

Record Low Bond Prices Weaken Stocks

June 13, 2016 — stocks closed lower on Friday, sending the S&P 500 down the most in three weeks after sharp declines in global bond yields triggered renewed concerns over sustained world growth. Friday's declines more than erased an earlier weekly gain that brought the benchmark index to within 12 points of its 2,130 all-time high reached just over a year ago. The German 10-year bund yield fell to a fresh all-time low of 0.01%, down sharply from Monday's levels of 0.07%; while the Japanese 10-year government debt yield dropped to a record low of minus 0.13%. Wall Street essentially succumbed to caution ahead of key upcoming events, including central bank policy meetings by the U.S. Federal Reserve and Bank of Japan this week, the U.K. Brexit vote on June 23 and in mid- and late July, the two political party conventions.

In key economic data, a final reading of worker productivity declined by 0.6% during the first quarter, in line with estimates. Meanwhile, labor costs rose 4.5%. A U.S. Department of Labor report showed job openings increased to 5.79 million in April, which matched the highest level since records began in 2000. The increase signals that employers are having problems finding the right candidates for open positions. Lastly, the University of Michigan's preliminary June reading of consumer confidence declined from an almost one-year high.

For the week, the S&P 500 declined 0.11%, the Dow Jones Industrial Average rose 0.33%; and the NASDAQ Composite fell 0.95%. Six of the ten major sectors ended higher last week, led by Telecom (+2.78%), Energy (+1.43%), and Consumer Staples (+1.05%). Financials (-1.5%) and Consumer Discretionary (-0.84%) lagged the most. The U.S. Dollar Index strengthened 0.58% to 94.571, while gold futures rallied 2.39% last week after jumping 2.58% the week prior. After rebounding to above \$51/barrel on Wednesday, U.S. crude oil prices retreated to end at \$49.07. Treasuries prices rallied, pulling the yield on 10-year Treasury notes down six basis points to 1.641%.

What We're Reading

[Record Low Yields on Safer-Haven Buying Spree ↗](#)

[What Fed Chair Yellen is Watching ↗](#)

[Brexit: The Vote of a Lifetime ↗](#)

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Week's Economic Calendar

Monday, June 13: No major releases scheduled;

Tuesday, June 14: FOMC meeting begins; Retail Sales, Import/Export Prices, Business Inventories;

Wednesday, June 15: Producer Prices, Empire State Mfg., Industrial Production, FOMC Decisions and Yellen Press Conference;

Thursday, June 16: Consumer Prices, Jobless Claims, Philly Fed Outlook, Housing Market Index;

Friday, June 17: Quadruple Options Witching, Housing Starts.

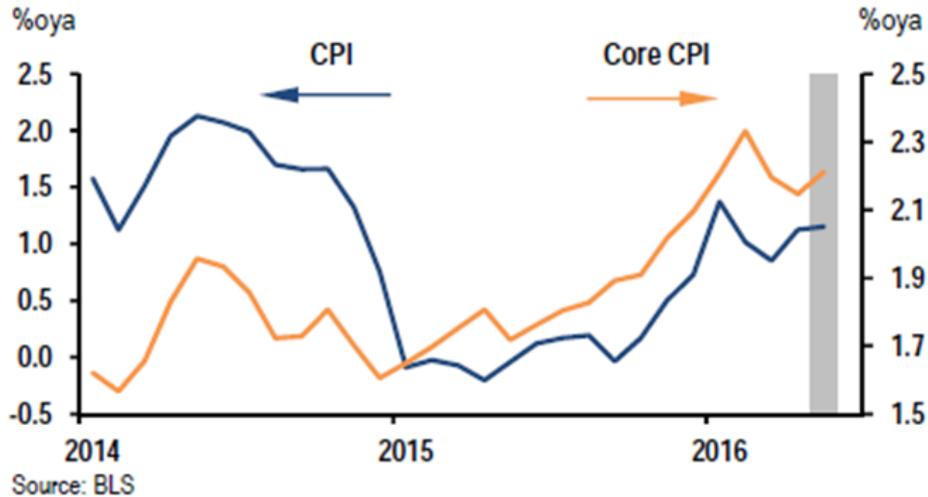
Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.33%	0.44%	5.12%	2.53%	-0.75%	5.44%
S&P 500	-0.11%	0.02%	5.91%	3.59%	1.77%	10.77%
NASDAQ Composite	-0.95%	-1.06%	5.33%	-1.66%	-2.38%	13.49%
Russell 3000	-0.17%	0.07%	6.43%	3.49%	0.18%	10.33%
MSCI EAFE	-1.73%	-1.51%	3.24%	-2.60%	-10.78%	1.69%
MSCI Emerging Markets	1.04%	2.18%	4.79%	4.55%	-13.66%	-3.15%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.38%	0.99%	2.69%	4.48%	5.82%	3.40%
Barclays Municipal	0.53%	0.72%	2.43%	3.44%	7.31%	4.48%
Barclays US Corp High Yield	0.98%	1.01%	7.13%	9.15%	1.21%	3.59%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	2.07%	4.23%	12.13%	13.36%	-13.23%	-11.94%
S&P GSCI Crude Oil	2.00%	1.00%	26.87%	33.88%	-19.65%	-19.72%
S&P GSCI Gold	2.66%	4.80%	0.17%	20.35%	7.51%	-2.72%

Source: Morningstar

Chart of the Week: Keeping an Eye on Inflation; CPI Data Due Out Thursday

Figure 2: CPI and core CPI with May forecasts



The key upcoming economic reports this week will be the May retail sales data on Tuesday and the consumer price index (CPI) on Thursday. JPMorgan expects retail sales to take a breather following the large increase in April. They predict a seasonally adjusted 0.4% total retail sales growth and 0.2% core retail sales growth. If realized, absent revisions, these results would be consistent with our forecast of a 3.6% seasonally adjusted annual rate spending growth this quarter. JPMorgan's outlook, along with the economists' consensus forecast, projects the May CPI

will increase by 0.3% over the month on higher oil prices and the core CPI will increase 0.18% or 2.2% year-over-year average (up from 2.1% in April and 1.7% in May 2015). Core consumer prices exclude volatile elements, including food and energy prices.

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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 USD_X 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.