 1.6% in April, its third straight monthly decline. On the bright side, a weaker US dollar boosts the appeal of commodities, which extended gains for their best month since 2010. Gold and silver prices rose to their highest levels since January 2015.

In key economic data last week, first quarter GDP growth slowed to 0.5%, down from its 1.4% pace during the fourth quarter. Consumer spending rose just 0.1% in March. New home sales contracted for a third month; durable goods orders rebounded by 0.8% in March from a 3.1% prior month decline; and home prices, in twenty major cities, climbed by 5.4% from a year earlier. Lastly, consumer confidence fell more-than-forecast in April.

For the week, the S&P 500 fell 1.24%; the Dow Industrials lost 1.28%; and the NASDAQ Composite slumped 2.65%. Six of the ten major sector groups ended negative last week, with Technology (-3.57%), Healthcare (-2.95%) and Financials (-1.24%) falling the most. Utilities (+2.88%) and Telecom (+1.14%) led among gainers. Oil prices rose 5% last week, ending at a fresh five-month high of \$45.92/bbl. The US dollar index fell 0.7% on Friday, ending at 93.082; while the yen strengthened to 106.91 to the dollar, the strongest level since October 2014. The yen surged 5.1% last week. Treasuries prices climbed higher over the week, pulling the yield on 10-year Treasury notes down 5.5 basis points to end at 1.834%.

What We're Reading

[Reviewing First Quarter GDP; April Jobs Outlook ↗](#)

[More European Buyers of Iranian Oil ↗](#)

[Chinese Manufacturing Improves for Second Month ↗](#)

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Week's Economic Calendar

Monday, May 2: ISM Mfg Index, Markit PMI Mfg Index, Construction Spending;

Tuesday, May 3: No major releases;

Wednesday, May 4: ADP Private Jobs, Trade Deficit, Productivity & Costs, Factory Orders, ISM Non-Mfg. Index, Markit PMI Services Index;

Thursday, May 5: Weekly Jobless Claims, Challenger Job Cuts Report;

Friday, May 6: Non-farm Payrolls, Consumer Credit.

Market Watch

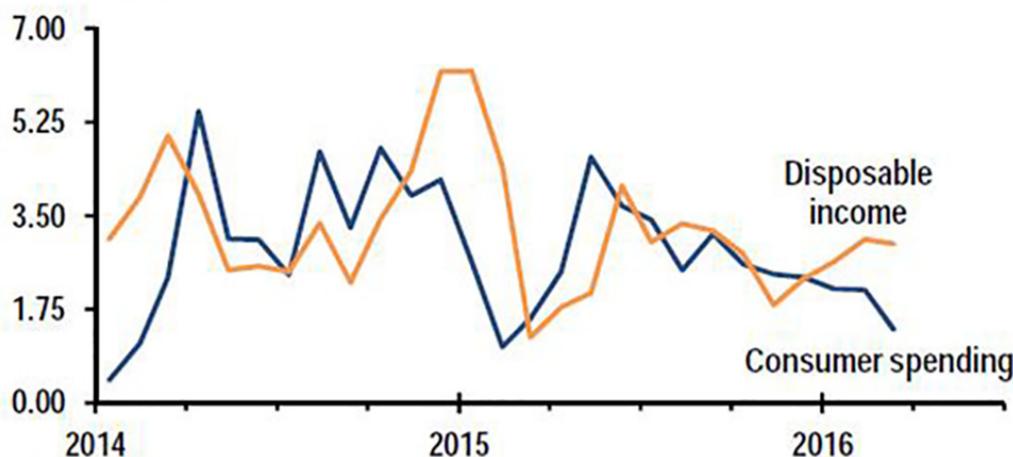
Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-1.28%	0.50%	7.94%	2.00%	-1.45%	6.25%
S&P 500	-1.24%	0.39%	7.05%	1.74%	0.19%	11.35%
NASDAQ Composite	-2.65%	-1.89%	3.84%	-4.27%	-3.78%	14.42%
Russell 3000	-1.24%	0.62%	7.67%	1.59%	-1.29%	10.89%
MSCI EAFE	-0.44%	2.90%	7.58%	-0.20%	-9.98%	1.71%
MSCI Emerging Markets	-0.57%	0.54%	13.66%	6.29%	-18.73%	-4.18%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.40%	0.38%	2.02%	3.43%	2.65%	2.28%
Barclays Municipal	0.19%	0.74%	1.21%	2.42%	5.10%	3.54%
Barclays US Corp High Yield	0.76%	3.92%	9.15%	7.40%	-1.11%	2.60%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	2.97%	8.51%	10.83%	8.96%	-16.87%	-13.92%
S&P GSCI Crude Oil	5.01%	19.77%	36.59%	23.97%	-21.57%	-21.38%
S&P GSCI Gold	4.92%	4.44%	15.59%	21.72%	6.64%	-4.19%

Source: Morningstar

Chart of the Week: First Quarter GDP Not Great; See Downside Risks for Second Quarter

Figure 1: Real consumer spending and real disposable income

%ch saar over 3 months



Source: BEA

Real GDP increased at a meager 0.5% annualized pace in first quarter this year, and according to JPMorgan, new economic data recently received pose downside risks to an outlook for 2.0% growth in the second quarter. Weak 1Q growth has been followed by a 2Q bounce for the past two years, and we think that a similar pattern will play out again this year. However, this forecast depends heavily on a sharp improvement in the April growth indicators to be released over the

next few weeks. As this chart illustrates, the major downside surprise in the data lately is the slowdown in real consumer spending against the background of solid income growth. Thus, market analysts will be keenly interested in whether April retail sales due out May 13th include a bounce in core retail sales, alongside an expected bounce in auto sales.

The April FOMC statement toned down the concerns expressed in the prior statement about global and financial developments, but also signaled no rush to get on with the second rate hike. Economists' current consensus forecast looks for rate hikes at the July and December meetings. But to get a hike by July, we will need to see evidence that growth is accelerating decisively by June.

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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.*