

Strong Jobs Gains Power Stocks Higher

July 11, 2016 — U.S. equity markets ended the holiday-shortened week sharply higher, with the S&P 500 finishing above its pre-Brexit high and within one point of its all-time record. End of the week enthusiasm was sparked by a solid June payrolls report with 287,000 new jobs added, exceeding economists' consensus forecast by over 100,000. Reflecting a downwardly revised 11,000 jobs gain in May, the June increase was the biggest monthly pick-up in employment in eight months. Jobs growth increased most in restaurants, retailers, and within healthcare services. Remarkably, the S&P 500 fluttered near its historical high at the same time Treasury bond yields were near their all-time lows. According to data tracked by Bloomberg, at no time in history have U.S. government bonds and U.S. stocks ever ended the same trading session close to their respective records.

In other key economic data last week, May durable goods orders fell 2.3%, continuing a softening trend this year, and the U.S. trade deficit widened in May by the most in nearly a year, as imports grew by 1.6% and export slipped 0.2%. On a brighter note, the Institute for Supply Management reported that its index of activity within the U.S. services and construction industries rose sharply in June, expanding at the fastest pace in seven months. Lastly, first time claims for jobless benefits decreased by 16,000 to 254,000, the second-lowest weekly reading since 1973.

For the week, the S&P 500 gained 1.33%, the Dow Industrials rose 1.16%, and the NASDAQ Composite advanced 1.96%. Eight of the ten major sectors advanced, led by Consumer Discretionary (+2.32%), Healthcare (+2.02%), and Technology (+1.78%). Energy (-1.12%) and Telecom (-0.13%) lagged. The US Dollar Index strengthened by 0.683 to 96.302, while gold futures gained 1.82% last week, capping its sixth weekly gain at \$1,366.38/ounce. After reaching a two-month low earlier in the week, crude oil prices rebounded on Friday, narrowing a weekly loss to 7.3% to end at \$45.41/bbl. Treasuries prices rallied last week, pulling the yields lower on 10- and 30-year Treasuries to 1.359% and 2.099% respectively.

What We're Reading

[Stocks Rally on Monday; S&P 500 Hits Record ↗](#)

[Japan PM Abe Wins Broader Majority; More "Abenomics" ↗](#)

[Theresa May to Succeed Cameron as U.K. PM ↗](#)

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Week's Economic Calendar

Monday, July 11: Labor Market Conditions;

Tuesday, July 12: Small Business Optimism, JOLTS, Wholesale Trade;

Wednesday, July 13: Import/Export Prices, Fed Beige Book Economic Conditions;

Thursday, July 14: Jobless Claims, Producer Prices;

Friday, July 15: Consumer Prices, Retail Sales, Empire State Mfg., Industrial Production, Business Inventories, Consumer Confidence.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.10%	1.21%	3.24%	4.14%	3.60%	6.03%
S&P 500	1.33%	1.55%	4.59%	5.45%	6.38%	11.42%
NASDAQ Composite	1.96%	2.39%	2.52%	-0.33%	2.23%	13.83%
Russell 3000	1.37%	1.63%	4.94%	5.31%	4.73%	10.88%
MSCI EAFE	-1.75%	-1.00%	-0.96%	-5.38%	-8.55%	1.32%
MSCI Emerging Markets	-1.17%	-0.56%	2.50%	5.82%	-6.07%	-0.56%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.60%	0.81%	2.70%	6.16%	6.17%	4.56%
Barclays Municipal	0.18%	0.27%	2.27%	4.61%	7.54%	5.85%
Barclays US Corp High Yield	0.99%	1.39%	6.51%	10.57%	3.34%	4.70%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-3.65%	-2.74%	9.40%	10.15%	-11.50%	-11.95%
S&P GSCI Crude Oil	-7.02%	-5.75%	13.23%	22.98%	-11.93%	-23.84%
S&P GSCI Gold	1.56%	2.97%	9.33%	28.26%	16.79%	3.25%

Source: Morningstar

Chart of the Week: Earnings Season Starts This Week; EPS Trough is Likely Behind Us

S&P 500 Y/Y Growth in Operating EPS Estimates					
S&P 500 Sector	2016 EPS % Changes				Year
	Q1A	Q2E	Q3E	Q4E	
Consumer Discretionary	21.3	9.4	10.3	11.0	12.6
Consumer Staples	0.8	(3.1)	5.3	9.4	3.1
Energy	(106.6)	(80.6)	(54.3)	1.7	(70.5)
Financials	(15.4)	(8.5)	5.1	13.0	(2.1)
Health Care	8.0	3.0	6.7	9.0	6.6
Industrials	(3.3)	6.9	1.0	2.9	2.0
Information Technology	(4.0)	(5.3)	1.8	3.4	(0.7)
Materials	(11.4)	(7.8)	15.5	24.5	2.7
Telecom. Services	9.1	(2.7)	(1.8)	2.4	1.6
Utilities	(2.5)	3.0	5.1	13.2	4.1
S&P 500	(6.8)	(5.3)	2.0	7.9	(0.5)

Source: S&P Global Market Intelligence. Data as of 7/8/16.

As of July 8, 2016, S&P Global Market Intelligence's aggregate second quarter 2016 S&P 500 operating EPS estimate is \$28.20, up 6.2% (versus the \$26.54 reported in 1Q 2016), but down 5.3% on a year-over-year basis (versus the \$29.78 reported in 2Q 2015). This projected decline represents the first time since 2009 that the S&P 500 recorded year-over-year EPS declines in four successive quarters. However, despite the more than 5% expected shortfall, the first

quarter's 6.8% EPS drop is projected by aggregate EPS estimates to represent the trough quarter (low) through the end of 2017.

Four of 10 S&P sectors are expected to post positive year-over-year earnings growth for a second quarter, with Consumer Discretionary (+9.4%), Industrials (+6.9%), and Health Care (+3.0%) and Utilities (+3.0%) leading the way. The energy sector (-80.6%) continues to weigh heavily on the Index. Corporate forward guidance will likely be dominated by concerns surrounding the United Kingdom's decision to leave the European Union.

Should history repeat itself, actual second quarter 2016 EPS results should improve on the current estimate. In the past 17 quarters, actual EPS changes have beaten beginning-of-quarter projections by 3.5 percentage points. In the past two quarters, however, that average has shrunk to 1.1 points.

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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 **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 **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.*