Weekly VANTAGE POINT

April 4-8, 2016 Recap

Stocks Weaken Most in Two Months

April 11, 2016 — The S&P 500 posted tepid gains on Friday, trimming three days of declines last week and capping the worst weekly slide in two months. Notably, the benchmark equity index experienced three consecutive days of moves of 1% or more last week, ending a 15-day stretch of relative calm, the longest such period since March 2015. Last week's pullback leaves the S&P 500 with just a modest 0.81% year-to-date gain. That is little cushion ahead of what analysts predict will be among the worst of quarterly earnings reporting seasons since the financial crisis. Around 9% of S&P 500 companies are expected to post quarterly results this week, with analysts' initial forecasts projecting overall negative earnings growth of nearly 9% year-over-year.

Among key domestic economic data last week, factory orders fell 1.7% in February, following a downwardly revised 1.2% gain in January, while durable goods orders slumped 3%. On a brighter note, the Institute for Supply Management (ISM) Non-Manufacturing Index and Markit Economics' Services Purchasing Managers' Index (PMI) both posted gains for March. Mortgage applications activity rebounded and jobless claims declined. Wrapping up the week, Commerce officials reported wholesale inventories fell 0.5% in February, the steepest decline since May 2013.

For the week, the S&P 500 fell 1.15%, the Dow Industrials lost 1.21% and the NASDAQ Composite declined 1.27%. Eight of the ten major sector groups ended lower last week, with Financials (-2.82%), Consumer Discretionary (-2.03%) and Utilities (-1.97%) falling the most. Energy (+2.20%) and Healthcare (+0.90%) outperformed. Oil prices surged 8% last week after the Energy Department said U.S. oil production fell for the 10th time in 11 weeks, while crude inventories declined. The US dollar index fell 0.406% to 94.235, while the Bloomberg Commodities Index gained 1.4%. Treasuries rallied over the week, with the yield on 10-year Treasury notes declining by 5.3 basis points to end at 1.718%.

What We're Reading

Dollar Rebounds Against Yen; Yen Reached 18-Month High Last Week ↗

First Quarter Earnings Season Starts; Big Banks Among First to Report ↗

Blackrock View: Overlooked Danger in Negative Rates; Rates May Fall ↗

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Week's Economic Calendar

Monday, April 11: No major releases;

Tuesday, April 12: Small Business Confidence, Import & Export Prices;

Wednesday, April 13: Retail Sales, Producer Prices, Business Inventories, Fed Beige Book;

Thursday, April 14: Consumer Prices, Jobless Claims;

Friday, April 15: Empire State Manufacturing, Industrial Production, Consumer Sentiment.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-1.21%	-0.61%	7.53%	0.87%	-1.81%	6.35%
S&P 500	-1.15%	-0.53%	7.14%	0.81%	0.51%	11.74%
NASDAQ Composite	-1.27%	-0.36%	4.81%	-2.78%	-0.83%	16.02%
Russell 3000	-1.19%	-0.61%	6.91%	0.36%	-1.68%	11.14%
MSCI EAFE	0.65%	-1.50%	1.79%	-4.46%	-11.80%	1.83%
MSCI Emerging Markets	-1.09%	-2.34%	10.77%	3.24%	-17.98%	-4.40%

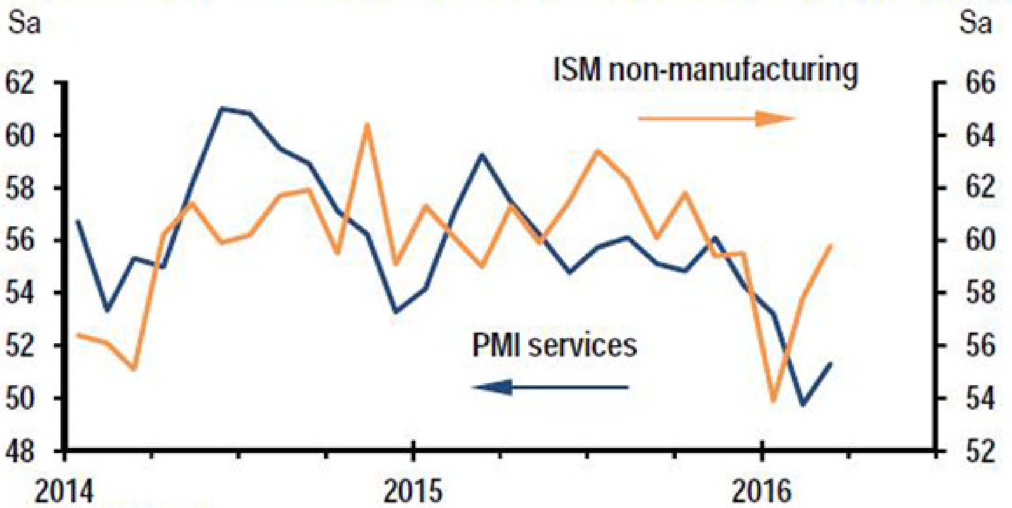
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.38%	0.33%	2.72%	3.38%	1.99%	2.38%
Barclays Municipal	0.55%	0.61%	1.42%	2.29%	4.51%	3.59%
Barclays US Corp High Yield	0.45%	0.44%	4.12%	3.81%	-3.98%	1.93%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.40%	0.26%	3.08%	0.68%	-20.21%	-16.18%
S&P GSCI Crude Oil	9.34%	4.92%	20.47%	8.61%	-20.63%	-24.50%
S&P GSCI Gold	1.66%	0.66%	13.27%	17.32%	3.38%	-7.52%

Source: Morningstar

Chart of the Week: Weak 1Q GDP Outlook: Seasonal Trend, Not Systemic

Figure 1: Business activity, PMI services and ISM non-manufacturing



Source: Markit, ISM

First-quarter economic data has continued to come in weak, prompting JPMorgan to revise its 1Q 2016 seasonally-adjusted real GDP forecast to only 0.2% on an annualized basis (down from 1.2% two weeks ago and 2.0% the week before that). Through this multi-year recovery, real GDP growth has tended to be weak in the first quarter and stronger in the second quarter, and subpar 1Q16 growth continues this pattern. Average real GDP growth in the first quarter of the six years 2010-2015 has averaged only 0.8%, while average growth in the second quarters averaged 3.1%.

Therefore, JPMorgan believes the pattern of weak first quarters is a coincidence rather than a systemic seasonal adjustment problem. They forecast the pattern of stronger 2Q16 growth to hold again this year, projecting 2.0% growth in the second quarter of 2016 and 2.25% during the second half of the year. As the chart above shows, this past week's PMI services survey, for example, posted a 51.3 reading for business activity, below its 52.4 average for the prior three months. The ISM non-manufacturing measure of activity rebounded to 59.8, 2.7-points above its average for the prior three months.

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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 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.*